Chapter 3

Product and Pricing

Product

Meaning: Product refers to the physical entity, idea, method, information, object, or service that is the end result of a process and serves as a need or wants satisfier. Product refer to tangible and intangible goods like physical objects, services, events, persons, places, organisations, ideas and combination of these.

Definition: A product is anything that can be offered to a market for attention, acquisition and consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organisation and goals." – Philip Kolter

Features of product

- **Customer Satisfaction:** Products are the means through which customers fulfill their needs and wants. It serves as a medium through which business offers service to customers for satisfying their requirements.
- **Exchange value:** The product should have an exchange value in monetary terms for which it is exchanged with people. This enables the exchange of products between the buyer and seller possible.
- **Tangibility:** It is one of the important features of the product. The product should have tangible attributes like it should be seen, touched or should have a physical presence.
- **Intangible attributes:** Product may be intangible which means that it does not have any physical presence. In the case of availing services like banking, repairing, and transportation, a product is intangible.
- **Associated attributes:** The product should have differential and unique features that make its identification and acceptance by buyers quite easy. It helps in product differentiation and creating a better image.

Importances of Product

- **Element of marketing mix:** Product is the key element of the whole marketing mix. All other elements that are price, promotion, and place mix are all dependent and decided in accordance with the product.
- **Initiates market planning:** Product is termed as the starting point and center of all marketing programs. All marketing activities like sales promotion, advertising and distribution are decided according to the nature of the product.
- **Competitive weapon:** Product is a powerful weapon of business to face strict market competition. Businesses by efficiently producing products are able to provide better quality at a lower cost which attracts more and more customers.
- **Means of consumption and satisfaction:** Product is the center of consumption and satisfaction of customers. People buy and consume different products for satisfying their numerous needs.

- **Key to market success:** Product is an important element for attaining success in the market. If business is able to deliver products in accordance with customer requirements, their product will widely be accepted. It will attract more customers and will provide growth opportunities for the business.
- **Essential from social viewpoint:** It is important from the viewpoint of society as it provides numerous benefits to them. The product satisfies the wants of society, improves their standard of living and also serves as a means of providing employment opportunities to a large number of peoples involved in various processes of the product.

Classification of product

A. Based on Usage

- **Consumer products:** Products which can be used without any commercial processing are usually referred to as consumer products. These are products used by ultimate consumers and households. Consumer products are further classified into three types:
  1. **Convenience Goods:** These are goods that the consumer usually purchases frequently, immediately and with the minimum effort in buying. For examples, Soaps, salt, newspaper, tooth pastes, toiletries etc.
  2. **Shopping Goods:** These are goods that the consumer usually purchases after going around shops and comparing the different alternatives offered by different producers and retailers. Comparison of alternatives is based on suitability, quality, price etc. For examples, clothing, furniture, major appliances, refrigerators etc.
  3. **Specialty Goods:** These are goods that the consumer wants and willing makes a special effort to find. It is the customer's willingness to search that makes it a specialty product. The customers are willing to travel for purchasing a specialty good. For example, specific brands and types of fancy goods, cars, jewellery etc.
  4. **Unsoughtable Goods:** These are goods with which potential customers are not yet familiar. New products like food processors and smoke detectors, burglar alarms, water purifier etc. are unsought goods until consumer is made aware of them through advertising.
- **Industrial goods:** Products which are usually used for the production of other goods or for rendering service are referred to as industrial products. These are the products used by the manufacturers for producing other products and/or rendering services. For example, in the case of coconut oil, say when used for manufacturing bath soap, it is termed as industrial good and when used as hair oil or cooking oil, it is treated as consumer goods. Industrial goods include
  1. **Machinery:** Like lathes, milling machine, road roller etc
  2. **Components:** Like spare parts of machinery, monitor of a computer etc.
  3. **Raw Materials:** Like cotton clay, wood, iron billets etc.
  4. **Supplies:** Like lubricant, continuous-stationary for computer printing etc.
  5. **Services:** Like maintenance and repairs.

B. Based on durability

- **Durables or Durable Goods:** These are the goods used for longer period. For example, refrigerators, computers, clothing, washing machine, car etc.

- **Non- durables or Non- durable Goods:** These are the goods used for relatively shorter periods. For example, soap, fruits, vegetables etc.

C. Based on tangibility

- **Tangible goods:** Goods whether consumer or industrial good or else whether durable or non-durable, fall into this group as they have a physical form which can be touched and seen. Items like groceries, cars, raw materials, machinery etc. fall into the group of tangible goods.
- **Intangible goods:** These refer to services provided to the individual consumers or to organizational buyers (industrial, commercial, institutional, government, etc). For example, medical treatment, postal, banking and insurance service, etc. Service is essentially an intangible activity which provides need or wants satisfaction.

D. Products related to income

- **Normal Product:** Products for which demand increases as consumer income rises. Most products are normal products, hence the name normal.
- **Inferior Product:** Products for which demand decreases as consumer income rises. For example, inter-city bus service and inexpensive foods such as hamburger, and frozen dinners.
- **Superior Product:** Products that will tend to make up a larger proportion of consumption as income rises. As such, they are an extreme form of normal product. A superior good might be a luxury product that is not purchased at all below a certain level of income, such as a luxury car.

E. Products related to price

- **Ordinary product:** Products for which quantity demanded increases as the price for the good drops; conversely, quantity demanded decreases as the price for the good increases, all other things being equal.
- **Giffen product:** A product that will experience an increase in quantity demanded in response to an increase in price. The classic example is of inferior staple foods, whose demand is driven by poverty that makes their purchasers unable to afford superior foodstuffs. As the price of the cheap staple rises, consumers can no longer afford to supplement their diet with superior foods, and must consume more of the staple food.
- **Veblen products:** Often confused with giffen products, veblen products are products for which increased prices will increase quantity demanded. However, this is not because the consumers are forced into buying more of the good due to budgetary constraints as in giffen products. Rather, veblen products are high-status products such as expensive wines, automobiles, watches, or perfumes. The utility of such products is associated with their ability to denote status. Decreasing their price decreases the quantity demanded because their status denoting utility becomes compromised.

F. Products related to consumption ability

- **Rival product:** Products whose consumption by one consumer prevents simultaneous consumption by other consumers are rival products. For example, food, cars, and clothing.
- **Non-rival product:** Products that may be consumed by one consumer without preventing simultaneous consumption by others. For example, television and radio are non-rival products.

