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- (f) Marketing is the business process by which products are matched with markets and through which transfer of ownership is effected (Cundiff and Still, 1964).

These definitions are better explained through the examination of the following terms: needs, wants, demands, products, exchange, and some others.

## **3.2 Basic Concepts Underlying Marketing**

### **3.2.1 Needs**

The most basic concept underlying marketing is that of human needs. Human needs are states of felt deprivation. These needs include basic physical needs for food, clothing, shelter and safety; social needs for belonging and affection; and individual needs for knowledge and self-expression. The needs are in-built in human nature itself. It is not invented by marketers. That is, they naturally exist in the composition of human biology and human condition. When the needs are not satisfied, a person will try to reduce the need or look for an object that will satisfy it.

#### **SELF-ASSESSMENT EXERCISE**

Before you proceed further, what do you understand by the term marketing?

### **3.2.2 Wants**

Human wants are desires for specific satisfaction of deeper needs. For example, a man in the village needs rain and food and wants fertilizer. Also, a man may want yam, rice, body cream, a bag, a wrist-watch, etc. but needs money. Human needs may be few, but their wants are numerous. These wants are continually shaped and re-shaped by social forces and institutions such as families, church, schools and business corporations. Marketers do not create needs; needs pre-exist in marketing. Marketers, along with other operatives in society, influence wants. They suggest and inform consumers about certain products and persuade them to purchase, stressing the benefits of such products.

### **3.2.3 Demands**

People have almost unlimited wants but limited resources. They want to choose products that provide the most value and satisfaction for their money. When backed by purchasing power, wants become demand. That is, demand want for specific products that backed up by an ability

These variables will influence the enterprise, which makes it imperative for management to react to opportunities and threats in the market environment.

**Consumers** are the people buying your enterprise's products and services. Identifying the target market for your product or service is therefore one of the most important management activities to be undertaken by management.

**Competitors** are a natural part of a capitalistic society. We are accustomed to the fact that various competitors compete for our money in the case of most products and services. The example of Toyota and the competitive environment in which it operates illustrates this point.

**Intermediaries:** The question of the gaps that exist between the manufacturer and the final consumer was addressed in topic 1. Intermediaries such as wholesalers and retailers evolved to bridge the gap between the manufacturer and the supplier. New developments in this field constitute opportunities for, or threats to, certain enterprises operating in this particular industry. One such example is the development of convenience shops at petrol filling stations and the resultant threat to the traditional convenience stores, such as cafes, in Nigeria.

**Suppliers:** An enterprise is dependent on suppliers to run its business. One such example of a supplier is the supplier of capital to an enterprise. Traditionally, the commercial banks are the suppliers of capital to small and medium businesses. Listed companies such as Nigerian Bottling Company, makers of Coca cola have an additional supply of capital provided by their shareholders.

### 3.4 The Macro-Environment

It is important to realise that the enterprise operates within a wider macro-environment, in which variables directly or indirectly influence the enterprise and its market environment. The enterprise cannot always control these variables and they must be continually evaluated to ensure that potential opportunities or threats are correctly identified. The increase in the world crude oil price during Iraq's aggressive expansionist period in the early nineties (i.e. during the Gulf War) is an example of the influence of a macro-variable on business in general and more specifically on the ordinary citizens of a country. (Remember the drastic increase in the price of petrol in Nigeria.)

The following six macro-variables in the macro-environment may either individually, or together, affect the enterprise at any time:

## UNIT 3 PRODUCT CLASSIFICATION

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- 1.0 Introduction
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- 3.0 Main Content
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  - 3.2 Product Levels
  - 3.3 Classification of Products
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    - 3.4.1 Convenience Products
    - 3.4.2 Shopping Goods
    - 3.4.3 Specialty Goods
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### 1.0 INTRODUCTION

Businesses are set up to produce products or goods and services. These products are sold to members of the society for money. Goods consist of items with attributes that have the ability to satisfy people's needs and wants. Goods are normally tangible items. Services are intangible items that can provide value and satisfaction and are also classified as products. This unit introduces you to various definitions of a product, classification of products and their characteristics.

### 2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define a product
- classify products into either consumer or industrial products
- explain the characteristics of industrial products.

### 3.0 MAIN CONTENT

#### 3.1 What is a Product?

In order to be effective at selling or marketing, it is necessary to have a proper perspective of the meaning of a product or how it should be viewed from a marketing angle. You may like to think a little deeply on what is meant by the word 'product'. Let us understand this with the aid of an illustration – While conducting seminar for operational salesmen who had been on the field for 10 to 12 years, the salesmen were asked a question, 'What are you selling?'

Different answers were received from different groups. One group answered, 'Soaps'. When asked, 'What? What did you say?' the salesmen would immediately answer back, 'soaps, soaps, soaps'. They even tried to help the seminar leader by putting forward their right hand with the first finger and the thumb holding something rectangular, thereby assisting him to visualise soap – others claimed they sold 'bulbs, drills, etc.'

A product is the key marketing mix variable on which all the other marketing mix variables revolve. It cannot be derived from other marketing mix variables because all of them contribute to form the images of the product from the point of view of the buyers. These images determine the values and satisfaction expected from a given product and how much the buyers will offer for it. It is therefore important for the manufacturers and marketers to understand what a product means to consumers and their expectations from that product.

Hence, a product can be described as goods, services, ideas, people, places, and even organisations that are offered for exchange. Or, a product is the bundle of benefits or satisfaction offered to a customer. Also, a product is defined as anything offered or sold for the purpose of satisfying a need or want on both sides of the exchange process. It includes a tangible object that marketers refers to as a good, as well as an intangible service (such as ideas, a place, an event, an organisation), or any combination of tangible objects and intangible services.

However, Stanton (1981:161) defines a product as a set of tangible and intangible attributes including packaging, colour, price, manufacturer's prestige, retailer's prestige, and manufacturer's and retailer's services, which the buyer may accept as offering want-satisfaction.

It should however be noted that the consumer is not interested in your goods. He/she is interested in himself or herself and what 'benefits' he/she will get, and not in you or your organisation.

