



Rural Management Marketing Perspective

First Edition



MHRD

Government of India
Ministry of Human Resource Development

Editorial Board

Dr W G Prasanna Kumar

Dr K N Rekha

Ms V Anasuya

First Edition: 2019

ISBN: 978-93-89431-03-2

Price: ₹ 750/-

All Rights Reserved

No part of this book may be reproduced in any form or by any means without the prior permission of the publisher.

Disclaimer

The editor or publishers do not assume responsibility for the statements/opinions expressed by the authors in this book.

© **Mahatma Gandhi National Council of Rural Education (MGNCRE)**

Department of Higher Education

Ministry of Human Resource Development, Government of India

5-10-174, Shakkar Bhavan, Ground Floor, Fateh Maidan Road, Hyderabad - 500 004

Telangana State. Tel: 040-23422112, 23212120, Fax: 040-23212114

E-mail : editor@mgncre.org Website : www.mgncre.org

Published by: Mahatma Gandhi National Council of Rural Education (MGNCRE), Hyderabad

Printed by: Saras Enterprises, Hyderabad

Cover Design and Layout: Mr. G Sivaram

Contents

About the Book

Block 1 Marketing Management for Rural Organizations

Chapters

- | | |
|------------------------------|-----|
| 1. Rural Marketing- Overview | 04 |
| 2. Rural Marketing Strategy | 36 |
| 3. Rural Distribution System | 60 |
| 4. ICTs in Rural Marketing | 76 |
| 5. Market Support | 100 |

Block 2 Product and Brand Management

Chapters

- | | |
|--|-----|
| 1. Introduction to Product Management | 123 |
| 2. Introduction to Competitive Structure | 147 |
| 3. Product Strategy, Product Offering & Analysis | 166 |
| 4. Brands, Branding & Brand Equity | 195 |
| 5. Brand Positioning & Branding Strategy | 220 |

Block 3 RM-Linking Markets for Rural Produce and SCM

Chapters

- | | |
|--|-----|
| 1. Introduction to Sales and Distribution Management | 247 |
| 2. Personal Selling Process, Sales Territories and Quota | 278 |
| 3. Sales Force and Distribution Management | 303 |
| 4. Distribution Management | 332 |
| 5. Management of Logistics and SCM | 366 |

Block 4 Rural Procurement Management and Retailing

Chapters

- | | |
|--|-----|
| 1. Introduction to Rural retailing and management | 408 |
| 2. Procurement of Retail Goods | 434 |
| 3. Retail Merchandising | 459 |
| 4. Retail Communication, Distribution and Store Management | 486 |
| 5. Retail Customer Behavior and Customer Service | 524 |

About the Book

India lives not in a handful of her big cities but in her 7,00,000 villages. 'Villages are still the backbone of India which provides us with food grains, vegetables, fruits without which we can't exist. More than 60% of the population lives in rural who depend on agriculture, dairy, agriculture allied business, handloom, handicraft and other business. Produces and Products from rural organizations are of a great demand at village level, in towns, cities, regional, national and global level. Rural Marketing is key for a developing economy like India. The opening up of the domestic economy to external competition and the emergence of purchasing power in the rural areas, managing rural business calls for a better understanding of the concept and processes of rural marketing. Most of the times the rise of minor institutions and organization goes unnoticed in the present national set-up. The accomplishments of Self-help Groups, Micro Finance Institutions, Farmers Interest Groups, Rural artisans' businesses, producer organisations have not reached to the larger mass or to the younger generation.

Block 2 discusses on Product Management with reference to rural management. A study by Accenture (2014) revealed that Indian rural consumers are changing their consumption attitudes, preferences and buying behavior rapidly. An overwhelming 71% of rural consumers are choosing branded products over unbranded products, as they perceive them to be trustworthy and reliable. As per the same study, as much as 66% weightage is being given to brand image, functionality and aesthetics while making purchase decisions. Business Organizations that capitalize on this opportunity can gain significant competitive advantage for a long-term future in rural markets.

Block 3 discusses on Linking Markets for Rural Produce and SCM, is coming out at a time when Indian domestic and international players are focusing on tapping the huge untapped business potential in Indian villages. New developments in sales and distribution management, and advancements in logistics and supply chain management are expected to provide the much needed push to the rural markets. This block intends to present a comprehensive picture of sales, distribution, and logistics and supply chain in general to the PG students. The contents are presented in a simple language with illustrations and examples to make it easy for the students to understand the concepts and the application of those concepts in real world.

The fourth block attempts on the challenges of rural distribution via an important link called rural retailing with the rural touch to the material. This curriculum contains examples from rural perspective representing different parts of India. It covers aspects like the process that product reaches the rural retail outlet. It talks about the retailer to stock a product or a brand, to ensure that enough stocks will be available at retail shelf in order to generate higher reach among the rural consumers. It also deals to understand the rural purchase behavior to understand profile and format of retailers, to understand the retail system in channel management. It also introduces the student to the various aspects of process of retailing in Indian rural markets. The study of rural marketing has become significant because of the saturation of the urban markets and the increase in the purchasing power of the rural population.

This book represents the collective efforts of so many remarkable individuals. We would like to thank the contributors to this volume for their collective wisdom, experience and insight. We would like to thank our Subject authors: Dr Poongodi, Assistant Professor, Kumaraguru College of Technology, Coimbatore; Dr Shahaida, Professor, Administrative Staff College of India, Hyderabad; Dr Neetha Mahadev, Professor, BNMIT; and Dr Monirul Islam, Assistant Professor, St Xavier's University, Kolkata. We would like to thank our reviewer, Prof Sampath Kumar, Associate Professor of Marketing Austin E Cofrin School of Business for reviewing the content on Product Management.

I would like to thank MGNCRE Team Members for extending extreme support in completing this book.

Dr W G Prasanna Kumar
Chairman, MGNCRE

Block 1

Marketing Management for Rural Organization



Mahatma Gandhi National Council of Rural Education

Department of Higher Education

Ministry of Human Resource Development, Government of India

Hyderabad - 500004



Contents

Chapter 1 Rural Marketing Overview

- 1.1 Introduction to Markets, Rural Market Environment, Types
- 1.2 Market Structure and Importance of Rural Markets
- 1.3 Market for Agricultural Inputs
- 1.4 Rural Producers & Rural Consumers
- 1.5 Rural Consumer Behavior

Chapter 2 Rural Marketing Strategy

- 2.1 Rural Market Segmentation
- 2.2 Targeting and Selection of Segments
- 2.3 Positioning Rural Products
- 2.4 4Ps of Marketing Mix
- 2.5 Role of Informal Communication

Chapter 3 Rural Distribution System

- 3.1 Rural Distribution System
- 3.2 Channels for Rural Products/Agricultural Produce Distribution
- 3.3 Marketing of Agricultural Produce Challenges
- 3.4 Agricultural Produce Market Committee
- 3.5 Other Marketing Institutions

Chapter 4 Information Communication & Technology in Rural Marketing

- 4.1 ICT in Rural Marketing
- 4.2 Role of Social Marketing in Marketing Rural Goods
- 4.3 e NAM
- 4.4 Agricultural Marketing Network
- 4.5 Rural God Owns

Chapter 5 Market Support

- 5.1 Rural Finance Supporting Rural Marketing Functions
- 5.2 Sources of Finance Role of Commercial Banks
- 5.3 Rural Credit National Level Credit Agency (NABARD)
- 5.4 Market Linkage
- 5.5 Contract Farming Linking Strategy in Dairy Sector A Case Study

Chapter 1 Rural Marketing Overview

Introduction

Marketing is undisputedly the most important function of all business organizations worldwide. Marketing starts with human needs, wants and demands. Substantially met with the availability of products and solutions in the form of goods, services and ideas. The consumer when in need, chooses the product which will satisfy him. The choice which involves the existence of a number of products is made by the value and expected satisfaction – here the consumer's estimate needs to be prioritized. An exchange occurs which is termed as 'a value creating process' in which both parties involved get better off due to it.

1.1 Introduction to Markets, Rural Market Environment, Types

Marketing

The word market is derived from the Latin word 'Marcatus' meaning goods or trade or a place where business is conducted. The term marketing is defined as a business activity planned at satisfying to a reasonable extent, consumer or customer needs and wants, generally through an exchange process. Rural generally refers to sparsely populated area outside of the limits of a city or town or a designated commercial, industrial or residential center. Organizations work from rural areas can be designated as rural organizations. Cottage, Micro, Small, Medium to Large scale business operate from rural areas now – a – days. With producers' organization and self help group concepts catching up with the support of financing institutions, Farmer Producers' Organizations are also rising many in numbers. The term Rural Marketing is a synthesis of two words – Rural and Marketing.

Kotler defines marketing as "a social and managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products of value with others". As per the definition by the American Marketing Association (AMA) "marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goals."

Market

Market traditionally is a place where buyers and sellers gather to exchange their goods. Market is a social and economic institution which performs activities and provides infrastructure for exchange of commodities between buyers and sellers. A market is not confined to a particular geographical location, it exists wherever the fundamental forces of demand and supply exist.

Market Components

The following components are necessary for a market to exist

1. Two parties are necessary – one buyer/s and secondly seller/s
2. Goods or commodity for transaction. Physical existence of goods is not necessary
3. Business relation and communication between buyer and seller
4. Demarcation – area or place there, uniform price or competition is not a condition

Classification of Markets

Based on nature and dimensions, markets are classified as under

(i) Area of Coverage

- a. Local Market Where buying and selling activities are taking place, where buyers and sellers belong to same or nearby villages. These are for perishable items like vegetables.
- b. Tehsil Level Markets Market catering to buyers and sellers of taluka area. Buyers and sellers meet for their stock of food grains and other daily use items.
- c. Regional Level Markets Usually at district headquarters to cater to a large area.
- d. National Level Buyers and sellers world over meet in this market. These are large scale markets and business value and volumes are large. The items transacted include, silver gold, nonferrous metals, petro goods and machinery. In the recent past, agricultural commodities have also entered the area.

(ii) Marshall has Classified Market in Accordance with the Time Period.

He considers four kinds of market

- a. The short period market – These markets are for few hours or a day in a week. Generally perishable goods like vegetables, fruits, milk, fish, mutton are traded. The prices are fixed on the basis of demand pattern.
- b. The long period market – Where perishable items for a long period are traded. The items are food grains, oilseeds and oil. The prices are governed by supply as well as demand forces in the market.
- c. The Permanent markets where commodities can be kept for any length of time like machinery, steel furniture, manufactured goods.



Fig. Sardar Market in Jodhpur – Common Items are Dyes, Embroidered Leather Shoes, Clay Figurines

It is to be remembered that the 'period' is not a calendar time. Above all, it depends on the nature of business and the nature of the commodity. A particular business may not have a long run view.

(iii) Degree of Competition Markets are seen from perfect competition to pure monopoly. The markets may exist in different intermediate points. Market may be perfect or imperfect. But in an imperfect competition, number of sellers may not necessarily be large. Markets can also be classified

according to the nature of the competition among buyers and sellers. We may have pure or perfect competition, monopoly, monopolistic competition, oligopoly, etc. These types are discussed in detail in 2.

Rural Marketing Environment

Rural India is evolving, is dynamic and has stood on its own for centuries. Rural India's population is more than one tenth of the world population and hence important to India and the world. The rural and urban environment are different. In many cases, a mixture is seen in few pockets of the same town or village. However, the definition of urban society adopted by 2001 census is as under – All places with a municipality, corporation, cantonment board or notified town areas committee and All other places with minimum population of 5000, at least 75 % of the male working population engaged in nonagricultural pursuits, a density of population of at least 400 persons per square kilometers. The reverse conditions of the urban society above may be taken as rural.

It is necessary to know the conditions of the markets. Marketing is conditioned by the environment which is ever changing. An overview of environment in India shows wide expanse of the market, under develop logistic, enormity of the growth of population and density of living, low literary multiplicity of languages, unemployment and underemployment, slow growth, low purchasing power and standard of living. India's vast market offers a huge potential for a rural enterprise with stiff competition in the urban markets. The entry of multinationals with special campaigns for the rural markets had made even more competitive for the rural enterprises to market in its own village space. The Rural market environment is very different from the familiar surroundings of the urban market. The rural market environment changed in the late 1990s post liberalization. Rapidly growing farm production, population size of the current rural markets and their potential; Rising incomes, improving infrastructure, favorable govt. policies and wide area offers huge potential for rural enterprises to make quality, unique and diverse products for the regional, national and even global markets.

Rural Marketing

Rural marketing can be defined as any marketing activity in which one dominant participant is from a rural area. This implies that the rural marketing consists of marketing of inputs (products and services) to the rural market as well as marketing of outputs from rural markets to other geographical area (Kotler, P., Keller K., Koshy A., Jha M.,2009).

The urban to rural flow covers goods and services of all agriculture inputs like fertilizers, pesticides, seeds, tractors, power tillers etc., consumables like bath and washing soaps, detergents, cosmetics, cigarettes, beverages etc , and consumer durables like bicycles, mopeds, television sets, radios, clocks, electrical goods, etc.

The rural to rural flow limits production and consumption within the rural area itself. Examples of such products are bamboo baskets, ropes, small agricultural tools like plough shares etc.. Mainly it is the artisans like blacksmith, carpenters and cobblers, who cater to the professional and household needs of the rural people.

Following are the areas in which Rural Marketing Environment changes

1. Social Changes
2. Economic Changes
3. Technological Changes
4. Political Changes
5. Ethical Changes
6. Physical Changes

1. Social Changes

It consists of three factors

Sociological Factor the society in which the people live influences the lifestyle, habits and tastes of people. Consumer society as well as the community to which they belong is very important. It influences the consumer lifestyle to a great extent.

Anthropological Factor Rural Marketing is affected by the culture and subculture and the living pattern of the society. This pattern influence sales promotions, advertising, selling strategies and packing.

Psychological Factors such as consumer behaviour, attitude, values, ethics and mentality vary from people to people. The study of behaviour is very important and essential while making marketing strategies.

2. Economic Forces

This consists of Competition, Consumers and Price. A good and healthy competition brings in good and overall improvement in economic activities. It also brings good quality, quantity and prices. The consumer today is quite knowledgeable and choosy. Their progress and wellbeing should be the aim of any economic activity. Pricing is a delicate issue where it should be market friendly, not too high or too little. The marketer has to keep in mind to get decent returns on investment and efforts of procedures and marketers.

3. Ethical Forces

Business minus ethical values brings degeneration. In the long run, it brings problems. No standardization, adulteration, exploitation and falsification are main ethical issues in such organizations.

4. Political Factors

The Government policies towards trade and commerce, internal taxation external levies and preferential treatments have profound influence on the marketing strategies. The marketing environment has to meet the political framework in which a government is made to work.

5. Physical Forces

The infrastructure availability for movement and storage of goods play an important role in the physical distribution of goods and reaching the consumers. Efficient and cheaper logistics helps the market in a big way.

6. Technological Forces

The fast changing science and technology give a cutting edge to the marketing of products. The change of processes reduces manufacturing, packaging and handling cost of products. The changes warrant changes in marketing, inputs and strategies. Faster and efficient communication and transport systems have speeded up markets. The capital is made to work faster and harder. So is the

case with the marketer. He has to use these new marketing tools and facilities in designing and implementing his marketing strategies which are adaptive to the changing environment and ensure success.

The impact of agro based industries on the occupational pattern of the rural population may also depend on the type of agro-based industries that are established. Some agro-based industries are likely to be relatively capital intensive in which case there would be relatively more white collar jobs in such industries than in labor intensive agro-base industries. This would mean relatively greater. Employment opportunities for the educated unemployed rather than for the uneducated rural unemployed. Basic occupations that exist and help directly agro related works are farm labourer, blacksmith, wahserman, shoe maker, milkman, priest, carpenter, barber and potter.

Village income is generated mostly by agricultural produce an allied activity. They are sale of agricultural produce, sale of animal produce, by services rendered by a village nurse or a teacher, by interest or investment, by mortgage, by donations and charities, the labour and other activities like sale of land, construction of bridges, roads, canals, sale of seeds, gold ornaments, etc.

Land has profound influence on the rural population. If the land becomes rich, the rural population becomes rich. The urban population that is hugely dependent on the rural products is also increasing. It is observed from the 2010 data that the urban population of India is steadily rising from 11 % to 30 % in a century. The capacity to spend by the villagers more depends entirely on the quality and quantity of agro based output. In case of urban people the expenditure pattern is monthly uniform. Purchases increase in religious occasions, marriages, festivals, etc.

In rural life, farmers are nearer to the nature. Land management is gaining importance because of increasing demands on land and growth of the population. Since independence, emphasis is given to land use and planning. The results are encouraging that forest area and cultivable land percentages have increased. Area available for cultivation is reduces, change of mindset of common man towards ecology, increasing greenery and that every square meter of land be used gainfully.

Sorokin and Zimmerman have set variables that distinguish rural and urban society. It's given below, P. A. Sorokin and C. C. Zimmerman in their "Principles of Rural –Urban Sociology" have given following decisive differences between the rural and the urban worlds.

Table 1.1 Differences between the Rural and the Urban Worlds

Topic	Rural World	Urban World
Occupation	Totality of cultivators and their families. In the community are usually a few representatives of several nonagricultural pursuits.	Totality of people engaged principally in manufacturing, mechanical pursuits, trade, commerce, professions, governing, and other nonagricultural occupations.
Environment	Predominance of nature over anthropic social environment. Direct relationship to nature.	Greater isolation from nature. Predominance of manmade environment over natural, poorer aid, stone and iron.

Size of community	Open farms or small commies, "Agriculturalism" and size of community are negatively correlated	As a rule in the same country and at the same period, the size of urban community is much larger than the rural community. In other words, urbanity and size of community are positively correlated.
Density of population	In the same country and at the same period the duty is lower than in urban community. Generally density and rural are negatively correlated.	Greater than in rural commies. Urbanity and density are positively correlated.
Heterogeneity and homogeneity of the population	Compare with urban populations, rural commies are more homogeneous in racial and psychological traits (Negative correlation with heterogeneity).	More heterogeneous than rural commies (in the same country and at the same time). Urbanity and heterogeneity are positively correlated.
Social differentiation and stratification	Rural differentiation and stratification less than urban	Differentiation and stratification show positive correlation with urbanity.
Mobility	Territorial, occupation and other forms of social mobility forms of social mobility of the population are comparatively less intensive. Normally the migration current carries more individuals from the country to the city.	More intensive. Urbanity and mobility are positively correlated. Only in the periods of social catastrophe is the migration from the city to the country greater than from the country to the city.
System of interaction	Less numerous contacts per man. Narrower area of the interaction system of its members and the whole aggregate. More prominent part is occupied by primary contacts. Predominance of personal and relatively durable relations. Comparative simplicity and sincerity of relations, "man is interacted as a human person".	More numerous contacts. Wider area of interaction system per aggregate. Predominance of secondary contacts. Predominance of impersonal casual and short live relations. Greater complexity, manifolds, superficiality and standardized formality of relations. Man is interacted as a "number" and "address"

Rural economy and its healthy all round growth is a prerequisite for progress and development of India. The rural society is traditional in its approach and has its own characteristics. The rural characteristics include nearness to mother natures, attachment to solid, agriculture as main or fundamental occupation with rural enterprises based on it, speed of social changes, mutual trust, cooperation and large population dependent on Agri and allied activities, community and its characteristics. There are two concepts in rural marketing which are rural in and rural out. The very relevant one for our course on marketing management for rural organizations is rural out factors. The rural environment is changing from homogeneous to heterogeneous.

1.2 Market Structure and Importance of Rural Markets

Market Structure

The Market Structure refers to the characteristics of the market either organizational or competitive, that describes the nature of competition and the pricing policy followed in the market. Thus, the market structure can be defined as, the number of firms producing the identical goods and services in the market and whose structure is determined on the basis of the competition prevailing in that market. As discussed in the previous 1, the term “market” refers to a place where sellers and buyers meet and facilitate the selling and buying of goods and services. But it is much wider than just a place. It is a gamut of all the buyers and sellers, who are spread out to perform the marketing activities.



Figure 1.1 Market Structure

The markets are classified on the basis of competition as under

Perfect Markets The perfect market in true sense does not exist. This presupposes that

- There are large numbers of buyers and sellers
- The buyers and sellers in the market have in depth knowledge of prices, demand and supply
- Prices are uniform in a geographical area

Imperfect Markets

In this market, the conditions of perfect market are lacking. These are

Monopoly Market

where there is only one seller of a commodity. He has sole control. The prices are generally higher. Example Railway services, Electricity Distribution are best examples. When there is only buyer the market is termed as monopsony market.

Monopolistic Competition has the Following Characteristics

- There exist several or many sellers
- Sellers sell differentiated products, that is, product of one seller is a fairly close substitute for those of other sellers

- Sellers have some influence over the price of their products
- There is freedom of entry and exit

An Oligopoly Market has the Following Attributes

- There exists small number of sellers
- Sellers may sell homogeneous or differentiated products
- Each oligopoly seller considers the effect of his action (namely, price) on other rival sellers (thus, sellers recognize their interdependence). The Erode Cooperative Marketing Society in Tamilnadu allows only its members to buy and sell, thus restricting the numbers of rival sellers. It can be said that its oligopoly in nature as there are only restricted number of sellers.
- Entry is restricted



Fig 1.2 Buyers Quoting Price for Auction for Turmeric in Erode, Tamilnadu

A Duopoly is a form of Oligopoly occurring when two companies control all or most of the market for a product or service. In other words, if any of the features of perfect competition are found to be absent then the market is to be called an imperfect one. Market structures thus range from the theoretical extremes of perfect competition and monopoly. In practice, we focus on the levels of market imperfection lying between these extremes. We have chosen two parameters—the number of firms in a market and the influence of any one firm on the market—to identify different markets.

Importance of Rural Markets

India still lives in villages. Around 68.84% of Indian population lives in 6,40,867 villages (2001 – 6,38,588 villages – 72.2% population). In 1901, the rural population in India comprised 89.2%, but in 2011 it has gone down to 68.8%. Growth in Rural Population in India is steadily declining since 1991. According to Census 2011, of the Indian Population (121 crore), rural population comprised 83.3 crore (2001 – 74.3 crore). For the first time since independence, the absolute increase (as well as in terms of percentage Urban areas 9.1% and for rural areas 9%) in population is greater in urban areas than rural areas. In terms of household rural household comprise 166 million (urban – 71 million). Traditional households in rural areas were joint families. But due to rise in population, pressure on land, increasing literacy, and separate sources of income, migration, etc. have given birth to more and more nuclear families.

Rural Markets are tomorrow's markets in India. On account of the green revolution in India, the rural areas are consuming a large quantity of industrial and consumer products produced near the urban. Rural market is growing faster than urban, rural marketing results into overall balanced economic and social development. Rural marketing turns beneficial to business s, people residing in rural areas, people residing in urban areas and to the entire nation. Growth and development of rural marketing contribute to overall prosperity and welfare in the following ways.

1. Reduced Burden on Urban Population

Rural marketing can contribute to rural infrastructure and prosperity. People can also live comfortably in villages due to availability of all goods and services in villages, even comparatively at low price. People, due to growth of marketing activities, can earn their livelihood in rural places. Population pressure on urban can be reduced.

2. Rapid Economic Growth

Naturally, marketing acts as catalyst agent for economic growth. There exists more attractive business opportunities in rural than urban. Rural market is more potential for consumer durables and services. Rural population largely depends on agriculture and it can contribute nearly 50% to total national income. Agriculture enjoys significant portion in export business, too. Rural marketing improves agricultural sector and improved agricultural sector can boost whole economy of the country.

3. Employment Generation

At present, nearly 70% of total Indian population feeds on agricultural activities in rural areas. Rural marketing can generate more attractive employment opportunities to rural and urban people. Growth of rural marketing leads to increased business operations, professional activities, and services that can generate a lot of employment opportunities.

4. Improved Living Standard

Due to rural marketing system, rural buyers can easily access needed standard goods and services at fair prices. In the same way, rural marketing improves rural infrastructure. Additionally, rural marketing can also improve their income. These all aspects can directly improve living standard.

5. Development of Agro-based Industries

Rural marketing leads to set up agro-based processing industries. Fruits, vegetables, cereals, pulses, etc., are used as raw materials. Such industries can improve farmers' profit margin and employment opportunities.

6. Optimum Utilization of Rural Untapped Resources

There are unlimited businesses opportunities exist in rural areas. Untapped and underutilized resources can be utilized at optimum level and that can further accelerate overall economic growth.

7. Easy Marketability of Agricultural Produces

Growth of rural marketing improves whole marketing system. Multiple options are available to farmers and local producers to market their products. Big domestic corporate houses and multinational companies prefer to buy agricultural products directly from villages by their own or through agents and small firms. Rural producers can sell their produces easily at satisfactory prices. Their improved income level can improve their purchasing power that can further fuel to industrial demand.

8. Improved Rural Infrastructures

Rural marketing and basic infrastructures go hand to hand. Growth of rural marketing leads to improved transportation, insurance, banking, communication, entertainment, and other facilities.

Due to availability of basic infrastructural facilities, business s can easily reach the target rural buyers.

9. Price Stability

Marketing results into better transportation, warehouses, and communication facilities. Agricultural products can be systematically marketed throughout the year. Huge gap between demand and supply can be avoided and, as a result, prices of most of commodities remain more or less stable.

10. Quality of Life and Reduced Crime

Marketing can refine entire living style and system. Better quality products at reasonable price, improved income level, availability of facilities, etc., have direct positive impacts on quality of life. Quality of life improves and level crime reduces.

11. Balanced Industrial Growth

The gap between rural and urban development can be reduced gradually. Rural development improves rural life and reduces pressure on urban life.

12. Others

Apart from these points, there are a number of ways that rural marketing can significantly contribute to economic and social development.

Some Points have been Listed Below,

1. Creating self-reliant villages
2. Increased literacy rate and overall development
3. Attracting giant business groups in rural places
4. Rigorous research and development in agricultural sector
5. Growth of academic and training institutes in rural areas
6. Increased representation of rural population, and increased political influence, etc.

Factors Contributing to the Change in the Rural Market

Rural communication Internet and Mobile have played the most important role for the growth of Rural Markets. The companies like BSNL, Airtel, and Reliance etc. have given maximum attention on villages for expansion of network. Broadband and 3G mobile and internet services are easily available in rural area. These facilities have opened the doors for companies to use latest technologies for brand promotion. Gone are the days when pamphlets distributions, exhibition, door to door selling techniques were used to bring awareness among rural consumers. Now it's the time of online marketing where customer can place order on net. Social networking sites have also provided a right platform for sales promotion. Around 50 percent of the villages are today connected by all weather roads and can be accessed throughout the year. But there are states, which are almost 100 percent connected with the metal roads. Road networking besides enhancing the mobility of rural consumers has increased their exposure to products and services. By watching such a scenario in these areas Korean consumer durable companies have decided to look beyond their noses. They are now placing their bets on rural markets. Two giants namely LG and Samsung have already made their strategies for entering into rural India. As per survey conducted by Indian Market Research Bureau (IMRB) 77 percent of the villages are covered by TV network. Now even villages are going for DTH like Dish TV, TATA Sky and they have already been enjoying exposure to various products through advertisements.

Emerging Role of Biotech in Indian Agriculture Sector

It is evident from the facts that Indian agriculture is trailing in terms of yield when compared with leading countries of the world. Countries like USA, Canada, Israel and Germany have achieved high yield in agriculture production but countries like India, Brazil and Nigeria are having agriculture yield much lower than international average. The major difference created in this respect is the use of the applications of biotechnology. Biotechnology has vital role to play in so far as enhancement of agriculture yield is concerned. For instance, the yield of wheat in USA per hectare is almost three times more than that of India and the yield of sugar cane is two and half times more if compared with the Indian yield of sugar cane per hectare. These advance countries have been making an extensive use of biotechnology whereas in developing countries the concept is not yet very popular. When we are living in the era of globalization everything is becoming globally competitive and therefore, we cannot live in isolation in terms of agriculture yield also. Rural produces have to make use of the applications of the biotechnology in an agriculture sector both in terms of generating quality seeds and cropping the same in compliance with the theories of biotechnology. Our farmers, who are normally not aware of this fact, have to be educated and the responsibility lies on the shoulders of researchers, scientists, administrators and the policy makers of the country. It will provide more discretionary income in the hands of the rural farmers.

Green Revolution

The substantial attention accorded to agriculture during the successive five year plans has helped in improving agricultural productivity. Adoption of new agronomic practices, selective mechanization, multiple cropping, inclusion of cash crops and development of allied activities like dairy, fisheries and other commercial activities have helped in increasing disposable income of rural consumers. Over 75 percent villages in India have been electrified. There is also a shift from rain dependence to irrigation. Farmers are getting high return for their cash and food crops. In the whole process, the dependence on seasonality has reduced, and in return there has been increasing disposable income. Since December 1999, HLL has reached out to 35,000 villages, 22 million households and spent Rs. 20 crores. This has been one of the largest sampling exercises in recent times conducted by a big business house.

Development Programmes

The five year plans have witnessed massive investments in rural areas in terms of number of developments programmes implemented by the central and state Introduction of Rural Marketing 53 Government. These programmes have generated incomes to ruralites and helped them to change their lifestyles.

Some of these programmes are

- Intensive Agricultural District Programme (IADP Package Programme)
- Intensive Agricultural Area Programme (IAAP)
- High Yielding Varieties Programme (HYVP Green Revolution)
- Drought Prone Areas Programme (DPAP)
- Small Farmers Development Agency (SFDA)
- Hill Area Development Programme
- Operation Flood I, II and III (White Revolution)
- Fisheries Development (Blue Revolution)

- Integrated Rural Development Programme (IRDP)
- Jawahar Rojgar Yojna (JRY).

These programmes are related with agriculture and allied activities but there are certain other policies which are specifically meant to raise the standard of the rural people in the field of health, education, sanitation etc. After the beginning of economic reforms in 1991, the Government has been giving special attention to the rural India by providing certain developmental schemes for these areas. Some announcements were made by the finance minister in the Union Budget 2000 to enrich the existing programmes and to initiate some new schemes for the rural areas like Kisan Credit Cards and Micro Finance.

Hence, we can see that today changes are taking place rapidly in all walks of life and rural areas are no exception to this. Improved infrastructure facilities, economic liberalization, renewed emphasis on agribusiness and small industries, fast changing agricultural technology, scope for commercialization of agriculture, greater budgetary provision for rural people are few reasons to mention. Moreover, various socio-cultural, psychological and political aspects of rural life are also changing. Rural dwellers today are less fatalistic, less attached to religious beliefs, getting more individualistic, achievement oriented and aspiring than before. All this has opened up new vistas for them to increase the rural production leading to increase in per capita income with a sustained growth which some of the states like Punjab, Haryana, Maharashtra, Tamilnadu, Karnataka, Gujarat, Delhi and Western UP are witnessing already.

1.3 Market for Agricultural Inputs

Agricultural marketing concerned with two aspects: that is the marketing of the farm produces and marketing of farm inputs that are consumed by the farms to produce Agricultural produces. Agriculture and allied sector contribute 11.85% of the total GDP and provide employment to around 54% Indian population (Planning Commission, 2014). The use of chemical fertilizers, pesticides and higher farm mechanization have played a positive role in increasing agricultural productivity and making India self sufficient in food grain production. In the 21st century, the challenges in Indian agricultural sector are quite different from the last decades. The higher emphasis to produce more food from less land with declining natural resources is a difficult task for the farmers. To keep up the steady of growth farm output a careful economic evaluation of inputs like seeds, fertilizers, irrigation sources etc. are of considerable importance. The impressive growth in agricultural production since independence has been generated by higher input use, particularly purchased inputs as well as technology induced productivity improvement. The key inputs which changed the face of agriculture in India include HYV (High Yielding Variety) seeds, chemical fertilizers, irrigation, pesticides, farm machineries and equipment, credit and labor. A specialized marketing effort is required to reach the farmers who are spread across the nooks and corners of the country. The paper tries to reveal the existing marketing and distribution network for the inputs that are used in the agricultural production.

Agricultural Inputs are defined as products permitted for use in organic farming. These include feedstuffs, fertilizers and permitted plant protection products as well as cleaning agents and additives used in food production. These agricultural inputs range from improved seeds, fertilizers and crop protection chemicals to machinery, irrigation and knowledge. Seeds are critical to successful crop production and inevitably, farm productivity and profitability. Fertilizer supplies

nutrients to the soil that are essential for growth. Input supply is an essential condition for agricultural production and supply response. Inputs are either produced on the farm, such as farm produced seeds, manure and compost, farm tools, etc.

Agricultural marketing is a dominant topic in the Indian marketing literature. The main focus is on marketing of agricultural produce and that of agricultural inputs like fertilizers, pesticides, seeds and farm machineries (Jha, 1998). According to Varshney (1997, p.251), the importance of an efficient marketing system for farm inputs may be judged by the following

- I. Farm products are produced in the country side. The effect of change in production method can, therefore, be realized only if the farm inputs reach the farmers in time at the least cost.
- II. The use of modern inputs by farmers largely depends upon the spread of information about them. The marketing system has to perform this function.
- III. An efficient marketing system for farm inputs is essential for the development of the inputs – manufacturing and supplying industries in the country. They support farm production which is the source of income for a very large part of rural population and create market for other consumable and durable products in rural areas.

The Agricultural inputs can be classified into Consumables and Durables/Capital inputs. The consumable Inputs can be seeds, fertilizers, pesticides, etc. On the other hand, the durable capital inputs can be tractors, harvesters, threshers, pump sets, etc. Classification of Agri-inputs

Table 1.2 Classification of Agricultural Inputs

Consumables	Durables
Seeds	Tractors
Oil and lubricants	Harvesters
Fertilizers	Threshers
Agrochemicals, etc.	Tools (levers, cultivators, etc.)

Source: Based on Singh (2001, p.7)

Evolution of Agricultural Input Marketing

It consists of following phases

Phase –I (From Independence to the middle of sixties) Agricultural Produces like Food grains, Industrial inputs, cotton, oilseeds, sugarcanes etc. are the main focus. The marketing focus for the firms supplying agricultural inputs was on fertilizers, seeds & pesticides etc. The artisans like blacksmiths, carpenters, cobblers & pot makers in rural areas who are supplying bamboo baskets, ropes, window & door frames, tools like ploughs, etc. received secondary consideration. Market for Tractors, harvesters, threshers, pump sets etc. was insignificant.

Phase – II (From middle of 1960s(Green Revolution) to mid nineties)During the period of green revolution the introduction of scientific farming practices have transformed villages into booming centers of business opportunities. The demand for agricultural inputs increases. Better irrigation facilities, soil testing, use of high yield variety of seeds, fertilizers, pesticides, and employment of machinery like power tills, harvesters, threshers etc. transformed the rural picture. Marketing of agricultural inputs attends higher significance. Two separate areas of events developed that is the traditional agricultural Marketing & the marketing of agricultural inputs from Urban areas to rural

farmers. Marketing of produces from rural received extensive attention. The establishments of agencies like Khadi & Village Industries Commission (KVIC), Girijan Cooperative Societies and special attention of govt. to promote these products. Village industries thrived and products like – Handicrafts, soaps, safety matches, crackers, handloom textiles etc. were sold in urban markets on large scale.

Phase – III (Middle of 1990s to 20th century) The marketing of household consumables and durables which was not the focus during the earlier phases was now attends greater significance. Earlier the rural market for the products from the urban areas was not large enough. These markets were remote, spread across distant areas. Small villages were far and wide making it difficult & expensive.

Phase –IV (21st century the era of Developmental marketing) The objective of present rural agricultural marketing is to enhancement of quality of life by satisfying the needs and wants of customers. It tries to offer a broad and integrated solution which involves a set of interconnected products & services. Faster development in Rural India, tied with increase in purchasing power because of scientific farming, changing lifestyle and consumption patterns, increase in education, social mobility, improved means of transportation & communications and other infiltrations of mass media like TV and its various satellite channels have exposed rural India to outside world and hence their outlook to life has changed. The focus is to integrate the rural population to the national mainstream and growth.

The 4 Ps in Agriculture Marketing

The 4Ps of marketing has to be altered as per the requirements and expectations of the rural farming population.

Product Strategy

The farmer consumers are more interested to know the technical details or the performance of the agricultural inputs. There is higher importance of product knowledge and advisory services provided by the technicians. The rural farmers markets generally show their liking for simple and easy to use products. The packaging of the product should give lot of pictorial demonstration and guides for convenience and easy to use. Spending too much unnecessary additional packaging increases the cost and does not add any convenience. The product literature on the cover packaging and in the user manuals should be expressed in simple and easy to understand local language. The information on the product should provide the clear functional benefits and in an unambiguous manner. The products should be able to stand up to the expected needs rural farmers and provide them value for money they spent.

Pricing Strategy

Agricultural inputs and industrial products share similar response patterns from the farmer users. It is being found that buyers of agricultural inputs products are more quality conscious than price conscious. Response to the different offering is likely to be influenced by the price factors. The rural customer is price sensitive and expects value for money. Therefore, the pricing has to be in accordance with their expectation. Marketing companies have to develop strategies that can make their products cheap for rural customers. Moreover the concept of value analysis should be applied to rural markets to make the products affordable. The technique value analysis involves replacing costly raw materials with inexpensive ones, without sacrificing quality and functionality. If the

product belongs to an expensive category, then the positioning has to be done in a way that the product is perceived as a bundle of utilities by the rural customer, which still provides value for money in this category.

Place Strategy

The levels of channel and the network intensity required for agricultural inputs are relatively higher than that required for industrial products. The channel act as a dispenser of agricultural inputs. The channel plays the role of both Pulling as well as pushing function. It is supported by advertisement, demonstrations, personal contacts and other extension means. All possible efforts should be made to make the products available near the target audience. Direct contact with the local suppliers and retailers needs to be established. Cooperative societies, public distribution system, feeder markets, village weekly markets fairs and festivals can be utilized to ensure adequate distribution of Agri-inputs products.

Formulating an integrated and efficient channel of distribution will always remain remains a challenge for the Agri-input marketers. Several companies in this sector have established distribution system that able to cater to the rural farming people efficiently.

Promotion Strategy

The Agri-input consumers share many similarities with the consumer goods customers. For example, the number of prospects to be reached is large, diverse and spread across different regions similarly the product groups require elaborate market segmentation. The promotional activities should be undertaken through media that are comfortable and appropriate for the rural areas. Positive word-of-mouth through local reference groups and opinion leaders is considered as the key to success in the rural markets. Traditional art forms such as puppet shows and street plays or creating awareness through village panchayat members can prove to be fruitful. Other methods like distribution of pamphlets, use of mobile vans for publicity and advertising through wall posters can also assist in establishing a relationship with the rural consumers.

Potential of Agri-inputs Industries

1. Large Population in rural areas which creates opportunities for the Agri-input industries
2. Rising Rural Prosperity that improves modern farming practices and use of durable farm equipment's
3. Growth in Consumption which show rise in purchase of inputs
4. Changing Lifestyle to adopt modern farming practices
5. Market Growth Rate is high due to awareness

Factors Influencing Agri-Input Marketing

1. Socio-cultural factors that influence the purchase decision adoption of modern farming practices and equipment
2. Migration of rural population to urban areas which shows less dependence on agriculture for livelihood or/and increase farm mechanization that require less dependence on laborers.
3. Occupational pattern with higher education
4. Literacy is required to understand the modern farming practice and products
5. Land distribution and use also increases or decreases the input consumption
6. Development Programmes carried out by govt. and semi-govt. agencies

7. Communication Media which has been spreading its network gives newer opportunity for Agri-input industries
8. Credit availability through banks and cooperative system has made easier for the farmers to modernize their farming.

Market for Agricultural Produces

With food being the crowning need of mankind, much emphasis has been on commercializing agricultural production. For this reason, adequate production and even distribution of food has of late become a high priority global concern. Agricultural produce has also been defined in section 65B of the GST Act which means any produce of agriculture on which either no processing is done or such processing is done as is usually done by a cultivator or producer which does not alter its essential characteristics but makes it marketable for primary market. It also includes specified processes in the definition like tending, pruning, grading, sorting etc. which may be carried out at the farm or elsewhere as long as they do not alter the essential characteristics.