Product Mix

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

Factors influencing change in product mix

- **Change in the Market Demand:** The change on demand of a product due to change in habits. fashion, purchasing power, income, attitudes and preferences of consumers affects the decision of product mix. If the demand of a new product is increasing in the market and the production of that new product is beneficial to the company.
- **Cost of Production:** If the company can develop a new product with the help of the same labour form, plant, machinery and techniques, it can decide to start the production of that at lower cost.
- **Quantity of Production:** If the production of the new product is considered to be at a large scale and the company can add one more item to its product line just to get the economies of large-scale production.
- **Change in Purchasing Power or Behaviour of the Customer:** If the numbers of customers are increased with the increase in their purchasing power or with the change in their buying habits, fashion etc.
- **Goodwill of the Company:** If the company is of repute, it can market any new product in the market without much difficulty. It may take decisions of adding new product without any hitch because it knows that customers will accept any product by the firm.

Brand

A brand is name, term, symbol or design or a combination of themes, which is intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors. A brand is represented by a brand name, symbol, design, logo, packaging etc. It is the identity of a particular product form that customers recognize as being different from others.

According to the American Marketing Association, the brand is defined as a name, term, sign, symbol, design or a combination of them. The brand is intended to identify the goods or services of the company. It helps in differentiating the product or service from those of competitors.

According to Kotler, a brand is essentially a marketer’s promise to deliver a specific set of features, benefits and services consistently to the consumer.

Characteristics / Features of brand

- It is a promise that the product will perform as per customer's expectations.
- It shapes customer's expectations about the product.
- It usually has a trademark which protects them from use by others.
- A brand gives particular information about the organization, good or service.
- It helps in differentiating it from others in marketplace.
- Brand carries an assurance about the characteristics that make the product or service unique.
- A strong brand is a means of making people aware company offerings.

Significance of brand

- Source of product
- Lower risk
- Reduced search cost
- Quality symbol
- Symbolic device
- It helps in satisfying their needs
- Awareness of brand to customers
- It provides knowledge to customers
- It ensures consumer loyalty to a brand
- Brands simplify consumers purchase decision

Branding

It is the process where business makes itself known to public and differentiates itself from competitors.

Role/Need/Benefits/Importance

- **United:** Branding links your name, logo, online presence, product/services and appeal to the masses. Make marketing skills consistent and the content the same across all channels. This brings a united and clear message to customers, future partnerships and their competitors.
- **Asset:** A brand is an asset. What you present to the public is a huge chunk of your business. The worth is just as much as revenue and sales. A lot is at stake; finances, creativity and time is on the line. Branding will make the difference between revenue/sales and debt/liquidation.
- **Sales:** Speaking of sales, branding will create sales and revenue for your business. You will make money based on how the branding marketing strategies work out. Customers will be tempted to test you out, and your results will determine if you make more sales.
- **Deliverance:** Branding is a proclamation. You hereby state that you will deliver on your promises and claims the company makes. Everything the company stands for should be spread throughout the organization too. Otherwise the company will be disconnected and customers will be confused and grow distant. If you are not willing to make promises you can't keep, don't state it on your brand.
- **Perception:** Branding gives companies a chance to let customers see the business for who we really are. This is the chance to be honest and open about what this company represents. The look, feel and message conveyed will separate you from the pack.
- **Preference:** People are more attached to companies with a brand than companies that doesn't. Brands create a bond filled with good memories and good times, and customers will never forget it. That connection can't be strategized; it just happens.
- **Loyalty:** A good branding will create customer loyalty. Loyal customers will continue to support you in good and bad times. They will spread a positive message to people they know. Their influence will introduce new people to your company.
- **Trust:** As customers get to know your business they will begin to trust you.In order to build trust you must give customers a reason to test you out. The branding must be spot on as the first

customers will determine how many more (or less) you will receive. Exceptional customer service, experience with the product/services and positive online communication on social networks will keep them coming back for more.

- **Extension:** Branding can reach so many people in so many outlets. It reaches people offline, online, mobile and niche markets. It reaches the many products and services you currently sell and plan to sell in the future.
- **Protection:** Branding protects you from competitors who want your success. Without it they will have no problem making copycats of what made you popular and claim it for themselves. They can carry the same or similar products but they won't be able to take your style and originality away.

Types of branding

A. Manufacture/Producer's brand

- **Corporate brand:** A corporate brand is how a corporation expresses its values, mission and exclusivity to customers and clients. Corporate branding includes design choices such as the organization's logo and name, but it also includes how a corporation conducts its business. Everything from the way a company designs its marketing campaigns to how it recruits its associates can affect how the public perceives its brand.
- **Individual brand:** In case the manufacturer decides to sell each product under a separate brand, it is called individual brand. The manufacturer has to promote each individual brand in the market separately. The foremost advantage of individual brand name is that the promotion if each product can be undertaken with superior aggressiveness. The overall cost of advertising and sales promotion is liable to increase.
- **Family or Umbrella brand:** It refers to the one brand which a company adopts for a variety of its products i.e., all the different products are sold under one brand name only. Large sized multinational and national companies usually adopt family brands. Many such family brands have achieved national and international reputation. Some of the family brands have become household names and are recognized all over the world. For example, Tata, Birla, Godrej, gwalior, videocon, etc.
- **Combination Brands:** The term combination brand refers to the use of individual brand for some products and family brand for other products. Thus it is the combination of both the brands i.e., individual and family brands. This is made in order to take advantage of popularity of both the types of brands. This policy enables the company to avoid the disadvantages of both types of brands for example; Tata house is using this combination brand device. Each product has an individual name but it also has the family brand to indicate the business house producing the product, such as Tata Tea under this type of brand.

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

C. Mixed Brands: Under this type of branding the manufacturer uses both his own brand as well as distributors brands distributors in respect of his products. The manufacture sells some products in the own brands and the rest may be sold under their own brand names.

Packing: It is the activity that concentrates on formulating a design of the package and producing an appropriate and attractive container or wrapper for a product. Packing provides handling convenience, ma4intains freshness and quality of the product, and prevent the damages of adulteration of the product.

Packaging: It is the science, art, and technology of enclosing or protecting products for distribution, storage, sale and use. It means preparing a commodity for convenient transport, storage and sale.

Objectives

- To meet customers demand.
- To re-distribute the existing customers demand.
- To reduce the handling and distribution cost.
- To improve the profitability.
- To enhance the product company image.

