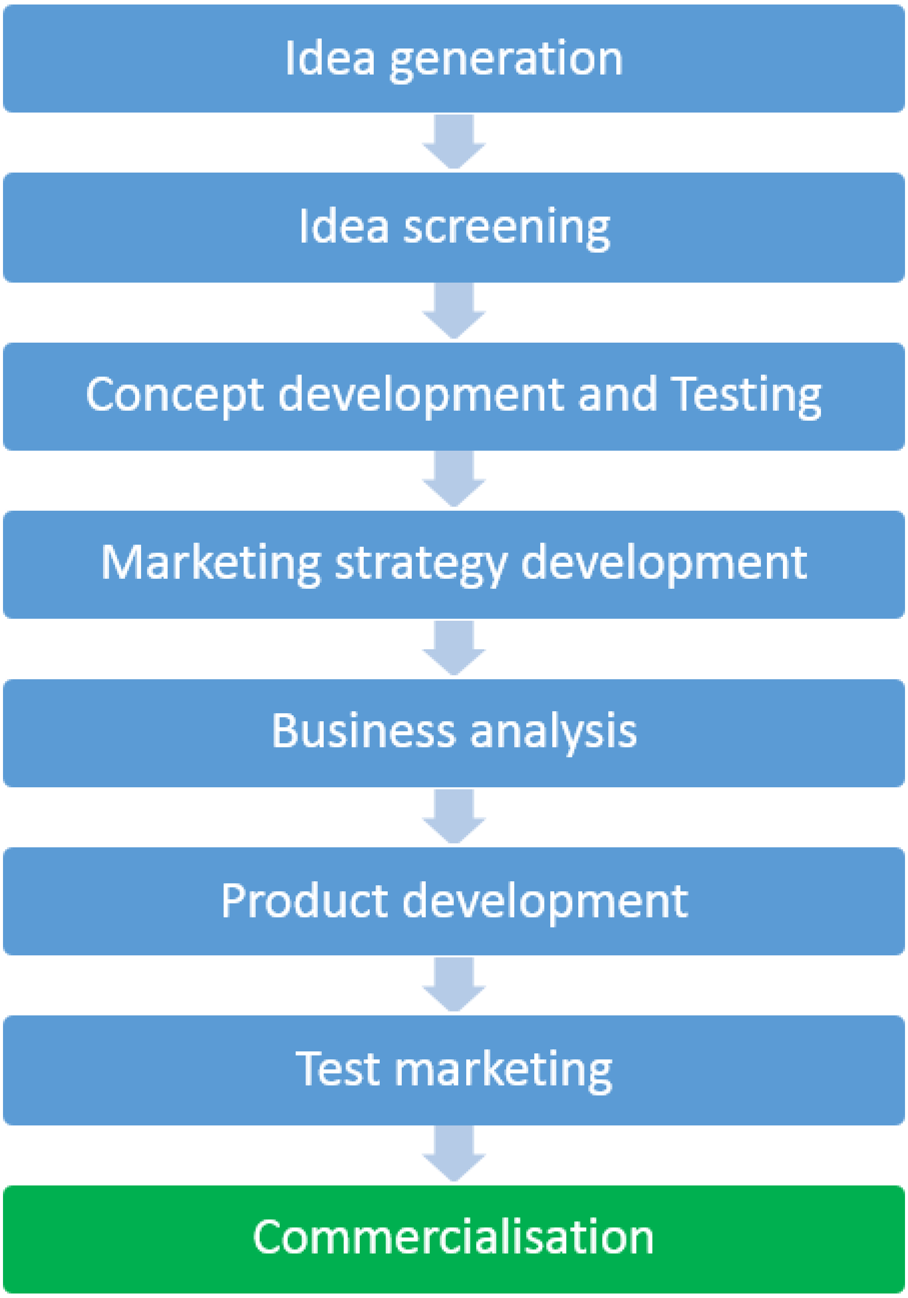
SHREE H.N.SHUKLA COLLEGE OF MANAGEMNENT STUDIES, RAJKOT

STUDY MATERIAL OF MBA SEM-2

SUB: MARKETING MANAGEMNET (4529203)

MODULE-3 MODULE-3 CHAP-1 NEW PRODUCT DEVELOPMENT



- In order to stay successful in the face of maturing products, companies have to obtain new ones by a carefully executed new product development process.
- But they face a problem: although they must develop new products, the odds weigh heavily against success. Of thousands of products entering the process, only a handful reach the market. Therefore, it is of crucial importance to understand consumers, markets, and competitors in order to develop products that deliver superior value to customers. In other words, there is no way around a systematic, customer-driven new product development process for finding and growing new products. We will go into the eight major steps in the new product development process.

1. Idea generation: The new product development process starts with idea generation. Idea generation refers to the systematic search for new-product ideas. Typically, a company generates hundreds of ideas, maybe even thousands, to find a handful of good ones in the end. Two sources of new ideas can be identified:

Internal idea sources: the company finds new ideas internally. That means R&D, but also contributions from employees.

External idea sources: the company finds new ideas externally. This refers to all kinds of external sources, e.g. distributors and suppliers, but also competitors. The most important external source are customers, because the new product development process should focus on creating customer value.

2. Idea screening: The next step in the new product development process is idea screening. Idea screening means nothing else than filtering the ideas to pick out good ones. In other words, all ideas generated are screened to spot good ones and drop poor ones as soon as possible. While the purpose of idea generation was to create a large number of ideas, the purpose of the succeeding stages is to reduce that number. The reason is that product development costs rise greatly in later stages. Therefore, the company would like to go ahead only with those product ideas that will turn into profitable products. Dropping the poor ideas as soon as possible is, consequently, of crucial importance.

3. Concept development and Testing: To go on in the new product development process, attractive ideas must be developed into a product concept. A product concept is a detailed version of the new-product idea stated in meaningful consumer terms. You should distinguish

A product idea à an idea for a possible product.
A product concept à a detailed version of the idea stated in meaningful consumer terms
A product image à the way consumers perceive an actual or potential product.

Let's investigate the two parts of this stage in more detail.

Concept development
Imagine a car manufacturer that has developed an all-electric car. The idea has passed the idea screening and must now be developed into a concept. The marketer's task is to develop this new product into alternative product concepts. Then, the company can find out how attractive each concept is to customers and choose the best one. Possible product concepts for this electric car could be:

- Concept 1: an affordably priced mid-size car designed as a second family car to be used around town for visiting friends and doing shopping.
- Concept 2: a mid-priced sporty compact car appealing to young singles and couples.
- Concept 3: a high-end midsize utility vehicle appealing to those who like the space SUVs provide but also want an economical car.

As you can see, these concepts need to be quite precise in order to be meaningful. In the next sub-stage, each concept is tested.

