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PRINCIPLES OF MARKETING

UNIT-IV

TOPICS COVERED:

1. Promotional Mix
2. Advertisement
3. Sales Promotion
4. Public Relations
5. Personal Selling
6. Marketing Channels
7. Levels Of Channels
8. Types Of Intermediaries
9. Types Of Retailers
10. Types Of Wholesalers

PROMOTIONAL MIX

Promotion is one of the four elements of marketing mix (product, price, promotion and place). It is the communication link between sellers and buyers for the purpose of influencing, informing or persuading a potential buyer's purchasing decision. The 'promotional mix' is a term used to describe the set of tools that a business can use to effectively communicate the benefits of its products or services to the customers.

Factors Governing Promotion Mix:

Nature of Product:

Different types of products require different promotion mix. In case of consumer goods, advertisement is considered to be the most important because the goods are non-technical and produced on a large scale. But for industrial goods, personal selling is regarded as the most important tool because the prod-ucts are technical in nature and costly, and persuasion is considered essential for their sale.

Type of the Market:

If the number of customers is quite large and they are spread over a vast area, advertisement is more helpful because it can reach people everywhere. However, if the number of customers is not very large and they are concentrated geographically, personal selling and sales promotion may be more effective.

Stage of the Product Life Cycle:

The promotional mix depends on the stage of the product in product life cycle. During introduction, heavy expenditure is incurred on advertisement followed by personal selling and sales promotion. Dur-ing the growth stage, customers are aware of the benefits of product. Hence, advertisement along with personal selling is more effective. At the maturity stage, competition is more intense. Sales promotion becomes the most important tool to boost sales.

Budget:

Funds available for promotion also decide promotion mix; for example, advertisement is a costly tool. If sufficient funds are not available, this tool may not be adopted. Personal selling involves continuous spending. Thus, budget is a deciding factor for promotion mix.

Push versus Pull Strategy:

When firms push the product to middlemen, they in turn push it to consumers—this is known as ‘push’ strategy. In this case, personal selling or display should be more effective. Pull strategy refers to the policy of a company to strive to build up consumer demand without recourse to middlemen. Generally, advertising is considered more important in case of pull strategy.

Elements of Promotion Mix:

Advertising:

Advertising can be defined as any paid form of non-personal communication about an organization, product, service, or idea by an identified sponsor. The non-personal component means that advertising involving mass media (e.g., TV, radio, magazine, and newspaper) that can transmit a message to large groups of individuals, often at the same time. Advertising is the best-known and most widely discussed form of promotion, probably because of its pervasiveness.

It is also a very important promotional tool, particularly for companies whose products and services are targeted at mass consumer markets. Adver-tising is an important part of many marketers' promotional mixes as it can be a very cost-effective method for communication with large audiences.

Sales Promotion:

The next variable in the promotion mix is sales promotion, which is generally defined as those marketing activities that provide extra values or incentives to the sales force, the distributors, or the ultimate con-sumer and can stimulate immediate sales. Sales promotion is based on following activities:

1. **Consumer-oriented activities:**

Consumer-oriented sales promotion is targeted to an ultimate user of a product or service, and it includes giving coupons, samplings, discounts, premiums and various point-of-purchase materials.

2. Trade-oriented activities:

Trade-oriented sales promotions are targeted towards marketing inter-mediaries such as wholesalers, distributors and retailers. Promotional and merchandising allow-ances, price, deals, sales contests and trade shows are some of the promotional tools used to encourage the trade to stock and promote a company's product.

Personal Selling:

The next element of an organization's promotional mix is personal selling. It is a form of person-to- person communication in which a seller attempts to assist and/or persuade prospective buyers to purchase the company's products or services or to act on an idea.

Unlike advertising, personal selling involves direct contact between buyers and sellers, either face to face or through some forms of telecommunications such as telephone sales. Personal selling involves more immediate and precise feedback because the impact of sales presentation can generally be assessed from customer's reactions.

Public Relation:

Public relation is defined as 'the management function which evaluates public attitudes, identifies the policies and procedure of an individual or organization with the public interest, and executes a programme of action to earn public understanding and acceptance'.

When an organization systematically plans and distributes information in an attempt to control and manage its image and the nature of the publicity it receives, it really engages in a function known as public relation.

Publicity:

Publicity refers to non-personal communication regarding an organization, product, service, or idea not directly paid for or run under identified sponsorship. It usually comes in the form of news story, edito-rial or announcement about an organization, or its product and services. An advantage of publicity over other forms of promotions is its credibility.