Requirement of good packaging

- **Convenient:** Good packaging should be convenient. Package should be made in a way that the product could be conveniently taken from one place to another and can be handled easily by middlemen or consumers. The size and shape of package also should be convenient for retailers to keep in shop or for consumers to keep at their home. The package design should be made re-use-able, if possible.
- **Attractive/Eye-catching appearance:** A distinctive, unmistakable and eye-catching appearance is a signal at the point of sale to which all consumers. Package should be very attractive and fascinating. Attractive package draws customers' attention. It stimulates their interest towards the product and makes them realize the want of product. Colour, picture, design, size etc. of package can be dramatically influence customers' mind. Some customers demand due to attractive packaging.
- **Economical:** The other feature of good packaging is to be economical. It should not be costly. If packaging is expensive, it increases the price of the product. As a result, it becomes difficult to sell the product. So, packaging should not be costly nor should be clumsy.
- **Protective:** The purpose of packaging is to protect products from different risks. Products should be packaged in a way that the quality, quantity, colour etc. of product does not decline or damaged from sun, rain, insects, dust etc. While carrying from one place to another, transporting or storing in and products may get damaged, putrefied, spoiled or rotten. So, proper arrangement should be made to save the product from every risk. Only the packaging, which can protect products from all risk, is a good packaging.

- **Communicative:** Good packaging should also be communicative. It should give information to the customer about the brand utility and quality of the product, which can stimulate demand. Good packaging works as silent salesperson and an effective advertisement.
- **Multisensory appeal:** Anyone who approaches consumers via several of his senses attracts greater attention, intensifies perception and stimulates interest in buying. Packaging that can be felt and smelt as well as looked at wins the customer's favour so much so that he is willing to pay a higher price for this multisensory appeal.

Role of packaging

- To assemble and arrange the contents in the desired form
- To protect the contents from the production time to the final use
- To identify the contents, the brand and the maker
- To provide a suitable product mix including sizes, weights, prices, grades and packages
- To facilitate retailers functions. He can store and sell the goods easily
- To facilitate transporting, storing, and warehouse handling
- To enable the display of contents on packages
- To encourage the customers for repurchases
- To help in complying with legal requirements
- To provide opportunity and spare for advertising

Functions of packaging

- **Safetiness:** This is a function of packing. The product demands safety until it is used or consumed. Package prevents damage or loss during transport and warehousing. Foreign trade without sound packing is impossible. Air tight package protects the quality of inner contents. Package can prevent the disappearance of gaseous articles. Example: Spirit, Acid, Gas etc.
- **Good Quality:** Truthfulness representation is the most important function and quality of packing consumers rely on the package itself for the quality of the product inside the packing.
- **Easy Carrying:** Modern packing facilitates easy carrying and movement during the process of distribution.
- **Differentiation:** Various brands of detergents, which are almost identical in content, can be easily, differentiated most effectively on the basis of differences in consumer packaging.
- **Identification:** This is an important function of packing, following closely protection and case in handing.
- **Good looking:** It is a major consideration in modern packing. The design of the label on the package, printed matter, picture, layout or get up of the package colour combination all these are special aspect to the package and act as selling points of the package.

Policies and strategies

- **Packaging Changes:** A company may adopt the policy of periodic changes in product package in order to fulfill one or more of the following objectives.
- **Packaging Product Line:** It is a kind of packaging strategy in which packages of the entire product line closely resemble one another. The major strength of this strategy is that any new

product in an identical package enjoys the same market reputation image and acceptance as the existing ones.

- **Reuse Packaging:** Reuse packaging is a strategy in which marketers offer products in such a package which may be reused for other purposes. Once the product has been exhausted or taken out. It provides greater attraction to housewives. Use of plastic containers in oils and ghee is a glaring example of this strategy.
- **Multiple Packaging:** Multiple packaging is a strategy in which a number of heterogeneous products to be used by one consumer are placed in a single package. This strategy is used in several products such as soap, towels, fountain pens etc.

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

Advantages

- **Additional information:** The label may be a simple tag attached to the product or an elaborately designed graphic that is part of the package. The label might carry only the brand name or a great of information. Even if the seller prefers a simple label, the law may require additional information.
- **Identifies the product or brand:** A label assist the product to be identified among various other products. The label has the information regarding the name, brand, product details and other information about the product.
- **Describe the product:** The label might describe the product, who made it, where it was made, when it was made, what it contains, how it is to be used, and how to use it safely.
- **Promote the product:** The label might promote the product through its attractive graphics and also informs the buyer about its value. Labelling has been affected in recent times by dating the nutritional labeling. The Nutritional Labeling and Educational Act of 1990's requires sellers to provide details, nutritional information on food products and recent sweeping actions by the Food and Drug administration regulate the use of health related terms such as low-fat, life and high-fiber. Sellers must ensure that their labels contain all the required information.

Importance

- **Effective marketing:** Labelling can create mass scale marketing of products on its own. It makes product attractive by using appealing graphic designs which grabs people attention towards it. A well-designed label catches more and more peoples which leads to increase overall sales of product. Labelling serve as cost-effective tool which can be used for marketing program.
- **Differentiates product:** Labelling imparts a unique image to a product which enables it to stand out in market. It differentiates a product from other options available in market by highlighting its key features. Consumers can easily find out the unique features of product in comparison to other products by reading information from its label.
- **Facilitates product comparison:** Product labels serves an important tool for doing comparison in between different products even before using them. It provides all details about product which enables consumer in easily performing a comparison and judging the overall quality of products prior to making a purchase decision.

- **Easy recognition of product:** It assist in easy identification of product by consumer among large number of products available in market. Use of notable large logo and combination of bright colors make product eye-catching which assist customer in recognizing them. Labelling prevents any confusion or substitution of other products by customer via building a well-defined identity.
- **Provide instructions:** Labelling provides complete instructions regarding the safe usage of products. It is an important role played by labelling as improper handling and usage would lead to serious consequences. Consumer must be well aware about using a product in a proper way for avoiding any losses. Labelling describe in depth step-by-step instruction for product usage.
- **Requirement by law:** It enable in displaying all statutory information on products as require by legal laws. Label of tobacco must denote “Chewing of tobacco is injurious to health” and label of cigarettes must show “Smoking is injurious to health”. All hazardous and poisonous product should clearly describe statutory warning on their labels.

Product support services

Product support services refer to labor-based services for hardware or software, which can be performed by the manufacturer of the product or parties other than the vendor that created the product.

Philip Kotler considers five steps in consumer adoption process, such as awareness, interest, evaluation, trial and adoption. Philip Kotler considers five steps in consumer adoption process, such as awareness, interest, evaluation, trial, and adoption. On the other hand, William Stanton considers six steps, such as awareness stage, interest and information stage, evaluation stage, trial stage, adoption stage, and post-adoption stage. We will follow six steps.