### 3.0 MAIN CONTENT

#### 3.1 Channels of Distribution

The term channel of distribution is used to refer to the various intermediaries who help in moving products from the producer to consumers. There are a variety of middlemen and merchants who act as intermediaries between the producers and consumers. Stanton (1981:283) defines a channel of distribution for a product as 'the route taken by the title to the ultimate consumer or industrial users'. A channel always includes both the producer and the final customer for the product, as well as all middlemen involved in the title transfer. Even though agent middlemen do not take actual title to the goods, they are included as part of a distribution channel. This is because they play such an active role in the transfer of ownership. A channel of distribution is also defined as 'a system designed to move goods and services from producers to customers, which consists of people and organizations supported by various facilities, equipment, and information resources'. However, Armstrong and Kotler (1994) reports that distribution channel is 'a set of interdependent organisations involved in the process of making a product or service available for use or consumption by the consumer or industrial user'.

Channels of distribution are the most powerful element among marketing mix elements. Many products which were intrinsically sound have died in their infancy because they never had the right road to the market. However, by developing a sound distribution network and launching aggressive advertisement campaigns, a company can carve out a niche for itself. Many Nigerian manufacturers took advantage of the distribution network built by erstwhile companies. This may be attributed to costs and time and goodwill of the distributors concerned. However, it is better to study the distribution network before launching a product.

Channels of distribution help movement of goods from one place to another and thus create place utility. They make it possible for the consumer to get the goods when he wants them and thus create time utility. They bring goods to the consumer in a convenient shape, unit, size, style and package and thus create convenient value. They make it possible for the consumer to obtain goods at a price he is willing to pay and under conditions which bring him satisfaction and pride of ownership and thus create possession utility.

It should however be noted that the concept of marketing channels is not limited to the distribution of physical goods alone. Producers of services and ideas also face the problem of making their goods accessible to their

producers who want to open new territories or sell in areas that cannot support full-time salespersons.

Apart from the manufacturer's agent, there are other types namely: selling agents, purchasing agents, commission merchants, etc.

#### **4.0 CONCLUSION**

Blood is vital in the life of a man, so also middlemen are inevitable in any economy, most especially in developing countries like Nigeria where technologies for facilitating buying and selling of goods/services are still low. The existence of middlemen in the distribution channels creates and actualises choices of consumers. Even though they are sometimes criticised as creating artificial scarcity, convenience and time saving created for consumers are issues to be reckoned with.

#### **5.0 SUMMARY**

With an understanding of the retailing and wholesaling institutional structures as a foundation, marketing executives are in a position to design and manage distribution channel systems for their companies. In this unit, you learnt who middlemen are, their roles in marketing of goods/services, types of middlemen and their functions.

#### **6.0 TUTOR-MARKED ASSIGNMENT**

What are retailers considered to be in the distribution of goods/services?

#### **7.0 REFERENCES/FURTHER READING**

Armstrong, G. & Kotler, P. (1994). *Principles of Marketing*. 6th Edition. New Jersey: Paramount Communications Company.

Kotler, P. (2000). *Marketing Management – Analysis, Planning, Implementation and Control*, 8th Edition. New Delhi: New Delhi, Prentice-Hall.

Stanton, W.J (1983). *Fundamentals of Marketing*. 6th Edition. Japan: McGraw-Hill Book Company.

Retaining such a profit after this stage may be risky, and certainly not profitable to the organisation.

Figure 2 shows the 'product life cycle' and the different stages.

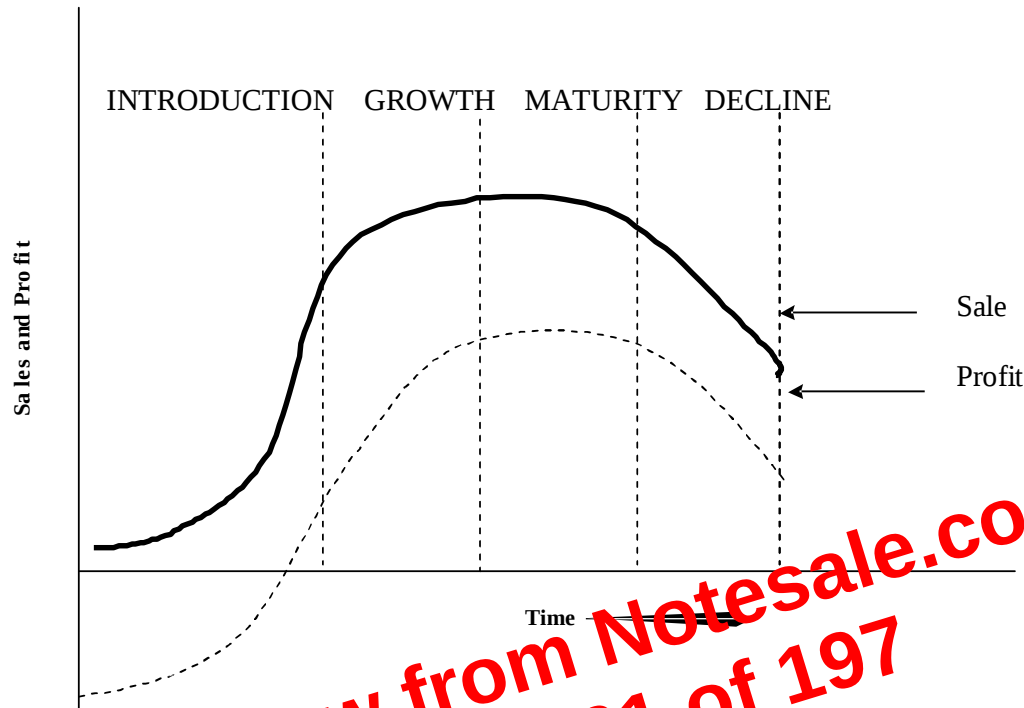


Fig. 2: The Product Life Cycle

### 3.2 Marketing Mix at Different Stages

Increase Reduce Improve Any other, ls. specify

#### (1) Introduction Stage

|     |                       |     |     |     |     |
|-----|-----------------------|-----|-----|-----|-----|
| (a) | Price                 | ( ) | ( ) | ( ) | ( ) |
| (b) | Physical Distribution | ( ) | ( ) | ( ) | ( ) |
| (c) | Promotion             | ( ) | ( ) | ( ) | ( ) |
| (d) | Product               | ( ) | ( ) | ( ) | ( ) |

**Physical Distribution:** Consists of the activities involved in moving products or services from producer to consumer. Examples include:

- (1) Transportation
- (2) Warehousing and storage
- (3) Order processing
- (4) Inventory control
- (5) Location.