Direct Marketing:

Direct marketing is one of the fastest-growing sectors in which organizations communicate directly with target customers to generate a response or a transaction. Companies such as L.L. Bean, Lands' End, and J. Crew have been very successful in using direct marketing to sell their clothing products. DELL computers and Gateway have experienced tremendous growth in the computer industry by selling a full line of personal computers through direct marketing.

Marketing Channels

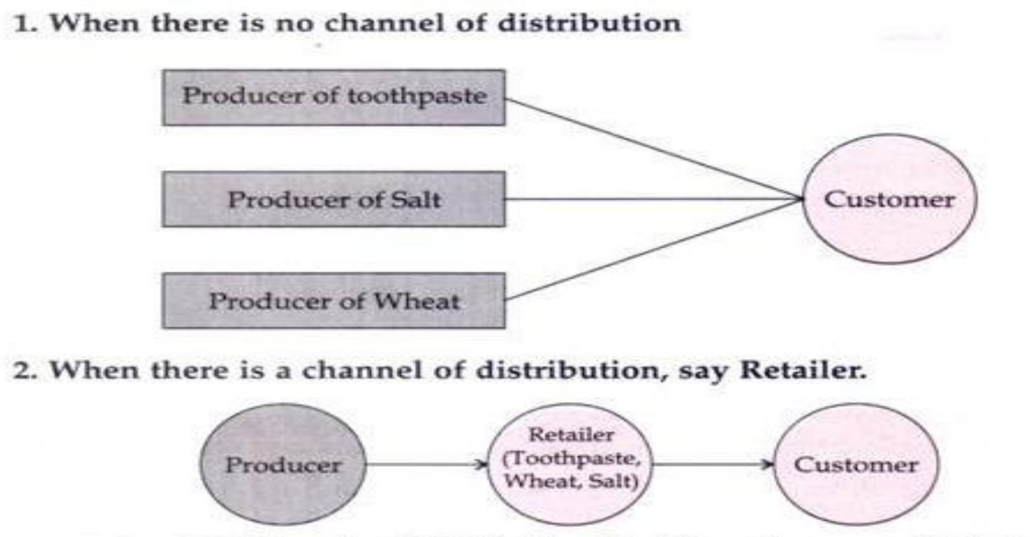
Channel of distribution refers to those people, institutions or merchants who help in the distribution of goods and services. Philips Kotler defines channel of distribution as "a set of independent organisations involved in the process of making a product or service available for use or consumption".

Channels of distribution bring economy of effort. They help to cover a vast geographical area and also bring efficiency in distribution including transportation and warehousing. Retailers, Wholesalers are the common channels of distribution.

Channels of distribution provide convenience to customer, who can get various items at one store. If there were no channels of distribution, customer would have faced a lot of difficulties.

Importance of marketing channels

Marketing channels are very important. Considering an example of below diagram, a customer will not be able to buy the basic products like tootpaste in absence of a distribution channel.



Channels of Distribution Used for a Consumer Product.

Following are the main functions performed by the distribution channels:

1. Sorting:

Middlemen obtain the supplies of goods from various suppliers and sort them out into similar groups on the basis of size, quality etc.

2. Accumulation:

In order to ensure a continuous supply of goods, middlemen maintain a large volume of stock.

3. Allocation:

t involves packing of the sorted goods into small marketable lots like 1Kg, 500 gms, 250 gms etc.

4. Assorting:

Middlemen obtain a variety of goods from different manufacturers and provide them to the customers in the combination desired by them. For example, rice from Dehradun & Punjab.

5. Product Promotion:

Sales promotional activities are mostly performed by the producer but sometimes middlemen also participate in these activities like special displays, discounts etc.

6. Negotiation:

Middlemen negotiate the price, quality, guarantee and other related matters about a product with the producer as well as customer.

7. Risk Taking:

Middlemen have to bear the risk of distribution like risk from damage or spoilage of goods etc. when the goods are transported from one place to another or when they are stored in the god-owns.

Types/Levels of Distribution Channels:

Broadly, Channel of distribution is of two types viz., (1) Direct Channel (2) Indirect Channel.

