

MARKETING MIX

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GENERAL OBJECTIVES OF THE SUBJECT

At the end of the course, Individuals will examine the principles of Marketing Mix apply them within the companies need critically reflect Marketing behavior within companies *and* their impact on the development of this course.

4. MARKETING MIX

- 4.1 Definition of Marketing Mix
- 4.2 Concept of Product and its Classification
- 4.3 Matrix Market

4.1 Definition of Marketing Mix

Marketing is still an art, and the marketing manager, as head chef, must creatively marshal all his marketing activities to advance the short and long term interests of his firm.

In the previous lesson you learnt that marketing identifies consumers' needs and supplies various goods and services to satisfy those needs most effectively. So the businessman needs to:

- a) produce or manufacture the product according to consumers' need
- b) make available it at a price that the consumers' find reasonable
- c) supply the product to the consumers at different outlets they can conveniently approach
- d) inform the consumers about the product and its characteristics through the media they have access to

So the marketing manager concentrates on seven major decision areas while planning the Marketing activities, namely:

- 1) Products
- 2) Price
- 3) Place (distribution)
- 4) Promotion
- 5) People
- 6) Process
- 7) Physical Evidence

These 7'P's are called as elements of marketing and together they constitute the marketing mix. All these are inter-related because a decision in one area affects decisions in other areas. In this lesson you will learn about the basic aspects relating to these '7 P's, Product, Price, Place, Promotion, People, Process and Physical Evidence.

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Marketing involves a number of activities. To begin with, an organization may decide on its target group of customers to be served. Once the target group is decided, the product is to be placed in the market by providing the appropriate product, price, distribution and promotional efforts. These are to be combined or mixed in an appropriate proportion so as to achieve the marketing goal. Such mix of product, price, distribution and promotional efforts is known as 'Marketing Mix'.

4.2 Concept of Product and its Classification

According to Philip Kotler "Marketing Mix is the set of controllable variables that the firm can use to influence the buyer's response". The controllable variables in this context refer to the 7 'P's [product, price, place (distribution) and promotion]. Each firm strives to build up such a composition of 7'P's, which can create highest level of consumer satisfaction and at the same time meet its organizational objectives. Thus, this mix is assembled keeping in mind the needs of target customers, and it varies from one organization to another depending upon its available resources and marketing objectives. Let us now have a brief idea about the seven components of marketing mix.

Product: Product refers to the goods and services offered by the organization. A pair of shoes, a plate of dahi-vada, a lipstick, all are products. All these are purchased because they satisfy one or more of our needs. We are paying not for the tangible product but for the benefit it will provide. So, in simple words, product can be described as a bundle of benefits which a marketer offers to the consumer for a price. While buying a pair of shoes, we are actually buying comfort for our feet, while buying a lipstick we are actually paying for beauty because lipstick is likely to make us look good. ***Product can also take the form of a service like an air travel, telecommunication, etc. Thus, the term product refers to goods and services offered by the organization for sale.***

Price: Price is the amount charged for a product or service. It is the second most important element in the marketing mix. Fixing the price of the product is a tricky job. Many factors like demand for a product, cost involved, consumer's ability to pay, prices charged by competitors for similar products, government restrictions etc. have to be kept in mind while fixing the price. In fact, pricing is a very crucial decision area as it has its effect on demand for the product and also on the profitability of the firm.

