PRICING

What Is Pricing?

Pricing refers to the decision-making process that goes into establishing a value for a product or service. There are many different strategies that a business can use when setting prices, but they are all a form of pricing. The price that's set during the pricing process is what the customer will pay for that product or service.

Though the terms are sometimes used interchangeably, pricing is not the same as cost.

How Does Pricing Work?

There are many pricing methods, but for the most part, they all boil down to some variant of three general approaches.

Some markets offer a mix of pricing strategies. For example, eBay offers wholesalers a market where they set the price, often based on the product's cost. At the same time, because many buyers and sellers are active on eBay, many successful sellers set prices competitively. Elsewhere on eBay, sellers may ask far more for a used product than the original retail price—such as old, out-of-print video games—simply because the demand justifies it. eBay also allows for auctions, which is another form of variable pricing based on demand.

Cost-Based Pricing

This approach ignores (in theory, but not always in practice) what other sellers are setting their prices for the same product or a similar one. Instead, this pricing strategy bases the selling price on its relation to cost. Mark-up pricing, otherwise known as cost-plus pricing, is an example of this approach.1

There may be common mark-up rates among industries, but ultimately, the decision comes down to individual retailers. A music shop, for example, may decide to mark-up guitars by 50% and keyboards by 60%. That means the price a customer pays for a guitar would be the cost the music shop paid plus 50% of that cost. A competing music shop on the other side of town may or may not use similar mark-up figures.

Competitive Pricing

Competitive pricing, as the name suggests, looks to the seller's competition before setting a price. Knowing the competition's prices can give you a framework for your pricing. You may decide to match the competition, undercut them, or, if you feel you offer a better product or service, charge more than them.

One example of competitive pricing is penetration pricing, wherein a business purposefully sets an extremely low price to allow it to compete and gain a foothold in the industry. Once the business is more established, it will raise its price to be more in line with the competition.

Demand-Based Pricing

This approach responds primarily to movement in demand—whether it's waning or growing. If demand is growing, a seller may increase the selling price, especially as supply becomes more limited. The housing market exemplifies this. Home prices are primarily based upon the number of buyers in the market and the number of homes available for sale.

Discount sales show how demand-based pricing works when demand is waning. Decreasing demand leaves a lingering supply, and the business may decide to lower prices to clear out the remaining inventory.

Pricing vs. Cost

Pricing vs. Cost

Pricing	**Cost**
What the customer pays for a product or service	The investment a business makes in hopes of making a sale
May or may not be tied to the cost of a product or service	Tied directly to the cost of investment
Factors into a business's revenue	Factors into a business's cost of goods sold

Methods of Pricing: Cost-Oriented Method and Market-Oriented Method

The two methods of pricing are as follows: A. Cost-oriented Method B. Market-oriented Methods.

There are several methods of pricing products in the market. While selecting the method of fixing prices, a marketer must consider the factors affecting pricing. The pricing methods can be broadly divided into two groups—cost-oriented method and market-oriented method.

A. Cost-oriented Method:

Because cost provides the base for a possible price range, some firms may consider cost-oriented methods to fix the price.

Cost-oriented methods or pricing are as follows:

1. Cost plus pricing:

Cost plus pricing involves adding a certain percentage to cost in order to fix the price. For instance, if the cost of a product is Rs. 200 per unit and the marketer expects 10 per cent profit on costs, then the selling price will be Rs. 220. The difference between the selling price and the cost is the profit. This method is simpler as marketers can easily determine the costs and add a certain percentage to arrive at the selling price.

2. Mark-up pricing:

Mark-up pricing is a variation of cost pricing. In this case, mark-ups are calculated as a percentage of the selling price and not as a percentage of the cost price. Firms that use cost-oriented methods use mark-up pricing.

Since only the cost and the desired percentage markup on the selling price are known, the following formula is used to determine the selling price:

Average unit cost/Selling price

3. Break-even pricing:

In this case, the firm determines the level of sales needed to cover all the relevant fixed and variable costs. The break-even price is the price at which the sales revenue is equal to the cost of goods sold. In other words, there is neither profit nor loss.

For instance, if the fixed cost is Rs. 2, 00,000, the variable cost per unit is Rs. 10, and the selling price is Rs. 15, then the firm needs to sell 40,000 units to break even. Therefore, the firm will plan to sell more than 40,000 units to make a profit. If the firm is not in a position to sell 40,000 limits, then it has to increase the selling price.

The following formula is used to calculate the break-even point:

Contribution = Selling price – Variable cost per unit

4. Target return pricing:

In this case, the firm sets prices in order to achieve a particular level of return on investment (ROI).

The target return price can be calculated by the following formula:

Target return price = Total costs + (Desired % ROI investment)/ Total sales in units

For instance, if the total investment is Rs. 10,000, the desired ROI is 20 per cent, the total cost is Rs.5000, and total sales expected are 1,000 units, then the target return price will be Rs. 7 per unit as shown below:

5000 + (20% X 10,000)/ 7000

Target return price = 7

The limitation of this method (like other cost-oriented methods) is that prices are derived from costs without considering market factors such as competition, demand and consumers' perceived value. However, this method helps to ensure that prices exceed all costs and therefore contribute to profit.

5. Early cash recovery pricing:

Some firms may fix a price to realize early recovery of investment involved, when market forecasts suggest that the life of the market is likely to be short, such as in the case of fashion-related products or technology-sensitive products.

Such pricing can also be used when a firm anticipates that a large firm may enter the market in the near future with its lower prices, forcing existing firms to exit. In such situations, firms may fix a price level, which would maximize short-term revenues and reduce the firm's medium-term risk.

B. Market-oriented Methods:

1. Perceived value pricing:

A good number of firms fix the price of their goods and services on the basis of customers' perceived value. They consider customers' perceived value as the primary factor for fixing prices, and the firm's costs as the secondary.

The customers' perception can be influenced by several factors, such as advertising, sales on techniques, effective sales force and after-sale-service staff. If customers perceive a higher value, then the price fixed will be high and vice versa. Market research is needed to establish the customers' perceived value as a guide to effective pricing.

2. Going-rate pricing:

In this case, the benchmark for setting prices is the price set by major competitors. If a major competitor changes its price, then the smaller firms may also change their price, irrespective of their costs or demand.

The going-rate pricing can be further divided into three sub-methods:

a. Competitors 'parity method:

A firm may set the same price as that of the major competitor.

b. Premium pricing:

A firm may charge a little higher if its products have some additional special features as compared to major competitors.

c. Discount pricing:

A firm may charge a little lower price if its products lack certain features as compared to major competitors.

The going-rate method is very popular because it tends to reduce the likelihood of price wars emerging in the market. It also reflects the industry's coactive wisdom relating to the price that would generate a fair return.

3. Sealed-bid pricing:

This pricing is adopted in the case of large orders or contracts, especially those of industrial buyers or government departments. The firms submit sealed bids for jobs in response to an advertisement.

ADVERTISEMENTS:

In this case, the buyer expects the lowest possible price and the seller is expected to provide the best possible quotation or tender. If a firm wants to win a contract, then it has to submit a lower price bid. For this purpose, the firm has to anticipate the pricing policy of the competitors and decide the price offer.

4. Differentiated pricing:

Firms may charge different prices for the same product or service.

The following are some the types of differentiated pricing:

a. Customer segment pricing:

Here different customer groups are charged different prices for the same product or service depending on the size of the order, payment terms, and so on.

b. Time pricing:

Here different prices are charged for the same product or service at different timings or season. It includes off-peak pricing, where low prices are charged during low-demand tunings or season.

c. Area pricing:

Here different prices are charged for the same product in different market areas. For instance, a firm may charge a lower price in a new market to attract customers.

d. Product form pricing:

Here different versions of the product are priced differently but not proportionately to their respective costs. For instance, soft drinks of 200,300, 500 ml, etc., are priced according to this strategy.

Pricing Policies

A pricing policy is a standing answer to recurring question. A systematic approach to pricing requires the decision that an individual pricing situation be generalised and codified into a policy coverage of all the principal pricing problems. Policies can and should be tailored to various competitive situations. A policy approach which is becoming normal for sales activities is comparatively rare in pricing.

Most well managed manufacturing enterprises have a clear cut advertising policy, product customer policy and distribution-channel policy. But pricing decision remains a patchwork of ad hoc decisions. In many, otherwise well managed firms, price policy has been dealt with on a crisis basis. This kind of price management by catastrophe discourages the kind of systematic analysis needed for clear cut pricing policies.

Considerations Involved in Formulating the Pricing Policy:

The following considerations involve in formulating the pricing policy:

(i) Competitive Situation:

Pricing policy is to be set in the light of competitive situation in the market. We have to know whether the firm is facing perfect competition or imperfect competition. In perfect competition, the producers have no control over the price. Pricing policy has special significance only under imperfect competition.

(ii) Goal of Profit and Sales:

The businessmen use the pricing device for the purpose of maximising profits. They should also stimulate profitable combination sales. In any case, the sales should bring more profit to the firm.

(iii) Long Range Welfare of the Firm:

Generally, businessmen are reluctant to charge a high price for the product because this might result in bringing more producers into the industry. In real life, firms want to prevent the entry of rivals. Pricing should take care of the long run welfare of the company.

(iv) Flexibility:

Pricing policies should be flexible enough to meet changes in economic conditions of various customer industries. If a firm is selling its product in a highly competitive market, it will have little scope for pricing discretion. Prices should also be flexible to take care of cyclical variations.

(v) Government Policy:

The government may prevent the firms in forming combinations to set a high price. Often the government prefers to control the prices of essential commodities with a view to prevent the exploitation of the consumers. The entry of the government into the pricing process tends to inject politics into price fixation.

(vi) Overall Goals of Business:

Pricing is not an end in itself but a means to an end. The fundamental guides to pricing, therefore, are the firms overall goals. The broadest of them is survival. On a more specific level, objectives relate to rate of growth, market share, maintenance of control and finally profit. The various objectives may not always be compatible. A pricing policy should never be established without consideration as to its impact on the other policies and practices.

(vii) Price Sensitivity:

The various factors which may generate insensitivity to price changes are variability in consumer behaviour, variation in the effectiveness of marketing effort, nature of the product, importance of service after sales, etc. Businessmen often tend to exaggerate the importance of price sensitivity and ignore many identifiable factors which tend to minimise it.