1. **Awareness stage:** Individual consumer becomes aware of the innovation. He is exposed to innovation but knows very little regarding the innovation. He has only limited information about it. He is aware of either by discussion with friends, relatives, salesmen, or dealers. He gets idea about a new product from various means of advertising like newspapers, magazines, Internet, television, outdoor media, etc. At this stage, he doesn't give much attention to the new product.
2. **Interest and Information Stage:** In this stage, the consumer becomes interested in innovation and tries to collect more information. He collects information from advertising media, salesmen, dealers, current users directly from company. He tries to know about qualities, features, functions, risk, produce brand, colour, shape, price, incentives, availability, services, and other relevant aspects. Simply he collects as much information as he can.
3. **Evaluation stage:** Now, accumulated information is used to evaluate the innovation. The consumer considers all the significant aspects to judge the worth of innovation. He compares different aspects of innovation like qualities, features, performance, price, after-sales services, etc., with the existing products to arrive at the decision whether the innovation should be tried out.
4. **Trial Stage:** Consumer is ready to try or test the new product. He practically examines it. He tries our the innovation in a small scale to get self-experience. He can buy the product, or can use free samples. This is an important stage as it determines whether to buy it.
5. **Adoption Stage:** If trial produces satisfactory results, finally the consumer decides to adopt/buy the innovation. He decides on quantity, type, model, dealer, payment, and other issues. He purchases the product and consumes individually or jointly with other members.

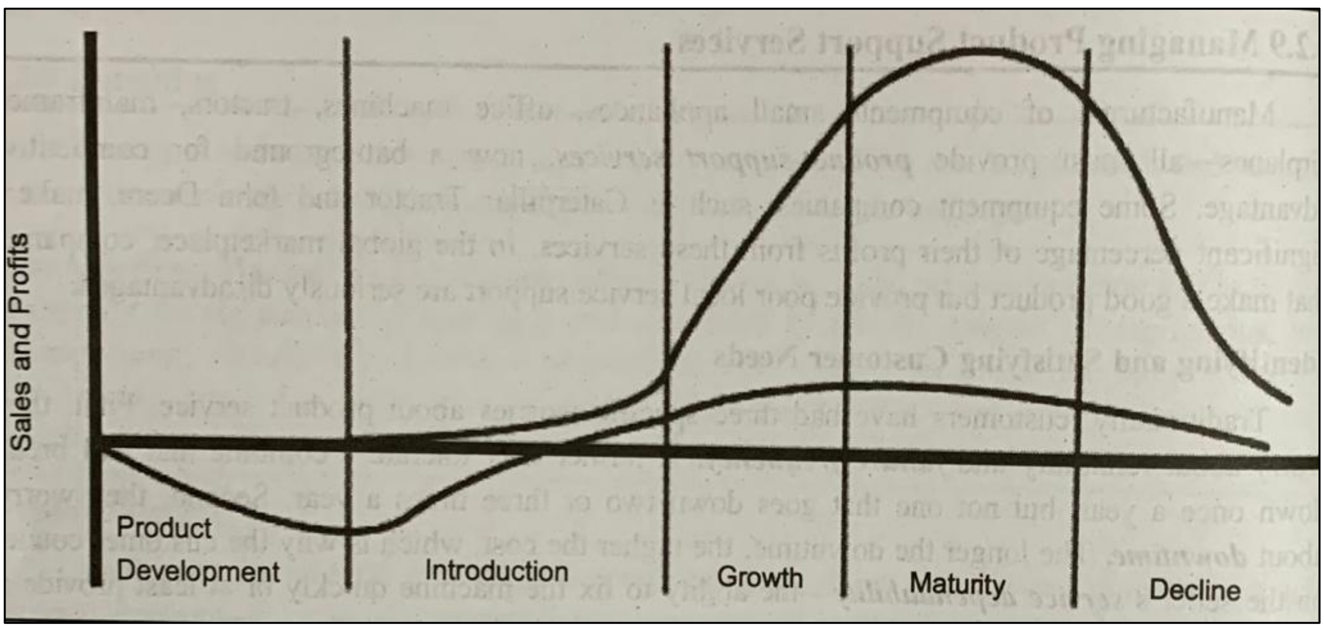
6. **Post Adoption Behaviour Stage:** This is the last stage of consumer adoption. If a consumer satisfies with a new product and related services, he continues buying it frequently, and vice-versa. He becomes a regular user of innovation and also talks favourable to others. This is a crucial step for a marketer.

In every stage of consumer adoption, a marketer is required to facilitate consumers. He must take all possible actions to make them try, buy, and repeat buy the innovation. Be clear that every type of consumer (innovators, early adopters, early majority, late majority, or laggards) follows all the stages of adoption process, but takes different amount of time to adopt the innovation.

Product life cycle

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

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



1. **Introduction Stage:** This stage could be the most expensive one for a company which is planning to launch a new product. The size of the market for the product may be small meaning sales will be lower, although they might increase. On the other hand, the cost of things like research and development, consumer testing, the marketing needed to launch the product may be high, especially if it is a competitive sector.
2. **Growth Stage:** This is typically characterised by a strong growth in sales and profits. Because the company will benefit from economies of scale in production, the profit margins as well as the overall amount of profit increase. Thus, businesses might invest more money during the promotional activity to maximise the potential of this growth stage.

3. **Maturity Stage:** Here, the product is already established and thus the aim for the manufacturer is now to maintain the market share they have built up. This is perhaps the most competitive time for most products and thus businesses need to invest sensibly in any marketing they would undertake. They need to consider product modifications or improvements during production process which might give them a competitive advantage.
4. **Decline Stage:** Ultimately, the market for a product will start to shrivel thus known as the decline stage. This shrinkage might be due to market becoming saturated or the consumers switching to a different type of product. This decline might be inevitable; but still may be possible for companies to make profit by substituting to less-expensive production methods and cheaper markets.
5. **Obsolescence stage:** It is the last stage of the product life cycle. In this stage, the product loses its distinctiveness and dries out in terms of both sales and profit margins. The decline in sales is permanent and the product travels back to the core market. The product ultimately disappears from the market. At this stage, it is advisable to stop the production of product and switch off to other products. In India the glaring examples of products in the obsolescence stage include electric radio, gram-phones, black and TV.

New product development

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

Need for new product development

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

- For meeting the changes in demand
- For making new profits
- For combating environmental threats
- To meet economic, social, political and technological threats

Challenges in new product development

Developing a new product is a challenging task. Few companies will only succeed. There are some odds present which makes life challenging for the development teams. Following are the challenges of Product development.