Today's agricultural marketing has to undergo a series of exchanges or transfers from one person to another before it reaches the consumer. There are three marketing functions involved in this, i.e., assembling, preparation for consumption and distribution. Selling on any agricultural produce depends on some couple of factors like the demand of the product at that time, availability of storage etc. The products may be sold directly in the market or it may be stored locally for the time being. Moreover, it may be sold as it is gathered from the field or it may be cleaned, graded and processed by the farmer or the merchant of the village. Sometime processing is done because consumers want it, or sometimes to conserve the quality of that product. The task of distribution system is to match the supply with the existing demand by whole selling and retailing in various points of different markets like primary, secondary or terminal markets. Most of the agricultural produces in India are sold by farmers in the private sector to moneylenders or to village traders and are sold in various ways. For example, it might be sold at a weekly village market in the farmer's village or in a neighboring village. If these outlets are not available, then produce might be sold at irregularly held markets in a nearby village or town, or in the mandi. In India, there are several central government organizations, who are involved in agricultural marketing like, Commission of Agricultural Costs and Prices, Food Corporation of India, Cotton Corporation of India, Jute Corporation of India, etc.

There are also specialized marketing bodies for rubber, tea, coffee, tobacco, spices and vegetables. Under the Agricultural Produce (grading and marketing) Act of 1937, more than forty primary commodities are compulsorily graded for export and voluntarily graded for internal consumption. Although the regulation of commodity markets is a function of state government, the directorate of marketing and inspection provides marketing and inspection services and financial aid down to the village level to help set up commodity grading centers in selected markets. As we have a tradition of agricultural production, marketing and allied commercial activities, now it is the time for us to brainstorm and come out with new ideas of value added services. These value added services will give the existing agricultural engine a new dimension. The next logical step could be food processing which not only could be another revenue generating area but also can provide lots of fulltime employment to our youths. With the changing agricultural scenario and global competition, there is a need of exploiting the available resources at maximum level.

Another important development in the field of regulated markets is the keen interest taken by the International Development Agency (IDA) in the development of the infrastructure in regulated markets. The IDA is financing the development of infrastructure in 50 markets of Bihar. There is also some good news on the front of irrigation, rural infrastructure, restoring water bodies and water harvesting. Another action initiated to improve the governance of the Small Farmers Agribusiness Consortium (SFAC) including the appointment of a banker as the chief executive; necessary additional capital to be provided to SFAC.

Challenges in Rural Marketing

There are many problems to be tackled in rural marketing, despite rapid strides in the development of the rural sector. Some of the common problems are discussed below

- 1. Transportation** Transportation is an important aspect in the process of movement of products from urban production centers to remote villages. The transportation infrastructure is extremely poor in rural India. Due to this reason, most of the villages are not accessible to the marketing man. In our country, there are six lakhs villages. Nearly 50 per cent of them are not connected by road at all. Many parts in rural India have only kachcha roads. During the monsoons, even these roads become unserviceable. Regarding rail transport, though India has the second largest railway system in the world, many parts of rural India however, remain outside the rail network.
- 2. Communication** Marketing communication in rural markets suffers from a variety of constraints. The literacy rate among the rural consumers is very low. Print media, therefore, have limited scope in the rural context. Apart from low levels of literacy, the traditionbound nature of rural people, their cultural barriers and their overall economic backwardness add to the difficulties of the communication task. Post, telegraph, and telephones are the main components of the communication infrastructure. These facilities are extremely inadequate in the rural parts of our country. In rural areas, the literacy Problems of Rural Market in India – An Overview International Journal of Research in Business Studies and Management 5 percentage is still low, compared to urban areas. In India, there are 18 recognized languages. All these languages and many dialects are spoken in rural areas. English and Hindi are not understood by many people. Due to these problems, rural consumers, unlike urban consumers do not have exposure to new products.
- 3. Availability of Appropriate Media** It has been estimated that all organized media in the country put together can reach only 30 per cent of the rural population of India. The print media covers only 18 per cent of the rural population. The radio network, in theory, covers 90 per cent. But actual listenership is much less. TV is popular, and is an ideal medium for communicating with the rural masses. But it is not available in all interior parts of the country. It is estimated that TV covers 20 per cent of the rural population. But the actual viewership is meager. The cinema, however, is a good medium for rural communication. But, these opportunities are very low in rural areas.
- 4. Warehousing** storage function is necessary because production and consumption cycles rarely match. Many agricultural commodities are produced seasonally, whereas demand for them is continuous. The storage function overcomes discrepancies in desired quantities and timing. In warehousing too, there are special problems in the rural context. The central warehousing corporation and state warehousing, which constitute the top tier in public warehousing in our country, have not extended their network of warehouses to the rural parts. It is almost

impossible to distribute effectively in the interior outlets in the absence of adequate storage facilities. Due to lack of adequate and scientific storage facilities in rural areas, stocks are being maintained in towns only.

5. **Village Structure** in India In our country, the village structure itself causes many problems. Most of the villages are small and scattered. It is estimated that 60 per cent of the villages are in the population group of below 1,000. The scattered nature of the villages increases distribution costs, and their small size affects economic viability of establishing distribution points.
6. **Rural Markets and Sales Management** Rural marketing involves a greater amount of personal selling effort compared to urban marketing. The rural salesman must also be able to guide the rural customers in the choice of the products. It has been observed that rural salesmen do not properly motivate rural consumers. The rural salesman has to be a patient listener as his customers are extremely traditional. He may have to spend a lot of time on consumer visits to gain a favorable response from him. Channel management is also a difficult task in rural marketing. The distribution channels in villages are lengthy involving more intermediaries and consequently higher consumer prices. In many cases, dealers with required qualities are not available.
7. **Inadequate Banking and Credit Facilities** In rural markets, distribution is also handicapped due to lack of adequate banking and credit facilities. The rural outlets require banking support to enable remittances, to get replenishment of stocks, to facilitate credit transactions in general, and to obtain credit support from the bank. Retailers are unable to carry optimum stocks in the absence of adequate credit facilities. Because of this problem, they are not able to offer credit to the consumers. All these problems lead to low marketing activities in rural areas. It is estimated that there is one bank for every 50 villages, showing the poor banking facilities in rural areas.
8. **Market Segmentation in Rural Markets** Market segmentation is the process of dividing the total market into a number of submarkets. The heterogeneous market is broken up into a number of relatively homogeneous ones. Market segmentation is as important in rural marketing as it is in urban marketing. Most firms assume that rural markets are homogeneous. It is unwise on the part of these firms to assume that the rural market can be served with the same product, price and promotion combination.
9. **Branding** The brand is the surest means of conveying quality to rural consumers. Day by day, though national brands are getting popular, local brands are also playing a significant role in rural areas. This may be due to illiteracy, ignorance and low purchasing power of rural consumers. It has been observed that there is greater dissatisfaction among the rural consumers with regard to selling of low quality duplicate brands, particularly soaps, creams, clothes, etc. whose prices are often half of those of national brands, but sold at prices on par or slightly less than the prices of national brands. Local brands are becoming popular in rural markets in spite of their lower quality.
10. **Packaging** As far as packaging is concerned, as a general rule, smaller packages are more popular in the rural areas. At present, all essential products are not available in villages in smaller packaging. The lower income group consumers are not able to purchase large and medium size packaged goods. It is also found that the labeling on the package is not in the local language. This is a major constraint to rural consumers understanding the product characteristics.

Some Issues Specific to Agricultural Inputs Markets are Listed Below

1. Vastness of the rural farming areas with different type of cropping patterns makes it difficult for Agri input industries to push their efforts.
2. The demand for agriinputs are uneven a making it difficult for sustain effort from the industry side.
3. Transport Problem with lack of allseason roads in rural areas for making available the pesticides, fertilizers at the time of need.
4. Communication infrastructure consisting of posts, telephones, internet etc. are largely inadequate.
5. The problem of storage of essential inputs. The Central Warehousing Corporation (CWC) and State Warehousing Corporation (SWC) don't extend their services to the rural areas. The cooperative societies managed the warehouses at mandi level. They provide services to members only.
6. The number of language and dialects vary widely from state to state, region to region and even from district to district. The difficulties are in developing print advertisement and pictorial depiction to achieve greater acceptance
7. Rural agricultural input marketing requires large marketing organization and staff.
8. It is not possible to have direct outlets in each rural market; firms need to have service of dealers, which is not easily available.
9. Rural farmers have identified market locations for different items of their requirements. Thus, depending upon the purchase habit of the farmers, the distribution network of different commodities has to be different.

Recent Developments in Agri Inputs Marketing

In recent times retailing in rural areas with big stores is becoming a trends. Big corporate houses are making rural forays with wide variety of solutions for farmers and consumers. For example, corporate houses and entrepreneurs like ITC's ChoupalSagar, HLL's project Shakthi and Mahamaza are some of the models which are in news. There is no definite evidence of a successful rural retail formats which solve all the problems of agriculture and farmers. However, corporate ventures into rural retail are expected to bring more research and innovation. The Godrej Adhaar, the rural retail initiative of Godrej Agrovet Ltd operates a chain of 18 stores providing a host of services to farmers. The other formats operating successfully in the rural area are, ChoupalSagar, DSCL HaryaliStores& M ShubhLabh stores, Escorts rural stores, Tata KisanSansar, andWarna bazaar in Maharashtra.

An efficient agricultural marketing is essential for the development of the agricultural sector. The initiative of the govt. much on giving incentives for increased production in farming sectors but the development of marketing system provides greatly to the commercialization of subsistence farmers. The liberalization of agricultural markets is becoming worldwide trend. The policy and programmes of Government have to address the issues of marketing liberalization and overcoming the limitations faced by various Government and private organization involved in agricultural marketing. Liberalization of world trade in agriculture has provided new opportunities to the farm sectors to access markets of agricultural commodities worldwide. However, to actualize these market access opportunities, reforms have to be brought in agriculture sector to remove all barriers, which introduce inefficiencies and monopoly trends in the functioning of agricultural markets.

1.4 Rural Producers & Rural Consumers

The World Bank's Structural Adjustment Programme (SAP), and the World Trade Organization (WTO) brand of trade liberalization has opened India's agricultural markets to global agribusiness. With entry of retail chains like Reliance Fresh, Big Basket, Walmart, Ikea, rural produces from all kinds of agricultural commodities to clothing to furnishing has a more promising market now. Rural producers encompass farmers, people involved in cleaning, sorting, grading, processing and packing of farm produces, weavers, rural artisans, mason and carpenters in rural areas, producers of organic manures in villages, cottage industries from rural areas, etc. Collectivization of producers, especially small and marginal farmers, into producer organizations has emerged as one of the most effective pathways to address the many challenges of agriculture but most importantly, improved access to investments, technology and inputs and markets.



Fig 1.3. Mr. Arun Ch. Mahanty, a producer from basket in Udaipur



Fig 1.4. Rural Producer of bamboo Damda, West Bengal grows Cucumber

Rural Producer Organizations

Farmer Producer Organization (FPO) is one such movement which are democratic organizations controlled by their farmer members who actively participate in setting their policies and making decisions. FPOs are proving very successful in many states. Men and women serving as elected representatives are accountable to the collective body of members. FPOs are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination. Empowering poor people to participate in development is one of the principal pillars underpinning these efforts to reduce poverty. Nowhere is this more important than in rural areas, where seventy five percent of the world's poor live. Most farming is done by smallholders or landless farmers in tenant relationships. As individual farmers these smallholders have little power to influence either policies that affect them or to benefit from economies of scale in their engagement with the marketplace. However, when rural producers come together as rural producer organizations (RPOs) at local, regional, and national levels, they can make their voice heard and take an active role in shaping their own pathways out of poverty. Well functioning of rural institutions, such as RPO, are necessary for rural people to address the complex challenges they face today – stagnating agricultural productivity, difficult market access, lack of access to financial resources, natural resource degradation, and climate change. However, RPOs often have weak capacities. This indicates that

strengthening their capacity at local, regional, and national levels should be a sound investment for donors.

FPO Service Model

The FPO will offer a variety of services to its members as illustrated in the table. It can be noted that it is providing almost end to end services to its members, covering almost all aspects of cultivation (from inputs, technical services to processing and marketing). The FPO will facilitate linkages between farmers, processors, traders, and retailers to coordinate supply and demand and to access key business development services such as market information, input supplies, and transport services. Based on the emerging needs, the FPO will keep on adding new services from time to time. The set of services include Financial, Business and Welfare services. Some of the services that member farmers/producers can benefit through Farmer Producer Organizations are discussed below.

Financial Services The FPO will provide loans for crops, purchase of tractors, pump sets, construction of wells, laying of pipelines.

Input Supply Services The FPO will provide low cost and quality inputs to member farmers. It will supply fertilizers, pesticides, seeds, sprayers, pump sets, accessories, pipelines.

Procurement and Packaging Services The FPO will procure agriculture produce from its member farmers; will do the storage, value addition and packaging.

Marketing Services The FPO will do the direct marketing after procurement of agricultural produce. This will enable members to save in terms of time, transaction costs, weighment losses, distress sales, price fluctuations, transportation, quality maintenance etc.

Insurance Services The FPO will provide various insurance like Crop Insurance, Electric Motors Insurance and Life Insurance.

Technical Services FPO will promote best practices of farming, maintain marketing.

Networking Services Making channels of information (e.g. about product specifications, market prices) and information system, diversifying and raising levels of knowledge and skills in agricultural production and postharvest processing that adds value to products.

Other business services accessible to rural producers; facilitating linkages with financial institutions, building linkages of producers, processors, traders and consumers, facilitating linkages with government programmers.

Rural Consumer

Each one of us (be an urban or a rural dweller) is a consumer. We need a variety of goods and services right from our birth to death. Marketing is a process through which both the buyer and seller give something (e.g. goods, services, money etc.) to each other for maximum possible satisfaction. Rural Marketing is gaining importance more than 50 % of our population still dwells in the villages. All the FMCG companies viz HLL, Pepsi, Coca cola, Britannia, Colgate, Palmolive, Samsung etc. are concentrating their marketing activities in rural markets. Why? Because of

socioeconomic changes and huge market of more than 80 million households which will increase to 111 million households by 2007 (NCEAR Report). Rural consumer has become enough aware about his needs and up gradation of his standard of living. Information technology, Govt. Policies, Corporate strategies and satellite communication are the factors responsible for development of Rural Marketing. The potential of rural market is huge. Rural consumption share in popular soaps is 48%, tooth pastes 24%, talcum powder 17%, cold medicines 42%, Batteries 52% etc. The market for packaged food items of Rs. 20,000 crores, is growing at 2.5% per year.¹ It is interesting to understand the various aspects of the rural markets and consumption patterns. We know well that purchase decisions in Indian homes have become a collective process, with women and teenage children playing a major role on product and 'brand choices'. Decision making has become a joint process in the family. Woman is the initiator and product evaluator, man the financier and child, an influencer. Hence, the market analysts are adopting both the "product window" approach and "Consumer or People Window" approach for getting an insight into the structure and drivers of consumer demand particularly in rural India. Consumer Behavior refers to the acts of individuals directly involved in obtaining and using goods and services and includes the decision process that provide a purchase.

Size of Rural Consumer Population

The size of India's rural consumer group can be understood from the details provided in the following table:

Table 1.3 Size of Rural Consumer Population

	1971		1981		1991	
	Population in Crores	Percentage to Total	Population in Crores	Percentage to Total	Population in Crores	Percentage to Total
Rural Population	43.90	80	50.20	76.3	64.1	76
Urban Population	10.91	20	15.62	23.7	20.3	24
Total Population	54.81	100	65.82	100	84.4	100

The table shows that now 76% of India's total population is rural. If we consider the state level picture, in several states like Uttar Pradesh, Madhya Pradesh, Rajasthan and Kerala, the rural population constitutes more than 80% of the total population. And there are also states like Bihar and Orissa where as much as 90% of the total population is rural. The rural-urban distribution is 68.84% and 31.16% respectively as per the records of Registrar General of India and Census Commissioner. The level of urbanization increased from 27.81% in the 2001 Census to 31.16% in the 2011 Census, while the proportion of rural population declined from 72.19% to 68.84%. The statistics reveal that while the maximum number of people living in rural areas, in a particular state it is 15.5 crore (Uttar Pradesh) which is 18.62% of the country's rural population.

Significant Aspects of Rural Consumer Profile

Coming to consumer characteristics, it can be seen that in general sense, low purchasing power, low standard of living, low per capita income, low literacy level and overall low economic and social position are the traits of the rural consumers. By and large, the rural consumers of India are a tradition bound community; religion, culture and even superstition strongly influence their consumption habits.

1. Location Pattern of Rural Consumers

Whereas the urban population of India is concentrated in 3,200 cities and towns, the rural population is scattered over 7,00,000 villages. Statistics show that only 6,300 have a population of more than 5,000 people each. More than 3 lakh villages or more than 55% of the total number of villages are in the category of 500 people or less and more than 1.5 lakh villages or 25% of the total are in the category of 200 people or less. Rural demand is scattered over a large area, unlike the urban demand, which is highly concentrated.

2. Literacy level

It is estimated that rural India has a 23% literacy rate compared with 36% of the total country. The adult literacy program launched by the government in the rural areas is bound to enhance the rural literacy rate in the years to come. Two aspects need to be specially emphasized (1) In absolute numbers, there are 11.5 crore of literate people in rural India compared with 12 crore in urban India, and (2). Every year 60 lakh is getting added to the literate population of Rural India.

3. Rural Income

An analysis of the rural income pattern reveals that nearly 60% of the rural income is from agriculture. Evidently, rural prosperity and the discretionary income with the rural consumer is directly tied up with agricultural prosperity. Anything that contributes to agricultural prosperity will directly result in increase income for the rural population and the consequent increase in their spending capacity. The pre dominance of agriculture in the income pattern has one more significance i.e rural demand is more seasonal.

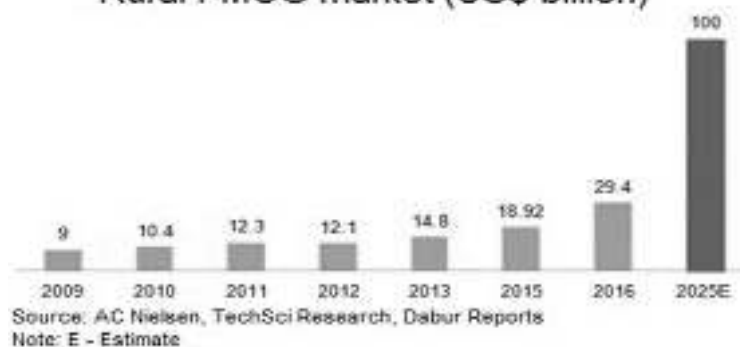
4. Rural Savings

Statistics reveal that in recent years, rural consumers have been drawn into the saving habit in a big way. The commercial banks and the cooperative have been marketing the saving habits in rural areas for quite some years. Today, as much as 70% of the rural households are saving a part of their income. The habit is particularly widespread among salary owners and self-employed non-farmers.

Market Size

India's per capita GDP in rural regions has grown at a Compound Annual Growth Rate (CAGR) of 6.2 per cent since 2000. The Fast Moving Consumer Goods (FMCG) sector in rural and semi-urban India is expected to cross US\$ 20 billion mark by 2018 and reach US\$ 100 billion by 2025.

Rural FMCG market (US\$ billion)



Recent Developments

Following are some of the major investments and developments in the Indian rural sector.

- India's unemployment rate has declined to 4.8 per cent in February 2017 compared to 9.5 per cent in August 2016, as a result of the Government's increased focus towards rural jobs and the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) scheme.
- The Ministry of Rural Development is expecting to achieve its annual targeted length of 48,812 kilometers of rural roads by March 31, 2017 under the Pradhan Mantri Gram Sadak Yojana (PMGSY), which has reached a completion stage of 67.53 per cent (32,963 kms) as on January 27, 2017.
- The National Bank for Agriculture and Rural Development (NABARD) plans to provide around 200,000 point of sale (PoS) machines in 100,000 villages and distribute Repays cards to over 34 million farmers across India, to enable farmers to undertake cashless transactions.
- Magma Fincorp, a Kolkata based nonbanking finance company (NBFC) plans to expand its operations in South India, with specific focus on rural and semi-urban markets to help the company grow rapidly.
- Bharti Airtel is applying for a payments bank licence and has involved Kotak Mahindra Bank as a potential investor in the venture, in a bid to tap significant revenue opportunities from the Reserve Bank of India's financial inclusion initiative. Payments banks are meant to fan out into the rural, remote areas of the country, offering limited but critical services such as money transfers, loans and deposit collection. While banks have the knowhow, telecom companies have the network, making it an ideal match.

Government Initiatives

The Government of India has planned various initiatives to provide and improve the infrastructure in rural areas which can have a multiplier effect in increasing movements of goods, services and thereby improve earnings potential of rural areas subsequently improving consumption.

- The Government of India has approved the proposal to construct 10 million houses for the rural population, which will require an investment outlay of Rs 81,975 crore (US\$ 12.7 billion) for the period from 2016-17 to 2018-19
- The Government of India aims to provide tap water regularly to every household by 2030 in line with Nations' Sustainable Development Goals, requiring a funding of Rs 23,000 crore (US\$ 3.57 billion) each year until the target is met
- The Government has introduced various reforms in the Union Budget 2017-18 to uplift the rural markets. Some of the key highlights of the Budget are

- Rs 187,223 crore (US\$ 28.08 billion) has been allocated towards rural, agriculture and allied sectors.
- The Allocation for Pradhan Mantra Awas Yojana Gramin has been increased from Rs 15,000 crore (US\$ 2.25 billion) to Rs 23,000 crore (US\$ 3.45 billion) in the year 2017-18 with a target to complete 10 million houses for the houseless by the year 2019.
- The pace of roads construction under Pradhan Mantri Gram Sadak Yojana (PMGSY) has been accelerated to 133 kms per day as against an average of 73 kms per day during the years 2011-14.
- The allocation to the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) has been Rs 48,000 crore (US\$ 7.2 billion) in the year 2017-18, which is the highest ever allocated amount.
- The Government of India is looking to install WiFi hotspots at more than 1,000 gram panchayats across India, under its ambitious project called Digital Village, in order to provide internet connectivity for mass use, as well as to enable delivery of services like health and education in far-flung areas.
- In the Union Budget 2017-18, the Government of India mentioned that it is on course to achieve 100 per cent village electrification by May 1, 2018.
- The Government of India has sought Parliament's approval for an additional expenditure of Rs 59,978.29 crore (US\$ 8.9 billion), which will be used to support the government's rural jobs scheme, building rural infrastructure, urban development and farm insurance.

Goods, Produces, Value added products, fabric, handicrafts, other rural products have a rising demand in towns, cities and other markets. Rural producers are encouraged to build collective organizations through various government policies. FPOs, Small Farmers' Agriculture Consortium, Rural Producer Organizations can ensure better sourcing of various inputs and ensure marketability for rural produces. On the other hand, rural consumers make a major share of a potential market. With a shifting pattern from agriculturally based seasonal income rural population is shifting towards non-farm based income with even distribution across the year, manufacturers have a greater scope of marketing. Market research firm Nielsen expects India's rural FMCG market to reach a size of US\$ 100 billion by 2025. Another report by McKinsey Global Institute forecasts the annual real income per household in rural India to rise to 3.6 per cent 2025, from 2.8 per cent in the last 20 years. As is the trend with urban India, consumers in the rural regions are also expected to embrace online purchases over time and drive consumption digitally. The rural regions are already well covered by basic telecommunication services and are now witnessing increasing penetration of computers and smart phones. Taking advantage of these developments, online portals are being viewed as key channels for companies trying to enter and establish themselves in the rural market. The Internet has become a cost-effective means for a company looking to overcome geographical barriers and broaden its reach.

1.5 Rural Consumer Behavior

Consumer behavior in the rural market is even more perplexing because of a singular lack of consistency in groups which are homogeneous in parameters of demographics Age, occupation, education and income. Most marketers realize that India is on the cusp of momentous change. The economy is vibrant, incomes are rising & the habits, preferences & attitude are changing rapidly. But

nowhere is it more evident than in rural India. There is, thus an emerging need to build expertise in rural marketing. There are three challenges that rural marketers must overcome. The first of this is the challenges of reaching markets in the rural India that are small & scattered making them inaccessible & unreliable or both. But this problem is not new & many companies let it hamper them unduly even as others overcome it with innovation. The next challenge is to ensure that the consumers are aware of your brand and want it. The third challenge in rural marketing is influence. It is an old saying that customer is the king because he is the person whose decision have effect on the demand of any product or service. The attitude of consumer or buyer decides how demand will emerge for a new product & service & how existing goods and services would survive in future and in which manner. The study of consumer behavior implies how & why a particular consumer reacts to the decisions of producers. The study of consumer behavior is the study of how individual make decision to spend their available resources (time, money, effort) on consumption related items. It includes the study of why they buy it, when they buy it, where they buy it, how often they buy it & how often they use it.

Stages in the Buying Process

Consumers pass through five stages while making a purchases decision. In low involvement rural and urban consumers may skip some of these stages. A woman buying her regular brands of daily use, groceries will identify the need and purchases from the shop, skipping two stages. It is in the purchase of high involvement products that a rural consumer display different motives relating to the problem recognition, source of information, Evaluation procedures, collective decision and different post purchase behavior. This creates need to treat each stage of the marketing process differently for rural and urban consumers.

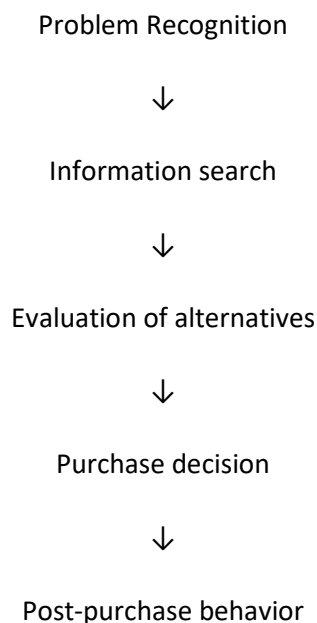


Figure 1.5 Stages in the Buying Behavior

In competitive environment one cannot thrust a product on consumer. Producer has to produce what is demanded or what can be demanded.

Understanding Rural Consumer In the initial years the focus was on the easily accessible well developed urban market. Soon there was proliferation of brands and intense competition resulting in the near saturation of the urban market. This forced companies to go for greener a pasture that is new markets. All eyes turned to the world most promising potential market of 742 million rural consumers, who had yet to taste the fruit of modernity. It is a promise that seemed ready to be fulfilled because of explosion in the buying capacity in the rural sector.

Myths about the Rural Sector

- The belief that rural people do not buy brands.
- The belief that rural customer buys cheap products. In reality they seek value for money.
- The belief that the rural market is homogenous mass. In fact, it is fascinatingly heterogeneous.

The census of India defines rural as any habitation with a population density of less than 400 per square kilometers where at least 75% of male working population is engaged in agriculture & where there exists no municipality or board leaning aside. Rural consumers are fundamentally different from their urban counterparts & different rural geographies display considerable heterogeneity calling for rural specific & region specific strategies e.g. a farmer in rural Punjab is much more progressive than his counterpart in Bihar. A farmer in Karnataka is far more educated than one in Rajasthan & so on.

An urban individual is free to take independent purchase decision. In a village, because of strong social structure, including caste consideration and low literacy level, community decision making is quite common. Companies face many challenges in tackling the rural markets. Marketing is all about “Getting to know your customer” but having largely ignored this cardinal principle, most corporate in rural markets find that success has eluded them. The rural markets account for market worth of 27\$ billion. About 285 million live in urban India whereas 792 million resides in rural areas. Many companies like Colgate, Palmolive, HCL & Godrej etc. have already furrows into rural households but still capturing the market is a different dream. For quite some time now, the life of the rural India has been the subject of animated discussions in the corporate suites, with the urban markets getting saturated for several categories of consumer goods and with rising rural income. For example, Tata chemicals ran a chain called Tata Kisan Kendra which offered services ranging from agriculture input to financing to advisory services. Hindustan Levers is offering deals to farmers to cover operation from the pre harvest to post harvest stage. Mahindra & Mahindra limited, India’s largest farm equipment company & its subsidiary Mahindra Shubhlabh services has operated in eleven states with 7 lakhs strong Mahindra tractor customer base and around 400 dealers provide a complete range of products and services to improve farm productivity and establish market linkages to the commodity market chain.

Paradigm Many comprehensive theories/models have been developed within the field of consumer behavior (HARWARD and SHETH 1969; NICOSIA 1966). Models have also been developed for specific context, such as for family decision making and information processing. These theories have played an important role by detailing how various factor influence consumer behavior. An extensive review of literature reveals that there is no simple framework that lends itself to a comprehensive study of consumer behavior. The paradigm proposed four sequential stages to represent the purchase and

consumption processes. These four stages are named as Access, Buying behavior, Consumption characteristics and Disposal.

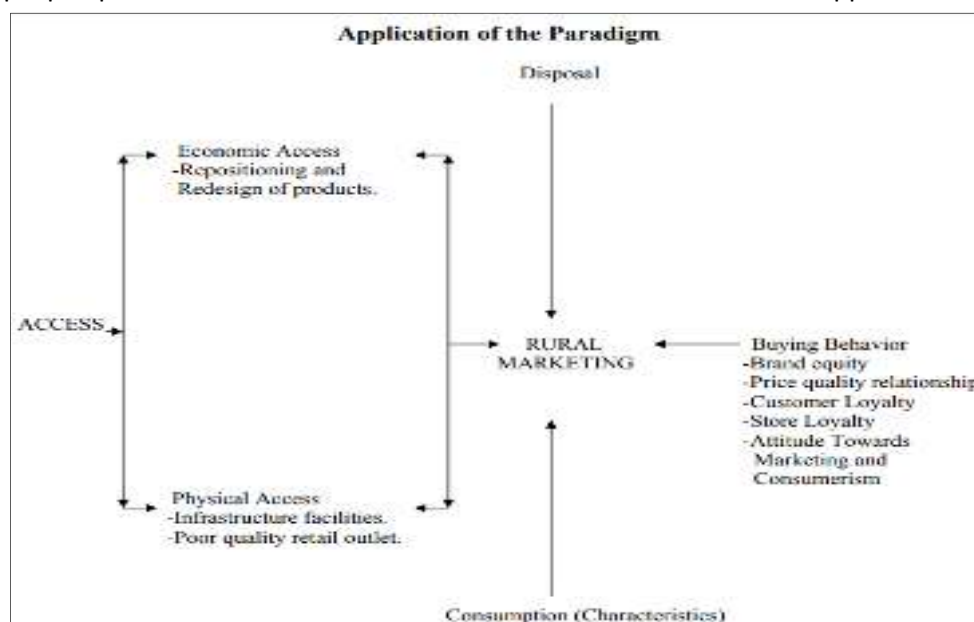
Stages of the Paradigm

The four stages are briefly described below,

1. Access the first step is to provide access to the product/services for consumer within rural areas. Access pertains to physical access as well as the economic access.
2. Buying Behavior this stage encompasses all factors impacting decision making and choice within a rural area. Example of these factors includes perception, attitude and consumer responses such as brand royalties.
3. Consumer Characteristics the specific products/services that are purchased and consumed may be different in each area. The cultural orientation and serial class distribution will determine consumption pattern within a culture.
4. Disposal many rural areas are becoming more environmentally conscious and are moving away from throw away products. Hence marketers need to design systems to facilitate the safe disposal, recycling, resale of products. They also meet their social responsibilities especially in relation to public safety and environmental pollution.

Application of Paradigm

The paradigm offers a general framework to understand consumer behavior within any rural market. Secondly, in order to understand the broadest possible range of consumer behavior within any culture, the paradigm encompasses all aspects of purchases and consumption within a simple framework. Third, the four stages are arranged in a hierarchical fashion from the consumer's viewpoint. This approach also gives the marketer a systematic way to prioritize the marketing folk within a country, access issues should be considered first and disposal issues should be considered last. Note that this does not imply that disposal issues are any less important than access buying behavior or consumption issues since all four steps must ultimately be addressed. The added paradigm encourages managers to examine each stage from multiple perspective and is therefore consistent with the cross functional approach.



Access

Access can be divided into 2 types namely a) Economic access b) Physical access Economic access relates to the issue of affordability of the product/ service for the rural population. According to NCAER the low penetration rates can be attributed to 3 major factors namely low income level, inadequate infrastructure facility and different lifestyle. Normally, the rural consumer spends the majority of their income in basic necessities which makes them price sensitive. The first factor influencing physical access is the country infrastructure which is comprised of essential services such as transportation system, communication system, utilities and banking system. Infrastructure not only has a tremendous impact on the ease of conducting business in the country but is also vitally important for the future economic growth of India. The second factor influencing physical access is a distribution strategy. The company can use a delivery van which can serve two purposes a) It can take the product to the customers in every nook and corner of the market it enables a firm to establish direct contact and facilitates sales promotion, annual "melas" organized are quite popular and provide a very good platform for distribution because people visit them to make several purchases. For easy access of one's own fund, ICICI bank has developed a low cost automated teller machine (ATM) designed for rural areas and is aimed at increasing micro finance in rural India.

Poor Quality Retail Outlets

Retail outlets in rural areas are often characterized as insufficient, time consuming and frustrating. Companies therefore, have to be creative and learn to work around these constraints. The retail establishment where most rural consumers purchase their day to day goods is at a Kirana or street shop. Consumers purchase everything from Bananas to razors at a kirana with over 2.5 million kiranas in Indian rural towns and villages. In order to reach these local shops and establish a brand presence in them, companies need a substantial amount of working capital and a large committed sales force.

Buying Behavior

Once the marketer has insured both economic and physical access to its product it needs to evaluate the buying behavior of consumers in rural areas. To understand the buying behavior of rural consumers, we must go to the factors that influence their buying behavior. The factors include

1. Socioeconomic environment of the consumer
2. Cultural environment
3. Geographic location
4. Education/literacy level
5. Occupation
6. Exposure to urban lifestyles
7. Exposure to media and enlarged media reach
8. The points of purchase of products
9. The way the consumer uses the products
10. Involvement of others in the purchase
11. Marketers effort to reach out the rural markets

Some of these points are discussed in some detail below

Influence of Culture Culture and tradition influence perception and buying behavior. For example, the preference in respect of color, size and shape is often the result of cultural factors. Rural consumers' perception of products is strongly influenced by cultural factors.

Geographic Locations Rural consumer behavior is also influenced by the geographic location of the consumers. For example, nearness to feeder towns and industrial projects influence the buying behavior of consumers in the respective clusters of villages. We are discussing this aspect in detail in the section on market segmentation in rural markets. To cite one more example of how geographic location affects buying behavior, we can point out the fact that the lack of electricity in many rural households acts as a barrier to the purchase of certain consumer durables.

Exposure to Urban Lifestyles Extent of exposure of rural consumers to urban lifestyles also influences their buying behavior. An increased exposure and interaction with urban commies has been the trend in recent years.

The way the consumer uses the products the situation in which the consumers utilize the product also influences their buying. The example of lack of electricity affecting buying behavior illustrates this point as well. Lack of electricity automatically increases the purchase of batteries by rural consumers. Similarly, since rural consumers cannot use washing powders/detergent powders that much, as they wash their clothes in streams or ponds, they go in more for washing bars and detergent cakes.

Places of Purchase Buying behavior of rural consumer also varies depending on the place of purchase. Different segments of rural buyers buy their requirements from different places/outlets. Some buy from the village shopkeepers; some from village markets/fairs; others buy from the town that serves as the feeder to the rural area. It is also seen that the same buyer buys different requirements from different laces. For understanding the buying behavior of the rural consumer correctly, the marketer should know from where the consumers buy a product and the reason for buying in the specific place.

Involvement of Others in the Purchase Involvement of others in the purchase in the purchase decision is yet another relevant factor in this regard. There has been a change here in recent years. In the past, the head of the family used to make the purchase decision all by himself. In contrast, the involvement of the other members of the family in the purchase decision has been growing in recent years. An increase in literacy coupled with greater access to information has resulted in this development. The marketer has to reckon the role of the influencers while sizing up the buying behavior of rural consumers.

Marketers efforts to reach out the rural market in recent years, many corporate companies have been trying hard to develop a market for their products in the rural areas, investing substantially in these areas. This has brought about some change in the way buyers purchase different products. Developmental marketing has created discriminating buyers and hitherto unknown demand in the rural market. All the above factors influence the buying behavior of rural consumer and hence their responses to the marketing mix variables, and the reference points they use for purchase decisions.

Table 1.5 Rural penetration Increasing penetration of nonessential items (per thousand)

FMCG	199899	200405
Body talcum powder	452	624
Face Cream	80	285
Packaged biscuits	185	415

Durables	199899	200405
Motorcycle	16	50
Refrigerator	14	60
TV	18	80

Consumption Characteristics

India per capita income measured in terms of purchasing power parity estimated at US \$ 2,230 against US \$ 440 calculated by conventional method by translating rupees into Dollar at the prevailing exchange rate. Purchasing power parity has been used for comparison to capture available data through certain studies conducted by National council of applied Economic Research in 1996 and 2002. These studies have attempted to classify the consumer goods market according to the consumption behavior of its constituents. Cultural pattern in rural areas determine whether a culture is traditional or modern in its outlook and that is a factor that can have a major impact on consumption pattern.

Some Examples from the Corporate

- ITC international business division has conceptualized the e – chaupal as a chain of internet kiosk connected through VSAT to facilitate procurement of specific commodities. Each kiosk is a part of huband –spoke model. This echaupal which offers the farmers all the information, product and services they need to enhance farm productivity.
- nLogue communication was set up by the telecommunication and computer network (Tenet) of I.I.T., a group which is dedicated to evolving technically superior and cost-effective solution for a country like India. nLogue is a business providing internet, voice, e governance, and other rural services through a network,
- The project IShakti kiosk set up by H.U.L. in partnership with women selfhelp group in Andhra Pradesh have received an overwhelming response from the local people. The kiosk offers information chiefly in the form of audio visuals in Health and hygiene, E-governance, Education, Agriculture, Employment and Legal services.

Conclusion

The practical application of rural consumer behavior findings in Indian markets has often posed a problem for marketers for two reasons. First, most consumer researches in rural market has used a piecemeal approach. Second, there has been no comprehensive framework to integrate the findings in a meaningful manner. The paradigm is an attempt which provides a comprehensive framework that will enable marketers to understand, integrate and apply consumer behavior in the rural market. Much of the discussion in this article had noted the possibilities of establishing the foot holds in rural market. First, these kinds of markets are heterogeneous; hence the marketer should frame different strategies to sell their products. However, it must be noted that it is possible to capitalize on the similarities among the rural markets. The most important difference between rural

and urban is in the degree of sophistications of the consumers. Urban consumers are generally familiar with such products, their attitude and value related to purchase and consumption will be different. Here the marketer may have to work harder to sell their goods in rural area because of diversity of values and attitudes present in these regions.

Questions for Discussion

1. The diversity of Indian village structure complicates the agricultural marketing process. Discuss.
2. Explain 4 Ps in the context of rural marketing.
3. Explore the role of credit institutions in supporting the functions of rural producer organizations.
4. Buyers in villages are looking for branded products unlike in the past. Elaborate the shift in rural consumer behavior.

References

1. Asian Journal of Technology & Management Research [ISSN 2249 –0892] Vol. 01 – Issue 01 (Jan Jun 2011)
2. Media Reports, Press Releases, Press Information Bureau (PIB), Accenture Report, Nielsen Report, Budget 201617
3. Promod Patil (2013). Rural Marketing Environment published by Golden Research Thoughts Volume 2, Issue 11, ISSN 22315063. p.2 – 3
4. Ravindranath V Badi, Narayana V Badi, “Rural Marketing”, 2014 published by Himalaya Publishing House
5. Singh, A. K. (2007). Rural marketing Indian perspective. New Age International.

Chapter 2 Rural Marketing Strategy

Market Segmentation is a marketing term referring to the aggregating of prospective buyers into groups, or segments that have common needs and respond similarly to a marketing action. A market constitutes individuals or organizations that have a desire for a product or service and also have the ability to buy it. Any market is not a single huge homogeneous mass of populations but is immensely heterogeneous on almost all the demographic variables. Therefore, it is advisable to segment the market to tap it profitably.