1. Direct Channel or Zero Level Channels:

When the producer or the manufacturer directly sells the goods to the customers without involving any middlemen, it is known as direct channel or zero level channel. It is the simplest and the shortest mode of distribution. Selling through post, internet or door to door selling etc. are the examples of this channel. For example, Mc Donalds, Bata, Mail order etc.

Methods of Direct Channel are:
(a) Door to door selling

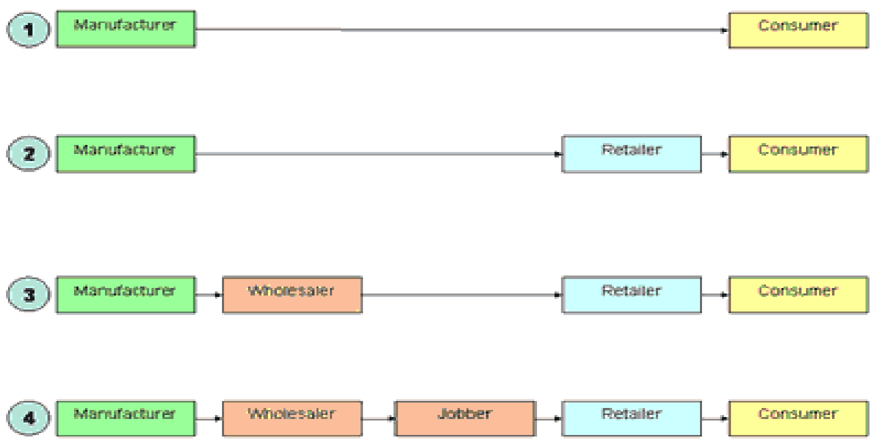
(b) Internet selling

(c) Mail order selling

(d) Company owned retail outlets

(e) Telemarketing

2. Indirect Channels:
When a manufacturer or a producer employs one or more middlemen to distribute goods, it is known as indirect channel.



LEVELS OF MARKETING CHANNELS

Following are the main forms of indirect channels:
(a) Manufacturer-Retailer-Consumer (One Level Channel):
This channel involves the use of one middleman i.e. retailer who in turn sells them to the ultimate customers. It is usually adopted for speciality goods. For example Tata sells its cars through company approved retailers.

Manufacturer→ Retailer→ Consumer
b) Manufacturer-Wholesaler-Retailer-Customer (Two level channels):

Under this channel, wholesaler and retailer act as a link between the manufacturer and the customer. This is the most commonly used channel for distributing goods like soap, rice, wheat, clothes etc.

Manufacturer→ Wholesaler→ Retailer→ Customer

(c) Manufacturer-Agent-Wholesaler-Retailer-Consumer (Three level channels):

This level comprises of three middlemen i.e. agent, wholesaler and the retailer. The manufacturers supply the goods to their agents who in turn supply them to wholesalers and retailers. This level is usually used when a manufacturer deal in limited products and yet wants to cover a wide market.

Manufacturer → Agent → Wholesaler → Retailer → Consumer

Factors Determining Choice of Channels of Distribution:

Following are the main factors which help in determining the channels of distribution:

1. Product Related Factors:

Following are the important product related considerations in deciding on channels of distribution:

(a) Nature of Product:

In case of industrial goods like CT scan machine, short channels like zero level channel or first level channel should be preferred because they are usually technical, expensive, made to order and purchased by few buyers. Consumer goods Ike LCD, refrigerator can be distributed through long channels as they are less expensive, not technical and frequently purchased.

(b) Perishable and Non- Perishable Products:

Perishable products like fruits or vegetables are distributed through short channels while non perishable products like soaps, oils, sugar, salt etc. require longer channels.

(c) Value of Product:

In case of products having low unit value such as groceries, long channels are preferred while those with high unit value such as diamond jewellery short channels are used.

(d) Product Complexity:

Short channels are preferred for technically complex goods like industrial or engineering products like machinery, generators like torches while non complex or simple ones can be distributed through long channels.

2. Company Characteristics:
Following are the main Company Characteristics offering choice of channel of distribution**:**
(a) Financial Strength:
The companies having huge funds at their disposal go for direct distribution. Those without such funds go for indirect channels.

(b) Control:
Short channels are used if management wants greater control on the channel members otherwise a company can go in for longer channels.

3. Competitive Factors:
Policies and channels selected by the competitors also affect the choice of channels. A company has to decide whether to adopt the same channel as that of its competitor or choose another one. For example, if Nokia has selected a particular channel say Big Bazaars for sale of their hand sets, other firms like Samsung and LG have also selected similar channels.