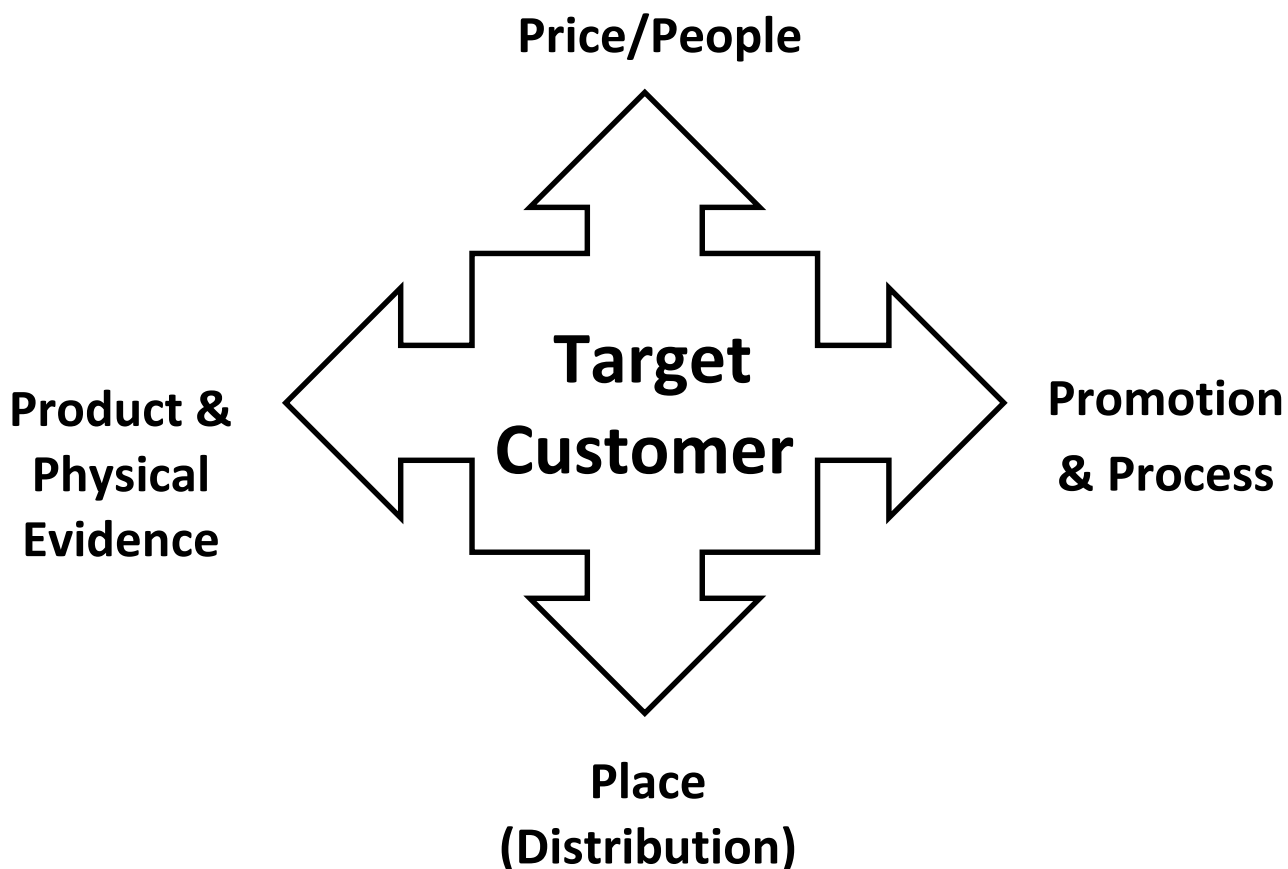
Place: Goods are produced to be sold to the consumers. They must be made available to the consumers at a place where they can conveniently make purchase. Woollens are manufactured on a large scale in Ludhiana and you purchase them at a store from the nearby market in your town. So, it is necessary that the product is available at shops in your town. This involves a chain of individuals and institutions like distributors, wholesalers and retailers who constitute firm's distribution network (also called a channel of distribution). The organization has to decide whether to sell directly to the

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retailer or through the distributors/wholesaler etc. It can even plan to sell it directly to consumers.

Promotion: If the product is manufactured keeping the consumer needs in mind, is rightly priced and made available at outlets convenient to them but the consumer is not made aware about its price, features, availability etc, its marketing effort may not be successful. Therefore promotion is an important ingredient of marketing mix as it refers to a process of informing, persuading and influencing a consumer to make choice of the product to be bought. Promotion is done through means of personal selling, advertising, publicity and sales promotion. It is done mainly with a view to provide information to prospective consumers about the availability, characteristics and uses of a product. It arouses potential consumer's interest in the product, compare it with competitors' product and make his choice. The proliferation of print and electronic media has immensely helped the process of promotion.



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People: Anyone who comes into contact with your customers will make an impression, and that can have a profound effect - positive or negative - on the customer satisfaction. The reputation of your brand rests in your people's hands. They must, therefore be appropriately trained, well-motivated and the right attitude.

- It is essential to ensure that all employees who have contact with customers are not only properly trained but also the right kind of people for the job.
- Many customers cannot separate the product or service from the staff member who provides it. This shows the importance of your people.
- The level of after sale support and advice provided by a business is one way of adding value to what you offer, and can give you an important edge over your competitors. This will probably become more important than price for many customers once they start to use you.
- Look regularly at the products that account for the highest percentage of your sales. Do these products have adequate after support, or are you being complacent with them? Could you enhance your support without too much additional cost?

