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--PRINCIPLES OF MARKETING

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PRODUCT

Meaning

The product is a bundle of all kinds of satisfaction of both material and non-material kinds, ranging from economic utilities to satisfaction of a social psychological nature.

A product supplies two kinds of utilities a) economic utility b) supplementary utility in the form of social psychologic benefits.

Definition

"Product may be anything that can be offered to a market to satisfy a want or a need" **Philip Kotler.**

PRODUCTS

PHYSICAL GOODS	Any visible objects.
IDEAS	Family planning.
SERVICES	health, hospital, personal care, tourism
ORGANISATIONS	service organisation
PERSONS	musicians, recreators.
PLACES	tourist spot, pilgrimage places.

PRODUCT LINE

Meaning

Product line is a group of products that are related either because they satisfy similar needs of different market segments or because they satisfy different but related needs of a given market segment.

PRODUCT MIX

Product mix refers to total of products that a marketer sells to meet the needs of a customers. In other words, product mix refers to all the product lines manufactured by a company. A company's product mix have four important dimensions

- **Product width**- it refers to number of product lines offered by the company. Larger the number of product lines, wider is the product mix.
- **Product length**- length refers to the number of products that company offers within its product lines. Larger the number of products within the product line, longer is the line.
- **Product depth**- it refers to number of versions that a product offers in the product line. Larger the number of versions, deeper the product line.
- **Product consistency**- consistency refers to how closely the product lines are related to each other. Higher the dree of relationship, more consistent is the product line.

LEVELS OF PRODUCT

1. **Core product:** core product contains the utility or the problem-solving ability for which the product is bought by the consumer. A person purchases a headache pill to cure his headache. The ability of the pill to cure the headache is to cure the product.
2. **Actual/basic product:** the actual product is built around the core product and the actual product consists of five basic characteristics- quality, features, design, brand name, packaging. Ex- a mobile phone, with its quality, features, appearance, brand name and packaging are the actual product. Through the actual product the core product is delivered.
3. **Expected product:** the buyers normally expect a certain attribute when he or she purchase a product. Ex- if a person visits a hotel they expect a clean bed, fresh towels, working lamps, water supply and other related attributes. And the hotel will meet the expectations.
4. **Augmented product:** Augmented product is one where the customer wishes beyond the basic expectations of the product. Therefore, at this the marketer produces an augmented product to meet the expectations of the consumer. The augmented product consists of additional services, benefits, guarantees, warranty, after sales service etc. Ex- when a seller sells a washing machine, he offers the following- free home delivery service, demonstrations, an instruction manual, after sales service etc.
5. **Potential product:** the potential product undergoes all augmentations and transformations that a product undergoes in the future. In simple terms, this means a marketer in order to surprise and delight the consumers the product must be augmented.

TYPES OF PRODUCTS

Products on the basis of user consumption are classified into 2 categories, consumer products or business-to-business products. In some cases, businesses and consumers buy the same products for example computers, tube lights, electricity etc. however businesses tend to buy in large quantities in comparison with consumers

A. CONSUMER PRODUCTS

Consumer products are products which are purchased by consumers for their personal and final consumption. there is no further resale of the products.

1. **Convenience products:** convenience products appeal to a very large market segment and are usually low-priced, widely available and consumed regularly and purchased frequently with little time and effort in acquiring. For example, most household items such as food items, personal care products, toiletries, and confectioneries.
2. **Shopping products:** these are products which are less frequently purchased and consumed by consumers in comparison with products. Consumers buy the products carefully by looking into factors such as suitability, quality, price, style etc. consumers also spend sufficient time and efforts in gathering information and making comparisons. Ex: two wheelers, home furniture etc.
3. **Speciality products:** these are products which have unique characteristics of brand identification. Consumers are willing to travel long distances, put in efforts to buy these products. Buyers do not compare these products with the other brands. Ex- premium automobiles, diamonds, antiques.
4. **Unsought products:** these are products and services that a consumer is not aware of and gets exposed to product and even may buy only when need arises or product is brought to attention. the marketer uses aggressive promotions and persuade customers to make purchase decisions. Ex- coffin investment schemes, emergency medicine.