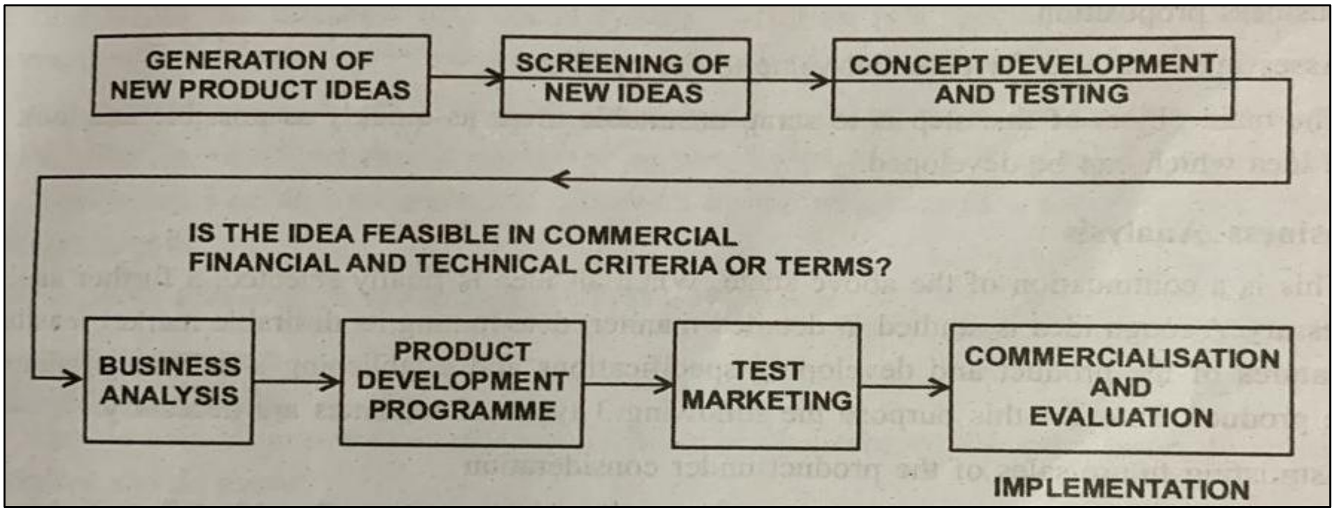
- **Concept:** The first challenge you face when developing new products is choosing a concept that has potential. A good idea is only a first step and often isn't viable because of cost, production difficulties or regulatory limitations. Your new product development company can only take on projects for which it can establish a reliable path through development, and your team has to learn to recognize such products.
- **Financing:** Developing new products is expensive and risky. A new product development company has to make sure it will receive compensation in line with the risk it is assuming. Common models range from a low-risk one where an inventor pays the company a fee for the development, to one where the company arranges financing with its own resources or with outside investors and receives a share of the profits.

- **Team:** You probably have a permanent team made up of people with varied expertise to evaluate and choose projects, but you need specialists once you are developing a particular product. Assembling a team that can handle the design, create the production drawings, set up manufacturing and identify the target markets for a specific product is challenging. While the work is interesting, long-term planning is difficult, because the success of the project is not certain.
- **Design:** To ensure a successful product development, your team has to design a product that has functionality foreseen by the inventor and attractive to the target market. You must be able to manufacture the product at a reasonable cost, and it has to meet safety regulations. The challenge is for the designers to keep all these aspects in mind while creating a product that will sell.
- **Creation:** As the idea takes shape and comes to reality as a physical component or equipment, each and every creative action that performed by the individual in the development team will contribute to the success of the product.
- **Production:** Your new product design company has to establish limits to its involvement. New product development usually does not include manufacturing products for sale but does include help with setting up the production line and preproduction validation of the design. You have to show that your product can be built for the cost you estimated and that it will work as planned. You may also develop customer documentation and instruction manuals.
- **Marketing:** While you may help with identifying target markets, establishing possible marketing concepts and test marketing, carrying out the marketing plan is usually the job of your client company or the company that will handle the developed product. Your involvement normally ends with a successful product launch, although you may continue to act in an advisory capacity, especially if your compensation includes a share of the future profits.
- **Time Pressure:** The product development decisions should be made under time pressure even though there is incomplete information.
- **Economics:** With the firm investment in product development, the firm will expect a reasonable return on investment with this product. The product should be a reasonable price so that the customers are willing to pay and inexpensive to produce.
- **Dynamics:** Being successful in the market is not only the end but sustaining the competition in the market is also even more challenging. As the technologies improve, customer preferences changes/evolve and the introduction of the new products in the markets. The decision making in this kind of environment is a challenging task.

Process of new product development

This is the process of developing a new product or service for the market. This type of development is considered the preliminary step in product or service development and involves a number of steps that must be completed before the product can be introduced to the market.

- **Idea Generation:** The first stage in the product development process is idea generation. In this stage, the company comes up with many different and unique ideas based on both internal and external sources. Internal idea sources refer to the in-house research and development teams of the company and external sources refer to competitor innovations, the customer wants, distributors and suppliers, and so on. The company thereby focuses on coming up with as many feasible ideas as possible.



- **Idea Screening:** The next stage involves the screening of this large set of ideas. The primary objective of this stage is to focus on ideas that are in line with the company's customer value and financial goals. The stage focuses on the filtering out of ideas that are poor or are not feasible and retain those that have good potential. This is to ensure that the company does not face losses by moving ahead with fickle ideas that do not promise adequate returns.
- **Concept Development and Testing:** The third of the product development process steps is concept development and testing. In this stage, the good product ideas must be developed into detailed product concepts that are conveyed in consumer-oriented terms. The concept must be made in order to project the product in terms of how it is perceived by consumers and how it will potentially be received in the market and by which set of potential customers. This concept must then be tested by presenting it to the target consumers and their response must be taken into account.
- **Development of Marketing Strategy:** The new product development process in marketing is covered in stage four. In this step, the company tries to come up with strategies to introduce a promising product into the market. The company must therefore come up with the price, potential revenue figures as well as advertising and distributing channels in this step.
- **Business Analysis:** The product concept is put through a vigorous business analysis or test in order to ascertain projected sales and revenue and also assess risk and whether the production of the product is financially feasible. The company's objectives are considered and if these are satisfied, the product is moved on to the next step.
- **Product Development:** This is the step that comes after the management of a company declares a product concept to be in line with the goals of the company and issues green light for development. The research and development wing of the company then works on the product concept for many months and even years in some cases, to come up with a working and functional prototype of the product concept.
- **Test Marketing:** This is the penultimate stage of the new product development process and involves the testing of the product and its suggested marketing program in realistic market

settings. This stage provides an insight into how the product will be introduced into the market, advertised, produced, packaged, distributed, and eventually sold to the customers, and therefore any optimizations if required can be made by the company.

