Unit 8: Product Management: Decisions, Development and Lifecycle Strategies

Structure:

8.1 Products
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Objectives

After studying this unit, you should be able to understand:

- Levels of Products
- Classification of Products
- Product Hierarchy
- Product Line Strategies
- Product Mix Decision
- Product Mix Strategies
- Packaging and Labelling
- New Product Development
- Product Life Cycle (PLC)

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8.1 Product

Product is anything that can be offered to a market that might satisfy a want or need. In retailing, products are called merchandise. In manufacturing, products are purchased as raw materials and sold as finished products. Commodities are usually raw materials such as metals and agricultural products, but a commodity can also be anything widely available in the open market. In project management, products are the formal definition of the project deliverables that make up or contribute to delivering the objectives of the project. In insurance, the policies are considered products offered for sale by the insurance company that created the contract. In general, product may refer to a single item or unit, a group of equivalent products, a grouping of products or services or an industrial classification for the products or services.

For developing a total marketing programme the marketing manager is armed with four tools: (i) his product, (ii) his distribution system, (iii) his pricing strategy and (iv) his advertising and sales promotion programme. The first of these tools i.e., the product is most important tool in the marketing mix. Without a product, there is no question of marketing. The whole marketing programme is based on the product.

Meaning of Product

Product refers to the physical entity, idea, method, information, object, or service that is the end result of a process and serves as a need or wants satisfier. It is usually a bundle of tangible and intangible attributes like benefits, features, functions, uses that a seller offers to a buyer for purchase. Product is the goods or services that most closely meets the requirements of a particular market or segment and yield enough profit to justify its continued existence.

A product means an object which satisfies the need of the customer. Thus fan, table, pen, cooler, chair etc are products in its wider concept, all the brands, all the designs of a product is taken to be different products. *Example:* If toothpaste is produced in three different sizes, these are three different products as they satisfy the needs of different customers. Thus, if there is a change in the size or color or brand or packaging, it produces a new product. The product is thus total package of benefits received by a customer. A product is an entity/article obtained by the transformation of raw material with the aid of man/machine power and is a marketed/sold by the producer. A product is marketable item. It is the need- satisfying offer of a firm including tangible objects and intangible services. It is a bundle of utilities consisting of various product features and accompanying services.

Definitions

According to ***William. J. Stanton***, ”A product is a complex of tangible attributes, including packing, color, price, manufacturer’s prestige and retailer’s prestige and manufacturers and retailers services which the buyer may expect as offering satisfaction of wants or needs”.

According to ***Philip Kolter***, “A product is anything that can be offered to a market to satisfy a want or need. Products that are marketed include physical goods, services, experiences, events persons, places, properties, organizations, informations and ideas”.

A product can be described in two different ways:

1. ***Physical Description:*** May be in the form of a set of components of a product such as CPU, Hard Disk, Monitor, Key Board etc of a personal Computer.

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2. ***Functional Description:*** In terms of the needs or wants it satisfies. *For example,* file transfer, sending e-mails using a personal computer with Internet connection.

Concept of Product

Concept of product is the understanding of the dynamics of the product in order to showcase the best qualities of the product. Marketers spend a lot of time and research in order to target their attended audience. Marketers will look into a product concept before marketing a product towards their customers.

The product is the most tangible and important single component of the marketing programme. The product policy and strategy is the cornerstone of a marketing mix. Without a product, there is nothing to distribute, nothing to promote, nothing to price. If the product fails to satisfy consumer demand, no additional cost on any of the other ingredients of the marketing mix will improve the product performance in the marketplace.

To the marketer products are the building blocks of a marketing plan. Good products are key to market success. Product decisions are taken first by the marketers and these decisions are central to all other marketing decisions such as price, promotion and distribution. Product is the vehicle by which a company provides consumer satisfactions. It is the engine that pulls the rest of the marketing programme. Products fill in the needs of society. They represent a bundle of expectations to consumers and society.

Importance of Product

Good Product is more important than ever because customers are demanding greater product variety and are switching more quickly to products with state-of-the-art technology. The impacts of greater product variety and shorter product life cycles have a multiplicative effect on the number of new products and derivative products that need to be designed. For example, just a few years ago, a firm may have produced four different products and each product may have had a product life cycle of ten years. In this case, the firm must design four new products every ten years. Today, in order to be competitive, this firm may produce eight different products with a life cycle of only five years; this firm must introduce eight new products in five years. That represents sixteen new products in ten years or one product every seven and one-half months. In this fast-paced environment, product design ceases to be an ad hoc, intermittent activity and becomes a regular and routine action. For an organization, delays, problems, and confusion in product design shift from being an annoyance to being life threatening.

8.2 Levels of Products

The five product levels are:

1. Core benefit

The fundamental need or want that consumers satisfy by consuming the product or service. For example, the need to process digital images.

2. Generic product

A version of the product containing only those attributes or characteristics absolutely necessary for it to function. For example, the need to process digital images could be satisfied by a generic, low-end, personal computer using free image processing software or a processing laboratory.

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3. Expected product

The set of attributes or characteristics that buyers normally expect and agree to when they purchase a product. For example, the computer is specified to deliver fast image processing and has a high-resolution, accurate colour screen.

4. Augmented product

The inclusion of additional features, benefits, attributes or related services that serve to differentiate the product from its competitors. For example, the computer comes pre-loaded with a high-end image processing software for no extra cost or at a deeply discounted, incremental cost.

5. Potential product

This includes all the augmentations and transformations a product might undergo in the future. To ensure future customer loyalty, a business must aim to surprise and delight customers in the future by continuing to augment products. For example, the customer receives ongoing image processing software upgrades with new and useful features.

8.3 Classification of Products

Based on the type of consumer, products are classified into two types:

1. Consumer Products

Products which can be used without any commercial processing are usually referred to as consumer products. These are products used by ultimate consumers and households. Consumer products are further classified into six types:

(i) ***Convenience Goods:*** These are goods that the consumer usually purchases frequently, immediately and with the minimum effort in buying. *For examples,* Soaps, salt, newspaper, tooth pastes, toiletries etc.

(ii) ***Shopping Goods:*** These are goods that the consumer usually purchases after going around shops and comparing the different alternatives offered by different producers and retailers. Comparison of alternatives is based on suitability, quality, price etc. *For examples,* clothing, furniture, major appliances, refrigerators etc.

(iii) ***Durables or Durable Goods:*** These can be used for long periods. *For examples,* refrigerators, computers, clothing etc.

(iv) ***Non-durables or Non-durable Goods:*** These are usually used for relatively shorter periods. *For examples,* soap, fruits, vegetables etc.

(v) ***Specialty Goods:*** These are goods that the consumer wants and willing makes a special effort to find. It is the customer's willingness to search that makes it a specialty product. The customers are willing to travel for purchasing a specialty good. *For examples,* specific brands and types of fancy goods, cars, jewellery etc.

(vi) ***Unsoughtable Goods:*** These are goods with which potential customers are not yet familiar. New products like food processors and smoke detectors, burglar alarms, water purifier, etc. are unsought goods until consumer is made aware of them through advertising.

2. Industrial Products

Products which are usually used for the production of other goods or for rendering service are referred to as industrial products. These are products used by the

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manufacturers for producing other products and/or rendering services. *Industrial products are many and include:*

(i) ***Machinery:*** Like Lathes, milling machine, road roller etc.

(ii) ***Components:*** Like spare parts of machinery, monitor of a computer etc.

(iii) ***Raw Materials:*** Like cotton clay, wood, iron billets etc.

(iv) ***Supplies:*** Like lubricant, continuous-stationary for computer printing etc.

(v) ***Services:*** Like maintenance and repairs.

8.4 Product Hierarchy

The product hierarchy stretches from basic needs to particular items that satisfy those needs. There are six levels of the product hierarchy:

1. ***Need family:*** The core need that underlies the existence of a product family. *Example:* security
2. ***Product family:*** All the product classes that can satisfy a core need with reasonable effectiveness. *Example:* savings and income
3. ***Product class:*** A group of products within recognized as having a certain functional coherence. It is known as product category. *Example:* financial instruments.
4. ***Product line:*** A group of product within a product class that are closely related because they perform a similar function, are sold to the same customer groups, are marketed through the same outlets or channels, or fall within given price ranges. A product line may be composed of different brands or a single family brand or individual brand that has been line extended. *Example:* life insurance.
5. ***Product type:*** A group of items within a product line that share one of several possible forms of the product, *example:* term life insurance.
6. ***Item (also called stock keeping unit or product variant):*** A distinct unit within a brand or product line distinguishable by size, price, appearance, or some other attribute. *Example:* ICICI prudential renewable life insurance.

8.5 Product Line Strategies

Product Line

In product line decision, objectives involved are higher market share for the product line and growth in volume of sales resulting in more profit, price removing more or less stable. Even if prices are decreased a high growth in volume of sales may result in more profit one of the product line and growth in volume of sales resulting in more profit, price, removing more or less stable. Even if prices are decreased a high growth in volume of sales may result in more profit. One of the product line decisions to be made is about deletion of unprofitable or marginal products, multi-product organization can't impart all its products to earn the same profit. Some products may fetch high profit volume while others yield low profit volumes. In such cases the product line decision to be taken is about the development of an optimum product line. Within the framework of the objectives of an organization in terms of availability of production facilities, finance etc. and the profitability of the items in the product line, product line decisions are to be made as to how long or short the line should be. Often a line of product is meant to meet various segments of customers.

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Product Line Strategies

A company has several strategies at its disposal with respect to the width, depth and consistency of its product mix. Most of these strategies involve a change in the product mix. Major product line strategies are:

1. Alteration of Existing Products

Sometimes experience may show that improving an existing product may be more profitable and risky than developing and launching a new product. Alterations may be made either in the design, size, color, texture, or flavor, or packaging, or in the use of raw materials or in the advertising appeal, or quality may be changed. This strategy is to be followed regardless of the width and depth of the product mix.

2. Trading Up and Trading Down

It involves an expansion of the product line as well as the promotional strategies. Trading up refers to the adding of a higher priced prestige product to the existing lines with the intention of increasing sales of the existing low-priced products. Under trading up, the seller continues to depend upon the older, low priced product for the major position of the sales. Ultimately, he may shift the promotional emphasis to the new product so that large share of sales may go to the new products.

Trading down refers to the adding of the low priced items to its line of prestige product, with the expectation that the people who cannot buy the original product may buy these new ones because these carry same of the status of the higher priced goods. An instance on the point is that of Allwyn Company which attempted to broaden its market for Allwyn Refrigerators by introducing five sizes in an attempt to compete at all price levels. Wills cigarettes also traded down by bringing out the lower priced Wills Flake cigarette pack.

But this type of trading up and trading down is harmful because, the consumer may be confused about the new product, and the sale in the new line is also adversely affected as it is done at the expense of the older product. This situation may be avoided by using differentiating brands, channels of distribution; promotional program, or product design.

3. Product Differentiation and Market Segmentation

These strategies are often employed by the firms who wish to engage in non-price competition in markets characterized by the imperfect or monopolistic competition. Since these strategies require large financial involvement in promotional efforts they are usually known as both promotional and product planning strategies.

Under market segmentation strategy, the seller knows that the total market is made of many smaller homogeneous units, each of which of its units has different wants, motivations etc. To meet these different demands, different products are developed i.e., products are tailor made to suit these requirements. This strategy attempts to penetrate a limited market in depth, whereas the product differentiation seeks breadth in a more generalized market. Smith observed that "the differentiator seeks to secure a layer of the market cake, where as one who employs segmentation strives to secure one or more wedge shaped pieces."

Product differentiation involves developing and promoting and awareness of differences between the advertiser's product an the products of the competitors. The strategy when used enables a company to remove itself from price competition so that it may compete on the non-price basis viz., that its product is different from and better than, competitive models. This differentiation is done either in quality, design, brand, or packaging, where reasonably standardized products are sold, such as soaps, cigarettes, petrol etc. to a broad horizontal market which is fairly homogeneous in its wants. This strategy is mostly used.

4. Expansion of Product Mix

Expanding the line may be valid decision if it is in an area in which consumers traditionally enjoy a wide variety of brands to choose from and are accustomed to switching from one to another or if the competitors lack a comparable product or if competitors have already expanded into this area themselves. However, the main limitation in expansion is the availability of sufficient finance, time and equipment. Expansion in the present product mix may be done by increasing the number of lines and the depth within a line. Such new lines may be related or unrelated to the present products. For example, the large provision stores may add drugs, cosmetics and house wares while at the same time increasing their assortments of dry fruits, baby food etc.

5. Contraction of Product Mix

This is rather more difficult, because much money has already been invested, and therefore, as far as possible, products are allowed to linger on far long until they become a loss. When contraction is decided upon various alternatives are available to the marketers. The product may be consolidated with several others in the line so that fewer styles, sizes or added benefits are offered or, the position can be simplified within a line. If even then a product fails, the company may stop it altogether.

6. Development of New Uses for Existing Products

The Company may find out new uses for the existing products as Wheel or Nirma may be used not only for washing clothes but also for cleansing the floor utensils and glass products.

8.6 Product Mix Decision

One major management aspect involved in product policy is the decision concerning product mix. The product mix is one of the elements in the product policy. The product policy decisions are made of these different levels. Product Mix, Product Items and the product planning effectively.

Product Mix is the list of all products offered for sale by a company. It is defined as “the composite of products offered for sale by a firm or a business unit”. *For example,* if a firm manufactures or deals with different varieties of soap, toothbrush, toothpaste etc, the group of all these products is called product Mix.

Factors Influencing Change in Product Mix

1. ***Change in the Market Demand:*** The change on demand of a product due to change in habits, fashion, purchasing power, income, attitudes and preferences of consumers affects the decision of product mix. If the demand of a new product is increasing in the market and the production of that new product is beneficial to the company.
2. ***Cost of Production:*** If the company can develop a new product with the help of the same labor form, plant, machinery, and techniques, it can decide to start the production of that at lower cost.
3. ***Quantity of Production:*** If the production of the new product is considered to be at a large-scale and the company can add one more item to its product line just to get the economies of large-scale production.

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4. ***Change in Purchasing Power or Behaviour of the Customer:*** If the numbers of customers are increased with the increase in their purchasing power or with the change in their buying habits, fashion etc.
5. ***Goodwill of the Company:*** If the company is of repute, it can market any new product in the market without much difficulty. It may take decisions of adding new product without any hitch because it knows that customers will accept any product by the firm.

8.7 Product Mix Strategies

The major alternative product mix strategies (given by William Stanton and others) have been discussed briefly as under:

1. Expansion of Product Mix

Expansion of product mix implies increasing the number of product lines. New lines may be related or unrelated to the present products. For example, Bajaj Company adds car (unrelated expansion) in its product mix or may add new varieties in two wheelers and three wheelers. When company finds it difficult to stand in market with existing product lines, it may decide to expand its product mix.

For example, Hindustan Unilever Limited has various products in its product mix such as:

(1) Toilet soaps, detergent cakes, washing powders, etc.

(2) Cosmetic products,

(3) Edible items,

(4) Shaving creams and blades,

(5) Pesticides, etc.