Traditionally, adding the sixth and seventh P's would be for service industries. However, they are worth considering for products too, especially in B2B.

Process: The process of giving a service, and the behaviour of those who deliver and crucial to customer satisfaction. Issues such as waiting times, the information given to customers and the helpfulness of staff are all vital to keep customers happy.

- Customers are not interested in the detail of how your business runs. What matters to them is that the system works.
- Do customers have to wait? Are they kept informed? Are your people helpful? Is your service efficiently carried out? Do your people interact in a manner appropriate to your service?

Process is one the "P's" that is frequently overlooked. A customer trying to reach your company by phone is a vital source of income and returning value; but so often customers have to stay on hold for several minutes listening to a recorded message before they are able to get through. Many of these customers will hang up, go elsewhere and tell their friends not to use your company.

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Physical Evidence: A service can't be experienced before it is delivered. This means that choosing to use a service can be perceived as a risky business because you are buying something intangible. This uncertainty can be reduced by helping potential customers to "see" what they are buying. Case studies and testimonials can provide evidence that an organization keeps its promises. Facilities such as a clean, tidy and well-decorated reception area can also help to reassure. If your premises aren't up to scratch, why would the customer think your service is?

- The physical evidence demonstrated by an organization must confirm the assumptions of the customer – a financial services product will need to be delivered in a formal setting, while a child's birthday entertainment company should adopt a more relaxed approach.
- Each of the "ingredients" of the marketing mix is a key to success. No one element can be considered in isolation – you cannot, for example, develop a product without considering a price, or how it will reach the customer. This process is called marketing planning.

As stated earlier, product refers to the goods and services offered by the organization for sale. Here the marketers have to recognize that consumers are not simply interested in the physical features of a product but a set of tangible and intangible attributes that satisfy their wants. For example, when a consumer buys a washing machine he is not buying simply a machine but a gadget that helps him in washing clothes. It also needs to be noted that the term product refers to anything that can be offered to a market for attention, acquisition, or use. Thus, the term product is defined as "anything that can be offered to a market to satisfy a want". It normally includes physical objects and services. In a broader sense, however, it not only includes physical objects and services but also the supporting services like brand name, packaging accessories, installation, after sales service etc. Look at the definitions by Stanton and McCarthy as given below.

Product

William J. Stanton

"Product is a set of tangible and intangible attributes including packaging, colour, price, manufacturer's prestige, retailer's prestige and manufacturer's and retailer's services which buyer may accept as offering satisfaction of wants and services".

Jerome McCarthy

"A product is more than just a physical product with its related functional and aesthetic features. It includes accessories, installation, instructions on use, the package, perhaps a brand name, which fulfills some psychological needs and the assurances that service facilities will be available to meet the customer needs after the purchase".

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PRODUCT CLASSIFICATION

Product can be broadly classified on the basis of:

- 1) Use
- 2) Durability
- 3) Tangibility

Let us have a brief idea about the various categories and their exact nature under each head, noting at the same time that in marketing the terms 'product' and 'goods' are often used interchangeably.

- 1) **Based on use:** the product can be classified as:
 - a. Consumer Goods; and
 - b. Industrial Goods.
- 2) **Consumer goods:** Goods meant for personal consumption by the households or ultimate consumers are called consumer goods. This includes items like toiletries, groceries, clothes etc. Based on consumers' buying behaviour the consumer goods can be further classified as :
 - i. Convenience Goods
 - ii. Shopping Goods
 - iii. Speciality Goods
 - iv. Industrial Goods

Convenience Goods : Do you remember, the last time when did you buy a packet of butter or a soft drink or a grocery item? Perhaps you don't remember, or you will say last week or yesterday. Reason is, these goods belong to the categories of convenience goods which are bought frequently without much planning or shopping effort and are also consumed quickly. Buying decision in case of these goods does not involve much pre-planning. Such goods are usually sold at convenient retail outlets.

Shopping Goods: These are goods which are purchased less frequently and are used very slowly like clothes, shoes, household appliances. In case of these goods, consumers make choice of a product considering its suitability, price, style, quality and products of competitors and substitutes, if any. In other words, the consumers usually spend a considerable amount of time and effort to finalize their purchase decision as they lack complete information prior to their shopping trip. It may be noted that shopping goods involve much more expenses than convenience goods.