(viii) Routinisation of Pricing:

A firm may have to take many pricing decisions. If the data on demand and cost are highly conjectural, the firm has to rely on some mechanical formula. If a firm is selling its product in a highly competitive market, it will have little scope for price discretion. This will have the way for routinised pricing.

Objectives of Pricing Policy:

The pricing policy of the firm may vary from firm to firm depending on its objective. In practice, we find many prices for a product of a firm such as wholesale price, retail price, published price, quoted price, actual price and so on.

Special discounts, special offers, methods of payment, amounts bought and transportation charges, trade-in values, etc., are some sources of variations in the price of the product. For pricing decision, one has to define the price of the product very carefully.

Pricing decision of a firm in general will have considerable repercussions on its marketing strategies. This implies that when the firm makes a decision about the price, it has to consider its entire marketing efforts. Pricing decisions are usually considered a part of the general strategy for achieving a broadly defined goal.

While setting the price, the firm may aim at the following objectives:

(i) Price-Profit Satisfaction:

The firms are interested in keeping their prices stable within certain period of time irrespective of changes in demand and costs, so that they may get the expected profit.

(ii) Sales Maximisation and Growth:

A firm has to set a price which assures maximum sales of the product. Firms set a price which would enhance the sale of the entire product line. It is only then, it can achieve growth.

(iii) Making Money:

Some firms want to use their special position in the industry by selling product at a premium and make quick profit as much as possible.

(iv) Preventing Competition:

Unrestricted competition and lack of planning can result in wasteful duplication of resources. The price system in a competitive economy might not reflect society's real needs. By adopting a suitable price policy the firm can restrict the entry of rivals.

(v) Market Share:

The firm wants to secure a large share in the market by following a suitable price policy. It wants to acquire a dominating leadership position in the market. Many managers believe that revenue maximisation will lead to long run profit maximisation and market share growth.

(vi) Survival:

In these days of severe competition and business uncertainties, the firm must set a price which would safeguard the welfare of the firm. A firm is always in its survival stage. For the sake of its continued existence, it must tolerate all kinds of obstacles and challenges from the rivals.

(vii) Market Penetration:

Some companies want to maximise unit sales. They believe that a higher sales volume will lead to lower unit costs and higher long run profit. They set the lowest price, assuming the market is price sensitive. This is called market penetration pricing.

(viii) Marketing Skimming:

Many companies favour setting high prices to 'skim' the market. Dupont is a prime practitioner of market skimming pricing. With each innovation, it estimates the highest price it can charge given the comparative benefits of its new product versus the available substitutes.

(ix) Early Cash Recovery:

Some firms set a price which will create a mad rush for the product and recover cash early. They may also set a low price as a caution against uncertainty of the future.

(x) Satisfactory Rate of Return:

Many companies try to set the price that will maximise current profits. To estimate the demand and costs associated with alternative prices, they choose the price that produces maximum current profit, cash flow or rate of return on investment.

Factors Involved in Pricing Policy:

The pricing of the products involves consideration of the following factors:

(i) Cost Data.

(ii) Demand Factor.

(iii) Consumer Psychology.

(iv) Competition.

(v) Profit.

(vi) Government Policy.

(i) Cost Data in Pricing:

Cost data occupy an important place in the price setting processes. There are different types of costs incurred in the production and marketing of the product. There are production costs, promotional expenses like advertising or personal selling as well as taxation, etc.

They may necessitate an upward fixing of price. For example, the prices of petrol and gas are rising due to rise in the cost of raw materials, such as crude transportation, refining, etc. If costs go up, price rise can be quite justified. However, their relevance to the pricing decision must neither be underestimated nor exaggerated. For setting prices apart from costs, a number of other factors have to be taken into consideration. They are demand and competition.

Costs are of two types:

Fixed costs and variable costs. In the short period, that is, the period in which a firm wants to establish itself, the firm may not cover the fixed costs but it must cover the variable cost. But in the long run, all costs must be covered. If the entire costs are not covered, the producer stops production.

Subsequently, the supply is reduced which, in turn, may lead to higher prices. If costs are not covered, the producer stops production. Subsequently, the supply is reduced which, in turn, may lead to higher prices. If costs were to determine prices why do so many companies report losses?

There are marked differences in costs as between one producer and another. Yet the fact remains that the prices are very close for a somewhat similar product. This is the very best evidence of the fact that costs are not the determining factors in pricing.

In fact, pricing is like a tripod. It has three legs. In addition to costs, there are two other legs of market demand and competition. It is no more possible to say that one or another of these factors determines price than it is to assert that one leg rather than either of the other two supports a tripod.

Price decisions cannot be based merely on cost accounting data which only contribute to history while prices have to work in the future. Again it is very difficult to measure costs accurately. Costs are affected by volume, and volume is affected by price.

The management has to assume some desired price-volume relationship for determining costs. That is why, costs play even a less important role in connection with new products than with the older ones. Until the market is decided and some idea is obtained about volume, it is not possible to determine costs.

Regarding the role of costs in pricing, Nickerson observes that the cost may be regarded only as an indicator of demand and price. He further says that the cost at any given time represents a resistance point to the lowering of price. Again, costs determine profit margins at various levels of output.

Cost calculation may also help in determining whether the product whose price is determined by its demand, is to be included in the product line or not. What costs determine is not the price, but whether the production can be profitably produced or not is very important.

Relevant Costs:

The question naturally arises: "What then are the relevant costs for pricing decision? Though in the long run, all costs have to be covered, for managerial decisions in the short run, direct costs are relevant. In a single product firm, the management would try to cover all the costs."

In a multi-product firm, problems are more complex. For pricing decision, relevant costs are those costs that are directly traceable to an individual product. Ordinarily, the selling price must cover all direct costs that are attributable to a product. In addition, it must contribute to the common cost and to the realisation of profit. If the price, in the short run, is lower than the cost, the question arises, whether this price covers the variable cost. If it covers the variable cost, the low price can be accepted.

But in the long run, the firm cannot sell at a price lower than the cost. Product pricing decision should be lower than the cost. Product pricing decision should, therefore, be made with a view to maximise company's profits in the long run.

(ii) Demand Factor in Pricing:

In pricing of a product, demand occupies a very important place. In fact, demand is more important for effective sales. The elasticity of demand is to be recognised in determining the price of the product. If the demand for the product is inelastic, the firm can fix a high price. On the other hand, if the demand is elastic, it has to fix a lower price.

In the very short term, the chief influence on price is normally demand. Manufacturers of durable goods always set a high price, even though sales are affected. If the price is too high, it may also affect the demand for the product. They wait for arrival of a rival product with competitive price. Therefore, demand for product is very sensitive to price changes.

(iii) Consumer Psychology in Pricing:

Demand for the product depends upon the psychology of the consumers. Sensitivity to price change will vary from consumer to consumer. In a particular situation, the behaviour of one individual may not be the same as that of the other. In fact, the pricing decision ought to rest on a more incisive rationale than simple elasticity. There are consumers who buy a product provided its quality is high.

Generally, product quality, product image, customer service and promotion activity influence many consumers more than the price. These factors are qualitative and ambiguous. From the point of view of consumers, prices are quantitative and unambiguous.

Price constitutes a barrier to demand when it is too low, just as much as where it is too high. Above a particular price, the product is regarded as too expensive and below another price, as constituting a risk of not giving adequate value. If the price is too low, consumers will tend to think that a product of inferior quality is being offered.

With an improvement in incomes, the average consumer becomes quality conscious. This may lead to an increase in the demand for durable goods. People of high incomes buy products even though their prices are high. In the affluent societies, price is the indicator of quality.

Advertisement and sales promotion also contribute very much in increasing the demand for advertised products. Because the consumer thinks that the advertised products are of good quality. The income of the consumer, the standard of living and the price factor influence the demand for various products in the society.

(iv) Competition Factor in Pricing:

Market situation plays an effective role in pricing. Pricing policy has some managerial discretion where there is a considerable degree of imperfection in competition. In perfect competition, the individual producers have no discretion in pricing. They have to accept the price fixed by demand and supply.

In monopoly, the producer fixes a high price for his product. In other market situations like oligopoly and monopolistic competition, the individual producers take the prices of the rival products in determining their price. If the primary determinant of price changes in the competitive condition is the market place, the pricing policy can least be categorised as competition based pricing.

(v) Profit Factor in Pricing:

In fixing the price for products, the producers consider mainly the profit aspect. Each producer has his aim of profit maximisation. If the objective is profit maximisation, the critical rule is to select the price at which MR = MC. Generally, the pricing policy is based on the goal of obtaining a reasonable profit. Most of the businessmen want to hold the price at constant level.

They do not desire frequent price fluctuation. The profit maximisation approach to price setting is logical because it forces decision makers to focus their attention on the changes in production, cost, revenue and profit associated with any contemplated change in price. The price rigidity is the practice of many producers. Rigidity does not mean inflexibility. It means that prices are stable over a given period.