Objectives

After reading this Chapter, readers will have

1. Knowledge of the conceptual background and significance of segmentation
2. Awareness of parameters that can be employed to segment the rural market
3. Explain the concept of marketing mix and its components

2.1 Rural Market Segmentation

Any marketer can target a market with two broad strategies viz., Mass market strategy aims at targeting the total market as potential buyers of a brand in a product category with one marketing mix and Market Segmentation Strategy is the process of identifying small markets that exist within a large market and are similar in terms of criteria by which they choose a product within a product category but act differently across the groups. Segmentation variables are the parameters and characteristics of people comprising total market for a product category on which the marketer can segment them into groups that are homogeneous internally but heterogeneous across the groups. These variables may belong to the following categories

Geographic Variables

Region, state, district or even town with certain population parameters

Demographic Variables

Age, Gender, buying power, occupation, education, Income, Family life cycle

Psychographic Variables

Social class, personality, and lifestyle

Product Related Variables

Types of usage, amount of usage and benefit sought

However, the key criteria for segmentation that is widely practiced by marketers is summarized in the below figure.

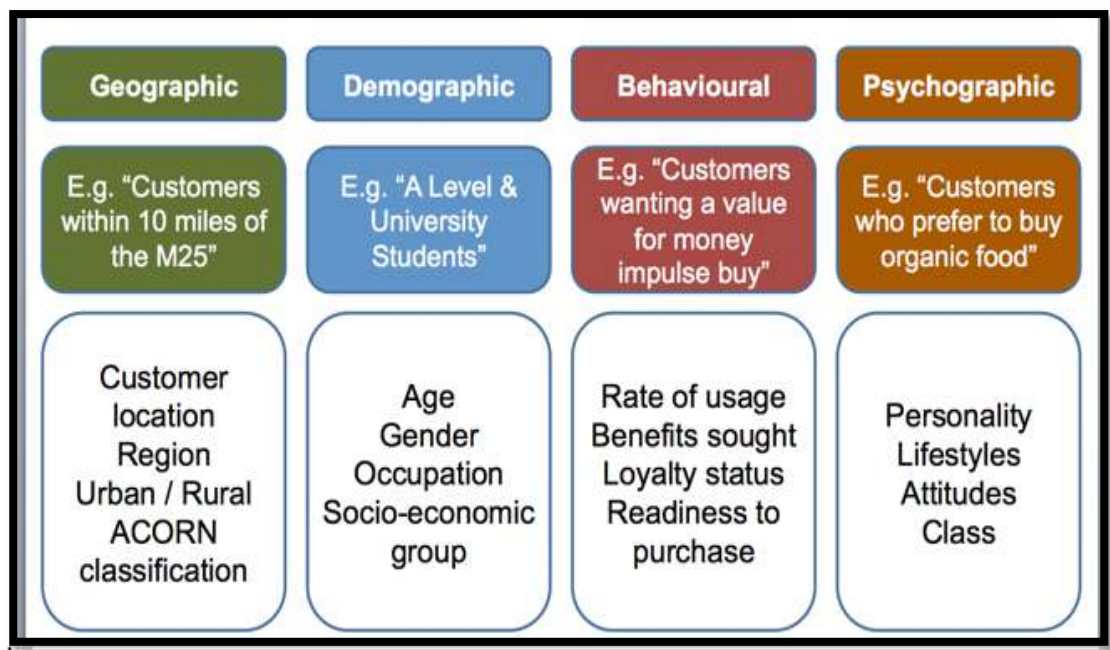


Figure 2.1 Basis for Segmentation

Demographic factors are taken into detailed consideration for market segmentation of consumer goods and fast moving consumer goods (FMCG). In case of rural marketing i.e. to sell outside goods in rural areas, demography comes into the picture as much similar to marketing to urban consumers. Demographic segmentation is important either way. Some of the main demographic parameters include Occupation, Household Income, Number of members in the family, Family Type, Decision Maker, Gatekeeper, Influencer, etc. However, the categories are much reduced. Rural Marketers need to deliver value to consumers by developing suitable products at a price they are willing to pay and at a place where they can conveniently purchase the products. 4 Ps of Marketing comprising of Product, Price, Place and Promotion are still the tools, whereas 4 As – Acceptability, Price, Affordability, Availability are the challenges for products from rural organizations.

Conditions for Effective Market Segmentation

In order to have effective segmentation of a market, certain conditions need to be present.

1. **Measurable** The market segment should be measurable in order to calculate the market potential. This will be the basis to develop marketing strategies to tap the potential.
2. **Accessible** The market segment needs to be accessible by a marketing effort in a financially viable manner.
3. **Profitable** The market segment needs to be large enough to be profitable
4. **Data Availability** Certain type of data must be available about the market of significantly important segmentation variables. Then only effective segmentation can be executed.

Benefits of Market Segmentation

- Customer oriented philosophy
- Enables tailoring of marketing Programme
- Enables development of strong positioning of brand

Approaches for Segmenting the Rural Market in India

Some of the segmentations are as under

1. Occupational Segmentation This again leads to economy wise categorization. This reflects the purchase power of a farmer and therefore the purchase power of his family. They are

- Artisans, Farm labourers
- Small farmers, Tenant farmers
- Medium level farmers
- Large Farmers
- Very Large Farmers, Zamindars

2. Sociological Segmentation

Gaikwad suggested the segmentation of the rural market into six categories on sociological basis more than three decades ago. Sociological segmentation has also been presented as a lifestyle based segmentation. Lifestyle is the pattern of living followed by people and is determined by their activities, interests and opinions. The proprietors of land and rich farmers are affluent and have a lifestyle and consumption pattern, which is similar to the people living in urban areas. Others at the bottom of the pyramid look for economical products. Such is the socio-cultural diversity in India that Ogilvy Rural has divided India into 56 distinct socio-cultural regions. This leads to socioeconomic representation of the segment.

- **Properties of Land** These include Zamindars, rich money lenders and businessmen who own big size lands, plantations and maintain large size farm labour. Normally they spend time in nearby urban area.
- **Rich Farmers** who have large lands and are local leaders. They spend time in the urban areas and try doing some other occupation.
- **Small Farmers** who own small farms or jointly owned farms getting food for sustenance.
- **Tenant Farmers** working on rented land to share the crops with owners of the land.
- **Agricultural Labours** They work on wages in the land of rich farmers. These constitute landless laborer's who work on the lands of landlords or rich farmers for annual labour charges or on daily wage basis.
- **Artisans and others** This cover carpenters, blacksmiths, handicrafts, people and unemployed. Petty traders and shopkeepers in the village are also included under this category.

3. TRMI (Thomas Rural Market Index) M/s

Hindustan Associates Ltd. developed a guide to market segmentation in 1972 and revised it in 1986. They collected data in 335 districts based on 26 variables. Finally they arrived on 10 selected variables having strong correlation to rural market potential

- Agricultural Labourers
- Gross Cropped Area
- Gross Irrigated Area
- Area under nonfood crops
- Pump sets
- Fertilizer consumption
- Tractors

- Rural Credit
- Rural Deposits
- Villages electrified

Based on these factors, the districts are classified as A, B, C, D and E. which are in the order of high potential market to low potential market.

Lin Quest

This method is a software developed by Initiative Media on data along the following parameters

- Demographic
- Agricultural Income
- Literacy
- Civic Amenities.

As per the product to be launched, the marketer would be interested in certain parameters like literacy levels, income levels, bank deposits, accessibility (rail, road), schools, dispensaries and distance from towns. In the software the marketer can give weighted average to different factors. For example, to launch new audio cassette recorders, parameters could be villages above 1000 population and monthly income Rs. 2000 and distance from nearest towns within 30 km.

MICA Rating

This is also a software package to be used on similar lines as LinQuest. The parameters of this segment are as follows

- Total volume of agricultural output
- Bank Advances
- Cropped area
- Irrigated area
- Number of cultivators
- Fertilizer consumption

Approaches for Segmenting Urban Consumers

It is very key for the rural producer organizations to know how to divide the urban consumers. With the introduction of the New Economic Policy in 1991 had a far reaching implication on how the Indian economy evolved over the next 15 years. A major thrust was on opening up of the Indian markets to competition from abroad. The offshoot was that the Indian consumer, who was until then, protected from the developments of the rest of the world, now suddenly found himself being courted by companies from around the globe. The steady growth of consumer finance options, lowering of interest rates and curtailment of inflation at reasonable levels over the past decade and a half has resulted in general increase of income levels of the middle and the rich classes in India. This can be amply understood by the fact that India had about 20,000 crorepati¹ households in 2004, as opposed to only 5000 crorepati households in 1995–96 (Agnihotri 2004). The rapid increase in income levels in the hands-on ordinary Indians meant that over a short period of time, the Indian economy changed from a socialist oriented economy to a consumption led economy. The changes can be aptly understood in the words of Kishore Biyani, the CEO of Pantaloons Retail India Limited (Biyani and Baishya 2007). The changing demographic profiles, increasing income levels,

urbanization, technology, globalization and a free flow of ideas from within and outside the country, has brought about a dramatic shift in consumer taste and preferences. Consumer segments [in India] are maturing faster than ever. The rapid change in the Indian consumer's attitudes and profiles is making the Values – Attitude – Life Style based VALS Framework more relevant to define segments for consumer markets using psychographic criteria.

VALS segments adults into eight distinct types or mindsets using a specific set of psychological traits and key demographics that drive consumer behavior. The graphic representation (Figure 2) of VALS illustrates the eight types and two critical concepts of understanding consumers in terms of motivation and resources. The combination of motivations and resources determines how a person will express himself/herself in the marketplace as a consumer.

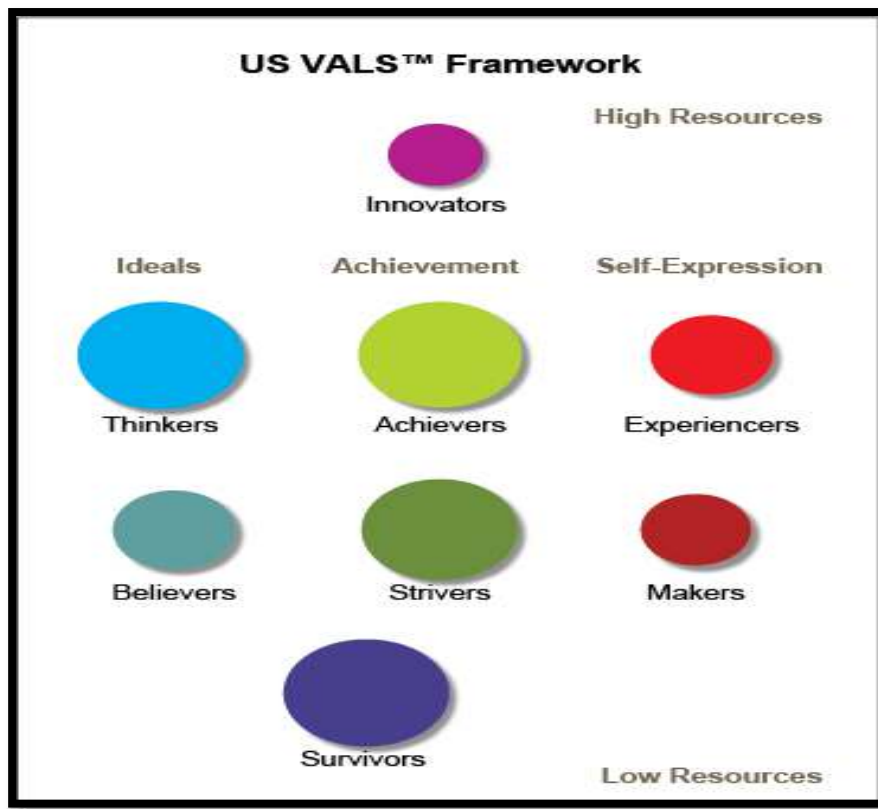


Figure 2.2 VALS Framework Sourced from Strategic Business Insights, 2015

Primary Motivation Ideals, Achievement, and Self Expression

The concept of primary motivation explains consumer attitudes and anticipates behavior. VALS includes three primary motivations that matter for understanding consumer behavior: ideals, achievement, and self expression. Consumers who are primarily motivated by ideals are guided by knowledge and principles. Consumers who are primarily motivated by achievement look for products and services that demonstrate success to their peers. Consumers who are primarily motivated by self expression desire social or physical activity, variety, and risk. These motivations provide the necessary basis for communication with the VALS types and for a variety of strategic applications.

Resources

A person's tendency to consume goods and services extends beyond age, income, and education. Energy, self confidence, intellectualism, novelty seeking, innovativeness, impulsiveness, leadership, and vanity play a critical role. These psychological traits in conjunction with key demographics determine an individual's resources. Various levels of resources enhance or constrain a person's expression of his or her primary motivation.

2.2 Targeting and Selection of Segments

Targeting is the selection of potential customers to whom a business wishes to sell products or services. The targeting strategy involves segmenting the market, choosing which segments of the market are appropriate, and determining the products that will be offered in each segment. Targeting in marketing is a strategy that breaks a large market into smaller segments to concentrate on a specific group of customers within that audience. It defines a segment of customers based on their unique characteristics and focuses solely on serving them.

Instead of trying to reach an entire market, a brand uses target marketing to put their energy into connecting with a specific, defined group within that market.

In target marketing, generally 5 criteria are widely used to indicate whether a business has selected a viable target market. This includes size, expected growth, competitive position, cost to reach, and compatibility.

1. **Size** How large is this target market? Is it worth pursuing?
2. **Expected Growth** even if the market is small, it may be profitable if there are indications that it will grow.
3. **Competitive Position** low competition equals attractive market.
4. **Cost to Reach** Is this market accessible with our tactics?
5. **Compatibility** How aligned is this market to our goals?

There are three standard approaches to target marketing. The first approach is the Single Target Market approach whereby the firm selects one particular market segment and makes every effort to “own” that space. The second approach is the Multiple Target Market approach in which the firm selects two or more segments to go after, requiring a separate marketing mix for each. The final approach is the Combined Target Market approach and results from combining two or more submarkets into one larger target market, which is managed with a single strategy. Most organizations prefer to adopt a segmentation approach such as the Single or Multiple Target Market strategies. These firms adjust their marketing mix for each target market to ensure that each segment is very satisfied with their offerings. Generally, it is better to target specific segments with an appropriate solution, than to approach combined segments with an “off the shelf” solution.

As discussed in the previous, the types of target markets are often segmented by characteristics such as

- Demographics age, gender, education, marital status, race, religion, etc.
- Psychographics values, beliefs, interests, personality, lifestyle, etc.
- Business Industry business industry or vertical
- Geographic Areas neighborhood, area code, city, region, country, etc.

Through this strategy of market segmentation, brands get more specific about their target market. They can focus on a small group of customers who will be most likely to benefit from and enjoy their products. For example, Mountain Crest Gardens™ is a family owned and operated succulent nursery established in 1995, located in the scenic Scott Valley of Northern California near Mt. Shasta focuses on a smaller, specific target market who are interested to decorate their indoor with succulent plants. Instead of marketing to the masses, they focus solely on selling the succulents to the buyers. Or they choose to exclusively market to offices and commercial building who would like to decorate desks and other spaces with succulents. Mountain Crest Gardens specializes in providing a large selection of named individual succulents, handpicked special collections, and affordable assorted trays with no minimum order or wholesale account requirements. They accommodate special orders along with free shipping targeting only the customers of succulents from US States and territories.



Figure 2.3 A Succulent for Desk Top Decoration

Importance of Targeting in Marketing

- **Targeting in Marketing** is important because it's a part of a holistic marketing strategy. It impacts advertising, as well as customer experience, branding, and business operations. When your company focuses on target market segmentation, you can do the following
- **Speak Directly to a Defined Audience** Marketing messages resonate more deeply with audiences when readers can relate directly to the information. Brands that have a large, varied market of customers often struggle with creating marketing campaigns that speak directly to their audience. Because their viewers are very different, few slogans or stories can resonate with each person on a personal level. Through target marketing, you can alleviate this problem and focus on crafting messages for one specific audience.
- **Attract and Convert High Quality Leads** When you speak directly to the people you want to target; you are more likely to attract the right people. Your marketing will more effectively reach the people most likely to want to do business with you. When you connect with the right people, you are then more likely to get high quality, qualified leads that will turn into paying customers.
- **Differentiate your Brand from Competitors** When you stop trying to speak to every customer in your market and start focusing on a smaller segment of that audience, you also start to stand out from competitors in your industry. When customers can clearly identify with your brand and your unique selling propositions, they will choose you over a competitor that isn't specifically speaking to or targeting them. You can use your positioning in marketing to make your brand more well known and unique.

- **Build Deeper Customer Loyalty** The ability to stand out from competitors by reaching your customers on a more personal, human level also creates longer lasting relationships. When customers identify with your brand and feel like you are an advocate for their specific perspectives and needs, they will likely be more loyal to your brand and continue to do business with you over a longer period of time.
- **Improve Products and Services** Knowing your customers more intimately also helps you look at your products and services in a new way. When you have a deep understanding of your target audience, you can put yourself in their shoes and see how you can improve your offerings. You can see what features you can add to better serve your customers.
- **Stay Focused** Finally, the benefit of using targeting in marketing is that it also serves to help your brand and team. Target marketing allows you to get more specific about your marketing strategies, initiatives, and direction of your brand. It helps you clarify your vision and get everyone in the organization on the same page. You have more direction when it comes to shaping upcoming plans for both marketing and the business as a whole. A focused approach helps you fully optimize your resources, time, and budget.

Targeting Customers, the Digital Way

Targeting specific customers using social media marketing strategies has become more affordable. Two billion people use Facebook every month. With FB's powerful audience selection tools, you can target the people who are right for your business. Using what is known about your customers, such as demographics, interests and behaviors, one can connect with people similar to them. There are three options for choosing the audience on Facebook.

Core audiences Audience can be selected manually based on characteristics such as age and location.

Custom Audiences The marketer can upload the contact list to connect with their customers on Facebook

Lookalike Audiences The rural enterprise can use their customer information to find people similar to them on Facebook.

Whether you're a flower shop that wants more local customers or an online electronics retailer looking for people interested in your products, the core audiences targeting options – the targeting features built into Ads Manager – allow you to reach people based on their demographics, location, interests and behaviors.

Demographics Find people based on traits such as age, gender, relationship status, education, workplace, job titles and more.

Location Reach people in areas where you want to do business. You can even create a radius around a shop to help create more walk-ins.

Interests Find people based on what they're into, such as hobbies, favorite entertainment and more.

Behaviors Reach people based on their purchasing behaviors, device usage and other activities.



Figure 2.1 Mr. NimaiKundu Inspecting Gerbera Cultivation by Farmer Mr. Suman Das in the Jhargram in West Bengal

Business for a Target Market

Gerbera Cultivation taken up by Farmers in West Bengal targeting the South East Asian countries export market. The major Gerbera producing states in India are Maharashtra, Karnataka, Gujarat, Tamilnadu, West Bengal and Himachal Pradesh. According to the global trends in floriculture, gerbera occupies the 4th place among cut flowers. In India, flowers are grown in around 233,000 ha land, with the production of loose flowers around 1729,000 MT and that of cut flowers 76732 lakh numbers (201213), as per NHB 2013 database. Gerbera is the latest sensation to Indian floriculture, commercially grown throughout the world in a wide range of climatic conditions.

Gerbera cultivation area in India is increasing day by day due to his increasing market demand. Gerbera flower comes in a wide range of colors, in Gerbera flower more than 100 different colours are available. Gerbera flower is very attractive and will be fresh for a long time. The freshness and long-lasting characteristics of this flower are made to use it in the form of parties, wedding functions, flower arrangements and flowers bouquet in the form of ornamental flowers. Commercial value in this flower market is high in India and neighboring countries.

Gerbera Business for Gerbera, cultivation required massive investment, but central government & state government provide a subsidy for prompting hi-tech farming. Different state has different subsidy percentage. Bank offer loan to the total gerbera cultivation project cost. Generally, for 0.5 acres (2008 sq/meter) gerbera cultivation with playhouse construction cost will be approximate Rs.22 24 lakhs. The government gives subsidy 30% to 80% depends on which state you belong. Apart from catering to the needs of the domestic market, the development of floriculture has also led to the expansion of business overseas especially due to its proximity to Southeast Asian countries. For the last seven years Mr. Suman Paul is into floriculture and have found that it is more profitable than growing vegetable or animal rearing. Initially he use to grow only marigold but now also produce tuberose, gladiolus, gerbera, anthodium, dahlia, aster and many other flowers. SumanPaul, Chittaranjan from Laxmi bill Village of Tripura, the adjacent state of W.B. grow cut

flowers targeting South East Asian countries geographically close to them thus having a competitive edge of access to specific export market.

2.3 Positioning Rural Products

Positioning is the process of designing the company's offering and image to occupy a distinctive place in the minds of the target market” (Kotler and Keller, 2006). The term 'positioning' was first coined by Ries and Trout. Product positioning is an important element of a marketing plan. The rural organisations has to decide how to position their offers to the markets. Product positioning is the process marketers use to determine how to best communicate their products' attributes to their target customers based on customer needs, competitive pressures, available communication channels and carefully crafted key messages. Product positioning is not what you do to a product; positioning is what you do to the mind of a prospect. That is, it is the act of positioning the product in the mind of prospect.

Significance

Positioning a company's product or service is simply defining who you are in the customer's eye. Marketers attempt to create an image or identity for a product, brand or company and usually express positioning relative to other competitors in the market. For example, the position of a low price paper towel is expressed relative to the higher priced brands.

Considerations

When positioning a product or service, the key is to decide what the sustainable competitive advantage of the product is versus its chief competition. If a product has a sustainable advantage, meaning that the product has some unique offering competitors do not have and that it can hold long term, the product will have a better chance of success. For example, a glass cleaner made of environmentally friendly and patented ingredients might have a sustainable advantage over competitors providing those competitors do not develop their own ecofriendly productsIt is an attempt to project different or refined or revised product image in the market than one that has been prevailing. It is the delicate task of relating a product to the market or a market segment.

It is that method that emphasizes the product that proves attractive to the consumers. For instance, a food processing machinery manufacturer (Perfura Technology's – Perfura brand Food Processor cited here) might engineer the product made of high quality stainless steel, machine processing capacity and its efficiency in power consumption than those of the other food machinery suppliers.



Figure 2. 2PefuraPulveriser Source Perfura.in

The Marketing Concept Small scale rural producers in India are often limited by the markets within their reach. In the past they have been unable to sell directly to urban consumers, and instead their products have been bought up by middlemen. It is time for the rural enterprises to move from the selling concept to marketing concept atleast by now.

Product Positioning Alternatives

A company which is to position or reposition its products has atleast four options which can be used to its individual advantage. These are

1. By Making Altogether Different Claim or USP

The company might have made an advertising claim earlier; now it can change it or it can be very much different from those made by competing firms. Thus, “Karnataka Cooperative Milk Producers’ Federation Ltd (KMF) ‘s product Nandini milk has been positioned as Karnataka’s highest selling and most preferred pasteurized toned milk and best choice for all purposes and all generation”

Now it can be introduced as “energetic health drink, freshness in the morning, Energy during the day and Sound sleep during night”. It can be an effective positioning option as it is different from earlier one and then those of competitors.

2. Highlighting the new product features

The company cans pinpoint the unique product features not highlighted by the company or the competition firms so far. The Stag brand Sun and Rain umbrellas of EbrahimKurrin and Sons of Bombay are famous in India and other neighboring countries. The company has come out with ‘folding’ umbrellas that like take a space “6”x”2” almost likes a pocket torch. Again, headgrip umbrellas are introduced so that users can better use their free hands.

3. By Entering in New Market Segment

The company may promote a product in the market segment which was untouched so far by it, its competitors. For example, Saffola cooking medium is the finest example of this kind which is designed for upper middle class and rich class for those people who high levels of cholesterol in the blood and that “Saffola” is free from ‘saturated fats’ that reduces such high level cholesterol.

4. By Introducing a New Package Design

It is possible to equalize the product price and quality by competitors through homogeneity. Such an attempt leads to oligopolistic type of competition. Therefore, a price cut is an effort to increase sales in one followed by the competitors. However, new package design is the strongest shield against such an attempt. Further, package of a product can be used in effort to extend the product lifecycle. Updating may help to give the pack a more contemporary image. New package features are perhaps; more important than product innovation itself, as it is an integral part of marketing strategy.

Determinants of Successful Product Positioning

The marketing firm that wants to achieve a thundering success with its product positioning strategy should fulfill the following conditions.

1. Design Creative Product Proposition

Product proposition means the offer of benefits accruing from the use of the product. In other words, it concerns itself with outstanding product features. The proposition to be perceived by the consumers is one that is desired by the firm proposing. The results of positioning are increased satisfaction to the users and profits to the sellers through increased sales. The product proposal is bound to be impressing and appealing than those of competitors if a novelty is shown via creativity.

A simple tool a small business can use to develop a positioning strategy for its products or services is to use the USP, or the unique selling proposition. The USP identifies and communicates the company's most compelling offer and benefit in a way that answers the customer's question, "What's in it for me?" Saying that a company has been in business for 15 years or that the company is dependable is probably not unique enough to stand up to competitors. But, if the firm can say that it offers ontime delivery service that is demonstrably better than competitors, then it has a USP.

For example, KMF has introduced Mango Lassi as against the competitors' ordinary lassi in the market. Nandini Mango Lassi is made from fresh curd. It is made with fresh mangoes using natural mango pulp and KMF claims that it's the most delicious drink can be enjoyed.



Figure 2.6 Mango Lassi from kmfnandi.coop

2. Existence of Warranted Competition

The positioning strategy is likely to be victorious in case there is competition warranting product positioning. Positioning is a strategy. Strategy is a counterplan to meet the challenges of opponents in the field or any odd situation that has cropped up.

Product positioning or repositioning is always done in response to the product positioning or repositioning done by competitors. So long as competitors are not coming in your way, you need not worry. In case they challenge your stand or position, then repositioning is a must as the only way out to survive and succeed.

3. Sizeable and Profitable Market Segment

Market segments must be large enough to make it profitable for a manufacturer or marketer to concentrate his resources on such as market. For example, it is possible to identify people who are likely to spend most of their waking hours in shopping and thinking about the ways they can save money. Though it is possible that such people exist in our community, it would be doubtful that their number is worth trying to reach them. Even if such neurotically price conscious people are existing in large number, there is a problem of how to identify them. In effect, therefore, a market segment must contain enough people to make a profitable market and must be identifiable in order to implement such a strategy.

It has been difficult for the rural enterprises to stand out successful in the world of competition, especially from the giant multinational companies. Till recent past rural enterprises were heavily

dependant on the intermediaries, until the diffusion of ICT. The Council for the Advancement of People's Action and Rural Technology (CAPART) is helping the producers to negotiate contracts with large customers directly without going through wholesalers. The 'Gram Shree' or 'wealth of villages' exhibitions which have provided an urban marketplace for rural artisans to sell their products in addition to understanding the positioning concept in the context of rural enterprises. This agency is a major promoter of rural development in India, assisting over 12,000 voluntary organizations across the country in implementing a wide range of development initiatives

2.4 4Ps of Marketing Mix

Generally marketing identifies consumers' needs and supplies various goods and services to satisfy those needs most effectively.

So the rural businessman needs to the following things

- a. produce or manufacture the product according to consumers' need;
- b. make available it at a price that the consumers' find reasonable;
- c. supply the product to the consumers at different outlets they can conveniently approach;
and
- d. inform the consumers about the product and its characteristics through the media they have access to.

So the marketing manager concentrates on four major decision areas while planning the marketing activities irrespective of the fact which kind of business, where do they operate from and what products they deal is illustrated in the following figure.

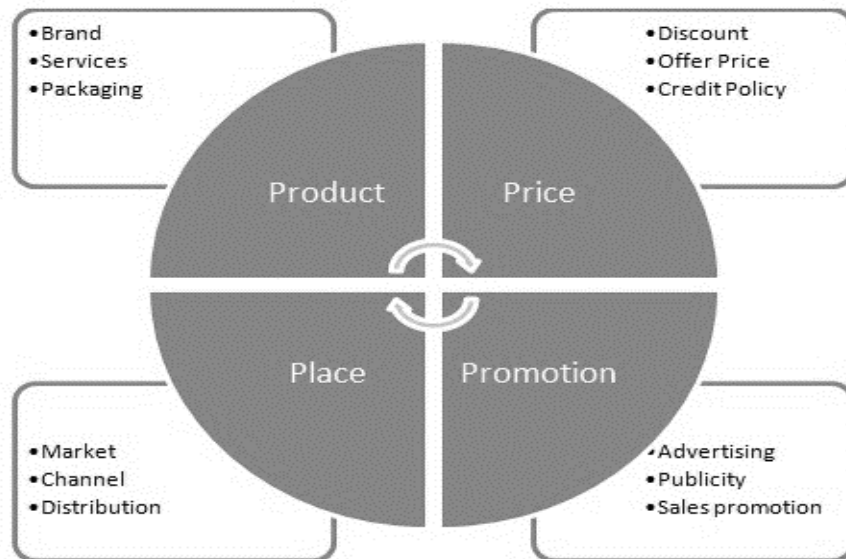


Figure2.3 4Ps in Marketing

These 4 'P's are called as elements of marketing and together they constitute the marketing mix. All these are interrelated because a decision in one area affects decisions in other areas. In this lesson you will learn about the basic aspects relating to these 4'P's viz., product, price, place and promotion.

Concept and Components of Marketing Mix

Marketing involves a number of activities. To begin with, a rural enterprise may decide on its target group of customers to be served. Once the target group is decided, the product is to be placed in the market by providing the appropriate product, price, distribution and promotional efforts. These are to be combined or mixed in an appropriate proportion so as to achieve the marketing goal. Such mix of product, price, distribution and promotional efforts is known as 'Marketing Mix'. According to Philip Kotler, "Marketing Mix is the set of controllable variables that the firm can use to influence the buyer's response". The controllable variables in this context refer to the 4 'P's [product, price, place (distribution) and promotion]. Each firm strives to build up such a composition of 4'P's, which can create highest level of consumer satisfaction and at the same time meet its organizational objectives. Thus, this mix is assembled keeping in mind the needs of target customers, and it varies from one organization to another depending upon its available resources and marketing objectives. Let us now have a brief idea about the four components of marketing mix.

Product

Product refers to the goods and services offered by the organization. A bag of Bakthi BG II Nuziveedu cotton seeds, a plate of dahivada made for sale by Self Help Groups, Chakkiaatta of ITC , all are products.



Figure 2.4 The first P Product

All these are purchased because they satisfy one or more of the customer needs. We are paying not for the tangible product but for the benefit it will provide. So, in simple words, product can be described as a bundle of benefits which a marketer offers to the consumer for a price. While buying a bag of cotton seeds, we are actually buying cotton fiber that it will produce, while buying a kg of chakkiatta, we are actually paying for tasty roti which is likely to give us a complete food. Product can also take the form of a service like servicing a tractor, to selling dairy products to processed jams, etc. Thus, the term product refers to goods and services offered by the organization for sale.

Price

Price is the amount charged for a product or service. It is the second most important element in the marketing mix. Fixing the price of the product is a tricky job. Many factors like demand for a product, cost involved, consumer's ability to pay, prices charged by competitors for similar products, government restrictions etc. have to be kept in mind while fixing the price. In fact, pricing is a very

crucial decision area as it has its effect on demand for the product and also on the profitability of the firm.

Moradabad is the name which strikes the mind of the Indians when we talk about Brass handicrafts. Countries like Britain, the US, Middle East Asia, Germany and Canada import brassware from Moradabad. In Moradabad there are about 600 exports and 9000 industries in the district. Moradabad exports goods worth Rs. 4500 crore yearly. A brass lamp is priced at Rs.550 which is influenced by the availability of raw materials, employing artisans, etc. The price is also decided by the purchasing ability of the buyers. The brass items that are exported has adopted premium pricing strategy as it caters to the export market.



Figure 2.5 Brass Lamp Priced at Rs.550

Place

Goods are produced to be sold to the consumers. They must be made available to the consumers at a place where they can conveniently make purchase. Woollens are manufactured on a large scale in Ludhiana and you purchase them at a store from the nearby market in your town. So, it is necessary that the product is available at shops in your town. This involves a chain of individuals and institutions like distributors, wholesalers and retailers who constitute firm's distribution network (also called a channel of distribution). The organization has to decide whether to sell directly to the retailer or through the distributors/wholesaler etc. It can even plan to sell it directly to consumers.

Rotovator for land preparation manufactured by Tara Singh Argo Enterprises and is sold directly to the farmers. The enterprise is located at Normal Road, Bilge Village. Tara Singh Argo Enterprises has emerged as a leader in the field of agricultural equipment's, with a wide experience in the manufacturing, exporting and wholesale marketing. Established in the year 1960, by Late Sardar Tara Singh, Tara Singh Argo Enterprises came into existence, with the vision of becoming the best manufacturer and exporter of Agricultural Equipment's. Unique quality of their products, perfect services, on time delivery and reasonable prices differentiate ourselves from all other ago companies. They emphasize on time delivery of equipment's to its customers.

Marketing Promotion If the product is manufactured keeping the consumer needs in mind, is rightly priced and made available at outlets convenient to them but the consumer is not made aware about its price, features, availability etc, its marketing effort may not be successful. Therefore promotion is an important ingredient of marketing mix as it refers to a process of informing, persuading and influencing a consumer to make choice of the product to be bought. Promotion is done through means of personal selling, advertising, publicity and sales promotion. It is done mainly with a view to provide information to prospective consumers about the availability, characteristics and uses of a

product. It arouses potential consumer's interest in the product, compare it with competitors' product and make his choice. The proliferation of print and electronic media has immensely helped the process of promotion.

The 4 As of Marketing Mix

For the customers/consumers irrespective of the fact whether they are from rural or semiurban or urban background, the traditional 4 Ps of marketing mix is important for the rural organizations to focus on. Generally, 4Ps alone are not sufficient if the producers, products and services from rural based enterprises need to reach the rural dwellers. Around 66 percent of Indian population resides in rural area which is a huge customer based for the rural enterprises. So, along with the 4 Ps of marketing, the 4As also has to be considered and keep in mind while formulating the plan to enter the rural market because these are also critically important. According to MART consultancy (Specialist in Rural Marketing) 53% of sales of FMCG companies come from Rural India. Thus sweet tooth lies in serving and targeting these 700 Million Rural customers. Also Urban markets are reaching their saturation while Rural are growing by CAGR of 25% .Thus FMCG giants are leaving no stone unturned to tap these lucrative markets.

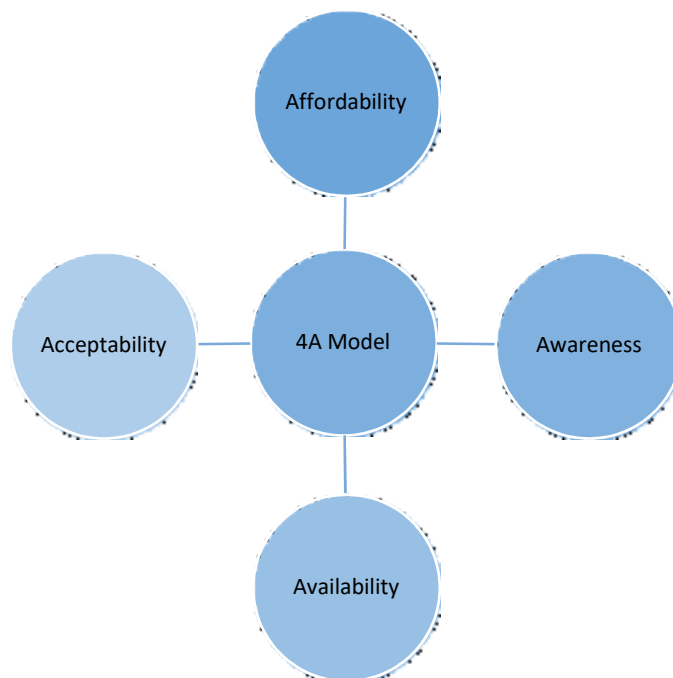


Figure 2.10 The 4As of Marketing Mix

1. Availability

The first challenge in rural marketing is to ensure availability of the product or service. India's 7,00,000 villages are spread over 3.2 million sq km; 700 million Indians may live in rural areas, finding them is not easy. They are highly dispersed. Given the poor infrastructure, it is a greater challenge to regularly reach products to the farflung villages. Marketer should plan accordingly and strive to reach these markets on a regular basis. Marketers must trade off the distribution cost with incremental market penetration.

- a. The transportation of "Amul Butter" to the stores that sell "Amul Butter" is a big challenge. While transportation, the butter has to be stored properly, so that it does not get contaminated. Amul is made in "Kaira District" somewhere in Gujarat. From there it is distributed all over India and it is available at the local store near to us. The destitution guys have to make sure that, every little "Banya shop" on every little street of our extremely large country gets "Amul Butter".
- b. India's largest MNC, Hindustan Lever has built a strong distribution system which helps its brands reach the interiors of the rural market which has to be considered as the model by rural organization while reaching to the rural markets.

Huge rural enterprises like Amul, can operate in a hub and spoke model. A hub and spoke network is a centralized, integrated logistics system designed to keep costs down. Hub and spoke distribution centers receive products from many different origins, consolidate the products, and send them directly to destinations. This will ensure full loads, the company depot supplies, twice a week, large distributors which act as hubs. These distributors appoint and supply, once a week, smaller distributors in adjoining areas who focus a radius like spoke.

2. Affordability

The second major challenge is to ensure affordability of the product or service. With low disposable incomes, products need to be affordable to the rural consumer, most of who are on daily wages. A part of it has been mentioned in product (first P).

A solution to this has been introduction of packs by some companies. Most of the banana chips are available in smaller packs.

- Timbatku from Ananthpur – a cooperative farmer producer company is reaching to the market in the name of "Timbatku Organic" supplies Ragi millet for Rs.42 / kg. It also has smaller packs for Rs. 24 for 500 grams.
- Bru instant coffee was launched in smaller packs.
- Amog Foods based in Salem, operating with the neighboring cities in TamilNadu offers processed foods such as pickles in 50 gram packs and 100 gram packs

Some product also can be made affordable by making available the loan facility by having alliance with banks.



3. Acceptability

The next challenge is to gain acceptability for the product or service. Therefore, there is a need to offer products that suit the rural market. To make it acceptable, Timbatku Organic has displayed the

uses of consuming an organic produce on its online store as “Organic Facts” besides getting certification.

Organic facts displayed by Timbatku

- The average non organic fruit contains more than 20 pesticides.
- Organic food is richer in vitamins, minerals and fibre and retains the levels of nutrients for much longer.
- Your body will be more resistant to disease
- You will have more energy through consuming lower levels of toxins and chemicals that slow your body down
- Organic food producers must meet stringent standards
- Organic farms respect our water resources and do not leach nitrogens and other pollutants from their soil
- Organic food just tastes so much better



Figure 2.11 Source <http://timbaktuorganic.org>

4. Awareness

Building awareness is another challenge in rural marketing. A large part of rural India is inaccessible to conventional advertising media. The media penetration in rural areas is only about 57%. It has been seen that, two out of five Indians are unreached by any media TV, Press, Radio and Cinema put together. Haats, mandis and melas are opportunities. Family is the key of identity for both the urban and rural consumer. However, the rural consumer expressions differ from his urban counterpart. For a rural consumer, outing is confined to local fairs and festivals and TV viewing is confined to the state-owned TV Channels. Consumption of branded products is treated as a special treat or indulgence in many households. Haats, mandis and melas are the place of opportunities to promote awareness about the product.



Figure 2.12 POAB Biotech P Ltd., in AgriIntex Exhibition, Photo Courtesy B. Poongodi

4 A's the Case of Dabur India for the Rural Market

Different Awareness program adopted by Dabur are

- Health camps in school to boost sales of toothpaste and Chavan rash

- It also came up with beauty pigeon to promote its beauty products
- It emphasized on word of mouth publicity asking rural folks to use and experience products themselves



Figure 2.13 Dabur India School Campaign

Project Double Under this company used digitized maps & electronic data and came up with list of specific villages to target. The aim was to manage cost of reaching and activating rural consumers. It chose 353 districts initially to target its customers. This was done to utilise synergies across divisions, maximise reach and maintain cost.

Not only customers were segmented, Company also segmented its products into two one which needs exclusive category focused sales and meant for urban customers and other focused on rural and small markets requiring an integrated sales force.