B. BUSINESS/INDUSTRIAL PRODUCTS

These are products which are purchased for further processing by the industries for further resale by wholesalers and retailers. These are not bought for final consumption.

1. **Raw materials:** raw materials constitute basic material used in the primary production or manufacturing from which a product is made. They are usually bought in large quantities and often includes natural resources such as oil, iron, agricultural products etc.
2. **Process materials:** it refers to materials purchased by an industry for incorporating it into a product; the process materials are unidentifiable upon their inclusion in the finished product. Ex- food additives used in ice-creams, juices etc.
3. **Maintenance products:** these are used in business and manufacturing operations; however, they do not become a part of a finished product. Ex- office supplies, light, bulbs, oil to keep the machinery in good conditions etc.
4. **Component products:** it refers to finished products that become part of a larger finished products, without components products cannot become a complete product. Ex- processor in computer, tyres in automobiles.
5. **Business services:** these are intangible products that supports business activities Ex- information technology, accounting, supply of human resources, equipment

maintenance, advertising. Some organisations outsource business services to a special vendor as a part of business strategy.

6. **Accessory equipment:** these are ancillary products primarily used in facilitating manufacturing operations, however they do not become part of finished goods. Ex- furniture, office equipment.

PRODUCT LIFE CYCLE

Meaning

A product life cycle is a concept which is used to study the different phases or stages through which a product passes during its life.

Definition

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

"Product life cycle is a generalised model of sales and profit trends for a product class or category over a period of time". **Kollat, Blackwell, Robenson.**

STAGES OF PRODUCT LIFE CYCLE

1. **INTRODUCTION STAGE**
   - This is the first and early stage, where the product is introduced in a market after conducting market research.
   - The sales increase very gradually.
   - The price of the product is high.
   - High promotional and distribution expenses.
   - No profits as the marketer recovers R & D costs incurred in developing the new product.
2. **GROWTH STAGE**
   - In this stage the product is accepted by the consumers.
   - The rate of growth of sales during this stage is rapid.
   - Profits increase due to expanding sales volume.
   - Pricing becomes more flexible, prices either fall or remain the same.
   - New features of the product will be introduced and new distribution channels will be established.
   - Promotional activities are increased.
3. **MATURITY STAGE**
   - After growth is completely achieved, product enters maturity stage.
   - Competition brings pressure on prices.
   - Increased marketing costs due to which price and profits reduce.
   - Additional costs incur due to product modification and marketing mix modification.
   - Promotion needs much more importance.
4. **SATURATION STAGE**
   - In this stage all potential buyers are using the product.
   - Product replacement can be done.

- Sales and price of the product fall rapidly.
- Profit margins may become small unless firm makes improvement.

5. **DECLINE STAGE**
    - Once the peak or saturation point is reached product inevitably reaches decline stage.
    - Product lines are minimised, products start losing their value.
    - Intense price-reduction.
    - Decreased advertising to cut costs and reduce prices.
    - Distribution becomes more selective.

NOTE:

1. **Introduction:** sales are starting.
2. **Growth:** rising sales at increasing rate.
3. **Maturity:** rising sales at decreasing rate.
4. **Saturation:** stable sales.
5. **Decline:** falling sales.

PRODUCT PLANNING AND DEVELOPMENT STRATEGY

Meaning

Product planning is a technique of planning all the aspects of a product in its relationship with the market.

Definition

According to W J Stanton- “product planning consists of activities which enable producers to determine what should constitute a company’s line of products.

Four important considerations of product planning

1. Development and introduction of new products.
2. Modification of existing lines to suit the changing customer needs and preferences.
3. Discontinuance and elimination of unprofitable products and product lines.
4. Product plans based on changing marketing situations.

Alternative ways for growth and sales

1. **Market penetration:** it involves expansion of sales of existing products in existing markets by selling more to present customers or gaining new customers in existing markets. This is done through a more aggressive marketing mix.
2. **Market development:** here a present product is introduced to a new market or segment it is creation of new markets by discovering new applications for existing goods.
3. **Product development:** it occurs when a firm introduces a new product to a market in which it is well established it is introduction of new products in the present market.
4. **Diversification:** it occurs when the firm seeks to enter a new market with a completely new product the firm may adopt a daring strategy by creating new products for entirely new markets the innovations are introduced for the first time.