(vi) Government Policy in Pricing:

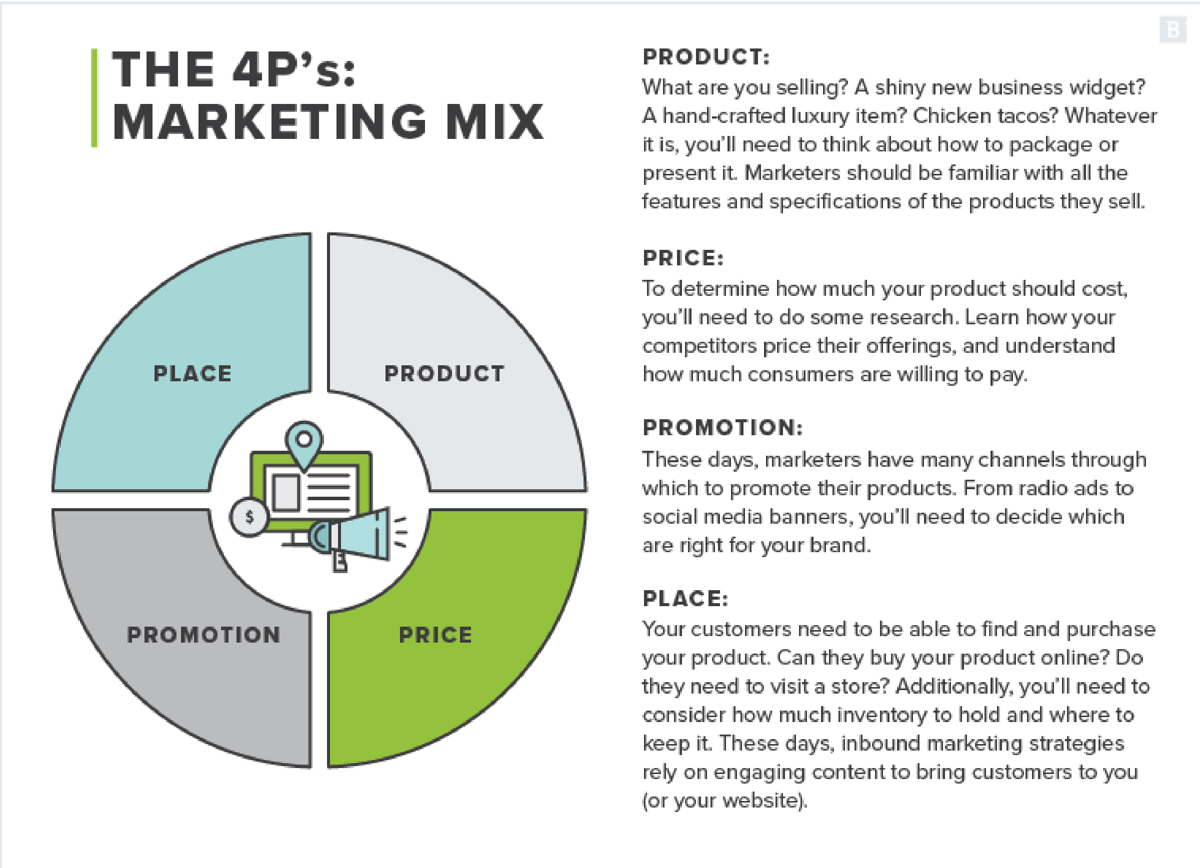
In market economy, the government generally does not interfere in the economic decisions of the economy. It is only in planned economies, the government’s interference is very much. According to conventional economic theory, the buyers and sellers only determine the price. In reality, certain other parties are also involved in the pricing process. They are the competition and the government.

The government's practical regulatory price techniques are ceiling on prices, minimum prices and dual pricing. In a mixed economy like India, the government resorts to price control. The business establishments have to adopt the government's price policies to control relative prices to achieve certain targets, to prevent inflationary price rise and to prevent abnormal increase in prices.

CHANNELS OF DISTRIBUTION

Digitization has dramatically altered the marketing landscape, but some things never change.

Case in point: the marketing mix – also known as the "4 P's of marketing" – remains as relevant today as it did back when it first came to prominence in the 1950s and '60s. The core ideas contained within that model – namely, that successful marketing is driven by product, price, promotion and placement – still hold up. They are, essentially, the fundamental building blocks of good marketing.



The nature of the 4 P's has evolved somewhat in response to digitization (software and subscription-based services standing alongside or replacing physical products, for instance), but none have been impacted to the degree that *placement* has.

Marketers have more distribution channels than ever to consider, with their target audiences spread out across various digital platforms. Not to mention, physical distribution channels haven’t gone anywhere, either. Each one needs to be accounted for in business models and marketing strategies to reach audiences and drive revenue in the digital age.

How important is distribution to the marketing mix?

Marketers will argue about which “P” in the marketing mix is the most essential, but there’s no denying that each one is important in its own way. If you’re trying to sell an inferior or inherently flawed product, for instance, you’re already coming at your competitors from a disadvantage.

Place, or distribution, is a critical consideration for marketers, whether you’re selling a physical product, software application or digital service. Where are people going to find your products and services? Where can they purchase them? Where are they going to use them? How are you going to manage inventory?

E-commerce, digital distribution and other internet-age developments have made these questions far more complicated. Businesses might operate brick-and-mortar shops as well as online stores. Digital-only services may be downloaded directly from the provider or distributed through a value-added reseller.

To get an idea of how complex “place” has become, consider the enormous shift in distribution methods witnessed in the video game industry over the past two decades. Twenty years ago, customers would need to travel to a physical store to buy games or use a mail-order service.

Then the internet came along, and retailers started selling those products online.

The rise of e-commerce markets like Amazon added another major distribution channel to account for.

With faster networks, gamers can cut out the middleman – and physical media entirely – by downloading video games through distribution services like Steam. Brick-and-mortar stores, e-commerce retailers and online shops still remain viable distribution channels, and video game companies need to factor in all of them to reach the widest audience.

What is a distribution channel, anyway?

Distribution channels are the methods by which companies deliver products and services to customers and end users. Some businesses sell directly to their customers, while others might use a retailer or wholesaler to serve as an intermediary. Companies may also use agents or brokers to facilitate the movement of products to distributors that sell those wares to the customer.

Why so many choices? Consider a clothing manufacturer: It might have its own brand stores, but those would be expensive to expand to achieve optimal market penetration. Selling through retail outlets increases the brand’s presence and visibility, reaching more customers in more varied locations. In this way, the company can maximize its revenue potential without overextending resources by exclusively maintaining its own storefronts.

What are the different channels of distribution?

There are several approaches brands can take to distribute their goods, products and services – especially now that digital channels stand shoulder to shoulder with traditional, physical outlets.

These are the 8 most important distribution channels to know:

1. Direct sales

A direct sales business model eliminates any intermediary in the distribution process, leaving the brand to sell products to customers on its own. That means there's no retailer or third-party outlet to stock inventory and promote products.

Arguably the most visible example of a direct sales approach comes courtesy of Apple. In many cases, customers need to go through the brand itself to buy software, devices and other products. Apple manages its own physical shops and digital stores where it prefers to sell its wares. It does have a presence in third-party brick-and-mortar retail outlets, but the company tries to direct potential and returning customers to its branded stores.

A more rigid example of direct sales would be a business that creates products and goods on-site and sells to the customers in the same location. For instance, bakeries employ a strict, direct sales business model, assuming their goods can only be found in their stores.

What are the benefits of direct sales?

Since companies manage distribution without any external assistance, they don't need to divide their revenue with third parties. By cutting intermediaries out of the equation, brands have the financial flexibility to set lower prices to entice customers and gain a competitive advantage. Businesses that are able to adequately control distribution costs and still reach their target audience can find an optimal level of profitability.

Brands can also tightly control the customer experience when they sell directly. They can build stores – both physical and digital – that directly align with their core values and messages. Going back to the Apple example, every aspect of the in-store experience – from the layout to the lighting to the furniture to the music – is meticulously designed to make customers feel a certain way. The stores are extensions of the brand.

Managing distribution in-house and selling directly to end users brings brands closer to their customers. It's easier to receive feedback regarding services and products because there's no filter or middleman separating the customer and the brand. Companies can then refine and improve their offerings to more closely reflect what the customer wants.

Another benefit to the direct sales approach is that businesses don't have to deal with as many communication problems. When products change hands between manufacturers, wholesalers, retailers and other distributors, it dramatically increases the number of stakeholders involved. And more stakeholders means more potential for misunderstandings and communication breakdowns. That's less of a concern if the entire distribution process is managed in-house.

2. Retailer

Retail is the most common distribution channel for consumer brands, using third-party outlets to bring products to market. Supermarkets, big-box stores, convenience stores and department stores all act as intermediaries and the point of contact for customers. You don’t go to the Jif store to buy peanut butter, after all.

Not all retail distribution strategies take the same approach, however. Depending on the brand, product and audience, they may aim for the widest market penetration possible, while others focus on establishing exclusivity by limiting availability.

3. Intensive distribution

Consumers are probably most familiar with this form of retail distribution, where products are sold through as many outlets as possible. Take Jif, for instance. You can find the brand in virtually any grocery store and convenience store in the United States, regardless of the market or location. Jif has an enormous market penetration, and is one of a handful of peanut butter brands that are ubiquitous across the country.

This style of retail distribution is best-suited for goods and products that rarely command a great deal of brand loyalty. If a customer’s preferred brand is unavailable, they are perfectly fine buying another product at a similar price point. For most consumers, if Skippy’s sold out, Jif’s an acceptable alternative.

Intensive distribution gives brands the largest presence possible, reaching more potential customers across disparate markets. Only a select few brands can achieve that high level of distribution. Inventory management, supply chain logistics and marketing demands all become incredibly complicated with an intensive distribution strategy, and many companies simply do not have the resources or capabilities to make this approach work.

This approach is a poor fit for niche products with limited appeal. Those brands require a more targeted strategy that zeroes in on their target audiences. Luxury products with high price points may also suffer with intensive distribution, as lower quality offerings can easily undercut them and better appeal to less discerning shoppers.

4. Selective distribution

Not all companies that sell through retailers are looking to achieve the widest distribution possible. Luxury brands are often highly selective about where their products are placed and how they are represented. You won’t find Hermes handbags in a big-box store, for instance. For those companies, the in-store experience is part of their brand and they tightly regulate retail displays and even how clerks describe or demo their products.

Selective distribution makes sense when brands and products cannot be swapped out interchangeably. Target audiences are extremely discriminating and are willing to travel to specific outlets where their preferred brands are available.

5. Exclusive distribution

Selective distribution strategies still use a variety of intermediaries and outlets to sell wares, but brands have an even more discerning option to consider: exclusive distribution. Under this business model, companies partner with a single wholesaler or retailer in a particular market. The idea is to restrict availability to protect brand equity and project a more selective and exclusive brand image.

Rolex is one of the more famous examples of exclusive distribution. The company partners with one wholesaler in each market to control precisely where its products are sold and how they are represented. Even though a third party is the final point of contact with the end user, Rolex can still dictate the in-store experience, creating strict brand guidelines for clerks and agents to follow.

Brands also tend to have more leverage in exclusive distribution relationships since wholesalers, retailers and distributors are dependent on the presence of luxury, high-quality products to appeal to their upscale and discerning clientele. Manufacturers are in a stronger position to negotiate distribution and marketing costs with their intermediaries since there are few alternatives to take their place on store shelves.