Concept testing
New product concepts, such as those given above, need to be tested with groups of target consumers. The concepts can be presented to consumers either symbolically or physically. The question is always: does the particular concept

have strong consumer appeal? For some concept tests, a word or picture description might be sufficient. However, to increase the reliability of the test, a more concrete and physical presentation of the product concept may be needed. After exposing the concept to the group of target consumers, they will be asked to answer questions in order to find out the consumer appeal and customer value of each concept.

4. Marketing strategy development:

The next step in the new product development process is the marketing strategy development. When a promising concept has been developed and tested, it is time to design an initial marketing strategy for the new product based on the product concept for introducing this new product to the market.

The marketing strategy statement consists of three parts and should be formulated carefully:

A description of the target market, the planned value proposition, and the sales, market share and profit goals for the first few years

An outline of the product's planned price, distribution and marketing budget for the first year

The planned long-term sales, profit goals and the marketing mix strategy.

5. Business analysis:

Once decided upon a product concept and marketing strategy, management can evaluate the business attractiveness of the proposed new product. The fifth step in the new product development process involves a review of the sales, costs and profit projections for the new product to find out whether these factors satisfy the company's objectives. If they do, the product can be moved on to the product development stage.

In order to estimate sales, the company could look at the sales history of similar products and conduct market surveys. Then, it should be able to estimate minimum and maximum sales to assess the range of risk. When the sales forecast is prepared, the firm can estimate the expected costs and profits for a product, including marketing, R&D, operations etc. All the sales and costs figures together can eventually be used to analyse the new product's financial attractiveness.

6. Product development:

The new product development process goes on with the actual product development. Up to this point, for many new product concepts, there may exist only a word description, a drawing or perhaps a rough prototype. But if the product concept passes the business test, it must be developed into a physical product to ensure that the

product idea can be turned into a workable market offering. The problem is, though, that at this stage, R&D and engineering costs cause a huge jump in investment.

The R&D department will develop and test one or more physical versions of the product concept. Developing a successful prototype, however, can take days, weeks, months or even years, depending on the product and prototype methods.

Also, products often undergo tests to make sure they perform safely and effectively. This can be done by the firm itself or outsourced.

In many cases, marketers involve actual customers in product testing. Consumers can evaluate prototypes and work with pre-release products. Their experiences may be very useful in the product development stage.

7. Test marketing: The last stage before commercialisation in the new product development process is test marketing. In this stage of the new product development process, the product and its proposed marketing programme are tested in realistic market settings. Therefore, test marketing gives the marketer experience with marketing the product before going to the great expense of full introduction. In fact, it allows the company to test the product and its entire marketing programme, including targeting and positioning strategy, advertising, distributions, packaging etc. before the full investment is made.

8. Commercialisation: Test marketing has given management the information needed to make the final decision: launch or do not launch the new product. The final stage in the new product development process is commercialisation. Commercialisation means nothing else than introducing a new product into the market. At this point, the highest costs are incurred: the company may need to build or rent a manufacturing facility. Large amounts may be spent on advertising, sales promotion and other marketing efforts in the first year.
Some factors should be considered before the product is commercialized:

- Introduction timing. For instance, if the economy is down, it might be wise to wait until the following year to launch the product. However, if competitors are ready to introduce their own products, the company should push to introduce the new product sooner.
- Introduction place. Where to launch the new product? Should it be launched in a single location, a region, the national market, or the international market? Normally,

companies don't have the confidence, capital and capacity to launch new products into full national or international distribution from the start. Instead, they usually develop a planned market rollout over time.

In all of these steps of the new product development process, the most important focus is on creating superior customer value. Only then, the product can become a success in the market. Only very few products actually get the chance to become a success. The risks and costs are simply too high to allow every product to pass every stage of the new product development process.

NEW PRODUCT DEVELOPMENT CHALLENGES:

1. Ideation

The first checkpoint in product development is idea generation. As easy as it sounds, some companies often hit idea roadblocks when making decisions. Sometimes, these obstacles result from a lack of actionable intel on the potential product and the consumer. Other times, ideation can stall due to bureaucracy and disjointed workflows.

2. Market viability

An idea might sound good on paper, but the practical application in the marketplace just lacks any financial promise. As a PM, always analyze a product's market viability before development starts.

Market research will give you information about the competition and the audience. Don't create a product because all your competitors are doing the same thing. Even if you want to go down the same route, focus on novelties to attract users.

3. Product roadmap problems

Creating a product is a head-scratcher for PMs who lack extensive development experience. Some PMs often lack the proper tools to accurate a product strategy efficiently. And this slows down the entire process.

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4. Workflow management

The synergy between collaborating teams affects the development speed and quality of the final product. As a product manager, getting every contributor on the same page is your responsibility.

This process often involves communication with every member of the organization at the same time. You also have to resolve conflicts between independent teams in the absence of a team lead.

5. Product engineering issues

Engineering dependencies also hinder the progress of product initiatives. For instance, if you want to create an app, and the design team misses the deadline, the entire development team has to wait until a prototype is ready for review.

6. Pricing policy

Turning an idea into a product is one thing, but putting a price on it is a whole different ball game.

If you charge too much for the product, nobody will buy it. If you charge a low price, you risk incurring massive losses. So, it is all about finding that sweet balance in pricing for your consumers.

7. The pace of innovation

The exponential pace of innovation is also driving the speed of change in the marketplace. This problem is prevalent in companies that have slow-paced review and feedback cycles.

8. Time-to-market

Your company's ability to meet deadlines and launch timelines will determine the product's market positioning. Although all the issues mentioned earlier affect the overall time-to-market, some roadblocks can stall the development process significantly.

Here are common issues that can affect time to market:

- **Unforeseen circumstances**

The great elephant in the room is the COVID-19 pandemic. Most companies had to overhaul their entire workforce management to address the changes. Some businesses like Hotels.com had to abandon products to accommodate the financial impacts of the pandemic.

- **Legacy systems**

Legacy systems are often cheap to maintain, but their unpredictability makes them a liability in the product development cycle. If your legacy software malfunctions, it can set back the company by a few months.

- **Hiring delays**

Poor recruitment policies can slow down a product's launch timeline significantly. For instance, onboarding new designers to work on a prototype can slow down the design process. And since most companies are not ready for teleworking, they will struggle to train new hires and meet deadlines.

So, set objectives for every development stage and ensure that every member can visualize these goals in real-time.

- **Compliance issues**

With the influx of new products into the marketplace, regulatory bodies are now more strict on compliance and standards of quality.

For example, Google banned the Parler app for promoting illegal activity on its platform. This ban highlights the strictness and ever-changing industry standards and regulations.

- **Post-launch improvement**

The product's life cycle does not end after the product launch. You still need to plan updates and provide customer support.