ASTRA Dabur uses ASTRA (Advanced Sales Training for Retail Ascendance) to increase sales in rural India. It's a customized program for sales force of Dabur. The program aims at enhancing quality of field execution by providing audio video regional language and communication training to its sales force. The duration of training will be 6 months. Dabur has divided its sales & distribution channel into finer segments, like key grocers, wholesale, chemist, modern trade etc. Program is designed to focus on specific needs expectations and working of each of these channels. The various issues addressed will be trade promotion programmes, SKU focus, merchandising, channel conflicts etc.

Recently Dabur launched a unique branding and sampling initiative at Nauchandi Mela, which is one of the key congregations in rural India. The brand took biggest sampling exercise and also had biggest umbrella in mela. In the mela customers got opportunity to experience cooling effect of DaburPudin Hara Lemon Fizz, which eventually lead to gaining substantial market share.

To boost its toilet cleaner brand Sanifresh, series of social initiatives were launched. Most significant of them was "700 se 7 Kadam". IN this Dabur decided to utilise Rs1 from every sold pack of Sani fresh for building toilets in rural India. It was aimed at improving sanitation facilities especially for women in rural areas. The campaign gathered much accolade and response from all over India.

Swalambh is one of the CSR Initiatives taken by Dabur, which led to Brand Awareness and Brand Recognition. To enhance employability of youths in rural India, company came up with a vocational training program. Through this program technical training and skills in three key areas of Sales, Merchandising and Promotion were imparted to rural youths. It was conducted in association with

the Rural Development and Self Employment Training Institute (RUDSETI), this initiative will also seek to provide guaranteed employment to these youth, post completing their training. Such initiatives not only fulfil CSR requirements, but also bring good name and credibility for brand. With launching thoughtful and goal oriented campaigns especially focusing on target groups, Dabur will be surely able to create awareness about its brands and spread its presence in rural India.

2.5 Role of Informal Communication

Communication is part of any organization. Each effort in the development of an organization must primarily take into consideration the human component of its development, and the efficient communication is the only way in which people can coordinate their efforts. Formal communication can flow both vertically and horizontally. Informal communication, on the other hand, involves unsanctioned informal communications between organizational members and can flow in any direction. Communication becomes a critical element necessary during the periods of radical changes in the life of the organization, as it is the instrument needed for changing, redesigning the inner processes, for the new strategy of the organization.

In the mid1990s, email was not yet recognized as an appropriate channel for "official," or formal, communication. Direct mail was. Sure, some people wrote back and forth about business using email, but it was primarily a tool for interpersonal, or informal, communication.

Informal Communication Drives Widespread Adoption of New Tools The widespread adoption of email was fueled by the fact that it made written interpersonal communication easier. As an email tutorial from 1995 put it, "Email is cheaper and faster than a letter, less intrusive than a phone call, less hassle than a FAX." The same faster, cheaper, less hassle rationale was true of the telephone, just as it is true in the current adoption of text messaging and social networks. Alternatively, communication tools launched primarily for formal communication (e.g., fax and RSS) don't get widely adopted by consumers

During periods of structural change, marketing communication gains new valences, and becomes an art, more than anything else. Rational communication can convince human minds to change, but in order to also change the "hearts" of customers, one must use emotional language. Any structural change implies a radical change of attitude and this is the most difficult to achieve. Without an open, permanent, precise and supportive communication, resulting from a strategic thinking, the attitude change in question is impossible to achieve. If communication serves to build the self image of the rural organization, a good, efficient communication means to attach a positive, favorable, often rich and coherent image.

Some, Not All, Communication Channels Evolve from Informal to Formal

When email came on the scene direct marketing was delivered via the mailbox. As more and more business was conducted via email, so also, more and more marketer consumer communication started to be conducted via email. Consumers expect and welcome direct marketing communications via the same channels they use for other official communications like bills or business correspondence. Alternatively, instant messaging gained adoption for informal communication but never evolved beyond that, and the telephone is still reserved for interpersonal communication.

Consumers have Become Sensitized to Marketers' Use of Informal Channels While marketers get bombarded about the commercial potential of social media and text messaging, it is critical we keep in mind that telemarketing once had incredible marketing potential as well. Telemarketing's potential was never realized and never will be. The marketers invaded the personal space of their consumers and soiled the channel. Text and social run the same risk if not handled carefully. For example, Dabur is the fourth largest Fast Moving Consumer Goods company in India uses various conventional promotional tools used by Dabur in rural markets are TV Commercials, Radios, Newspaper, POP Display, Wall Paintings, Melas, Hats, Video vans and many sales promotions besides maintaining a Facebook page for free flow of communication, where they can receive customer comments and reviews.



Figure 2.14 Dabur Facebook Page

How People Prefer to Communicate Differs Based on Whom they are Communicating with and What they are Communicating about for example, in a survey conducted in June 2009, we found that 24% of consumers communicate most frequently via text ("texters"). Of them, 33% are using email more frequently than they were six months ago, compared to only 10% who are using email less frequently. Furthermore, 67% of texters want marketers to send permissionbased promotions via email compared to 10% who want promotions via text. Consumers use multiple channels and they use them differently.

Marketing Messages are "Acceptable" to Consumers through Formal Channels In our research, 90% or more of customers want to receive marketing messages (promotions, polls and surveys, purchase confirmations, account status updates, and general customer service information) through either email or direct mail. More and more, they prefer email. The majority of consumers believe these messages are unacceptable through other channels. There are two primary exceptions. Many consumers want to receive alerts (e.g., fraud detection or travel alerts) via phone or text messaging. Many also want to use these channels for dealing with customer service issues though the majority still want companies to send them email for these interactions.

Consumers' expectations in informal channels are fundamentally different from their expectations in email or direct mail. Consumers may want to contact you through these channels; they just don't want you contacting them first. Healthy rural economies depend on small town entrepreneurs, and both politicians and nonprofit organizations have programs to help grow rural businesses. Rural entrepreneurship appears to be on the rise. Strategies for creating sustainable rural businesses differ from urban enterprise expansion efforts because market niches are smaller and consumers are more

widely dispersed. Some ways that have proved successful in the developed economies to grow a rural business include the following

- 1. Cultivate a Barn Raising Mindset** Host local economic development meeting and occasionally lend one of your employees to their efforts. Investments in infrastructure provide a crucial foundation for rural enterprise. Collaborate with the Universities and Colleges in that region to reach the consumer market.
- 2. Reach the Underserved Markets** Offer products and services that meet the needs of minority groups in your community. A May 2010 report sponsored by the Ford Foundation noted “ethnic entrepreneurs are well integrated into certain areas of the community.” Business owners who cultivate rich community connections within these well established networks can grow their customer bases in small towns and rural areas.
- 3. Tapping into Social Media** Engage the neighbors online. “A sound social media strategy can improve the assets of your community, raise local awareness of your business, and create more revenue for your business over time,” Mark Crawford notes in Rural Telecom. Except for remote outposts, virtual collaborative commies are equally accessible to both rural and urban business owners — an example of one arena that offers rural entrepreneurs a similarly competitive position to their urban counterparts.
- 4. Expanding the Reach** Grow your rural business through ecommerce. Janell Anderson Ehrke, founder and CEO of GROW Nebraska, conceived the cooperative effort to help rural entrepreneurs become “a force to be reckoned with.” Since 1996, she has helped rural entrepreneurs connect with large corporate enterprises, such as Starbucks and Menards, to reach new markets.
- 5. Invest in your Community** Follow the Corporate Social Responsibility Programmes of Dabur, ITC and other organization. A rural enterprise can invest philanthropically for local causes.

Case for Discussion

Mr. Saurav a chemistry graduate residing in Quilon, State Kerala came across the following article in a daily newspaper. It was interesting for him to read the article as his father and many of his relatives are in one or the other way related to pepper. The news reported the turn of the century that has ushered in a new era for the Indian spice export sector. Products that have hitherto dominated the export basket are losing their eminence. And the focus is shifting to new crops, products and methods of cultivation. Spice exports from the country are largely in the primary form. A few commodities like pepper, chillies, spice oils and oleoresins have dominated the export sector, literally for centuries. However, in the last couple of years, the commodity composition of exports witnessed major changes. Pepper, which used to contribute nearly 50% of the total spice exports, registered a sharp fall in exports. A fall in the international price of pepper and the rise of Vietnam as a cheaper source of pepper were the main reasons for this. In fact, in the current year, the production estimates of pepper show that for the first time, the country has lost its status as the leading producer of pepper in the world to Vietnam. Though the value added products like spice oils and oleoresins have performed consistently well on the export front, the Spices Board has now identified a set of new crops and products to revitalise the Indian spice export sector. Vanilla, herbal spices like rosemary, thyme, parsley, oregano, saffron and paprika are the new crops that the board has identified as the future stars of the spices firmament, says Mr C J Jose, chairman, Spices Board. There is scope for increasing the cultivation of vanilla in many parts in the south. The demand for vanillin has been estimated at 30,000 tones. At present, only 5% of this is met through natural

sources. The supply problems in the international market have led to a sharp acceleration in the price of vanilla. The Spices Board is of the view that even if the prices fall, it will still be a better source of revenue for the growers than many other crops. The board has identified Tamil Nadu and the northeast as the main areas where herbal spices can be promoted. Similarly, Tamil Nadu, Karnataka and Andhra Pradesh have been identified as the areas where paprika, a chilli variety with high colour value and low pungency, can be promoted. Taking into account the scope for the export of saffron, new emphasis is being given to increase production in the existing production centres. To meet competition from the South-East Asian countries where production costs are low, a new thrust is being given to organic spices, which command a premium in the market. For the growers, the focus on these methods of cultivation is expected to bring in higher revenues. In the value added segment, spice oils and oleoresins have emerged as one of the few product groups to register consistently good export performance. However, other new products like nutraceuticals have emerged as new potential areas for export promotion. Several corporates have also joined the bandwagon of herb based health supplements. The Spices Board has identified the product group as one of the thrust areas in the export sector. But perhaps the most important development in the spice sector today is the concern for quality. Adoption of hygienic postharvest technologies is the need of the hour as far as spice export sector is concerned. At a time when the quality aspect of exports is becoming an important consideration in importing countries, the main task of the export sector is to create a perception that the country is the main source of quality spices in the world market. The foundation for this job has already been laid in the main production and processing centers in the south. Saurav always thought to build his father's business.

Guidelines for Case Discussion

1. Analyze the new customer segments and opportunities that can be explored by Mr. Saurav to renew his father's business.
2. Saurav has started to cultivate vanilla plantation and other medicinal herbs by getting into an agreement with one of the local nutraceutical companies. Design a marketing mix strategy for Saurav's new business to become one of the most sought after herbal and vanilla supplier to the nutraceutical companies across the globe.

Questions for Discussion

1. What are the value added spices you suggest for the rural producer organisations to explore as new business avenues?
2. Relate various consumer segments to which the spices producers organization can effectively reach.
3. List the four components of marketing mix.
4. Give one word/phrase for the following statements
 - a) The crucial decision area of marketing that has direct effect on demand for the product and profitability of the firm.
 - b) The component of marketing that relates to channels of distribution.
 - c) The components that are combined to achieve the marketing goal.
 - d) The goods and services offered by the organization for sale.
 - e) The ingredient of marketing mix relating to informing, persuading and influencing a consumer to make choice of the product to be bought.

5. Elucidate the merits and demerits of informal methods of marketing communication for small business organizations.

References

1. [http://perfura.in/?products category=grainhandlingequipment](http://perfura.in/?products%20category=grainhandlingequipment)
2. <https://smallbusiness.chron.com/productpositioningstrategy3350.html>
3. <http://capart.nic.in/pub/nlengjulsep12.pdf>
4. http://economictimes.indiatimes.com/articleshow/31069057.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst
5. <http://www.tsbagro.com/Products.html>
6. <https://tradingeconomics.com/india/ruralpopulationpercentoftotalpopulationwbdata.html>
7. <http://www.exacttarget.com/channel>
8. www.keralaspice.com

Chapter 3 Rural Distribution System

At the core of a healthy economic system resides the relationship between producers and consumers. In a large economy deprived of efficient communication systems a third entity appears between the producer and the consumer, the middleman, a distributor. In this context, the producer is disconnected from the beneficiaries of its products, and the middleman bridges this gap, not only by establishing a distribution channel, offering producers access to a market, to a group of consumers, but also by giving feedback to producers about market demands. Moreover, the middleman has an advantage to mask the producer on the market by creating brands. Thus the producer becomes unknown, behind the screen of the brand, and the middleman can play different producers, leveraging his visibility and the access to the market to obtain a better price for products. History shows that in almost all such systems the power of the distributor increases in excessive proportions, to become a nuisance for the overall economy.

Objectives

- Be acquainted with development of Rural Distribution Systems and Rural Communication
- Be aware of the channel strategies for distributing the rural products (such as handicrafts), agro-inputs and agricultural produces.
- Be sensitized with challenges in marketing of agricultural produce.
- To understand characteristics of Indian handicraft industry and its importance in the Indian context
- To learn about key export markets for exports of handicrafts
- To comprehend marketing strategies or promotion of rural products sector

3.1 Rural Distribution System

Rural Communication and Rural Distribution Systems

A variety of products ranging from agroinputs such as fertilizers, agro chemicals and seeds, to consumer durables, FMCG and the services sector also needs to be distributed in the rural areas. The best of the rural products, value added products, agricultural produces often moves from the rural areas to the urban areas due to the price affordability factor. An understanding of the rural communication framework will help us to distribute and offer products to the rural consumers too. In this contest it is important to understand the special characteristics of the rural consumers.

A Rural Consumer

A rural consumer is highly conscious of value for money. There is a high involvement of the rural customer in any product purchase, more so for high end products, which involve shelling out a few thousand rupees or more.

Integrated Communication Approach

Tricky, clever, gimmicky or even suggestive advertising does not work with the rural audience. 'Slice of life' approaches, simple and direct, using aspirational urban looking models work very well.

Combining education with entertainment or 'edutainment' is a good route to take. The general FMCG companies will do well to use regional stars for regional campaigns for more effective penetration of brands in rural areas.

In case of television spots which are sophisticated in execution and chances of the message going over the heads of the rural consumers high, special efforts will have to be made to interpret the main message to the rural audience. This could be done through a whole lot of below the line (BTL) activities, including road shows and VOW (video on wheels) programmes, which elaborate on the theme of the campaign through interactive games and contests.

Communication Delivery Strategy

The two vital arms of rural communication are the development of creative to suit specific target audiences and communication delivery using appropriate vehicles. Though rural folks receive all types of selling messages through multiple sources, it has been found that the two tier system — opinion leaders and the masses — continues to exist. Opinion leaders continue to play an important role in the decision making, which is still community or group based.

However, the composition of the opinion leaders has changed over a period of time. For decisions regarding farm inputs, farmers may consult the traditional opinion leaders, including other successful farmers, agricultural officers and dealers. But with the growing aspiration levels (thanks to television), village youth who go to the cities for education and employment have also become important opinion leaders for lifestyle products. And in the case of personal care products, similar to the trend in the urban areas, school going children do influence the brand decision. Kids' pester power is not unique to urban India.

Media Strategy for FMCG Products

Television is invariably the primary medium used by most FMCG brands. As television does not distinguish between urban and rural, whether one likes it or not, the commercials are also exposed to a vast majority of the rural audiences.

If a company is clear that a particular brand can be targeted at both urban and rural audiences, and since television is already considered the primary medium, it might be a good idea to produce commercials that appeal to both urban and rural audiences. Pretesting of such commercials among both audiences is vital to ensure success among both.

Apart from regional TV channels, one can consider the use of local cable TV networks largely telecasting local shows popular among commies in semiurban and rural areas. Rural cinemas, especially in South India, are still a popular medium to reach consumers.

Radio is one of the cheapest mass media to reach rural masses. Even where electricity is unreliable, transistor radios are very popular among the poorer sections of rural India. With the number of FM stations set to explode after expansion under Phase Three, it would be possible to reach even more remote areas through radio.

Haats (weekly markets) and Melas tied to temple and religious festivals are great for promoting brands. While haats help in reaching a few thousand villagers from different villages in one place, melas attract lakhs of visitors across the State or across the country as in kumbh melas. They

offer a variety of media opportunities in one place. However, it must be remembered that haats are gradually losing their importance in economically developed markets such as Tamil Nadu because of the tremendous progress made by small towns and their easy accessibility to villagers due to better and reliable transport facilities.

In the last decade, the role of technology has made a huge difference in the way one reaches the rural audience. The growing number of Internet kiosks disseminating useful information to village folk has come to stay. The mindboggling growth of mobile telephones, especially in the rural areas, has created a great opportunity for anyone with a message to reach the rural masses. Sitting at home and at the press of a button, a rural customer is able to access all kinds of information — in the process virtually helping the elimination of the middlemen, who have had a stranglehold on him for generations. Static media such as wall paintings, hoardings, shop fronts and point of sale continue to be useful as reminder media. So are messages prominently displayed in bus stands, railway stations, on water tanks, wells and pumpsets in villages, as well as mobile media such as local buses and auto rickshaws.

3.2 Channels for Rural Products/Agricultural Produce Distribution

Farmers producing agricultural produce are scattered in remote villages while consumers are in semi-urban and urban areas. This produce has to reach consumers for its final use and consumption. There are different agencies and functionaries through which this produce passes and reaches the consumer. A market channel or channel of distribution is therefore defined as a path traced in the direct or indirect transfer of title of a product as it moves from a producer to an ultimate consumer or industrial user. Thus, a channel of distribution of a product is the route taken by the ownership of goods as they move from the producer to the consumer or industrial user.

Factors Affecting Channels

There are several channels of distribution depending upon type of produce or commodity. Each commodity group has slightly different channel. The factors are

1. Perishable nature of produce e.g. fruits, vegetables, flowers, milk, meat, etc.
2. Bulk and weight—cotton, fodders are bulky but light in weight.
3. Storage facilities.
4. Weak or strong marketing agency.
5. Distance between producer and consumer. Whether local market or distant market.

Types of Market Channels

These channels have great influence on marketing costs such as transport, commission charges, etc. and market margins received by the intermediaries such as trader, commission agent, wholesaler and retailer. Finally, this decides the price to be paid by the consumer and share of it received by the farmer producer. That channel is considered as good or efficient which makes the produce available to the consumer at the cheapest price also ensures the highest share to the producer.

Some of the typical marketing channels for different product groups are given below

A. Channels of Rice

1. Producer—miller>consumer (village sale)
2. Producer—miller>retailer—consumer (local sale)
3. Producer—wholesaler>miller—retailer—consumer

4. Producer–miller–cum wholesaler retailer consumer
5. Producer–village merchant–miller–retailer–consumer
6. Producer–govt. procurement–miller–retailer–consumer

B. Channel of Other Food Grains

1. Producer – consumer (village sale)
2. Producer–village merchant–consumer (local sale)
3. Producer–wholesaler cum commission agent retailer–consumer
4. Producer–primary wholesaler–secondary wholesaler– retailer– Consumer
5. Producer–Primary wholesaler–miller–consumer (Bakers)
6. Producer>govt. procurement–retailer–consumer
7. Producer–government–miller–retailer–consumer

C. Channels of Cotton

1. Producer–village merchant–wholesaler or ginning factory– wholesaler in lint–textile mill (consumer)
2. Producer–Primary wholesaler–ginning factory–secondary wholesaler–consumer (Textile mill)
3. Producer– Trader– ginning factory– wholesaler in lint– consumer (Textile mill)
4. Producer–govt. agency–ginning factory–consumer (Textile mill)
5. Producer–Trader–ginning factory–wholesaler–retailer– consumer (non-textile use).

D. Channels of Vegetables

1. Producers–consumer (village sale)
2. Producer–retailer–consumer (local sale)
3. Producer–Trader–commission agent–retailer–consumer
4. Producer–commission agent–retailer–consumer
5. Producer–primary wholesaler–secondary wholesaler– retailer– consumer (distant market).

E. Channels of Fruits

1. Producer–consumer (village sale)
2. Producer–Trader–consumer (local sale)
3. Producer–pre-harvest contractor–retailer–consumer
4. Producer–commission agent–retailer–consumer
5. Producer–pre-harvest contractor–commission agent– retailer–consumer
6. Producer–commission agent–secondary wholesaler– retailer–consumer (distant market)

F. Marketing of Rural Artisan Products India is one of the important suppliers of handicrafts to the world market and the sector as such has been amongst India's leading exchange earners. The export earnings from Indian handicrafts industry for the period 1998-99 amounted to US \$2 billion. Yet, this sector is still not completely explored in light of capability and potential exist for it. Central and state government entities voluntary nongovernment organizations and cooperatives all are trying to do their bit in the mammoth task to achieve holistic development of Indian handicraft. The development of rural artisan sector will lay a strong foundation for the sustainable development of the rural economy. It will lead to increased disposable income of the rural artisan who are mostly belonging to the relatively under privileged sections of society

Artisan

The specialists, who produce goods and services and render services for and to others, are what we call artisans today. They are heir to the traditions and make it into a work of art. Most craft people have learned their skills from their parents and grandparents as a continuity of tradition, which is being passed on from one generation to another. An artisan is a skilled craft worker who makes or creates things by hand that may be functional or strictly decorative, for example furniture, food items, household items and tools or even mechanisms such as the handmade clockwork movement of a watchmaker. Artisans practice a craft and may through experience and aptitude reach the expressive levels of an artist.

The adjective "artisanal" is sometimes used in describing hand processing in what is usually viewed as an industrial process, such as in the phrase artisanal mining. Thus, "artisanal" is sometimes used in advertising as a buzz word to describe or imply some relation with the crafting of handmade food products, such as bread, cheese. Many of these have traditionally been handmade, rural or postal goods but are also now commonly made on a larger scale with automated mechanization in factories and other industrial areas. Artisans were the dominant producers of consumer products before the Industrial revolution.

Handicrafts

Handicrafts are rightly described as the craft of the people. In India, craft is much more than an industry; its produce is viewed as a creation and work of art. As Craft control points out, no Indian craft is ever purely decorative.

A handicraft, sometimes more precisely expressed as artisanal handicraft or handmade, is any of a wide variety of types of work where useful and decorative objects are made completely by hand or by using only simple tools. It is a traditional main sector of craft, and applies to a wide range of creative and design activities that are related to making things with one's hands and skill, including work with textiles, moldable and rigid materials, paper, plant fibers, etc.

One of the world's oldest handicrafts is Dobra; this is a sort of metal casting that has been used in India for over 4,000 years and is still used. Usually the term is applied to traditional techniques of creating items (whether for personal use or as products) that are both practical and aesthetic. Handicraft industries are those that produce things with hands to meet the needs of the people in their locality. Machines are not used.

Collective terms for handicrafts include artisan, handcrafting, crafting, and handicraftsmanship. The term arts and crafts is also applied, especially in the United States and mostly to hobbyists' and children's output rather than items crafted for daily use, but this distinction is not formal, and the term is easily confused with the Arts and Crafts design movement, which is in fact as practical as it is aesthetic.

Key Areas for Production of Different Handicraft

Wide range of handicrafts are produced all over India. But some of the areas have come to know for certain type of handicrafts. Industry clusters have developed in both urban, rural areas that region

Table 3.1 Key Areas for Production of Different Handicraft

Art Metal ware	Moradabad, Samba, Aligarh, Jodhpur, Jaipur, Delhi, Rewari, Thanjavur, Madras, Mandap, Beedar, Kerala, Jagadhari and Jaselmer
Wooden Art wares	Saharanpur, Nagina, Hoshiarpur, Srinagar, Amritsar, Jaipur, Jodhpur, Jadavpur, Bangalore, Mysore, Chinamania, Madras, Kerala & Berhampur (WB)
Hand printed Textiles and Scarves	Amroha, Jodhpur, Jaipur, Farrukh Abad, Sagru&Sanganer
Embroidered Goods	Kutch (Gujarat), Jaisalmer, Baroda, Lucknow, Jodhpur, Agra, Amritsar, Kullu, Dharmshala / Chamba& Srinagar
Marble & Stone Craft	Agra, Madras, Baster and Jodhpur
Terracotta	Agra, Madras, Baster, and Jodhpur
Zari&Zari Goods	Rajasthan, Madras and Baster
Papier Machine Craft	Kashmir and Jaipur
Artistic Leather Goods	Indore, Kolhapur and Shanti Niketan (WB)
Imitation Jewelry	Delhi, Moradabad, Sambhal, Jaipur and Kohima (Tribal)

Table 3.2 Selected Crafts Clusters Identified for Enhanced Exports

S.No.	State	Total Cluster(s)	Total Artisans / SHGs	Product(s)
1	Andhra Pradesh	29	18405 / 741	2060
2	Arunachal Pradesh	6	1141 / 65	216
3	Assam	46	14914 / 946	2365
4	Bihar	6	1447 / 104	178
5	Chhattisgarh	8	4185 / 375	391
6	Delhi	13	9364 / 416	602
7	Goa	1	223 / 13	19
8	Gujarat	121	35183 / 2326	6054
9	Haryana	21	1586 / 139	764
10	Himachal Pradesh	23	929 / 178	550
11	Jammu & Kashmir	51	10933 / 877	1968
12	Jharkhand	18	6809 / 490	692
13	Karnataka	19	12218 / 1081	1168
14	Kerala	11	10979 / 5253	605
15	Madhya Pradesh	67	5784 / 430	3110
16	Maharashtra	18	2142 / 152	886
17	Manipur	32	9107 / 580	1330
18	Meghalaya	4	648 / 45	36
19	Mizoram	2	435 / 33	22
20	Nagaland	6	2409 / 132	474
21	Orissa	35	10572 / 735	1811
22	Punjab	11	5892 / 256	432
23	Rajasthan	18	2485 / 192	813
24	Sikkim	2	531 / 32	52
25	Tamil Nadu	14	4042 / 175	744
26	Tripura	17	6270 / 514	860
27	Uttar Pradesh	96	20256 / 1441	5145
28	Uttarkhand	20	2488 / 202	901
29	West Bengal	29	10306 / 655	1064
	Total	744	211683/18578	35312

Select craft areas are being developed as clusters because of their high potential for exports on the basis of their past performance. The crafts that are produced in each states of India is given below.

3.3 Marketing of Agricultural Produce Challenges

Though there has been phenomenal growth in the service sector in Indian economy but is significant is relatively less with respect to issues like increasing income inequality and a stalemate in poverty condition. Agriculture is still the backbone of Indian economy lesser on account on its share in GDP but more on account of the number of people involved and dependent on it.

Agriculture accounts for approximately 30percent of the country's total gross domestic product but it provides employment to more than 70 per cent of Indians who were involved in agriculture and allied activities. Thus, rural development needs to be central to the creation of a strong and vibrant

India. This will not be achieved till we have an effective system to market the output of the farmers the agriculture produces.

Challenges in Marketing of Agricultural Produce

Farming and non farming activities in the rural economy suffered due to the following challenges

Numerous Intermediaries in the Distribution Channel

Intermediaries were making the most at the cost of farmers. As there was absence of marketing linkages, intermediaries were in position to exploit the farmers.

Lack of Adequate Infrastructural Support

Significant percentage of fruit and vegetable either rot in farms or in transportation and marketers before reaching the customer homes.

Absence of a Structural Network for Information Flow

Indian farmers suffered heavily on account of lacking information on where to buy cheap and where he could get the best price for his produce.

Dependence on Environment

The topography and climate dictate that which crop can be grown in area and for that suitable market may not be available. Over large areas the Indian farmers are forced to rely on subsistence crops.

Sharp Fluctuation in Prices

Returns to the farmer can vary as prices fluctuate considerably. At present guaranteed minimum prices are only available for rice and wheat.

Lack of Pest Control

In India potential annual losses due to pests' approach greater than Rs5000crore. The pesticide industry remains dependent on the monsoon because a larger part of the cultivated land does not have assured irrigation. So, without assure irrigation farmers find it difficult to commit investment in pesticides in significantly large parts of India.

Fragmented Landholdings

Indian farms are small and are getting smaller as land is divided within families after every generation. However, at the same time there is some amalgamation of working s as family members move away to work. Around 60 percent of the landholdings in India are less than that of one hectare. This creates a situation where a farmer is not able to make investment In mechanization, fertilizer, agrochemicals, irrigation.

Strategies to Promote Marketing of Agricultural Produce

Higher growth of the domestic economy to a significant extent depend s on the robust performance of the agriculture in rural sector. The manufacturing and service sectors cannot sustain the economy's growth if the rural sector under performs.

But success in marketing of farm produce depends on using the right set of strategies. In recent times there have been few moves to break the vicious cycle that was holding the effective marketing

of agricultural produce, and these may make rural India more robust than it has been in recent decades.

Challenges for Rural Artesian Sector

- **Disappearing Markets Substitution by Mass Production Goals** Cheap plastic products have wiped out the market for earthenware in many types of handicrafts. In a highly competitive market, advertising and global trade scenario, artisans are losing on account of lack of viable support system. Mass produced goods are steadily replacing utility items of daily use made by crafts people, destroying their very livelihood.
- **Abject Poverty** In spite of the high percentage of people employed in this sector and huge export earnings, most craft people live in abject poverty.
- **Lack of Financial Support** There is reluctance at the financial institutions at local branch level or procedural delay on account of lengthy paper work to provide financial assistance to the craft people. They sometimes have to pay bribe even to get subsidies from the government.
- **The Unorganized and Diverse Nature of Craft Activities** The nature of this industry has prevented politicians' makers in INDIA from understanding or formulating effective policies or strategies by which this segment of the population can be made part of a general advancement
- **Lack of Proper Quality Control and Standardization** Along with the aesthetic and traditional values that the handicrafts represent they must maintain some degree of standardization and quality control.
- **Correct Sizing** The sizes of the consumer preferences for the color, design, patterns, change quite, fast these days. By the time rural craftsmen have changed to the newer set of preferences they have already changed significantly.
- **Lack of Marketing Avenues with Least Number of Intermediaries** The exhibitions, fairs and handicrafts stores are now prevalent in much larger number than they were earlier. But still more needs to be done.
- **Fluctuating Rates of Raw Material** In carpet industry small producers making handmade carpets for some supplies with large factory.
- **Inadequate Infrastructure** The infrastructure with which rural artisans produce their handicraft is quite comparison what there should be in order to satisfy the consumer demand.

3.4 Agricultural Produce Market Committee

(APMC) is a statutory market committee constituted by a State Government in respect of trade in certain notified agricultural or horticultural or livestock products, under the Agricultural Produce Market Committee Act issued by that state government.

APMCs are intended to be responsible for

- Ensuring transparency in pricing system and transactions taking place in market area; providing market led extension services to farmers
- Ensuring payment for agricultural produce sold by farmers on the same day
- Promoting agricultural processing including activities for value addition in agricultural produce; Publicizing data on arrivals and rates of agricultural produce brought into the

market area for sale; and Setup and promote public private partnership in the management of agricultural markets

There are about 2477 principal regulated markets based on geography (the APMCs) and 4843 submarket yards regulated by the respective APMCs in India. The typical amenities available in or around the APMCs are

Auction halls, weigh bridges, godowns, shops for retailers, canteens, roads, lights, drinking water, police station, post office, borewells, warehouse, farmers amenity center, tanks, Water Treatment plant, soil testing Laboratory, toilet Chambers, etc.

Legal Background of APMCs

Under Constitution of India, agricultural marketing is a state (provincial) subject. While intrastate trades fall under the jurisdiction of state governments, interstate trading comes under Central or Federal Government (including intrastate trading in a few commodities like raw jute, cotton, etc.)]. Thus, agricultural markets are established and regulated mostly under the various State APMC Acts.

Most of the state governments and Union Territories have since enacted legislations (Agriculture Produce Marketing Committee Act) to provide for development of agricultural produce markets and to achieve an efficient system of buying and selling of agricultural commodities. Except the States of Jammu and Kashmir, Kerala, Manipur and small Union Territories such as Dadra and Nagar Haveli, Andaman and Nicobar Islands, Lakshadweep, etc. all other States and UTs in the country have enacted such State Marketing Legislations. The purpose of these Acts is basically the same i.e. regulation of trading practices, increased market efficiency through reduction in market charges, elimination of superfluous intermediaries and protecting the interest of producer seller.

The whole geographical area in the State is divided and each one is declared as a market area which is managed by the Market Committee (APMC) constituted by the State Government. States also constitute a Market Board which supervises these market committees. APMCs generally consist of representatives of farmers, traders, warehousing entities, registrar of cooperative societies etc. Market Boards generally consists of chairmen of all APMCs, representatives from the relevant Government Departments etc. Once a particular area is declared as a market area and falls under the jurisdiction of a Market Committee, no person or agency is allowed to freely carry on wholesale marketing activities. APMC Acts provide that first sale in the notified agricultural commodities produced in the region such as cereals, pulses, edible oilseed, fruits and vegetables and even chicken, goat, sheep, sugar, fish etc., can be conducted only under the aegis of the APMC, through its licensed commission agents, and subject to payment of various taxes and fee. The producers of agricultural products are thus forced to do their first sale in these markets.

The main differences in Acts of different states/UTs are noted in the following areas

1. Commodity coverage — A few states cover all the commodities while others provide the list.
2. Market Committee — There are differences in no. of market committees and number of members therein, the appointment of committee members etc.
3. Agricultural Marketing Boards — variations in powers exercised by the Boards in different

states i.e. their role vary from advisory to binding.

4. Demarcation of functions between Director Marketing and Board — Administrative structure for the implementation structure of the Act vary from state to state in terms of functions assigned.

Functioning of APMCs Issues Involved

The APMC system was introduced to prevent distress sale by farmers to their creditors, to protect farmers from the exploitation of intermediaries and traders and to ensure better prices and timely payment for their produce through the auctions in the APMC area. However, APMC Acts restrict the farmer from entering into direct contract with any processor/ manufacturer/ bulk processor as the produce is required to be routed through these regulated markets. Over a period of time, these markets have acquired the status of restrictive and Monopolistic markets, harming the farmers rather than helping them to realize remunerative prices.

The APMC Act treats APMC as an arm of the state and the market fee as the tax levied by the state, rather than as a fee charged for providing services, which acts as a major impediment in creating a national common market.

Various taxes, fees/charges and cess levied on the trades conducted in the markets or Mandis are also notified under the APMC Act. APMCs charge a market fee from buyers, and a licensing fee from the commissioning agents who mediate between buyers and farmers. They also charge small licensing fees from a whole range of functionaries (warehousing agents, loading agents etc.). In addition, commissioning agents charge commission fees on transactions between buyers and farmers. The levies and other market charges imposed by states vary widely. Statutory levies/mandi tax, VAT etc. all add up to hefty amounts, create market distortions with cascading effects and strong entry barriers. Further, multiple licenses are necessary to trade in different market areas in the same State. All this has led to a highly fragmented and high cost agricultural economy, which prevents economies of scale and seamless movement of Agri goods across district and State borders.

APMC operations are hidden from scrutiny as the fee collected, which are at times exorbitant, is not under State legislature's approval. Agents in an APMC may get together to form a cartel. This creates a monopsony (a market situation where there is only one buyer who then exercises control over the price at which he buys) situation. Produce is procured at manipulatively discovered price and sold at higher price, defeating the very purpose of APMCs.

Further, APMCs play dual role of regulator and Market. Consequently, their role as regulator is undermined by vested interest in lucrative trade. Generally, member and chairman are nominated/elected out of the agents operating in that market.

Exporters, processors and retail chain operators cannot procure directly from the farmers as the produce is required to be channelized through regulated markets and licensed traders. There is, in the process, an enormous increase in the cost of marketing and farmers end up getting a low price for their produce. Monopolistic practices and modalities of the state controlled markets have prevented private investment in the sector. Thus, the monopoly of Government regulated wholesale markets has prevented development of a competitive marketing system on a pan India basis, providing no help to farmers in direct marketing,

organizing retailing, a smooth raw material supply to agro processing industries and adoption of innovative marketing system and technologies.

Model APMC Act of 2003

An efficient agricultural marketing is essential for the development of the agriculture sector as it provides outlets and incentives for increased production and contribute to the commercialization of subsistence farmers. Worldwide Governments have recognized the importance of liberalized agriculture markets. Keeping, this in view, Ministry of Agriculture formulated a model law on agricultural marketing State Agricultural Produce Marketing (Development and Regulation) Act,2003(<http://agmarknet.nic.in/amrscheme/modelact.htm#Background>) and requested the state governments to suitably amend their respective APMC Acts for deregulation of the marketing system in India, to promote investment in marketing infrastructure, thereby motivating the corporate sector to undertake direct marketing and to facilitate a national market.

The Model APMC Act, 2003 provided for the freedom of farmers to sell their produce. The farmers could sell their produce directly to the contract sponsors or in the market set up by private individuals, consumers or producers. The Model Act also increases the competitiveness of the market of agricultural produce by allowing common registration of market intermediaries.

Salient Features of the Model APMC Act

- The Preamble of the Act is to provide for development of efficient marketing system, promotion of Agri processing and agricultural exports and to lay down procedures and systems for putting in place an effective infrastructure for the marketing of agricultural produce.
- Legal persons, growers and local authorities are permitted to apply for the establishment of new markets for agricultural produce in any area. Under the existing law, markets are setup at the initiative of State Governments alone. Consequently, in a market area, more than one market can be established by private persons, farmers and consumers.
- There will be no compulsion on the growers to sell their produce through existing markets administered by the Agricultural Produce Market Committee (APMC). However, agriculturist who does not bring his produce to the market area for sale will not be eligible for election to the APMC
- Separate provision is made for notification of “Special Markets’ or ‘Special Commodities Markets’ in any market area for specified agricultural commodities to be operated in addition to existing markets.
- A new Chapter on ‘Contract Farming’ added to provide for compulsory registration of all contract farming sponsors, recording of contract farming agreements, resolution of disputes, if any, arising out of such agreement, exemption from levy of market fee on produce covered by contract farming agreements and to provide for indemnity to producers’ title/ possession over his land from any claim arising out of the agreement
- Provision made for direct sale of farm produce to contract farming sponsor from farmers’ field without the necessity of routing it through notified markets.
- Provision made for imposition of single point levy of market fee on the sale of notified agricultural commodities in any market area and discretion provided to the State Government to fix graded levy of market fee on different types of sales.

- Licensing of market functionaries is dispensed with and a time bound procedure for registration is laid down.
- Registration for market functionaries provided to operate in one or more than one market areas.
- Commission agency in any transaction relating to notified agricultural produce involving an agriculturist is prohibited and there will be no deduction towards commission from the sale proceeds payable to agriculturist seller.
- Provision made for the purchase of agricultural produce through private yards or directly from agriculturists in one or more than one market area
- Provision made for the establishment of consumers'/ farmers' market to facilitate direct sale of agricultural produce to consumers
- Provision made for resolving of disputes, if any, arising between private market/ consumer market and Market Committee.
- State Governments conferred power to exempt any agricultural produce brought for sale in market area, from payment of market fee.
- Market Committees permitted to use its funds among others to create facilities like grading, standardization and quality certification; to create infrastructure on its own or through public private partnership for postharvest handling of agricultural produce and development of modern marketing system
- The State Agricultural Marketing Board made specifically responsible for
 - setting up of a separate marketing extension cell in the Board to provide marketed extension services to farmers;
 - promoting grading, standardization and quality certification of notified agricultural produce and for the purpose to set up a separate Agricultural Produce Marketing Standards Bureau.
 - Funds of the State Agricultural Marketing Board permitted to be utilized for promoting either on its own or through public private partnership, for the following
 - market survey, research, grading, standardization, quality certification, etc.;
 - Development of quality testing and communication infrastructure.
 - Development of media, cyber and long distance infrastructure relevant to marketing of agricultural and allied commodities.

3.5 Other Marketing Institutions

Indian Agricultural Produce Marketing a Brief Profile

The agricultural produce marketing system in India operates primarily according to the market forces of supply and demand. Government intervention is limited to protection of the interests of producers and consumers and promotion of organized marketing of agricultural commodities. There are primarily three types of players involved in marketing of agricultural produce

a. Government

It has direct as well as indirect intervention in rural economy

a. Indirectly By enacting policies and regulatory framework, facilitating infrastructure development.

b. Directly It is through boards, commissions, corporations.

b. Cooperative Societies

They intervene through procurement, processing and marketing of agricultural produce.

c. Private Sector

It is involved in the form of itinerant merchants, traders, processing firms and also as cooperative based contract farming.

A) Role of Government

The government has played an active role to improve the manner in which agricultural produce is marketed. These steps include establishing regulated markets, constructing warehouses, grading and standardizing produce, standardising Weights and measures and providing information on agricultural prices over All India Radio.