An exclusive distribution partner agency can also be a huge asset when expanding into new markets. Distributors already have a presence in these markets and understand what motivates local customer bases. That means less risk for businesses that want to reach international audiences, but are concerned about the logistics involved in such a move.

Obviously, exclusive distribution is reserved only for luxury brands where product scarcity isn’t just acceptable – it’s expected.

6. Dual distribution

Many businesses choose to use a variety of distribution channels to sell their products, working with wholesalers and retailers while also maintaining brand storefronts to sell directly. This approach is known as dual distribution. The Apple example we cited earlier is one instance of dual distribution, although it leans more toward the direct-to-customer end of the spectrum.

Smartphones, in general, highlight this approach, as manufacturers sell their devices through big-box stores, telecom partners, e-commerce markets and their own online store fronts.

Dual distribution allows brands to reach a large audience with varied purchase options. It makes perfect sense for smartphone manufacturers to partner with wireless service providers because customers can’t use one without the other. Many users will naturally want to sign up for a wireless plan when they buy a new smartphone, so why not make those devices available in wireless stores?

7. Wholesaler

Like retailers, wholesalers act as middlemen that buy products from manufacturers and then sell those goods to end users at an increased price point. The biggest differences between these business models are scale and audience.

As anyone who's shopped at Costco or Sam's Club can tell you, products are purchased in bulk from wholesalers. Customers wind up spending less money per unit while buying large quantities of a particular product.

Although consumer-facing membership warehouses are the most visible examples of wholesale distribution channels, most wholesalers sell to other businesses. Restaurants, for instance, buy their equipment from wholesale providers. Certain retailers may purchase products in bulk from a wholesaler and then sell those goods to consumers individually at a higher price point.

Brands benefit from wholesale distribution by moving large volumes of products at once. The tradeoff is wholesalers expect discounts and reduced rates in exchange for buying in bulk.

Another factor to consider is that manufacturers can avoid the logistical challenges of selling directly to customers. There's no store to manage, on-site personnel to train or inventory to stock. Once products have changed hands, those issues are someone else's concern.

That also means brands have limited – if any – say about how their products are handled and displayed. They can address those concerns by creating brand guidelines for distributors to follow, but there is some added cost to conduct on-site reviews and assess compliance.

8. Channel partners or value-added resellers

Many B2B companies sell through the channel. That is, they don't sell directly to end users, but work with channel partners that buy their wares, repackage them and then sell to their own customers.

How is that any different from the wholesaler models discussed earlier? As the name suggests, value-added resellers (VARs) include new features and services to improve a product and appeal to their target audience. The manufacturer provides a basic foundation to work with, and the VAR adds the secret sauce to distinguish its offerings from the competition's goods.

Software-based B2B products are often sold through the channel, with VARs providing support, training, additional features and other offerings their target audiences might need.

The appeal of working through the channel is that companies can focus on creating a product that has a strong core functionality and let another organization worry about refining it to attract specific audiences. An accounting software manufacturer, for instance, might sell its platform to different VARs that operate in disparate industries like healthcare, education and retail. Each channel partner can then determine the best way to package that solution to appeal to their customers and end users.

Companies can dramatically simplify marketing requirements when they sell through the channel rather than attempt to create campaigns and strategies that target various industries and audiences.

Let your distribution channel guide marketing strategies

The most effective marketing strategies for your business will heavily depend on the distribution channels you use. Some examples include:

- Companies that sell through the channel need to develop messaging that resonates with VARs rather than end users.
- Luxury brands using exclusive distribution strategies should create product scarcity to help drive demand with upscale audiences.
- Businesses that sell directly to consumers should refine every aspect of their digital and physical touch points to create a holistic brand experience.

There's no denying that the digital revolution has dramatically changed how businesses market their products, interact with customers and generate revenue. Marketing fundamentals have not changed, however, and brands should follow every component of the marketing mix as diligently today as they would have 30 years ago.

Your products' placement and distribution is part of your brand identity. And that will always play a central role in your marketing strategies, no matter what industry changes come down the pike.

Sale Promotion

1. Concept and Nature of Sales Promotion:

Sales promotion is an important tool of promotion which supplements personal selling and advertising efforts. According to American Marketing Association, "Sales promotion includes those marketing activities, other than personal selling, advertising, and publicity, that stimulate consumer purchasing and dealer effectiveness, such as displays, shows and expositions, demonstration, and various non-recurrent selling efforts not in the ordinary routine."

Sales promotion includes techniques like free samples, premium on sale, sales and dealer incentives, contests, fairs and exhibitions, public relations activities, etc. Sales promotions are those activities, other than advertising and personal selling that stimulate market demand for products. The basic purpose is to stimulate on the spot buying by prospective customers through short-term incentives. These incentives are essentially temporary and non-recurring in nature.

Sales promotion is different from personal selling which is persuasion of customers by the sales persons to buy certain products. It is also different from advertising. Except for advertising through direct mail, advertising deals with media owned and controlled by the firm itself.

Usually, sales promotion deals with non-recurring and non-routine methods in contrast to personal selling or advertising. As a matter of fact, sales promotion activities aim at supplementing and co-ordinating personal selling and advertising.

Sales promotion includes activities of non-routine nature to promote sales, e.g., distribution of samples, discount coupons, contests, display of goods, fairs and exhibitions, etc. But it does not include advertisement, publicity and personal selling.

Interrelationship of Sales Promotion and Advertising:

Sales promotion includes all those activities which promote sales such as distribution of samples, discount coupons, contests, display of goods, fairs and exhibitions, etc. Advertising, on the other hand, is any paid form of non- personal presentation and promotion of ideas, goods and services. The objectives of both sales promotion and advertising are similar and they complement each other.

They are interrelated in the sense that they are integral parts of the 'promotion mix' of the business. Advertising supports sales promotion activities by informing the public about such efforts of the company. Similarly, sales promotion activities remind the people of the message advertised by the business firm.

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2. Objectives of Sales Promotion:

The basic purpose of sales promotion is to increase the sales of a product by creating demand. Sales promotion has a capability to complement and supplement the advertising functions of the marketing. It helps marketers to realize a variety of objectives. These objectives are for both marketers and traders.

Following are the objectives of sales promotion:

i. It improves the performance of middlemen and acts as a supplement to advertising and personal selling.

ii. It motivates sales force to give desire emphasis on new accounts, latent accounts, new products and new territories.

iii. It increases sales and makes sales of slow moving products faster and stabilize fluctuating sales pattern.

iv. It attracts channel members to participate in manufacturer promotion effort.

v. Motivating the dealers to buy high volumes of products and push more of the brands that are on promotion.

vi. Supporting and supplementing the advertising and personal selling efforts.

vii. Making consumers to switch brands in favour of firm.

viii. To overcome the seasonal fluctuation of products.

ix. Inducing retailers to promote the brand by local advertising and POP display.

x. Sales promotions motivate the salesmen to sell more and to sell the full line of products.

xi. To reduce the perception of risk associated with the purchase of a product.

Sales promotions encourage the customers to try a new product. For example, companies distribute free samples of their new product. To attract new customers distribute free sachets to households. Some companies offer a free pack with purchase of a product like free soap with purchase of detergent. Henko detergent introduced scratch card scheme in which customers usually received discount coupons so that customers buy the same product (Henko detergent) again. These encourage the customers to use the product or service and make them brand loyal.

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3. Components of Sales Promotion:

Sales promotion has two components consumer promotion and trade promotion :

1. Consumer Sales Promotion Methods:

Consumer promotion is for the common customer, this promotion is supported by advertisements, publicity, direct selling etc. This type of sales promotion is targeted at the end consumers. Customer sales promotion is a "pull strategy" and encourages the customers to make a purchase.

i. Price-Off Promotions:

It means offering product at lower than its normal price. Company offers either a discount on the normal selling price of the product or more of the product at the same price. This type of promotion must be used with care as the increase in sales is gained at the cost of a loss in the profit. It attracts non users and act as an effective tool to counter competition.

ii. Coupons:

It is a method of offering a discount offering. Coupons are the most widely used customer sales promotion technique. A coupon is a certificate that offers a price reduction for some specified items to the holder. Coupons are distributed with purchase of a product, magazines, newspapers, etc.

A few examples of coupon distribution can be coupon pasted on a package, or placed inside a package to encourage repeat purchase. Coupon books are sent out in newspapers, or offered with the purchase of an item in a given time frame.

iii. Premiums:

Marketers can offer an article of merchandise as an incentive in order to sell product or service these are known as premiums, as the customer gets something in addition to the main purchase. For example, if a customer buys toothpaste, he gets a toothbrush free. Premiums are of different types like packed premium, banded premium, personality premium and container premium.

iv. Free Samples:

Offering free gifts or samples is the most expensive form of sales promotion. Marketers use this technique to increase their sales volume in the early stages of the product life cycle. It means offering a small quantity of a product free in order to persuade customer to try the product.

v. Money Refund and Rebates:

In case of money refund, the customer receives a specific amount of money (refund) after he submits a proof of purchase to the manufacturer. Manufacturers devise the strategy such that the customer qualifies for a refund only when he makes multiple purchases. It is a kind of offer of a refund of money to customer for mailing in a proof of purchase of a particular product, it induce trial from primary users and motivate several product purchase.

vi. Frequent User Incentives:

Repeat purchases may be stimulated by frequent user incentives. Hence, firms offer incentive schemes to reward their loyal customers. The best example of this is the frequent flyer scheme offered by airlines.

vii. Consumer Contest:

In this method of sales promotion, customers take part in small competitions on the basis of their creative and analytical skills. Customers are invited to compete on the basis of creative skill, such contests create brand awareness and stimulate interest in the brand, and it acquaints consumers with brand usage and benefit.

viii. Trade Shows:

A group of retailers or manufacturers conduct exhibitions and trade shows to make the customer aware of the products offered by various firms. Industrial shows and annual industrial exhibition, exhibition of home appliances, consumer goods or gym equipment, etc. are examples of this type of sales promotion.