If company adds soft drink as a new product line, it is the example of expansion of product mix.

2. Contraction of Product Mix

Sometimes, a company contracts its product mix. Contraction consists of dropping or eliminating one or more product lines or product items. Here, fat product lines are made thin. Some models or varieties, which are not profitable, are eliminated. This strategy results into more profits from fewer products. If Hindustan Unilever Limited decides to eliminate particular brand of toilet shop from the toilet shop product line, it is example of contraction.

3. Deepening Product Mix Depth

Here, a company will not add new product lines, but expands one or more excising product lines. Here, some product lines become fat from thin. For example, Hindustan Unilever Limited offering ten varieties in its editable items decides to add four more varieties.

4. Alteration or Changes in Existing Products

Instead of developing completely a new product, marketer may improve one or more established products. Improvement or alteration can be more profitable and less risky compared to completely a new product. For example, Maruti Udyog Limited decides to improve fuel efficiency of existing models. Modification is in forms of improvement of qualities or features or both.

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5. Developing New Uses of Existing Products

This product mix strategy concerns with finding and communicating new uses of products. No attempts are made to disturb product lines and product items. It is possible in terms of more occasions, more quantity at a time, or more varied uses of existing product. For example, Coca Cola may convince to use its soft drink along with lunch.

6. Trading Up

Trading up consists of adding the high-price-prestige products in its existing product line. The new product is intended to strengthen the prestige and goodwill of the company. New prestigious product increases popularity of company and improves image in the mind of customers. By trading up product mix strategy, demand of its cheap and ordinary products can be encouraged.

7. Trading Down

The trading down product mix strategy is quite opposite to trading up strategy. A company producing and selling costly, prestigious, and premium quality products decides to add lower- priced items in its costly and prestigious product lines.

Those who cannot afford the original high-priced products can buy less expensive products of the same company. Trading down strategy leads to attract price-sensitive customers. Consumers can buy the high-status products of famous company at a low price.

8. Product Differentiation

This is a unique product mix strategy. This strategy involves no change in price, qualities, features, or varieties. In short, products are not undergone any change. Product differentiation involves establishing superiority of products over the competitors.

By using rigorous advertising, effective salesmanship, strong sales promotion techniques, and/or publicity, the company tries to convince consumers that its products can offer more benefits, services, and superior performance. Company can communicate the people the distinct benefits of its products.

8.8 Packaging and Labelling

A good package is the representation of the artistic combination of the designer's creative skills and the product and marketing and sales knowledge of the manufacturer's management team. The development of packaging is the sum total of the talents of the designer, the researcher, the technician, the advertising man, the top management. At times, it may include the team, the use of packaging committee and packaging directions, the role of independent decisions and the delegation of market research in the solution of packaging problems.

Definition of Packaging

"Packaging may be defined as the general group of activities in product planning which involve designing and producing the container or wrapper for a product".

- William. J. Stanton

Packaging as a Marketing Tool

For many consumer goods, especially FMCG, packaging is king. Huge competition for market share means companies are looking even closer to packaging to deliver uniqueness and consumer appeal.

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The appearance of wine in supermarkets since the relaxation of liquor laws 15 years ago has had a major effect on consumer perception of wine. There are literally hundreds of choices you can now make and most supermarkets now have entire isles dedicated to wine. Wine brands do an amazing amount of research studying their target audience's perception of their labeling and are constantly refining the design to maximize appeal. New brands are also looking for opportunities or gaps in the market and these are again identified through thorough research. An example of this is the emergence of the 'Critter' wines over the last five years. Lead by brands like Monkey Bay, Yellow Tail and Blue Penguin. These brands are appealing to a 'new' audience as wine drinking is becoming more of an everyday beverage.

While investing in appealing packaging is becoming even more important it isn't an altogether new idea. For Coca Cola, their contour bottle is considered to be almost as important as the secret formula itself. In fact, the bottle's design, which was patented in 1915, became the first product to be registered as a 3D trademark in 1977, only a small number of consumer packages have since received the same registration.

The concept sprang from the recognition that a completely unique and instantly recognizable bottle would be a major marketing tool. The design brief suggested that the goal should be 'a Coca-Cola bottle which a person will recognize as a Coca-Cola bottle even if he feels it in the dark' and that 'the Coca-Cola bottle should be shaped so that, even if broken, one could tell at a glance what it was.'

The success the original designers achieved in attempting to fulfil this brief is still evident today, as the bottle remains one of the most readily identifiable industrial objects on the planet.

As powerful as it can be, packaging should never be considered in isolation. For Coca-Cola it was about the need to be unique, which came directly out of their overall strategy to enter new markets and gain loyalty. The bottle shape has also gone on to be the basis for much of the ongoing marketing and advertising which supports the fact that for packaging to be successful it needs to deliver on brand strategy and be supported with ongoing media communication.

Objectives of Packaging

(i) To meet customers demand.
(ii) To re-distribute the existing customers demand.
(iii) To reduce the handling and distribution cost.
(iv) To improve the profitability.
(v) To enhance the product company image.

Requirement of Good Packaging

Packaging has an important role in marketing. It protects product and helps in sales promotion. So, the container or cover, design of packaging, colour, size etc. should be suitable to the nature of product. It also should be convenient, attractive, economical, communicative etc. Only good and effective packaging can protect the product, keeps safe from declining its quality, it makes adulteration impossible. Good packaging also increases prestige, brand loyalty and promotes sales.

Following are the main features of good packaging:

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1. Convenient

Good packaging should be convenient. Package should be made in a way that the product could be conveniently taken from one place to another and can be handled easily by middlemen or consumers. The size and shape of package also should be convenient for retailers to keep in shop or for consumers to keep at their home. The package design should be made re-use-able, if possible.

2. Attractive

Package should be very attractive and fascinating. Attractive package draws customers' attention. It stimulates their interest towards the product and makes them realize the want of product. Colour, picture, design, size etc. of package can be dramatically influence customers' mind. Some customers demand due to attractive packaging.

3. Economical

The other feature of good packaging is to be economical. It should not be costly. If packaging is expensive, it increases the price of the product. As a result, it becomes difficult to sell the product. So, packaging should not be costly nor should be clumsy.

4. Protective

The purpose of packaging is to protect products from different risks. Products should be packaged in a way that the quality, quantity, colour etc. of product does not decline or damaged from sun, rain, insects, dust etc. While carrying from one place to another, transporting or storing in and products may get damaged, putrefied, spoiled or rotten. So, proper arrangement should be made to save the product from every risk. Only the packaging, which can protect products from all risk, is a good packaging.

5. Communicative

Good packaging should also be communicative. It should give information to the customers about the brand utility and quality of the product, which can stimulate demand. Good packaging works as silent salesperson and an effective advertisement.

Role of Packaging

The various roles of packaging are:

(i) To assemble and arrange the contents in the desired form.

(ii) To protect the contents from the production time to the final use.

(iii) To identify the contents, the brand and the maker.

(iv) To provide a suitable product mix including sizes, weights, prices, grades and packages.

(v) To facilitate retailers functions. He can store and sell the goods easily.

(vi) To facilitate transporting, storing, and warehouse handling.

(vii) To enable the display of contents on packages.

(viii) To encourage the customers for repurchases.

(ix) To help in complying with legal requirements.

(x) To provide opportunity and spare for advertising.

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Functions of Packaging

The following are the important function of packaging:

(i) ***Safetiness:*** This is a function of packing. The product demands safety until it is used or consumed. Package prevents damage or loss during transport and warehousing. Foreign trade without sound packing is impossible. Air tight package protects the quality of inner contents. Package can prevent the disappearance of gaseous articles. *Example:* Spirit, Acid, Gas etc.

(ii) ***Good Quality:*** Truthfulness representation is the most important function and quality of packing consumers rely on the package itself for the quality of the product inside the packing.

(iii) ***Easy Carrying:*** Modern packing facilitates easy carrying and movement during the process of distribution.

(iv) ***Differentiation:*** Various brands of detergents, which are almost identical in content, can be easily, differentiated most effectively on the basis of differences in consumer packaging.

(v) ***Identification:*** This is an important function of packing, following closely protection and case in handing.

(vi) ***Good looking:*** It is a major consideration in modern packing. The design of the label on the package, printed matter, picture, layout or get up of the package colour combination all these are special aspect to the package and act as selling points of the package.

Policies and Strategies of Packaging

Under the consumer oriented modern marketing concept, packaging is a part of marketing strategy and also treated as a part of marketing management. Looking to the marketing value of packaging a company may adopt any one of the following policy option and strategies.

1. ***Packaging Changes:*** A company may adopt the policy of periodic changes in product package in order to fulfill one or more of the following objectives.
2. ***Packaging Product Line:*** It is a kind of packaging strategy in which packages of the entire product line closely resemble one another. The major strength of this strategy is that any new product in an identical package enjoys the same market reputation image and acceptance as the existing ones.
3. ***Reuse Packaging:*** Reuse packaging is a strategy in which marketers offer products in such a package which may be reused for other purposes. Once the product has been exhausted or taken out. It provides greater attraction to housewives. Use of plastic containers in oils and ghee is a glaring example of this strategy.
4. ***Multiple Packaging:*** Multiple packaging is a strategy in which a number of heterogeneous products to be used by one consumer are placed in a single package. This strategy is used in several products such as soap, towels, fountain pens etc.

Labelling

Labelling refers to an item used to identify something or someone, as a small piece of paper or cloth attached to an article to designate its origin, owner, contents, use or destination.

It means offering a label on the part that carries verbal information about the product or the seller and may be part of a package or a tag attached directly to the product. The label might carry only the brand name or a great deal of information.

Advantages of Labeling

(i) ***Additional information:*** The label may be a simple tag attached to the product or an elaborately designed graphic that is part of the package. The label might carry only the brand name or a great deal of information. Even if the seller prefers a simple label, the law may require additional information.

(ii) ***Identifies the product or brand:*** The label identifies the product or brand for instance, the name Sunkist stamped on oranges. The label might also grade the product, there are several grade labeled A, B and C.

(iii) ***Describe the product:*** The label might describe the product, who made it, where it was made, when it was made, what it contains, how it is to be used, and how to use it safely.

(iv) ***Promote the product:*** The label might promote the product through its attractive graphics. Labeling has been affected in recent times by unit pricing one dating and nutritional labeling. The Nutritional Labeling and Educational Act of 1990's requires sellers to provide detailed nutritional information on food products and recent sweeping actions by the Food and Drug Administration regulate the use of health related terms such as low-fat, life and high-fiber. Sellers must ensure that their labels contain all the required information.

Role of Labelling in Packaging

Packaging has been around for many hundreds of years in some shape or form, from the early days of using wooden barrels to transport water to today's rather sophisticated methods. For identification purposes packaging must be labelled in some way and the traditional methods for doing so would be to print and apply a label to the product.

The role of packaging in society is a vitally important one, not only in ensuring the safe delivery of products to the end-user but also in communicating the nature of the product and how it should best be utilised.

Packaging identifies the product and its function whilst transmitting brand values. It's important that a brand owner chooses the correct packaging to suit the nature of the product and the purpose and desired functions of packaging a product in the first instance.

Packaging must communicate a variety of information to ensure its safe usage and direction. Food product labelling must include details of storage conditions, use-by dates, preparation and cooking user-instruction. Pharmaceutical products must be labelled in accordance to strict legislative guidelines providing instruction to both the person administering the drug and the patient.

Leaflet labels – providing packaging enhancement

Leaflet labels combine a standard self-adhesive label with a folded leaflet or booklet. They are also commonly referred to as booklet labels, multi-page labels or expanded content labels.

Leaflet labels can be produced in a variety of different formats, shapes and sizes and may include between anywhere between 2 to 100 additional pages in concertina style leaflet or booklet format.

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Pharmaceutical user-applications

The development and delivery of healthcare products is a costly business. It therefore stands to reason that every effort should be taken to ensure products are used in the correct manner by the patient. Besides the initial contact a patient will have with a doctor and the pharmacist the only further communication they may have is the packaging and labelling. Leaflet labels have played an increasingly important role within the healthcare industry and have become common-place for over a decade on a wide variety of healthcare products.

Medical products can often be complex in nature and detailed directions of what to take, when and what adverse effects might manifest must all be included on one carton or sheet of paper. It is therefore a big responsibility for drug manufacturers to get the job right when conveying vital user-instruction on packaging.

Pharmaceutical leaflet labels remain firmly attached to the product or container allowing for single or repeat reference. This is of particular importance as it is often only part way through a course of drugs that a patient might develop a side-effect or illness.

Our network of label printing companies is highly experienced in supplying this demanding sector as well as niche product requirements such as clinical trials and medical device labelling requirements. Legislative requirements such as pharma codes and 2D matrix as well as Braille, batch coding and serial numbering may all be provided on the leaflet or the label by use of our custom production equipment.

8.9 New Product Development

New product development is one of the most important components of the most important components of product policy and product management, so far you have learnt in the previous unit about product, it's positioning in the market. A progressive firm will always be considering the introduction of a new product in order to expand its market share in order to have higher profits.

Need for New Product Development

The need for new product becomes very important for the progressive companies and they plan for development of new products. Following are the needs for the development of new products, they are:

(i) New product becomes necessary for meeting the changes in demand.

(ii) For making new profits.

(iii) For combating environmental threats.

(iv) To meet economic, social, political and technological threats.

Process of New Product Development/Steps Involved in Developing a New Product

1. Exploration of New Ideas

The development of new product starts with the exploration of new ideas. There may be number of sources of exploring these new ideas. Some of the main sources of idea generation are:

(i) Taking Consumer's opinions and suggestions.

(ii) Taking the opinion and suggestions of retailers or salesman or distributors.

Notes

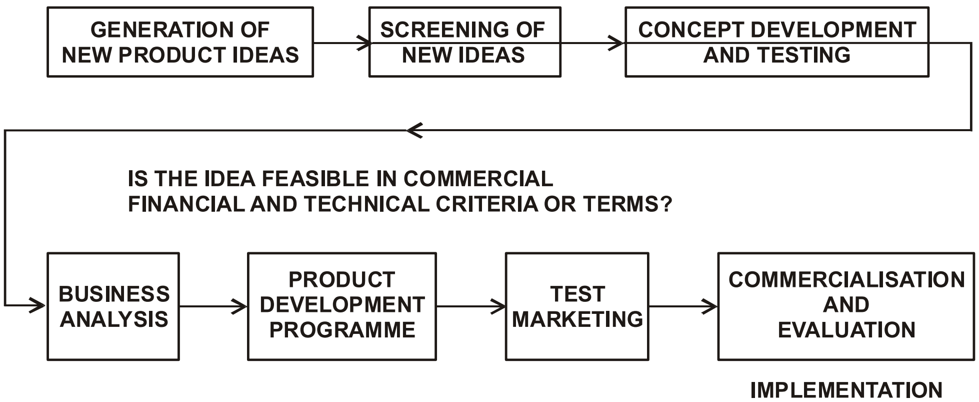

Fig: *New Product Development Process (Innovation Management)*

(iii) Observing the competitors products, by doing so it gives a lot of idea to innovate the firm's products.