The Food Corporation was established in 1965 as the public sector marketing agency responsible for implementing government price policy through procurement and public distribution operations. It was intended to secure for the government a commanding position in the food grain trade. By 1979 FCI was operating in all states as the sole agency of central government in food grain procurement. The corporation also uses services of state government agencies and cooperatives in its operations.

FCI is the sole repository of food grains reserved for the public distribution system. Food grains, primarily wheat and rice, account for between 60 and 75 per cent of the corporation's total annual purchases. Food grains procurement was 89 lakh tones in 1971, 130 lakh tones in 1981 and 178 lakh tones in 1991. FCI has functioned effectively in providing price supports to farmers through its procurement scheme and in keeping a check on large price increase by providing food grains through the PDS.

PDS is a network of 350000 fair price shops that are monitored by state government. Punjab, Haryana and western Uttar Pradesh provide more than 80 per cent of the supplies of grain to the PDS. Food grains supplied through the PDS amounted to 78 lakh tones in 1971, 130 lakh tones in 1981, and 170 lakh tones in 1991.

The central government's Central Warehousing Corporation operates warehouses at major points. By 1980s warehouses for storing agricultural produce and farm suppliers started to play an increasing role government price control programme and in distributing farm commodities and farm supplies. The public warehouses issue a receipt to the owners of stored goods on which loans can be raised. Warehouses are also becoming important in agricultural finance. Their growth has resulted in a decline in weather damage to produce and in loss to rodents and other pests. In 1991 there were 6640 regulated markets to which the central government provided assistance in the establishment of infrastructure and in setting up rural warehouses.

B) Role of Co-Operative Societies

A network of cooperatives at the local, state, and national levels assist in agricultural marketing. The major commodities handled are food grains, jute, cotton, sugar, milk, grapes, and nuts. Established in 1958 as the apex of the state marketing federations, the National Agricultural Cooperative Marketing Federation of India handles much of the domestic and most of the export marketing for its member organizations.

Large cooperative enterprises, such as cooperative sugar factories spinning mills, and solvent extraction plants mostly handle their own marketing operations independently. Medium and small sized enterprises, such as rice mills, oil mills, cotton ginning, pressing s and jute bailing s mostly are affiliated with cooperative marketing societies. Cooperatives also operate warehouses in towns and villages. In the early 1990's the cooperative marketing structure comprised 6777 primary marketing societies 2759 general purpose societies at the mend level and 4018 special commodities country and Twenty nine general purpose state cooperative marketing federations.

C) Role of Private Sector

Framers sell most of the agricultural produce in the private sector to traders who are also moneylenders to whom the farmer may be indebted or to itinerant merchants.

Agricultural produce is sold in many of the following ways

- At a weekly village market in the farmers own village or in a neighboring village.
- At a regularly held markets in a nearby village or town.
- In the Mandy.
- To traders who come to the work site
- Directly to the corporate sector for processing or exports through contract farming.

Summary

Effective marketing of agricultural produce is critical not only for the development of rural economy but it is also crucial if India aims to achieve higher than the average rate of growth. There is need of appropriate marketing linkages to link the fields with consumer homes within and outside India. Already there have been initiatives on the part of government and corporate sector to develop policies and business models, which can provide effective platforms to bring prosperity to the farmers by eliminating the non value adding chain of intermediaries.

Rural artisan products already have a good market not only in the cities within India but across the globe. What they need is little bit of handholding and genuine support. This can be provided by the government organizations, voluntary organizations and the corporate society. On their part rural craftsmen will have to organize themselves into cooperative and Self-help groups in order to achieve the optimum benefit of instrumental, financial and marketing support that various organizations intend to provide them with. Holistic thinking and integrated approach in a multilevel, multi organizational approach can lead to sustainable development if rural artisans and handicraft sector. Provisions of adequate infrastructural, financial and marketing support to rural artisan can usher in a new phase of sustainable development in the rural areas.

To Do Activity (Team of 34 Members)

Choose a village located beyond 100kilometer radius from a city. Interact with at least 20 rural households to underst

1. Their newspaper/magazine reading habits
2. Use of smart phone, their account in Facebook, twitter and whatsapp
3. Leisure time activities – listening Radio, Watching TV, Watching Movies
4. Do a video film on a few selected villagers on the recent mentoring they received from their circle for their profession and personal grooming
5. Having all this input in your hand, come out with a marketing plan for the Jute Bags made by a rural enterprise.

Model Questions

1. Analyze the impact of smart phones and internet connectivity on rural communication.
2. Television is here to stay for some more decades. Elucidate the impact of Television Media on the distribution and promotion of handicrafts, stone-wood art work and bio-fertilizers for urban farming.
3. Discuss the pros and cons of privatizing of Agricultural Produce Marketing in supporting the distribution of farm produces.

References

1. R. V. Rajan, The Business Line, published on 20, July, 2011.
2. http://agritech.tnau.ac.in/agricultural_marketing/agrimark_Marketing%20channels.html
3. www.indianhandicraftexporter.com
4. www.indianhandicrafts.com
5. Reference www.craftclusterofindia.in

Chapter 4 Information Communication & Technology in Rural Marketing

Introduction

Agriculture is the largest livelihood provider in rural India. In spite of this, the small farmers gains are not enough compared to the efforts put in and agriculture cost inputs; this can affect the agricultural productivity and food security of the nation. In the agriculture sector, constant application of latest ideas and better technologies is essential to enhance economic wellbeing of the farmer. The bane of Indian agriculture is not lack of technology, R&D efforts; it is inadequacy and inefficiencies in the dissemination of relevant information to the farming sector. So, Information and Communication Technology (ICT) in agriculture can act as a driving force in the development process.

4.1 ICT in Rural Marketing

The Vision 2020 document of the Department of Agriculture and Cooperation envisages that "the tools of ICT will provide networking of Agriculture Sector not only in the country but also globally. The Center and State Government Departments will have reservoir of databases. And it will also "bring farmers, researchers, scientists and administrators together by establishing "Agriculture Online" through exchange of ideas and information. There are several Ministries/Departments in Government dealing with Agricultural Marketing. The Government's digital initiatives include Agrinet, Agris, Agmarknet, Dacnet, Vistarnet, Aphnet, Fishnet, Hortnet Seednet, Pin, Coopnet, Fertnet, Arisnet, Afpinet, Arinet, Nd net, etc., with their independent websites.



The Need

During recent years, ecommerce has found its way to agriculture. As the Internet continues to become more popular among people who deal with agricultural businesses of any type, ecommerce finds further applications in agriculture. Participation in ecommerce requires that both buyers and sellers have access to the Internet and that they are able to use the required hardware and software effectively. At the level of business to business, common agribusiness B2B transactions such as buying, selling, trading, delivering, and contracting seem to be natural targets for conversion to ecommerce. In agriculture, the B2B and B2C categories of transactions have used Internet in Agriculture, Remote Service, and Maintenance referred to as Agri business to Agri business (A2A) and Agri business to grower (A2G).

Many benefits of ecommerce in agriculture can be identified

- **Promotion of information flow**

The exchange of information about agricultural products, their characteristics, advantages, disadvantages, etc., can be greatly increased through the information highways of the Internet during ecommerce transactions. In addition, Internet technology provides the opportunity to link individual actors in the food production chain together, irrespective of geographic location. This has the potential to improve market access through online transactions and by reducing geographic obstacles to market reach, such as time and distance.

- **Market and Price Transparency**

Online access to product and price information allows comparison of products and increases price transparency. Price differentials resulting from geographic location can diminish because of increased competition. This may benefit farmers with regard to input prices but may reduce the prices received for their products. This may be particularly true where many existing products are not differentiated, are required on a regular basis, and where there is a heavy reliance on input supplier expertise in choice of product.

- **Reduction or elimination of transaction costs**

With the application of ecommerce, many transactions through the supply chain are either eliminated or simplified. In this way, transaction costs are drastically reduced or even eliminated.

- **Increase in online cooperatives**

The processes of ecommerce transactions give emergence to new opportunities for furthering the concept of cooperatives. From the perspective of farmers, e-cooperatives provide a solution for small businesses to increase critical mass.

The Internet plays a role in agribusiness both as a new marketplace and as an information resource. Numerous applications have been developed by different interest groups. Applications in the marketplace can be categorized from a farmer's viewpoint, including services, outputs, and factors of production and inputs. Services, inputs, and production factors are generally purchased via the Internet at a fixed price, whereas outputs are generally traded through an auction. This is perhaps because many of the outputs are perishable and therefore the market price is more sensitive to supply and demand. The development of ecommerce in agriculture is of course strictly linked with the adoption of the Internet by, mainly, the farmers. Reports show that farmers are slightly behind the general population in adoption.

In the States, the proportion of farmers who had access to the Internet had risen from 13% in 1997 to 29% in 1999. By June 2000, 58% of Australian farms had computer access and 34% had Internet access. In Germany, 78% of commercial farmers with Internet access use it for electronic banking, while 28% use it to purchase goods and 19% use it for selling goods. However, not all farmers use Internet access for productive purposes, communication issues and internet use, social and recreational uses may also be important. In general, larger farms tend to adopt both Internet technologies and ecommerce behavior more rapidly. However, the type of farm/nonfarm agribusiness appears to be even more important than the size, and accounts for small farm opportunities online. This often relates to niche products and unique market position. When it comes to actual online commerce activity, about 15% of farmers engage in some form of farm

related buying and selling online, but this online activity constituted only 0.3% of total farm commerce in 2000.

The main factor of the marketing success is market analysis which depends on the market information's reality, objectivity, and inclusively; it can be said that information is the core of marketing success and, the best way for information access is applying ICT. Knowledge is becoming an increasingly significant factor in production and marketing for small scale rural products. Timely, knowledge about who is buying the farm and rural products, how much is being offered, who the potential buyers are and what the expected costs including transport, is important for the decision making of rural farmers.

Goldman Sachs says about 12% of total US agricultural sales could migrate which translates into a \$120 billion by 2004. Despite significant growth in use of the Internet by farmers, it is still far from universal and likely to stay so for some considerable time. The reasons for non adopting according to the same research have to do with utility, relevance, and affordability of the product; though technical limitations (especially speed of rural telecommunications links) still have an influence. Goldman Sachs also argues that the potential for B2B ecommerce is greater in industries with the following characteristics a highly diffuse supply chain; pressure to control costs; complex product specifications; processes accounting for at least 20% of total costs; and technological innovation is part of the industry's culture.



Figure 4.1 The Agmarknet website (<http://www.agmarknet.nic.in>)

The above figure 1.1 is a G2C e-governance portal that caters to the needs of various stakeholders such as farmers, industry, policy makers and academic institutions by providing agricultural marketing related information from a single window. The portal has helped to reach farmers who do

not have sufficient resources to get adequate market information. It facilitates web based information flow, of the daily arrivals and prices of commodities in the agricultural produce markets spread across the country. The data transmitted from all the markets is available on the AGMARKNET portal in 8 regional languages and English. It displays Commodity-wise, Variety-wise daily prices and arrivals information from all wholesale markets. Various types of reports can be viewed including trend reports for prices and arrivals for important commodities. Currently, about 1,800 markets are connected and work is in progress for another 700 markets. The AGMARKNET portal now has a database of about 300 commodities and 2,000 varieties.

To sum up, the increasing adoption of information technology leads of course to direct production gains and, at the same time, to reductions in operating costs. There are several areas where this might happen, including better retrieval and evaluation of available data for management purposes; development of management decision support systems; development of processes for quality assurance and external regulatory compliance requirements; better links to remote sensing and geographic information systems (GIS) data; better links to technical and other information; better links to agricultural suppliers; more direct feedback from customers and consumers and improved supply chain management and opportunities for marketing and other networks to emerge.

4.2 Role of Social Marketing in Marketing Rural Goods

Marketing, being a social and managerial process, it must have social environmental approach, unfortunately very few business organizations cared for it. Social Marketing came into being as a separate discipline in the 1970s as a result of the acceptance of environmental approach by the Western countries. Now days, social marketing principles are being used in developing countries in areas such as health promotion, population control environment conservation, economic development, racism and human rights.

Social Marketing is not a new phenomenon as its roots can be seen in development strategies, social reform campaigns in olden days. In ancient Greece and Rome antislavery campaigns were launched. During industrial revolution period, campaigns were launched to grant voting rights to woman and abolition of child labour in Great Britain.¹ Notable social reforms movements, such as, abolition of sati (Selfimmolation) system, abolition untouchability, prevention of child marriages, woman education etc. were successfully organized during Pro-independence era in India.

Concept of Social Marketing

Social Marketing is a process of changing behaviour and attitudes of the public (Target group) for achieving social, economic, political and business objectives. Social Marketing refers to the development of awareness among consumers, organizations (i.e. social, political, business etc.) and general public regarding long term interests of the business world.

Philip Kotler and Gerald Zaltman defined social marketing as “the design, implementation and control of programmes calculated to influence the acceptability of social ideas and involving considerations of product designing, pricing, communication, distribution and Marketing research”

Commercial Marketing convinces consumers to buy different types of products and services on the same line, people can be convinced to adopt social marketing products such as health care, education or social reforms. Andreasen defines social Marketing as “the application of commercial

Marketing technologies to the analysis' planning, execution and evaluation of programmes designed to influence to voluntary behaviour of target audiences in order to improve their personal welfare and that of their society"

Social Marketing is also referred as societal Marketing. It aims at achieving the following objectives

1. Sates faction of Customer needs. There is a need of the society that becomes the social responsibility for the business organizations. Example Data Village in Lohardaga District of Jharkhand State there is less number of Government buses plying to connect with the cities. A travel agency operating mini buses and trucks operating in this village connecting to the nearest cities is an apt offer to address the customer needs of this village.
2. Improvement of quality of life – Competition amongst different players in the market drives companies to come up with innovative, better quality products at affordable prices which contributes to enhance life of the customers.
3. Implementation of longterm policy for customers and society's welfare – Corporate Social Responsibility wing of Dalmia Group of companies located near to Trichy in South India helps the Pudukkottai Paddy Producers' organization can be quoted as a best example here. The CSR wing has been supporting the producer organization in establishing common seed cleaning facilities, warehousing structure that has uplifted the socioeconomic livelihood of the paddy producers of that district.
4. Freedom from all sorts of pollution and ecological destructions – The buzz word of social marketing these days is ecofriendly products. Food to Fuel, Consumer Goods to Durable Goods, Products from Urban industries to rural products – most of the products/items/brands comes with one of these tags – "Environment friendly / Eco friendly / bio degradable / energy saver / green / etc" . Social Marketing takes the responsibility to sustain the environment in which it is operating and tries to address and mitigate the problems of pollution and ecological destruction.

Aspects of Social Marketing

In recent years, the world community has realized the ill effects of technological developments, industrialization, profit oriented marketing and malafide supply of product (i.e. hazardous to health and environment). So that sociologists, the social leaders, the philanthropists and Marketers advocated social marketing. Over the past few years, marketing experts, practitioners have tried to identify basic aspects of (component) of social marketing. These can be summarized as under

(i) Need Based and Eco-Friendly Product Mix.

The social market product may be a physical product like weaning food for infants or services like health examination or ideas like environmental protection. The social marketer has to make the people aware about their needs, problems and then sell the need based products of services and not merely sell the products that the rural organizations are having. Social marketing product must be essentially eco friendly.

Complementary Weaning Food from Christy Fried gram Industry based in Namakwa, Tamilnadu is one among the pioneer food processing companies in India to implement the Integrated Child Development Scheme (ICDS) scheme. Founded in 1989 this is the flagship enterprise of the Christy group, a growth oriented philanthropic conglomerate. Christy Fried gram Industry is proud to have contributed to bringing about substantial reduction in the malnutrition levels in the state. As per the

statistics, shared by the Government of Tamilnadu, Department of Social Welfare and NMP, in 1990 almost 29.6 % of children under 3 years were found to be moderately malnourished and 4.2 % were found to be severely malnourished. The percentage has progressively reduced to 1.62 % and 0.03 % respectively in 2010. Similarly, while 0.21 % of children in the state were termed severely malnourished in 2011 their percentage came down to 0.02%. CFI is committed to bringing down the level of malnutrition even further and is continually innovating to produce better quality weaning and ready to eat micronutrient fortified food.



(ii) Rational Promotional Policy

Social Marketing sells ideas, thoughts (i.e. Antodaya) attitudes and behaviors (i.e. social, Religious etc.) for the propose of promoting, social products, social marketer uses advertising medias, public relations, door to door selling, public meetings, vehicles, distribution, of coupons etc. Social Marketing gives emphasis on adoption of promotional policy by all organizations

(i.e. social educational, business etc.) The promotion of products/ services should not be antisocial, antiethics and antiecolgy. 2019].

Social marketing is the practice of using commercial marketing strategies to drive behavior change around a social issue. Social marketing follows a strategic process. It is helpful because it encourages you to appreciate and consider the barriers and benefits to behavior change in your customer segment. What is keeping your consumers from thinking, feeling, or acting a certain way?

Common Challenges in Rural Commies

The most successful social marketing efforts reflect a deep understanding of the intended customer's attitudes and beliefs. Effective social marketing also considers what is preventing a consumer from certain actions (barriers), as well as what might motivate them (benefits). While all rural commies are different, many face common challenges related to accessibility, availability, and acceptability of seeking care. Some of these common challenges faced include

- Limited access to remote areas and lack of transportation
- Limited financial resources
- Limited technology
- A wide range of cultures and beliefs across large geographic areas
- Scarcity of media outlets
- Scarcity of primary care providers, child and adolescent psychiatrists, therapists, and social workers (especially bilingual providers)
- Siloed services and limited collaboration between systems
- Historical skepticism around accessing services and supports through health institutions
- Lack of awareness and understanding of the need to treat children and youth with mental health challenges
- Prejudice and discrimination against people dealing with mental health challenges
- Lack of privacy due to of close social networks

Common Opportunities in Rural Markets

While there are many challenges to reaching rural customers, there also are unique characteristics that serve as opportunities for social marketing efforts.

Strengths of some rural communities that can be leveraged for social marketing may include

- Tightknit community that understands the importance of helping neighbors
- The commonality of word of mouth communications
- Existing collaborations and informal communications networks
- Agencies and organizations that are willing to partner, such as the Cooperative Extension System
- Natural community leaders who are easily identifiable (because of the smaller community) and willing to partner
- Audiences that may be more likely to read traditional print publications (such as local newspapers, local magazines, or church bulletins)
- Media coverage may be more accessible because of lower competition (compared to urban areas)

Getting to Know Your Segment

Every customer segment may be different, so in order to avoid making any assumptions about your customer segments, one needs to understand their profile. Understanding your audience is a critical part of the social marketing process. Talking to your customer and sincerely considering their views also helps to gain your customer's trust in a rural set up. You can do this in rural communities by

- Arranging time to listen to families and youth
- Talking to community leaders
- Asking questions and learning about people in other agencies
- Understanding audience challenges from their perspective (not by making assumptions)
- Asking what it will take to change attitudes, beliefs, and behaviors.

Craft Compelling Messages for Rural Audiences

Once you have identified and profiled your customers, you can craft social marketing messages that seek to change perceptions of barriers and emphasize benefits.

Some types of messages that communities have successfully used to do this include

- Messages that use the terms social/emotional health and wellbeing in place of mental health.
- Messages that promote hope, health, and wellness, such as recovery is possible; Help is available.

Social marketers recommend these a few tips for working with rural communities

1. Take advantage of traditional print campaigns (newspapers, bulletins, and magazines), billboards, and local, trusted media.
2. While outreach materials can be very useful, person to person messaging is even more effective.
3. Use natural partnerships to the fullest.
4. Make yourself accessible and get to know your audience by physically going to the area to interact with them.

5. Find natural champions within the community and engage them as channels.
6. Use cultural brokers to convey your message, including peer messengers and family leaders.
7. Connect with existing leaders and innovators.
8. Use technology to connect with remote partners or audiences when possible.
9. Remember, families are the experts in their own care.

A variation of social marketing has emerged as a systematic way to foster more sustainable behavior. Referred to as community based social marketing (CBSM) by Canadian environmental psychologist Doug McKenzie-Mohr, CBSM strives to change the behavior of communities to reduce their impact on the environment. Realizing that simply providing information is usually not sufficient to initiate behavior change, CBSM uses tools and findings from social psychology to discover the perceived barriers to behavior change and ways of overcoming these barriers. Among the tools and techniques used by CBSM are focus groups and surveys (to discover barriers) and commitments, prompts, social norms, social diffusion, feedback and incentives (to change behavior). The tools of CBSM have been used to foster sustainable behavior in many areas, including energy conservation, environmental regulation and recycling.

In recent years, the concept of strategic social marketing has emerged, which identifies that social change requires action at the individual, community, socio-cultural, political and environmental level, and that social marketing can and should influence policy, strategy and operational tactics to achieve pro-social outcomes. Other social marketing can be aimed at products deemed, at least by proponents, as socially unacceptable. One of the most notable is People for the Ethical Treatment of Animals (PETA) which for many years has waged social marketing campaigns against the use of natural fur products. The campaigns' efficacy has been subject to dispute. Not all social marketing campaigns are effective everywhere. For example, antismoking campaigns such as World No Tobacco Day while being successful (in concert with government tobacco controls) in curbing the demand for tobacco products in North America and in parts of Europe, have been less effective in other parts of the world such as China, India and Russia. Social marketing is also being explored as a method for social innovation, a framework to increase the adoption of evidence based practices among professionals and organizations, and as a core skill for public sector managers and social entrepreneurs. It is being viewed as an approach to design more effective, efficient, equitable and sustainable approaches to enhance social wellbeing that extends beyond individual behavior change to include creating positive shifts in social networks and social norms, businesses, markets and public policy.

4.3 e NAM

Introduction National Agriculture Market (NAM) is a pan India electronic trading portal which networks the existing APMC mandis to create a unified national market for agricultural commodities. The NAM Portal provides a single window service for all APMC related information and services. This includes commodity arrivals & prices, buy & sell trade offers, provision to respond to trade offers, among other services. While material flow (agriculture produce) continues to happen through mandis, an online market reduces transaction costs and information asymmetry.

Agriculture marketing is administered by the States as per their agri-marketing regulations, under which, the State is divided into several market areas, each of which is administered by a separate Agricultural Produce Marketing Committee (APMC) which imposes its own marketing regulation

(including fees). This fragmentation of markets, even within the State, hinders free flow of agri commodities from one market area to another and multiple handling of agri produce and multiple levels of mandi charges ends up escalating the prices for the consumers without commensurate benefit to the farmer.

NAM addresses these challenges by creating a unified market through online trading platform, both, at State and National level and promotes uniformity, streamlining of procedures across the integrated markets, removes information asymmetry between buyers and sellers and promotes real time price discovery, based on actual demand and supply, promotes transparency in auction process, and access to a nationwide market for the farmer, with prices commensurate with quality of his produce and online payment and availability of better quality produce and at more reasonable prices to the consumer.

Objectives of NAM

- A national e-market platform for transparent sale transactions and price discovery initially in regulated markets. Willing States to accordingly enact suitable provisions in their APMC Act for promotion of e-trading by their State Agricultural Marketing Board/APMC.
- Liberal licensing of traders / buyers and commission agents by State authorities without any precondition of physical presence or possession of shop /premises in the market yard.
- One license for a trader valid across all markets in the State.
- Harmonization of quality standards of agricultural produce and provision for assaying (quality testing) infrastructure in every market to enable informed bidding by buyers. Common tradable parameters have so far been developed for 69 commodities.
- Single point levy of market fees, i.e on the first wholesale purchase from the farmer.
- Provision of Soil Testing Laboratories in/ or near the selected mandi to facilitate visiting farmers to access this facility in the mandi itself. M/s. Nagarjuna Fertilizers and Chemicals Ltd. is the Strategic Partner (SP) who is responsible for development, operation and maintenance of the platform. The broad role of the Strategic Partner is comprehensive and includes writing of the software, customizing it to meet the specific requirements of the mandis in the States willing to integrate with NAM and running the platform

eNAM at States

At Adoni, Guntur and Kurnool mandis in Andhra Pradesh, Nizamabad in Telangana, CharkhiDadri in Haryana, and many more mandis across the country, farmers today are drawing the benefits of better price discovery. From a system of undercover auctions in some mandis to open outcry auction in others, auctions have now become automated. Gone are the days of trade cartels prefixing the price for farmers' produce. The benefit has also come from computerised weighing with weighing machines linked to the eNAM portal through Bluetooth. Earlier, commission agents used to falsify weight calculations. While there were many hiccups at the beginning — including poor internet connectivity, glitches in software and delays in online payments — many of these have been addressed by the Small Farmers Agribusiness Consortium (SFAC, an autonomous entity promoted by the Agriculture Ministry), the implementing agency for eNAM.

The Developer of eNAM

Nagarjuna Fertilizers and Chemicals, the company that won the bid to design, develop and maintain the application and the portal, also had two tough years resolving the tangled agrimarketing chain. BusinessLine caught up with State and Central government officials, SFAC, mandi board officials, farmers and arhityasto understand the changes brought about by eNAM. There are still many missing links in eNAM, but the transformation made in the mind set of many farmers and traders who now trade online, as a result of eNAM, is itself a commendable feat.

Advantages

- A reduction in book keeping and reporting system (reports were previously prepared viz. daily minimum, maximum and modal prices and arrivals of commodities) which are now generated automatically
- Better monitoring and regulation of traders and commission agents (CA's).
- Completely transparent system which eliminates any scope of intentional/unintentional manipulation of tendering / auctioning process.
- Improvement in the market fee collection by means of accounting all the transactions that are taking place in the market.
- Reduction in manpower requirements as tendering / auctioning process takes place through the system.
- Analysis and forecasting of the arrivals and prices.
- Availability of the activities of each APMC on the website directly.

Achievements

The biggest achievement of eNAM is automated bidding.

1. Every trader, after inspection of a lot, logs on to the eNAM portal (through mobile app or website), and places his bid.
2. The system then discovers the highest bid for every lot and declares the winners.
3. A trader cannot revise or cancel his bid once placed. SMS alerts are sent to the farmers' mobile phones as soon as the winners' list is announced.

Today, online auctioning is being carried out smoothly in eNAM mandis across the country, even in States such as Andhra Pradesh and Telangana where volumes are relatively high. "During the initial days of eNAM, there were glitches in the system, but when worked closely with the National Informatics Centre that sorted it out, and now that is history." said Dushyant K Tyagi, Chief Business Officer, Nagarjuna Fertilizer and Chemicals. Over the past year, the eNAM agency has focused on enhancing the system as per requests from States and strengthening the portal by adding new features. The eNAM platform can be scaled to handle more traffic and work with less downtime. It also has a backup system and the developer was also involved in creating some of the core systems of UIDAI (Unique Identification Authority of India Aadhaar).

Computerised weighing is another success of eNAM. Farmers used to earlier lose 23 kg from every lot they brought in because of wrong reading or cheating by agents. But now, many eNAM mandis have electronic weighing with the machine integrated with eNAM. Thanks to eNAM, agri commodities now have standardized quality parameters. Till two years ago, no one talked about assaying of Agri produce. But today, there is a lot of awareness. The Directorate of Marketing and

Inspection (under the Department of Agriculture Cooperation and Farmers Welfare) has published the quality specifications for all commodities traded on eNAM, and how to check them.

An Incomplete Party

- Inputs received from different mandis in the North, Central and Western parts of the country show that trading is not yet done 100 per cent online in all eNAM mandis.
- In some mandis in Madhya Pradesh, Rajasthan and Gujarat, farmers have the option to sell their produce through normal auctions.
- A farmer from Botad, Gujarat, told BusinessLine “Many of us do not want to go through eNAM because it’s a long process and takes time. During offseason, it’s okay; but during peak season, we prefer to sell via normal auction itself as that’s faster.”
- The powers that be need to brainstorm on how to reduce the process time in eNAM.
- At some mandis in Bundi, Bikaner and Kota in Rajasthan, stakeholders said that small farmers still preferred to take their produce through the normal auction route because — one, they do not understand technology, and two, they fear they may get a lower price if their produce is not of good quality.

Tackling Issues

1. The training modules are designed in the local language and explained with audiovisual content to farmers and traders.
2. So far, about 1,170 training and awareness camps have been conducted across 16 States and two union territories.
3. While training programmers focus on familiarizing farmers with the platform, what is equally critical is sensitizing them on the benefits the platform will bring with better price discovery.

States’ lethargy

Giving a Farmer the Right Price for his Produce is Still a Distant Dream for eNAM This, though, can’t be entirely blamed on the Centre or the implementing agency. It is the States, here, that have failed. While seven States have demonstrated smooth intermandi transactions on eNAM, none have yet done interstate trade. For that to become a reality, States need to issue unified licence to traders, using which traders could buy commodities from any farmer from any part of the country. Since assaying of the commodities is necessary for intermandi/State trade to become a reality, the Centre is offering ₹70 lakh to each mandi to get the machinery in place. It also provides information on the machines needed and where to source them from. Quality testing machines from CDAC (Centre for Development of Advanced Computing), Nebulaa and FOSS have been piloted in a few mandis, said Prasanta Kumar Swain, Joint Secretary, Ministry of Agriculture Cooperation and Farmers Welfare. It is up to the States now to take it forward. Checking with mandi officials and farmers across States, Business Line found that most mandis still have only very basic machines for assaying commodities. If the advanced AI machines of the companies mentioned above reach the market, they may answer many of the current problems.

Payment Solution

Besides the hardships in selling, farmers have been pained by troubles in payment, too. Till now, the farmer’s worry was taking back home safe the cash got from the commission agent (who in turn was paid by the trader after 15-20 days). With eNAM, this concern has been addressed with the trader now transferring the amount to the farmer’s account directly, in most of the mandis. But the need to

pay the farmer in T (trade)+2 days through an online mode has created fresh troubles for the trader — a reason why many traders have been resisting eNAM. Nagarjuna Fertilizers is now contemplating a few ways to solve this problem. One is bill discounting, where the endbuyer issues a purchase bill to the trader and the trader pledges this with a bank and raises money for an interest of 12 per cent for 1530 days. He uses this money to settle the transaction with the farmer and repays the bank when he sells the stock to the buyer and receives payment. The other option is getting traders a credit limit from banks. The credit limit will be based on the trade history of the individual trader.

Key Stakeholders

Farmers

NAM promises more options for selling produce and making competitive returns.

Traders

NAM will provide access to larger national market for secondary trading.

Buyers, Processers & Exporters

NAM will enable direct participation in the local mandi trade, reducing intermediation cost.

Andhra Pradesh Experience

While many States are still finding it tough, Andhra Pradesh has successfully linked many of its mandis to eNAM.

How was AP Able to Find Success in eNAM?

First and foremost, we had political commitment, including from the Chief Minister (Chandrababu Naidu). So that takes care of a lot of things. The state has initiated eNAM in about 21 APMCs (Agricultural Produce Marketing Committee) initially. It was a struggle because the vested interests of traders and commission agents were well entrenched. In the initial days, there was a lot of resistance because once you are in the system (eNAM), you have to pay taxes. There was a twin strategy; and the state confronted the issue with both the stumbling Chapters — traders and commission agents. Andhra Pradesh Government didn't tell them that they are going to be eliminated; they said "You have to fall in line." Simultaneously, it was demonstrated to the farmers that eNAM is ultimately beneficial to them and that they can get a better price. Duggirala was a market with no commission agents; so that was our first choice for the pilot eNAM centre. AP also opened centers at Adoni and Kurnool, too. Those markets had some open bids, which were moved to online bidding. These places, too, started showing some good results. Parallely, the state government employed a private consultancy firm for project management to analyse and identify the bottlenecks in the whole value chain and found that the pain points for the farmers were lack of assaying and grading infrastructure. Value addition wasn't a custom in the mandis. The farmers brought the produce as it was, and so quoting lack of quality in the lot, traders quoted low prices. The Government had demonstrated to the farmers that a small intervention such as cleaning and grading before getting the lot to the market would give them that extra money. The state started convincing them that if they first have price discovery within the market, government can then slowly move to assaying, with which they can move the produce intermandi. The next obvious step would be going for a larger market, which will lead to even better price discovery.

It may still have many missing links, but the national agri market is slowly transforming the way India trades in agro produce. Since its launch in April 2016, many States have joined the electronic national agriculture market (eNAM) platform by reforming their APMC (Agricultural Produce Market Committee) Act and taking a hard stance with arhityas (commission agents) who had been resisting e-auctioning and online payment. But at the ground level, have not changed for the farmer. eNAM is ushering in change, though in a small way. We have had APMCs since 1950s and '60s, and even today, we don't have uniformly efficient APMCs across the country. It has taken such a long time for APMCs, and in the same manner eNAM will take its time to be the best approach. eNAM can set up a national agriculture market only in a phased manner — first, replacing physical auction with e-auction, then facilitating intermandi trade, and later interState trade.

4.4 Agricultural Marketing Network

Agricultural Marketing Information Network (AGMARKNET) was launched in March 2000 by the Union Ministry of Agriculture. The Directorate of Marketing and Inspection (DMI), under the Ministry, links around 7,000 agricultural wholesale markets in India with the State Agricultural Marketing Boards and Directorates for effective information exchange. This governance portal AGMARKNET, implemented by National Informatics Centre (NIC), facilitates generation and transmission of prices, commodity arrival information from agricultural produce markets, and web based dissemination to producers, consumers, traders, and policy makers transparently and quickly.

The AGMARKNET website (<http://www.agmarknet.nic.in>) is a G2C egovernance portal that caters to the needs of various stakeholders such as farmers, industry, policy makers and academic institutions by providing agricultural marketing related information from a single window. The portal has helped to reach farmers who do not have sufficient resources to get adequate market information. It facilitates web based information flow, of the daily arrivals and prices of commodities in the agricultural produce markets spread across the country. The data transmitted from all the markets is available on the AGMARKNET portal in 8 regional languages and English. It displays Commodity wise, Variety wise daily prices and arrivals information from all wholesale markets. Various types of reports can be viewed including trend reports for prices and arrivals for important commodities. Currently, about 1,800 markets are connected and work is in progress for another 700 markets. The AGMARKNET portal now has a database of about 300 commodities and 2,000 varieties.

Directorate of Marketing and Inspection (DMI) has liaison with the State Agricultural Marketing Boards and Directorates for Agricultural Marketing Development in the country. Agricultural Produce Market Committee (APMC) displays the prices prevailing in the market on the notice boards and broadcasts this information through All India Radio etc. This information is also supplied to State & Central Government from important markets. The statistics of arrival, sales, prices etc. are generally maintained by APMCs.

Future development involves linking all the agricultural wholesale markets in the country and establishing strategic alliances with government and nongovernment organizations to disseminate information to the farmers who operate in these markets. The database developed under AGMARKNET would also be linked to other agricultural databases, for instance, on area, production, yield of crops, land use, cost of cultivation, agriculture exports and imports, and so on, to evolve a data warehouse. This would provide a sound base for planning demanddriven agriculture

production. AGMARKNET is also expected to play a crucial role in enabling ecommerce in agricultural marketing.

Formation of Agmarknet

The grit and toil of farmers, dedication of agricultural scientists and consistent endeavor of policy makers have together contributed in transforming Indian agriculture from an importer of food grain at the time of independence to a major exporter of food grains now. However, the marketing systems and postharvest marketing infrastructure have not been able to keep pace with the growing production and marketable surplus. This has brought to the fore, the need for providing farmers with access to competitive markets with adequate infrastructure including cold chain logistics, to enable them to realise better prices on the one hand and providing nutritious food to consumers at stable and affordable prices on the other. With this objective in view, the Government of India on 13th November, 2013 approved the proposal of Department of Agriculture & Cooperation for continuation and integration of ongoing Central Sector Schemes as Integrated Scheme for Agricultural Marketing (ISAM) during the XII Plan (2012-2017).

The ISAM will have the following five sub schemes

1. Agricultural Marketing Infrastructure (AMI) [the existing schemes of GrameenBhandaranYojana (GBY) and Development/ Strengthening of Agricultural Marketing Infrastructure, Grading and Standardization (AMIGS) will be merged as AMI]
2. Marketing Research and Information Network (MRIN)
3. Strengthening of Agmark Grading Facilities (SAGF), (iv) AgriBusiness Development (ABD) through Venture Capital Assistance (VCA) and Project Development Facility (PDF) and (v) ChoudharyCharan Singh National Institute of Agriculture Marketing (NIAM).

Objectives

1. To promote creation of agricultural marketing infrastructure by providing backend subsidy support to State, cooperative and private sector investments.
2. To promote creation of scientific storage capacity and to promote pledge financing to increase farmers' income.
3. To promote Integrated Value Chains (confined up to the stage of primary processing only) to provide vertical integration of farmers with primary processors.
4. To use ICT as a vehicle of extension to sensitize and orient farmers to respond to new challenges in agricultural marketing.
5. To establish a nationwide information network system for speedy collection and dissemination of market information and data on arrivals and prices for its efficient and timely utilization by farmers and other stake holders.
6. To support framing of grade standards and quality certification of agricultural commodities to help farmers get better and remunerative prices for their graded produce.
7. To catalyze private investment in setting up of agribusiness projects and thereby provide assured market to producers and strengthen backward linkages of agribusiness projects with producers and their groups.
8. To undertake and promote training, research, education, extension and consultancy in the agri marketing sector.

Agricultural Marketing Infrastructure (Ami)

- 1 The country has largely gained self sufficiency in food production. There is a need to translate this into better remuneration for the producers by increasing focus on agricultural marketing sector. The agricultural marketing sector requires strengthening of supply chain through investments in infrastructure for value addition to agricultural produce, reduction in post harvest losses, etc. The XII Plan Working Group on 'Agricultural Marketing Infrastructure, Secondary Agriculture and Policy Required for Internal and External Trade' has estimated an investment requirement of Rs.56,000 crores for marketing infrastructure and value chain development during the Plan period with a budgetary allocation of Rs.20,207 crores. It has also estimated a requirement of 35 million MT storage capacity during XII Plan period. A network of scientifically constructed storage infrastructure will help farmers avoid distress sale of their produce by availing marketing credit through pledge financing and also reduce quantitative and qualitative postharvest losses.
- 2 1.2 For creation of agricultural marketing infrastructure, GrameenBhandaranYojana (GBY) is being implemented since 2001 and Scheme for Development/Strengthening of Agricultural Marketing Infrastructure, Grading &Standardisation (AMIGS) is being implemented from 2004. In the Integrated Scheme for Agriculture Marketing (ISAM), these two viz GBY and AMIGS are being subsumed into one sub scheme.(AMI).
- 3 The sub scheme on AMI will be implemented by the Directorate of Marketing & Inspection (DMI), an attached office of Department of Agriculture and Cooperation.
- 4 During the XII Plan period, the sub scheme on AMI would be implemented with central assistance of Rs.4000 crores. The sub scheme will target to create 4000 marketing infrastructure projects and storage capacity of 230 lakh tonnes across the country.

Objectives

The main objectives of the sub scheme are

1. To develop agricultural marketing infrastructure for effectively managing marketable surplus of agriculture including horticulture and of allied sectors including dairy, poultry, fishery, livestock and minor forest produce.
2. To promote innovative and latest technologies in agricultural marketing infrastructure. 2.3 To promote competitive alternative agricultural marketing infrastructure by encouraging private and cooperative sector investments.
3. To promote direct marketing so as to increase market efficiency through reduction in intermediaries and handling channels thus enhancing farmers' income.
4. To promote creation of scientific storage capacity for storing farm produce, processed farm produce and agricultural inputs etc. to reduce postharvest and handling losses.
5. To provide infrastructure facilities for grading, standardization and quality certification of agricultural produce with the objective of (a) ensuring a price to the farmers commensurate with the quality of the produce and (b) promoting pledge financing and marketing credit, negotiable warehousing receipt system and promotion of forward and future markets to increase farmers' income.
6. To promote Integrated Value Chains (confined up to primary processing stage only) to provide vertical integration of farmers with primary processors. Primary processing means adding value to the produce without change in its form and may include washing, sorting, cleaning, grading, waxing, ripening, packaging, labelling etc.

7. To create general awareness and provide training to farmers, entrepreneurs market functionaries and other stakeholders on various aspects of agricultural marketing including grading, standardization and quality certification.