2. Trader's Sales Promotion Methods:

Trade promotion is not advertised and publicised it is for the channel members, company's offers are for dealer, distributors, retailers and agents only main purpose is to increase sales by offering incentives to them. It is a "push strategy" and encourages the channel members to stock the product. This form of promotion is usually not advertised, as it is an internal affair between the company and its distribution network partners.

a. Trade Buying Allowance:

In this method there is temporary price reduction and reimbursement of expenses incurred by the dealers in full or in part. Buying allowance is a temporary price reduction offered to the retailer for purchasing specific quantity/units of the product. Such an offer acts as an incentive to stimulate short-term profit of the retailer and promote new products for the company. It encourages trade cooperation and stimulates repurchase.

b. Buyback Allowance:

In this method, intermediaries are offered a monetary incentive for each additional unit purchased after the initial deal. This method aims at stimulating the channel members to purchase additional quantities of stock that is over and above the normal stock, as the monetary incentive they receive is proportional to the amount of additional stock they purchase.

c. Merchandise Allowance:

It is an allowance to trader for providing desired sales promotion and product display. Middlemen are usually required to show the proof of the advertisement carried out by them.

d. Free Merchandise Schemes:

In this sales promotion technique, an additional amount of the product is offered without any additional cost, as an incentive to purchase a minimum quantity.

e. Point-of-Purchase (POP) Displays:

POP displays include window displays, wall displays, display racks, danglers, balloons, outside signs, etc. These items attract the attention of a customer and inform him about the product.

f. Dealer Gift:

It is a reward or gift which is offer of useful articles and attractive gift to dealers for personal, family or office use. Retailers obtain gifts only when they buy specific quantities of goods or fulfill a given sales target. Marketers use this technique when they use new distributors or they want to push products to retailers. For example – a silver tray to display a product. When the event is over, the retailer is allowed to keep the silver tray.

g. Premiums:

When an additional compensation is offered to trader for pushing additional product in market, this method is used to push a specific product or product line.

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4. Need and Importance of Sales Promotion:

Sales promotion acts as a bridge between advertising and personal selling. Due to the adversity of markets, the importance of sales promotion has increased tremendously. Sales promotion helps remove the consumer's dissatisfaction about a particular product, manufacturer, and create brand-image in the minds of the consumers and the users.

Sales promotional devices are the only promotional devices available at the point-of-purchase. An advertising medium reaches the prospects at their homes, offices, etc. and may soon be forgotten. The sales promotional devices at the point-of-purchase stimulate the customers to make purchase promptly on the spot.

Business firms use promotional tools to achieve the following benefits:

(i) Attracting Attention:

The first aim of sales promotion is to attract the attention of the prospective buyers and inform them about the availability, characteristics and uses of a particular product.

(ii) Highlighting Utility of Product:

Promotion helps in letting the people know about the utility of the new products. It also tells them how the concerned products will be helpful in satisfying their specific demands.

(iii) Stimulation of Demand of New Product:

Promotional activities are used to create interest in the new product and to persuade people to buy the same. This helps in launching the new product.

(iv) Product Differentiation:

Promotion helps in differentiating a particular product of the firm from the competing products of other firms. A firm can also use data revealing how its product compares with the other products.

(v) Synergy in Promotional Activities:

Sales promotion activities supplement personal selling and advertising efforts of the firm. They add to the overall effectiveness of the firm’s promotional activities.

(vi) Stabilisation of Sales Volume:

In the modern age of competition, it is an important purpose of promotion to help in stabilising sales volume by reassuring the customers about the quality and price of the product. It is possible that a customer using a particular brand, may buy another because the other brand is promoted in an effective manner.

(vii) Performance Appraisal or Marketing Control:

The management of a company can keep an effective check on the results achieved through sales promotion schemes, because it is in a position to analyse the costs incurred and the benefits derived.

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5. Planning Sales Promotion:

Proper planning is essential for the success of promotion plan as it involve high investment on promotion products and execution of promotion activities. With growing competition at the market place and the need to release full benefit of sales promotion, it requires an appropriate approach according to market conditions and nature of product.

The following steps are suggested for effective planning and management of the sales promotion function:

Step one is to assess and analysis of the present situation of the brand in terms of market share, major competitors and brand performance. This benchmark should then be related to the market size and the potential estimated in market. It will now pave the way for determining the roles of sales promotion in desired change in the market share of the brand. The outcome of this exercise will be the availability of desired information to set measurable an attempt and goals.

Second step deals with the identification of the alternative schemes, and the selection of the most appropriate sales promotional schemes, these schemes should match with the budget.

Third step relates is to incorporating creativity into the scheme to be offered. This is making the scheme attractive and challenging form the view point of this target group segment.

Fourth step is to ensure the legal validity of the sales promotions schemes to be offered for customers and traders. Promotional offers should not violate the land of law.

Fifth step is concerned with primary decision relating to timing and duration of the schemes to be offered locating, selection of dealers and convictions of the trade and sales force about the suitability of the scheme. It will be useful in determination of sales quota and sales targets for middlemen.

Sixth step cover the development and evolution criteria in relation to sales to be achieved cost effectiveness and turnover of promotion. It is a process of evaluation cost and output of sales promotion methods.

Seventh step relates to monitoring the offer, collection of the relevant data and for the future use as well as mid period corrections in promotion methods.

Eighth step involves evaluation of effectiveness of sales promotion in the context of the goals. Efforts must also be put into perfect the measurement, the methodology for evaluation and documentation of corporate experiences on sales promotion the errors in the existing system, corrections in procedures and the mishaps that occurred ultimately to help in improving the skills of managing the sales promotion function.

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6. Types of Sales Promotion Programs:

Sales promotional activities may broadly be classified into the following:

(i) Consumers sales promotion program

(ii) Dealers sales promotion program

(i) Consumers Sales Promotion Program:

Sales promotion directed towards the consumers may be conducted either to increase the consumer’s knowledge of the product regarding its use or it may be conducted to attract new customers. In some cases, this type of programme is also conducted to retaliate against a competitors’ sales activities.

In some cases, this type of sales promotional programme becomes necessary in view of seasonal decline in sales. For example, woolens are put on discount at January-end each year, the end of the winter season.

In case of consumers sales promotion programme, an attempt is made to reach the consumer at his home or at a retail store. The techniques of promotion used are-free samples, contests, coupons, demonstrations, price reductions, counter- display cards, etc. Free samples are distributed among the prospects to arouse interest.

Sales contests are conducted to attract new customers or to introduce new products. For this purpose, an entry form is designed and the consumer is asked to forward the entry form along with the cash memo of the product or wrappers, foils, etc.

In the demonstration method, the technical experts or sale demonstrators are sent to various customers to induce them to buy the product. This technique is used by Real Value (fire-fighting equipments), Birla-Yamaha (petrol and diesel generators), etc. Sometimes, coupons are introduced either through press advertising or through the package of the product itself, which induce the consumer to buy the product at a concessional price.

(ii) Dealers Sales Promotion Program:

The products are often sold through retailers and wholesalers. In such cases, promotional activities are conducted to induce the dealers to keep a large stock with them. These activities might include extra cash or trade discount on the basis of orders placed. They are also known as Trade Promotion.

Role of Retail Stores:

Retailer takes many marketing decisions, tries to find new marketing strategies to attract and hold customers. This is achieved by providing special varieties of goods (Liberty showrooms at Connaught Place and other places in Delhi provide different varieties, shapes, styles, colours, etc.) by offering better customer service (take back goods, if not satisfied, free home delivery, order-on-phone, credit facilities, etc.) and by providing personalised services.

The retailer takes decisions concerning the target customer, services, ambience within outlet, and the decisions concerning price, place and promotion. Reputed retail stores, use timely sales promotion tactics like sales during off seasons two clearance or special prices and incentives (like buy two get one- free, credit cards accepted during sales), samples for introducing new products (to sell their own brand of tea), Gifts based on a number of visits, point of purchase displays, or visiting celebrities. Thus, retails stores try to focus customer attraction by carrying out sales promotion techniques.

7. Techniques of Sales Promotion:

The techniques of sales promotion used by business houses are discussed below:

1. Distribution of Samples:

Many big businessmen distribute free samples of their products to the selected people in order to popularise their products. Distribution of samples is popular in case of books, drugs, cosmetics, perfumes and other similar products. As the distribution of samples is very costly, this system is confined to those products of small value which have often repeated sales.

2. Rebate or Price-Off Offer:

In order to increase sale, many producers introduce price off offer to the customers. Under this, the product is offered at a price lower than the normal price. For example, during off season (winter), ceiling fans, coolers and refrigerators may be offered at 20 to 30% off price.

Rebate offer is given for a limited period only, for example, Coca cola offered 2 litre bottle at Rs. 35 only during winter 2009. Khadi Gram Udyog offers rebates on Khadi cloth and readymades to coincide with the month of Gandhi Jayanti every year.

3. Partial Refund:

A firm may use the strategy of refunding a part of the price paid by the customer on the production of some proof of purchase of its product. For instance, the buyer of two cakes of a branded soap may be refunded Rs. 5 on returning the empty packages to the dealer.

4. Discount Coupons:

A discount coupon is a certificate that entitles its holder to a specified saving on the purchase of a specified product. Coupons may be issued by the manufacturers either directly by mail through sales-force or through the dealers. The coupons are also issued through newspapers and magazines. The holders of coupons can go to the retailers and get the product at a cheaper price.

The retailers are reimbursed by the manufacturer for the value of coupon redeemed and also paid a small percentage to cover handling cost. But many retailers do not patronise this method because it involves financial and accounting problems for them.

5. Packaged Premium:

Under this, the seller offers premium to the buyer by way of supplying a gift along with the product or inside the product package. Premium on sales helps the salesman to make effective presentation, stimulate sale in a particular area, lead to enlistment of new customers and have the way for introducing new brands in the market. Premiums are generally given in the case of customer convenience goods such as packed tea leaves, blades, tooth-pastes and toilet soaps.

6. Container Premium:

Several firms use container premium to push the sale of their products. For instance, Taj Mahal tea leaves, Ariel detergent powder, Bournvita, Kissan jams, etc. are made available in special containers which could be reused in kitchens after the product has been consumed. The reusable containers for packaging often have special appeal to the consumers who don't have to pay anything extra for the product.

7. Contests:

There may be consumers' contests, salesman's contests and dealers' contests. Contests for salesman and dealers are intended for inducing them to devote greater efforts or for obtaining new sales idea in the task of sales promotion.

Contests for consumers may centre around writing a slogan on the product. Such slogan centres around the questions as to the liking of a customer for the product, or formulation of new advertising idea for the product. Such contests are held through radio, T.V., newspapers, magazines, etc.