MODULE-3 CHAP-2 BRAND MANAGEMENT

What is Brand Equity?

Brand equity describes the level of sway a brand name has in the minds of consumers, and the value of having a brand that is identifiable and well thought of. Organizations establish brand equity by creating positive experiences that entice consumers to continue purchasing from them over competitors who make similar products.

This is done by generating awareness through campaigns that speak to target-consumer values, delivering on promises and qualifications when consumers use the product, and loyalty and retention efforts. By offering consumers loyalty incentives such as points that can be exchanged for discounts or a free product on their birthday, they are more likely to continue to purchase from your brand rather than moving on to a competitor. Awareness and experience are the two key tenets of brand equity.

- **Awareness:** Can consumers easily identify your brand? Messaging and imagery surrounding your brand should be cohesive so consumer can always identify it, even for a new product. What kinds of values do consumers associate with the brand? Perhaps they think of sustainability, quality, or family friendly qualities.

- **Experience:** How have first hand experiences with your brand gone? This could mean that the product performed the way it was supposed to, that encounters with brand representatives and customer service teams have been accommodating and helpful, and that loyalty programs have been worthwhile.

BRAND EQUITY MODEL:

Customer-based brand equity (CBBE) is used to show how a brand's success can be directly attributed to customers' attitudes towards that brand.

The best-known CBBE model is the Keller Model, devised by Professor of Marketing Kevin Lane Keller and published in his mighty Strategic Brand Management.
The Keller model is a pyramid shape and shows businesses how to build from a strong foundation of brand identity upwards towards the holy grail of brand

Keller's Brand Equity Model – CBBE Model

equity 'resonance': where customers are in a sufficiently positive relationship with a brand to be advocates for it.

The way up to the resonance level affords a brand opportunities to recognize and capitalize on its customers' loyalties and attitudes – both positive and negative. By dividing CBBE into Keller's four levels, marketers can understand what their customers want and need before they've even bought the product, or maybe even before they know they want it.
The iPad is a stunning example of this CBBE: from the robust foundation of Apple's brand identity, the iPad was developed to look great, be easy to use, do everything its customers wanted, and more. Customers loved it and any glitches that attracted negative responses were quickly patched. Before long, iPad users were extolling its virtues and their loyalty, and the iPad is now ubiquitous in stores, health centers, schools, offices and homes. It's a classic example of something we didn't know we needed or wanted until we saw one. Now we can't do without it.

Let's take a look at how the four levels of Keller's CBBE work:

Level 1: Brand Identity (who are you?)
This is how customers look at your brand and distinguish it from others. It explores the words and images buyers associate with when they hear a particular brand name. It's the most important level and must be strong to support the rest of the pyramid above it. Brand identity quantifies the breadth and depth of customer awareness of a brand. Start to build it when customers are unaware of your products and values, attracting them with ad campaigns and targeted marketing.

Level 2: Brand Meaning (what are you?)

Once customers become aware of your brand, they'll want to know more about your product. They'll question its features, looks and style, reliability, durability, customer experience and value for money, to find its brand meaning. For the purposes of brand reputation, Level 2 is split into two categories:

- Brand performance: This covers product functionality, reliability, durability, and price as well as customer service and satisfaction. It's 'it does what it says on the tin' territory and when it performs well, customer opinion will be positive.
- Brand imagery: different, but equally important, imagery meets the customers' social and psychological needs. What does the brand appear to be to customers? Volvo appears Scandi-chic, family-orientated, safe and eco-responsible; Cushelle soft, homely and cozy. This messaging can come out in targeted marketing and word of mouth.

Level 3: Brand Response (What are the feelings for the brand?)

On this level of Keller's model, judgment and feelings can be hard to separate and are intensely personal for each individual customer. One customer may judge the brand irrelevant to them, whereas another will find it completely relevant. Another may make their own value comparison against another product, harshly or fairly. And add to the mix actual interaction and perceived reputation and you can see how hard it can be to quantify how customers feel about a brand and how much they trust it. Companies need to respond to judgments and build positive feelings about the brand once they know what they are.

Level 4: Brand Resonance (a strong relationship, WHAT ABOUT YOU AND ME)

The apex of Keller's CBBE model is resonance: when a customer is loyal to a brand, considers it superior, will buy no other and advocates its merits to others. Many things resonate with customers: lifetime experience, customer service, products and value. A good measure for resonance is the Net Promoter Score that asks one simple question: 'How likely is it that you would recommend [Product X] to a friend or colleague?".

Keller's model is deceptively beautiful in its simplicity; building customer-based brand equity is, in reality, a long and hard road. When you start at the bottom with a great brand identity, then get customers to know your brand and your business gradually, you'll create a brand that people will like, trust and which will ultimately be successful.

DEVISING BRANDING STRATEGIES:

Devising **a Branding Strategy # 2: Brand Extension**

When the firm uses an established brand to introduce a new product, the strategy is referred to as **Brand Extension**.