4. Market Factors:
Following are the important market factors affecting choice of channel of distribution:
(a) Size of Market:
If the number of customers is small like in case of industrial goods, short channels are preferred while if the number of customers is high as in case of convenience goods, long channels are used.

(b) Geographical Concentration:
Generally, long channels are used if the consumers are widely spread while if they are concentrated in a small place, short channels can be used.

(c) Quantity Purchased:
Long channels are used in case the size of order is small while in case of large orders, direct channel may be used.

5. Environmental Factor:

Economic factors such as economic conditions and legal regulations also play a vital role in selecting channels of distribution. For example, in a depressed economy, generally shorter channels are selected for distribution.

Types of Intermediaries

Intermediaries, also known as distribution intermediaries, marketing intermediaries, or middlemen, are an extremely crucial element of a company's product distribution channel. Without intermediaries, it would be close to impossible for the business to function at all. This is because intermediares are external groups, individuals, or businesses that make it possible for the company to deliver their products to the end user. For example, merchants are intermediaries that buy and resell products.

There are four generally recognized broad groups of intermediaries: agents, wholesalers, distributors, and retailers.

1. **Agents/Brokers**

Agents or brokers are individuals or companies that act as an extension of the manufacturing company. Their main job is to represent the producer to the final user in selling a product. Thus, while they do not own the product directly, they take possession of the product in the distribution process. They make their profits through fees or commissions.

2. **Wholesalers**

Unlike agents, wholesalers take title to the goods and services that they are intermediaries for. They are independently owned, and they own the products that they sell. Wholesalers do not work with small numbers of product: they buy in bulk, and store the products in their own warehouses and storage places until it is time to resell them. Wholesalers rarely sell to the final user; rather, they sell the products to other intermediaries such as retailers, for a higher price than they paid. Thus, they do not operate on a commission system, as agents do.

3. **Distributors**

Distributors function similarly to wholesalers in that they take ownership of the product, store it, and sell it off at a profit to retailers or other intermediaries. However, the key difference is that distributors ally themselves to complementary products. For example, distributors of Coca Cola will not distribute Pepsi products, and vice versa. In this way, they can maintain a closer relationship with their suppliers than wholesalers do.

4. **Retailers**

Retailers come in a variety of shapes and sizes: from the corner grocery store, to large chains like Wal-Mart and Target. Whatever their size, retailers purchase products from market intermediaries and sell them directly to the end user for a profit.

Types of Wholesalers

The American Marketing Association has defined the wholesaler as "a business unit which buys and resells the merchandise to the retailers and the merchants or to the industrial, institutional and commercial users but does not sell insignificant amounts to the ultimate consumers."
"The wholesaler is one who buys goods on a large scale with the objective of selling them at a profit in smaller quantities. He buys from the producers that is the extractor or manufacturer and sells to the retailers, and is, therefore, the connecting link between these two".

Characteristics of Wholesalers

The followings are the characteristics of wholesalers:
i. Wholesalers buy goods directly from producers or manufacturers.
ii. They buy goods in large quantities and sell in relatively smaller quantities.
iii. They sell different varieties of a particular line or product. For example, a wholesaler who deals with paper is expected to keep all varieties of paper, cardboard, and card.
iv. Wholesalers may employ a number of agents or workers for distribution of products.
v. They invest in the products of companies and need large amounts of capital.
vi. They provide credit facilities to retailers.
vii. They provide financial assistance to the producers or manufacturers by buying in bulk.
viii. Wholesalers are normally clustered in one particular area. For example, in many Indian towns one there is a gur mandi (market for sugar and allied products) or anaj mandi (market for food grains). Cloth or paper merchants cluster in one area, making it easy for retailers to approach them.
i. The wholesaler is mainly concerned with the assembling and dispensing function in marketing. The products assembled from different manufacturers are

kept in stock by the wholesalers and are distributed to retailers who may be widely scattered.

Types of Wholesalers

Depending on the type of industry and the type of market, different types of wholesalers can be found. In highly fragmented industries as with unbranded clothes or farm produce, there could even be different levels of wholesalers. Wholesalers could also specialize in one function.

For instance a wholesaler could specialize in warehousing. Such a wholesaler maintains a big warehouse and specializes in the storage function and depends on others for other functions such as transportation or financing. Dibb et al. (2006) classify wholesalers into two broad classes- (i) merchant wholesalers and (ii) agents and brokers.