- **Commercialization:** The final step of the product development process is that of commercialization. Based on the information gathered during the test marketing process, the business management may either decide to go ahead with the launch of the product or put it on the backburner. In case the go-ahead is given, the product is finally introduced into the market and this process is called commercialization. This stage often leads to massive costs in terms of initial infrastructural investments as well as sales promotions and advertisements.

Consumer adoption process

The consumer Adoption Process is a constant marketing tool, which has different stages to get itself completed. These stages of the Consumer Adoption Process are discussed as under:

- **Product Awareness:** 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. In this era of internet marketing, online shopping and social media advertising the marketers have many advertising tools are available to create awareness about the product in the 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 behavior varies in intensity according to the need, the price of the product, features of the product and the value that the product delivers.

  The Customer utilizes social media channels, online shopping sites and other media channels to learn and explore the products. The consumer use recommendations, online reviews, and suggestions from online groups before making purchase decisions.
  - ✓ In this phase, the consumer verifies the pro and cons of the product, the substitutes available in the market and the value for money.
  - ✓ The consumer outlines the unique selling proposition, identifies what your product offers against other competing products.
  - ✓ Utilizing the marketing strategies provides the companies with a platform that allows the businesses to communicate to the existing and potential customers and advertise the unique feature of the product.
- **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.

Price: It is the amount of money expected, required or given in payment for something. According to Philip Kotler "Price is the only element in the marketing mix that creates sales revenue, the other elements as cost."

Importance

- **Most flexible marketing mix variable:** For marketers price is the most adjustable of all marketing decisions. Unlike product and distribution decisions, which can take months or years to change, or some forms of promotion which can be time consuming to alter, price can be changed very rapidly. The flexibility of pricing is particularly important in times when the marketer seeks to quickly stimulate demand or respond to competitor price actions.
- **Setting the right price:** Pricing decisions made hastily without sufficient research, analysis and strategic evaluation can lead to the marketing organisation losing revenue. Prices set too low may mean the company is missing out on additional profits that could be earned if the target market is willing to spend more to acquire the product. Additionally, attempts to raise an initially low priced product to a higher price may be met by customer resistance as they may feel the marketer is attempting to take advantage of their customers. Prices set too high can also impact revenue as it prevents interested customers from purchasing the product. Setting the right price level often takes considerable market knowledge and, especially with new products, testing of different pricing options.
- **Trigger of first impressions:** Often times customers' perception of a product is formed as soon as they learn the price, such as when a product is first seen when walking down the aisle of a store. While the final decision to make a purchase may be based on the value offered by the entire marketing offering (i.e., entire product), it is possible the customer will not evaluate a marketer's product at all based on price alone. It is important for marketers to know if customers are more likely to dismiss a product when all they know is its price. If so, pricing may become the most important of all marketing decisions if it can be shown that customers are avoiding learning more about the product because of the price.
- **Important part of sales promotion:** Many times price adjustments are part of sales promotions that lower price for a short term to stimulate interest in the product. However, as we noted in our discussion of promotional pricing in the sales promotion tutorial, marketers must guard against the temptation to adjust prices too frequently since continually increasing and decreasing price can lead customers to be conditioned to anticipate price reductions and, consequently, withhold purchase until the price reduction occurs again.

Pricing: It is the process of determining what a company will receive in exchange for the product.

Objectives of pricing

- **To maximize the profits:** The primary objective of pricing decision is to maximize profits for the concern and therefore pricing policy should be determined in such a way so that the company can earn the maximum profits.
- **Price Stability:** As far as possible, the prices should not fluctuate too often. A stable price policy can win the confidence of the consumers. It will also add to the goodwill of the firm. For this purpose the concern should consider long run and short run elements.
- **Competitive Situation:** One of the objectives of the price decision is to face the competitive situation in the market. Prices of the commodities should be fixed keeping in the mind the competitive situation. Sometimes the management likes to fix a relatively low price for it's product to discourage potential competitors.
- **Achieving a Target-return:** This is a common objective of well established and reputed firm in the market (either for the company's name or its brand or the quality of the product) to fix a certain rate of return on investment.
- **Capturing the market:** One of the objectives of pricing a decision may be capturing the market. A company especially a bit company, at the time of introducing the product in the market fixes comparatively lower prices for its products, keeping in view the competitive position with an objective of capturing a big share in the market.
- **Ability to Pay:** Price decisions are sometimes taken according to the ability of customers to pay, i.e.; more prices can be charged from people having a capacity to pay. It is determined on the basis of the purchasing power of the consumers for which the product is made.
- **Long-Run Welfare of the firm:** The main aim of some concerns is to fix the price of the product which is in the best interest of the firm in the long run keeping the market conditions and economic situations in mind.
- **Cash flow objective:** One of the important objectives of pricing is to recover invested funds within a stipulated period. Generally, you find lower prices for the cash sales and high prices for the credit sales. But this pricing objective could be implemented with good results only when the firm has monopoly in the market.
- **Product line promotion objective:** Product line means 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. While framing the product line, the marketer may also include such goods, which are not popular. The intention of the marketer is to push through all the goods without any discrimination. Thus, the ultimate objective is to increase the overall demand of the goods. In this pricing objective, equal prices are adopted for the entire product line.
- **Survival objective:** Perpetual existence of the business over a period is the indication of the sound financial position of the enterprise. All organizations will have to meet expected and unexpected, initial and external economic losses. These enterprises have to pool up the resources to meet all the contingencies through appropriate pricing strategies. Price is use to increase sale volume to level up the ups and downs that come to the organization.