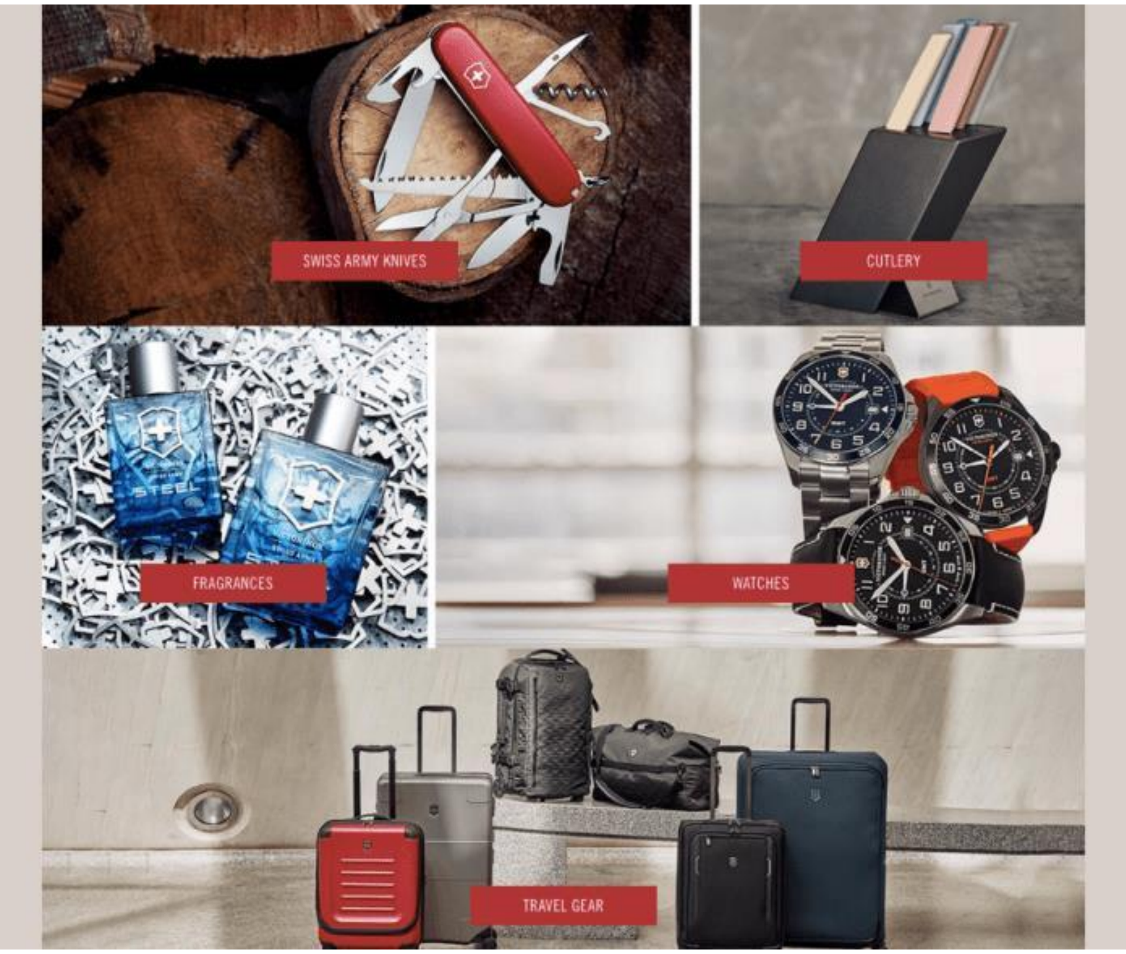
Brand Extension falls into two categories – **Line extension** OR **Category extension**. The existing brand which gives birth to the Line OR Category Extension is the **Parent Brand**.

a) Line Extension

Line extension refers to the parent brand covering a new product within the same product category. The new product in this can be a new flavour, a new colour or even a new size packet. Importantly, the new product should be in the same product category.

E.g. Nestle Maggi original product has seen many line extensions. The new products added to the line fall into the same product category and fulfil the same need of the customer with some variations. Below is how the different variants look like in India as on date

b) Category Extension



When the parent brand is used to enter a new product category altogether, it is referred to as a **Category Extension**.

Example: Victorinox is well known for its high-quality swiss army knives. However, the company has used the same brand to enter into different categories like Watches, Cutlery, Fragrances, Travel Gear, Pens, etc-

Similarly, brands like Honda, BMW are in both 4 and 2 wheeler mobility business and carry the same brand in both the categories.

A **Brand Line** refers to a range of the original and all variants of the product.

A set of all **Brand Lines** is referred to as the **Brand Mix (or Brand Assortment)** offered by the company. The brand mix/brand assortment comes into picture primarily because of catering to needs to various channel partners. e.g. Pepsico makes an entire range for the B2B channel priced at a premium.

MODULE-3 CHAP-3 DEVELOPING SERVICES:

What is a Service?

A **service** is any act of performance that one party can offer another that is essentially intangible and does not result in the ownership of anything; its production may or may not be tied to a physical product.

Categories of Service Mix

- Pure tangible good
- Good with accompanying services
- Hybrid
- Service with accompany goods
- Pure service

STAGE	GOODS %	SERVICE %
1	100	0
2	70	30
3	50	50
4	30	70
5	0	100

- The service component can be a minor or a major part of the total offering. We distinguish five categories of offerings:

1. A pure tangible good such as soap, toothpaste, or salt with no accompanying services.
2. A tangible good with accompanying services, like a car, computer, or cell phone, with a warranty or customer service contract. Typically, the more technologically advanced the product, the greater the need for high-quality supporting services.
3. A hybrid offering, like a restaurant meal, of equal parts goods and services.
4. A major service with accompanying minor goods and services, like air travel with supporting goods such as snacks and drinks.

5. A pure service, primarily an intangible service, such as babysitting, psychotherapy, or massage.

Service Distinctions

- Equipment-based or people-based
- Service processes
- Client's presence required or not
- Personal needs or business needs
- Objectives and ownership

DISTINCTIVE CHARACTERISTICS OF SERVICES:

Six key distinguishing characteristics of services are as follows: a. Intangibility b. Inseparability c. Variability d. Perishability e. Heterogeneity f. Lack of Ownership.

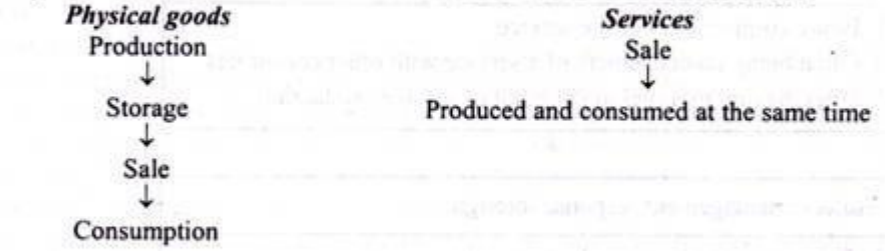
1. Intangibility:

Services cannot generally be seen, tasted, felt, heard or smelt before being bought. The potential customer is unable to perceive the service before (and sometimes during and after) the service delivery. For many customers of car repair, for example the service is totally intangible – they often cannot see what is being done and many indeed are unable to evaluate what has been done.

2. Inseparability:

There is a marked distinction between physical goods and services (Figure 2.3) in terms of the sequence of production and consumption.

Figure 2.3 : SEQUENCE OF PRODUCTION AND CONSUMPTION



Whereas goods are first produced, and then stored, and finally sold and consumed, services are first sold, then produced and consumed simultaneously. For the production of many services (e.g. counselling, museums, hairdressing, rail travel, hotels) the customer must be physically present.

Some services may be produced and delivered in circumstances where the customer's presence is optional, e.g. carpet cleaning, plumbing. Other services may rely more on written communication, e.g. distance learning course, or on technology, e.g. home banking. Whatever the nature and extent of contact, the potential for inseparability of production and consumption remains.

3. Variability:

An unavoidable consequence of simultaneous production and consumption is variability in performance of a service. The quality of the service may vary depending on who provides it, as well as when and how it is provided. One hotel provides a fast efficient service and another short distance away delivers a slow, inefficient service. Within a particular hotel, one employee is courteous and helpful while another is arrogant and obstructive. Even within one employee there can be variations in performance over the course of a day.