(i) Merchant Wholesalers:

Merchant wholesalers buy goods from manufacturers and sell them to retailers or industrial buyers. Such wholesalers therefore take up the tide to the goods. This is an important function that has to be performed for the flow of goods from the manufacturer to the ultimate customer.

Merchant wholesalers can be classified as either full-service wholesalers or limited-service wholesalers. Some of the types of merchant wholesalers that are seen around the world are- (a) general merchandise wholesalers, (b) limited line wholesalers, (c) cash-and-carry wholesalers, (d) truck wholesalers, and (e) drop shippers.

Each is explained below:

(a) General Merchandise Wholesaler:

General merchandise wholesalers deal with a large variety of items without much depth in each category. A wholesaler could, for instance, deal in grocery items, selling products from a few manufacturers to retailers. Such a merchandiser provides all the services including warehousing, transportation, and financing to the manufacturer.

Such large general merchandisers typically dominate a geographic region, supplying merchandise to most of the retail outlets in a particular region. A general merchandiser typically deals with multiple brands, though some of them may deal with just one large manufacturer for a particular line of merchandise.

(b) Limited Line Merchandisers:

A limited line merchandiser typically specializes in just one product category and can either be an exclusive wholesaler—representing a particular firm—or a multi- brand merchandiser. Limited line merchandisers deal with products such as pharmaceuticals, hardware, paint, cement, and steel. Some limited line merchandisers serve a niche market (for example, laboratory equipment to be sold to medical laboratories).

In certain markets where manufacturers are small and fragmented, limited line merchandisers can be powerful. The industry must rely on the wholesalers to sell to their customers. Such wholesalers typically have in-depth knowledge about the market and its players. These limited line merchandisers are very useful for small niche manufacturers who serve a small but important market.

(c) Cash-and-Carry Wholesalers:

Cash-and-carry wholesalers are a new wholesale category in India, but have existed for quite a long while in other countries. The Wal-Mart group's entry into India is through a cash-and-carry wholesaling format.

In cash-and-carry wholesaling, retailers could buy goods in bulk (often carton loads) at a reduced price, to be resold at a higher price in their retail outlets. Cash-and-carry set-ups are typically large Warehouses with little display and fewer staff. Goods are only sold in bulk and without any credit lines.

Cash-and-carry wholesalers are hence classified as limited service merchant wholesalers. Small retailers who can rely on cash-and-carry retailers benefit, as they get access to goods without any waiting time and at a cheap rate. Cash-and-carry wholesalers only deal with high turnover items such as groceries and stationery items. With the entry of large wholesale groups into India in the future, more such cash-and-carry wholesalers can be expected.

(d) Truck Wholesalers:

Many small wholesalers in the Indian FMCG sector which serve small independently-owned retailers are actually truck wholesalers (sometimes called truck jobbers). These truck wholesalers typically transport small quantities of typically perishable commodities (such as bread or biscuits) to retail outlets where the retailer could inspect and purchase goods from the truck.

Such truck wholesalers are typically small operators and could carry a variety of multi-brand items. They often do not provide credit lines and are typically owned by other large wholesalers. These wholesalers provide critical transportation and stocking services to the distribution channel. They are also involved in managing the inventory of small retailers.

(e) Drop Shippers:

These intermediaries are sometimes called desk jobbers. They take the tide to the goods and negotiate sales. They do not take physical possession of the goods. They collect orders from retailers or industrial buyers and arrange for these to be transported to the customers from the manufacturer. The ownership

of the goods will pass on to drop shippers from the time the contract is signed with the manufacturer, until the goods are received in proper condition by the buyer.
Such wholesalers are typically seen in commodity markets, where transaction volumes are typically very large, such as markets for oil, coal, and iron ore. Drop shippers provide value by linking several fragmented customers to suppliers who are often based in a totally different continent.
An interesting case is that of ‘rack jobbers’ who are involved in owing and displaying goods at a retail location on behalf of a manufacturer. Such ‘rack jobbers’ own the inventory and act on behalf of the manufacturers.