8. Public Relations:

Public relations activities strive for creating a good image of the enterprise in the eyes of the customers and the society. These activities are not aimed at immediate demand creation. It is very common that big business enterprises convey their greetings and thanks to the people through newspapers and other media.

9. Free Gift:

The customer does not get any benefit at the time of purchase, rather he gets it through mail. For this he has to send the proof of purchase (e.g., cash memo and wrapper) to the manufacturer to claim the gift which might be a diary or book or any other item. The gift is sent by the manufacturer by mail or through courier.

10. Exchange Offer:

It means exchange of an old product with the new one after payment of the exchange price fixed by the manufacturer. Such offers are very common these days in case of electric irons, TVs, refrigerators, scooters, gas stoves, washing machines, etc.

11. Product Combination or Gift:

It refers to giving a free gift on purchase of a product. Generally, the free gift is related to the product but it is not necessary. For example, Mug free with Bournvita, Toothbrush free with Toothpaste, DVD free with TV, Vacuum cleaner free Fridge, etc.

12. Instant Draws and Assured Gifts:

Some sectors offer instant draws and assured gifts to their customers when they make purchases. The scheme may be like – "Scratch a card (or burst a cracker) and instantly win a car, A.C., fridge, T.V., computer or electric iron on the purchase of a T.V."

13. Full Finance @ 0%:

Manufacturers of durables like bikes, T.V., A.C., etc. offer easy financing schemes even at 0% rate of interest e.g., “Pay Rs. 10,000 in cash and Rs. 30,000 in 12 equal instalments of 2,500 each by post-dated cheques and get a bike on the spot.” This tool of promotion misleads the customers and so should be avoided by the marketers.

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8. Sales Promotion Tools and Programmes:

Sales promotion techniques are known as promotion tools and the mode of their application is known as sales programme.

These tools and programmes are divided under two heads:

1. Tools and programmes for consumer sales promotion.

2. Tools and programmes for dealer/distributor sales promotion

1. Tools and Programmes for Consumer Sales Promotion:

i. Sample:

Also known as consumer sample or free samples and given to consumers to introduce a new product or to expand the market. The consumers are expected to be convinced to use the product.

ii. Demonstrations or Instructions:

These are instructions given to aware the consumers about using the product. This method may be used in products like washing machine.

iii. Coupon:

It is a certificate that reduces the price. When a buyer gives a coupon to the dealer or retailer he gets the product at lower price. It gives expected result.

iv. Money-Refund Orders:

The technique indicates refund of full purchase price if the buyer so wants. It is helpful in the introduction of a new product. Refund offer creates additional interest and increases sales considerably. It is a good device for creating new user and to strengthen the brand loyalty.

v. Premium (Gift) Offers:

These are temporary price reductions, which appeal to bargain instinct. Towels, dinner ware, hair-brushes, key-chains, artificial flowers, ball pens, toilet soaps, bathing soaps, blades, are given as in-pack premiums. BUY ONE GET ONE, BUY TWO GET ONE FREE are the usual offers made to the customers to appeal them.

vi. Price-Off:

The price off label is printed on the package that is a certain amount is reduced from the actual price to woo the customers. It gives a temporary discount to the consumers.

vii. Contests or Quizzes:

These are held to stimulate consumer’s interest in the product. In these contests, participants compete for prizes on the basis of their skill or creative ideas. In this type of sales promotion, prizes are offered in kinds (especially the products of the company) and sometimes a payment is given to the participants.

viii. Trading Stamps:

Trading or Bonus stamps are issued by retailers to customers who buy goods from there. The number of stamp given to a buyer depends upon the amount of purchases made by him. Stamps are issued at predetermined percent rate of the purchase amount.

These stamps are given free of charge and the customers can redeem them to obtain products out of the specified list. This technique induces customer to buy their requirements from the retailers who offer such stamps. The purpose is to increase customer loyalty.

ix. Fairs and Exhibitions:

Trade shows, fashion shows or parades, fairs and exhibitions are important technique/tools of sales promotion. They provide a forum for the exhibitions or demonstration of products. Free literature can be distributed to introduce the firm and its products to the public.

Fairs and exhibitions are organized usually by big firms or trade associations. At these fairs and exhibitions, business firms are allotted stalls wherein they display their products and attract the customers through gifts, special concessions and free demonstrations of technical and specialty products.

x. Public Relations Activities:

These include greetings or thanks in newspapers, donating space for noble causes, offer of Privileged Citizen Card, etc. Their purpose is not to create immediate demand or to increase sales. They are designed to create a good image of the firm in the society.

xi. Exchange Scheme:

This technique offers to exchange the old product with new one in payment of a fixed amount which is less than the original price. For example, exchange of old Black & White Television for Colour Television by paying rupees 8000 only (original price is rupees 10000) was offered by a particular producer of colour TV sets.

2. Tools and Programmes for Dealers/Distributors Sales Promotion:

i. Free Display:

There is provision of free display of material either at the point of purchase (POP) or at the point of sale (POS), depending on one's view point. Display reaches consumers when they are buying and actually spending their money.

ii. Retail Demonstrations:

These are arranged by manufactures for preparing and distributing the products as a retail sample, for example, Nescafe Instant Coffee was served to consumers for trying the sample on the spot of demonstration regarding the method of using the product.

iii. Trade Deals:

These are offered to encourage retailers to give additional selling support to the product, e.g., tooth paste sold with 30% to 40% margin.

iv. Buying Allowance:

Sellers give buying allowance of a certain amount of money for a product bought.

v. Buy-Back Allowance:

It is offered to encourage repurchase of a product immediately after another trade deal. A buy back is a resale opportunity.

vi. Advertising and Display Allowance:

These are also offered to retailers to popularise the product and brand name of the manufacturer.

vii. Contests:

Sales contests are held for salesmen. These are usually aimed at increasing the performance of the sales persons.

viii. Dealer Loader:

A gift for an order is a premium given to the retailer for buying certain quantities of goods or for special display done by the retailer.

ix. Training for Salesmen:

Periodical training programmes are conducted by dealers and distributors for salesmen to give them a better knowledge of a product and its usage. Dealer sales promotion provides the selling devices. Sales promotion devices at the point of purchase inform, remind, and stimulate buyers to purchase products.

People who see these devices are in a buying mood and thus they can be easily persuaded to buy those products. Tell tags are informative labels affixed on the product, describing in detail the features of the product and its unique selling points. Counter, top racks, posters, mechanised signs are other point-of purchase displays.

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9. Benefits of Sales Promotion:

(i) Creates differentiation – When you launch a new product or ask customers to engage with your business in a new way, this sets you apart from your competition. Promotion planning compels you to identify something new or different that offers value to your customers;

(ii) Creates new content and communication opportunities – One of the easiest way to create new content for your customers is to create news by using sales promotion.

(iii) Creates upsell and cross sell opportunities – When you package or bundle products around a theme or solution, you can often generate sales of multiple items rather than a single item.

(iv) Drives customer decision making – Limited availability offers can create a sense of scarcity in your customers that get them to act. If you can add sampling of your promotional item to the mix, you can create compelling reasons to buy.

(v) Creates word-of-mouth opportunities – Promotions can often get your regular customers a new reason to be surprised and delighted by your business which gets them to talk about your product to their friends;

(vi) Creates training opportunities for staff – Promotions give a chance to train, prepare and re-engage the sales staff in what's new in the business;

(vii) Creates testing opportunities – Promotion gives a limited time window to test new ideas and new products and to measure them. This will help to figure out whether they warrant additional investment of time and money to make them permanent products or services;

(viii) Grows revenue – Sales promotions are a great way to build year-over-year and month-over-month revenue growth.

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10. Limitations of Sales Promotion:

Sales promotion activities are often criticised on the following grounds:

(i) No Real Incentives:

The incentives offered through sales promotion schemes are fictional, and not real. It is said that the manufacturer will realise the cost of these incentives by raising the price of goods.

(ii) Shoddy Products are Passed-off:

Only products which are lacking in quality, or are not likely to be favoured by consumers, require sales promotion efforts.

(iii) Short Term Perspective:

The sales promotion schemes are carried out during particular seasons and not on a permanent basis; the results achieved through them are generally short-lived. As soon as the incentives offered under such schemes are withdrawn, the benefit in terms of increased sales may also vanish.

(iv) Switching of Demand:

Sales promotion shifts demand from one brand to another. It does not create new demand.

(v) Reflection of Crisis:

Frequent use of sales promotion activities may lead consumers to think that the product is of inferior quality. They may not, therefore, prefer to buy such products.

Managing the Sales Force

The face of any organization is the sales force. Companies spend a considerable amount of time and money on sales force rather than on any other promotional activity. However, sales force is expensive and companies are looking forward to managing them in an efficient and effective manner.

Designing of the Sales Force

Sales force is linking between companies and customer. Therefore, companies have to be careful in designing and structuring sales force.

1. The first step is setting out an objective for sales force. Earlier companies had a single objective increasing sale making it objective also for sales people. Sales people are asked to perform a search for prospective clients or lead. Sales people are asked to balance time between a prospective customer and current customer. Effective communication of product and services is essential to close the deal. Sales people also play an important role in after sales service and can make a difference for the company. Sales people are eyes and ears of the company in the market gathering information about competition and customer changing demands.
2. The second step is use sales people strategically. Sales people have to combine efforts with other team members to achieve the objective. Sales people should be aware how to analyze market data been provided and convert them into marketing strategies.
3. The third step is deciding the structure of the sales force. The structure of the sales is dependent on the strategy followed by the company. **Common sales force structures are as follows:-**
    - **Territorial structure** is used where every sales representative is assigned specific geographical area. This structure is preferred for building relationships with locals.
    - **Product structure** is used for complex and un- related product portfolio. Here the sales people are directly associated with research and development of the products.
    - **Market structure** is used if the companies are operating different industry or market segments. Every sales force specializes in a definite market and helps push a product

efficiently across the given market. However, the disadvantage would arise if customers are located over a wide geographical area.

- **Complex structure** is used when companies are in business of selling complex product to different customer across a large geographical area. Here sales force structure is a combination of other structures discussed.

Once the structure is designed companies need to make a decision with respect to the size of the sales force. The size of the sales force is dependent on the market size and number of customers.