Specialty Goods : Because of some special characteristics of certain categories of goods people generally put special efforts to buy them. They are ready to buy these goods at prices at which they are offered and also put in extra time to locate the seller to make the purchase. The nearest car dealer may be ten kilometres away but the buyer

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will go there to inspect and purchase it. In fact, prior to making a trip to buy the product he/she will collect complete information about the various brands. Examples of specialty goods are cameras, TV sets, new automobiles etc.

Industrial Goods: Goods meant for consumption or use as inputs in production of other products or provision of some service is termed as 'industrial goods'. These are meant for non-personal and commercial use and include:

- a) raw materials
- b) machinery
- c) components
- d) operating supplies (such as lubricants, stationery etc).

The buyers of industrial goods are supposed to be knowledgeable, cost conscious and rational in their purchase and therefore, the marketers follow different pricing, distribution and promotional strategies for their sale.

It may be noted that the same product may be classified as consumer goods as well as industrial goods depending upon its end use. Take for example the case of coconut oil. When it is used as hair oil or cooking oil, it is treated as consumer goods and when used for manufacturing a bath soap it is termed as industrial goods. However, the way these products are marketed to these two groups are very different because purchase by industrial buyer is usually large in quantity and bought either directly from the manufacturer or the local distributor.

Based on Durability, the products can be classified as :

- 1) Durable Goods; and
- 2) Non-durable Goods
 - a. **Durable Goods :** Durable goods are products which are used for a long period i.e., for months or years together. Examples of such goods are refrigerator, car, washing machine etc. Such goods generally require more of personal selling efforts and have high profit margins. In case of these goods, seller's reputation and presale and after-sale service are important determinants of purchase decision.
 - b. **Non-durable Goods:** Non-durable goods are products that are normally consumed in one go or last for a few uses. Examples of such products are soap, salt, pickles, sauce etc. These items are consumed quickly and we purchase these goods more often. Such items are generally made available by the producer through large number of convenient retail outlets. Profit margins on such items are usually kept low and heavy advertising is done to attract people towards their trial and use.

Based on tangibility, the products can be classified as:

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- a) Tangible Goods; and
- b) Intangible Goods
 - a. **Tangible Goods** : Most goods, whether these are consumer goods or industrial goods and whether these are durable or non-durable, fall in this category as they have a physical form, that can be touched and seen. Thus, all items like groceries, cars, raw-materials, machinery etc. fall in the category of tangible goods.
 - b. **Intangible Goods** : Intangible goods refer to services provided to the individual consumers or to the organizational buyers (industrial, commercial, institutional, government etc.). Services are essentially intangible activities which provide want or need satisfaction. Medical treatment, postal, banking and insurance services etc., all fall in this category.

Pricing & Factors Affecting Pricing Decisions

As stated earlier price is the consideration in terms of money paid by consumers for the bundle of benefits he/she derives by using the product/ service. In simple terms, it is the exchange value of goods and services in terms of money. Pricing (determination of price to be charged) is another important element of marketing mix and it plays a crucial role in the success of a product in the market. If the price fixed is high, it is likely to have an adverse effect on the sales volume. If, on the other hand, it is too low, it will adversely affect the profitability. Hence, it has to be fixed after taking various aspects into consideration. The factors usually taken into account while determining the price of a product can be broadly described as follows:

- a) **Cost**: No business can survive unless it covers its cost of production and distribution. In large number of products, the retail prices are determined by adding a reasonable profit margin to the cost. Higher the cost, higher is likely to be the price, lower the cost lower the price.
- b) **Demand**: Demand also affects the price in a big way. When there is limited supply of a product and the demand is high, people buy even if high prices are charged by the producer. But how high the price would be is dependent upon prospective buyers' capacity and willingness to pay and their preference for the product. In this context, price elasticity, i.e. responsiveness of demand to changes in price should also be kept in view.
- c) **Competition**: The price charged by the competitor for similar product is an important determinant of price. A marketer would not like to charge a price higher than the competitor for fear of losing customers. Also, he may avoid charging a

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price lower than the competitor. Because it may result in price war which we have recently seen in the case of soft drinks, washing powder, mobile phone etc.

- d) **Marketing Objectives:** A firm may have different marketing objectives such as maximization of profit, maximization of sales, bigger market share, survival in the market and so on. The prices have to be determined accordingly. For example, if the objective is to maximize sales or have a bigger market share, a low price will be fixed. Recently one brand of washing powder slashed its prices to half, to grab a bigger share of the market.
- e) **Government Regulation:** Prices of some essential products are regulated by the government under the Essential Commodities Act. For example, prior to liberalization of the economy, cement and steel prices were decided by the government. Hence, it is essential that the existing statutory limits, if any, are also kept in view while determining the prices of products by the producers.