Often, the objective of physical distribution is to move goods to consumers at minimum cost. The physical distribution network should be oriented towards the needs and desires of target consumers.

**The Channels of Distribution:** Those routes through which the ownership of goods, services and ideas flows on the way from producer to consumer.

In establishing channels of distribution, marketers should decide which marketing functions are needed in order to satisfy target consumers, and then determine which institution (such as wholesalers and retailers or the manufacturer himself) can best perform these functions. The overall objective is to maximise service to the consumer and a profit to the marketer.

### 3.4 The Promotion

Promotional activities consist of various means of communicating persuasively with the target audience. The important promotional methods are:

- (a) Advertising – where an identified sponsor pays media (NTA, for instance) to transmit messages to target consumers.
- (b) Personal selling – where sales representatives employed by the firm engage in interpersonal communications with individual consumers and prospective customers.
- (c) Sales promotion – where the marketer utilises displays, demonstrations, premiums, contests, or similar devices to supplement advertising and personal selling.
- (d) Publicity and public relations – where both publicity and public relations are used to stimulate supportive news items about the firm and its products that have greater credibility with the public than advertising.

- (2) **Accessibility:** The market segments should be effectively reached and served. Suppose a perfume company finds that heavy users of its brand are single men, who stay out late and socialise a lot. Unless this group lives or shops at certain places and exposed to certain media, its members will be difficult to reach.
- (3) **Substitutability:** The market segments should be large or profitable enough to be served. A segment should be the largest possible homogeneous group worth pursuing with tailored marketing programmes.
- (4) **Actionability:** Effective programmes should be designed in order to be attractive and to serve the segment(s) better. A case of this

### 3.4 Bases for Segmenting Consumer Markets

There is no single way to segment a market. A marketer has to try different segmentation variables, alone and in combination, to find the best way to view the market structure. Here, we examine major variables.

#### 3.4.1 Geographical Segmentation

Geographical segmentation calls for dividing the market into different geographical units such as nations, states, regions, countries, cities or neighbourhoods. A company may decide to operate in one or a few geographical areas, or to operate in all areas but pay attention to geographical differences in needs and wants. Many companies today are regionalising their marketing programmes – localising their products, advertising, promotion, and sales efforts to fit the needs of individual regions, cities, and even neighbourhoods. Coca-cola and Pepsi-cola uses this method for their products.

#### 3.4.2 Demographic Segmentation

This consists of dividing the market into groups based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race and nationality. Demographic factors are the most popular bases for segmenting customer groups. One reason is that consumer needs, wants, and usage rates often vary closely with demographic variables. Another is that demographic variables are easier to measure than most other types of variables. Even when market segments are first defined using other bases, such as personality or

## 6.0 TUTOR-MARKED ASSIGNMENT

As the market becomes more and more competitive, does that necessitate more segmentation?

## 7.0 REFERENCES/FURTHER READING

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### 3.5 Branding Decisions

Having an appropriate brand has emerged as the most important activity in the area of marketing of products, especially consumer products. Several decisions need to be taken, though not simultaneously, with regard to brand selection and its use.

Whether to brand a product or not is a decision which can be taken only after considering the nature of the product, the type of outlets envisaged for the product, the perceived advantages of branding and the estimated costs of developing the brand.

In addition, marketers also have to decide at the outset whether they would like to adopt a family brand under which all the products of the company would be sold or to brand each product separately. For instance, companies like GE or Philips follow the family name strategy while GM follows the individual brand strategy.

These are the advantages in either approach:

#### (A) Family Brand

- (1) It reduces the costs of product labeling and ongoing promotional expenditure substantially. The firm has to promote only one brand which, if successful, would be able to sell the entire product line. Lining up the distribution channel members also becomes comparatively easier. A family brand name has been found to be very cost effective in tyre marketing.
- (2) If one product does exceptionally well, it is perfectly possible that there would be positive fallouts for other products being marketed under the same brand.
- (3) A greater weakness of this strategy is that it does not recognise that each product can be given a specific identity by a suitable brand which can go a long way to make it successful.

#### (B) Individual Brand

- (1) If there is a product failure, its damaging effect will be limited to that particular product and will not extend to the entire product line.
- (2) Individual brand strategy can immensely influence the decisions.

- (3) The basic disadvantage lies in the economics of developing an individual brand. It is obviously a costlier strategy than the family brand.
- (4) The other disadvantage is that the brand does not directly derive any benefit from the reputation of the firm.

### 3.6 Brand Repositioning

Over the life cycle of a product, several market parameters might undergo a change such as introduction of a competing product, shifts in consumer preferences, identification of new needs, etc. All and each of such changes call for a re-look as to whether the original positioning of the product is still optimal or not. Stagnating or declining sales also point to a need for reassessment of the original product positioning.

A classic story of successful brand repositioning is the Seven-up campaign. Seven-up was one of several soft drinks bought primarily by older people who wanted a brand, lemon flavour drink. Research indicated that while a majority of soft drink consumers preferred a cola, they did not prefer it all the time and many other consumers were non-cola drinkers.

Seven-up went up for leadership in the non-cola market by executing a brilliant campaign, calling itself the Uncola. The campaign marketed the Uncola as a youthful and refreshing drink, the one to reach for instead of a cola. Seven-up created a new way for consumers to view the soft market as consisting of *colas* and *uncolas*, with seven-up leading the uncolas. It thus repositioned seven-up as an alternative to the traditional soft drink, not just another soft drink. Another exciting story of brand repositioning is Pepsi Cola's campaign to reincarnate its flagging 30-year old Mountain Dew brand.

### SELF-ASSESSMENT EXERCISE 2

Pay a visit to any market of your choice. Find/look for a product which has been repositioned. Find out reasons for the repositioning of such product(s).

### 4.0 CONCLUSION

Brand management is one of the most important areas of marketing especially with reference to consumer products. The name gives the product the unique personality and is so well associated with the product that the brand name sometimes even takes the place of the generic product name. Surf and Omo are two classic examples where the brand names connote the generic product category, i.e. detergent. The

the effective package operates as a five-second commercial. The package must perform many of the sales tasks. It must attract attention, describe the product's features, create consumer confidence, and make a favourable overall impression.