Salient Features

Linkage to Reforms

1. State agency projects of those States/Union Territories that have undertaken reforms in their respective APMC Acts to allow/permit (i) 'Direct Marketing', (ii) 'Contract Farming' and (iii) agricultural produce markets in private and cooperative sectors, will be eligible for assistance under the subscheme. 5 State Agency projects are those promoted by State Government Departments like State Agricultural Marketing Departments, State Agricultural Marketing Boards, Agricultural Produce Market Committees, State Warehousing Corporations, State Civil Supplies Corporations etc. However, notwithstanding the reform status, State agencies in all States/ UTs will be eligible to avail assistance for storage infrastructure projects.
2. Projects promoted by private entrepreneurs 6 For functional infrastructure projects (other than storage projects) where plant and machinery is to be installed in civil structure, the cost of plant & machinery should be more than 25% of the Total Financial Outlay (TFO) of the project. If it is less than 25%, subsidy will be restricted accordingly as explained in Annexure IV. In such cases where the infrastructure is of the nature of storage, the cost of the civil structure will be calculated as per the capacity and cost norms of the storage infrastructure.
3. Infrastructure for direct marketing of agricultural commodities from producers to consumers/processing s/ bulk buyers, etc.
4. Infrastructure (equipment, hardware, gadgets, including application software etc.) for Etrading, market intelligence and marketing related extension.
5. Mobile infrastructure for postharvest operations viz. grading, packaging, quality testing etc. including reefer vans, or any other refrigerated vans will be permissible for assistance. However, transport vehicles such as trucks, van, etc. will not be permissible for assistance.
6. Storage infrastructure like godowns including standalone silos for storage of food grains with necessary ancillary facilities like loading, unloading, bagging facility etc., excluding railway siding are eligible for subsidy. Assistance for storage infrastructure will be available on capital cost of the project including cost of allied facilities like boundary wall, internal road, internal drainage system, weighing, grading, packing, quality testing & certification, fire fighting equipment etc. which are functionally required to operate the project. For silos overall ceiling for capacity creation will be kept at 25% of the overall target for storage capacity for the year or actual capacity sanctioned during the year whichever is lower, as illustrated in AnnexureV. The capacity created under silos and subsidy disbursal under the above 25% limit will be implemented and monitored by NABARD, HO and NCDC, HO in respect of projects sanctioned by them. Assistance for renovation will be restricted to storage infrastructure projects of cooperatives only.
7. Standalone cold storage projects are not admissible for subsidy since subsidy for standalone cold storages is extended by NHB, NHM etc. However, cold storage as a part of a permissible integrated value chain project will be eligible for subsidy provided the cold storage component is not more than 75% of TFO. If it is more than 75%, subsidy will be

restricted accordingly as explained in Annexure VI. For these projects, subsidy will be calculated on the basis of capacity calculation and cost norms of NHM, DAC.

8. Integrated Value Chain (IVC) Projects (confined up to stage of primary processing only) 7 Integrated 'value chain' in agricultural marketing denotes a set of interlinked chain of activities that bring specific agricultural commodity / commodities from harvesting till retailing and for the purpose of this sub scheme may include those activities where value is added to the produce without change in the form of the produce. A value chain can be a vertical linking or a network among various independent business organizations and can involve assembling, cleaning, grading, primary processing, packaging, transportation (only Refrigerated van), weighing, storage, distribution, etc. Modern value chains are characterized by vertical coordination, consolidation of the supply base, agroindustrial processing and use of standards throughout the chain. As focus of AMI subsidy is to transfer direct benefit to the farmers, integrated value chain projects involving activities from postharvest stage to the stage of primary processing only are to be covered. Subsidy for remaining stages of processing, relevant schemes of Ministry of Food Processing Industries (MoFPI) etc. may be availed of.

Eligible Beneficiaries

Assistance under the sub scheme will be available to

1. Individuals, Group of farmers / growers, Registered Farmer Producer Organizations (FPOs);
2. Partnership/ Proprietary firms, Companies, Corporations;
3. NonGovernment Organizations (NGOs), Self Help Groups (SHGs);
4. Cooperatives, Cooperative Marketing Federations;
5. Autonomous Bodies of the Government, Local Bodies (excluding Municipal Corporations for storage infrastructure projects), Panchayats;
6. State agencies including State Government Departments and autonomous organization / State owned corporations such as Agricultural Produce Market Committees & Marketing Boards, State Warehousing Corporations, State Civil Supplies Corporations etc.

Institutional Lending Subsidy under the sub-scheme is linked to institutional credit and will be available to only such projects financed by

1. Commercial, Cooperative, Regional Rural Banks, Agricultural Development Finance Companies (ADFCs), State Cooperative Banks (SCBs), State Cooperative Agricultural and Rural Development Banks (SCARDBs), Scheduled Urban Cooperative Banks, Scheduled Primary Cooperative Banks (PCBs), North Eastern Development Financial Corporation (NEDFi), other institutions eligible for refinance by National Bank for Agriculture and Rural Development (NABARD) or any other financial institution such as State Financial Corporations (SFCs) approved by DAC.
2. NABARD cofinanced and directly financed marketing infrastructure projects including storage infrastructure projects would be eligible for subsidy where the interest rates are commercial / market related.
3. State Government / State Government agency storage infrastructure projects financed by NABARD under Rural Infrastructure Development Fund (RIDF) / Warehousing Infrastructure Fund (WIF) / NABARD's own funds.

4. Projects promoted by cooperatives and financed by National Cooperative Development Corporation (NCDC) or cooperative banks recognized by NCDC in accordance with NCDC's eligibility guidelines.
5. State agencies have a choice of investing their own funds rather than going for institutional funding

The information being disseminated through the AGMARKNET portal includes

- Prices and Arrivals (Daily Max, Min, Modal, MSP; Weekly/ monthly prices/arrivals trends; Future prices from 3 National commodity exchanges)
- Grades and Standards
- Commodity Profiles (Paddy/Rice, Bengal Gram, Mustard/Rapeseed, Red Gram, Soybean, Wheat, Groundnut, Sunflower, Black Gram, Sesame, Green Gram, Potato, Maize, Jowar, Cotton, Grapes, Chilies, Mandarin Orange etc)
- Market Profiles (Contact details, rail/road connectivity, market charges, infrastructure facilities, revenue etc.)
- Other Reports (Best Marketing Practices, Market Directory, Scheme Guidelines, DPRs of Terminal Markets etc.)
- Research Studies



FAO – Research Studies put on the Website



- Companies involved in Contract Farming
- Schemes of DMI for strengthening Agricultural Marketing Infrastructure (A DMI portal overview is given below)



Agriculture sector needs structured and functional markets, preferably in vicinity of farmers, to drive growth, employment, remunerative price and economic prosperity in rural areas of the country. Enabling mechanism were also required to be put in place for procurement of agricultural commodities directly from farmers' field and to establish effective linkage between the farm production, the retail chain and food processing industries. The Model Act provides for contract farming, direct marketing, setting up markets in private and cooperative sector, e-trading, single point levy of market fee, single registration of market functionaries, farmerconsumer market etc. Subsidy/eligibility under one central sector scheme(AMIGS) has been restricted to States/ UTs where reforms to APMC Act has been done providing for Direct Marketing, Contract Farming and Markets in Private/ Coop Sectors. States/UTs having done these three reforms are Andhra Pradesh, Arunachal Pradesh, Assam, Goa, Gujarat, Himachal Pradesh, Jharkhand, Karnataka, Maharashtra, Mizoram, Nagaland, Orissa, Rajasthan, Sikkim, Uttarakhand and Tripura. States/ UTs where reforms to APMC Act have been done partially are NCT of Delhi, Madhya Pradesh, Chhattisgarh, Haryana, Punjab and Chandigarh. States/ UTs where there is no APMC Act are Kerala, Bihar(APMC Act repealed in year 2006), Manipur, Andaman & Nicobar Islands, Dadra & Nagar Haveli, Daman & Diu, and Lakshadweep. Tamil Nadu has done reforms by executive orders instead of amending APMC Act. States/ UTs where reforms required to be done are Meghalaya, J&K, West Bengal, Puducherry, and Uttar Pradesh.

4.5 Rural God Owns

In India where small and marginal farmers constitute major farming community, do not have the facility to retain the farm products with themselves till the market prices are favorable. It is very much essential to provide them with facilities for scientific storage so that to avoid produce deterioration and enable them to meet their credit requirement. An establishment of rural god owns will enable small and marginal farmers to increase their holding capacity which will make them to sell their produce at remunerative prices and avoid distress sales. Accordingly, GraminBhandaranYojana, a Capital Investment Subsidy Scheme for Construction / Renovation / Expansion of Rural God owns has been introduced by Govt. of India.

The main objectives of the scheme include creation of scientific storage capacity with allied facilities in rural areas to meet the requirements of farmers for storing farm produce, processed farm produce, consumer articles and agricultural inputs; promotion of grading, standardization and

quality control of agricultural produce to improve their marketability; prevention of distress sale immediately after harvest by providing the facility of pledge financing and marketing credit; strengthening agricultural marketing infrastructure in the country by paving way for the introduction of a national system of warehouse receipts in respect of agricultural commodities stored in such godowns and to reverse the declining trend of investment in agriculture sector by encouraging private and cooperative sector to invest in the creation of storage infrastructure in the country.

Salient Features

The project for construction of rural godowns can be taken up by individuals, farmers, group of farmers/Growers, Partnership/ Proprietary firms, NonGovernment Organizations (NGO's), Self Help Groups(SHG's), Companies, Corporations, Cooperatives, Agricultural Produce Marketing Committees, Marketing Boards and Agro Processing Corporations in the entire country. Assistance for renovation/ expansion of rural godowns will however, be restricted to the godowns constructed by cooperatives only.

Eligibility

Individual farmers for storing Agricultural produce, Entrepreneurs and groups of persons engaged in storing and marketing of Agricultural commodities will be financed under the scheme for establishment of Rural Godowns. Persons who are engaged in storing of Agricultural produce with an idea of hoarding will not be considered under the scheme. Loans under tie up arrangements with Food Corporation of India (FCI), State Ware Housing Corporations (SWCs) and reputed corporations with suitable tripartite agreements will also be considered under the scheme.

Location

Rural areas as per the definition of NABARD are to be included under the scheme provided there is sufficient production and availability of potentiality. The structure shall be located on a well drained site not liable to flooding or inundations and it shall be away from a place likely to be affected by seepage water.

Capacity

Godowns with capacity up to a maximum of 10000 MT capacities will be financed under the scheme.

For safe Storage

Selection of Godown

The bags of grains should be stored in covered premises, which is well protected from sun, heat, moisture, excessive heat, insects and rodents. The godown should be made on a well built platform of a height of not less than 1ft. from ground level to prevent soil moisture and dampness. The roof of the godown should be sufficient height from the grain stacks for keeping minimum possible temperature in godown. Sufficient space should be provided between stacks for proper air circulation in storage.

Cleaning of Godowns

Godown should be properly cleaned so that there should be no leftover grains which may harbor infestation and contaminate the new stock. The wall of godown should be whitewashed along with painting of wall with coal tar up to the height of 1 ½ meter. Before storage, the godown should be

sprayed with Malathion or DDVP. Besides, care should be taken also for filling up of cracks and crevices of godowns, which is also the harbor crawling infestation.

Cleaning and Drying

Before storage, the grain should be properly cleaned and dried so that it should be free from dust, dirt particles and simultaneously should be free from moisture.

Separate Storage

To check crawling infestation and to maintain hygienic condition of godown, the old and new stock should to be stored separately

Cleaning of Bags

Always new and dry gunny bags should be used for oilseeds storage. The old gunny bags can be used only after cleaning it, drying in sun sand and fumigating by Aluminum Phosphide.

Cleaning of vehicles

The vehicles used for transporting grains should be cleaned with phenyl.

Use of Dunnage

Bags of grains should not be stored directly on the floor of the godown and it should be kept by arranging wooden crates or bamboo mats along with cover of polythene sheet.

Aeration of Godown

To provide regular aeration to the stock in the godown is very essential to maintain the quality of the stock. Hence, proper aeration should be provided during clear weather and care should be taken to avoid aeration during rainy days.

Regular Inspection of Stocks

To maintain health and hygiene of the stocks, at every fortnight (15 days interval) inspection is essential.

Types of Underground Storage Structures

Underground storage structures are dug out structures similar to a well with sides plastered with cow dung. They may also be lined with stones or sand and cement. They may be circular or rectangular in shape. The capacity varies with the size of the structure.

Advantages

- Underground storage structures are safer from threats from various external sources of damage, such as theft, rain or wind.
- The underground storage space can temporarily be utilized for some other purposes with minor adjustments; and
- The underground storage structures are easier to fill up owing to the factor of gravity.

Surface Storage Structures

Food grains in a ground surface structure can be stored in two ways bag storage or bulk storage.

I. BagStorage

- Each bag contains a definite quantity, which can be bought, sold or dispatched without difficulty;
- Bags are easier to load or unload.
- It is easier to keep separate lots with identification marks on the bags.
- The bags which are identified as infested on inspection can be removed and treated easily; and
- The problem of the sweating of grains does not arise because the surface of the bag is exposed to the atmospheres.

II. Bulk or Loose Storage

Advantages

- The exposed peripheral surface area per weight of grain is less. Consequently, the danger of damage from external sources is reduced; and
- Pest infestation is less because of almost airtight conditions in the deeper layers.
- The government of India has made efforts to promote improved storage facilities at the farm level.

Improved Grain Storage Structures

I. For Small-scale Storage

PAU bin This is a galvanized metal iron structure. Its capacity ranges from 1.5 to 15 quintals. It was designed by Punjab Agricultural University.

Pusabin This is a storage structure made of mud or bricks with a polythene film embedded within the walls.

HapurTekka It is a cylindrical rubberized cloth structure supported by bamboo poles on a metal tube base, and has a small hole in the bottom through which grain can be removed.

II. For large scale storage

CAP Storage (Cover and Plinth) It involves the construction of brick pillars to a height of 14" from the ground, with grooves into which wooden crates are fixed for the stacking of bags of food grains. The structure can be fabricated in less than 3 weeks. It is an economical way of storage on a large scale.

Silos In these structures, the grains in bulk are unloaded on the conveyor belts and, through mechanical operations, are carried to the storage structure. The storage capacity of each of these silos is around 25,000 tonnes.

Warehousing Development and Regulatory Authority (WDRA)

Most analysts believe that though India needs to improve its productivity, there are enough food grains in the country to feed the teeming millions. The real worry is about the supply chain or the lack of it, to be precise. Estimates suggest that India wastes almost 20 percent to 25 percent of its food grains due to improper or inadequate storage. That is roughly 60 million tonnes of food grains

each year, almost as much as what India actually stores in its official godowns. The degree of wastage is nearly double in the case of easily perishable commodities like fruits and vegetables.

It was in this context that the government instituted the Warehousing Development and Regulatory Authority (WDRA) in October in 2010. The idea was to improve the storage capacity in the country and also help producers and consumers get a better deal by cutting out the intermediaries and wastages. The 201112 Budget also recognised cold chains and postharvest storage as an infrastructure subsector eligible for income tax relief. The initial focus for the WDRA has been the agricultural sector. Thus, starting April 2011, the central government announced the Rural Godown Scheme to promote the construction of warehouses in the rural areas.

The WDRA, on its part, has devised the system of Negotiable Warehouse Receipts, which will, in time, allow farmers to get the best price for their produce and help bring down prices of commodities by cutting out the arbitrage earned by middlemen (see graphic). At present, the scheme covers 40 agricultural commodities like cereals, pulses and spices. “Earlier, farmers used to engage in panic sales since they were in dire need of money immediately after the harvest, primarily to pay off many of the loans they had taken for agriculture. They had little bargaining power against the local trader since farmers had no space to store the food grains safely,” explains Dinesh Rai, chairman, WDRA.

As of now, most warehouses in rural India are for captive use, with very few actually surviving as standalone businesses and typically there are four to five middlemen between the producer and buyer. However, over the last few months, the WDRA has registered 50 warehouses across the country, which will now be able to issue such negotiable warehouse receipts. For getting such a registration, a warehouse has to be accredited by one of the eight accreditation agencies chosen by the WDRA. These agencies, four each in the public and private sector, ensure that the warehouse concerned has the wherewithal to not only safely store the commodities, but also have the ability to index them according to the quality and ‘best before’ dates. WDRA has tied up with the Indian Banks’ Association to ensure that banks also honour the receipts from registered warehouses. The actual storage in the warehouses is yet to start as the WDRA is running an awareness campaign across the country to familiarise farmers with the process. In time, RAI expects to focus on developing industrial warehousing as well as promoting the cold chain to ensure that fruits and vegetables are also brought under the warehousing provisions.

Summary

In future, industry watchers also apprehend some turf war between the WDRA and state governments. This is because spot exchanges for agricultural commodities are governed by the state legislations and as such the WDRA may find itself incapable of resolving problems if there are trade irregularities in a spot exchange. But Anjani Sinha, CEO of National Spot Exchange, assures that exchanges are required to comply with the WDRA norms too. Another apprehension of the industry is that the government will need to bring in a separate legislation to make the warehouse receipts truly negotiable instead of a mere document that establishes ownership. However, Rai says that a separate legislation is not required. In fact, the WDRA is currently drafting electronic warehouse receipts’ regulations within the Warehousing (Development & Regulation) Act 2007. These regulations are expected to come into effect in the next two months. Notwithstanding these

procedural issues, the logistics and warehousing industry have welcomed the creation of the WDRA as “one of the best developments” in this field.

ToDo Activity

Visit Agmarknet and check the price of a chosen commodity across a time period. Comment on the relation between price and arrivals

References

1. “ICT Capabilities in Improving Marketing of Agricultural Productions of Garmsar Township, Iran” sourced from https://www.researchgate.net/publication/234114920_ICT_Capabilities_in_Improving_Marketing_of_Agricultural_Productions_of_Garmsar_Township_Iran, accessed Jan 04 2019.
2. Enos, L. 2000, Report B2B still driving ecommerce, ECommerceTimes.
3. Forbes India, 12 August, 2011 issue
4. Haldeman, T. & Turner, J. (2009). Implementing a communitybased social marketing program to increase recycling. *Social Marketing Quarterly*, 15(3), 114127.
5. <http://agmarknet.nic.in/index.html>
6. <http://www.Agricoop.nic.in>
7. http://www.agritech.tnau.ac.in/agricultural_marketing/agrimark_Rural%20godowns.html
8. <http://www.christyfoods.in/>
9. http://www.enam.gov.in/NAM/home/key_stakeholder.html#
10. https://www.nasmhpd.org/sites/default/files/Social_Marketing_in_Rural_and_Frontier_Communities.pdf
11. IDC 2000, eBusiness trends, IDC Newsletter, Accessed from www.idc.com/newsletter.
12. Kennedy, A. (2010). Using CommunityBased Social Marketing Techniques to Enhance Environmental Regulation. *Sustainability*, 2(4), 11381160
13. Kenny D., and J.F. Marshall, 2000, Contextual marketing, *Harvard Business Review*
14. McKenzieMohr, D. (2000). Fostering sustainable behavior through communitybased social marketing. *American Psychologist*, 55(5), 531537. Nov December.
15. Peek, Liz (November 21, 2006). "Warm Weather Torments City Furriers". *New York Sun*. Retrieved 12 March 2013.

Chapter 5 Market Support

Role of Commercial Bank, Rural Credit and Marketing Linkages

Objectives

- To Appraise the significance of rural credit and rural finance
- To be aware of the sources of rural finance and the support by commercial banks
- To be sensitized with the functions of NABARD and its role and functions in rural refinancing
- To explain the strengths of marketing linkage in supporting rural enterprises

5.1 Rural Finance Supporting Rural Marketing Functions

Finance is essential to start and run any business, be it industrial or agrobased. Small and marginal farmers need finance for sustenance whereas big farmers and landlords need it for growth and development activities. These agrobased activities have more ups and downs compared to industrial activities. This is due to the fact that the agricultural sector is more dependent upon nature.

No one can predict for sure on the quality, quantity and grade of output. Only a fair estimate can be based on rains, experience and the past trends. Seasonal unemployment and disguised unemployment and lack of opportunities in the rural sector do not permit the rural youth to be more industrious to earn more. Hence, the idle time of rural youth is a national waste. The city youth have more avenues to learn and earn more. Before we proceed ahead with the area of rural financing and finance from the agromarketing point of view, it is essential to know the difference in agricultural financing and industrial financing.

Difference between Agricultural and Industrial Financing

- Most of the rural enterprises comprising of cottage and tiny industries come under unorganized sector. The rural produce is distributed to their own households, land owners and it is not clear how much is for one's own consumption and how much is for market sale. This is very true when it comes to agro produces.
- Most of the raw materials required for rural enterprises like a food processing , a fodder supply , a dairy ; the output is more dependent on nature, aims and there is a fear of epidemic, pests. In case of industry such as environmental factors are too little.
- It is easy to mortgage a factory and machineries. In case of agricultural land, the owners are too many and valuation of land is not easy.
- Paper work and reliability on a rural artisan's sincerity in work and repayment is poor. In case of industries it is easy to evaluate based on orders and work execution
- Many farmers feel it is expensive and avoidable to use the right kind of quality inputs. For example a food enterprise would prefer to manufacture pickle from vegetables grown using conventional methods to a organically grown vegetables. In industries the right kind of materials are bought for fear of rejection.
- Billing and accounts are taken care of industries. The rural commies are not accustomed to such practice and hence financing lacks supporting documents.

Finance Requirement for Production and Marketing Functions

- Rural Enterprises requires finance to buy inputs, raw produces, processing substances, quality water, seeds, fertilizers, pesticides. The basic inputs are required to produce value add products, cultivate and grow the crops.
- The wholesalers and traders need finance to
 - a. Procure the rural output
 - b. For further processing and grading functions
 - c. For transport and storage functions
 - d. To carry the stocks throughout the year.

A rural entrepreneur needs sustenance more between the production period and sale of the crop.

Sources of Finance

Non Institutional Credit This source incorporates private sources like moneylenders, commission agents, merchants, friends and relatives. Mutual trust and past pattern of refunds rule the game. Normally, the interest burden is twice compared to that of banks in case of private credit facility. Generally small farmers use private credit.

Institutional Credit There are cooperative apex banks, commercial banks and nationalized banks. There will be paper work and some kind of guarantee or mortgage is involved. Processing s, large size cultivation, single owner of land and progressive farmers find it is easy to get from the institutions. The interest rate is governed rules of the Reserve Bank of India (RBI).

Even though the Central Government has made good efforts to give credit to farmers from institution the traditional method of control by moneylenders continues. Even now about 40% farmers take credit from moneylenders and that means that much crops will be controlled by private moneylenders. Gradually this hold can comedown up to 25% in about 10 years due to increasing literacy and modernization of agrarian activities.

Requisites of a Good Credit System

Interest Burden In case of institutions, the rate of interest is as per the RBI guidelines. The main problem is in private credit facilities. The main problem is in private credit facilities. If burden is more, the farmer finds it difficult to repay. Even though rules are made to curb excess claim on interest it has become difficult to implement it in practice.

Finance the Needy The finance facility should go to the needy. The institutions should verify the sincerity of purpose and only then clear the loan request.

Timing of Loan Loan should be given when it is needed. For example, the loan for fertilizers should be given when the crop is growing and not after it has grown. Delay or early loan may end up the use of funds for some other purposes.

Absence of Risk The funding agency should be reasonably assured of repayment possibilities as per agreed terms. If there is delay in payments, it affects other applications wanting credit facility.

Supervision of Credit The funding agency should periodically see that the funds are used for which they are taken. The progress chasing keeps both sides on alert. Only those who show progress are capable of repaying.

The Nature of Rural Financial Services

The Risks of Credit Provision

Rural financial services are nowadays concerned with a variety of services including not only agricultural lending but lending to farm households for nonagricultural production and consumption purposes, loans made to nonfarm rural firms, rural savings deposit services and other financial services such as insurance.

Broadly speaking, the provision of credit in the form of loans allows uneven income and expenditure streams to be smoothed out. Credit provision is a private good. However, it is a different type of service to others as a loan involves an exchange of access to resources now for an undertaking to repay at some future date. In effect, a property right in current consumption is exchanged for a property right in future consumption. From the lender's point of view this involves two risks, namely, that the borrower will be unable to repay (the use made of the funds is less productive than anticipated perhaps due to unfavorable weather or lower market prices) or that they will be unwilling to repay (opportunistic behaviour due to asymmetric information).

In total, the lending activity entails

- a. Exchange of consumption today for consumption in a latter period
- b. Protection against default risk
- c. Information acquisition regarding characteristics of loan applicants (the screening problem)
- d. Measures to ensure that borrowers take those actions that make repayment more likely (the incentives problem)
- e. Actions to increase the likelihood of repayment by borrowers who are able to do so (the enforcement problem).

This risk of non repayment means that the private sector is usually unwilling to provide credit unless collateral is available or the lender has particular ties to the borrower. The high transaction costs associated with imperfect information (search, monitoring and enforcement), and risk, increase the costs of credit transactions and lower the effective demand. The dispersed nature of rural populations increases the transaction costs of servicing rural areas compared to urban areas for many credit providers. In principle, the government should be a more willing lender than the private sector as it is less risk averse and has greater powers of coercion and hence ability to obtain repayment. However, it is generally disadvantaged relative to the private sector in terms of local knowledge and loyalty from borrowers, leaving it exposed to an adverse selection problem and unwillingness by borrowers to repay loans.

5.2 Sources of Finance Role of Commercial Banks

Although, our economy is mainly agrarian, banks play an important part in the development of our rural areas. The rural branches of banks provide various services to farmers, rural farmers, businessmen and disadvantaged groups and help them to develop themselves thereby. Rural development has assumed considerable significance through the planning era.

- the early development schemes such as community development Programme# Intensive Agricultural Development Programme
- intensive Agricultural Area Development Programme
- Drought Prone Area Programme end Command Area Development Programme

have all aimed at rural development. Considerable amounts have been spent over these different schemes. No doubt to some extent development has taken place in the rural areas because of these different schemes. It is noticed that rural poor with meagre or no assets of any type like small and marginal farmers, village artisans, tenant cultivators, agricultural landless labourers etc., have been almost bypassed by development.

Some of the Major Important Role of Commercial Banks are as Follows

There is acute shortage of capital. People lack initiative and enterprise. Means of transport are undeveloped. Industry is depressed. The commercial banks help in overcoming these obstacles and promoting economic development. The role of a commercial bank in a developing country is discussed as under.

1. Mobilizing Saving for Capital Formation

The commercial banks help in mobilizing savings through network of branch banking. People in developing countries have low incomes but the banks induce them to save by introducing variety of deposit schemes to suit the needs of individual depositors. They also mobilize idle savings of the few rich. By mobilizing savings, the banks channelize them into productive investments. Thus they help in the capital formation in rural sector.

2. Financing Industry

The commercial banks finance the industrial sector in a number of ways. They provide short-term, medium-term and long-term loans to industry. In India they provide short-term loans. Income of the Latin American countries like Guatemala, they advance medium-term loans for one to three years. But in Korea, the commercial banks also advance long-term loans to industry.

In India, the commercial banks undertake short-term and medium-term financing of small-scale industries, and also provide hire purchase finance. Besides, they underwrite the shares and debentures of large-scale industries. Thus, they not only provide finance for industry but also help in developing the capital market which is undeveloped in such countries.

3. Financing Trade

The commercial banks help in financing both internal and external trade. The banks provide loans to retailers and wholesalers to stock goods in which they deal. They also help in the movement of goods from one place to another by providing all types of facilities such as discounting and accepting bills of exchange, providing overdraft facilities, issuing drafts, etc. Moreover, they finance both exports and imports of developing countries by providing foreign exchange facilities to importers and exporters of goods.

4. Financing Agriculture

The commercial banks help the large agricultural and rural sector in a number of ways. They provide loans to traders in agricultural commodities. They open a network of branches in rural areas to provide agricultural credit. They provide finance directly to agriculturists for the marketing of their produce, for the modernization and mechanization of their farms and firms, for providing irrigation and power facilities, for developing land and manufacturing shed, construction of warehouses, etc. They also provide financial assistance for animal husbandry, dairy farming, sheep breeding, poultry farming, pisciculture and horticulture. The small and marginal farmers and landless agricultural workers, artisans and petty shopkeepers in rural areas are provided financial assistance through the regional rural banks in India. These regional rural banks operate under a commercial bank. Thus the commercial banks meet the credit requirements of all types of rural people.

5. Financing Consumer Activities

Rural people living in the backward districts having low incomes do not possess sufficient financial resources to buy durable consumer goods. The commercial banks advance loans to consumers for the purchase of such items as houses, scooters, fans, refrigerators, etc. In this way, they also help in raising the standard of living of the people in developing countries by providing loans for consumptive activities.

6. Financing Employment Generating Activities

The commercial banks finance employment generating activities in developing countries. They provide loans for the education of young person's studying in engineering, medical and other vocational institutes of higher learning. They advance loans to young entrepreneurs, medical and engineering graduates, and other technically trained persons in establishing their own business. Such loan facilities are being provided by a number of commercial banks in India. Thus the banks not only help in human capital formation but also in increasing entrepreneurial activities in developing countries.

7. Help in Monetary Policy

The commercial banks help the economic development by faithfully following the monetary policy of the central bank. In fact, the central bank depends upon the commercial banks for the success of its policy of monetary management in keeping with requirements of a developing economy.

Thus the commercial banks contribute much to the growth of a rural economy by granting loans to agriculture, rural trade and industry, by helping in physical and human capital formation and by following the monetary policy of the country.

Till the late sixties, cooperatives were considered to be the most suitable agency for agricultural financing in terms of official policy and commercial banks, with their inadequate rural coverage and urban orientation, were not considered equal to this task. Although cooperatives did grow substantially over the years, yet they were still unable to meet the increasing credit needs of agriculture. Further in the wake of the green revolution in the mid sixties, with its emphasis on the use of high cost inputs, credit needs of agriculture were expected to increase rapidly and it was felt that cooperative financial agencies by themselves would not be in a position to handle this volume of credit. A complementary role was, therefore, visualized for commercial banks in the field of rural credit, though cooperatives were to continue as the principal agency. Social control over the banks in 1968 and more particularly, the nationalization of major commercial banks in July 1969, provided tremendous momentum to the Programme of increasing banking facilities in the rural areas and provision of agricultural credit.

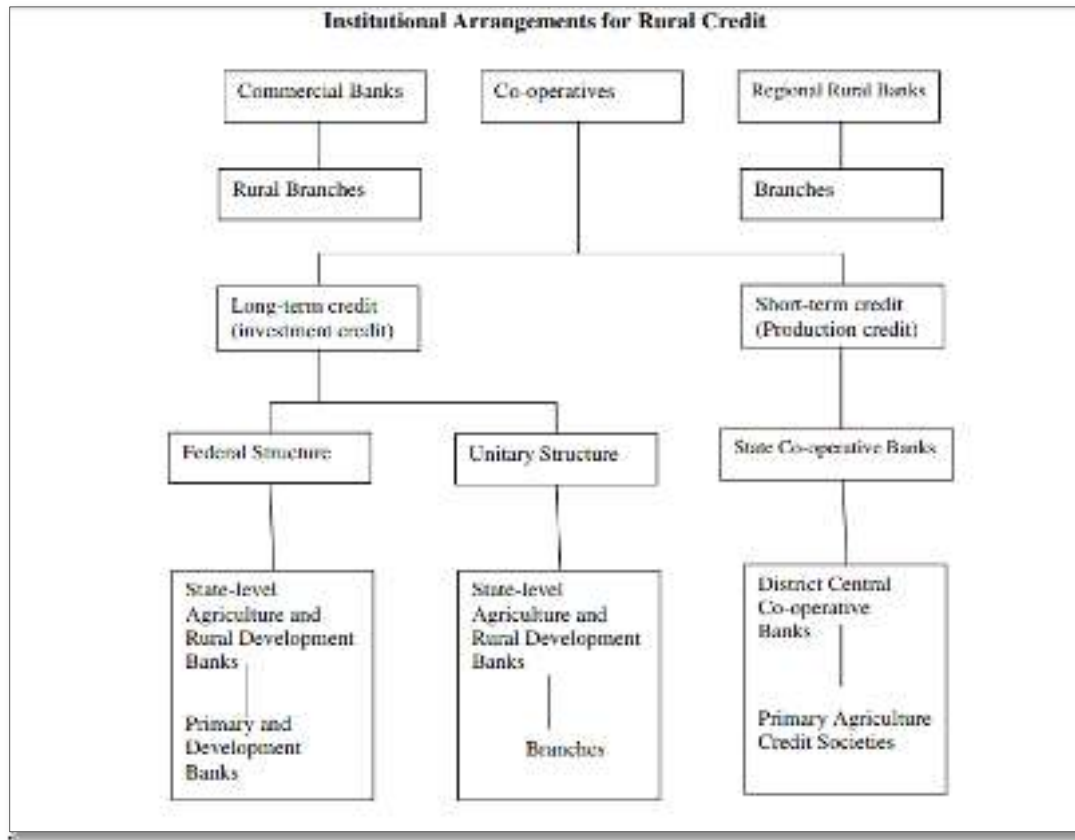


Figure 5.1 Institutional Arrangements for Rural Credit

State Bank OF India

The State Bank of India opened specialized branches known as 'Agricultural Development Branches' (ADB) at selected intensive centers' for catering exclusive to the credit needs of agricultural and allied activities. These ADBs provide a package of assistance, which decides credit support including technical and other facilities. These ADBs commence with business plans for their areas of operations covering a period of 2 to 3 years, to start with. These plans are based on the development plan prepared with reference to the potential and local resource of the area and the progress of the plan is reviewed at regular intervals. The State Bank of India was formed on 1 July, 1955, with the passing of the State Bank of India Act, 1955, by taking over the assets and liabilities of the Imperial Bank of India.

Functions

1. The bank performs the general commercial bank functions such as accepting deposits, giving loans, providing remittances, issuing letters of credit etc.
2. It acts as the agent of the Reserve Bank in places where there are no branches of the RBI.
3. It acts as an agent of the registered cooperative banks.
4. It is authorized to purchase and sell of gold and silver.
5. It underwrites the issue of stocks, shares and other securities.

Lending for Rural Development

Commercial banks are endeavoring not only to fill the credit gaps in the field of agriculture arising out of the inadequate development of cooperatives but are also seeking to contribute to agricultural development by systematically preparing programmes of development suitable to the

resource base of the area. During the last few years, they have contributed substantially to the development of irrigation, mechanization, land development programmes as also to activities allied to agriculture such as horticulture dairying, etc. For this purpose, the commercial banks have appointed a large number of technical experts for systematically studying the problems of agricultural growth and rural development.

5.3 Rural Credit National Level Credit Agency (NABARD)

National Level Credit Agency NABARD

Despite governments efforts to help the rural enterprises and farm businesses it was found that the benefits of all schemes was enjoyed by the rich. The rich collect these credit facilities and give loan to the poor for higher level of interest. Thus the rural rich made it an easy earning avenue with bankers' investments. The importance of institutional credit in boosting rural economy has been clear to the Government of India right from its early stages of planning. Therefore, the Reserve Bank of India (RBI) at the insistence of the Government of India, constituted a Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) to look into these very critical aspects. NABARD role in rural development in India is phenomenal. National Bank for Agriculture & Rural Development (NABARD) is set up as an apex Development Bank by the Government of India with a mandate for facilitating credit flow for promotion and development of agriculture, cottage and village industries.

National Level Credit Agency NABARD

NABARD was established on the recommendations of B.Sivaraman Committee, (by Act 61, 1981 of Parliament) on 12 July 1982 to implement the National Bank for Agriculture and Rural Development Act 1981. It replaced the Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of Reserve Bank of India, and Agricultural Refinance and Development Corporation (ARDC). It is one of the premier agencies providing developmental credit in rural areas. NABARD is India's specialized bank for Agriculture and Rural Development in India.

International associates of NABARD include World Bank affiliated organizations and global developmental agencies working in the field of agriculture and rural development. These organizations help NABARD by advising and giving monetary aid for the upliftment of the people in the rural areas and optimizing the agricultural process.

One of the problems of the multiagency approach is over financing. It is therefore suggested that NABARD should introduce the concept of one borrower, one financial agency. It should coordinate the supply of credit through various financing agencies. It would be desirable if small primary or agricultural societies are merged and developed into Farmers Service societies with the commercial banks or cooperative banks or RRBs for the purpose of providing short, medium, long term credit and expertise for the formulation of the project banks providing credit facilities to FSS will in turn be refinanced by NABARD. Such arrangement will also remove unnecessary competition among various rural credit agencies on the hand and will enable the financing bank to cover the hitherto neglected areas on the other. Another important function of NABARD is to effectively control the diversion of funds from the rural areas to urban areas.

There is a need for providing economic size, loans, speedily and at one window. This is a prerequisite for containing if not ending the new class for credit middlemen and the attendant corruption.

Promoting rural development and ensuring rural prosperity by bringing about an administrative change in existing arrangements are at the apex level, particularly for the promotion of production and investment credit were the aims of the Bank

Genesis & Vision

The Committee for CRAFTCARD was formed on 30 March 1979, under the Chairmanship of Shri B. Sivaraman, former member of Planning Commission, Government of India. The Committee's interim report, submitted on 28 November 1979, outlined the need for a new organizational device for providing undivided attention, forceful direction and pointed focus to credit related issues linked with rural development. Its recommendation was formation of a unique development financial institution which would address these aspirations and formation of National Bank for Agriculture and Rural Development (NABARD) was approved by the Parliament through Act 61 of 1981.

NABARD came into existence on 12 July 1982 by transferring the agricultural credit functions of RBI and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC). It was dedicated to the service of the nation by the late Prime Minister Smt. Indira Gandhi on 05 November 1982. Set up with an initial capital of Rs.100 crore, its' paid up capital stood at Rs.10,580crore as on 31 March 2018. Consequent to the revision in the composition of share capital between Government of India and RBI, NABARD today is fully owned by Government of India operating with the vision

“Development Bank of the Nation for Fostering Rural Prosperity”

Mission of NABARD



“Promote sustainable and equitable agriculture and rural development through participative financial and nonfinancial interventions, innovations, technology and institutional development for securing prosperity”.

Functions of NABARD

Credit Functions

- Framing policy and guidelines for rural financial institutions.
- Providing credit facilities to issuing organizations
- Monitoring the flow of ground level rural credit.
- Preparation of credit plans annually for all districts for identification of credit potential.

Development Functions

- Help cooperative banks and Regional Rural Banks to prepare development actions plans for themselves.
- Help Regional Rural Banks and the sponsor banks to enter into MoUs with state governments and cooperative banks to improve the affairs of the Regional Rural Banks.
- Monitor implementation of development action plans of banks.
- Provide financial support for the training institutes of cooperative banks, commercial banks and Regional Rural Banks.

- Provide financial assistance to cooperative banks for building improved management information system, computerization of operations and development of human resources.

Supervisory Functions

- Undertakes inspection of Regional Rural Banks (RRBs) and Cooperative Banks (other than urban/primary cooperative banks) under the provisions of Banking Regulation Act, 1949.
- Undertakes inspection of State Cooperative Agriculture and Rural Development Banks (SCARDBs) and apex non credit cooperative societies on a voluntary basis.
- Provides recommendations to Reserve Bank of India on issue of licenses to Cooperative Banks, opening of new branches by State Cooperative Banks and Regional Rural Banks (RRBs).
- Undertakes portfolio inspections besides offsite surveillance of Cooperative Banks and Regional Rural Banks (RRBs).

Schemes and Patterns of NABARD

Producers Organization Development Fund (PODF)

NABARD has taken an initiative for supporting producer organizations, adopting a flexible approach to meet the needs of producers. In order to give a special focus, the “Producers Organization Development Fund” (PODF) has been set up, with an initial corpus of Rs. 50 core.

Any registered Producers Organization viz, Producers Company (as defined under Sec 581 A in part IXA of Company’s Act 1956), Producers Cooperatives, registered Farmer Federations, MACS (Mutually aided cooperative society), industrial cooperative societies, other registered federations, PACS, etc. set up by producers are eligible under the fund. Support under PODF is provided as under

- Credit Support is provided for financial intervention. Support in the form of grant, loans, or a combination of these is also available for capacity building & market interventions.
- Since most of the Producers Organizations are having low capital base, scope for NABARD’s intervention under PODF has been enhanced to support Producers Organizations for contribution to share capital.