Factors influencing pricing decision

- **Cost:** Cost of a product play a vital role in pricing policy of an organization. It is a critical formation in profitable pricing decision. By understanding the costs, marketers can judge profitability advance. They can move resources to the highest profit opportunities and make best use of available scarce resources. By comparing costs with those of competitors, it is possible to assess production efficiency and estimate the relative profits each competitor can expect at various prices.
- **Objectives:** Pricing objectives of the company will also play a crucial role in pricing policy. Price is based on the objectives set by the company. Objectives of company can be classified into
    - ✓ Maintaining ROI (Return On Investment)
    - ✓ Stability in prices
    - ✓ Maintaining or increasing market share
    - ✓ Meeting or preventing competition
    - ✓ Maximizing Profits

  Company may consider any one or more of the objectives listed above before the price is fixed.
- **Demand:** One of the most important factors in pricing decision is the total demand for the product. Demand is usually depicted by demand curve. Marketers use the curve to estimate changes in total demand for a product based on differing prices. Elasticity is measured and price is decided based on the type of elasticity. When price has a major effect on demand, the product is price elastic. When price has little effect on demand, the product is price inelastic.
- **Competition:** Determination of price is influenced by present and potential competition. A new product remains distinctive only for a short period, until competition arrives. Understanding of competitors' price is crucial for price fixation. The competitors' price helps the firm in setting its price. The company should carefully study the competitors' prices and the consumers' reactions towards each competitor's offer. Therefore, prices should be tailored to meet the various types of competitive postures.
- **Distribution channel:** Goods are made available to the consumers through middlemen. Each one of them has to be compensated for the services rendered. This compensation should be included in the ultimate price the consumer pays. Longer the distribution channel, more will be the price for the product.
- **Government:** Government interference such as control of prices, levying of taxes etc. will also influence pricing policy of an organization. If government increases tax, the ultimate consumer will have to pay more for the product due to the increased tax component added in the price.
- **Economic Conditions:** Economic condition prevailing in the country influences price fixation. Usually prices are raised during inflation because of the increase in costs. During periods of depression, prices are reduced as survival becomes a problem.
- **Ethical Consideration:** While fixing price for a product company may resort to ethical considerations. Company may sell certain products not for making profits, but as a public welfare measure. Example: company may sell certain life-saving drugs or vaccines at a price which covers only the cost of production.
- **Types of Buyers:** Price fixation is largely dependent on the types of consumers. Different buyers may have different motives and values. Quality, safety, status symbol and beauty are the different

considerations a buyer can observe. Thus, pricing decision is based on perceived value of customers.

- **Product Differentiation:** Large coverage is one of the marketing objectives of marketing organization. Different strategies are adapted to reach as many customers as possible. Product differentiation is one of the marketing strategies to reach many customers. Many products can be differentiated in form- the size, shape, colour, coating, physical structure. Based on these factors price also varies.

Pricing policy: Pricing policy refers to the policy by which company determines the wholesale and retail prices for its products or services. It is the method of decision making used for setting the prices for a company's products and services.

Types of pricing (Same answer can be written for pricing policy and pricing strategy)

1. Cost-plus Pricing: Cost-plus pricing is the simplest pricing method. The firm calculates the cost of producing the product and adds on a percentage (profit) to that price to give the selling price. This method although simple has two flaws; it takes no account of demand and there is no way of determining if potential customers will purchase the product at the calculated price.

2. Loss leader: A loss leader or leader is a product sold at a low price (i.e. at cost or below cost) to stimulate other profitable sales. This would help the companies to expand its market share as a whole.

3. Market-oriented Pricing: Setting a price based upon analysis and research compiled from the target market. This means that marketers will set prices depending on the results from the research.

4. Price discrimination: Setting a different price for the same product in different segments to the market.

5. Predatory Pricing: Aggressive pricing (also known as "undercutting") where the prices are deliberately set very low by a dominant competitor in the market in order to restrict or prevent competition and to drive out competitors from a market. It is illegal in some countries.

6. Psychological Pricing: Pricing designed to have a positive psychological impact.

7. Price leadership: An observation made of oligopolistic business behavior in which one company, usually the dominant competitor among several, leads the way in determining prices, the others soon following. The context is a state of limited competition, in which a market is shared by a small number of producers or sellers.

8. Target Pricing: Pricing method whereby the selling price of a product is calculated to produce a particular rate of return on investment for a specific volume of production. The target pricing method is used most often by public utilities, like electric and gas companies and companies whose capital investment is high, like automobile manufacturers. Target pricing is not useful for companies whose capital investment is low.

9. Absorption Pricing: Method of pricing in which all costs are recovered. The price of the product includes the variable cost of each item plus a proportionate amount of the fixed costs and is a form of cost plus pricing.

10. High-low Pricing: Method of pricing for an organization where the goods or services offered by the organization are regularly priced higher than competitors, but through promotions, advertisements, and or coupons, lower prices are offered on key items. The lower promotional prices are designed to bring customers to the organization where the customer is offered the promotional product as well as the regular higher priced products.

11. Premium decoy Pricing: Method of pricing where an organization artificially sets one product price high, in order to boost sales of a lower priced product.

12. Value-based Pricing: Pricing a product based on the value the product has for the customer and not on its costs of production or any other factor. Value-based pricing sells the product at the price based on the customer's perceived value of the product. A good example where such a pricing system is used is on luxury items where the actual value is quite different from the perceived value. For example, a luxury may not actually cost nearly as much to make as what people are prepared to pay for it. It is important to note that this method of pricing is based on a sound understanding of how customers judge value and may only be possible after a product has a strong reputation.

13. Pay what you want: Pay what you want is a pricing system where buyers pay any desired amount for a given commodity, sometimes including zero. In some cases, a minimum (floor) price may be set, and/ or a suggested price may be indicated as guidance for the buyer. The buyer can also select an amount higher than the standard price for the commodity.

14. Freemium: Freemium is a business model that works by offering a product or service free of charge (typically digital offerings such as software, content, games, web services or other) while charging a premium for advanced features, functionality, or related products and services. The word "freemium" is combination of two aspects of the business model: "free" and "premium". It has become a highly popular model, with notable success.

15. Odd Pricing: In this type of pricing, the seller tends to fix a price whose last digits are odd numbers. This is done so as to give the buyers/consumers no gap for bargaining as the prices seem to be less and yet in an actual sense are too high. A good example of this can be noticed in most supermarkets where instead of pricing at $10, it would be written as $9.99. This pricing policy is common in economies using the free market policy.

16. Mark-up Pricing: Mark-up is the difference between the costs of producing and selling a product (fixed costs plus variable costs) and the market selling price of the product. It is the difference between what you spend to produce the product and what the customer spends to purchase it.

17. Going-rate Pricing: In the situation where the business is in a competitive market, the business charges the average price of what its competitors are charging for a similar or the same product. This may be the case where there is only a small amount of competition and the product is a necessity. It is sometimes in a business's best interest to not compete by undercutting their competition.

18. Cost-plus Pricing: Cost-plus pricing is the simplest pricing method. The firm calculates the cost of producing the product and adds on a percentage (profit) to that price to give the selling price. This method although simple has two flaws; it takes no account of demand and there is no way of determining if potential customers will purchase the product at the calculated price.

Advantages

- **Difficult to forecast:** Where it is difficult to forecast the future demand this method is appropriate.
- **Few buyers of the products:** If there are few buyers of the products, pricing can be justified.
- **Railways, post office, electricity:** Public utility services like railways, post office, electricity etc. are priced through this method.
- **Long-term policy:** It is a long-term policy.