- (2) **Consumer Affluence:** Rising consumer affluence means consumers are willing to pay a little more for the convenience, appearance, dependability and prestige of better packages.
- (3) **Company and Brand Image:** Companies are recognizing the power of well-designed packages to contribute to instant recognition of the company or brand. The Campbell Soap Company estimates that the average shopper sees its familiar red and white can 76 times a year, creating the equivalent of US\$26 million worth of advertising.
- (4) **Innovation Opportunity:** Innovative packaging can bring large benefits to consumers and profits to producers. For example, toothpaste pump dispensers have captured 12% of the toothpaste market because, for many consumers, they are more convenient and less messy.

### 3.3 Legal Dimensions of Packaging

While managing the packaging function, constant attention needs to be given to the various regulations that the government has laid down in the respect. Government regulations are many and encompass areas such as the use of specific packaging materials for certain products, consumer protection, transportation of hazardous cargo, etc.

The most pervasive among these is the regulation relating to the information a manufacturer is obliged to provide in the package on the product itself. This is commonly known as labelling requirement and covers a host of commodities. Principal among these are food products, cosmetics and pharmaceuticals.

Statutory requirements relate generally to:

- (a) Net weight, when packed.
- (b) Date of manufacture.
- (c) Date of expiry.
- (d) Maximum retail price including or excluding local taxes.
- (e) Directions for use, including dosage requirements.
- (f) Directions for storage.

## MODULE 3

|        |                                         |
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| Unit 4 | Advertising and Publicity               |
| Unit 5 | Personal Selling and Sales Promotion    |
| Unit 6 | Marketing Research and its Applications |

### UNIT 1 LABELLING

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#### 1.0 INTRODUCTION

Research is ongoing on the development of new products and improvement on the existing ones. These products are sold across the world in different markets to various classes of consumers by different companies. These companies have to differentiate their products from other competitors' products in the market. Companies differentiate their products by labelling differently. Label is one of the legal requirements in identifying one company's product(s) from other companies' products. Label is an important aspect of marketing. This is because it describes the product, its elements and other details about the product. This unit examines what a label is, its characteristics and various forms of labelling.

## 2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define/describe a label
- discuss its role in marketing
- explain various forms of label
- explain its legal consideration.

## 3.0 MAIN CONTENT

### 3.1 Definition of Labelling

Labelling is another product feature that requires managerial attention. The label is the part of a product that carries verbal information about the product or the seller. A label may be part of a package, or it may be a tag attached directly to the product. Labelling is a subset of packaging. Labels may range from simple tags attached to products to complex graphics that are part of the package. It should be noted that there is a close relationship between labelling and packaging, and between labelling and branding.

### 3.2 Functions of Labels

Labels perform several functions, and the seller has to decide which one to use. They include the following.

- (1) A label identifies the product or brand, such as the crown in Mercedes cars.
- (2) A label grades the product, such as canned peaches are grade-labelled A, B and C.
- (3) A label describes several things about the product – Who made it? Where it was made? When it was made? Its content? How it is to be used? How to use it safely?
- (4) A label promotes products through attractive graphics.

Before we proceed further, kindly attempt the following exercise:

#### SELF -ASSESSMENT EXERCISE

Describe four basic functions of labels.

Companies selling products that score high within a given grade would be hurt by grade labelling. It would not be possible for these companies to justify a higher price than that charged for another.

Some people also argue that grades are an inaccurate guide for consumer buying, because the characteristics selected for grading, weights assigned to them and the means of measuring them are all established on an arbitrary basis.

Labels eventually become outmoded and need freshening; hence, marketing executives should ensure that their labels meet the changes in the business environment.

### 3.5 Legal Consideration for Labelling

There is a long history of legal concerns surrounding labels, packaging and generally products. In 1914, the US Federal Trade Commission Act held that false, misleading or deceptive labels or packages constituted unfair competition. The fair packaging and labelling Act, passed by the US Congress in 1967, set mandatory labelling requirements, and encouraged voluntary industry packaging standards.

For example, in the past, the labelling of clothing, furs and piece goods was often confusing and misleading to the consumer. As a result, three important labelling laws were passed. The Wool Products Labelling Act (1940) provides that a clothing product containing any wool must be labelled to explain clearly what kind of wool is used (virgin, reprocessed, etc.) and what percentage of each type is included in the product. The Fur Products Labelling Act (1951) provides that in identifying a fur garment, the label must state the usual or natural name of the fur and its country of origin. And the Textile Fibre Products Identification Act (1958) provides that clothing garments and household textiles, including rugs, must carry the generic description of the fibre content.

The food and drug administration has also established a set of labelling standards for processed foods to ensure full disclosure of their nutritional content. Labels must clearly state the amounts of protein, fat, carbohydrate and calories contained in the contents of the package. Vitamin and mineral content must be expressed as a percentage of the recommended daily allowance. Also, ingredients must be listed in the order in which they are contained in the product.

It should be noted that this is not exhaustive; there are other legal considerations/requirements.

It is necessary for the marketer to know what would be the reaction of the consumers to the change he wishes to make in the price. Let us take some examples. Smokers are usually so addicted to smoking that they will not give up smoking even if prices of cigarettes increase. So also the demand for salt or for that of wheat is not likely to go down even if the prices increase. Another example of inelastic demand is the demand for technical journals, which are sold mainly to libraries. On the other hand, a reduction in the price of television will bring in more than a proportionate increase in demand. Some of the factors determining the price-elasticity of demand are the nature of the commodity, whether it is a necessity or luxury, extent of use, range of substitutes, urgency of demand and frequency of purchase of the product.

The concept of elasticity of demand becomes crucial when a marketer is thinking of lowering his price to increase the demand for his product and to get a larger market share. If the increase in sales is more than proportionate to the decline in price, his total sale proceeds and his profits might be higher. If the increase in sales is less than proportionate, his total sales proceeds will decline and his profits will definitely be less. Thus, knowledge of the elasticity of demand for his products will help a marketer to determine whether and to what extent he can cut the price or pass on the increase in cost to the consumer.

It may also be noted that the price elasticity of demand for a certain commodity and the price elasticity of demand for a certain brand of that commodity may be radically different. For example, while cigarettes as such, may be highly inelastic, the price elasticity of demand for 'Capstan' or 'Charms' may be highly elastic. The reasons for these are weak brand loyalty and the availability of substitutes.