(iv) Focusing and investing more towards Research and Development.

(v) Frequently referring the inventory journals published by Universities and Government research laboratories.

(vi) By taking the enterprise's employees innovative ideas through Brain Storming.

2. Screening of Ideas

At this stage, ideas collected are scrutinized. All the ideas collected may not be acceptable. Ideas which are quite inconsistent with the product policies and objectives of the firm may be dropped out rightly. There may be some other ideas which are good and consistent with company's product policies and objectives but these cannot be developed due to certain limitation e.g., non- availability of raw materials or technology required or short of financial resources, or limited plant capacity or managerial ability. Thus due to these constraints, such ideas are also dropped.

Remaining ideas which have been found suitable and feasible should be listed in order of their importance. At this stage, the following activities are involved:

(i) Expanding each idea into full product concept.

(ii) Collecting facts and opinion to decide whether the product idea can be converted into a business proposition.

(iii) Assessing each idea for potential value to the company.

The main object of this step is to scrap unsuitable ideas as quickly as possible and look out for the idea which can be developed.

3. Business Analysis

This is a continuation of the above stage. When an idea is finally selected, a further analysis is necessary. A rough idea is studied in detailed manner, determining its desirable market feasibility and features of the product and developing specifications and establishing a definite programme for the product. Thus for this purpose the following 3 types of estimates are necessary:

(i) Estimating future sales of the product under consideration

(ii) Estimating future costs of the product, if developed as a product. For this different elements of costs are to be analyzed.

(iii) Estimating future profits.

Notes

4. Product Development

At this stage, the management goes ahead to produce the goods in its physical form. The idea, thus, is converted into a product that is worth- producing. Under this stage, all decisions to bring the idea to final physical form are taken. The final decision whether a product should be accepted for production on commercial scale is taken in this stage.

5. Testing the Product

After designing, the next step is testing the product in the market. The product, under this stage, is introduced in the whole market or in a segment of the market. If it is an industrial product, cost of testing will be much less because the users of such product are less and can be approached easily. In case it is consumer product, it will take more time for testing the product and the cost of testing will be much higher. The result of testing is then analyzed and if the product proves successful, the decision to produce it on commercial basis is taken. If unfortunately, it proves unsatisfactory it may be withdrawn or it may be modified in the light of the opinions and suggestions of the consumers or dealers. Testing the product in a segment of the market reduces the risk of the producer to great extent. The objectives of test marketing are:

(i) To evaluate a complete market plan including advertising, distribution sales, pricing etc

(ii) To determine media mix, channels etc.

(iii) To forecast sales volume

6. Commercialization of Product

If the product is proved successfully in testing, a decision to produce it on commercial basis may be taken.

Thus the last in the product development is the introduction or launching or marketing the product. This is also expensive. From top to bottom every one is busy in calculating for the vast investments as the product may not prove profitable for three or four years in future.

8.10 Product Life Cycle (PLC)

Like a human being, all products have certain length of life during which they pass through certain identifiable stages through the conception of the product, during its development and up to the market introduction, then goes through a period during which its market grows rapidly, eventually, it reaches at maturity and then stands saturated. Afterwards its market declines and finally its life come to an end.

Definitions

"The product life cycle is an attempt to recognize distinct stages in the sales history of the product". ***- Philip Kotler***

"The concept of life cycle of a product as from its birth to death, a product exists in different stages and in different competitive environment. Its adjustment to these circumstances determines to a great degree how successful its life will be".

- Wiilliam. J. Stanton

Different Stages of Product Life Cycle

The important stages firm the viewpoint of marketing can be grouped into six stages. This is termed as product life cycle.

Notes

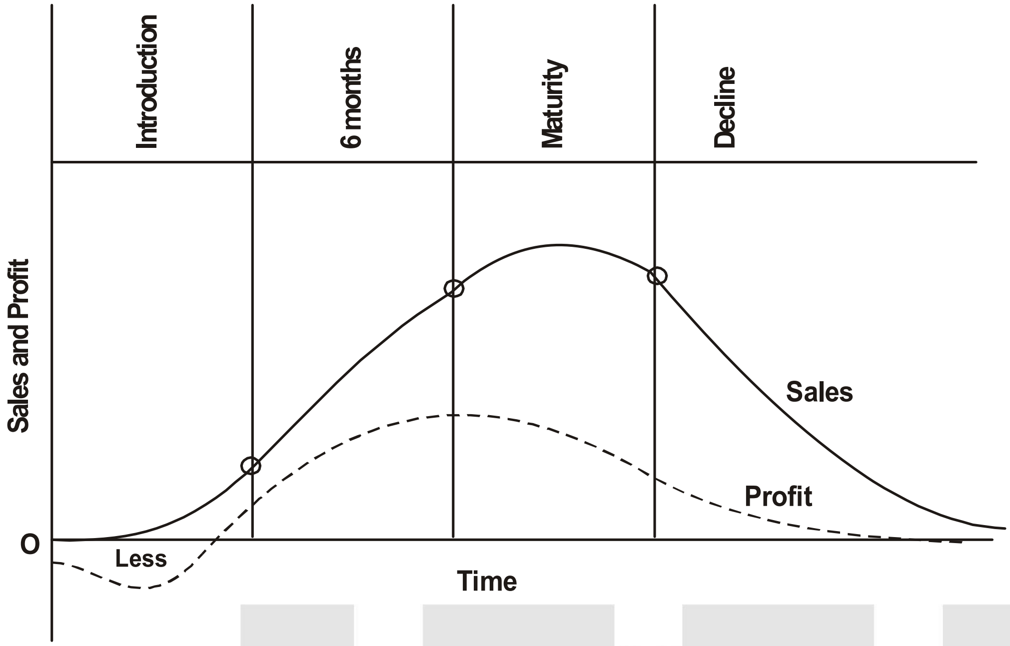

Fig: *Stages of Product Life Cycle*

(i) Innovation or Introduction

It is the first and the most important stage in the life of a product. The product is first introduced in the market. In this stage the product is absolutely new and distinctive. This stage is characterized by slow rise in the sales and profit margin from direct competitors, high production and marketing costs, narrow product line, greater emphasis on advertising and sales promotion, high prices, limited distribution, frequent production modification and above all purchases by customers are made cautiously on a trial basis.

(ii) Growth

After the product is introduced in the market the product enters its second stage of the life cycle called as the Growth-stage. In this stage, the product achieves considerable and wide spread approval in the market, the demand and sales improves very rapidly due to promotional efforts. Profits also increase at an accelerated rate. In this stage effective distribution advertising and sales promotion are considered as key factors.

(iii) Maturity

Now the product enters its third stage i.e., maturity stage. In this stage, the maturity of product is reflected in terms of its capacity face competition. The product has to face keen competition which brings pressure on prices. Though the sales of the product rise at a comparatively lower rate, profit margins however decline due to keen competition. The product enters the more markets and marketers have to adopt measures to stimulate demand and face competition through additional advertising and sales promotion.

(iv) Saturation

It is the fourth stage of the product life cycle. It is also the peak stage. In this stage the market is saturated in the product and is dominated by replacement sales. The competition is at its peak. Prices may fall and profit margins may also reduce unless the company makes substantial improvements modifications and realizes cost economies.

Notes

(v) Decline

Once the peak or saturated point is reached, the product inevitably enters the 5th stage. It may be displaced by some new innovation or change in consumer behavior. Sales drop severely and competition declines. At this stage, the price becomes the primary weapon or competition cost control becomes the key factor.

(vi) Obsolescence

It is the last stage of the product life cycle. In this stage, the product loses its distinctiveness and dries out in terms of both sales and profit margins. The decline in sales is permanent and the product travels back to the core market. The product ultimately disappear from the market. At this stage, it is advisable to stop the production of the product and switch off to other products. In India, the glaring examples of products in the obsolescence stage include electric radio, gram-phones, VCP, Black and white TV.

8.11 Summary

A product is anything that can be offered to a market to satisfy a want or need. Products that are marketed include physical goods, services, experiences, events, persons, places, properties, organizations, information and ideas. Product is the most important component of the marketing program. The product policy and strategy is the cornerstone of a marketing mix. If the product fails to satisfy the consumer no other element of the marketing mix can remove the dissatisfaction or improve the product performance in the market place. Good product is a key to market success. Product decisions are taken first by the marketers and these decisions are central to all other marketing decisions such as price, promotion and distribution. Product is the engine that pulls the rest of the marketing program. Products fill the needs of the society. It represents a handle of expectations to consumers and society.

The product is the most tangible and important single component of the marketing programme. The product policy and strategy is the cornerstone of a marketing mix. Without a product, there is nothing to distribute, nothing to promote, nothing to price. If the product fails to satisfy consumer demand, no additional cost on any of the other ingredients of the marketing mix will improve the product performance in the marketplace.

To the marketer products are the building blocks of a marketing plan. Good products are key to market success. Product decisions are taken first by the marketers and these decisions are central to all other marketing decisions such as price, promotion and distribution. Product is the vehicle by which a company provides consumer satisfactions. It is the engine that pulls the rest of the marketing programme. Products fill in the needs of society. They represent a bundle of expectations to consumers and society.

Product Mix is the list of all products offered for sale by a company. It is defined as “the composite of products offered for sale by a firm or a business unit”. For example, if a firm manufactures or deals with different varieties of soap, toothbrush, toothpaste etc, the group of all these products is called product Mix.

In product line decision, objectives involved are higher market share for the product line and growth in volume of sales resulting in more profit, price removing more or less stable. Even if prices are decreased a high growth in volume of sales may result in more profit one of the product line and growth in volume of sales resulting in more profit, price, removing more or less stable.

8.12 Check Your Progress

Notes

I. Fill in the Blanks

1. ________ is the heart of marketing mix.
2. ________ is the most tangible and important single component of the marketing programme.
3. The product ________ and ________ is the cornerstone of a marketing mix.
4. Without a product, there is nothing to ________, ________ and ________.
5. To the marketer ________ are the building blocks of a marketing plan.
6. Good products are key to ________.
7. Product decisions are taken first by the ________.
8. Product decisions are central to all other marketing decisions such as ________, ________ and ________.

II. True or False

1. The pricing plan is the heart of the marketing mix.
2. The product is the most tangible and important single component of the marketing programme.
3. The product policy and strategy are the cornerstone of a marketing management.
4. Without a product, there is nothing to distributes promote and price.
5. To the marketer product are the building blocks of a marketing plan.
6. Very good products are key to market research.
7. Product decisions are taken first by the marketers.
8. Product decision are central to marketing decision of distribution.
9. Product is the engine that pulls the rest of the marketing programme.
10. Managerial, consumers and societal dimensions are the product concept.

III. Multiple Choice Questions

1. Which is the Heart of the marketing mix?
   (a) Product plan
   (b) Price plan
   (c) Promotion plan
   (d) Place plan
2. Which is the most tangible and important single component of the marketing programme?
   (a) Product
   (b) Price
   (c) Promotion
   (d) Place
3. Which is the cornerstone of a marketing mix?
   (a) Product policy
   (b) Product strategy

Notes

(c) Both a and b

(d) None of the above

4. Without a product, there is nothing……………….

(a) To distribute

(b) To promote

(c) To price

(d) All the above

5. Which are the building blocks of a marketing plan?

(a) Product

(b) Price

(c) Promotion

(d) Place

6. Which of the following is (are) the key to market success?

(a) Products

(b) Good products

(c) Very good products

(d) Excellent products

7. Which decisions are taken first by the marketers?

(a) Product

(b) Price

(c) Promotion

(d) Place

8. Product decisions are central to all other marketing decisions are…………….

(a) Price

(b) Promotion

(c) Distribution

(d) All the above

9. Which is the engine that pulls the rest of the marketing programme?

(a) Product

(b) Price

(c) Promotion

(d) Place

10. What are the dimensions of product concept?

(a) Managerial dimensions

(b) Consumer dimensions

(c) Societal dimensions

(d) All the above

8.13 Questions and Exercises

Notes

I. Short Answer Questions

1. Define the term Product.
2. State the classification of Products.
3. What is Product Hierarchy?
4. What is Product Line Strategy?
5. What is Product Mix Decision?
6. What is Product Mix Strategy?
7. Give the meaning of Packaging.
8. What is Labelling?
9. What is New Product Development?
10. What is Product Life Cycle (PLC)?

II. Extended Answer Questions

1. Discuss various Levels of Products.
2. Explain the classification of Products.
3. Write note on: Product Hierarchy.
4. Explain various Product Line Strategies.
5. Write note on: Product Mix Decision.
6. Discuss various Product Mix Strategies.
7. Explain in details about Packaging and Labelling.
8. Discuss various steps in New Product Development.
9. Explain various stages of Product Life Cycle (PLC).

8.14 Key Terms

- **Product:** Product is anything that can be offered to a market to satisfy a want or need. Products that are marketed include physical goods, services, experiences, events, persons, places, properties, organizations, information and ideas.
- **Product Mix:** Product Mix is the list of all products offered for sale by a company. It is defined as "the composite of products offered for sale by a firm or a business unit".
- **Product line decision:** In product line decision, objectives involved are higher market share for the product line and growth in volume of sales resulting in more profit, price removing more or less stable. Even if prices are decreased a high growth in volume of sales may result in more profit one of the product line and growth in volume of sales resulting in more profit, price, removing more or less stable.
- **Product Positioning:** Positioning comes out of marketing management's awareness that a product can't be "everything to everyone." It can be something to someone. Identifying those features imaginatively is the essence of positioning.

Notes

- **Product Planning:** Product planning means to decide what type of product is to be produced or what needs or requirements the product is to satisfy and for whom the product is meant.
- **Possibility of Production:** What production method would be followed and is it practicable to develop a product exactly what the consumer wants? This possibility should also be examined before taking a decision of producing a new product.
- **New product development:** New product development is one of the most important components of the most important components of product policy and product management, so far you have learnt in the previous unit about product, it's positioning in the market.

8.15 Check Your Progress: Answers

I. Fill in the Blanks

1. Product plan
2. Product
3. Policy; strategy
4. Distribute; promote; price
5. Products
6. Market success
7. Marketers
8. Price; promotion; distribution

II. True or False

1. False	2. True
3. False	4. True
5. True	6. False
7. True	8. False
9. True	10. True

III. Multiple Choice Questions

1. [a]	2. [a]
3. [c]	4. [d]
5. [a]	6. [b]
7. [a]	8. [d]
9. [a]	10. [d]

8.16 Case Study

Wal-Mart Stores, Inc. (Wal-Mart), a US-based multinational retailing corporation, had framed several strategies in its price war with American e-commerce and cloud computing company Amazon.com (Amazon) to not only retain its position as the top retailer in the US but also to become the market leader in the online retail business. In one such move against Amazon, Wal-Mart announced that starting April 19, 2017, it would offer discounts on 10,000 online-only products on Walmart.com, provided the shopper opted to pick up the ordered items from a Wal-Mart retail store rather than having the items shipped to his/her address. Wal-Mart also promised that the discounts would be extended to more than 1 million items by the end of June 2017. However, this discount was not applicable to the items available in Wal-Mart's physical stores and on Wal-Mart's third-party marketplace. This marked the extension of Wal-Mart's aggressive pricing to other categories such as baby gear, electronics, and home goods.