NEW PRODUCT PLANNING AND DEVELOPMENT

New product development is defined as "the act of conducting and supervising the screening, development and commercialization of new products, the modification of existing lines and the discontinuance of marginal and unprofitable items."

New product planning and development process

It is a long and complex process, which deals with changes in number, types and different lines of products and services offered by a company to the various segments. The process requires huge funds and is associated with high risk.

Following are the seven steps in planning and development of a new product

1. **Generation of new product ideas:** in order to develop new product, ideas are required and this may be through variety of sources such as employees, consultants, competitors, customers, distributors and suppliers. It helps in pooling of ideas the ideas generation stage helps in systematically developing a product idea to satisfy the objective.
2. **Idea screening and evaluation:** under this stage, the product ideas are collected and scrutinized to eliminate the inconsistent ones and retain good and relevant ideas. Screening helps in selecting the potential ideas which significantly contributes to company's marketing objective. In this stage, the various new product ideas are put under rigorous screening by evaluation committees.
3. **Concept development and concept testing:** after screening and evaluation, an attractive idea has to be developed into a product concept and this is done by technical evaluation. Concept development refers to developing an idea into product concept i.e. precise description for idea and features of the proposed product.

Product idea or concept can be developed by asking following questions:

a. Who will use the product?
b. What primary benefit the product would provide?
c. When will the product be consumed?
d. How will the product be consumed?

Concept testing: concept testing helps company to choose among all the alternative concepts.

Product idea or concept can be tested by asking following questions:

a. Whether the prospective consumers understand the product idea?
b. Whether they are receptive towards the idea?
c. Whether they actually need the product?
d. Whether they will try out such a product if it is made available?

4. **Business analysis:** once the best product concept is picked up the next step is to analyse both business and market. The analysis will decide the feasibility of financial and marketing matters. It helps in evaluating the market potential, investment rate of return. It is a combination of marketing research-cost benefit analysis-profitability analysis.
5. **Product development programme:** this stage is about converting the concept into a actual product it involves 3 steps:
   a. Prototype development.

   b. Consumer testing of prototype.
   c. Branding Packaging and Labelling.
6. **Test marketing:** it is also called pretesting. Under this stage product and its complete marketing plan is test marketed on a very small scale in a limited geographic area either real or stimulated situations, and its receptions by consumer and trade is observed, recorded and analysed.
7. **Commercialization:** this is the final stage of new product development. After getting positive and encouraging test marketing results the company goes for commercialization of the new product. Commercialization refers to launching the new product on large scale manufacture and marketing. The product is born and will start its life-cycle.

New service Development

Service development is the end-to-end process of developing and launching a new service to be sold to customers.

Adoption Process

The Consumer Adoption Process is a 5-step mental process by which all the customers/consumers go through while adopting a product from learning about a new product to becoming a happy loyal user of that product or to decline/reject the product completely.

The Stages of Consumer Adoption Process

- Product Awareness
- Product Interest
- Product Evaluation
- Product Trial
- Product Adoption/Rejection

Product Awareness:
Introducing a product in the market and creating awareness for that product is the first stage of the Consumer Adoption process. Companies invest a lot in creating an avenue for informing the consumer and customer. Creating Product or Brand Awareness is very important for the success of the entire business.

Making customer aware of the existence of the product ensure the entire existence of the company. The companies use many advertising techniques and marketing materials like teasers, videos, banners and images. The companies use many interesting ways to engage the consumers in this phase of product marketing. Creating a strong attractive presence for the newly launched product can attract more customers.

Product Interest:
During this phase of the adoption process, the consumer becomes more aware and informed about the product itself, the value the product delivers, its unique feature and the manufacturer of the product. Creating and maintaining the interest of the customer is very necessary for the companies. This is why the marketers use those promotional channels which are easily accessible to the targeted market.