### **Competition**

The degree of control over prices, which the sellers may exercise, varies widely with the competitive situation in which they operate. Sellers operating under conditions of pure competition do not have any control over the prices they receive. A monopolist, on the other hand, may have some pricing discretion. The marketer; therefore, needs to know the degree of pricing discretion enjoyed by him. Let us take up each of these cases individually.

capacity to pay for it. For example, radio manufacturers in India realised that if they had to capture the mass market prevailing in India, they had to price it low, which could be done only by reducing the cost – reducing the number of wave – bands in the radio. And now a single wave band radio is available at about ~~₹~~₹100.

If costs were to determine prices, why do so many companies report losses? There are marked differences in costs between one producer and another. Yet the fact remains that the prices are quite close for a somewhat similar product. This is the best evidence that costs are not the determining factor in pricing.

Price decisions cannot be based merely on cost because it is very difficult to measure costs accurately. Costs are affected by volume, and volume affected by price. The management has to assume some desired price and volume relationship for determining costs. That is why costs play even a less important role in case of new products as compared to existing products. It is not possible to determine costs without having an idea of what volumes or numbers can be sold. But, since there is no experience of volumes, costs and prices, one starts with the going market price for similar products.

All this discussion does not purport to show that costs should be ignored altogether while setting prices. Costs have to be taken into consideration. In fact, in the long run, if costs are not covered, manufacturers will withdraw from the market and supply will be reduced which, in turn, may lead to higher prices. The point that needs emphasis is that cost is not the only factors in setting prices. Cost must be regarded only as an indicator of the price, which ought to be set after taking into consideration the demand, the competitive situation, and other factors.

Costs determine the profit consequences of the various pricing alternatives. Cost calculations may also help in determining whether the product, whose price is determined by its demand, is to be included in the product line or not.

### SELF-ASSESSMENT EXERCISE

In the example stated in Exercise 1, the cost behaviour changes levels of production as follows:

| No. of units manufactured | Cost Price per unit (₹) |
|---------------------------|-------------------------|
| 50,000                    | 450                     |
| 45,000                    | 470                     |

The use of the above policies is illustrated below:

### ILLUSTRATION

A firm sells 100,000 units per year at a factory price of ~~N12~~ per unit. The various costs are given below:

|                                                   |                                  |                      |
|---------------------------------------------------|----------------------------------|----------------------|
| Variable Costs                                    | Materials                        | <del>N</del> 360,000 |
|                                                   | Labour                           | <del>N</del> 420,000 |
| Fixed Costs                                       | Overhead                         | <del>N</del> 120,000 |
|                                                   | Selling & Administrative charges | <del>N</del> 180,000 |
| Total investment in cash, inventory and equipment |                                  | <del>N</del> 800,000 |

Suppose the labour and materials cost increases by 10 per cent. The question is how to revise price according to the three policies discussed above.

The above data reveal that costs are N1,080,000. The profits as percentage of costs, sales and capital employed (according to the three policies are):

|   |                                |                                    |
|---|--------------------------------|------------------------------------|
| 1 | Percentage over Costs          | $\frac{120,000}{1,080,000} = 11.1$ |
| 2 | Percentage on Sales            | $\frac{120,000}{1,200,000} = 10$   |
| 3 | Percentage on Capital employed | $\frac{120,000}{800,000} = 15$     |

The revised costs are N1,158,000 (~~N~~1,080,000 + 36,000 + 42,000)

According to the first formula, we have to earn a profit of 11.1 per cent on costs. Our revised profits should be #128,667 and sales volume on this basis would be ~~N~~1,286,667. The selling price would, therefore be N 12.87 per unit.

Under the second formula, the profit should be 10 per cent on sales. If sales are (S), the profit would be S/10 and cost would be 9S/10. The cost known to us and we have to find out the sales.

If  $9S/10 = \underline{\underline{N1,158,000}}$  then  $S = \underline{\underline{N1,286,667}}$

Therefore, the price per unit is N12.87.

to consumers and organisation of contests will, therefore, constitute the 'promotion mix' of such consumer goods. Now let us think of an industrial product, say a special purpose machine tool washing machine, which has a high unit value, is technical in nature, is purchased infrequently and requires demonstration and conviction before it gets sold. Personal selling, quite obviously, becomes indispensable for such a product along with organising product demonstrations and exhibitions, holding seminars, etc. These then constitute the promotion mix in the case of an industrial good with newspaper advertising playing only the limited role of keeping the public informed about the company's activities and accomplishments. Publicity, however, to the extent that it projects the desired image of the company, plays a more important role.

## 2) Nature of Market

The locational characteristics of the customers, intensity of competition in the marketplace and the requirements of wholesalers and retailers influence the promotion mix relating to the product in their own way. For example, if the target audience of a consumer product is both large as well as widely dispersed in different parts of the country such as soft drink like Coca-Cola, Pepsi-Cola, and double cola, advertising and sales promotions emerge to be both more effective and economical promotional methods than the others. This is why advertising and sales promotions are so dominant among consumer goods companies. Personal selling also has a role to play among consumer goods companies but limited mainly to wholesalers and retailers who receive greater focus for activities such as pushing inventories, conducting displays, etc.

## 3) Stage in Product Life Cycle

The promotion mix changes with the movement of the product from one stage to the other in its life cycle. For example, when the product is in the introduction and early growth stages, and the tasks involved are that of building and motivating trials of the product, the promotion mix comprises publicity, informative advertising, consumer sales promotions and trade deals. Later, as the product reaches the maturity stage, and goals of maintaining brand loyalty and creating brand preferences become more important, aggressive brand advertising and dealer promotions become the key components of the promotion mix.

## 4) The Available Budget

Each method of promotion has certain costs associated with it. The level at which each promotion method is to be used and the

## **UNIT 5    PERSONAL    SELLING    AND    SALES                  PROMOTION**

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### **1.0    INTRODUCTION**

In contrast to advertising and publicity, which use impersonal methods of communication, personal selling makes use of direct personal communications to influence the target customers. Personal selling is a highly distinctive method of promotion and makes use of oral presentation in conversation with existing and potential customers, for the purpose of making a sale.