Disadvantages

- **Demand and supply forces and competition:** The demand and supply forces and competition- the two important factors in fixing the prices- are ignored.
- **Based on cost-concept:** This method is totally based on cost-concept. But the reality is that it do not influence the prices whereas prices influence the cost.
- **Costs of joints products are only estimated:** The costs of joints products are only estimated. Correct cost cannot be calculated.

19. Marginal-cost/Incremental cost Pricing: In business, the practice of setting the price of a product to equal the extra cost of producing an extra unit of output. By this policy, a producer charges, for each product unit sold, only the addition to total cost resulting from materials and direct labor.

20. Price skimming: Skimming pricing is a pricing strategy in which a marketer sets a relatively high price for a product or service at first then lowers the price over time. This strategy is often used to target "early adopters" of a product or service. These early adopters are relatively less price-sensitive because either their need for the product is more than others or they understand the value of the product better than others. The objective with skimming is to "skim" off customers who are willing to pay more to have the product sooner; prices are lowered later when demand from the "early adopters" falls. The success of a price-skimming strategy is largely dependent on the inelasticity of demand for the product either by the market as a whole, or by certain market segments.

Advantages

- Where a product is distributed via dealers, the practice of price-skimming is very popular, since high prices for the supplier are translated into high mark-ups for the dealer.
- Where a highly innovative product is launched, research and development costs are likely to be high, as are the costs of introducing the product to the market via promotion, advertising etc. In such cases, the practice of price-skimming allows for some return on the set-up costs.
- By charging high prices initially, a company can build a high-quality image for its product. Charging initial high prices allows the firm the luxury of reducing them when the threat of competition arrives. By contrast, a lower initial price would be difficult to increase without risk in the loss of sales volume.
- Skimming can be an effective strategy in segmenting the market. A firm can divide the market into a number of segments and reduce the price at different stages in each, thus acquiring maximum profit from each segment.

- For 'conspicuous' or 'prestige goods', the practice of price skimming can be particularly successful, since the buyer tends to be more 'prestige' conscious than price conscious. Similarly, where the quality differences between competing brands is perceived to be large, or for offerings where such differences are not easily judged, the skimming strategy can work well. An example of the latter would be for the manufacturers of 'designer-label' clothing.

Disadvantages

- It is effective only when the firm is facing an inelastic demand curve. If the long run demand schedule is elastic, market equilibrium will be achieved by quantity changes rather than price changes. Penetration pricing is a more suitable strategy in this case. Price changes by any one firm will be matched by other firms resulting in a rapid growth in industry volume. Dominant market share will typically be obtained by a low cost producer that pursues a penetration strategy.
- A price skimmer must be careful with the law. Price discrimination is illegal in many jurisdictions, but yield management is not. Price skimming can be considered either a form of price discrimination or a form of yield management. Price discrimination uses market characteristics (such as price elasticity) to adjust prices, whereas yield management uses product characteristics. Marketers see this legal distinction as quaint since in almost all cases market characteristics correlate highly with product characteristics. If using a skimming strategy, a marketer must speak and think in terms of product characteristics to stay on the right side of the law.
- The inventory turn rate can be very low for skimmed products. This could cause problems. for the manufacturer's distribution chain. It may be necessary to give retailers higher margins to convince them to handle the product enthusiastically.
- Skimming encourages the entry of competitors. When other firms see the high margins available in the industry, they will quickly enter.
- Skimming results in a slow rate of stuff diffusion and adaptation. This results in a high level of untapped demand. This gives competitors time to either imitate the product or leap frog it win an innovation. If competitors do this, the window of opportunity will have been lost.
- The manufacturer could develop negative publicity if they lower the price too fast and without significant product changes. Some early purchasers will feel they have been ripped off. They will feel it would have been better to wait and purchase the product at a much lower price This negative sentiment will be transferred to the brand and the company as a whole.
- High margins may make the firm inefficient. There will be less incentive to keep costs under control. Inefficient practices will become established making it difficult to compete on value or price.

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

Advantages

- It can result in fast diffusion and adoption. This can achieve high market penetration rates quickly. This can take the competition by surprise, not giving them time to react.
- It can create goodwill among the early adopters segment. This can create more trade through word of mouth.
- It creates cost control and cost reduction pressures from the start, leading to greater efficiency.
- It discourages the entry of competitors. Low prices act as a barrier to entry.
- It can create high stock turnover throughout the distribution channel. This can create critically important enthusiasm and support in the channel.
- It can be based on marginal cost pricing, which is economically efficient.

Disadvantages

- Penetration pricing is limited to the growth and declining phases of the product because implementation during the introductory or mature phases of the cycle will lead to a cycle will lead to a cycle of competition driving prices continually lower and causing a drop in profits.
- While often profitable, penetration pricing has some major drawbacks including customer dissatisfaction, and false loyalty.
- The penetration pricing is that brand it establishes and long term price expectations for the product, and prices preconceptions for the brand and company. This makes it difficult to eventually raise prices. Some commentators for the claim that penetration pricing attracts the switchers (bargain hunters), and that they will switch away as soon as the price rises. There is much controversy over whether it is better to raise prices gradually over a period of years (so that consumers don't notice) or employ a single large price increase.
- The low profit margins may not be sustainable long enough for the strategy to be effective.

5th Chapter – Recent developments in marketing (one concept was missed out)

Network marketing: It is business model that depends on person to person sales by independent representative. Network marketing business may require you to build a network of business partners or sale people to assist with lead generation and closing sales.

Advantages

- There are absolutely no limits on the size of the network marketing structure. This happens because companies can tie-up with innumerable people to become distributors. Further, distributors can further co-ordinate with other sub-distributors to expand the company's sales.
- Due to a reliable and robust distribution network that engages customers directly, companies do not need to rely on advertising to market their goods.
- The structure of distributors also reduces the profit margins of retailers that companies consider as an expense. These margins get passed on to distributors and the companies do not have to bear their burden.
- Another advantage is that companies do not need to spend a lot of money on storage and distribution. This is because distributors end up bearing these expenses themselves.
- Finally, this structure allows distributors to earn an unlimited income from their dealings with the company. They can earn an income from their own profits as well as commissions.

Disadvantages

- Since manufacturers depend on distributors to determine consumer demand, it can be difficult to predict production targets. They may end up under or over-stocking their products.
- In this form of business, it is basically the distributors who facilitate delivery of goods to final customers. Manufacturers have a limited role in this regard. As a result, they may find it difficult to control distribution and sale.