Product Evaluation:
The process of consumer examination, comparison and evaluation of the product before making a purchase decision comprises of Stage 3 in the Adoption Process. Consumer behaviour varies in intensity according to the need, the price of the product, features of the product and the value that the product delivers.

Product Trial:
In this phase of the Consumer Adoption Process the consumer use the product on a trial basis. Trying out the actual product gives the consumer the idea of the product and its benefits. The trail is the most important stage as the entire product acceptance and rejection depends upon the trial phase. The company can provide free samples and trail products as part of the marketing campaign. Free sampling is very important as this will the consumer expectations about the product.

Product Adoption:
The consumer is ready to adopt the product which means that he is ready to actually spend the money on the product. The Adoption phase is the most critical stage in the whole process as the companies need the consumers to accept the product and complete adopt it. The company needs to ensure availability, quality, ease and accessibility of the product to the consumer.

Factors Affecting Consumer Adoption Process
Some important factors influencing the consumer adoption process are as below:

- The readiness of the Consumer/Customer to try new products and switch to the new brands
- New product or Innovation
- Personal Choices and influences about the Purchase Decisions
- Varying Rates of Product Adoption
- The readiness of the organization to launch new products

PRICING

Meaning of price

Economists defines price as the exchange value of a product or a service which is always expressed in terms of money. Price is a amount we pay to purchase a product.

Price is an amount for which a product or service is exchanged regardless of its value.

Definition of price

According to **Philip Kotler** “price is the amount of money charged for a product or service or the sum of the values that the consumer exchange for the benefits of having or using the product or service.”

Meaning of pricing

Pricing is the activity of determining the value of the product and expressing that in terms of money and offering the products to the market for sale at that price.

Pricing policy is affected by various internal and external factors

INTERNAL FACTORS

1. **Objectives of business:** The fundamental guide to pricing, therefore it is the firm's overall goals. Objectives relate to rate of growth, market share, maintenance of control and ownership and finally profit. Pricing policy should be established only after proper considerations of the objectives of the firm.
2. **Cost of production:** a seller should always price its products such that the total cost of manufacture is recovered in the price and also profit. No seller can ignore the cost of production for pricing in the long run,
3. **The status of the seller:** if the seller is well established, reputed and dominant in the market, a slightly higher price can be charged but a new comer has to set low prices initially.
4. **Product differentiation:** the price of the product also depends upon the characteristics of the product. In order to attract the customers, different characteristics are added to the product, such as quality, size, colour, attractive package etc.
5. **Product life-cycle:** the price of the product differs based on the stages of product life cycle. In introduction stage the price is high, growth stages denote a flexible price, while in maturity and saturation the price of the product is stable and gradually price falls in decline stage.
6. **Marketing objectives and marketing mix:** a company's pricing policy is greatly affected by the its own marketing objectives and its mix. Therefore, a company should have a high degree of clarity of its own objectives and marketing mix while deciding the price.
7. **Types of products:** company which is positioning an innovative product in the market can set high prices for its products.
8. **Channels of distribution:** the company should take into considerations the channel of distribution which helps in delivering the ultimate consumers. If a company aims at a very effective distribution policy with a large number of marketing intermediaries, the price should be high as they have to pay remuneration for the intermediaries.

EXTERNAL FACTORS

1. **Demand:** demand has a great influencing on pricing. The demand and supply play a crucial role. If demand exceeds supply, a high price is fixed. However, if the supply exceeds demand the seller has to accept a low price. Factors of demand such as competitors' size, willingness and capacity to buy also influence price.
2. **Competition:** competitive conditions affect pricing decisions. A firm can fix the price equal to or lower than that of competitor's price.
3. **Nature of buyers:** the nature of buyers has to be considered while pricing, if the buyers are very loyal and have high purchasing power, a slightly higher price can be fixed.
4. **Prices of substitutes:** every product will have substitutes and if the prices of these substitutes are low, a seller cannot fix high prices because customers will shift to the substitutes.