It is one of the oldest methods of business promotion. The contributions made by personal selling in making the promotion function more effective have earned it the distinction of being the most reliable promotion method. Though, it is the most expensive method of promotion, yet we see an increasing number of firms making use of it, and a good number of them realise that they cannot, perhaps, live without it. Increasing competition and the growing sophistication of the buyer and his/her buying process are making personal selling more or less indispensable. Sales promotion is the only method that makes use of incentives to complete the push-pull promotional strategy of motivating the sales force, the dealer and the consumer in transacting a sale.

of loss in productivity of the sales force, it is worth repeating that the job of a salesperson should be defined with sufficient specificity, so that he/she can use it as a guideline to stay in the right direction.

### 3.3 The Selling Process

Up to this point, we have been discussing the role of personal selling and the degree of creativity required in a salesperson to perform the task satisfactorily.

Now we will take a look at the selling process followed for completing a sale. Though the steps in the selling process discussed below will be applicable to most of the selling situation, what will differ will be the degree of importance given to each steps of the process under different selling situations. The basic step in the selling process is given in Figure 1. A salesperson must become accomplished at performing the selling steps.

These steps are:

- (a) Preparation
- (b) Prospecting
- (c) Pre-approach
- (d) Approach
- (e) Sales presentation
- (f) Handling objections
- (g) Closing the sale
- (h) Post-sale follow-up

|                                                                                                                                                                                                |                                                                                   |                                                                                      |                        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|------------------------|
| Resources customers on the correctness of their decision.<br>Checked whether the order was filled and delivered when promised.<br>Make certain product is properly installed, used and served. |                                                                                   |                                                                                      | SALE POST<br>FOLLOW-UP |
| Make conscious effort to close.<br>Don't be afraid of being rejected.                                                                                                                          |                                                                                   | CLOSE<br>THE SALE                                                                    |                        |
| Understand reasons for objection<br>Have a positive attitude.<br>Avoid arguments.                                                                                                              |                                                                                   | HANDLING<br>OBJECTIONS                                                               |                        |
|                                                                                                                                                                                                |                                                                                   | SALES PRESENTATION                                                                   | Arouse Desire          |
|                                                                                                                                                                                                | APPROACH                                                                          | Make initial contact with prospect                                                   |                        |
|                                                                                                                                                                                                | PRE-APPROACH                                                                      | Study the organisation<br>And those involved in buying                               |                        |
|                                                                                                                                                                                                | PROSPECTING<br>AND QUALIFYING                                                     | Develop sales leads from various sources<br>Separate the suspects from the prospects |                        |
| PREPARATION                                                                                                                                                                                    | Know your product. Know your customer.<br>Know your competitor. Know your company |                                                                                      |                        |

**Fig. 1: Steps in the Selling Process**  
Sources: Ralph M. Gaedeke & Dennis H. Tootelian (1983)

questions relating to warranty terms. These signals show that the time is ripe to start taking the order.

### Step 8

**Post-sale Follow-up:** The selling process does not come to an end by writing the order. A few repetitions reassuring the benefits of the product keep the customer sold. Follow-up provides an opportunity to ensure that the product is being rightly used, and if necessary to re-explain the method of using, handling, and storing of the product when not in use. This builds favourable feelings and nurtures the strong buyer-seller relationships. Post-sale follow-up not only reinforces the customer's confidence in the salesperson and his company but also tends to keep competition out. This also helps generate repeat business and valuable word-of-mouth publicity. The follow-up is a good source of feedback too.

Let us conclude this section by stating that although the eight steps of the selling process are essential in spirit, these may not always be followed. This could be partly the (1) the selling situation involved (e.g. in the case of insider order-taker or retail salesperson the first three steps of the selling process are generally not applicable as the customer walks into the store for buying a product), (2) the expertise of the salesperson (such that he can ignore or assume some information) or (3) the seller's market of the product where customers generally queue up for the product.

Let us also look at the findings of a study by Robertson and Chase on the subject. They point out that:

1. The more closely matched the physical, social and personal characteristics of the customer and salesperson, the more likely is the sale.
2. The more believable and trustworthy the customer perceives a salesperson to be, the more likely is the sale.
3. The more persuadable a customer is, the more likely is a sale.
4. The more a salesperson can make prospective buyers view themselves favourably, the more likely a sale is.

Before you read further, attempt this exercise.

### SELF-ASSESSMENT EXERCISE 3

Can you recall any 10 sales promotional objectives just read? Please itemise them.

### 3.6 Sales Promotion Methods

Many methods of sales promotion are used by marketers. Depending upon the creativity level of their sponsors, their variety seems very large. We refer here to some of the most commonly used methods of sales promotion.

As noted above, the accomplishments of the desired promotion and marketing objectives ultimately depend on the extent of the desired response received from consumers, dealers and members of the sales force. Hence various sales promotion methods are built around these three target groups. Further, in terms of the impact desired, the variety of sales promotion schemes offered are grouped into two categories: one, aimed at producing immediate impact, and the other delayed impact i.e. carrying on the impact over a period. Immediate impact schemes are those schemes where the consumer, dealer or salesperson gets the incentive on first contact, purchase or on performing a one time act. On the other hand, under the delayed impact schemes, the consumer, dealer or sales force is called upon to comply with the scheme over a period of time before receiving the full benefit of the scheme. Price discounts, free samples of large quantity packs are the popular examples of immediate impact schemes, whereas coupons, trading stamps, and contests are example of delayed impact category of sales promotion schemes. Table 2 presents the variety of sales promotion schemes directed at the consumer, dealer and sales force levels according to their grouping under immediate impact or delayed impact categories. The meaning and objectives of these schemes are given in Table 3.