This case discusses the innovative pricing strategies adopted by Wal-Mart with a special focus on the pickup discounts option, in its price war against other online retail marketplaces, especially Amazon.com (Amazon). Wal-Mart had been developing several strategies in its price war with American e-commerce and cloud computing company, Amazon, to not only retain the position of the top retailer in the US but also to become the topmost online retail business as well. In one such move against Amazon, Wal-Mart announced that starting April 19, 2017, it would offer discounts on 10,000 online-only products on walmart.com, provided the shopper opted to pick up the ordered items from a Wal-Mart retail store rather than having them shipped to his/her address. Wal-Mart also promised that the discounts would be extended to more than 1 million items by the end of June 2017. However, this discount was not applicable to the items available in the physical stores of Wal-Mart and on Wal-Mart's third-party marketplace.

The case explores the multiple dimensions of the pickup discount and other pricing strategies like "Pick and Mix Pricing" of Walmart.com and their impact on the company and its competitors, particularly Amazon. It analyzes the several cost-cutting strategies adopted by Wal-Mart to offer its products at the lowest price possible to customers. The case also discusses how Wal-Mart with the help of its newly acquired niche e-commerce firms, plans to come up with newer strategies which will help the parent company to leverage its well-established physical retail outlets to increase its online sales. A part of the case also explores the various steps taken by Wal-Mart in its 'omni-channel management'. The case facilitates a critical discussion on whether all these pricing decisions are sound enough for Wal-Mart to compete with Amazon and to become the market leader in online retail business. The case also discusses how Amazon had been increasing its presence on the brick-and-mortar retail space, intensifying the retail wars.

Questions:

1. Do you think, Changing 'Product Pricing Environment' of today, primarily due to the internet's influence?
2. How do you examine the Product Price-Adaptation strategy of 'Product Price Discounts and Allowances'?

8.17 Further Readings

1. Marketing by Gary Armstrong, Michael Harker, Philip Kotler, Ross Brennan
2. Principles of Marketing by Philip Kotler
3. Contemporary Marketing by David L. Kurtz
4. Principles of marketing by Frances Brassington, Stephen Pettitt
5. Marketing insights from A to Z by Philip Kotler
6. Principles of marketing by Frances Brassington, Stephen Pettitt
7. Principles of marketing by Veronica Wong, John Saunders
8. Marketing by Armstrong, Armstrong Gary
9. Essentials of Marketing by Charles W. Lamb, Joseph F. Hair, Jr., Carl McDaniel

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6. Patterson, Laura (2008). Marketing Metrics in Action: Creating a Performance-Driven Marketing Organization. Racom Communications. ISBN 978-1-933199-15-3.
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13. Strategic Marketing Management (second edition), Richard M. S. Wilson and Colin Gilligan

Unit 9: Brand Management-Brand and Branding Strategy

Structure:

9.1 Brand and Branding Decisions
9.2 Advantages and Disadvantages of Branding
9.3 Brand Equity
9.4 Brand Positioning
9.5 Brand Name Selection
9.6 Brand Sponsorship
9.7 Brand Development
9.8 Brand Extension
9.9 Brand Image
9.10 Co-Branding
9.11 Summary
9.12 Check Your Progress
9.13 Questions and Exercises
9.14 Key Terms
9.15 Check Your Progress: Answers
9.16 Case Study
9.17 Further Readings
9.18 Bibliography

Objectives

After studying this unit, you should be able to understand:

- Brand and Branding decisions
- Advantages and disadvantages of branding
- Brand Equity
- Brand Positioning
- Brand Name Selection
- Brand Sponsorship
- Brand Development
- Brand Extension
- Brand Image
- Co-Branding

Notes

9.1 Brand and Branding Decisions

Branding consists of a set of complex branding decisions. Major brand strategy decisions involve brand positioning, brand name selection, brand sponsorship and brand development.Before going into the four branding decisions, also called brand strategy decisions, we should clarify what a brand actually is. A brand is a company's promise to deliver a specific set of features, benefits, services and experiences consistently to buyers. However, a brand should rather be understood as a set of perceptions a consumer has about the products of a particular firm. Therefore, all branding decisions focus on the consumer.

Branding decisions go beyond deciding upon brand positioning and brand name. The third of our four branding decisions is the brand sponsorship. A manufacturer has four brand sponsorship options.

A product may be launched as a manufacturer's brand. This is also called national brand. Examples include Kellogg selling its output under the own brand name or Sony. The manufacturer could also sell to resellers who give the product a private brand. This is also called a store brand, a distributor brand or an own-label. Recent tougher economic times have created a real store-brand boom. As consumers become more price-conscious, they also become less brand-conscious, and are willing to choose private brands instead of established and often more expensive manufacturer's brands.

Also, manufacturers can choose licensed brands. Instead of spending millions to create own brand names, some companies license names or symbols previously created by other manufacturers. This can also involve names of well-known celebrities or characters from popular movies and books. For a fee, they can provide an instant and proven brand name. For example, sellers of children's products often attach character names to clothing, toys and so on. These licensed character names include Disney, Star Wars, Hello Kitty and many more.

Finally, two companies can join forces and co-brand a product. Co-branding is the practice of using the established brand names of two different companies on the same product. This can offer many advantages, such as the fact that the combined brands create broader consumer appeal and larger brand equity. For instance, Nestlé uses co-branding for its Nespresso coffee machines, which carry the brand names of well-known kitchen equipment manufacturers such as Krups, DeLonghi and Siemens.

Branding Decisions

Branding decisions finally include brand development. For developing brands, a company has four choices: line extensions, brand extensions, multi-brands or new brands.

1. Line extension refers to extending an existing brand name to new forms, sizes, colours, ingredients or flavours of an existing product category. This is a low-cost, low-risk way to introduce new products. However, there are the risks that the brand name becomes overextended and loses its specific meaning. This may confuse consumers. An example for line extension is when Coca-Cola introduces a new flavour, such as diet cola with vanilla, under the existing brand name.
2. Brand extension also assumes an existing brand name, but combines it with a new product category. Thus, an existing brand name is extended to a new product category. This gives the new product instant recognition and faster acceptance and can save substantial advertising costs for establishing a new

brand. However, the risk that the extension may confuse the image of the main brand should be kept in mind. Also, if the extension fails, it may harm consumer attitudes toward other products carrying the same brand name. For this reason, a brand extension such as Heinz pet food cannot survive. But other brand extensions work well. For instance, Kellog's has extended its Special K healthy breakfast cereal brand into a complete line of cereals plus a line of biscuits, snacks and nutrition bars.

3. Multiband means marketing many different brands in a given product category. P&G (Procter & Gamble) and Unilever are the best examples for this. In the USA, P&G sells six brands of laundry detergent, five brands of shampoo and four brands of dishwashing detergent. Multibranding offers a way to establish distinct features that appeal to different customer segments. Thereby, the company can capture a larger market share. However, each brand might obtain only a very small market share and none may be very profitable.
4. New brands are needed when the power of existing brand names is waning. Also, a new brand name is appropriate when the company enters a new product category for which none of its current brand names are appropriate.

Meaning of Branding

Branding is the management process by which a product is branded. It is a general term covering various activities such as giving a brand name to a product, designing a brand mark and establishing and popularizing it.

Brand Name

According to the American Management Association, "Brand name is a part of a brand consisting of a word, letter, group of words or letters comprising of a name which is intended to identify the products or services of a seller or group of seller and to differentiate them from those of companies".

Essential of Good Brand

1. **Easy to recognize:** It should be short, simple and easy to recognize, pronounce spell and remember, such as Colgate, onida, surf, Bata etc.
2. **Appropriate for the product:** The brand name should be appropriate for the product such as SOTC tours and travels.
3. **Helpful in advertising and identifying:** Brand name should be helpful in advertising and identifying.
4. **Versatile:** It should be versatile so that it can be applicable to any product added to the line. For example: Family names such as Modi, Bajaj, Birla, Tata etc possess these characteristics.
5. **Easily registered and thereby legally protect:** It should be such which can be easily registered and thereby legally protect able i.e., it should not be similar to competitive products or prohibited by the emblems and names (Prevention of Improper Use Act 1950). For example, the use of names like WHO, UNO, using a country's name, etc. are prohibited under the act.
6. **Clear and attractive:** It should be clear and attractive.

Notes

9.2 Advantages and Disadvantages of Branding

Advantages of Good Branding:

1. Advantages to the consumer

(a) **Easy to Identify:** Brand name renders product identification much easier. Thus a lot of time and energy of the consumers is saved in shopping for products and services.

(b) **Assurance of Quality:** The branded products assure certain quality and standard which are consistently maintained by the manufacturer.

(c) **Easy Selection:** Brand distinguishes the products of different manufacturers and this would enable the consumers to select their products quite easily and conveniently.

2. Advantages to Manufacturers

(a) **Builds up reputation and Image:** A brand enables the manufacturers to build up reputation of his product, create, and image in the public mind.

(b) **Builds product Loyalty:** A brand helps to build loyalty for the product among the customers. It is a source of repeated orders by the customers.

(c) **Discourages Price Competition:** It discourages price competition because every producer has a distinct image in the market as well as in the public mind. It ensures manufacturers independence in pricing decisions.

3. Advantages to Middlemen

(a) **Eases the selling Process:** Widely popular brands ease the selling process. Middlemen are saved of separate weighing, measuring, packing etc. He merely displays the brand and the product is sold.

(b) **Reduces Bargaining and price flexibility:** As the prices are already printed on it, it reduces their risk also.

(c) **Reduces Distribution cost:** Special selling efforts need not be undertaken by the middlemen as the consumer demands the product by quoting the special brand name. This reduces the cost of distribution considerably.

Disadvantages of Branding:

Branding involves developing a name, symbol or design to represent a product in consumers' minds. For example, a company might feature its trademarked logo on packaging and in advertisements. The goal is for consumers to instantly associate that company's logo with its product, allowing them to differentiate that product from its competitors. Consumer branding helps businesses maintain a valuable image, but the technique also has disadvantages.

1. Higher Retail Prices

Branding efforts can be expensive. Product and packaging design, widespread advertising campaigns and in-store sales promotions, for example, are costly endeavors but necessary to adequately develop a company's reputation. As a result, the retail price of branded products can be 20 to 30 percent higher, according to the book "Principles of Marketing," by Ashok Jain. This is a disadvantage for consumers, who must pay higher prices. It's also a disadvantage for producers, who must justify higher prices to the public.

2. Fleeting Benefits

The benefits of branding dissipate rapidly. For example, suppose a company invests heavily in product quality and customer service, developing a stellar reputation. As a result, many consumers will be loyal to the brand. But those same consumers will depart rapidly if the company fails to maintain its reputation, for example, by neglecting quality control. In other words, branding is not a one-time effort. It requires steady attention to detail to ensure that all corporate efforts from manufacturing to advertising to customer support continually support the brand's image.

3. It's Sometimes Pointless

When shopping for certain categories of products, many consumers will buy the cheapest option that fulfills their needs, regardless of the name brand. For example, Jain points out that in his book that vegetables, fruits, nails and other interchangeable items are hard to differentiate from competing products, making branding nearly pointless.

4. Competitive Disadvantage

Developing a brand to be competitive with major brands exceeds the capabilities of most small businesses. Heavy advertising, for example, is cost prohibitive for many small businesses, as are custom package designs and comprehensive sales promotions. Also, once a company develops a brand, it must hire an attorney to register and protect a trademark or service mark to reserve the exclusive right to that brand. Large, well-off companies thus have a significant advantage. But a small business can start developing its brand on a small scale, for example, by targeting a narrow niche of consumers in a small geographic region. Later, as revenues increase, the business can widen the scope of its branding efforts to acquire increasingly large segments of the market.

9.3 Brand Equity

Brand equity is a phrase used in the marketing industry which describes the value of having a well-known brand name, based on the idea that the owner of a well-known brand name can generate more money from products with that brand name than from products with a less well-known name, as consumers believe that a product with a well-known name is better than products with less well-known names.

Brand equity is strategically crucial, but famously difficult to quantify. Many experts have developed tools to analyze this asset, but there is no universally accepted way to measure it. Quantitative brand equity includes numerical values such as profit margins and market share, but fails to capture qualitative elements such as prestige and associations of interest. Overall, most marketing practitioners take a more qualitative approach to brand equity because of this challenge. In a survey of nearly 200 senior marketing managers, only 26 percent responded that they found the "brand equity" metric very useful.

9.4 Brand Positioning

Brand Positioning can be defined as an activity of creating a brand offer in such a manner that it occupies a distinctive place and value in the target customer's mind. For instance-Kotak Mahindra positions itself in the customer's mind as one entity- "Kotak "- which can provide customized and one-stop solution for all their financial service's needs. It has an unaided top of mind recall. It intends to stay with the proposition of "Think Investments, Think Kotak". The positioning you choose for your brand will be influenced by the competitive stance you want to adopt.

Brand Positioning involves identifying and determining points of similarity and difference to ascertain the right brand identity and to create a proper brand image. Brand Positioning is the key of marketing strategy. A strong brand positioning directs marketing

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strategy by explaining the brand details, the uniqueness of brand and it's similarity with the competitive brands, as well as the reasons for buying and using that specific brand. Positioning is the base for developing and increasing the required knowledge and perceptions of the customers. It is the single feature that sets your service apart from your competitors. For instance- Kingfisher stands for youth and excitement. It represents brand in full flight. There are various positioning errors, such as:

Under positioning - This is a scenario in which the customers have a blurred and unclear idea of the brand.

Over positioning - This is a scenario in which the customers have too limited a awareness of the brand.

Confused positioning - This is a scenario in which the customers have a confused opinion of the brand.

Double Positioning - This is a scenario in which customers do not accept the claims of a brand.

Characteristics of a Good Brand Positioning Strategy

1. Relevant

The positioning strategy you decide should be relevant according to the customer. If he finds the positioning irrelevant while making the purchase decision, you're at loss.

2. Clear

Your message should be clear and easy to communicate. E.g. Rich taste and aroma you won't forget for a coffee product gives out a clear image and can position your coffee brand differently from competitors.

3. Unique

A strong brand positioning means you have a unique credible and sustainable position in the customers' mind. It should be unique or it's of no use.

4. Desirable

The unique feature should be desirable and should be able to become a factor which the customer evaluates before buying a product.

5. Deliverable

The promise should have the ability to be delivered. False promises lead to negative brand equity.

6. Points of difference

The customer should be able to tell the difference between your and your competitor's brand.

7. Recognizable Feature

The unique feature should be recognizable by the customer. This includes keeping your positioning simple, and in a language which is understood by the customer.

8. Validated by the Customer

Your positioning strategy isn't successful until the time it is validated by the customer. He is the one to decide whether you stand out or not. Hence, try to be in his shoes while deciding your strategy.