4. The next step is to design compensation for the sales force. Compensation plays a big motivational factor for sales people. Companies follow a structure of a fixed amount plus a variable amount depending of success achieved in the market. Allowances play an important factor in the salary owing to continuous travel and market visits.

Managing Sales Force

Integral part for success of marketing strategy is management of the sales force. The **management of sales consists of following:-**

Recruitment is at the centre of an effective sales force. One approach in the selection is asking a customer what characteristics they look for in a sales representative. Companies develop selection procedure where behavioral and management skills are tested.

Training is essential to remain ahead of the competition. Sales force needs training before entering the market as well as training at different stage of the product life cycle.

Supervision on sales force is decided on the profile of product portfolio. A general supervision is maintained with respect to sales people dealing with potential clients. Another supervision is related to efficient time management from preparation of client call to closing of the deal.

Motivation is a key aspect for management of the sales force. Here compensation plays an important in driving up the motivational level. Compensation can be assigned based on sales quota. Other motivational tools are social gathering and family outing.

Evaluation is essential to management of a sales force. Sales reports sent by the sales force serve a good starting point of evaluation.

Art of negotiation and relationship marketing these two are the important aspects of successful sales representative and long term benefit for the company.

Personal Selling

Meaning of Personal Selling:

Personal selling is an act of convincing the prospects to buy a given product or service. It is the most effective and costly promotional method. It is effective because there is face to face conversation between the buyer and seller and seller can change its promotional techniques according to the needs of situation. It is basically the science and art of understanding human desires and showing the ways through which these desires could be fulfilled.

According to American Marketing Association, “Personal selling is the oral presentation in a conversation with one or more prospective purchasers for the purpose of making sale; it is the ability to persuade the people to buy goods and services at a profit to the seller and benefit to the buyer”.

In the word of Professor William J. Stanton, “Personal selling consists in individual; personal communication, in contrast to mass relatively impersonal communication of advertising; sales promotion and other promotional tools”.

Personal selling is a different form of promotion, involving two way face-to-face communications between the salesmen and the prospect. The result of such interaction depends upon how deep each has gone into one another and reached the height of the common understanding. Basically the essence of personal selling is the interpretation of products and services benefits and features to the buyer and persuading the buyer to buy these products and services.

Features of Personal Selling:

The main features of personal selling are:

i. It is a face to face communication between buyer and seller.

ii. It is a two way communication.

iii. It is an oral communication.

iv. It persuades the customers instead of pressurizing him.

v. It provides immediate feedback.

vi. It develops a deep personal relationship apart from the selling relationship with the buyers and customers.

Personal Selling Process:

The process of personal selling includes prospecting and evaluating, preparing, approach and presentation, overcoming objections, closing the sale and a follow up service.

1. Prospecting and evaluating:

The effort to develop a list of potential customers is known as prospecting. Sales people can find potential buyers, names in company records, customer information requests from advertisements, telephone and trade association directories, current and previous customers, friends, and newspapers. Prospective buyers predetermined, by evaluating (1) their potential interest in the sales person's products and (2) their purchase power.

2. Preparing:

Before approaching the potential buyer, the sales person should know as much as possible about the person or company.

3. Approach and presentation:

During the approach, which constitutes the actual beginning of the communication process, the sales person explains to the potential customer the reason for the sales, possibly mentions how the potential buyer's name was obtained, and gives a preliminary explanation of what he or she is offering. The sales presentation is a detailed effort to bring the buyer's needs together with the product or service the sales person represents.

4. Overcoming objections:

The primary value of personal selling lies in the sales person's ability to receive and deal with potential customers' objections to purchasing the product. In a sales presentation many objections can be dealt with immediately. These may take more time, but still may be overcome.

5. Closing the sale:

Many sales people lose sales simply because they never asked the buyer to buy. At several times in a presentation the sales person may to gauge how near the buyer is to closing.

6. Follow up:

To maintain customer satisfaction, the sales person should follow up after a sale to be certain that the product is delivered properly and the customer is satisfied with the result.

Objectives of Personal Selling:

The major objectives of salesmanship are as follows:

(i) Attracting the Prospective Customers:

The first and foremost objective of a salesperson is to attract the attention of people who might be interested to buy the product he is selling.

(ii) Educating the Prospective Customers:

The salesman provides information about the features, price and uses of the product to the people. He handles their queries and removes their doubts about the product. He educates them as to how their needs could be satisfied by using the product.

(iii) Creating Desire to Buy:

The salesman creates a desire among the prospective customers to buy the product to satisfy specific needs.

(iv) Concluding Sales:

The ultimate objective of personal selling is to win the confidence of customers and make them buy the product. Creation of customers is the index of effectiveness of any salesperson.

(v) Getting Repeat Orders:

A good salesperson aims to create permanent customers by helping them satisfy their needs and providing them product support services, if required. He tries for repeat orders from the customers.

Role and Importance of Personal Selling:

Personal selling consists of individual and personal communication with the customers in contrast to the mass and impersonal communication through advertising. Because of this characteristic, personal selling has the advantage of being more flexible in operation.

A salesperson can tailor his sales presentation to fit the needs, motives, and behaviour of individual customers. He can observe the customer's reaction to a particular sales approach and then make necessary adjustment on the spot. Thus, personal selling involves a minimum of wasteful efforts. The salesperson can select and concentrate on the prospective customers.

Personal selling helps in sales promotion. It is very important to manufacturers and traders because it helps them to sell their products. It also helps them in knowing the tastes, habits, attitudes and reactions of the people.

The manufacturer can concentrate on producing those goods which are required by the customers. This will further promote the sales. Moreover, a good salesman is able to establish personal support with customers. This way, the business gains permanent customers.

Functions of Personal Selling:

The important functions of a salesperson are as follows:

1. Personal selling is an important method of demonstrating the product to the prospective customers and giving them full information about the product. It is easier to persuade a person to buy a product through face-to-face explanation.

2. In most of the situations, there is a need of explaining the quality, uses and price of the product to the buyer to help him purchase the want satisfying product. Thus, salesmanship is also very important from the point of the buyers.

3. A good salesperson educates and guides the customers about the features and utility of the product.

4. If a product cannot fully satisfy the needs of the customers, the information is transmitted to the manufacturer who will take appropriate steps.

5. Salespersons can also handle the objections of the customers. Creative salesman are always ready to help the customers to arrive at correct decisions while buying certain products.

6. There is direct fact-to-face interaction between the seller and the buyer. The salesperson can receive feedback directly from the customer on a continuous basis. This would help him in modifying his presentation and taking other steps to sell satisfaction to the buyer.

Requisites of Effective Personal Selling:

It is not possible to describe exactly the kind of person who will make a good salesperson. Sales skill has no clear correlation to any combination of appearance, education, technical expertise, or even persuasiveness. There have been successful salesmen who knew little about the technical qualities of the product.

On the other hand, there are many examples of technical champs who could not sell. However, in the modern era of severe competition in the market, it is not easy to become an effective salesman. A business enterprise can develop effective salesman to promote its sales.

In order to achieve effective personal selling, the following requirements must be fulfilled:

1. Personal Qualities:

An effective salesman must possess certain physical, mental, social and vocational qualities.

2. Training and Motivation:

In order to achieve effective personal selling, it is essential to train and motivate the sales persons. The training programme for the sales persons should be designed keeping in view the requirements of the business. The training programme should also aim at imparting knowledge of various selling programme should also aim at imparting knowledge of various selling techniques among the trainees.

For instance, a salesman must be trained how to understand the nature of a customer, how to arouse his interest in the product, and how to close the sales. It is also essential that the person selected for selling has aptitude for this vocation. He has the inner motivation of developing himself into a good salesman. The employer can also motivate him by providing financial and non-financial incentives.

3. Wide Knowledge:

A salesman should have wide knowledge about the following:

(a) Self:

The salesman must know himself in order to make use of his personality in selling the products. He should try to know his strong arid week points and remove his weak points through training and experience. He should continuously undertake his self- assessment to know what he requires in order to be an effective salesman.

(b) Employer:

The salesman is a representative of his employer. He should have a thorough knowledge of the origin and growth of the employer's business. He must know objects, policies and organisational structure of the employer's firm. This will enable the salesman to make use of the plus points of the firm selling the product.

(c) Product:

The salesman must have full knowledge about the product he sells. He must know what the product is and what are its special features and uses. He should also know the whole process of production so that he may be able to answer the customer's queries and objections satisfactorily. Mostly, the customers are ignorant about the features, technical details, and benefits of the product and they expect the salesman to give them sufficient information about it.

(d) Competitors' Products:

The salesman must have complete knowledge about the competitive products because buyers often compare several products before purchasing one of them. The salesman should know the positive and negative features of the various substitutes so that he is in a position to prove the superiority of his product.

(e) Customers:

Before selling something, a salesman must have sufficient knowledge about the customers to whom he is going to sell. He must try to understand the nature of customers, their habits and their buying motives if he is to win permanent customers. There are a number of considerations which make the prospect to buy a particular product.

These considerations may be grouped under two categories of motives, namely (i) product motives and (ii) patronage motives. Product motives explain why customers buy certain products and patronage motives determine why customers buy from specific dealers. A salesman can understand the motives of the customers by his intelligence and experience.

He should deal with the customer according to his nature. He can mix with a customer who is extrovert and remain reserved with a customer who is introvert. He should also try to know whether a customer intends to purchase for personal use or for business use.

Advantages of Personal Selling:

1. The key advantage personal selling has over other promotional methods is that it is a two-way form of communication. In selling situations the message sender (e.g., salesperson) can adjust the message as they gain feedback from message receivers (e.g., customer).

So if a customer does not understand the initial message (e.g., doesn't fully understand how the product works) the salesperson can make adjustments to address questions or concerns.

Many non- personal forms of promotion, such as a radio advertisement, are inflexible, at least in the short-term, and cannot be easily adjusted to address audience questions.

2. The interactive nature of personal selling also makes it the most effective promotional method for building relationships with customers, particularly in the business-to-business market.

This is especially important for companies that either sell expensive products or sell lower cost but high volume products (i.e., buyer must purchase in large quantities) that rely heavily on customers making repeat purchases.

Because such purchases may take a considerable amount of time to complete and may involve the input of many people at the purchasing company (i.e., buying center), sales success often requires the marketer develop and maintain strong relationships with members of the purchasing company.