5. **Suppliers:** suppliers of raw materials and other goods can have a significant effect on the price of the product. If the price of cotton goes up, the increase is price burden is passed by the suppliers on manufacturers, in turn he will shift the price burden on consumers.
6. **Economic conditions:** the inflationary and deflationary tendency affects the pricing. In recession period, the prices are reduced to a sizeable extent to maintain the level of turnover. On the other hand, the prices are increased in boom period to cover the increasing cost of production and distribution.
7. **Legal provisions:** a seller has to keep in mind several legal aspects and governmental regulations while fixing prices.

TYPES OF PRICING/ TYPES OF PRICING POLICY/PRICING STRATEGIES

A. <u>COST BASED PRICING</u>

1. **Cost plus pricing:** refers to pricing where a fixed percentage of total cost (as a profit) is added to the total cost to set price. cost plus pricing is also called average cost pricing. this the most common commonly used method in manufacturing organisation. Ex- XYZ bears total cost of Rs. 100/unit. It adds Rs. 20/unit to the price of the product as profit. So, the price of the product would be Rs. 120/unit.
2. **Mark-up pricing:** refers to pricing method in which fixed amount or percentage of cost of product is added to product to get the selling price. Mark-up pricing is more common in retailing in which retailers sells the product at profit.
3. **Target return pricing:** this method of pricing helps to achieve the required rate of return on investment done for a product. In other words, the price of a product is fixed on the basis of expected profit. Ex- electricity board, gas companies.
4. **Incremental cost pricing/ marginal costing:** under this method, price is so set that it covers only the marginal costs and not the total costs. Marginal cost is the cost of producing one additional unit. Therefore, under the marginal cost pricing method, the firm only takes into consideration the variable or direct costs involved in additional production and ignores the fixed cost.
5. **Break even pricing:** it is a pricing strategy focused on penetrating the market by keeping the price of the product in such a manner that the company is neither in profit nor in loss

B. <u>MARKET BASED PRICING</u>

1. **Pricing above market:** under this method the firm charges higher prices for the product or services in comparison to its competitors or above the standard price accepted by the market.
2. **Pricing below market:** under this pricing method the firm sets the prices for its products and services below the level of its competitors in the market or below the standard price range accepted by the market.
3. **Pricing to meet competition:** the price of the product is set at the balancing point of prevailing demand and supply in the market. If the demand of product is greater in comparison to supply, the prices of product will be higher. When the supply is greater than demand, the prices will be lower.

C. <u>OTHER PRICING METHODS</u>

1. **Market penetration pricing:** this type of pricing aims to attract buyers by offering lower prices on their goods and services. this pricing helps in market penetration of the

product and draw attention away from the competitors. Th purpose of penetration pricing is to capture maximum market share.

2. **Economy pricing:** this method of pricing attracts cost conscious customers; organisation minimise the cost associated with marketing and production to keep prices of the product low. Lot of giant retail outlet does this pricing.
3. **Geographical pricing:** pricing is done depending on the location of the product and services and also influenced by the changes in in currencies**. Geographical pricing has various methods such as Ex-factory pricing, zone pricing, uniform pricing.**
4. **Limit pricing:** it is price set by monopolist to discourage economic entry into the market and is illegal in many countries, it is lower than the average cost of production.
5. **Going rate pricing:** it refers to pricing method in which an organisation sets the price of a product according to the prevailing trends in the market. The prices are set by market leaders and are followed by all other organisations in the industry.
6. **Captive product pricing:** under this method pricing focuses on captive product accompanying the core products. Ex- ink for a printer is a captive product. Increase in price of a captive product which result in increased revenue margins for of core product.
7. **Bundle pricing:** price bundling is combining several products or services into a single comprehensive package for an all-inclusive reduced price. Despite the fact that the items sold for discounted prices, it can increase profits because it promotes the purchase of more than one item.
8. **Price skimming:** this is exclusive pricing method done to maximize the sales on new product. It sets high costs during introductory phase and lowers gradually as competitors appear in the market. This pricing helps in recouping the development costs at a very early stage. Ex- premium products.
9. **Psychological pricing:** it is pricing method where pricing is done to encourage customers to respond on emotional levels rather than logical ones. We have different method of psychological pricing such as charm pricing, buy one get one free, price anchoring, prestige pricing etc. **Psychological pricing has different types such as charm pricing, prestigious pricing, buy one get one free, price anchoring.**
10. **Freemium:** freemium pricing is the practice of offering a basic set of services for free, and enhanced features and/or content for free. Customers can use the service for a certain amount of time for free, after which they will be charged for any continuing provision of services. Ex- e-commerce website like Byjus.
11. **Customary pricing:** customers expect a particular price to be charged for certain products. The prices are fixed to suit the conditions. The customers are familiar with the rates and market conditions. Manufacturers cannot control price. Such products are standard products.
12. **Leadership pricing:** In this policy, one company in the industry initiates price changes and other companies in the field follow approximating price set by initiating company. The company initiating price changes is called price leader.
13. **Sealed bid pricing:** under this policy, the firms submit bids in sealed covers for the price or the job or service. This is based on firms' expectation about the level at which the competition is likely to set up prices rather than on a rigid relation to the firm's cost or demand.