9.5 Brand Name Selection

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Selecting a brand name is one of the most important product decisions a seller makes. A brand name reflects the overall product image, positioning, and, ideally, its benefits. A successful brand name can enable a product to be meaningfully advertised and distinguished from competitors; tracked down by consumers; and given legal protection. At its best, a brand can provide a carryover effect when customers are able to associate quality products with an established brand name. Attention to naming also helps customer's associate products within the same brand family. For example, Apple names its mobile products with a lowercase i for example, iPad, iPod, iPhone. Starbucks names its coffee sizes in Italian.

Remember that legally protectable brand names are mandatory if an organization plans to produce mass advertising for their product or service. Once an organization starts using a new brand name, it may encounter other organizations' claim to own the rights to that name and threaten legal action. To avoid the risks and potential expense associated with legal challenges to a brand name, it is important to use a thorough, systematic process for selecting a brand name.

Selecting a Naming Strategy

Before you start brainstorming new brand names and registering domain names, the company should evaluate which naming/branding policy to pursue for the new offering and choose one the following three viable options. This process helps determine whether you even need a new brand name.

Strategy 1: Own Brand. A strict branding policy under which a company only produces products and services using its own brand. In this scenario, you need a new brand name.

Strategy 2: Private-Label Brand. An exclusive distributor's brand policy in which a producer does not have a brand of his own but agrees to sell his products only to a particular distributor and carry that distributor's brand name (typically employed by private brands). In this scenario, the new offering will carry the distributor's brand name, so you don't need to create your own new brand.

Strategy 3: Mixed Brand. A mixed-brand policy allows both own-branded and private-label versions of the offering. In this scenario, you need a new brand name for the own-branded product, and the distributor's version of the product will carry the distributor's brand name.

Steps to Develop a New Brand Name

Once you have confirmed that you need a new brand name, you should follow a systematic approach to developing and selecting one, as described below:

1. **Define what you're naming.** Define the personality and distinctive attributes of the company or product to be named.
2. **Check the landscape.** Scan the competitive landscape to identify brand names already active in the category, in order to avoid selecting a name that would easily be confused with competitors.
3. **Brainstorm ideas.** Engage a naming team to brainstorm ideas and generate potential brand names. Due to the challenges of identifying a unique, protectable name in today's global market, the naming team should include some members with prior naming experience. Often companies hire specialty naming firms to

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add creative power and expertise to the process. The team should generate lots of ideas, knowing that the vast majority will fall out during the screening process.

Screen and knock out problematic names. Screen favorite names to make sure they are available to use perceptually (no mind-share conflicts with other known brands), legally (no trademark conflicts) and linguistically (no problems in translation).

4. **Perceptual screening:** Start the screening process with thorough Google searches on the names being considered in order to eliminate any that could easily be confused with established players in your product or service category, or a related category. If an established brand name is similar in terms of phonetics (sound), spelling, root word, or meaning, there is probably a conflict. Check with a trademark attorney if you have questions.
5. **Legal screening:** The next screening process is to evaluate potential conflicts with registered trademarks that exist in the product or service categories in question. A man in a foreign police uniform. Each country has its own trademark registry, so this search must be performed in each country where you expect to do business using this brand name. While anyone can attempt this process, due to the legal complexities of global trademark law, it's advisable to engage an experienced trademark attorney to review the names, conduct an authoritative search, and provide legal clearance for the short list of final names.
6. **Linguistic screening:** If you plan to use the brand name in different countries and languages, a linguistic screening is a must. Use a naming firm or a linguistic screening firm to screen your final, short-listed name candidates with native speakers from the countries where you plan to operate.

9.6 Brand Sponsorship

Brand sponsorship is a marketing strategy in which a brand is supporting an event, activity, person or organization.Brand sponsorship is a marketing strategy in which a brand is supporting an event, activity, person or organization. Everywhere we go we can witness sponsorship investments: music festival, football games, beneficial events and so on. Sponsorship allows big, medium and small brands to partner with other companies as well as event agencies in order to generate a relationship that aims to economically gratify both the sponsor and the sponsee.

Breaking down Brand Sponsorship

A well-known scenario is when a global brand (let's think at Coca-Cola) spend a lot of money to become official sponsor of the World-Cup.

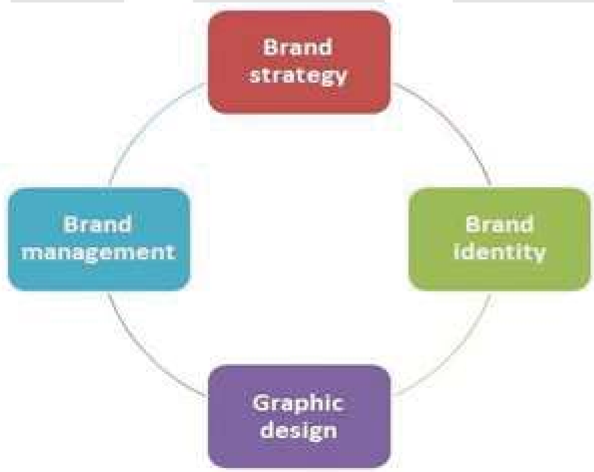
1. **Increase brand awareness/visibility:** whether you are a newborn brand or a well-established company, sponsoring is an activity that can help you gain awareness or increase your visibility addressing a broader target.
2. **Increase your sales/acquire customers:** this is the ultimate goal for every business. Getting to the top of the mind of new or existing customers not only increase awareness but can also directly drive sales, according to how the sponsorship is coherent with your marketing plan.
3. **Gain publicity:** can you imagine a startup that get to be the sponsor of an important event or sport club? Seems like a natural consequence that media will talk about this. Furthermore, people will share news on social networks.

As a result, you can gain good exposure – all this for free.

4. **Differentiate from the competition:** if you find yourself in a very competitive and profit-shrinking market, being the sponsor of a big event or organization can give you the chance to stand out as a leader in your field
5. **Increase brand loyalty/premium prices:** true especially for sport sponsorship. In fact, it is statistically proven that, for example, fans of a particular team are more willing to buy from the sponsor than from its competitors. This leads to brand loyalty, which leads itself to customers being less sensitive to premium prices.
6. **Increase your CSR reputation/brand image:** finally, sponsoring a charitable event or a foundation can enhance your brand image as a caring company. As a result you will be able to witness a profit increase on the long term.

9.7 Brand Development

Brand development is maintaining the consistency in terms of quality, value and trust that consumer finds in the company. Brand development has following 4 phases:



Brand strategy - How to take your brand into the market? Making brand communications more effective.

Brand Identity - It communicates the company's vision and mission via Brand. From beginning to end, making brand more memorable.

Graphic design - Differentiates from the competitor and shape consumers' perception positively.

Brand management - Just like a stock portfolio, managing the investment done by the company in the brand.

9.8 Brand Extension

Brand Extension is the use of an established brand name in new product categories. This new category to which the brand is extended can be related or unrelated to the existing product categories. A renowned/successful brand helps an organization to launch products in new categories more easily. For instance, Nike's brand core product is shoes. But it is now extended to sunglasses, soccer balls, basketballs, and golf equipments. An existing brand that gives rise to a brand extension is referred to as parent brand. If the customers of the new business have values and aspirations synchronizing/matching those

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of the core business, and if these values and aspirations are embodied in the brand, it is likely to be accepted by customers in the new business.

Extending a brand outside its core product category can be beneficial in a sense that it helps evaluating product category opportunities, identifies resource requirements, lowers risk and measures brand's relevance and appeal.

Advantages of Brand Extension

Brand Extension has following advantages:

a) It makes acceptance of new product easy.
b) It increases brand image.
c) The risk perceived by the customers reduces.
d) The likelihood of gaining distribution and trial increases.
e) An established brand name increases consumer interest and willingness to try new product having the established brand name.
f) The efficiency of promotional expenditure increases.
g) Advertising, selling and promotional costs are reduced.
h) Cost of developing new brand is saved.
i) Consumers can now seek for a variety.
j) There are packaging and labeling efficiencies.
k) The expense of introductory and follow up marketing programs is reduced.
l) There are feedback benefits to the parent brand and the organization.
m) The image of parent brand is enhanced.
n) It revives the brand.
o) It allows subsequent extension.
p) Brand meaning is clarified.
q) It increases market coverage as it brings new customers into brand franchise.
r) Customers associate original/core brand to new product, hence they also have quality associations.

Disadvantages of Brand Extension

a) Brand extension in unrelated markets may lead to loss of reliability if a brand name is extended too far. An organization must research the product categories in which the established brand name will work.
b) There is a risk that the new product may generate implications that damage the image of the core/original brand.
c) There are chances of less awareness and trial because the management may not provide enough investment for the introduction of new product assuming that the spin-off effects from the original brand name will compensate.
d) If the brand extensions have no advantage over competitive brands in the new category, then it will fail.

9.9 Brand Image

Brand Image is an image or impression the customers form about a particular brand in their mind which is developed over a certain time period. Brand Image can be defined as how existing or potential customers view the brand and associate with it. Brand image is something that eventually forms in the mind of the customer. Brand image may be same as brand identity or may be totally opposite. The ideal scenario is that the brand image should be positive and what the company or the manufacturer wants it to be. Every company wants to position its brand in a certain way which it deems is the best way for it to be seen by the customers, that is known as Brand Identity.

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Advantages of building a strong brand image

a) The perception of a consumer towards a particular brand is in direct relation to the image of the brand.

b) Having a strong brand image directly impacts the consumer buying behavior, and hence premium brands as well as top brands have a target of building a strong and positive image of the brand.

c) A positive brand image can make the decision process easier, thereby promoting a lot of repeat purchases as well as primary purchases.

d) A promising brand image conveys the success of the product and gives results with increased sales and revenues.

e) A positive image gives confidence to the customers as they feel that the brand is sincere and clear in its vision to create the best.

f) It is possible to build brand image with strong advertisements because of which companies are promoting their products through various famous personalities to enhance their image of brand.

Problems of a good Brand Image

a) If an organization is unable to depict a satisfactory brand image, then the consequences can be felt quickly. The brand might fail in the short term itself if the brand image created is negative.

b) The product is principally dependent on its brand image and unfavorable or negative image results in the disgrace of the company and later on bringing the same brand becomes difficult.

c) The main disadvantage of a brand image is that the brand and its products will always be identified with the image until further changes in the brand image are impelled.

d) If in any circumstances the image is compromised, then sales and revenues will also be hampered and therefore it is necessary to gather a right team that will create and regularly maintain the brand image of a product.

9.10 Co-Branding

Cobranding is a marketing strategy that utilizes multiple brand names on a good or service as part of a strategic alliance. Also known as a "brand partnership," cobranding (or "co-branding") encompasses several different types of branding collaborations typically involving the brands of at least two companies. Each brand in such a strategic alliance contributes its own identity to create a melded brand with the help of unique logos, brand identifiers and color schemes. The point of cobranding is to combine the market strength, brand awareness, positive associations and cache of two or more brands to compel consumers to pay a greater premium for them. It can also make a product less susceptible to copying by private label competition.

Cobranding is a useful strategy for many businesses seeking to increase their customer bases, profitability, market share, customer loyalty, brand image, perceived

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value and cost savings. Many different types of businesses, such as retailers, restaurants, car makers and electronics manufacturers, use cobranding to create synergies based on the unique strengths of each brand. Simply put, cobranding as a strategy seeks to gain market share, increase revenue streams, and capitalize on increased customer awareness.

Cobranding can be spurred by two (or more) parties consciously deciding to collaborate on a specialized product. It can also result from a company merger or acquisition as a way to transfer a brand associated with a well-known manufacturer or service provider to a better-known company and brand. Cobranding can see more than just name and brand associations; there may also be a sharing of technologies and expertise, capitalizing on unique advantages of each cobranding partner.

A cobranded product is more limited in terms of audience than a broad, single-name corporate product. The image it conveys is more specific so companies must consider whether cobranding can yield benefits or if it would alienate customers accustomed to a single name with a familiar product identity.

Companies should choose cobranding partners very carefully; as much as a company can benefit from a relationship with another brand, there can also be risks. A good strategy is to slowly roll out a cobranded product or service before publicizing and promoting it, thereby giving the marketplace time to vet it.

Co-branding Strategies

According to branding and marketing experts there are four distinct cobranding strategies:

1. **Market penetration strategy:** A conservative strategy that seeks to preserve the existing market share and brand names of two partnered or merged firms.
2. **Global brand strategy:** Seeks to serve all customers with a single, existing global co-brand.
3. **Brand reinforcement strategy:** Exemplified by the use of a new brand name.
4. **Brand extension strategy:** The creation of a new co-brand name to be used only in a new market.

9.11 Summary

Branding is the management process by which a product is branded. It is a general term covering various activities such as Giving a brand name to a product, designing a brand mark and establishing and popularizing it.

According to the American Management Association,” Brand name is a part of a brand consisting of a word, letter, group of words or letters comprising of a name which is intended to identify the products or services of a seller or group of seller and to differentiate them from those of companies”.

A brand which is owned by a manufacturer and registered as a trademark under the producers name is called ‘manufacture/producer’s brand’. When a manufacture sells a variety of products, he has, to decide whether to sell each product under a separate brand or use family brand for its entire product.

The term combination brand refers to the use of individual brand for some products and family brand for other products. Thus it is the combination of both the brands i.e., individual and family brands. This is made in order to take advantage of popularity of both the types of brands. This policy enables the company to avoid the disadvantages of both types of brands for eg; Tata house is using this combination brand device. Each product has an individual name but it also has the family brand to indicate the business house producing the product, such as Tata Tea under this type of brand.

Branding can be done by distributors such as wholesalers and large sized retailers. Wholesalers and large sized retailers may get their own brand registered under the trademark act. In India, this practice is popular in the woolen and sports products. The manufacturer merely provides products as per specifications and requirement of distributors. The distributor may himself offer his own brand. Distributors enjoy full freedom in pricing products sold under their own control and have full control over distribution.

9.12 Check Your Progress

I. Fill in the Blanks

1. ________ one of the example of generic thing.
2. The long-term brand management starts with ________ and ________.
3. ________ is one of the examples for brand name.
4. The word 'Brand' has its origin in the Norwegian word 'Brand' which means to ________.
5. ________ is a symbol or a design used for the purpose of identification.
6. The legal version of a brand mark is ________.
7. ________ is an example for trade mark.
8. ________ is an example for brand name.
9. David Ogilvy defined a brand as ________.
10. ________ is one of the examples which are easy to pronounce & remember.

II. True or False

1. The word 'Brand' has its origin in the Latin word brand which means to buy.
2. Brand mark is a symbol or a design used for the purpose of identification.
3. The legal version of a brand mark is ISI.
4. Ashok masala is not an example for trade mark.
5. GOOD NIGHT is not an example for brand name .
6. David Ogilvy defined a brand as profit.
7. ONIDA is not an example for brand.
8. Brand name makes shopping easier.
9. Branding is a means of product identification.
10. Brand loyalty can be developed through successful marketing.