Methods of Price Fixation

Methods of fixing the price can be broadly divided into the following categories.

- 1) Cost based pricing
- 2) Competition based pricing
- 3) Demand based pricing
- 4) Objective based pricing

Cost Based Pricing - Under this method, price of the product is fixed by adding the amount of desired profit margin to the cost of the product. If a particular soap costs the marketer Rs. 8 and he desires a profit of 25%, the price of the soap is fixed at $Rs\ 8 + (8 \times 25 / 100) = Rs.\ 10$. While calculating the price in this way, all costs (variable as well as fixed) incurred in manufacturing the product are taken into consideration.

Competition Based Pricing - In case of products where market is highly competitive and there is negligible difference in quality of competing brands, price is usually fixed closer to the price of the competing brands. It is called 'young rate pricing' and is a very convenient method because the marketers do not have to worry much about demand and cost and effect the change as per the changes by the industry leaders.

Demand Based Pricing - At times, prices are determined by the demand for the product. Under this method, without paying much attention to cost and competitors prices, the marketers try to ascertain the demand for the product. If the demand is high they decide to take advantage and fix a high price. If the demand is low, they fix low prices for their product. At times they resort to differential prices and charge different prices from different groups of customers depending upon their perceived values and

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capacity to pay. Take the case of cinema halls where the rates of tickets differ for the different sets of rows in the hall.

Objective Based Pricing - This method is applicable to introduction of new (innovative) products. If, at the introductory stage of the products, the organization wishes to penetrate the market i.e., to capture large parts of the market and discourage the prospective competitors to enter into the fray, it fixes a low price. Alternatively, the organization may decide to skim the market i.e., to earn high profit by taking advantage of a group of customers who give more importance to their status or distinction and are willing to pay even a higher price for it. In such a situation they fix quite high price at the introductory stage of their product and market it to only those customers who can afford it.

Channels Of Distribution - You are aware that while a manufacturer of a product is located at one place, its consumers are located at innumerable places spread all over the country or the world. The manufacturer has to ensure the availability of his goods to the consumers at convenient points for their purchase. He may do so directly or, as stated earlier, through a chain of middlemen like distributors, wholesalers and retailers. The path or route adopted by him for the purpose is known as channel of distribution. A channel of distribution thus, refers to the pathway used by the manufacturer for transfer of the ownership of goods and its physical transfer to the consumers and the user/buyers (industrial buyers).

Stanton has also defined it as “A distribution channel consists of the set of people and firms involved in the transfer of title to a product as the product moves from producer to ultimate consumer or business user”. Basically it refers to the vital links connecting the manufacturers and producers and the ultimate consumers/users. It includes both the producer and the end user and also the middlemen/agents engaged in the process of transfer of title of goods.

Primarily a channel of distribution performs the following functions:

- a) It helps in establishing a regular contact with the customers and provides them the necessary information relating to the goods.
- b) It provides the facility for inspection of goods by the consumers at convenient points to make their choice.
- c) It facilitates the transfer of ownership as well as the delivery of goods.
- d) It helps in financing by giving credit facility.
- e) It assists the provision of after sales services, if necessary.
- f) It assumes all risks connected with the carrying out the distribution function.