**Table 3: Sales Promotions: Meaning and Objectives**

| S/N | Sales Promotion                           | Meaning                                                                                                                                                                  | Objectives                                                                                                                                                                     |
|-----|-------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.  | <b>Price-Off Offers</b>                   | Offering product at lower than the normal price.                                                                                                                         | To encourage immediate sales, attract non-users, induce new product trial, counter competition, inventory clearance at the retail level, inventory build-up at the trade level |
| 2.  | <b>Quantity-Off Offers</b>                | Offering more quantity of the same product at no extra cost or with a very nominal increase in the price of the larger quantity packs.                                   | To encourage more/longer duration consumption, higher or excess quantity movement from the factory, trade up consumer for higher quantity packs size.                          |
| 3.  | <b>Premium</b>                            | Offer of an article of merchandise as an incentive in order to sell product or service. Its forms are:                                                                   | To encourage purchase, stimulate loyalty, off-season sales promotion, induce trial of new product, ensure reach of premium to the consumer.                                    |
|     | <b>(a) Packaged Premium</b>               | When the incentive article is packed (inserted) inside the package of the product.                                                                                       |                                                                                                                                                                                |
|     | <b>(b) Branded Premium</b>                | Where the premium article is handed to the package the product say with the product say with                                                                             | Sampling new products, adding speed to slow moving products.                                                                                                                   |
|     | <b>(c) Over-the-Counter (OTC) Premium</b> | When the premium article is neither inserted inside nor banded to the product package but is given away to the consumer over the counter along with the product package. | To counter competition, improve inventory clearance at the trade level.                                                                                                        |
|     | <b>(d) Container Premium</b>              | When the product itself is placed in an attractive and reusable container which serves as a gift.                                                                        | As a durable reminder at home.                                                                                                                                                 |
|     | <b>(c) Self-Liquidating Premiums</b>      | Where the consumer usually is asked to pay a specified amount to liquidate or offset a part of                                                                           | To induce consumer to appropriate premium article, reinforce brand image, encourage more                                                                                       |
|     | <b>(c) Personality Premium</b>            | full cost of the premium article or the scheme administration cost's Where the consumer is required to redeem a specified proof-of-                                      | consumption, enables sponsor to offer better quality premium. To built loyalty and reward the consumer for that to counter purchase for the premium                            |

|     |                                          |                                                                                                                                               |                                                                                                                                              |
|-----|------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| 14. | <b>Merchandise Deals<br/>(13 for 12)</b> | Where additional quantity of the same, same manufacturer's product is offered to trade may be offered jointly by non-competing manufacturers. | To load dealers with inventory, expose other products of the sponsor, encouraging dealers to sell more and early to realise their incentive. |
| 15. | <b>Point-of-Purchase<br/>(POP)</b>       | Those special displays, racks, banners, exhibits, that are placed in the retail store to support the sale of a brand.                         | To attract traffic at retail store, remind customers, encourage impulse buying, ensure additional visibility to the advertising campaign.    |

Source: *Donald W. Cowell's article on Sales Promotion and the Marketing of Local Government Recreation and Leisure Services, European Journal of Marketing, 18.2.*

Though ideal for consumer goods, sales promotion is also used for promoting industrial goods. The difference in the use lies in the types of schemes offered, and in the frequency of their offer. Sales promotion schemes offered to industrial customers, besides the usual gifts, price-off, coupons and contests, include product demonstration, training of customer staff, offer of interest-free installment payment plan, ready and regular availability of repairs and spares, and posting of trained staff to assist/supervise in the working of the equipment in the client's premises, at the manufacturer's cost. The sales promotion schemes offered at the level of industrial distributors are: provision of extended credit and provision of specialised technical staff at the manufacturer's cost, besides the usual cooperative advertising and sales promotion, gifts, and organisation of distributors' contests. The sales promotion schemes popularly used to motivate the industrial sales force are: prizes and awards on special achievements, sales contests, new accounts contests and prompt service awards.

### 3.6 Towards a Promotional Strategy

After gaining an understanding of the concepts, issues and decision areas relating to four methods of promotion – advertising, publicity, personal selling and sales promotion, let us recall the need for determining the promotion mix (discussed earlier and make few observations concerning the formulation of a promotional strategy. You would recall that promotion constitutes one of the important elements of the marketing mix of a firm. Each firm has a need to perform its promotion (marketing communication) function effectively. Further, each of the four promotion methods has its own unique place in the marketing communications mix of a firm. The question facing marketers, therefore, is not which promotion method to use to meet

about the expected outcome of the decision will always remain no matter how much information you may have collected to base your decision on hard facts. Unforeseen factors have the uncanny ability of upsetting even the most stable apple cart.

For example, in the mid-1950's, Ford Motor Company in the USA had a 25 per cent share of the automobile market. The company wanted to introduce a new car model which would appeal to young executives and professionals. The decision was based on research which revealed that this market segment accounted for 25 percent of the market, and was expected to grow to about 40 percent. Ford spent colossal amounts researching and designing the new model which was named Edsel. When introduced in the market, the car was a total flop. This happened because of occurrence of three unforeseen events. Firstly, the youthful car market segment did not grow as rapidly as the market research had indicated. Secondly, the recession also set in at about this time and people began looking for more economical means of transportation. Thirdly, there was a sudden change in customer tastes, with people turning away from flashy exteriors, and the flamboyant Edsel was totally out of tune with new the taste for austerity and functional simplicity. This example highlights the fact that despite best research efforts, the outcome can still be unpredictable. As Raymond, a former Ford executive, commented on the Edsel fiasco, 'It is hard to see how anyone could, given the kind of climate that existed in 1945 and 1956, have anticipated such trends...'

The risk also arises because of uncertainty of what will happen in the future, the way the customers or distributors would behave, the manner in which the competition will react, and so on. To the extent that research provides information about the future, it anticipates the future, thus providing the manager with a solid basis for his decision-making. However, it cannot provide perfectly exact or accurate information. But since the techniques of marketing research are based on scientific methods of collecting, analysing and interpreting data, its findings and projects, at the least, provide a definite trend of scenarios for future decision-making.

The third purpose of marketing research is that *it helps firms in discovering opportunities which can be profitably exploited*. These opportunities may exist in the form of untapped customer needs or wants not catered to by the existing firms. Food Specialities Limited (manufacturers of Nescafe Coffee, Lactogen Powdered Milk) have recently introduced in the Indian market a dairy whitener (as a substitute for milk) called 'Every Day' to be used for making tea and coffee. The product has proved to be a success because it is most convenient for use in offices, where tea and coffee are consumed in large quantities but

milk is not easy to procure. Every Day fulfils a slot in the market for powdered milk which was not being catered to by the existing milk powders brands.

### 3.4 Scope of Marketing Research

Marketing research (MR) is concerned with all aspects of marketing, relating to product design and development, product-mix, pricing, packaging, branding, sales, distribution, competition, target customer segments and their buying behaviour, advertising and its impact. Specifically, the scope of MR includes customers, products, distribution, advertising, competitive information and macro-level phenomenon.