III. Multiple Choice Questions

1. Which of the following is the example of core or generic thing?
   - (a) Soap
   - (b) Tea
   - (c) Toothpaste
   - (d) All the above

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2. The long-term brand management starts with the…………..
   (a) Brand concept
   (b) Name selection
   (c) Both a & b
   (d) Quality of product
3. Which of the following is an example for brand Name?
   (a) LUX
   (b) HAMAM
   (c) LIRIL
   (d) All the above
4. The word "Brand" has its brig in the Norwegian work "Brand" which means to……
   (a) Attract
   (b) Burn
   (c) Sell
   (d) Quality
5. Which of the following is a symbol or a design used for the purpose of identification?
   (a) Brand
   (b) Brand mark
   (c) Labeling
   (d) Packing
6. The legal version of a brand mark is…………..
   (a) Legal mark
   (b) Trade mark
   (c) ISI
   (d) Both b & c
7. Which of the following is a example for trade mark?
   (a) Ashok masala
   (b) Good Health Atta
   (c) Both a & b
   (d) Pillsbury Atta
8. Which of the following is an example for a brand name which reflect directly or indirectly some aspects for the product?
   (a) EZEE
   (b) GOOD NIGHT
   (c) PUMA
   (d) All the above
9. David Ogilvy defined a brand as the………………
   (a) Customer's idea of a product
   (b) Customer's demand
   (c) Customer's standard of living
   (d) Manufacturers ability

10. Give an example which is easy to pronounce & remember…………
    (a) ONIDA
    (b) THUMS UP
    (c) BAJAJ
    (d) All the above

9.13 Questions and Exercises

I. Short Answer Questions

1. Define the term Brand?
2. What is Branding?
3. What is Branding decision?
4. Give the meaning of Brand Equity.
5. What is Brand Positioning?
6. What is Brand Name?
7. What is Brand Sponsorship?
8. What is Brand Development?
9. What is Brand Extension?
10. What is Brand Image?
11. Give the meaning of Co-Branding.

II. Extended Answer Questions

1. Explain in details about Brand and Branding decisions.
2. Discuss advantages and disadvantages of branding.
3. Explain features of Brand Equity.
4. Discuss importance of Brand Positioning.
5. Explain stages of Brand Name Selection.
6. Write note on: Brand Sponsorship.
7. Discuss in details about Brand Development Process.
8. Explain about Brand Extension.
9. Discuss advantages of Brand Image.
10. Explain about Co-Branding.

9.14 Key Terms

- **Branding:** Branding is the management process by which a product is branded. It is a general term covering various activities such as Giving a brand name to a product, designing a brand mark and establishing and popularizing it.
- **Brand name:** Brand name is a part of a brand consisting of a word, letter, group of words or letters comprising of a name which is intended to identify the products or services of a seller or group of seller and to differentiate them from those of companies".
- **Manufacture/ Producer's Brand:** A brand which is owned by a manufacturer and registered as a trademark under the producers name is called 'manufacture/ producer's brand'. When a manufacture sells a variety of products, he has, to

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decide whether to sell each product under a separate brand or use family brand for its entire product.

- **Individual Brands:** In case the manufacturer decides to sell each product under a separate brand, it is called individual Brand. The manufacturer has to promote each individual brand in the market separately. The foremost advantage of individual brand name is that the promotion if each product can be undertaken with superior aggressiveness. However, the overall cost of advertising and sales promotion is liable to increase.
- **Family or Umbrella Brand:** The term family or Umbrella brand refers to the one brand which a company adopts for a variety of its products i.e. all the different products are sold under one brand name only. Large sized multinational and national companies usually adopt family brands. Many such family brands have achieved national and international reputation.
- **Combination Brands:** The term combination brand refers to the use of individual brand for some products and family brand for other products. Thus it is the combination of both the brands i.e., individual and family brands.
- **Distributors/ Private Brands:** Branding can be done by distributors such as wholesalers and large sized retailers. Wholesalers and large sized retailers may get their own brand registered under the trademark act. In India, this practice is popular in the woolen and sports products. The manufacturer merely provides products as per specifications and requirement of distributors. The distributor may himself offer his own brand. Distributors enjoy full freedom in pricing products sold under their own control and have full control over distribution.
- **Mixed Brands:** Under this type of branding the manufacturer uses both his own brand as well as distributors brand in respect of his products. The manufacturer sells some products in the own brands and the rest may be sold under their own brand names.

9.15 Check Your Progress: Answers

I. Fill in the Blanks

1. Soap
2. brand concept & name selection
3. Lux
4. burn
5. brand mark
6. trade mark
7. Ashok masala
8. good night
9. customer's idea of a product
10. ONIDA

II. True or False

1. False
2. True
3. False
4. False
5. False
6. False

7. False 8. True
9. True 10. False

III. Multiple Choice Questions

1. [d] 2. [c]
3. [d] 4. [b]
5. [c] 6. [b]
7. [c] 8. [d]
9. [a] 10. [d]

9.16 Case Study

The LEGO Group (LEGO), a Denmark-based toy manufacturing company, was declared as the world's most powerful brand in 2015 by Brand Finance. Its high quality products and services and accountability toward consumers created a unique brand identity for the company and established its higher brand equity around the world. It disrupted the global toy manufacturing industry as a distinct player by focusing on innovative technological developments around the brand. To cope with the growing demand of consumers around the world, LEGO continuously changed its strategy through product diversification, portfolio extension, and strategic partnerships. The brand reinvented itself from time to time to move ahead of the competitors and understand the customer wants better.

The enduring popularity and universal appeal of the brand enabled it to be selected by the Forbes Magazine as product of the 20th century that claimed to change people's lives. However, despite its strategic decisions of product intervention at regular intervals, some industry observers felt that LEGO had failed to cater to the requirement of children and this had adversely affected its brand reputation in the new millennium.

This case is about the branding strategy that global toy manufacturing company LEGO Group adopted to restore its brand image and expand its outreach among consumers across the world. As a distinct player, LEGO followed a brand strategy which was disruptive, innovative, market-changing, and category-killing. Started with the vision of 'Inventing the future of play,' LEGO catered to the growing demands of its consumers through timely product expansion and diversification. However, it failed to address its core customers and neglected its core business in the wake of a mindless brand expansion strategy that resulted in losses to the company and deterioration in its brand reputation for some time. To revive the company and rejuvenate its brand, LEGO appointed Jorgen Vig Knudstorp as its CEO. Knudstorp undertook a rebranding plan that focused on "establishing operational and financial control as well as stability." The rebranding strategy enabled LEGO to reach the milestone of mainstreaming sustainability with its core business that focused on its core product, the LEGO bricks. Going forward, LEGO faced the challenge of protecting its original brand and creating toys that lived up to the expectation of the rapidly growing digital world.

Questions:

1. How do you understand the significance of brand strategy and observe how successful brand strategy resulted in high performance of the LEGO Group across the world?
2. Analyze the factors leading to rebranding of LEGO.

Notes

9.17 Further Readings

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Unit 10: Pricing

Structure:

10.1 Introduction to Pricing
10.2 Cost Based Pricing
10.3 Value Based and Competition Based Pricing
10.4 Product Mix Pricing Strategies
10.5 Adjusting the Price of the Product
10.6 Initiating and Responding to the Price Changes
10.7 Summary
10.8 Check Your Progress
10.9 Questions and Exercises
10.10 Key Terms
10.11 Check Your Progress: Answers
10.12 Case Study
10.13 Further Readings
10.14 Bibliography

Objectives

After studying this unit, you should be able to understand:

- Factors Affecting Price Decisions
- Cost Based Pricing
- Value Based and Competition Based Pricing
- Product Mix Pricing Strategies
- Adjusting the Price of the Product
- Initiating and Responding to the Price Changes

Notes

10.1 Introduction to Pricing

The pricing decision is a critical one for most marketers, yet the amount of attention given to this key area is often much less than is given to other marketing decisions. One reason for the lack of attention is that many believe price setting is a mechanical process requiring the marketer to utilize financial tools, such as spreadsheets, to build their case for setting price levels. While financial tools are widely used to assist in setting price, marketers must consider many other factors when arriving at the price for which their product will sell.

Pricing decisions and policies have a direct influence on sales volume and profits of business. This is an important element in marketing mix. Right pricing can be determined through pricing research and testing marketing demand, cost, competition, government regulations etc, are the vital factors that must be taken into consideration in the determination of price. Price is a source of revenue and a main determinant of profit. Price is matter of vital importance to both the seller and buyer in the market place. In money economy, without prices there cannot be marketing. Only when the buyer and seller agree on price, there can be exchange of goods and services leading to transfer of ownership. In a competitive market, price is determined by free play of demand and supply. With changing demand and supply conditions the price increases or decreases. It influences consumer purchase decisions. It reflects purchasing power of currency; it can determine the general living standards. Pricing governs the very feasibility of any marketing program because it is the only element in a marketing mix accounting for demand and sales revenue. Other elements are cost factors. Pricing decisions interconnect marketing actions with the financial objectives of the enterprise. Among the most important marketing variables influenced by pricing decisions are: sales volume, profit margins, rate of return on investment, trade margins, advertising and sales promotion, product image, new product development. Therefore pricing decisions play a very important role in the design of marketing mix. Price is a powerful marketing factor with the financial objectives of the enterprise. Among the most important marketing variables influenced by pricing decisions are: sales volume, profit margins, rate of return on investment, trade margins, advertising and sales promotion, product image, new product development. Price is all around us. We pay rent for our apartments, tuition for our education, and a fee to tour physician or dentist. The airlines, railway, taxi and bus companies charge a fare; the local bank charges an interest for the money we burrow. Hence price is not adjusting a number on a tag or an item. Throughout most history, prices were set by negotiation between buyers and sellers. Traditionally, price has operated as the major determinant of buyer choice. This is still the case in poorer nations, among poor groups, and with commodity-type products. Further price remains as an important element in determining market share and profitability.

Definition of Price

"Price is the only element in the marketing mix that creates sales revenue the other elements as costs". ***- Philip Kotler***

Pricing is a very critical decision that needs to be taken in marketing management. The main objective of the firm, that is, to earn a profit very much depends upon the correct price decision. After meeting all the costs involved, the sales revenue generated must yield a surplus before there can be profits.

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Meaning of Pricing

Pricing is the process of determining what a company will receive in exchange for its product. It is the method adopted by a firm to set its selling price. It depends on the firm's average costs, and on the customer's perceived value of the product in comparison to his or her perceived value of the competing products.

Significance / Importance of Pricing

The importance of price is self-evident. The process of setting an adequate price is not an exact science. The importance of pricing can be summarized as follows:

i) Pricing leads to maximize short term and long-run profit.
ii) It helps to increase sales volume.
iii) It helps to increase monetary sales.
iv) It supports to an organization for increasing market share.
v) It helps to obtain a target rate of return on investment.
vi) It assists to obtain a target rate of return on sales.
vii) It helps to stabilize market or stabilize market price.
viii) It desensitizes customers to product price.
ix) It discourages new entrants into the industry.
x) Pricing encourages the exit of marginal firms from the industry.

Price Decisions

Pricing the product is one of the important elements in marketing mix. Until recently it has been one of the most neglected areas. Even today, pricing in some firms is simply based on the concepts of cost, market position, competition and necessary profits.

Price is the exchange value of the goods or services in terms of money, the exchange value of product is called price. The value and utility of a product have to be set against its price. When barter economy changed into money economy the importance of price and money grew and they became the soul of exchange of the economy. Pricing decision means decision of determining price of a product. A concern has to take a number of factors like cost of production, cost of distribution, cost of transportation, cost of advertisement and personal selling, competitive forces, purchasing power of the consumer etc., other than the demand and supply position of the product in the market. Decision concerning price to be followed for a period of time may be called as "Price Decision".

The price of a product must be determined in such a manner as to offer a reasonable amount of profit to the manufacturer, a reasonable remuneration to middleman and the maximum satisfaction to consumers.

Factor Influencing of Pricing Decision

Two categories of factors-internal and external factors influence the pricing decisions of any enterprise. In each of these categories some may be economic factors and some psychological factors, again some factors may be quantitative and yet qualitative.

I. Internal Forces

The firm has certain objectives long term and immediate in pricing. For example, it has certain costs of manufacturing and marketing and it seeks to recover these costs through the price. The firm is also seeking a particular public image through its pricing

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policies. It may have a basic philosophy on pricing. The pricing decisions of the firm have to be consistent with this philosophy. Pricing also has to be consistent with the overall objectives of the firm. All these constitute the internal factors that influence pricing. Moreover, pricing strategy has to fit into the overall marketing strategy. It cannot exist independently. In this sense, overall marketing strategy is another internal factor that influences pricing.

Further internal factors influence the price:

1. Corporate and marketing objectives of the firm.
2. The image sought by the firm through pricing.
3. The basic characteristics of the product.
4. The stage of the product on the product life-cycle.
5. Price elasticity of demand of the product.
6. Use pattern and turn round rate of the product.
7. Costs of manufacturing and marketing.
8. Composition of the product line of the firm.

II. External Forces

In addition to all the internal forces mentioned above, any business firm has to encounter a set of external factors while formulating its pricing strategy. In the first place, the nature of the economy and the nature of competition have to be reckoned with. The purchasing power of the consumer as well as consumer behaviour, in the larger sense of the term, also have to be reckoned with. In the country like India, the state exercises a lot of influence on price decisions in respect of a large variety of products. It includes direct price controls through statutorily fixed maximum selling prices as well as indirect pressures to hold the price line at certain levels. Such external dimensions also have to be reckoned while formulating the pricing decision.

Further external forces influence the price:

1. Market characteristics.
2. Buyer behaviour in respect of the particular product.
3. Extent of bargaining power of major customers.
4. Competitor's pricing policy.
5. Government controls, regulation or pressures on pricing.
6. Other relavent legal aspects.
7. Societal considerations.
8. Understanding, if any, reached with price cartels.

10.2 Cost Based Pricing

Cost-based pricing involves calculating the cost of the product, and then adding a percentage mark-up to determine price.

Key Points

Cost based pricing is the easiest way to calculate what a product should be priced at. This appears in two forms: full cost pricing and direct-cost pricing. Full cost pricing takes into consideration both variable, fixed costs and a % markup. Direct-cost pricing is variable costs plus a % markup.

Cost-plus pricing is a pricing method used by companies to maximize their profits. The firms accomplish their objective of profit maximization by increasing their production until marginal revenue equals marginal cost, and then charging a price which is determined by the demand curve.

Cost-plus pricing is used primarily because it is easy to calculate and requires little information.

Key Terms

Markups: Markup is the difference between the cost of a good or service and its selling price. A markup is added on to the total cost incurred by the producer of a good or service in order to create a profit.

Variable cost: the amount of resources used that changes with the change in volume of activity of an organizationrate of return: Rate of return (ROR), also known as return on investment (ROI), rate of profit or sometimes just return, is the ratio of money gained or lost (whether realized or unrealized) on an investment relative to the amount of money invested.

Cost-plus pricing is the simplest pricing method. A firm calculates the cost of producing the product and adds on a percentage (profit) to that price to give the selling price. This appears in two forms: the first, full cost pricing, takes into consideration both variable and fixed costs and adds a % markup. The other is direct cost pricing, which is variable costs plus a % markup. The latter is only used in periods of high competition as this method usually leads to a loss in the long run.This method, although simple, does not take demand into account, and there is no way of determining if potential customers will purchase the product at the calculated price.