4. Perishability:

Lalpari Campus, Near Lalpari Lake,
B/H Marketing Yard, Amargadh (Bhichri), Rajkot
Ph. No. 9824976126
3 – Vaishalinagar Nr. Amrapali Railway Crossing
Raiya Road, Rajkot - 360001
Ph.No–(0281)2471645

Services cannot be stored for later sale or use. Hotel rooms not occupied, air line seats not purchased, and college places not filled cannot be reclaimed. As services are performances they cannot be stored. If demand far exceeds supply it cannot be met, as in manufacturing, by taking goods from a warehouse. Equally, if capacity far exceeds demand, the revenue and/or value of that service is lost.

5. Heterogeneity:

Even though standard systems may be used, for example to handle a flight reservation, to book in a customer's car for service or to quote for insurance on his life. Each 'unit' of a service may differ from other 'units'. Franchise operations, attempt to ensure a standard of conformity, but ultimately it is difficult to ensure the same level of output in terms of quality. From the customers' viewpoint too it is difficult to judge quality in advance of purchase; although this element also applies to some product marketing.

6. Lack of ownership:

Lack of ownership is a basic difference between a service industry and a product industry because a customer may only have access to or use of a facility (e.g. a hotel room, a credit card). Payment is for the use of, access to or hire of items. With the sale of a tangible good, barring restrictions imposed say by a hire purchase scheme, the buyer has full use of the product.

MODULE-3 CHAP-4 PRICING DECISION

TOPIC-1 CONSUMER PSYCHOLOGY AND PRICING

Marketers recognize that consumers often actively process price information, interpreting it from the context of prior purchasing experience, formal communications (advertising, sales calls, and brochures), informal communications (friends, colleagues, or family members), point-of-purchase or online resources, and other factors. Purchase decisions are based on how consumers perceive prices and what they consider the current actual price to be—not on the marketer's stated price. Customers may have a lower price threshold, below which prices signal inferior or unacceptable quality, and an upper price threshold, above which prices are prohibitive and the product appears not worth the money.

Three key topics for understanding how consumers arrive at their perceptions of prices are **reference prices, price-quality inferences, and price endings.**

• Reference prices. Although consumers may have fairly good knowledge of price ranges, surprisingly few can accurately recall specific prices. When examining products, they often employ reference prices, comparing an observed price to an internal reference price they remember or an external frame of reference such as a posted "regular retail price." Marketers encourage this thinking by stating a high manufacturer's suggested price, indicating that the price was much higher originally, or pointing to a competitor's high price. Clever marketers try to frame the price to signal the best value possible. For example, a relatively expensive item can look less expensive if the price is broken into smaller units, such as a $500 annual membership for "under $50 a month," even if the totals are the same.

• Price-quality inferences. Many consumers use price as an indicator of quality. Image pricing is especially effective with ego-sensitive products such as perfumes, expensive cars, and designer clothing. When information about true quality is available, price becomes a less significant indicator of quality. For luxury-goods customers who desire uniqueness, demand may actually increase price because they then believe fewer other customers can afford the product.

- • Price endings. Customers perceive an item priced at $299 to be in the $200 range rather than the $300 range; they tend to process prices "left to right" rather than by rounding. Price encoding in this fashion is important if there is a mental price break at the higher, rounded price. Another explanation for the popularity of "9" endings is that they suggest a discount or bargain, so if a company wants a high-price image, it should probably avoid the odd-ending tactic.

TOPIC-2 SETTING UP THE PRICE

A firm must set a price for the first time when it develops a new product, when it introduces its regular product into a new distribution channel or geographical area, and when it enters bids on new contract work. The firm must decide where to position its product on quality and price.

TABLE 11.1 Steps in Setting a Pricing Policy

1. Selecting the Pricing Objective
2. Determining Demand
3. Estimating Costs
4. Analyzing Competitors' Costs, Prices, and Offers
5. Selecting a Pricing Method
6. Selecting the Final Price

Step 1: Selecting the Pricing Objective

Five major pricing objectives are: survival, maximum current profit, maximum market share, maximum market skimming, and product-quality leadership. Companies pursue survival as their major objective if they are plagued with overcapacity, intense competition, or changing consumer wants. As long as prices cover variable costs and some fixed costs, the company stays in business. To maximize current profits, a firm estimates the demand and costs associated with alternative prices and chooses the price that produces maximum current profit, cash flow, or rate of return on investment. However, the company may sacrifice long- run performance by ignoring the effects of other marketing variables, competitors' reactions, and legal restraints on price.

Some companies want to maximize their market share, believing a higher sales volume will lead to lower unit costs and higher long-run profit. With market-penetration pricing, firms set the lowest price, assuming the market is price sensitive. This strategy is appropriate when (1) the market is highly price sensitive and a low price stimulates market growth; (2) production and distribution costs fall with accumulated production experience; and (3) a low price discourages actual and potential competition.

Step 2: Determining Demand

Each price will lead to a different level of demand and have a different impact on a company's marketing objectives. The normally inverse relationship between price and demand is captured in a demand curve. The higher the price, the lower the demand. For prestige goods, the demand curve sometimes slopes upward. Some consumers take the higher price to signify a better product. However, if the price is too high, demand may fall.

Price Sensitivity The demand curve shows the market's probable purchase quantity at alternative prices, summing the reactions of many individuals with different price sensitivities. The first step in estimating demand is to understand what affects price sensitivity. Generally speaking, customers are less price sensitive to low-cost items or items they buy infrequently. They are also less price sensitive when (1) there are few or no substitutes or competitors; (2) they do not readily notice the higher price; (3) they are slow to change their buying habits; (4) they think the higher prices are justified; and (5) price is only a small part of the total cost of obtaining, operating, and servicing the product over its lifetime.

Estimating Demand Curves Most companies attempt to measure their demand curves using several different methods. They may use surveys to explore how many units consumers would buy at different proposed prices. Although consumers might understate their purchase intentions at higher prices to discourage the company from pricing high, they also tend to exaggerate their willingness to pay for new products or services. Price experiments can vary the prices of different products in a store or of the same product in similar territories to see how the change affects sales. Also, statistical analyses of past prices, quantities sold, and other factors can reveal their relationships.

Price Elasticity of Demand: Marketers need to know how responsive, or elastic, demand is to a change in price. If demand hardly changes with a small change in price, we say it is inelastic. If demand changes considerably, it is elastic. The higher the elasticity, the greater the volume growth resulting from a 1 percent price reduction. If demand is elastic, sellers will consider lowering the price to produce more total revenue. This makes sense as long as the costs of producing and selling more units do not increase disproportionately.

Step 3: Estimating Costs

The company wants to charge a price that covers its cost of producing, distributing, and selling the product, including a fair return for its effort and risk. Yet when companies price products to cover their full costs, profitability isn't always the net result.