14. **Perceived value pricing:** In this policy, prices are decided on the basis of customers' perceived value. Companies see the buyer's perception of value, not their cost as the key indicator of pricing. Ex- luxury goods such as Ferrari, watches etc.
15. **Discounts and allowances pricing:** this is widely used pricing strategy in the situations of stiff competition. It may motivate consumers to purchase more, to introduce middlemen to sell more, to improve funds. **Discounts types include trade discount, quantity discount, cash discount and seasonal discount.**

Price Adaptation

- It is ability of a business to change its pricing models to suit different geographic areas, consumer demands and prevailing incomes.
- Company do not set a fixed price and the price of the product keeps changing.
- They develop a pricing structure.

Price Adaptation strategy

- Geographical Pricing
- Promotional Pricing
- Price Discount and allowances
- Discriminatory Pricing

Initiating price changes

- Companies are bound to face market situations where they are required to initiate price changes. It means, either they are to cut the prices or increase the present prices to survive, maintain status quo or further growth.
- Initiating price changes involves two possibilities of price cuts and price increases.

Initiating Price Cuts

- Tradition holds that any competitor can lead prices down, but only dominant competitors can lead prices up. Prices may be cut temporarily either to introduce a new product or to sell excess inventory.
- If a company's market share is declining, the marketing executive can decide to cut the price to revive sales.
- A small competitor may institute price cuts to gain market share; however, a large competitor will follow price reductions only if a greater amount of profit will be lost by not doing so.
- Price reduction or cut occasionally occurs even in oligopoly. The reason is that no mechanism can control all of the companies operating in the marketplace.
- In the product's growth stage, the marketing executive may cut the price on an incremental basis because competition becomes greater, and the supply of competing items grows.
- To successfully compete during the maturity stage, the marketing executive will significantly cut the price since competition peaks.
- Price cut may also be initiated to achieve more widespread distribution of the product or special promotional efforts or move out excess inventory.

Initiating Price Increase

- One of the most frequent causes of initiating price increases is a change (rise) in the cost of producing or selling the item.
- sensitivity of demand to price and competitors' possible reactions.
- A move to a higher level of price may reflect product superiority for a firm with a highly differentiated product.
- Overdemand is another variable that may motivate the marketing executive to initiate a price increase.
- To discourage a certain segment of buyers to cope with the overdemand situation, the firm may initiate the price increase.

Responding to Competitors' Price Changes

- Following price changes of a leader is a always easy than you initiating a more price.
- If a market leader/ dominant company increases its prices, smaller competitors can hold the same price and gain market share.
- If they follow the leader's increases, they are likely to hold their current shares at least. They may even improve their profits with little risk.
- It is, therefore, always safer to follow, but this is not always an option. A firm's survival may hinge on leading with a price increase at the right moment.
- In the case of homogeneous products (similar products), a company can either cut its price as soon as the competitors cut their prices, or it may augment the product to compete. Also, If the competitors increase the price in a homogeneous product, a company can match its price accordingly if it thinks that price increase will benefit the industry.
- In non-homogeneous products (different products), a company can react to competitors' prices in many ways, such as maintaining price, raising perceived quality, reducing price, increasing the price and improving quality, and launching a low-price fighter line.