(ii) Agents and Brokers:

Agents and brokers do not take the tide to the goods they provide, even though they may take physical possession of the goods. Agents and brokers typically provide sales support for the manufacturers by offering the services of a sales force network and related infrastructure.
Agents and brokers thus enable manufacturers to expand their markets without the overhead associated with establishing a sales force. Agents could represent just one manufacturer or a group of manufacturers who have complementary products. Clearing and forwarding (C&F) agents are quite common in Indian markets as they provide a means to avoid multiple sales tax regimes.
Different types of wholesalers therefore facilitate the transactions between different players in the market. They provide value by performing several activities that are important to the smooth flow of goods and services from the manufacturer to the end consumer.
In certain industries, the nature of demand and supply provide opportunities for wholesalers to grow in stature and become the most powerful entity in the market.

Types of Retailers

Retailers range in size from small independent kirana shop owners to giant international category shops. The merchandise that they offer also varies from foodstuff to drugs to apparel to flowers. Hence, it is necessary to take a look at the formats that have evolved in the west and are now evolving in India.

Retailing is basically classified into:

A. Store, and

B. Non-Store based retailing.

In case of store-based retailing, the retailer operates from the store. This is a more common form of retailing.

In case of non-store retailing, the retailer does not operate from a store. This format, though known, is still an emerging format in many countries.

A. Store-Based Retailing:

Store-based retailing is further classified on the basis of – Forms of ownership, and Merchandise offered.

Classification on the basis of Form of Ownership:

i. Independent Retailer:

An independent retailer is one who owns and operates only one retail outlet. Stores like the local baniya or kirana fall under this category (In the west, they are known as mom-n-pop stores). These have the owner or the proprietor with a few family members working as assistants.

ii. A Chain Retailer:

A chain retailer is also known as a corporate retail chain. When two or more outlets are under a common ownership, it is called as a retail chain. These stores are characterised by similarity in merchandise offered, ambience, advertising, and promotion.

iii. Franchising:

A franchise v. Leased Department:

These are also termed as shop-in-shops. When a section of a department in a retail store is leased/rented to an outside party, it is termed as a leased department.

iv. Consumer Co-operatives:

A consumer co-operative is a retail institution that is owned by its member customers.

B. Non-Store Retailing:
This is further classified into:

1. Direct Selling, and

2. Direct Response Marketing.

1. Direct Selling:

It involves the making of a personal contact with the end consumer at his home or place of work. Products such as – cosmetics, food, nutritional products, etc., are often sold in this manner.

2. Direct Response Marketing:

This involves various non-personal methods of communicating with the customer.
These include:
i. Mail Order/Catalogue Retailing – Mailers, along with an order form, are sent to customers, giving information about the product. The customer needs to fill out the form marking the products he would like to purchase and sends it back to initiate delivery.
ii. Television Shopping – Details and usage of the product are demonstrated on the television; the customer has to call a toll free number to place an order.
iii. Electronic Retailing – This is done through information kiosks. These kiosks comprise computer terminals housed inside, and a touch-screen on the outside provides customers with product and company information and aids in purchases.

In addition to the above formats, some of the recent and emerging trends in retailing are:

a. Automated Vending Machines – Here, automated machines are placed at railway stations, bus terminals, in libraries, hospitals, etc., where the customer inserts a coin (of the required denomination) into the machine and the machine dispenses the product.

b. Airport Retailing – Retail is becoming increasingly important for airport operators. Airports are actually becoming shopping plazas for air travellers.

c. Cash-n-Carry Outlets – The term cash-n-carry means that customers do their own order picking, pay in cash and carry the merchandise away. Cash-n-carry is also a kind of wholesale format that aids small retailers and businessmen.
Lease is a contractual agreement between the franchiser and the franchisee, which allows the franchisee to conduct business under an established name based on a particular business format for which the franchisee is compensated.

Retailers Classified on the Basis of Ownership:

i. Sole Proprietorship:

The vast majority of small businesses start out as sole proprietorships. These firms are owned by one person, usually the individual who has the day-to-day responsibility for running the business.

ii. Partnership:

A partnership is a common format in India for carrying out business activities (particularly trading) on a small or medium scale. In a partnership, two or more people share the ownership of a single business.

iii. Joint Venture:

A joint venture is not well defined in law. Unless incorporated or established as a firm as evidenced by a deed, joint ventures may be taxed like association of persons, sometimes at maximum marginal rates. It acts like a general partnership, but is clearly for a limited period of time or a single project.

iv. Limited Liability Company (Public and Private):

The Limited Liability Company (LLC) is a relatively new type of hybrid business structure that is now permissible in most states. The owners are members, and the duration of the LLC is usually determined when the organization papers are filed.