Types of Costs and Levels of Production A company's costs take two forms, fixed and variable. Fixed costs, also known as overhead, are costs such as rent and salaries that do not vary with production level or sales revenue. Variable costs vary directly with the level of production. For example, each calculator produced by Texas Instruments incurs the cost of plastic, microprocessor chips, and packaging. These costs tend to be constant per unit produced, but they're called variable because their total varies with the number of units produced.

Total costs consist of the sum of the fixed and variable costs for any given level of production. Average cost is the cost per unit at that level of production; it equals total costs divided by production. Management wants to charge a price that will at least cover the total production costs at a given level of production.

TOTAL = FC+VC/UNITS

10+30/4

10

Step 4: Analyzing Competitors' Costs, Prices, and Offers

Within the range of possible prices identified by market demand and company costs, the firm must take competitors' costs, prices, and possible reactions into account. If the firm's offer contains features not offered by the nearest competitor, it should evaluate their worth to the customer and add that value to the competitor's price. If the competitor's offer contains some features not offered by the firm, the firm should subtract their value from its own price. Now the firm can decide whether it can charge more, the same, or less than the competitor.

Step 5: Selecting a Pricing Method/Strategies

1. Price Skimming (High Price)

Price skimming is when you have a very high price that makes your product only accessible upmarket.

Price skimming is typically associated with luxury items and only works if you have a product or service that is highly valuable or perceived as highly valuable. Brands like Rolex, Mercedes-Benz and Louboutin use a price skimming model, and the high price reinforces their luxury perception.

2. Penetration Pricing (Low Price)

Penetration pricing is the opposite of price skimming. Instead of going to market with a high price, companies using a penetration pricing strategy have a low-priced solution in order to capture as much market share as possible.

For example, expense management software Expensify uses a penetration pricing model in combination with product-led growth. Their low price draws initial users, and then more users within a company will adopt the tool due to its functionality.

3. Price Discrimination

A price discrimination strategy is when you set a different price for the same product based on the market status of the buyer.

For example, movie theaters sell discounted tickets for children and seniors. Even though their tickets cost less, people in those demographics can see the same movies and sit in the same seats as customers paying full-price for their tickets. The purchased experience is the same, but the price is different based on their demographics.

4. Value-Based Pricing

Value-based pricing is a strategy that uses the value customer's gain from the product or service as the basis for the cost, ignoring the cost of production.

This strategy works well when your product or service is innovative and can't be easily swapped with an alternative.

The early year's of iPhones are a great example of this: the cost to manufacture the phones are significantly less than the market price, but because none of the existing smartphones at the time had a similar functionality, Apple was able to set a high price and establish what the "value" of touch screen smartphones was.

Value-based pricing can also be used when your product or service is significantly better than alternatives that can accomplish the same function.

5. Time-based pricing

A time-based pricing strategy is typically used by companies whose product or service has high-seasonality or last-minute purchases.

Airlines exemplify this: it's more expensive to book flights during peak seasons and cheaper if you're traveling during off-seasons. Additionally, the closer you book to the travel date, the more expensive the ticket will be.

For time-based pricing to work, you need to have a system in place tracking the factors at play and adjusting prices accordingly, especially if buyers can make a purchase without talking to sales.

Step 6: Selecting the Final Price

Company Pricing Policies The price must be consistent with company pricing policies. Although companies may establish pricing penalties under certain circumstances, they should use them judiciously and try not to alienate customers. Many companies set up a pricing department to develop policies and establish or approve decisions. The aim is to ensure salespeople quote prices that are reasonable to customers and profitable to the company.

Gain-and-Risk-Sharing Pricing Buyers may resist accepting a seller’s proposal because they perceive a high level of risk, such as in a big computer hardware purchase or a company health plan. The seller then has the option of offering to absorb part or all the risk if it does not deliver the full promised value. An increasing number of companies, especially B-to-B marketers, may have to stand ready to guarantee any promised savings but also participate in the upside if the gains are much greater than expected.

Impact of Price on Other Parties How will distributors and dealers feel about the contemplated price? If they don’t make enough profit, they may choose not to bring the product to market. Will the sales force be willing to sell at that price? How will competitors react? Will suppliers raise their prices when they see the company’s price? Will the government intervene and prevent this price from being charged? For example, it is illegal for a company to set artificially high “regular” prices, then announce a “sale” at prices close to previous everyday prices.

TOPIC-3 PRICE-ADAPTATION STRATEGIES

1. **Geographical pricing**

2. **Discounts/allowances pricing**

3. Promotional pricing

4. Differentiated pricing

1. Geographical pricing

Barter: Barter is the direct exchange of goods between two parties in a transaction.

Compensation deal: Compensation deals involve payment in goods and in cash

Buyback arrangement: The term buyback agreement refers to a business arrangement whereby one party sells inventory to a second party, with the promise to repurchase the inventory at a future point in time.

Offset: Counter purchase or offset trade, is probably the most frequently used type of counter trade.

For this trade the seller agrees to sell a product at a set price to a buyer and receives the payment in cash.

2. Discounts/ Allowances

- Cash discount

E.g. Flat or up to 10% or buy 2 get 20% off

- Quantity discount

E.g. Buy 2 get 3 free

- Functional discount

E.g. Within 10 days, Via Paytm. ICICI credit card etc…

- Seasonal discount

E.g. Summer, winter, etc…

- Allowance : allowances are payments or price reductions given to dealers for participating in sales and support programmes.

3. Promotional Pricing Tactics

1. Loss-leader pricing:

Examples of loss leaders include selling low-cost computer printers that need expensive ink

2. Special-event pricing:

E.g. reducing prices in retail stores at certain times of the year (e.g. immediately after Christmas) to attract customers.

3. Cash rebates:

E.g. Cash Rebate is the money refunded to customers who buy merchandise from retailers within a specified time.

4. Low-interest financing:

E.g. Low, promotional interest rates can save you a great deal of money when you finance your car or Home, Not only are your monthly payments lower, but your total interest payments can be significantly less.

5. Longer payment terms:

E.g. More Days for payment

6. Warranties and service contracts:

E.g. Many consumer products, including cars, appliances and electronic devices come with a warranty

E.g. A service contract is sometimes called an "extended warranty," but service contracts are not warranties. A service contract can help you fix or maintain your product for a specific time — like a warranty

7. Psychological discounting:

E.g. The idea behind psychological pricing is that customers will read the slightly lowered price and treat it lower than the price actually is.

An example of psychological pricing is an item that is priced Rs. 299 but conveyed by the consumer as 300 Rs.

4. Differentiated Pricing

1. Customer-segment pricing:

Price segmentation is simply charging different prices to different people for the same or similar product or service.

2. Product-form pricing:

E.g., cosmetics and clothing brands are the best examples. Product-form Pricing: Different prices charged for different variants of the same product. E.g., The price of the same type of a car may vary because of different color and add-on features.