- 1) Marketing is concerned with identifying and fulfilling customer needs and wants. Thus, MR should precede marketing. The unfulfilled wants should first be identified and translated into technically and economically feasible product ideas, which then should be marketed to the customers. But mere identification of customer wants is not enough. Marketing requires continuous effort to improve the existing product, increase sales and beat the competition. For this, it is important to know who the customers are for your products (whether housewives, teenagers, children), what their socio-economic profiles (in terms of income, education, cultural, religious and professional background) and where they are concentrated in terms of location. Besides this information, it is also important for you to know the process by which a prospective customer arrives at a decision to buy your product. If you know the sequential steps in the purchase process and the influencing variables in each, you can design appropriate strategies to exert a positive impact on them, and thus ensure an actual purchase. The study of consumers and their purchase behaviour is so important that there is a separate, special body of knowledge known as *Consumer Behaviour*.
- 2) The second area which is of direct concern for MR is product and product design. MR is helpful in determining the final design of the product and its physical attributes of colour, size, shape, packaging, and brand name. It is useful in arriving at the right combination of product mix, the number of variations of the basic product, accessories and attachments. It can also help decide the quantities to be produced according to the projected demand estimates. MR can also be used to gauge customer reactions to different prices.
- 3) Marketing research helps in discovering what types of distribution channels and retail outlets are most profitable for

(nuclear or joint family), type of retail outlet (speciality, general merchant, department store, etc).

**Chronological:** Chronological classification is that in which data is classified according to the time when the event occurred.

In **geographical** classification, the data is classified according to the time when the event occurred.

## 2) Summarising the Data

The first step in summarising the data is the tabulation. Individual observations or data are placed in a suitable classification in which they occur and then counted. Thus, we know the number of times or the frequency with which a particular data occurs. Such tabulation leads to a frequency distribution as illustrated in Table 1 below:

**Table 1: Frequency Distribution**

| No. of units sold in April 2006 | No. of shops which achieved this sale |
|---------------------------------|---------------------------------------|
| Up to 100                       | 23                                    |
| 101 – 120                       | 25                                    |
| 121 – 140                       | 37                                    |
| 141 – 160                       | 19                                    |
| 161 – 180                       | 19                                    |
| 181 – 200                       | 11                                    |
| Above 200                       | 4                                     |

The **frequency distribution** may involve a single variable as in Table 1 or it may involve two or more variables, which is known as cross-classification or cross-tabulation.

The frequency distribution presented per se may not yield any specific result or inference. What we want is a single, condensed representative figure which will help us to make useful inferences about the data and also provide a yardstick for comparing different sets of data. Measures of average or central tendency provide one such yardstick. The three types of averages are the mode, median and mean.

### Mode

The mode is the central value or item that occurs most frequently. When the data is organised as a frequency distribution, the mode is that category which has the maximum number of observations (in the 121 – 140 category in Table 1). A shopkeeper ordering fresh stock of shoes for the season would make use of the mode to determine the size which is most frequently sold. The advantage of the mode is that it is easy to

between 5 & 7, etc.), physical characteristic (weak eyesight, overweight), income, lifestyle, etc.

Children comprise the market for toys. But in this broad category, the market can be viewed to be made up of many smaller markets or segments: one market for pre-school children, another for school-going children, one market comprised of educational toys, one for mechanical toys, one for electrical toys, one for indoor games, etc. The choice before the marketing manager is whether to cater for the broad market of toys or to only one or two of the specific market segments. MR can help answer questions such as 'To what extent should the market segmentation be pursued?' and 'What should be the basis for segmentation?'

- v. **Test Market:** This is a controlled experiment to predict sales or profit consequence of the various marketing strategies. It refers to trying out something in a particular market before extending it on a larger scale. You may have noticed advertisements for soaps, or snack foods which sometimes carry the message 'available only in Lagos' or 'available only in Onitsha'.

Test marketing is used not only for new products but also for researching into the impact on sales of retail level promotional displays and promotional schemes such as coupons and discounts.

- vi. **Distribution Channel Studies:** Market research can be used to determine the most effective and profitable distribution channels for different types of products.
- vii. **Determination of Market Characteristics:** Research surveys can be conducted to collect information about the market characteristics which would help a new entrant plan his entry or help an existing company focus its strategy more sharply for increasing market share. Information can be collected on the number of brands competing in the market, state of technology prevailing in the market, geographical concentration and dispersal of customers, nature of outlets selling the products, number of such retail outlets, etc.
- viii. **Determination of Competitive Information:** Research can provide information on the marketing strategies used by various competing brands and the 'unique selling proposition' of each.

## 2) Product Research

This can be used for:

- (a) Evaluation of new product ideas
- (b) Testing for new product acceptance
- (c) Evaluating the need for change in product formulation
- (d) Testing package design in terms of aesthetic appeal, protection for the product, and ability to withstand transportation and stocking ordeal
- (e) Testing for product positioning. For example, should a new brand of tea be positioned on the basis of its fragrance and taste, or colour and strength, or price?

## 3) Business Economics and Corporate Research

- (a) **Studies of Business Trends:** These are to determine industries with growth potential and those facing a stagnant future.
- (b) **Pricing Studies:** These are to estimate the demand level at different prices. Such studies reveal the extent to which customers are sensitive to price changes, and provide valuable clues to the market or in assessing the impact of price increase or decrease on sales.
- (c) **Diversification Studies:** These provide information on the profitable new opportunities of business growth which a firm can consider for diversification. The diversification may be into totally new and unknown areas or into allied areas.
- (d) **Product-Mix Studies:** If a firm is considering diversifying into allied product areas, it may like to find out the product-mix combinations which would optimise its existing resources and provide synergy for growth. A company in the business of cooking oil would like to do research into one or more of the following products for arriving at a 'synergistic' product-mix: butter, spices, dehydrated foods, frozen foods, instant food mixes, custard powder, branded wheat flour and rice.
- (e) **Plant and Warehouse Location Studies:** Research is also needed to determine the best possible location for setting up a new plant. Before arriving at a decision, a firm would need to research into factors such as availability of raw material and labour, proximity to market place, telecommunication and transport infrastructure, financial, taxation and other incentives applicable to each location. In case of warehouse location, you would research into movement patterns of goods to different