TYPES OF CHANNELS OF DISTRIBUTION

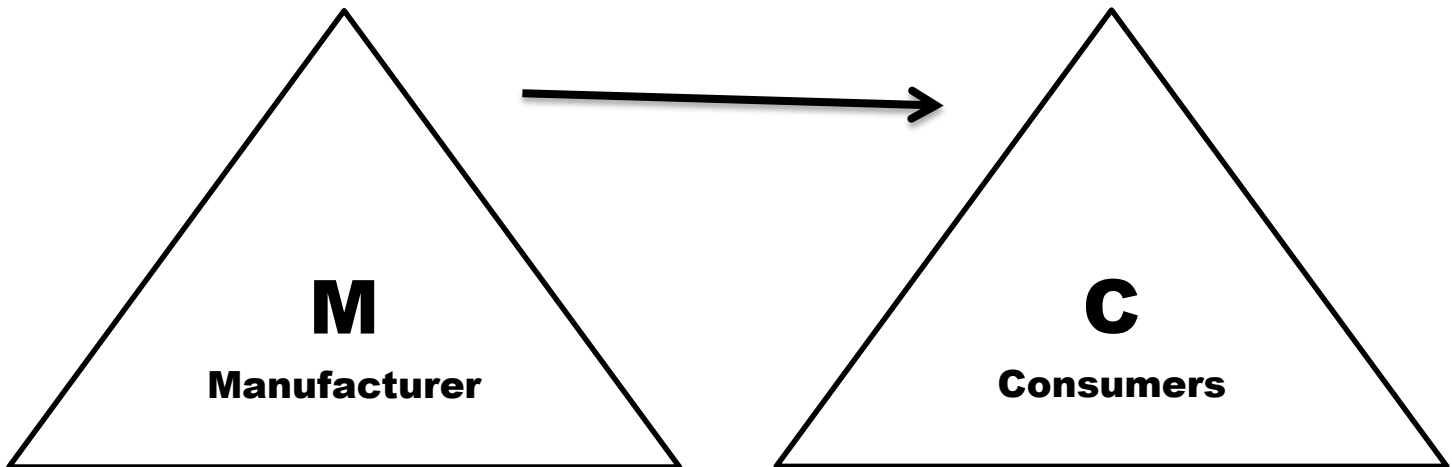
Generally we do not buy goods directly from the producers. The producers, manufacturers usually use services of one or more middlemen to supply their goods to

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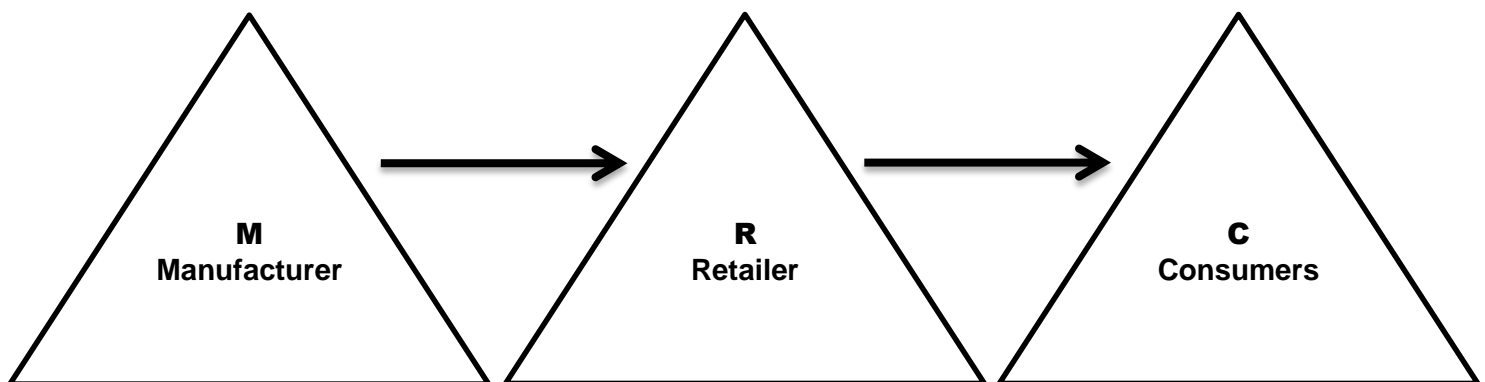
the consumers. But sometimes, they do have direct contact with the customers with no middlemen in between them. This is true more for industrial goods where the customers are highly knowledgeable and their individual purchases are large. The various channels used for distribution of consumer goods can be described as follows:

(a) Zero stage channel of distribution



Zero stage distribution channel exists where there is direct sale of goods by the producer to the consumer. This direct contact with the consumer can be made through door-to-door salesmen, own retail outlets or even through direct mail. Also in case of perishable products and certain technical household products, door-to-door sale is an easier way of convincing consumer to make a purchase. Eureka Forbes, for example, sells its water purifiers directly through their own sales staff.