Cost-plus pricing is a method used by companies to maximize their profits. There are several varieties, but the common thread is that one first calculates the cost of the product, then adds a proportion of it as markup. Basically, this approach sets prices that cover the cost of production and provide enough profit margin to the firm to earn its target rate of return. It is a way for companies to calculate how much profit they will make.

Cost-plus pricing is used primarily because it is easy to calculate and requires little information, therefore it is useful when information on demand and costs is not easily available. This additional information is necessary to generate accurate estimates of marginal costs and revenues. However, the process of obtaining this additional information is expensive. Therefore, cost-plus pricing is often considered the most rational approach in maximizing profits. This approach relies on arbitrary costs and arbitrary markups.

10.3 Value Based and Competition Based Pricing

Value Based Pricing

Value-based price (also value optimized pricing) is a pricing strategy which sets prices primarily, but not exclusively, according to the perceived or estimated value of a product or service to the customer rather than according to the cost of the product or historical prices. Where it is successfully used, it will improve profitability through generating higher prices without impacting greatly on sales volumes.

The approach is most successful when products are sold based on emotions (fashion), in niche markets, in shortages (e.g. drinks at open air festival on a hot summer day) or for complementary products (e.g. printer cartridges, headsets for cell phones). Goods which are very intensely traded (e.g. oil and other commodities) are often sold using

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cost-plus pricing. Goods which are sold to highly sophisticated customers in large markets (e.g. automotive industry) have also in the past been sold using cost-plus pricing, but thanks to modern pricing software and pricing systems and the ability to capture and analyze market data, more and more markets are migrating towards market- or value-based pricing.

Value-based pricing in its literal sense implies basing pricing on the product benefits perceived by the customer instead of on the exact cost of developing the product. For example, a painting may be priced as much more than the price of canvas and paints: the price in fact depends a lot on who the painter is. Painting prices also reflect factors such as age, cultural significance, and, most importantly, how much benefit the buyer is deriving. Owning an original Dalí or Picasso painting elevates the self-esteem of the buyer and hence elevates the perceived benefits of ownership.

Value-based pricing is defined based on the value that a product or service can deliver to a predefined segment of customers which are the main factor for setting prices, as value-based pricing depends on the strength of benefits that a company can prove and offer to their customers. Thus, value is the most important driving force in every business decision as value focuses on the price the potential customers are willing to pay based on the benefit offered by the business. For example, the cost for fixing a pipe at a customer's home for a plumber is ₹ 120 with the cost of travel, material cost and an hour's labour. However, the plumber may decide to charge a total of ₹ 150 to benefit from this business. Thus, the customer might not be happy about the overcharged price given by the plumber, at the same time there are possibility that the plumber will lose their customer, so it is important to measure the value of a product before setting the price too high. On the other hand, if the company has a clear-defined benefit that gives you an advantage over the competitor, the company is able to charge according to the value that is offered to the customers. Thus, this is a very profitable approach as it can break off potential customers who are driven only by price and also attract new customers from competitors. Example, Starbucks raised prices to maximize profits from price insensitive customers who depend on their gourmet coffee while losing customers who wanted cheaper prices to McDonalds.

Competition-Based Pricing

Competitive-based pricing occurs when a company sets a price for its good based on what competitors are selling a similar product for.

Key Points

If competitors are pricing their products at a lower price, then it’s up to the company to either price their goods at a higher or lower price, all depending on what they want to achieve.

One advantage of competitive-based pricing is that it avoids price competition that can damage the company.

Potential disadvantages include that businesses may need to engage in other tactics to engage customers (if the price is not enough of an incentive).

Another concern for companies is that this pricing method may barely cover production costs, resulting in low profits.

Another concern for companies is that this pricing method may only cover production costs, resulting in low profits.

Competitive-based Pricing

Competitive-based pricing occurs when a company sets a price for its good based on what competitors are selling a similar product for.

In economics, competition is the rivalry among sellers trying to achieve such goals as increasing profits, market share, and sales volume by varying the elements of the marketing mix: price, product, distribution, and promotion. Merriam-Webster defines competition in business as "the effort of two or more parties acting independently to secure the business of a third party by offering the most favorable terms." It was described by Adam Smith in The Wealth of Nations (1776) and later economists as allocating productive resources to their most highly-valued uses and encouraging efficiency. Smith and other classical economists before Cournot were referring to price and non-price rivalry among producers to sell their goods on best terms by the bidding of buyers, and not necessarily to a large number of sellers or to a market in final equilibrium.

Competitive-based pricing, or market-oriented pricing, involves setting a price based upon analysis and research compiled from the target market. With competition pricing, a firm will base what they charge on what other firms are charging. This means that marketers will set prices depending on the results from their research. For instance, if the competitors are pricing their products at a lower price, then it's up to them to either price their goods at a higher or lower price, all depending on what the company wants to achieve.

Demand-Based Pricing

Demand-based pricing uses consumer demand (and therefore perceived value) to set a price of a good or service.Demand -based pricing uses consumer demand (and therefore perceived value) to set a price of a good or service.Methods of demand-based pricing can include price skimming, price discrimination and yield management, price points, psychological pricing, bundle pricing, penetration pricing, price lining, value-based pricing, geo and premium pricing.

Pricing factors include manufacturing cost, market location, competition, market condition, and the quality of the product.

Key Terms

Price skimming: Price skimming is a pricing strategy in which a marketer sets a relatively high price for a product or service at first, then lowers the price over time. It is a temporal version of price discrimination/yield management.

Yield management: The method of analyzing information to forecast market conditions and implications for the firm

Demand-based pricing is any pricing method that uses consumer demand, based on perceived value, as the central element. These include: price skimming, price discrimination and yield management, price points, psychological pricing, bundle pricing, penetration pricing, price lining, value-based pricing, geo and premium pricing. Pricing factors are manufacturing cost, market place, competition, market condition, and quality of product.

Price skimming is a pricing strategy in which a marketer sets a relatively high price for a product or service at first, then lowers the price over time. It is a temporal version of price discrimination/yield management. It allows the firm to recover its sunk costs quickly before competition steps in and lowers the market price. Price skimming is

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sometimes referred to as riding down the demand curve. The objective of a price skimming strategy is to capture the consumer surplus. If this is done successfully, then theoretically no customer will pay less for the product than the maximum they are willing to pay. In practice, it is almost impossible for a firm to capture all of this surplus.

Price discrimination or price differentiation exists when sales of identical goods or services are transacted at different prices from the same provider.

Yield management is the process of understanding, anticipating and influencing consumer behavior in order to maximize yield or profits from a fixed, perishable resource, such as airline seats or hotel room reservations. As a specific, inventory-focused means of revenue management, yield management involves strategic control of inventory to sell it to the right customer at the right time for the right price. This process can result in price discrimination, where a firm charges customer consuming otherwise identical goods or services a different price for doing so. Yield management is a large revenue generator for several major industries; Robert Crandall, former Chairman and CEO of American Airlines, gave yield management its name and has called it “the single most important technical development in transportation management since we entered deregulation.”

Psychological pricing or price ending is a marketing practice based on the theory that certain prices have a psychological impact. The retail prices are often expressed as “odd prices”: a little less than a round number, e.g. Rs.19.99 or Rs.2.98. The theory is this drives demand greater than would be expected if consumers were perfectly rational. Psychological pricing is one cause of price points.

Product bundling is a marketing strategy that involves offering several products for sale as one combined product. This strategy is very common in the software business (e.g., bundle a word processor, a spreadsheet, and a database into a single office suite), in the cable television industry (e.g., basic cable in the United States generally offers many channels at one price), and in the fast food industry in which multiple items are combined into a complete meal. A bundle of products is sometimes referred to as a package deal or a compilation or an anthology.

Penetration pricing is the pricing technique of setting a relatively low initial entry price, often lower than the eventual market price, to attract new customers. The strategy works on the expectation that customers will switch to the new brand because of the lower price. Penetration pricing is most commonly associated with a marketing objective of increasing market share or sales volume, rather than to make profit in the short term.

Value-based pricing, or value-optimized pricing is a business strategy. It sets prices primarily, but not exclusively, on the value, perceived or estimated, to the customer rather than on the cost of the product, the market price, competitors’ prices, or historical prices. The goal of value-based pricing is to align a price with the value delivered. It is based on the notion that a customer receiving high levels of value will pay a higher price than a customer receiving lower levels of value for the same product or service.

Geo (also called marketing geography or geo-marketing) is a discipline within marketing analysis which uses geolocation (geographic information) in the process of planning and implementation of marketing activities. It can be used in any aspect of the marketing mix: the product, price, promotion, or place (geo targeting).

10.4 Product Mix Pricing Strategies

Most of the companies fix prices of their products after a careful consideration of the competitors’ price structure. Deliberate policy may be formulated to sell its products in the competitive market. Three policy alternatives are available to the firm under this method:

(a) **Parity Pricing or Going Rate Pricing:** Under this method, the price of the product is determined on the basis of the price of competitor's products. This method is used when the firm is new in the market or when the existing firm introduces a new product in the market. This method is used when there is tough competition in the market. This method is based on the assumption that a new product will create demand only when its price is competitive. In such a case, the firm follows the market leader.

(b) **Pricing above Competitive Level or Discount Pricing:** Discount pricing means when the firm determines the price of its products below the competitive level, i.e., below the price of the same products of the competitors.

(c) **Pricing above Competitive Level or Premium Pricing:** Premium pricing means where the firm determines the price of its product above the price of the same products of the competitors. Price of the firm's product remains higher showing that quality is better. The price policy is adopted by the firms of high repute only because they have created the image of quality producer in the minds of the public. They become the market leader. All the above three competitive based methods are not rigid in price cost relations. Its cost or demand may change but the price of the product remains unchanged. Conversely, the firm changes its price even when there is no change in cost or demand of firm's product.

10.5 Adjusting the Price of the Product

The first one of the price adjustment strategies is applied in a large share of businesses. Especially in B2B, this price adjustment strategy is rather common. Most companies adjust their basic price to reward customers for certain responses, such as the early payment of bills, volume purchases and off-season buying.

Discount and allowance pricing can take many forms: Discounts can be granted as a cash discount, a price reduction to buyers who pay their bills promptly. Typical payment terms look like this: "2/10, net 30", meaning that payment is due within 30 days, but the buyer can deduct 2 per cent if the bill is paid within 10 days. Also, a quantity discount can be given, which is a price reduction to buyers who buy large volumes. A seasonal account is a third form of discount, being a price reduction to buyers who buy merchandise or services out of season.

Allowances refer to another type of reduction from the list price. For instance, trade-in allowances are price reductions given for turning in an old item when buying a new one. Especially in the car industry, trade-in allowances are very common. Promotional allowances refer to payments or price reductions to reward dealers for participating in advertising and sales support programmes.

Segmented Pricing – Price Adjustment Strategies

Often, companies adjust their basic prices to allow for differences in customers, products and locations. In short: adjusting prices to account for different segments. In segmented pricing, the company thus sells a product or service at different prices in different segments, even though the price-difference is not based on differences in costs.

Several different forms of segmented pricing exist. Under customer-segment pricing, different customers pay different prices for the same product or service. For instance,

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museums and theatres may charge a lower admission for students and senior citizens. Under product-form pricing, different versions of the product are priced differently, although the difference is not due to cost differences. To give an example, look at a bottle of Evian mineral water. It may sell for €1 at the local supermarket. But if you buy a 150ml aerosol can of Evian Brumisateur Water Spray, you will pay more than €8 in beauty boutiques and spas. The content, though, is the same, only in a different product form.

Under location-based pricing, a firm charges different prices for different locations, although the cost of offering each location is the same. For instance, in the USA, state universities charge higher tuition fees for out-of-state students, and theatres vary their seat prices because of audience preferences for certain locations. Finally, under time-based pricing, the firm varies its price by the season, the month, the day or even the hour. This is commonly applied in the hotel business.

Of course, several conditions must be met for this price adjustment strategy to work. The market must be segmentable, and segments must show different degrees of demand. In addition, the cost of segmenting and reaching the single parts of the market cannot exceed the extra revenue obtained from the price differences created.It is most important that segmented prices reflect real differences in customers' perceived value.

Psychological Pricing – Price Adjustment Strategies

Another one of the price adjustment strategies is psychological pricing. It refers to pricing that considers the psychology of prices, not simply the economics. Indeed, the price says something about the product.

For instance, many consumers use price to judge quality. A €100 bottle of perfume may contain only €3 worth of scent, but people will be willing to pay the €100 because the high price indicates that the product is something special.

However, this does not work forever. When consumers can judge the quality of a product by examining it or by calling on past experience with it, price is less used to judge quality. But when they cannot judge quality, price becomes an important signal. Just to give an example: who is the better lawyer? One who charges €50 per hour or one who charges €500? It would need a lot of research and experience to answer this question objectively. Most of us would simply assume that the higher-priced lawyer is the better one.

In fact, for most purchases, consumers simply do not have all the skill or information they need to work out whether they are paying a good price. Often, time, ability or inclination to research different brands or stores, compare prices and get the best deals is lacking. Therefore, psychological pricing may be the most powerful one of the price adjustment strategies.

Promotional Pricing – Price Adjustment Strategies

Promotion pricing calls for temporarily pricing products below the list price, and sometimes even below cost, to increase short-run sales. Thus, companies try to create buying excitement and urgency. Promotional pricing could take the form of discounts from normal prices to increase sales and reduce inventories. Also, special-event pricing in certain seasons to draw more customers could be used. Even low-interest financing, longer warranties or free maintenance are parts of promotional pricing.

However, promotional pricing can have adverse effects. If it is used too frequently and copied by competitors, price promotions can create customers who wait until brands

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go on sale before buying them. Or the brand's value and credibility can be reduced in the eyes of customers. The danger is in using price promotions as a quick fix in difficult times instead of sweating through the difficult process of developing effective longer-term strategies for building the brand. For that reason, price adjustment strategies such as promotional pricing must be treated with care.

Geographical Pricing – Price Adjustment Strategies

The next one of the price adjustment strategies is geographical pricing. In geographical pricing, the company sets prices for customers located in different parts of the country or world. Should the company risk losing the business of more-distant customers by charging them higher prices to cover the additional shipping costs? Or should the same prices be charged regardless of location?

There are five geographical pricing strategies:

FOB-origin pricing: goods are placed free on board a carrier; the customer thus pays the freight from the factory to the destination. Price differences are the consequence.

Uniform-delivered pricing: the company charges the same price plus freight to all customers, regardless of their location. Thus, there are no geographical price differences.

Zone pricing: the company sets up two or more zones. All customer within a zone pay the same total price, the more distant the zone, the higher the price.

Base-point pricing: the seller designates some city as a base point and charges all customers the freight cost from that city to the customer. This can level the geographical price differences if a central base-point is selected.

Freight-absorption pricing: the seller absorbs all or part of the freight charges to get the desired business. Price differences are thus eliminated.