3. Image pricing:

Also known as 'premium pricing', image pricing is a widely practiced marketing strategy where in the prices are set higher because it's believed that a premium price would also increase consumer desire.

4. Channel pricing:

Channel Pricing is different from traditional pricing because traditionally price was based on the value of the product .But now the value is determined by the entire customers experience including the interaction that the customer has with the distribution channels. The channel pricing covers the charges for the third party involvement on supplier's side.

Sr.No.	Question	Answer
1.	In order to stay successful in the face of maturing products, companies have to obtain new ones by a carefully executed new product development process. True/False?	True
2.	The new product development process starts with what?	Idea generation
3.	What refers to the systematic search for new-product ideas?	Idea generation
4.	What refers to all kinds of external sources, e.g. distributors and suppliers, but also competitors	External idea sources
5.	The most important external source are whom?	Customers
6.	What means nothing filtering the ideas to pick out good ones?	Idea screening
7.	While the purpose of idea generation was to create a large number of ideas, the purpose of the succeeding stages is to reduce that number. True/False?	True
8.	To go on in the new product development process, attractive ideas must be developed into a product concept. True/False?	True
9.	Which concept is a detailed version of the new-product idea stated in meaningful consumer terms?	A product concept
10.	Whose task is to develop this new product into alternative product concepts?	The marketer’s
11.	When a promising concept has been developed and tested, it is time to design an initial marketing strategy for the new product	True

	based on the product concept for introducing this new product to the market. True/False?	
12.	Once decided upon a product concept and marketing strategy, management can evaluate the business attractiveness of the proposed new product. True/false?	True
13.	The fifth step in the new product development process involves a review of the sales, costs and profit projections for the new product to find out whether these factors satisfy the company's objectives. True/false?	True
14.	In order to estimate sales, the company could look at the sales history of similar products and conduct what?	Market surveys
15.	When the sales forecast is prepared, the firm can estimate the expected costs and profits for a product, including marketing, R&D, operations etc. True/False?	True
16.	All the sales and costs figures together can eventually be used to analyse the new product's financial attractiveness. True/False?	True
17.	The new product development process goes on with what?	The actual product development
18.	If the product concept passes the business test, it must be developed into a physical product to ensure that the product idea can be turned into a workable market offering. True/False?	True

19.	Which department will develop and test one or more physical versions of the product concept?	The R&D department
20.	Who involve actual customers in product testing?	Marketers
21.	Consumers can evaluate prototypes and work with pre-release products. Their experiences may be very useful in the product development stage. True/False?	True
22.	In which stage of the new product development process, the product and its proposed marketing programme are tested in realistic market settings?	Test marketing
23.	What gives the marketer experience with marketing the product before going to the great expense of full introduction?	Test marketing
24.	What allows the company to test the product and its entire marketing programme, including targeting and positioning strategy, advertising, distributions, packaging etc. before the full investment is made.	Test marketing
25.	What is the final stage in the new product development process?	Commercialization
26.	What means nothing else than introducing a new product into the market?	Commercialization
27.	If the economy is down, it might be wise to wait until the following year to launch the product. True/False?	True
28.	if competitors are ready to introduce their own products, the company should push to introduce the new product sooner. True/False?	True

29.	In all of these steps of the new product development process, the most important focus is on creating superior customer value. True/False?	True
30.	What is the first checkpoint in product development?	Idea generation
31.	What will give information about the competition and the audience?	Market research
32.	Which process often involves communication with every member of the organization at the same time?	Workflow Management
33.	Turning an idea into a product is one thing, but putting a price on it is a whole different ball game. True/False?	True
34.	What describes the level of sway a brand name has in the minds of consumers, and the value of having a brand that is identifiable and well thought of?	Brand equity
35.	Organizations establish brand equity by creating positive experiences that entice consumers to continue purchasing from them over competitors who make similar products. True/False?	True
36.	What is CBBE?	Customer-based brand equity (CBBE)
37.	What is used to show how a brand’s success can be directly attributed to customers’ attitudes towards that brand?	Customer-based brand equity
38.	The best-known CBBE model is the Keller Model, devised by whom?	Professor of Marketing Kevin Lane Keller.
39.	What is a pyramid shape and shows businesses how to build from a strong foundation of brand identity upwards towards the holy grail of brand equity ‘resonance’?	The Keller model

40.	By dividing CBBE into Keller's four levels, marketers can understand what their customers want and need before they've even bought the product. True/False?	True
41.	How customers look at your brand and distinguish it from others?	Through Brand Identity
42.	Diversification is best described as which of the following?	New products for new markets
43.	New products for new markets	Competitive parity method
44.	The emotional attachment of a customer towards a brand is known as _______________.	Brand loyalty.
45.	What is price skimming?	Setting an initially high price which falls as competitors enter the market.
46	_______________price refers to the high initial price charged when a new product is introduced in the market.	Skimming.
47	________________is the practice of charging a low price right down from the beginning to stimulate the growth of the market.	Penetration.
48	________________ is the marketing and financial value associated with a brand's strength in a market.	Brand equity.
49	Testing before launching a product is known as________________.	Test marketing.
50	The emotional attachment of a customer towards a brand is known as _______________.	Brand loyalty.
51	The practice of using the established brand names of two different companies on the same product is termed as________________.	Co-branding.

52	_______________is the most common method used for pricing.	cost plus pricing.
53	The number of customers exposed to the brand is called _______________.	Brand licensing.
54	Under______________pricing, price is set on the basis of managerial decisions and not on the basis of cost, demand, competition etc.	Administered.
55	Premium pricing is also termed as _______________.	High pricing.
56	_______________means giving a name to the product by which it should become known and familiar among the public.	Branding.
57	Which of the following is not a characteristic of service marketing:	Reparability.
58	Maximizing the market share is the objective of company in________________ stage of product life cycle.	Growth.
59	During the________________stage of PLC the sales grow at diminishing rates and project starts declining.	Maturity.
60	When there is a large potential market for a product, the firm will adopt:	Penetration price policy
61	Target pricing is also known as _______________.	Rate of return price.
62	The legalized revision of a brand is known as _______________.	Trademark.
63	Setting a price below that of the competition is called.	Penetration pricing.
64	Generally _______________ is an indication of quality.	Price.
65	Pricing strategies are more specific and short term than________________.	Pricing policies.
66	The number of customers exposed to the brand is called _______________.	Quality variation.
67	Setting price on the basis of the demand for the product is known as _______________	Demand Based Pricing

68	Premium Pricing is a method of _______________	Cost Based Pricing
69	Which of the following are possible pricing objectives	To maximise profits To achieve a target market share To match the competition, rather than lead the market
70	The strategy of using as many outlets as possible is called_______________.	Intensive distribution.
71	Which of the following is the largest retail enterprise in the world.	Wal-Mart.
72	A________________operates multiple retail outlets under common ownership in different cities and towns.	Retail chain.
73	Green marketing is a part of _______________.	Social marketing.
74	Internet advertising includes web advertising, _______________etc.	E-mail.
75	The aim of relationship marketing is _______________delight.	Customer.
78	_______________ is called printed salesmanship.	Advertisement.
77	When the advertisement is to create an image or reputation of the firm, it is called _______________advertising.	Institutional.
78	Tele- marketing is a part of _______________.	Direct marketing.
79	Direct marketing refers to a communication between the _______________ and _______________directly.	Seller and the buyer.
80	Television is a type of _______________ media.	Broad cast.
81	he four elements; channels of distribution ,transportation, warehousing and inventory constitute_______________.	Distribution mix.
82	_______________is the oral presentation in a conversation with one or more prospective buyers for the purpose of making sales.	Coupons.