(b) One stage channel of distribution



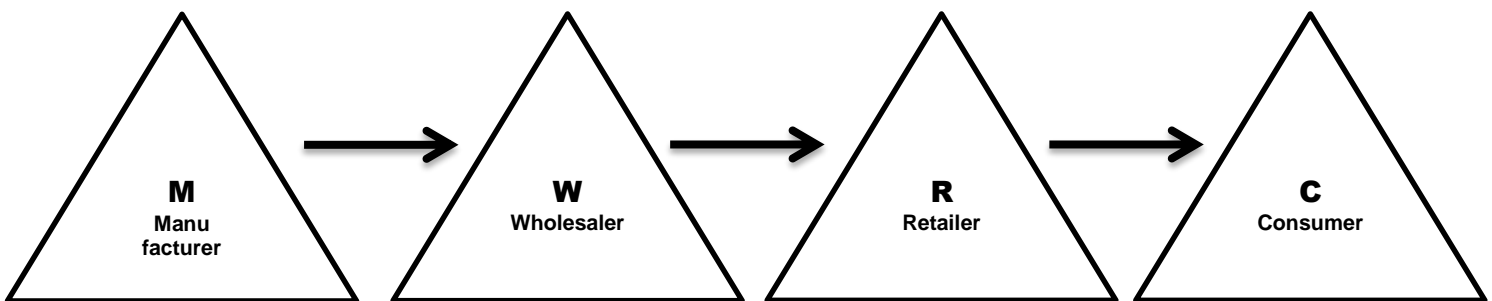
In this case, there is one middleman i.e., the retailer. The manufacturers sell their goods

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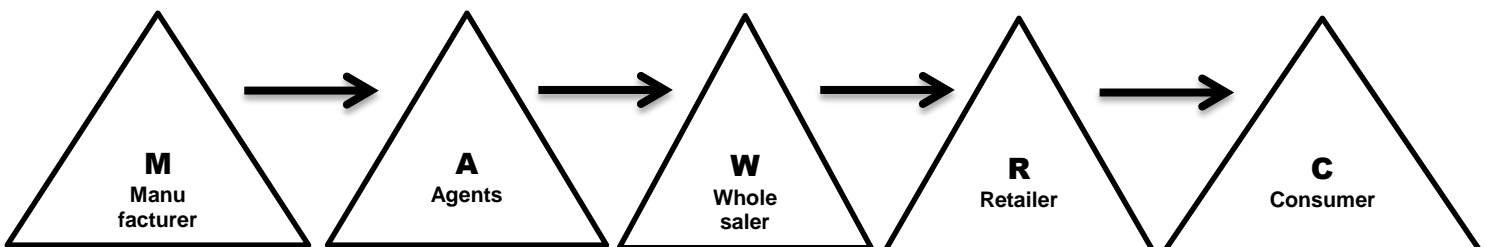
to retailers who in turn sell it to the consumers. This type of distribution channel is preferred by manufacturers of consumer durables like refrigerator, air conditioner, washing machine, etc. where individual purchase involves large amount. It is also used for distribution through large scale retailers such as departmental stores (Big Bazaar, Spencers) and supermarkets.

(c) Two stage channel of distribution



This is the most commonly used channel of distribution for the sale of consumer goods. In this case, there are two middlemen used, namely, wholesaler and retailer. This is applicable to products where markets are spread over a large area, value of individual purchase is small and the frequency of purchase is high.

(d) Three stage channel of distribution



When the number of wholesalers used is large and they are scattered throughout the country, the manufacturers often use the services of mercantile agents who act as a link between the producer and the wholesaler. They are also known as distributors.

FACTORS AFFECTING THE CHOICE OF DISTRIBUTION CHANNEL

Choice of an appropriate distribution channel is very important as the pricing as well as promotion strategy are dependent upon the distribution channel selected. Not only that, the route which the product follows in its journey from the manufacturer to the consumer

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also involves certain costs. This in turn, affects not only the price of the product but also the profits. Choice of inappropriate channels of distribution may result in lesser profits for the manufacturer and higher price from the consumer. Hence, the manufacturer has to be careful while finalizing the channel of distribution to be used. He should pay attention to the following factors while making his choice.

Nature of Market: There are many aspects of market which determine the choice of channel of distribution. Say for example, where the number of buyers is limited, they are concentrated at few locations and their individual purchases are large as is the case with industrial buyers, direct sale may be the most preferred choice. But in case where number of buyers is large with small individual purchase and they are scattered, then need may arise for use of middlemen.

Nature of Product: Nature of the product considerably affects the choice of channel of distribution. In case the product is of technical nature involving a good amount of pre-sale and after sale services, the sale is generally done through retailers without involving the wholesalers. But in most of the consumer goods having small value, bought frequently in small quantities, a long channel involving agents, wholesalers and retailers is used as the goods need to be stored at convenient locations. Items like toiletries, groceries, etc. fall in this category. As against this in case of items like industrial machinery, having large value and involving specialized technical service and long negotiation period, direct sale is preferred.

Nature of the Company: A firm having enough financial resources can afford to its own a distribution force and retail outlet, both. But most business firms prefer not to create their own distribution channel and concentrate on manufacturing. The firms who wish to control the distribution network prefer a shorter channel.