Success case of a Farmer Producer Company

Increasing Income through Value Addition InTur is a real business success story by farmer interest groups who formed Akola Soy and Cotton Producer Company Ltd. In TalukaMurtijapur District Akola, Maharashtra supported by Indian Grameen Services (IGS). WESTERN VIDARBHA IS one of Maharashtra’s major tur growing areas. But the farmers here mostly grow tur in small quantities — as an intercrop between soy and cotton. To optimize the income for the farmers interest group (FIG) members of this region, two groups worked towards setting up a dal mill at the village level to process raw dal, which is part of the staple diet of those living in the Vidarbha region — much like most other parts of the country. The two FIGs (with 20 members each) — GajananMaharajFasalUtpadak Gat and ShriramFasalUtpadak Gat — set up a minidal mill in Pahi, Maharashtra. These FIGs jointly looked after the operational and managerial aspects of the mill. The FIGs were graded on the basis of documentation, meetings, homogeneity and adoption of new activities. The groups showed a keen interest in the activities of the dal mill, and sought grant support from Sir Ratan Tata Trust for the same. The grant support was approved based on the readiness of the FIG to contribute to the construction cost of the shed required for the mill. The Sir Ratan Tata Trust (SRTT) extended a support of Rs. 5 lakh from its fund as a loan for the producer company. This included machinery cost and a revolving fund of Rs. 2.5 lakh each and the group was

supposed to contribute Rs. 2.5 lakh in the total outlay. A total of 21 household members were involved in this activity and the intention was to support 336 farmers. But amid all this, there was one matter of concern — that the mill would be operational for only four months during the summer. If kept idle for the rest of the year, the machines would not remain operational, especially because of the extremely low temperatures during the winter months. To add to this, the farmers had to cope with payment of fixed charges for electricity, so keeping the machines operational for the rest of the months was also not an option. The FIG members decided to return the sheller machinery and, instead, purchased floor machines that could run round the year. This way, the maintenance and electricity charges could be effectively covered from the floor mill profit. The machinery includes graders, double roller machines, polishers and shellers. Increase in employment opportunities was fortuitous fallout of this innovative step. Three FIG members were trained to run the machinery and the remaining members in other activities like spreading of tur on the floor, as well as the marketing and management of all activities. The FIG members also shared the mill operations among fellow farmers, with all FIG members being allowed to flour wheat of four to five households, including their own. It was also mandatory for all of them to contribute a minimum of 1 quintal tur for processing during the initial stage of the dal mill in order to run the . Over time, there were several innovations within the dal mill which made the processing of tur more efficient. One such example is in the case of polishing tur. Edible oils are used to polish tur at the final stage — and around 150 ml of edible oil is needed for 1 quintal tur. However, the way the existing polishing machine functioned led to 12kg of dal per quintal being wasted on a regular basis. The machine operator smartly started using saline bottles to pour in the edible oil, thus, saving the time required for polishing and avoiding unnecessary wastage. Also, the management of the dal mill was assigned to each member of the mill daily on a rotational basis; and they managed the roster and substitutions, etc., amongst themselves. The most vital and positive part of this change in the system was to bring a sense of ownership among the FIG member farmers.

The long-term benefit of this innovative step is that now a similar minidal mill can be implemented anywhere since not only has its success been proved, but also because it is now known that understanding the operations and technological implementations of such a dal mill is not a difficult task — thereby, making it an easily replicable innovation. For future projects, it can be said that if an area has the appropriate amount of tur productivity, then starting such a minidal mill is recommended. Because if the raw materials (such as tur) are available locally, then the output cost would automatically be less, resulting in an increase in profit margin. However, it would augur well to be cautious that a dal mill modelled on similar lines may face three basic problems

1. Lack of sufficient revolving fund to purchase the raw material (tur)
2. Lack of a marketing plan to sell the stock in store, and
3. The seasonal functionality because of which one has to make arrangements for alternative use of the mill. But these are hardly deterrents since the benefits of the mill far outweigh the problems. Similar FIG groups or other farmer groups can set up such a mill and use it for other purposes during the offseason. This would also provide employment to few more villages during the slack agriculture season.



Figure 5.1 Processing of Tur First Step of Processing



Figure 5.2 Collective Procurement of Fertilizers

Tribal Development Program

NABARD has been closely associated with tribal development and sustainable livelihoods through orchard based farming systems. As an integral component of NABARD's Natural Resource Management (NRM) policy of providing sustainable livelihoods, NABARD laid special emphasis on providing support for holistic development of tribal communities with orchard establishment as the core element.

Based on the successful experience of Adivasi Development Programmes, NABARD embarked upon an ambitious program of replicating the wadi model across the country. In this direction, NABARD created a Tribal Development Fund (TDF) with a corpus of Rs. 50 crore, out of its profits for 200304. The corpus was augmented from time to time. All projects under TDF are implemented by partnering with State Governments, Government of India, NGOs and Corporates.

Climate Change Adaptation and Mitigation

- Policy framework for Natural Resources Management and & climate change adaptation and mitigation
- Functional role as National Implementation Entity (NIE) for Adaptation Fund through Adaptation Fund Board (AFB) for Climate Change Adaptation (CCA) Projects including guiding the Executing Entities (EEs) in designing & submission of CCA projects
- Implementation & monitoring of projects approved by AFB
- Training and capacity building of stakeholders

- Collaboration with other agencies (national and international) like Ministry of Environment and Forests (MoEF, GoI), Global Environment Fund (GEF), Green Climate Fund / for accreditation and all other issues concerning CCA
- Up scaling of Climate change adaptation and monitoring and pilot projects on climate proofing of watershed projects under WDF.

5.4 Market Linkage

There are, broadly speaking, three ways in which they can be connected to the markets. They can do it on their own — through cooperatives. Or, the state can do it for them — through its procurement agencies. Today, developmental thinking on market linkages has reached another stage linkage through companies or industries. Rural markets are regarded as organizations for marketing of nonfarm products in a traditional setting. Developing rural markets is one of the major concerns of government and Nongovernmental organization in India.

Across India, previous attempts to create such linkages have thrashed. Take Assam and other eastern states itself. Around the Eighties, the state government here decided that cooperatives were a great way to consolidate its political base. Loans went to the undeserving. Debts were written off. The institutions slowly got corrupted. As for the linkages provided by the state, these offer uncertain sustainability. Given this context, one can conclude that profit oriented industry linkages are a more sustainable, more scalable alternative. In this scenario, companies can use the social infrastructure like the self-help groups or rural NGOs as an alternative procurement and distribution chain and vice versa.

Industry's Role in Building Market Linkages

To make an effective market linkage, industries have to play as an engine of market, which can generate a brand image of the rural products. This initiative of industries will also strengthen the backward and forward linkages of the rural market, besides, accelerating the innovations of the rural products. In micro level, it is observed that to create a sustainable market linkage for rural products, industries can develop an ecosystem of Self-Help Groups (SHGs) by involving the local commies through village level empowerment. Under this paradigm, industries can create a network with viable marketing channels covering all the linkages from villages to the global level. Definitely, this strategy will also give a remarkable dividend to the industries & profit-making companies. This architecture provides the right value of procurement through the village procurement centers and rural entrepreneurs can sell their products faster with better price realization. This model is also capable of generating a consumer business and an output business in a win win scenario, where 39 rural producers can get a wide marketing horizon and the industries shall get a new, lower cost 'sales force'. Another role of industries in building market linkages for agrobased rural products can be the 'dynamic contract farming'. If a conventional industry can kick off a contract farming business, and export niche horticulture crops like cucumbers, the small and marginal farmers who could grow these small cucumbers would make good amount in profits in a year. KRBL, one of India's largest basmati exporters, has contract farming agreements with 24,000 farmers; Global Green buys from about 12,000 farmers.

Moreover, in the current era of information technology, industry and private companies can also creatively use ICT for building sustainable marketing linkages. This approach creatively leverages

information technology (IT) to set up a metamarket in favour of small and poor producers/rural entrepreneurs, who would otherwise continue to operate and transact in 'unevolved' markets where the rent seeking vested interests exploit their disadvantaged position. ITC e Choupal is the best example in this context. Through creative use of Information Technology, ITC eChoupal has been creating sustainable stakeholder value by reorganizing the agri commodity supply chains simultaneously improving the competitiveness of small farmer agriculture and enhancing rural prosperity. ITC takes on the role of a Network in this meta market by stitching together an end to end solution. It eliminated the traditional 'mandi' system which involved lot of middlemen as a result of which farmers failed to get the right value for their produce. The solution simultaneously addresses the viability concerns of the participating companies by virtually aggregating the demand from thousands of small farmers, and the value for money concerns of the farmers by creating competition among the companies in each leg of the value chain.

5.5 Contract Farming Linking Strategy in Dairy Sector A Case Study

Contract farming is emerging as an important form of vertical coordination in the agri food supply chain in India, and its socioeconomic consequences are attracting considerable attention in public policy debates.

Sustained income growth and urbanization are causing rapid changes in the “food consumption, production and marketing” in India. Over the last two decades, there has been a rapid increase in per capita consumption of highvalue foods like fruits, vegetables, milk, meat, egg and fish, while consumption of food grains remained almost unchanged on the supply side, these commodities generate higher returns per of land and labor compared to food grains. Demand driven growth in high value food production is expected to create significant income and employment opportunities for producers, especially smallholders (that is; those who own less than 2 hectares of land) who comprised 58 percent of the rural households in 2003 and largely practice staple based subsistence agriculture to ensure their household food security. However, changing dietary patterns towards high value foods are putting pressure on small farms to diversify away from staples and derive gains from market oriented, high value agricultural production Some are apprehensive that small farm diversification toward high value food commodities may come under stress, as the production and marketing requirements of these commodities are different from staples. High value agriculture requires more capital, quality inputs, improved technologies, and extension support, and smallholders face problems in accessing these Most high value food commodities are perishable, and are thus subject to high postharvest losses. Such commodities need immediate transportation to the markets or consumption centers; others may require cold storage or processing into a less perishable form. Local rural markets for high value commodities in India are scarce, and postharvest infrastructure (such as transportation, storage and processing) is inadequate. Furthermore, sales in distant urban markets increase transaction costs (defined here as the costs of searching for information as well as travel, transportation, and personnel time). These costs are higher for smallholders who often have small, marketable surpluses sale of which in distant markets is costly. Further, the food quality standards that are becoming more stringent in the domestic and world markets, creating a barrier to their participation in markets. Vertical coordination of the food supply chain through cooperatives, producers’ associations, and contract farming is one of the few alternatives that can facilitate small farms’ diversification by improving their access to markets and reducing price risks and transaction costs. Contracts that provide credit, technology, inputs,

information, extension services, and risk mitigation help producers improve production efficiency; develop commercial culture; and augment income and employment. Contract farming is an important mechanism for sharing production and market risks which tend to be higher in perishable commodities. For instance, in contract farming of broilers, Ramaswamy et al. (2006) found integrators/firms assuming most of the market and price risk and helping producers mitigate production risks through support services. Sharing of risk and reducing transaction costs thus enables contract producers to reap more profits compared to independent producers.

The Opportunities in Dairying for Rural Enterprises

Growth Prospects of Dairy Farming

India is a predominantly an agrarian economy with more than 75 per cent of the population in villages, depending on agriculture, animal husbandry and allied activities for their live hood. Among many livestock enterprises, dairy is the most ancient occupation established in the rural setting in our country. Dairy sector contributes significantly in generating employment opportunities and supplementing income of small and marginal farmers and land less laborers of rural India, besides providing food security.

Contribution to National Economy

The dairy sub sector occupies an important position in the agricultural economy in India, as milk is the second largest agricultural commodity contributing to the GNP, next only to rice. Dairy sector in India, provides regular employment to 9.8 million people in principle status and 8.6 million people in the subsidiary status which together constitute 5 per cent of the total work force. While the share of agricultural output has been increasing and now it accounts for 25 per cent of agricultural output. Milk alone contributes Rs.450 billion to the GNP of the country. The strength of Indian dairy sector lies in the fact that in spite of limited investment it has shown consistency and sustainable growth.

Strength

India is rich in generic diversity of cattle. There are 30 breeds of cattle in various parts of the country, each having some unique property or other. India also possesses some of the best milk breeds of the world. In the present era of advances in biotechnology this diversity in breeds is a great strength for the country. For small farmers cattle is perhaps the only tangible assets and mainstay for their socioeconomic security.

Dairy industry provides draught power, manure and cash income, which augments the crop production. Further dairy animals produce milk by converting the crop residues and by the products from the crops which would or else be wasted. The buffalo which is considered to be the backbone of India dairy industry constitutes less than 40 percent of bovine population, but accounts for more than half of the total milk production of the country. India has the largest number of buffaloes in the world. They convert the coarse feeds into rich milk which is preferred by dairy processors because of its high total solids and fat content. India has the advantage of abundant labor which includes rural woman force who are engaged in rearing dairy animals and this turn reduces the cost of production. In the globalization era, if this unique advantageous properly utilized, our milk products will have an edge over other competitive products in the world market.



Figure 5.3 An Indigenous ox Exhibited at a Veterinary show in Pollachi ,TamilNadu Organized Every Year Around JanFeb Months.

Weakness

The rapid growth in India's milk production has been mainly because of the increase in the number of animals rather than that of the improved productivity. The cow productivity of our dairy animals is of great concern and the average productivity of Indian cow is only 987kg/lactation as against the world average of 038kg/location. The gradual breed decoration from general neglect over centuries and the consequent rise in the population of nondescript from general neglect over centuries and the consequent along with the chronic shortage of feed and fodder coupled with and buffaloes with chronic shortage of feed and fodder coupled with their poor nutritive value and low fertility of our dairy animals has resulted in the low productivity. Perhaps, the great challenge India has is the large number of unproductive animals. In most parts of the country grazing land has been degraded beyond restoration. Further, the unproductive animals compete for the resources with the productive animals' resources. Most of our national milch herd is underfed and under nourished. In improving nutrition, the fact that our land and water resources are scarce, in relation to our human population cannot be neglected. Due to the bulging human population there is hardly any scope for increasing area under pasture and cultivated fodder. In this crunch situation animal could not be allowed to compete with man for these scarce resources. There is a lack of proper regulatory measures and monitoring systems to check and improve the quality of animals feed production and further the farmers not aware of the value addition to crop residues, which can improve the productivity of diary animals. In addition, farmers are not following the scientific feeding and management practices in rearing diary animals.

The productivity of our diary animals is often humped by epidemic and even more by endemic health problems. Prevalence of various viral and bacterial diseases in India reduces the chances of export. In rural areas, there is a lack of awareness about clean milk production. Further, our technology is observed when compared to western technologies. The above-mentioned factors reduces the quality of our milk compared to western technologies. Theabove-mentioned factors reduces the quality of our milk products which results in the low demand for our dairy products in the world market.

Implications of Trade Liberalization on Indian Dairy Sector

The impact of liberalization, privatization and globalization is evident in y the growing market for milk and milk products due to the increasing disposable income one of the middleclass people of the

country. Under liberalized and globalized conditions, analysis of global competitiveness is a must for any economic enterprise engaged in the production of tradable commodity. Despite impressive growth of exports of dairy products their export performance was limited by their lack of competitiveness. Scenario and also assesses the competitiveness of the Indian dairy industry for the period 1982-2000 so that a meaningful conclusion can be arrived on the changes that have occurred due to trade liberalization. The WTO regulation includes removal of quantitative restrictions on imports and exports, increase in market and converting all nontariff barriers to tariffs. These conditions serve to increase world access and converting all nontariff barriers to tariffs. India and New Zealand are the only two major milk production nations in the world that do not subsidize their dairy farmers. Hence our prices, which are already competitive, will become increasingly attractive in the dairy market. So, India has definite developed countries in the world milk market, market could play a more important role in world commerce in dairy products.

Table 5.1 Price of Milk In Selected Countries (Us Dollars)

Country	Price of 100 Litres of Milk
European Community	37.5
USA	22.8
Japan	85.5
Australia	22.5
New Zealand	20.2
India	18.8

Thrust Areas

A few areas where rural enterprises have potential are

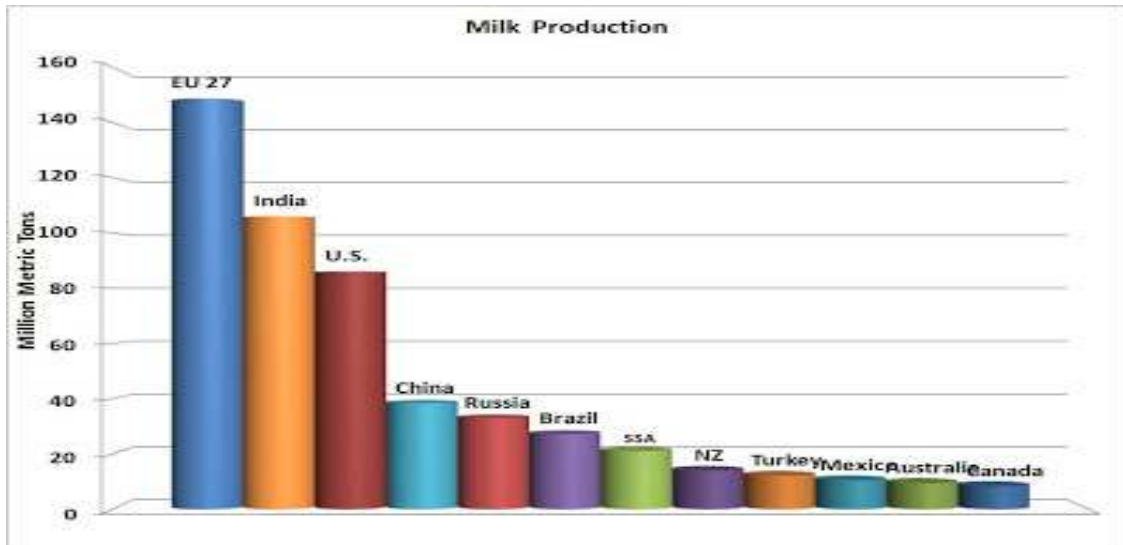
- Improvement in breeding efficiency by expanding the artificial insemination network further to cover more rural areas.
- Extension of embryo transfer technology from the laboratory level to the field level.
- Biotechnology could be used as a tool to develop saline water-resistant fodder, high protein fodder free anti nutritional fodder free from antinutritional factors and alkaloids.

Dairy Technology companies need to pop up more addressing the need gaps of production by rural people involved in dairy farming that helps tapping the market potential of the urban. An assessment of stakeholder priorities generates a series of policy objectives. Whereas the goal of a dairy development plan might be to “contribute to national economic development by commercially, qualitatively and competitively developing the dairy sector for employment generation and poverty reduction with the participation of government, cooperatives and private sector” (Nepal, 2007), the development objectives would be more specific.

The dairy sector in India has witnessed a significant change in the last 3 decades. The development programs like operation flood have contributed to the impressive gain in milk production, productivity per capita availability of milk.

The growth we have achieved in the dairy sector needs to be sustained to improve in future to increase the per capita income of the rural sector needs to be sustained to improve in future to increase the per capita income of the rural downtrodden society and to contribute significantly to the Indian economy.

Table 5.2 Milk Production in India



Vertical Coordination in the Milk Supply Chain

Institutions such as cooperatives, producers' organizations, and contract farming emerge in response to market failures. Dairy producers are often unable to access market outlets, good quality inputs, improved technologies, essential information, and animal health and breeding services. The milk market in India is fragmented, having both formal and informal segments, but the bulk of milk trade flows through a number of informal supply chains.⁴ Producers sell fresh milk directly to rural as well as urban consumers. The sale to rural consumers is limited. Direct transactions are prominent in urban and periurban areas where dairy producers supply milk to urban consumers. This practice is more prominent among smallholders. Some large producers from remote rural locations also sell supply milk directly to urban consumers. In general, large producers sell milk to sweet shops, restaurants, or hotels and/or in the urban milk market (mandi), if at all. Through direct transactions, producers are able to retain much of the price paid by consumers, but cost of the search for buyers and delivery can be very high. From the buyer's perspective, there is also uncertainty as to the quality of the milk. Another important functionary in the milk market is the local milk vendor, who buys milk from producers and sells it directly to urban consumers and/or to sweet shops, restaurants or hotels. Sometimes the vendors advance credit to producers—mainly smallholders—to ensure a regular supply of milk. Subcontracting also exists in informal markets. Some small-scale processors who are unable to invest in milk procurement infrastructure obtain milk supplies through contractors who collect milk for them on a commission basis. Like vendors, contractors also provide credit to the producers, but they rarely provide inputs, services or information to the producers. In the absence of competition, credit linked supply chains are often exploitative of the producers, especially when there is a considerable seasonality in milk production. During a flush season, vendors and subcontractors do not procure the entire marketable surplus, and they pay less than the market price. Cooperatives and private processors are the two most important players in the formal milk market. They use one or another variant of vertical coordination to source raw material requirements. Dairy cooperatives, however; are more dominant, and have evolved over time as an important institution for dairy development. Most private dairy processors source milk through direct or indirect contracts with producers. Both cooperatives and private processors provide inputs and services to the willing producers to improve production and quality of milk as well as to mitigate production risks.

Case Study on Rajasthan Dairy Firms

A number of private players were found to operate in the local milk market in the study area, that is, Rajasthan. These include cooperatives, private dairy processors, and vendors. Most of these groups were using contracts representative of either market specification, or resource providing contracts, or a combination of the two, depending on the farmers' requirements. Three main dairy processing companies were operating in the study area, namely; GK Industries, Modi Dairy, and Lotus Dairy. Each of these followed a common approach to sourcing milk from producers. Dairying was largely concentrated among smallholders, and contracting with a large number of small dairy producers was costly for processors because of substantial costs in information search, and negotiation and enforcement of the contract. The processors therefore did not have much choice but to take milk from small producers. The way they addressed this situation was to make agreements with a local villager who acts as an intermediary (that is to say, an agent) between the firm and the dairy producers, rather than to make an agreement with individual producers. The firm ensures that the agent is an apolitical and noncontroversial person, capable of motivating producers to supply milk to the firm. This type of arrangement is a variant of a marketing specification contract that binds the sellers and buyers to specific conditions of commodity exchange (such as quality, price, quantity, payment procedures, sharing of costs and risks, moral hazards, and dispute settlement). This type of contractual arrangement is prevalent in Rajasthan, the study area and, because dairying is largely concentrated among smallholders, proliferating in India where contracting with a large number of small dairy producers is very costly for a private processor because of the high transaction costs (in terms of search and negotiation, and enforcement of the contract). The agent motivates producers to supply milk to the firm, procures milk, helps the firm in dissemination of information, distribution of inputs, and provision of services, and makes payments to the producers. The agreement is informal, but specifies terms and conditions with respect to the quantity, quality and price of milk; contract duration; mode of payments; sharing of costs and risks; moral hazards; dispute settlement and so on. The contract is generally for three years, and can be renewed or reneged with prior notice. The agent/producer provides the space for milk collection, and the firm provides necessary equipment—such as weighing scales, milk analyzers, milk coolers, and water geysers used for temporary storage of milk—at no cost to the agent. Operational expenses, except the cost of electricity and water usage, are borne by the agent. Costs of transportation of milk from the collection center to the firms' processing plant are borne by the firm. The contract agreement also provides for risk sharing mechanisms. Unintentional risks to firm installed assets (such as machine failure or wear and tear) are borne by the firm. Risks arising due to noncompliance of specified quality standards are the responsibility of the agent. A majority of the contract producers (94 percent) had an informal understanding with the agent to supply milk. They can sell any amount of milk to the firm provided the agent is assured of a regular supply and good quality (based on fat and SNF [solids nonfat] content) of milk. There was no restriction on quantity by the firm regardless of flush or lean seasons. Each producer/supplier was provided with a passbook for recording transactions with respect to quantity, fat and SNF content, and payments. The agreement was also defined by the commitment of the producer to supply milk at a certain time and quality required by the firm through its agent, so the price of milk was determined on the basis of fat and SNF contents. In determining the milk price, the firms also considered the prices paid by other competitors in the neighborhood. Payments to the producers were generally made at an interval of 10 to 15 days. Most producers received payment in full and on time. The integrator/processor provided feed, medicines, vaccines, and mineral mixtures to the willing producers generally at lower than the

market prices because the integrator purchased these inputs in bulk. Veterinary services were provided on demand and at nominal rates. The agent provided the inputs

6 Market specification contracts are preharvest contracts that bind the sellers and buyers to specific conditions of commodity exchange, which include quantity, quality, price and timing. In resource providing contracts, buyers provide some inputs, technology and services to the producers in exchange for a marketing agreement. 7 In general, processors expect producers to supply unadulterated milk with normal fat content of 34 percent in cow's milk, and 6 to 8 percent in buffalo milk.

The advisory services related to management of animals were provided free of charge. The integrator/processor monitored the contracts to avoid any conflict between the producers and the agent. This monitoring was done by regular visits of firms' representatives to the milk producers to check if they have concerns about the contract farming practices, and to monitor and ensure the timely availability of milk. The firm's representative monitored the animals for their yield levels, feed intake, health, and nutrition, including cases of adulteration of milk by the producers, if any. In cases of dispute, the producers usually report it to the firm staff, and then the staff act as negotiators in order to resolve disputes mutually.

Summary

For farmers, long term loans can be recommended for diversifying beyond crop cultivation to horticulture, floriculture, dairy, poultry, fishery, etc. as well as new generation of crop and livestock insurance to mitigate risk. For restoring the productivity of land, water and forests, investment finance through panchayat level financing institutions can be done. To mitigate the financial impact of adverse events like droughts and floods, crop insurance programmers can be made more effective.

Greater use of warehouse receipt finance and electronic spot exchanges like eNAM and nationwide movement of commodities will obviate price risks. Price hedging in agricultural commodities can be done by aggregation of small farmers into producer companies, enabling them to use futures and options. Instead, we must advocate the principle of self-help groups, encouraging people at all levels of income to save, in the short-term to create the ability to borrow from banks for starting up microenterprises, in the medium term to create the equity for getting home loans, and in the long-term to create a corpus for their retirement so they can get pensions. There are now scores of examples, covering millions of persons, where these principles are being practiced. Another outstanding example apart from the one quoted in this chapter is the Self Employed Women's Association (SEWA) where the members own a banks, in which they save and from where they get credit as they need, for their livelihood activities and lifecycle events. The milk supply chain is undergoing a transformation in India, from a traditional ad hoc, vendor dominated system toward a coordinated supply chain. Initially, the coordinated supply chain emerged in the form of cooperatives due to initiatives of the National Dairy Development Board. The entry of the private processors into the milk market has infused greater economic competition, resulting in a disciplining of the informal traders/vendors who hitherto had exploited the dairy farmers.

To Do Activity (Individual)

1. Register for NABARD newsletter on their website <https://www.nabard.org> and watch the NABARD's recent video case studies.
2. Go through at least 3 case studies from the same industry shared on the NABARD website and prepare a case review.
3. Publish the case review under the guidance of your course instructor.

Model Questions

1. Analyse the importance of rural lending for the development of rural enterprises.
2. Television is here to stay for some more decades. Elucidate the impact of Television Media on the distribution and promotion of handicrafts, stonewood art work and biofertilizers for urban farming.
3. Discuss the pros and cons of privatizing of Agricultural Produce Marketing in supporting the distribution of farm produces.

References

1. Ankur Mani Tripathi et al. "Information and Communication Technology for Rural Development" International Journal on Computer Science and Engineering (IJCSE) ISSN 09753397 Vol. 4 No. 05 May 2012.
2. <http://milkprice.blogspot.com/2009/10/dairyproductionincountriesthathave.html>
3. [http://sfacindia.com/PDFs/KrishiSutra\(Versin2\).pdf](http://sfacindia.com/PDFs/KrishiSutra(Versin2).pdf)
4. <https://www.nabard.org>
5. Machiraju, H.B., "Indian Financial System", Vikas Publishing House, Pvt. Ltd., II Edition 2002, pp.368375.
6. Mohd. Najmul Islam, "Sustainable Market Linkages for Rural Entrepreneur Products Strategies and Challenges", Indian Journal of Management Science (IJMS), ISSN 2231279X, pp 36 – 41, Aug 2011.
7. Parthasarathy, Os "integrated Rural Developments Concepts, Theoretical Base and Contradiction", Op, Git, p, 39.
8. Sathya Sundaram, I., "Rural Development", Himalaya Publishing House, Edition 1999, pp.349370. 136

Block 2

Product and Brand Management



Mahatma Gandhi National Council of Rural Education

Department of Higher Education

Ministry of Human Resource Development, Government of India

Hyderabad - 500004



Contents

Chapter 1 Introduction to Product Management

- 1.1 Introduction to Product Management and Product Strategy
- 1.2 Product Planning
- 1.3 Product and Market Focused Organizations
- 1.4 Product and Market Evolution
- 1.5 Product Life Cycle

Chapter 2 Introduction to Competitive Structure

- 2.1 Defining Competition
- 2.2 Category Attractiveness Analysis
- 2.3 competitor Analysis
- 2.4 Customer Analysis
- 2.5 Strategies to Deal with Competition

Chapter 3 Product Strategy, Product Offering & Analysis

- 3.1 Developing Product Strategy and New Product Development
- 3.2 Designing the Offer, Market and Sales Potential
- 3.3 Marketing of Agricultural Produce Challenges
- 3.4 Agricultural Produce Market Committee
- 3.5 Other Marketing Institutions

Chapter 4 Brands, Branding & Brand Equity

- 4.1 Introduction to Brands and Branding, Types of Branding
- 4.2 Designing a Brand, Brand Identity using Kapferer's Identity Prism
- 4.3 Customer Based Brand Equity Model, Strategic Brand Wheel and Maps
- 4.4 Brand mantras, Organization and branding
- 4.5 Measuring Brand Equity

Chapter 5 Brand Positioning & Branding Strategy

- 5.1 Brand Positioning, Consumer Behaviour
- 5.2 Brand Positioning Strategy, Marketing Programs for Brands
- 5.3 Offline and Online e Branding Strategies
- 5.4 Line and Category Extensions, Umbrella Branding
- 5.5 Branding Architecture

Chapter 1 Introduction to Product Management

Introduction

Not all business organizations have a defined position of “Product Manager” some have positions such as Brand Managers or Marketing Managers, though most executives in these roles perform the function of managing the Product/ products for the organization. The term “Product” in the present module includes both products and services for ease of use.

Product Management as a concept involves market analysis, understanding customers and competition, developing marketing objectives and strategy, conducting market and marketing research, creating strategies for product-line extensions, and ensuring financial support and return on product investments.

Objectives

To understand basics of product management

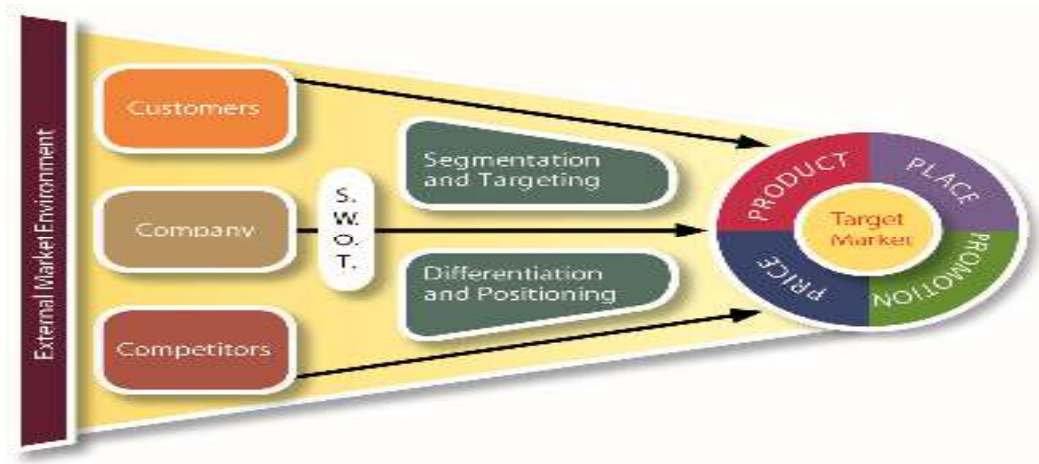


Fig1.1 Product Decisions for Marketing Strategy

1.1 Introduction to Product Management

Product Management involves developing a clear understanding of factors shaping external market environment, consciously surveying the changing needs of customers, competitors’ actions and own company’s strengths, weaknesses, opportunities and threats. With proper segmentation, targeting, differentiation and positioning, the marketing mix is developed. Product portfolio and strategy is the first key decision in the marketing mix. The marketing team would have to consider all marketing mix decisions keeping in mind the unique aspects of the rural market.

A product is anything that can be offered to a market that might satisfy a want or need of the constituency that it plans to cater. A market is a physical or virtual space that offers products to customers who are willing to meet their needs by choosing and using a particular product or service.

The rural customer generally judges the marketers offering on three aspects the product features and quality, the services mix and quality and the appropriateness of the offering's price. Product offerings for rural markets cannot imitate urban offerings and many companies have modified their offerings to suit rural customer requirements.

There are five levels of product based on the value proposition (Phillip Kotler, 2015)

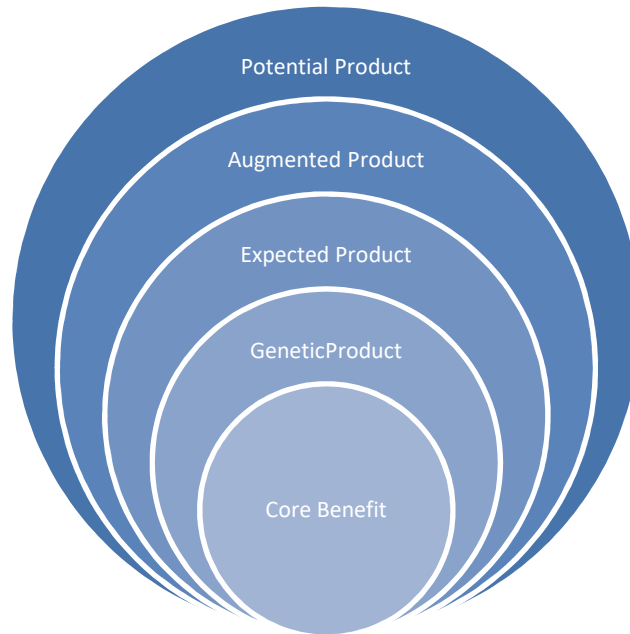


Fig 1.1 Five Levels of Products

The Five Product Levels are

1. Core Benefit

The fundamental need or basic want that consumers satisfy by consuming the product or service. For example, the needs to eat, cloth, wash, and quench thirst. Examples of core benefit is mobility and entertainment

2. Generic Product

A version of the product containing only those attributes or characteristics absolutely necessary for it to function. This is the bare minimum of the product and would meet the bare minimum requirements. For example, the need to process digital images could be satisfied by a generic, low-end, personal computer using free image processing software or a processing laboratory. Generic product for mobility can be motorcycle and entertainment can be Television, both are same in rural and urban.

3. Expected Product

The set of attributes or characteristics that buyers normally expect from and accept when they purchase a product. For example, the computer is specified to deliver fast image processing and has a high-resolution, accurate colour screen. Continuing with motorcycle example, a rural consumer might look for good shock absorbers, fuel efficiency and low maintenance, whereas urban consumer might look into power, appearance and style. For Television, rural consumer might look into good picture quality, clear sound and ease of operation, Urban consumer might prefer digital sound, flat screen and child lock.

4. Augmented Product

The inclusion of additional features, benefits, attributes or related services that serve to differentiate the product from its nearest competitors. For example, the computer comes pre-loaded with a high-end image processing software for no extra cost or at a deeply discounted, incremental cost. Rural consumer might prefer a Television which can operate on batteries and provide screen clarity even during weak signals, and onscreen display in local languages, urban consumer might prefer in built set-top box, internet enabled TV, in-built DVD player etc.

5. Potential Product

This includes all the potential augmentations and transformations a product might undergo in the future. To ensure future customer loyalty, a business must aim to surprise and delight customers in the future by continuing to augment products. For example, the customer receives ongoing image processing software upgrades with new and useful features. Rural consumers may prefer TV sets that can sustain voltage fluctuations in rural markets and in Urban markets consumers might prefer a TV set which can be controlled through voice-based instructions via internet. Generally, there is a logical advancement with each stage in the product design and thereby the offering in the product and concomitantly it's pricing.

Table 1.2 Example of using Product Levels Concept for rural customers

Product level	Characteristic	Example	Rural Vs Urban
Core Benefit	Fundamental benefit/core purpose	Entertainment	Same
Basic Product	Fundamental benefits/core purpose	TV set	Same
Expected Product	Attributes and conditions that customers expect	Digital, flat screen	Appearance, Image, different expectations
Augmented Product	Exceeding customer expectations	Battery operated TV	Pleasant surprise for rural customers
Potential Product	All augmentations and transformations incorporated	Jolly Star trek, a regional North Indian Company launched Battery operated Color TVs in the price range of Rs.5000-Rs.7000	Unique selling proposition for rural customers

Box 1.1 Innovation in India's Rural Markets in the below link

Accenture survey (2013) cited high cost-to-serve the rural markets as the number one challenge more than 50 per cent of companies listed it as one of the top three challenges they face. As far as rural customer acquisition is concerned, understanding and meeting the diverse, specialized needs and preferences of such customers pose major challenges to companies. Success in India's rural markets hinges on the performance of companies on two key measures rural performance that is the degree to which rural markets are strategically important to a company's growth agenda, defined by the contribution of rural markets to the enterprises top and bottom lines. Rural innovation, or the level of rural focused innovations, in a company's product, packaging, pricing, channels and operating models?

Accenture classified companies into four categories on the basis of the extent of success Rural Masters, Rural Performers, Rural Voyagers and New Entrants.

Rural Masters are profitable companies that have secured a significant rural market share. They excel at execution. They apply rigor to governance and control to make sure their strategies translate into required actions. They have developed novel strategies to serve rural consumers and draw on an intimate understanding of consumers cultures and needs to enter rural markets. They have well-conceived expansion strategies that they support with significant capital and resources.

Rural Performers are profitable entities that have established a strong rural footprint by using conventional approaches or by emulating Rural masters. They often lack an innovative streak. They tend to focus on existing product portfolios and try to mitigate risk through aggressive product marketing to strengthen their position. These companies have been successful in the past. But in the future, they may struggle in a changing and more competitive landscape.

Rural Voyagers have adopted disruptive approaches to serve India's rural markets. For example, they create unique products and services, customise pricing or packaging, or develop new channels to reach the last mile. However, they are yet to make profits. Though rural voyagers often understand rural consumers better than their competitors, they usually take a more cautious approach toward expansion. Furthermore, they learn from their initial forays (such as pilots conducted in a few states) to determine their next investment strategies and tactics. A large number of companies fall into this quadrant, and they still face many challenges. In some cases, rural voyagers can seek government help to subsidise their products on a large scale. However, they must also invest in channel partners and engage with community influencers to achieve acceptance among rural consumers and succeed.

New Entrants are companies that have recently made forays in rural markets. Conservative in nature, many of these enterprises have limited operations and have not generated the profit needed to create economies of scale. Though these companies can learn from the experience of rural masters, they face high barriers to entry. These companies will need to make extra efforts to create a differentiated position for themselves in the rural marketplace. As rural markets evolve and competition in rural markets intensifies, companies will have to look for new approaches to harness this opportunity in ways that protect their margin while also growing revenue. Deploying the correct sales and distribution model can assist companies in driving profitable growth in a relatively short span of time. Rural masters will have to find ways to scale operations without hurting their bottom line. For a rural performer, the challenge will be to create differentiated offerings and brand loyalty to retain customers and sustain their business models. Rural voyagers will build their own ecosystems and brand awareness to acquire new customers. New entrants will travel their own paths to penetrate rural markets. By focusing on the specific needs, behaviours and preferences of the rural consumers, and by applying a systematic approach to market expansion, companies can accelerate their rural expansion journey.