83	A market where goods are sold in bulk quantities to the customers is known as _______________.	Wholesale market.
84	Which is the features of direct marketing _______________.	Open dialogue. One-to-one communication Personal relationships.
85	Organization which sell their products the internet directly to consumers are called.	B2C.
86	Direct marketing is found more suitable to which of the following products.	Vacuum cleaner.
87	The process of direct communication between the sales person and a prospect is called:	Personal selling.
88	The main object of_______________ is to move forward a product, service or idea in a channel of distribution.	Promotion.
89	The strategy where the producer or marketer does not differentiate between different type of customers	Undifferentiated Marketing
90	Shiny hair in case of a shampoo is a _______________utility	Evolved
91	When a company strives to appeal to multiple well defined market segments with a strategy tailored to each segment, it is applying	differentiated marketing
92	A firm is abusing segmentation when it	becomes short run oriented rather than long run oriented 3.
93	Which of the following is not a criterion for successful market segmentation?	there must be difference among consumers
94		

	A consumer goods marketer produces multiple brands of shampoo that are positioned for	differentiated marketing
95	During which step of the marketing segmentation, targeting, and positioning process does the firm ―develop a marketing mix for each segment?‖	market targeting
96	In terms of goods and services, the function of marketing is to -------------------- demand	create
97	Branding is concerned with _____________ component of four ‗P'.	Product
98	A products position is located in the minds of ________________________.	consumer
99	Narrowly focused markets that are defined by some special interest are termed as	niche markets
100	The fundamental service benefit for which a customer is buying a product is__________ _.	Core benefit
101		

	The product that exceeds customers‗ expectations due to value addition is ______________.	augmented product
102	Product that surpasses all possible augmentations and transformation is called	Potential product
103	Tangible goods that can be used many times are___________.	durable
104	What usually directs a consumer behaviour towards attaining his / her needs is a	Stimuli
105	____________________is the process of evaluating each market segment‗s attractiveness and selecting one or more segments to enter.	Market targeting
106	Another word for complete segmentation is: a.	micromarketing.
107	When Campbell Soup makes Cajun gumbo soup for Louisiana and Mississippi and nacho cheese soup for Texas and California, it is practicing_________________segmentation	geographic
108	All of the following are major variables that can be used to segment business markets EXCEPT:	psychographics.

109	Micromarketing includes:	local marketing and individual marketing
110	When companies market products on the basis of what the product‘s attributes will do for a given segment of consumers, they are using a powerful form of behavioral segmentation known as:	benefit segmentation
111	________________ exists when all consumers have almost the same preferences and the market reflects no natural segments.	Homogenous preferences
112	Crack, an famous ointment from Paras Pharmaceuticals is an example of ________	Niche marketing
113	There are many large companies like IBM that have lost a chunk of their market share to nichers. Such form of confrontations have been termed as ___________	Guerillas against Gorillas
114	The movie Spiderman 3 was launched in India in five different languages, including Bhojpuri. It is an example of:	Local marketing
115	Ruff and tuff jeans product of Arvind Mills is an example of	Individual marketing
116		Behavioral

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	Readiness stage and attitude towards product are major segmentation variable in which category?	
117	The magazin	Nursery and primary school children
118	Sachet marketing was designed to specifically target the '____________market'.	Bottom of the pyramid
119	The magazine____________is targeted as the magazine of woman of substance.	Femina
120	The target market selection in which there is no or little synergy among the various segments but each state to be a money maker is	Selective specialization
121	When the focus is on making a single product and selling it to several different market segments, it is	Product specialization
122	When the focus is to meet the needs of a specific customer group, it is	Market specialization
123	Sunshine Conservatories has launched a series of ads in which it attempts to demonstrate its products superiority on selected attributes relative to competitive brands. It is attempting to __________its product.	Position
124	The core product:	Represents the central meaning of the product and conveys its essence.
125	The product mix may be divided:	Into a number of product lines.

126	The product mix should have depth, width and:	Consistency
127	Mercedes offers the SLK, CLK, _A‘ and _B‘ series. These are product________ which together make up the product__________.	Lines, width
128	If Irn Bru came in three sizes and two formulations (regular and hi-energy) then the depth of Irn Bru would be:	6
129	The depth of a product mix is measured by the average number of:	Different products offered in each product line.
130	The AIO (activities, interests, opinions) questions are used for analyzing which of the following types of segmentation?	Psychographic
131	A noodle marketer promotes his product as a _ pure vegetarian and nourishing food‘ is applying the concept of _______________ segmentation.	geographic
132	The ad campaign of MRF – _ The power of knowledge‘ is an example of ___________________.	positioning on product features
133	The ad campaign of Kellog‘s corn flakes for breakfast is an example of __________________.	positioning for benefit
134	―Made in Germany‖ is an example of	positioning as per quality
135	Positioning is what a manufacturer does to the_______________________.	mind of prospect
136	Environmentally friendly‖ this is an example of positioning as per________________.	attribute
137	Low priced _PARKER‘pen is an example of _________________________.	stretching down
138	The strategy of choosing one attribute to excel at to create competitive advantage is	unique selling proposition

	known as (the):	
139	At one time, firms scattered their marketing efforts (a ―shotgun‖ approach) to reach consumers. Today, a firm is more likely to use:	a "rifle" approach, where the firm focuses on the buyers who have greater interest in the values that the firm creates best.
140	_____________is a promise made in a highly competitive manner which positions the product clearly in the minds of consumer.	USP
141	An unbranded and undifferentiated commodity is called as __________________product	generic
142	A product that exceeds customer‘s expectations due to value addition is __________product	augmented
143	Goods that customers usually purchase frequently with minimum efforts are ___________ goods.	convenience
144	A/An________is a new product that the customer is not yet aware of.	unsought good
145	All of the following would be considered to be in a company‘s microenvironment EXCEPT:	Political forces.