Dynamic Pricing – Price Adjustment Strategies

Dynamic pricing refers to adjusting prices continually to meet the characteristics and needs of individual customers and situations. If you look back in history, prices were normally set by negotiation between buyers and sellers. Thus, prices were adjusted to the specific customer or situation. Exactly at that point, dynamic pricing starts. Instead of using fixed prices, prices are adjusted on a day-by-day or even hour-by-hour basis, taking many variables into account, such as current demand, inventories and costs. In addition, consumers can negotiate prices at online auction sites such as eBay.

As you can see, dynamic pricing is one of the price adjustment strategies that has developed rapidly in recent years and becomes more and more common.

International Pricing – Price Adjustment Strategies

The last one of the major price adjustment strategies is international pricing. Companies that market their products internationally must decide what prices to charge in the different countries in which they operate. The price that a company should charge in a country can depend on many factors, involving economic conditions, competitive situations, laws and regulations, and the development of the wholesaling and retailing system. In addition, consumer perceptions and preferences may vary from country to country, calling for differences in prices. Also, the company might have different marketing objectives in different markets, which require changes in pricing strategy.

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Without doubt, costs play an important role in setting international prices. Higher costs of selling in another country, which is the additional costs of operations, product modifications, shipping and insurance, import tariffs and taxes, and even exchange-rate fluctuations may create a need to charge different markets in the various markets.

After having investigated the 7 price adjustment strategies, it is clear that their application depends on the specific situation the company is in. However, all of the price adjustment strategies can also do harm and damage if executed in the wrong way. Therefore, careful preparation, analysis and execution is an absolute prerequisite. Only then, the price adjustment strategies will lead to a short- and long-term increase in sales and continuous success.

10.6 Initiating and Responding to the Price Changes

Initiating price changes

An organization may initiate price changes to deal with new forces arising within the organization or the market. The price change may occur at both directions: increasing price or lowering prices.

Increasing price

Increasing price of a product is an attractive proposition for every business organization, since a small increase in the price results in huge increase in the revenue and profits. If an organization feels that the sales volume will not be affected by a small price increase, it may always be tempted to increase the price.

Most price rise are the results of inflation that causes the organization's costs to increase. Costs often increase when the government introduces new taxes or raises the current tax rates. Increase in the price of any factors of production - wage levels, raw materials prices and interest rates - cause the price to increase. Often, organizations anticipate such increases and may raise the price of its products in advance.

Sometimes, an organization may increase the price in order to reduce the demand for the product. When an organization cannot increase the supply of its over demanded product, it may raise the price level to manage the demand at the current supply point.

Lowering price

Several situations lead an organization to reduce the price of its products. Organizations with excess capacity try for extra sales in order to achieve higher capacity utilization rates. In such a situation, it may find lowering price the most easy method of achieving higher sales volume.

Some organizations often lower the price to achieve higher sales volume, and thereby capture larger market share. These organizations believe that once they are to dominate the market and hold to a large market share, the resulting sales volume may allow it to achieve economies of scale.

Lowering price is very risky strategy. It usually invites sharp reactions from competitors and often results into a price war. Care less prices cuts may lead an organization into the following traps:

Low quality trap

An organization initiating price cuts may fall in a low-quality trap when consumers associate the new low prices to a poorer quality product.

Fragile market trap

It may fall into a fragile market trap when price sensitive consumers wait for further price cuts or search for cheaper products.

Shallow pocket trap

It may fall into the shallow pocket trap if financially strong organizations react by huge price cuts to counter the price cuts initiated by a weak organization.

10.7 Summary

The pricing decision is a critical one for most marketers, yet the amount of attention given to this key area is often much less than is given to other marketing decisions. One reason for the lack of attention is that many believe price setting is a mechanical process requiring the marketer to utilize financial tools, such as spreadsheets, to build their case for setting price levels. While financial tools are widely used to assist in setting price, marketers must consider many other factors when arriving at the price for which their product will sell.

Pricing decisions and policies have a direct influence on sales volume and profits of business. This is an important element in marketing mix. Right pricing can be determined through pricing research and testing marketing demand, cost, competition, government regulations etc, are the vital factors that must be taken into consideration in the determination of price.

For marketers price is the most adjustable of all marketing decisions. Unlike product and distribution decisions, which can take months or years to change, or some forms of promotion which can be time consuming to alter (e.g., television advertisement), price can be changed very rapidly. The flexibility of pricing decisions is particularly important in times when the marketer seeks to quickly stimulate demand or respond to competitor price actions. For instance, a marketer can agree to a field salesperson's request to lower price for a potential prospect during a phone conversation. Likewise a marketer in charge of online operations can raise prices on hot selling products with the click of a few website buttons.

Pricing decisions made hastily without sufficient research, analysis, and strategic evaluation can lead to the marketing organization losing revenue. Prices set too low may mean the company is missing out on additional profits that could be earned if the target market is willing to spend more to acquire the product. Additionally, attempts to raise an initially low priced product to a higher price may be met by customer resistance as they may feel the marketer is attempting to take advantage of their customers. Prices set too high can also impact revenue as it prevents interested customers from purchasing the product. Setting the right price level often takes considerable market knowledge and, especially with new products, testing of different pricing options.

Pricing the product is one of the important elements in marketing mix. Until recently it has been one of the most neglected areas. Even today, pricing in some firms is simply based on the concepts of cost, market position, competition and necessary profits.

Price is the exchange value of the goods or services in terms of money the exchange value of product is called price. The value and utility of a product have to be set against its price. When barter economy changed into money economy the importance of price and money grew and they became the soul of exchange of the economy. Pricing decision means decision of determining price of a product. A concern has to take a number of factors like cost of production, cost of distribution, cost of transportation, cost of

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advertisement and personal selling, competitive forces, purchasing power of the consumer etc., other than the demand and supply position of the product in the market. Decision concerning price to be followed for a period of time may be called as “Price Decision”. The price of a product must be determined in such a manner as to offer a reasonable amount of profit to the manufacturer, a reasonable remuneration to middleman and the maximum satisfaction to consumers.

10.8 Check Your Progress

I. Fill in the Blanks

1. ________ is the exchange value of a product or service always expressed in money.
2. Price is the mechanism or device for translating in to ________.
3. Price is the amount charged for the ________.
4. Price must be equal to the total amount of benefits like ________, ________ and ______ benefit.
5. Any change in the price will also bring about alteration in ________.
6. Money or price is equal to ________.
7. The bundle of expectation is included with ________ and ________.
8. Pricing is equivalent to the total ________.
9. Price influences consumer's________.
10. Pricing decision a very important role on the design of the ________.

II. True or False

1. Price is the exchange value of a product or service always expressed in money.
2. Price is the mechanism or device for translating it Quantitative terms.
3. Price is the amount charged for the product.
4. Price must be equal to the total amount of benefits.
5. Any change in the price will also bring about alteration is satisfaction side.
6. Money or price is not equal to bundle of expectations.
7. The bundle of expectation is included with attributes, physical product.
8. Pricing is equivalent to the total product offering.
9. Price influences consumer’s purchasing power.
10. Pricing decision play a very important role in the design of the promotion mix.

III. Multiple Choice Questions

1. Which of the following is the exchange value of a product or service always expressed in money?
   (a) Price
   (b) Cost
   (c) Profit
   (d) None of the above

Notes

2. Price is the mechanism or device for translating in to…………….
   (a) Qualitative terms
   (b) Mechanic terms
   (c) Quantitative terms
   (d) Both b & c
3. Price as the amount charged for the product or service including any…………
   (a) Delivery
   (b) discounts
   (c) Services
   (d) All the above
4. Price must be equal to the total amount of benefits like…………..
   (a) Physical benefit
   (b) economic benefit
   (c) Social ecological benefit
   (d) All the above
5. Any change in the price will also bring about alteration in the…………..
   (a) Satisfaction
   (b) Selling side
   (c) Consumer side
   (d) Advertiser's side
6. Money or price is equal to……………
   (a) Bundle of Expectations
   (b) Bundle of Quantity
   (c) Bundle of Quality
   (d) bundle of Manufacturing cost
7. The bundle of expectation is included with……………
   (a) Physical product
   (b) Attributes
   (c) Both a & b
   (d) Sale services
8. Pricing is equivalent to the………………
   (a) Total product offering
   (b) Total market offering
   (c) Total manufacturing goods
   (d) Raw materials used
9. Price influence consumer's…………….
   (a) Purchase decision
   (b) Budget decision
   (c) Standard of living
   (d) Purchasing capacity
10. Pricing decision play a very important role in the design of the …………
    (a) Marketing - mix
    (b) Promotion - mix

Notes

(c) Purchasing - mix

(d) Advertising - mix

10.9 Questions and Exercises

I. Short Answer Questions

1. What is Pricing?
2. What is Price Decision?
3. What is Cost Based Pricing?
4. What is value-based pricing?
5. What is Competition Based Pricing?
6. What is Product Mix Pricing?
7. What is adjusting the Price of the Product?

II. Extended Answer Questions

1. Discuss various factors affecting Price Decisions.
2. Discuss in details about Cost Based Pricing.
3. Explain about value based and Competition Based Pricing.
4. Discuss various Product Mix Pricing Strategies.
5. Explain about adjusting the Price of the Product.
6. Discuss about initiating and responding to the Price Changes.

10.10 Key Terms

- **Cost Based Pricing:** Cost-based pricing involves calculating the cost of the product, and then adding a percentage mark-up to determine price.
- **Value Based Pricing:** Value-based price (also value optimized pricing) is a pricing strategy which sets prices primarily, but not exclusively, according to the perceived or estimated value of a product or service to the customer rather than according to the cost of the product or historical prices. Where it is successfully used, it will improve profitability through generating higher prices without impacting greatly on sales volumes.
- **Competition-Based Pricing:** Competitive-based pricing occurs when a company sets a price for its good based on what competitors are selling a similar product for.
- **Demand-Based Pricing:** Demand-based pricing uses consumer demand (and therefore perceived value) to set a price of a good or service. Demand -based pricing uses consumer demand (and therefore perceived value) to set a price of a good or service. Methods of demand-based pricing can include price skimming, price discrimination and yield management, price points, psychological pricing, bundle pricing, penetration pricing, price lining, value-based pricing, geo and premium pricing.
- **Product Mix Pricing Strategies:** Most of the companies fix prices of their products after a careful consideration of the competitors' price structure. Deliberate policy may be formulated to sell its products in the competitive market.

- **Parity Pricing or Going Rate Pricing:** Under this method, the price of the product is determined on the basis of the price of competitor's products. This method is used when the firm is new in the market or when the existing firm introduces a new product in the market. This method is used when there is tough competition in the market. This method is based on the assumption that a new product will create demand only when its price is competitive. In such a case, the firm follows the market leader.
- **Pricing above Competitive Level or Discount Pricing:** Discount pricing means when the firm determines the price of its products below the competitive level, i.e., below the price of the same products of the competitors.
- **Pricing above Competitive Level or Premium Pricing:** Premium pricing means where the firm determines the price of its product above the price of the same products of the competitors. Price of the firm's product remains higher showing that quality is better. The price policy is adopted by the firms of high repute only because they have created the image of quality producer in the minds of the public.
- **Initiating price changes:** An organization may initiate price changes to deal with new forces arising within the organization or the market. The price change may occur at both directions: increasing price or lowering prices.
- **Increasing price:** Increasing price of a product is an attractive proposition for every business organization, since a small increase in the price results in huge increase in the revenue and profits. If an organization feels that the sales volume will not be affected by a small price increase, it may always be tempted to increase the price.

10.11 Check Your Progress: Answers

I. Fill in the Blanks

1. price
2. Quantitative terms
3. product or service
4. physical; economic; social ecological
5. satisfaction side
6. Bundle of expectations
7. attributes; physical product
8. product offering
9. purchase decision
10. marketing mix

II. True or False

1. True	2. True
3. True	4. True
5. True	6. False
7. True	8. True
9. False	10. False

Notes

III. Multiple Choice Questions

1.	[a]	2.	[c]
3.	[d]	4.	[d]
5.	[a]	6.	[a]
7.	[c]	8.	[a]
9.	[a]	10.	[a]

10.12 Case Study

In June 2017, e-hailing ride share service Uber Technologies Inc. (Uber) came under fire for taking too long to turn off its "surge pricing" feature after a deadly terror attack in the heart of London. App users took to social media to complain about the inflated prices, saying that Uber should have reduced prices immediately as people tried to get away from the area in the aftermath of the rampage. Uber's controversial surge pricing model, which was designed to lure drivers to areas with high demand, was typically suspended during disasters and emergencies. But the company was criticized for not acting quickly enough in this case. "Big fan of Uber but bitterly disappointed in profiting from a terrorist attack. £7 Knightsbridge to Victoria. Charging £40," wrote a user on Twitter, accusing the company of being disrespectful to the situation. However, Tom Elvidge, general manger of Uber in London, said the company had suspended surge pricing within an hour of the attack and would refund all fares for riders in the affected areas following the attack.

Founded in 2009, Uber seamlessly connected rider to drivers through a smartphone app that used GPS technology. Uber's surge pricing, also called dynamic pricing, had been one of the most controversial aspects of the company's business model. The idea behind the surge pricing was that during periods of excessive demand when there were more riders than drivers, Uber increased its normal prices to encourage drivers to flood the zone.

The case is about Uber's pricing strategy under which the company increased the cost of a ride in a particular area when the demand for rides in that area went up. Uber is known for revolutionizing land transportation costs with its surge pricing, which required riders to pay more during periods of heavy demand. The company's surge pricing strategy aimed to encourage more drivers to pick up riders and to control the available supply to customers who valued the service the most. However, the surge pricing strategy had always been a critical driver of its success and also the source of much controversy. Many complained that the ride-sharing company took advantage of rush hours by compelling passengers to pay more to get their ride. Uber defended its surge pricing saying that it ensured commuters got a ride when they required it. Travis Kalanick claimed that without surge pricing, there would be lack of supply and passengers could not get a ride in time. In a bid to reduce customer complaints, Uber introduced an upfront pricing feature in its app that enabled riders to know the exact cost of a ride before booking it. But, by launching the new fare system, Uber had no intention of doing away with surge pricing as the company believed that this was the only way to ensure that people could always get a ride when they needed one. Kalanick had ambitious growth plans at a time when the company was entangled in a number of controversies including world-wide protests against surge pricing. With Kalanick's resignation, will Uber be able to find a solution to the surge pricing problem and will that help it become a profitable company?

Notes

Questions:

1. Examine Uber's surge pricing system and how it benefits or costs consumers, drivers, and the company itself.
2. Explore the strategies through which Uber can fix the challenges related to surge pricing.

10.13 Further Readings

1. Marketing by Gary Armstrong, Michael Harker, Philip Kotler, Ross Brennan
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5. Marketing insights from A to Z by Philip Kotler
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7. Principles of marketing by Veronica Wong, John Saunders
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9. Essentials of Marketing by Charles W. Lamb, Joseph F. Hair, Jr., Carl McDaniel

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14. Strategic Marketing Management (second edition), Richard M. S. Wilson and Colin Gilligan