Middlemen Consideration: If right kind of middlemen having the necessary experience, contacts, financial strength and integrity are available, their use is preferred as they can ensure success of newly introduced products. Cost factors also have to be kept in view as all middlemen add their own margin of profit to the price of the products. But from experience it is learnt that where the volume of sales are adequate, the use of middlemen is often found economical and less cumbersome as against direct sale.

PROMOTION

Promotion refers to the process of informing and persuading the consumers to buy certain product. By using this process, the marketers convey persuasive message and information to its potential customers. The main objective of promotion is to seek buyers' attention towards the product with a view to:

- arouse his interest in the product;

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- inform him about its availability; and
- inform him as to how is it different from others.

It is thus a persuasive communication and also serves as a reminder. A firm uses different tools for its promotional activities which are as follows:

- Advertising
- Publicity
- Personal selling
- Sales promotion

These are also termed as four elements of a **promotion mix**. Let us have a brief idea about these promotion tools.

- 1) **Advertising:** Advertising is the most commonly used tool for informing the present and prospective consumers about the product, its quality, features, availability, etc. It is a paid form of non-personal communication through different media about a product, idea, a service or an organization by an identified sponsor. It can be done through print media like newspaper, magazines, billboards, electronic media like radio, television, etc. It is a very flexible and comparatively low cost tool of promotion.
- 2) **Publicity:** This is a non-paid process of generating wide range of communication to contribute a favorable attitude towards the product and the organization. You may have seen articles in newspapers about an organization, its products and policies. The other tools of publicity are press conference, publication and news in the electronic media etc. It is published or broadcasted without charging any money from the firm. Marketers often spend a lot of time and effort in getting news items placed in the media for creation of a favorable image of the company and its products.
- 3) **Personal selling:** You must have come across representatives of different companies knocking at your door and persuading you to buy their product. It is a direct presentation of the product to the consumers or prospective buyers. It refers to the use of salespersons to persuade the buyers to act favorably and buy the product. It is most effective promotional tool in case of industrial goods.
- 4) **Sales promotion:** This refers to short-term and temporary incentives to purchase or induce trials of new goods. The tool include contests, games, gifts, trade shows, discounts, etc. Sales promotional activities are often carried out at retail levels.

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4.3 Matrix Market

What is the Ansoff Matrix? The Ansoff Matrix, designed by Igor Ansoff, classifies and explains different growth strategies for a company. This matrix is used by companies which have a growth target or a strategy of specialization. This tool, crossing products and markets of a company, facilitates decision making. The Ansoff matrix offers four strategies to achieve the objectives.

- Penetration of the Market
- Extension of the Market
- New Products
- Diversification.

Golden rules

Opportunity = the matrix provides not only the opportunity to expand on an existing market but one can also explore the possibility to withdraw from the market or find new markets.

Risk = each strategy will have a different risk level. This risk increases proportionally with the level of change. Diversifying is more risky than increasing the penetration of a product on an existing market.

		Products	
		new	existing
Markets	existing	Penetration of the market	New products
	new	Extension of the market	Diversification

Structure of the Ansoff Matrix:

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- **Penetration of the market** - The company is trying to expand its sales in the existing market. Existing products are sold to existing customers. The product is not modified but the firm is seeking to increase its revenues by means of promoting or repositioning its products. One has to convince potential clients and divert competitors.
- **Extension of the market** - The company is trying to increase its sales by introducing its products into new markets. A range of existing products is introduced into new markets. Again the product is not modified, it will just be sold to a new target (e.g. through export). By taking into account cultural differences, the products may undergo minor changes.
- **New products** - The company is increasing its sales by introducing new or modified products on the market. There will be several versions of the product (different styles, sizes). The new products are sold to the customers through existing distribution channels.
- **Diversification** - In this case the company will launch new products for new customers. There are several diversification strategies:
 - ❖ **Horizontal Diversification:** The company is developing a new product or activity capable of satisfying the same clientele, even if the new products are technologically independent of the existing products.
 - ❖ **Vertical Diversification:** The company starts to make the work of its suppliers and/or customers.
 - ❖ **Concentric Diversification:** The company develops new products/activities with a complementary technology to existing products/activities. These products may attract a new group of customers and there will be a transfer of key skills.
 - ❖ **Diversification by conglomerate:** the company has different products/activities for various markets. The firm now settles on a market where it has no previous experience nor industry but it could attract new groups of customers.