3. Finally, personal selling is the most practical promotional option for reaching customers who are not easily reached through other methods. The best example is in selling to the business market where, compared to the consumer market, advertising, public relations and sales promotions are often not well received.

Disadvantages of Personal Selling:

1. Possibly the biggest disadvantage of selling is the degree to which this promotional method is misunderstood. Most people have had some bad experiences with salespeople who they perceived were overly aggressive or even downright annoying.

While there are certainly many salespeople who fall into this category, the truth is salespeople are most successful when they focus their efforts on satisfying customers over the long term and not focusing own their own selfish interests.

2. A second disadvantage of personal selling is the high cost in maintaining this type of promotional effort.

Costs incurred in personal selling include:

(i) High Cost-Per-Action (CPA):

CPA can be an important measure of the success of promotion spending. Since personal selling involves person-to-person contact, the money spent to support a sales staff (i.e., sales force) can be steep. For instance, in some industries it costs well over (US) $300 each time a salesperson contacts a potential customer.

This cost is incurred whether a sale is made or not! These costs include compensation (e.g., salary, commission, and bonus), providing sales support materials, allowances for entertainment spending, office supplies, telecommunication and much more. With such high cost for maintaining a sales force, selling is often not a practical option for selling products that do not generate a large amount of revenue.

(ii) Training Costs:

Most forms of personal selling require the sales staff be extensively trained on product knowledge, industry information and selling skills. For companies that require their salespeople attend formal training programs, the cost of training can be quite high and include such expenses as travel, hotel, meals, and training equipment while also paying the trainees' salaries while they attend.

3. A third disadvantage is that personal selling is not for everyone. Job turnover in sales is often much higher than other marketing positions. For companies that assign salespeople to handle certain customer groups (e.g., geographic territory), turnover may leave a company without representation in a customer group for an extended period of time while the company recruits and trains a replacement.

Challenges in Personal Selling:

(i) At first personal selling is dyadic in nature. Dyadic simply means of or relating to two people. Thus, personal selling revolves around a marketing relationship developed between two people. Frequently, personal salespeople enlist the help of others in their organizations to sell to and service customers.

And just as frequently, personal salespeople find themselves making presentations to small groups of people or working with multiple individuals within customers' firms. However, ultimately a successful marketing relationship is built by two people one person selling and person buying. Successful salespeople identify that person early on and work to win their trust and confidence.

(ii) Secondly personal selling is a process, not a single activity. And done correctly, the process continues indefinitely. Salespeople, sales managers, and others inside the seller's organization frequently see the selling process as culminating or ending with a signed order.

However, in these days of so-called "relationship marketing" and "customer relationship management" successful organizations recognize that signed orders simply represent one point of positive feedback in an ongoing and continuous process.

(iii) Third, personal selling is highly interactive. In advertising, information flow occurs initially in a one-way direction. What feedback the advertiser receives arrives late well after an advertisement has aired.

Moreover, without costly research, the attitudinal effects of advertising may never be known. In personal selling, feedback is largely Personal Selling instantaneous and continuous.

The two-way flow of information that characterizes personal selling creates a communication channel rich with information, much of it nonverbal. Effective personal salespeople become adept at interpreting this information quickly and adapting their responses to it.

(iv) Personal selling is about problem solving. As the marketing concept is adopted by more and more firms, the emphasis of personal salespeople will be more on identifying customers with a true need for the firm's products and applying those products to solve customer problems. Less emphasis will be placed on simply making a sale.

The focus on problem solving in personal selling reflects a larger trend toward building relationships between customers and clients. Marketers know that to develop these relationships, they must be willing to forego short term gains, particularly when the salesperson realizes that at that moment a purchase might not be in the customer's best interests.

Marketing Research

Definition: The **Marketing Research** is the systematic collection, analysis, and interpretation of data pertaining to the marketing conditions.

The basic reason for carrying out the marketing research is to find out the change in the consumer behavior due to the change in the elements of the marketing mix (product, price, place, promotion).

The marketers need to know about the changing trends in the market viz. Changes in the customer's tastes and preferences, the new products launched in the market, prices of the competitor's product, the close substitutes of the product, etc.

Marketing Research Process

To begin with the marketing research, following steps has to be followed:

1. **Define the Problem**-The foremost decision that every firm has to undertake is to find out the problem for which the research is to be conducted.The problem must be defined adequately because if it is too vague, then it may result in the wastage of scarce resources and if it is too narrow, then the exact conclusion cannot be drawn.In order to define the problem appropriately, each firm must have a clear answer to the questions viz. What is to

be researched (content and the scope)? And Why the research is to be done (decisions that are to be made)?

2. **Develop the Research Plan**– This step involves gathering the information relevant to the research objective. It includes:

- ***Data Sources***: The researcher can collect the data pertaining to the research problem from either the primary source or the secondary source or both the sources of information.The primary source is the first-hand data that does not exist in any books or research reports whereas the secondary data is the second-hand data which is available in the books, journals, reports, etc.

- ***Research Approaches***: The Secondary data are readily available in books, journals, magazines, reports, online, etc. But the primary data have to be collected and to do so, the following research can be conducted:
    - <u>Observational Research</u>: The researcher can collect the information by just observing the happenings in the market and sometimes having a friendly conversation with the customers to know about their purchase experiences.
    - <u>Ethnographic Research:</u> It is one of the forms of an observation research where the researcher studies an individual in the real life situation and not under any market setup or a lab.The purpose of this research is to know the way people live (their lifestyles), What they do to earn their livelihood, how they consume goods and services, what they need in their personal and professional lives etc.
    - <u>Focus Group Research:</u> It is a form of group discussion wherein six to ten people gather and discuss the common topic given by the moderator.A moderator is a person who conducts the group discussion and is skilled in group dynamics. He also keeps the discussion focused on the topic so that relevant information can be obtained from the group members.
    - <u>Survey Research:</u> These are the descriptive research generally conducted to know the about the customer's knowledge about the product, their preferences, and satisfaction level. The best way to conduct surveys is through the Questionnaires.
    - <u>Behavioral Data:</u> The customer's actual purchases at the store reflects its behavior and the choice of products. Thus observing what customers are buying gives more accurate information about the customer rather than the planned answers given by them in the surveys.
    - <u>Experimental research:</u> This is done to find out the cause and effect relationships. This research is undertaken to study the effects of change in the customer's behavior due to the change in the product's attributes.
- ***Sampling plan****:* Once the research approach is decided, the researcher has to design a sampling plan and have to decide on the following:
    - The sampling Unit i.e. whom, shall we survey?
    - The sample size, i.e., How many units in the population shall be surveyed?
    - The sampling procedure, i.e. How the respondents shall be chosen?
- ***Contact Methods:*** The researcher has to choose the medium through which the respondents can be contacted. The respondents can be reached via emails, telephone, in person or online.

3. **Collect the Information**: This is one of the most expensive methods of marketing research. At this stage, the researcher has to adopt the methods to collect the information, he may find it difficult to gather the correct information because of the respondent's biasedness, unwillingness to give answers or not at home.

4. **Analyze the Information**: Once the information is collected the next step is to organize it in such a way that some analysis can be obtained. The researchers apply several statistical techniques to perform the analysis, such as they compute averages and measures of dispersion. Also, some advanced decision models are used to analyze the data.
5. **Present the Findings**: Finally, all the findings and the research are shown to the top management level viz. Managing director, CEO, or board of directors to make the marketing decisions in line with the research.
6. **Make the Decision**: This is the last step of the marketing research, once the findings are presented to the top level management it is up to them either to rely on the findings and take decisions or discard the findings as unsuitable.

Thus, marketing research is done to gather all the relevant information about the market and design the marketing strategies accordingly.

The Five Basic Methods of Market Research

While there are many ways to perform market research, most businesses use one or more of five basic methods: **surveys, focus groups, personal interviews, observation,** and **field trials.**

The type of data you need and how much money you're willing to spend will determine which techniques you choose for your business.

1. Surveys for market research

With concise and straightforward questionnaires, you can analyze a sample group that represents your target market. The larger the sample, the more reliable your results will be.

- **In-person surveys** are one-on-one interviews typically conducted in high-traffic locations such as shopping malls. They allow you to present people with samples of products, packaging, or advertising and gather immediate feedback. In-person surveys can generate response rates of more than 90%, but they are costly. With the time and labor involved, the tab for an in-person survey can run as high as $100 per interview.
- **Telephone surveys** are less expensive than in-person surveys, but costlier than mail. However, due to consumer resistance to relentless telemarketing, convincing people to participate in phone surveys has grown increasingly difficult. Telephone surveys generally yield response rates of 50% to 60%.
- **Mail surveys** are a relatively inexpensive way to reach a broad audience. They're much cheaper than in-person and phone surveys, but they only generate response rates of 3% to 15%. Despite the low return, mail surveys remain a cost-effective choice for small businesses.
- **Online surveys** usually generate unpredictable response rates and unreliable data, because you have no control over the pool of respondents. But an online survey is a simple, inexpensive way to collect anecdotal evidence and gather customer opinions and preferences.

2. Focus groups

In focus groups, a moderator uses a scripted series of questions or topics to lead a discussion among a group of people. These sessions take place at neutral locations, usually at facilities with videotaping equipment and an observation room with one-way mirrors. A focus group usually lasts one to two hours, and it takes at least three groups to get balanced results.

3. Personal interviews

Like focus groups, personal interviews include unstructured, open-ended questions. They usually last for about an hour and are typically recorded.

Focus groups and personal interviews provide more subjective data than surveys. The results are not statistically reliable, which means that they usually don't represent a large enough segment of the population. Nevertheless, focus groups and interviews yield valuable insights into customer attitudes and are excellent ways to uncover issues related to new products or service development.

4. Observation

Individual responses to surveys and focus groups are sometimes at odds with people's actual behavior. When you observe consumers in action by videotaping them in stores, at work, or at home, you can observe how they buy or use a product. This gives you a more accurate picture of customers' usage habits and shopping patterns.

5. Field trials

Placing a new product in selected stores to test customer response under real-life selling conditions can help you make product modifications, adjust prices, or improve packaging. Small business owners should try to establish rapport with local store owners and Web sites that can help them test their products.