Table 1.2 Depicts Some Examples of Companies Which Have Modified Their Marketing Strategy to Suit Customer Requirements in Rural India over the Years

Sl no	Company	Products	What they are doing
1	Bajaj Electricals	Home appliances	Pricing basic models closer to products made by small scale sector
2	Colgate-Palmolive	Dental cream	Deeper distribution to reach 1.4 lakh new villages
3	Dabur India	Chavan rash, digestive Lozenges	Creating brand awareness using bowling alleys
4	Godrej Soaps	Toilet soaps	Setting up rural area task force to improve per capita usage
5	Hero Cycles	Bicycles	Modifying product to suit rural requirements
6	Videocon Consumer Durables	Consumer Durables	Launching functional products, pushing "Walkman's" in villages with population below 50,000
7	Mahindra and Mahindra	Tractors	Shaan a fuel-efficient tractor used for brick kilns
8	LG	Consumer Durables	Sam Poorna Good quality, low-priced TVs, Refrigerators and washing machines
9	GSK	Malt beverages	Launched ASHA 40% cheaper than Horlicks for rural market
10	Nestle	Packaged goods	Maggi Rasale Chow- for Rs.2 low priced light meal fortified with iron
11	Philips	Free Power Radio	No battery or electricity required, a wind-up operation using lever, resulting in 30 minutes of radio

Product Strategy

Product strategy is about imagining the future of the product What product will it become? Who will it benefit? How will it create value? It's a high-level plan that helps companies realise their vision or overarching goal. More specifically, the product strategy should describe who the product is for and why people would want to buy and to use it; what the product is and why it stands out; and what the business goals are and why it is worthwhile for the company to invest in it, as the following picture shows.



Fig 1.2 Product Strategy

The market describes the target customers and users of the product, the people who are likely to buy and to use it. The needs comprise the main problem the product solves or the primary benefit it provides. The key features and the differentiators are those aspects of the product that are crucial to address the main problem or create the primary benefit and that make people choose it over other competing offers. The business goals capture how the product is going to benefit the company. Is it going to generate revenue, help sell another product or service, reduce cost, or increase the brand equity? Being clear on the business goals allows the company to select the right Key Performance Indicators (KPIs) and to measure the product's actual performance against them.

To Do Activity

Interact with a Product Manager of a Company and find out the challenges they face in the job and how they meet these challenges.

1.2 Marketing and Product Planning

Product/ brand/ marketing managers have to make plans for the different types of product existing with the company and also for new products. This section deals with product planning for existing products. Products serve the needs of customers in specific markets; therefore, product planning is a part of the marketing planning of the organization. In many organizations, the Marketing planning is done first followed by product planning. Classification of products in rural markets is similar to urban. Typically, rural products can be classified as FMCGs (Full form of FMCG), Consumer durables, Agri -Goods and Services.

Marketing Planning

A marketing plan is a written document containing the guidelines for the business 's marketing programs and allocations of resources over the planning period.

Table 1.3 Time Horizons for Marketing plans (McGraw-Hill/Irwin, 2003)

Time Period	Consumer Products (%)	Industrial Products (%)	Services (%)
1 year	62	45	65
3 years	5	5	8
5 years	15	17	3
Long term	4	3	6
Indefinite	0	2	2
Other	14	28	16

(Source : Howard Sutton, The Marketing Plan in 1990s (New York The Conference Board, 1990), p.25)

The data shows that 62% of Consumer Products companies make annual plans, 45% of industrial products companies make annual plans and 65% of service companies make annual plans.

5% of consumer products companies and industrial products companies make 3-year plans and 8% of Service companies make 3-year plans. 15% of consumer products companies make 5-year plans, 17% of Industrial products companies make 5-year plans and only 3 % of Service companies make 5-year plans. 0% of Consumer Products' companies have said that they make indefinite duration plans, 2% each of industrial products companies and service companies make plans of indefinite time frame.14% of Industrial products companies make "other" type of time horizon, which does not fit into the different time frames described earlier. 28% of Consumer Products' companies and 16% of service companies make "other" type of time period plans.

Hierarchy of Planning

Typically, the Corporate Strategic planning is done first, followed by Group or Sector planning, then Strategic Business planning and then Annual marketing (Business) Plan. The issues at corporate strategic planning level are broad such as return on investments/assets, and strategies are general for the organization and generally long term. The plans become specific and short term from the SBU level to the marketing plan level.A marketing plan is an operational document. It contains strategies for a product, but it focuses on a shorter time span than the strategic plan. Marketing plans are specific statements of how to achieve short-term, usually annual results.

Table 1.4 Objectives of the Marketing Plan

S No	Objectives
1	To define the current business situation.
2	To identify problems and opportunities facing the business.
3	To define the strategies (e.g. target market) and programs necessary to achieve the objectives.
4	To establish business objectives
5	To pinpoint responsibility for objectives.
6	To establish timetables and metrics for achieving objectives.
7	To encourage careful and disciplined thinking. *
8	To establish an outward (customer/competitor) orientation

*Top down and bottom up Approaches

Atop down analysis is calculated by determining the total market, then estimating the share of that market. A typical top down analysis might go something like this “We will sell a widget everyone can use, and since there are 300,000 people in my area, even if I only manage to land 5 percent of that market, I'll make 15,000 sales.”A bottom up analysis is calculated by estimating potential sales in order to determine a total sales figure. A bottom up analysis evaluates where products can be sold, the sales of comparable products, and the slice of current sales the company can secure.

Marketing Plan Process

1. Update the facts about the past recent data (last 1-3 years) on all relevant information required to make the plan
2. **Collect background data** Data collection based on the current situation of the organization
3. **Analyze historical and background data** Analyze the existing data to forecast competitors’ actions, customer behavior, economic conditions etc. This analysis leads to key opportunities and threats in the market for the business
4. **Develop Objectives, strategies and actions/programs** This is the product planning phase. This involves setting product objectives, developing strategies and programs to achieve the objectives, comparing programs in terms of their abilities to achieve objectives (ex- market share), selecting a basic objective, strategy, and program combination
5. **Develop proforma** financial statements budgets and profit and loss projections
6. **Negotiate** series of revisions normally take place before final plan is agreed upon by all involved departments/executives
7. **Measure progress** robust monitoring and tracking metrics are to be placed to measure progress with respect to objectives and programs
8. **Audit** it is a mechanism to evaluate the programs and suggest changes

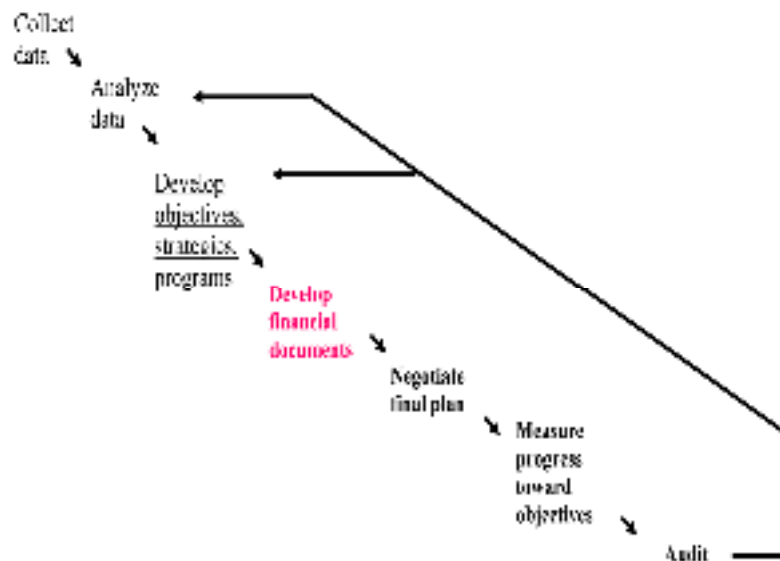


Fig 1.3 Marketing Plan Process

Product Planning

- Product planning allows a business to make or sell products that are wanted by customers. Product planning is also used to design appropriate marketing programs that help create increased sales and profit opportunities.
- A product is anything a person receives in an exchange—a tangible item (car), a service (haircut), an idea (a good education), or a combination of all of these concepts. Product planning involves making decisions about features needed to sell a business's products, services, or ideas.
- Product mix includes all the different products that a company makes or sells.
- A large manufacturer may have hundreds of products in its product mix.
- Retail stores must plan their product mix carefully because they cannot offer all of the products that customers may want.
- A product line is a group of closely related products manufactured and/or sold by a business.
- A product item is a specific model, brand, or size of a product within a product line.
- Product width refers to the number of different product lines a business manufactures or sells.
- Product depth refers to the number of product items offered within each product line
- Product Planning is a periodic process that considers the portfolio of products to be managed in a planning period

A product mix strategy is the plan for how the business determines which products it will make or stock. Businesses will either develop a new product or expand an existing product to add to their mix.

Box 1.2 Examples of Product Planning Strategies for Rural Market

- 1. Small Packing** This method stands a good chance of acceptance in rural markets. The advantage is that the price is low and is easily affordable by the rural consumer. Products like shampoos, pickles, biscuits, etc have tested this method.
- 2. New Product Designs** The manufacturer and the marketing people can think in terms of new product designs, keeping in view the rural life style. E.g. P.V.C. shoes and chappals can be considered suited ideally for rural consumers due to adverse working conditions. The price of P.V.C. items is also low and affordable.
- 3. Sturdy Products** Sturdiness of the product either in terms of weight or appearance is an important criterion for rural consumers. For the rural consumers, heavier weight means that the product is more durable, e.g. the experience of torch light dry battery cell manufacturers supports this because rural consumers preferred dry battery cells which are heavier than the lighter ones.
- 4. Utility Oriented Products** Rural consumers are more concerned with the utility of the product and its appearance. Phillips India Ltd. developed and introduced BAHADUR (a low-cost medium wave receiver) during the early seventies. Initially the sales were good but declined subsequently, on investigation it was found that the rural consumers chose to purchase radios for entertainment purposes, not only for news & information.
- 5. Brand Name** The rural consumers do give their own brand name on the name of an item. A brand name or logo is very important for a rural consumer for identification purposes.

To Do Activity

Study a product plan of a rural product that became successful / failed to make it and analyse reasons.

1.3 Product and Market Focused Organization Structures for Marketing Departments

There is little doubt that competition is dramatically heating up in virtually every major product/market and business in the world. In such a hyper-competitive, rapid change atmosphere, managers are constantly faced with complex and difficult choices of new and changed products, services, customer segments, technologies, and market networks. And in many markets, aggressive, innovative new competitors are attacking both global and traditional domestic markets with high-quality, high-value new products that challenge the market's competitive status quo.

So, a big challenge for companies is to decide which type of Organization structure to create which will enable the organization to address market requirements, address company's product portfolio, utilize the skills of functional managers and be able to handle competition well. Many companies might change their organization's structures from Product focused to market focused to combination of both. It is a trial and error approach followed by many companies.

As most companies begin operations by creating a product or service and slowly keep adding new products, initially most companies have product focused organization structures, later companies realize that different markets require different types of products or strategies and customer requirements are different in different markets, then companies adopt market focused organization structures. Typically, FMCG companies use Product focused marketing organization structure,

Pharma companies (MNCs) use Market-focused marketing Organization structure. In organizations where there is clear specialization for different functions, functional type organization structure is used. IT services companies use functional-type marketing organization structures.

All business organizations have to consider the role of general marketing management and product management as part of their business management. There are 2 aspects to be considered namely (i) scope of responsibility and (ii) duration for which plans have to be made. One is the scope of responsibility. Often, product management's scope is narrow. Product manager is responsible for a single product or a product line. The decision making by such product managers is mainly tactical and hence for the short run. In general marketing management the scope of decision making and responsibility is long term and strategic in nature. What is the 2nd aspect to be considered? One is scope of responsibility and the other is duration for which plans have to be made. The role of product managers and product management changes depending on the type of organization structure in a company. There are 3 types of organization structures commonly adopted by companies. They are Product-focused, Market-focused and functionally focused.

Product-Focused Organizations As can be seen from Figure 1.11 in the product focused organization, the emphasis is on Product and everything else is centered around it. This is the classic “Brand Management” structure that Proctor & Gamble developed in 1930s, often seen in packaged goods companies but may also be adopted in other types of companies.

Features Product Manager Acts as a “mini-CEO”, takes responsibility for overall health of a brand/ product/ product-line. There exists a Well-Defined Hierarchy (i.e., Group Product Manager, Brand Manager, Assistant Brand Manager etc.) to give clarity on the authority of supervision and delegation of work.

Advantages Locus of responsibility is clear (directly accountable for brand), Invaluable training & experience for Product managers

Disadvantages Inability to ask fundamental questions (too close), Product manager may become somewhat removed from the action in the field and Short-term focused.



Fig 1.4 Product-Focused Organization

Market-Focused Organizations When the market can be clearly segmented on some basis and the needs of customers of different segments vary significantly, organizations adopt the market focused structure. Many telephone service provider companies use this structure as also do the pharmaceutical companies.

Features Defines authority by market segment, segments can be industry, channel, regions of the country or customer size. Useful when there are significant differences in buyer behavior among the market segments

Advantages Strong customer focus, easier to get product managers to ‘pull together’ and better knowledge of company’s line of products

Disadvantages Does not give managers full responsibility for products services (more coordination), product managers Lose ‘mini-CEO training’



Fig 1.5 Market-Focused Organization

Functionally-Focused Organization

Features Align themselves by functions (i.e., Advertising, Sales, merchandising). No single person is responsible for the day-to-day health of a brand. CEO & Vice Presidents (VP’s) make marketing strategy decisions. Strategies are implemented through discussion & coordination among functional groups

Manufacturing companies (typically having a smaller range of product variety) use this structure.

Advantages Administratively simple, functional training is strong. CEO & VP’s make important strategy decisions.

Disadvantages Limited responsibility for specific products, Conflicts between strategies can only be resolved through discussion – time consuming, narrow scope of managers – limits development

Functionally-Focused Organization



Fig 1.6 Functionally-Focused Organization

To Do Activity

Read about Coca-Cola Announcing New Organization Structure, January 19, 2017 in the below link

Source: <https://www.coca-colaindia.com/newsroom/coca-cola-india-announces-new-organization-structure#>

Table 1.5 Comparisons, Merits and Demerits of Different Types of Marketing Organization Structures

Product Focused	Market Focused	Functional Focused
<p>A product-focused business looks at its offerings and strives to improve them continually.</p>	<p>A market-focused business looks outside the company for the input and data necessary to make strategic and tactical decisions.</p>	<p>The functional organization structure uses the principle of specialization based on function or role. Here, the business activities are divided into smaller groups based on specialized functional areas viz. product development, marketing research, sales promotion and advertising, distribution etc</p>
<p>There is a zeal to make a product or service better, and the strategy of the business revolves around differentiation tied to product superiority. Product-focused companies are internally focused. They identify improvements and then look for opportunities where the customers desire the improvements</p>	<p>Market focus means understanding your customers. It means knowing competitors and anticipating their next strategy or tactic. Market focus also means knowing the overall dynamics and forces in the marketplace and understanding how those forces might affect the business. They identify opportunities and then capitalize on them.</p>	<p>For example, the common departments of business firm like human resources, accounting and purchasing are organized by separating each of these areas and managing them independently of the others and all report to managing director of that firm, who has responsibility for all of the operational areas</p>
<p>Merits Organizes products by category. Performance of firm's products can easily be evaluated and compared. Focus more on the specific products and customers. Reduces the operating decision-making burden of the top executive. Best suited to industries producing variety of products</p>	<p>Merits Easily identify the needs and wants of customers on regional basis. Save time and money by changing the products of the firm according to the needs and desires of customers. Enjoys all the advantages of functional type of organizations</p>	<p>Merits Functions are separated by expertise and according to the specialization; the division of work among the employees are executed. Strengthen specialized skills and resources and reduces duplication of scarce resources. Eases communication within a particular department and promotes application of expert knowledge.</p>

Product Focused	Market Focused	Functional Focused
Demerits Marketing activities may be duplicated by the different product groups. Can create problems for customers who purchase products across multiple product groups. The conflicts between the firm's corporate objectives and the	Demerits Requires employment of number of managerial personnel. Not fit for smaller organizations. Very difficult to formulate or follow an integrated policy for all regions	Demerits If the organization has a variety of different products or target markets, then this type of organizational structure can't be beneficial Lack of proper coordination among dissimilar functional groups. Short-term focus of routine task and promotes centralization and delay in taking decisions

Box 1.3 Market Focused Organization in Indian Pharma Companies

In early 2000's, Indian Pharma companies identified the rich potential of rural markets and created specific Rural Marketing divisions to ensure adequate focus and customized marketing strategies for rural markets.

Company	Rural Division	Number of Sales Persons	No. of States Covered	Turnover Achieved (Cr INR)
Ranbaxy	Rextar	80	10	40
Cadila	Explore	65	8	50
Alembic	Maxis	46	7	20
Lupin	GP division	85	10	38
Nicholas Piramal	Rural Care	80	9	42

The creation of market focused special divisions to cover rural markets enabled companies to recruit local people and train them as "medi-pracharaks" to create awareness in the community. Pharma companies began organizing health awareness and education activities such as "Aroya Jagriti Mela", "Swastha Mela". Further, product managers started innovating on the most appropriate gifts for rural doctors in order to serve as product reminders, boost business development or to thank doctors for their support. This focused approach resulted in significant market growth for the pharma companies.

Marketing Organizations have to continuously monitor changes in external environment, especially with reference to economic growth, new market and customer segments and modify their organization structures accordingly. There are examples of many organizations which have changed from product-focused structure to market-focused structure to cover the market better and serve newer customer segments. Organizations can even adopt other types of structures such as Matrix structure (adopted by High-tech services companies and some consumer goods companies too).

Matrix Structure

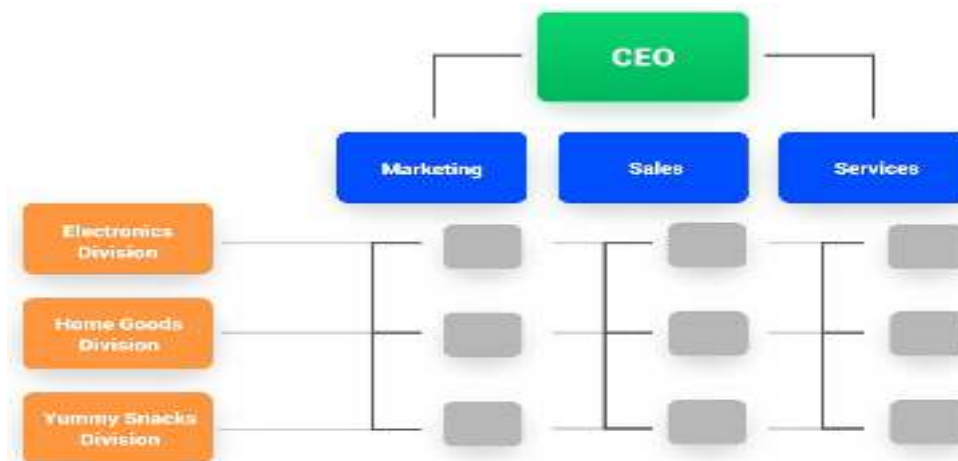


Fig 1.7 Matrix Structure

If you take a look at this marketing organization chart, you can see that this structure basically combines product focused and functional focused structures. The departments are defined according to both employee function and product. Usually one of the dividing criteria is less important, in this case, the product division. This type of double reporting is much easier to manage as you deal with much more information at a much greater rate. However, it might become quite difficult for employees to follow. Such a dis-orientation can lead to problems in communication and too much bureaucracy.

1.4 Product and Market Evolution

“Product evolution” is a term used by companies who have the vision to not only see a product idea, but how that product can evolve over time. It is essentially the mapping out the idea, often before the first product is even manufactured, with reference to what the future iterations of the product might be as it improves and grows. In a way it means looking beyond the basics of a product and anticipating its future advanced shape and features. It is not always possible for companies to predict “product evolution” as many companies try and prefer to keep pace with the changes in the market and try to adapt to those changes. However, some companies are highly proactive and are able to predict future customer behavior and plan for decades of product development.



Fig 1.8 Examples of Product Evolution

From Incandescent light to CFL to LED, is an example of how the Philips Company could change and modify products to suit changing customer/legal/ environmental requirements. This was done

through product evolution plans. It is vital that companies keep track of the changes in the market, customer requirements, competitor’s product plans, environmental, legal and social trends, create new products, and modify existing products in order to ensure a sustainable future for the organization.

To Do Activity

Read about “Product Evolution for Indian Markets Gillette Guard” and write a summary of it.

Market Evolution

Michel E Porter distinguishes between the following three broad stages in the evolution of an industry/ market

- Emerging industry
- Transition to Maturity
- Decline

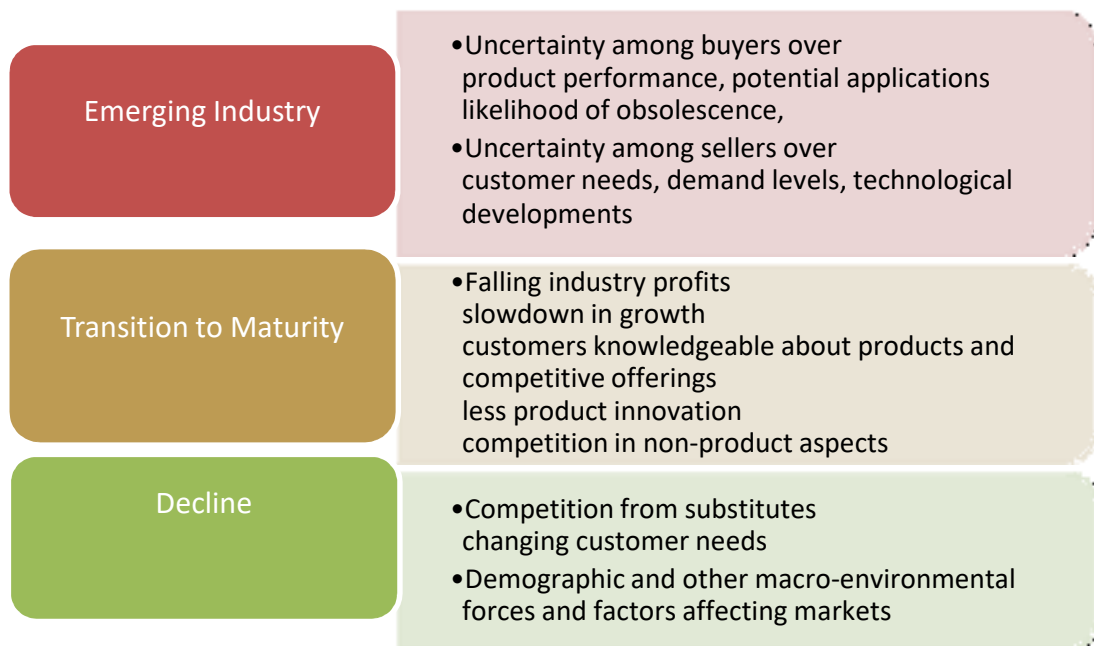


Fig 1.8 Broad Stages in the Evolution of a Market

Industry Evolution Stages

Each of these stages has its own peculiar characteristics, some of the more important of which are shown for each stage.

Porter then uses the characteristics of each stage to suggest the following strategies as being appropriate to each. Emerging industry Strategies developed to take account of industry competitive structure characteristics i.e.,

- Threat of entry
- Rivalry among competitors
- Pressure of substitutes
- Bargaining power of buyers and suppliers

Transition to maturity Strategies focused on

- Developing new market segments
- Focusing strategies for specific segments
- More efficient organizations
- Decline at this stage industries seek pockets of enduring demand
- Divest

This approach of classifying industries based on industry evolution stages is similar to the conventional concept of product life cycle analysis in identifying the stage, specifying the characteristics of each stage, and suggesting appropriate strategies for the stages. Porter has developed the notion of industry life cycle further by linking it to the 'strategic position' of the individual organization. Strategic position is categorized in terms of whether the individual organization is a leader or a follower.

Genetic engineering and biotechnology are examples of what Porter would classify as 'emerging' industries. At the moment in these industries there is substantial jockeying for position amongst the incumbents. Some organizations, however, are already emerging as leaders. For example, in genetic engineering, particularly in the area of food production, Monsanto is probably ahead in the field. A good example of an industry in Porter's stage of 'transition to maturity' is the market for cars in the West, which has seen companies such as Mercedes and Volkswagen paying more attention to developing new market segments.

It is not difficult to find examples of industries in Porter's 'decline' stage. The textile industry in the UK is probably a good example of this. Coates Viyella, a once major employer in the UK textile industry has recently pursued strategies of divestment while at the same time seeking pockets of enduring demand – just as Porter suggests.

To Do Activity

Read about "Evolved Market, Global Style Trends Redefine Denim In India, June 10, 2018, The Indian Express" and summarise it.

Box 1.4 Branding and Product Strategies to Be Successful in Rural Markets

By R V Rajan, Founder of Anagram Madison Advertising Pvt Ltd, In the Book, Don't Flirt with Rural Markets A Handbook for Rural Marketing, 2014

- Find a niche segment for your brand
- Develop a product which fills the need gap and satisfies local tastes
- Ensure that the packaging and pricing is right
- Use a communications Programme that creates an empathy in the minds of the customers
- Deliver the communications Programme through cost-effective local media
- Constantly monitor the competition and respond quickly with counter actions

Success stories of brands like Ghari detergents, Cavin are, who started with rural marketing and are now giving multinational brands a run for their money, proves the point. One can learn a lot from the success of regional brands in the country, which have not only withstood the competition from multinationals but are also holding the fort very well in their respective markets.

Product evolution and market evolution go hand-in-hand. The complexities of operating in rural markets also pose several challenges for companies, such as it would become very expensive for companies in certain capital-intensive industries to make unique products for rural markets especially if demand is not very high and does not justify product innovation for rural market. Companies that stay abreast of product and market changes in a very proactive manner can address the challenges effectively.

1.5 Product Life Cycle

If an organization is considering entering into any service industry or making any product, including growing specialty crops or raising livestock, knowing where the product or service is in its life cycle provides valuable information to plan how to position, price, promote and distribute the product in the market.

A product or service has a life of its own and goes through cycles. Although different products and services have different types of life cycles, they all go through a similar cycle of adoption and use. Typically, there are four stages that make up the life cycle. Each stage is different and requires marketing strategies unique to the stage. At times, one sees “product life cycle” or PLC in short used to describe a product’s expected life span, either with respect to daily use, maintenance, shelf life, warranty, etc.

Product Life Cycle

Introduction (Development) Stage

This stage involves introducing a new previously unknown product. Sales are small, the production process is new; cost reduction through economies of scale/size or scope, and the experience curve are not yet in play. All marketing is about acquainting buyers with the product. Pricing focuses on

enticing first-time buyers to try the product. Few people know of it, and it may be very difficult to sell without an attempt to marketing it.

Growth State

Sales rapidly grow; buyers have become acquainted with the product and are willing to buy it. New buyers continue to enter the market, partly due to positive feedback from the early adopters, and previous buyers come back as repeat buyers. People know the product by usage or know of it through users and would like to own one. It may be expensive, but it is desirable to be associated with or possess it.

Production may need to be quickly ramped-up and the business may require large capital and expertise infusions. Cost reductions occur as economies of scale/size are realized and the business becomes more efficient as management and production's experience curve develops. Oftentimes, profit margins are large; revised company structure, management and promotion, and pricing strategies follow to reflect the growth environment. Competitors may enter the market, but little rivalry exists, due to more-than-adequate expansion space within the rapidly growing market.

Mature Stage

The market is now saturated. Production has caught up with demand and growth precipitously slows. There are some first-time buyers, but most buyers are repeat buyers. Competition becomes intense, with aggressive promotion and pricing to capture or maintain market share. The product is now mainstream, people buy it and the organization can make the most of its acceptance by buyers / popularity and expect predictable returns.

Although experience curves and economies of size/scale and scope are fully in play, competitive pricing and perhaps related promotional programs often result in decreased profit margin. Companies may desperately try to differentiate their product from the competition, but products actually become more standardized to meet the over-arching demand within the competitive market for that one, established, well-recognized thing.

Decline State

More up-to-date products are of primary interest to purchasers or competition has resulted in a highly dilute market with intense rivalry among competitors. There are narrow profit margins and declining sales. Businesses adopt new product lines, rebrand/market, or leave the industry. This is the beginning of the end game and a pronounced "change event" for any business, ideally, the company has an exit or transition strategy in play.

Extending the Product Life Cycle

Once again, consider that all things, including our universe, has a life cycle. Inevitable change, if embraced instead of ignored, is a positive factor in the long-term survival of any project or business. Anticipating the product, marketing and risk-management associated with change, ensures the sustainability of the venture. Understanding how these concepts can increase efficiency and profitability and can help extend the life cycle of a business or product line. Another concept, too broad to cover here, is that of "creative destruction."

One of the first great thinkers on product life cycles, Theodore Levitt, in a 1965 article in the Harvard Business Review said, “The object is to suggest some ways of using the concept effectively and of turning the knowledge of its existence into a managerial instrument of competitive power.” To do that, it takes some long-range thinking and strategic planning about an organization’s role in the market. One that should include an exit strategy for your company at some point, safely before your product or service becomes costlier and irrelevant.

Extension strategies can include various strategic, innovative, and tactical strategies to extend the life of the product or service before it goes into decline. All considerations are very important since at each stage of a product or service’s life cycle, each management decision must consider the competitive requirements of the next stage of the cycle. This kind of planning helps avoid money-wasting debacles; for example, wasting money on ineffectual advertising campaigns, short-term catastrophic cost-reductions, or wasteful mergers or acquisitions would be unnecessary.

Design the planning around an orderly set of “sales-building actions.” To do this, review pricing, favorable and unfavorable marketing relationships and promotions. Consider how these issues weigh relationships with distributors and resellers. Re-branding and radical new marketing campaigns including highly targeted advertising can renew or expand interest in a “proven” product, or target an entirely new demographic arena. There are many examples where traditional production systems embraced radical new technologies to achieve unimagined economy of scale and price reduction to create renewed profitability and ensure market share.

Value addition can come in the form of increased expanded functionality or investment in new strategic alliances to exploit distribution or production through relationships that target untapped markets. Life-extension thinking enforces strategic and systematic planning. In general, having an active rather than a reactive product-management policy, structuring long-term marketing and product development efforts that center on product and marketing-review plans and decision-making timelines driven by that orderly set of sales-building actions; incorporating decision triggers that come into play at those points at which sales and profits decline to a particular level will help organizations to sustain the life of products.

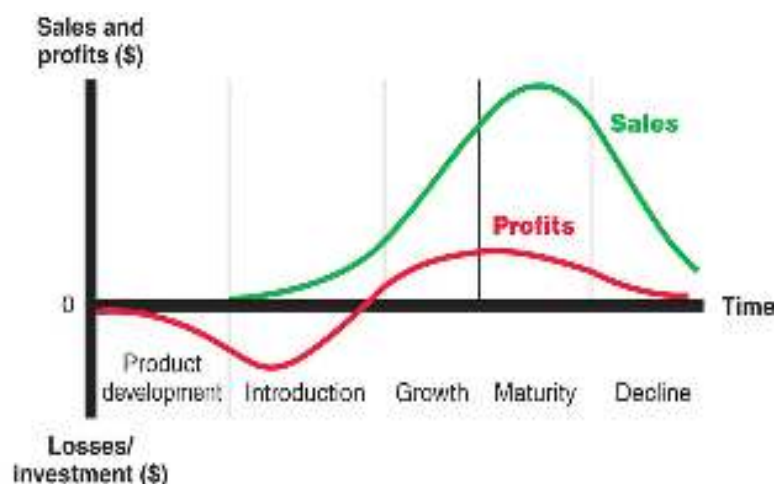


Fig 1.9 Product Life Cycle

Source <https://marketing-insider.eu/product-life-cycle-stages/>

Table 1.6 Stages of Product's Life Cycle and its Characteristics

Stage	Characteristics
Market introduction Stage	<p>Costs are very high</p> <p>Slow sales volume initially</p> <p>Little or no competition</p> <p>Demand has to be created</p> <p>Customers have to be prompted to try the product</p> <p>Makes no money at this stage</p>
Growth Stage	<p>Costs reduced due to economies of scale</p> <p>Sales volume increases significantly</p> <p>Profitability begins to rise</p> <p>Public awareness increases</p> <p>Competition begins to increase with a few players in establishing market</p> <p>Increased competition leads to price decreases</p>
Maturity Stage	<p>Costs are lowered as a result of production volumes increasing and experience curve effects</p> <p>Sales volume peaks and market saturation is reached</p> <p>Increase in competitors entering the market</p> <p>Prices tend to drop due to the proliferation of competing products</p> <p>Brand differentiation and feature diversification is emphasized to maintain or increase market share</p> <p>Industrial profits go down</p>
Saturation and Decline Stage	<p>Costs become counter-optimal</p> <p>Sales volume decline</p> <p>Prices, profitability diminish</p> <p>Profit becomes more a challenge of production/ distribution efficiency than increased sales</p>

To Do Activity

- **Lifebuoy Life Cycle**
- Divide the class in to groups
- Provide them the below links and ask them to analyse the Lifebuoy Cycle and make a presentation Group wise.

<https://www.theindiantalks.com/uncategorized/product-life-cycle-lifebuoy/32956/>

<https://www.thehindubusinessline.com/companies/six-hindustan-unilever-brands-cross-2000cr-sales-milestone/article8687420.ece>

Summary

Different categories of products witness different lifecycles. In technology products such as mobile phones, the advances in technology dominate the market and product lifecycle. Several companies such as BlackBerry, Nokia Micromax have tried to adopt these technological changes. Some companies seem to be more successful than others such as Apple in the mobile technology market.

In consumer products, the pace of change is slower than technology products. With relevant product modifications and changes in marketing strategies, it is possible to revive declining product life cycles.

Model Questions

1. Define product Elucidate the different levels or stages of a product?
2. Differentiate between augmented and potential product with an example from a rural setting?
3. "An FMCG company targeting rural products should have good product width and depth" Justify this statement?
4. "The functional focused structure is not suitable for consumer companies targeting rural markets", comment on this statement
5. "Market focused structure is better suited for FMCG companies targeting rural consumers". Justify this statement
6. "A combination of product and market focused structure is best suited to target Indian rural markets". Comment on this
7. Which type of structure is suitable for a services provider such as rental taxis in rural Indian markets?

References

1. "Masters of Rural Markets From Touchpoints to Trust points - Winning over India's Aspiring Rural Consumers 2014), Accenture Research, available at https://www.accenture.com/in-en/_acnmedia/597E512993C24B218EBF43F999278A50.ashx accessed on 31-8-2018.
2. <https://www.agmrc.org/business-development/getting-prepared/business-and-economic-concepts-and-principles/product-life-cycle>
3. Marketing Management, Philip Kotler, 1969, Prentice Hall, ed States, ISBN 0130336297
4. Marketing to rural India, Sunday Dewar, July 13, 2013, https://www.business-standard.com/article/management/marketing-to-rural-india-113070700506_1.html, accessed on 31-8-2018
5. Nestle, Glaxo focus of rural specific products, Seema Sindhu, Jan 20, 2013, https://www.business-standard.com/article/management/nestle-glaxo-focus-on-rural-specific-products-110012800030_1.html
6. Porter, M. (1980). Competitive Strategy Techniques for Analyzing Industries and Competitors, The Free Press.
7. Pramod Patil (2013). Rural Marketing Environment published by Golden Research Thoughts Volume 2, Issue 11, ISSN 22315063. p.2 – 3
8. Product evolution <https://www.productevolution.org>
9. Product management, Donald R Lehmann and Russell S Winer, forth edition, 2005, The McGraw-hill Companies

10. Product management, Donald R Lehmann and Russell S Winer, fourth edition, 2005, The McGraw-Hill Companies
11. Secrets of successful rural marketers', Rajeshwari Sharma , First Published Wed, Mar 25 2009. 11 01 PM IST, Updated Wed, Mar 25 2009. 11 01 PM <https://www.livemint.com/Companies/Njjo65ppDi3pG1kAvfHvYN/Secrets-of-successful-rural-marketeers.html>
12. The rural marketing book, Pradeep Kashyap, S. Raut, Biztantra, 2016

Chapter 2 Introduction to Competitive Structure

Poor firms ignore their competitors
Average firms copy their competitors
Winning firms lead their competitors
-Philip Kotler

Introduction

Knowing, understanding the competition is critical to compete in the market. A company must constantly compare its products, prices, places and promotion with those of its competitors. In this way, it can identify areas of competitive advantage and disadvantage. The company can launch more precise strategies to tackle its competitors as well as prepare stronger defences against attacks, sometimes competitor can become a partner too.

Basic Questions to ask

1. Who are our competitors? Who are not our competitors yet but they can be? (why they are not competing now?)
2. What are their objectives?
3. What are their marketing mix strategies?
4. . What are their strengths and weaknesses?

Analyze competitors' ability to

- Conceive and design new products
- Produce the product or deliver the service
- Market their products
- Finance
- Manage



Fig 2.1 Analysing Competition

2.1 Defining Competition

Different Ways of Analyzing Competition

- **Supply-based approaches** Classify competitors based on objective attributes.
- **Demand-based approaches** Classify competitors based on customer attitudes and behaviors.
- **The Product-Industry Hierarchy** identifies four levels of competition from a customer's perspective
- **Product form competition** narrowest form, includes products of the same product type.
- **Product class/category** competition products with similar features that provide the same basic function.
- **Generic** competition products that fulfill same basic need.
- **Budget** competition products that compete for the same discretionary budget rupees/money

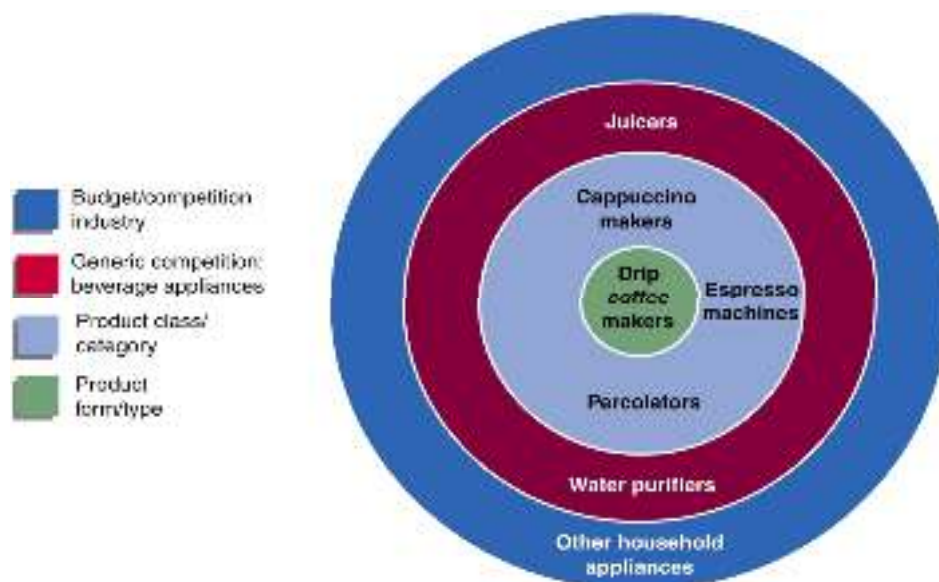


Fig 2.2 Four level model of Competition

Four-level model of competition implies different tasks for each competitive level

- Product form competition aim marketing activities at direct competitors.
- Product class/category competition convince customers that your product form is best in the category.
- Generic competition convinces consumers of the superiority of your product category's ability to satisfy needs over other categories.
- Budget competition same challenge as with generic competition.

Analysing competitors on Strengths and Weaknesses Dominant, Strong, Favorable, Tenable Sustainable, Weak, Non-viable

Table 2.1 Customer's Ratings of Competitors on Key Success Factors

	Customer Awareness	Product Quality	Product Availability	Technical Assistance	Selling Staff
Competitor A	E	E	P	P	G
Competitor B	G	G	E	G	E
Competitor C	F	P	G	F	F
Note E = excellent, G = good, F = fair, P = poor.					

Example from Rural FMCG Market

Rural growth - Most FMCG categories are growing faster in rural as compared to urban India. This growing importance of rural India will also mean that regional players and categories with a strong regional franchise will influence marketing plans. As these categories expand, they will influence the way adjacent categories and emerging alternatives will seek to market themselves. Innovation Imperative – Innovation is imperative in the FMCG category today. Differentiation is the key. Product life cycles are getting shortened given the highly competitive scenario. There is therefore a very strong thrust on innovation in the FMCG space across various aspects ranging from brand proposition, packaging, communication, consumer in sighting to pricing.

FMCG companies are constantly re-engineering their offerings on the innovation plank with the objective of serving the evolving needs of the consumer. Some of the examples in the innovation space include the launch of Goodnight Advanced Activ+ and Good Knight Advanced Low Smoke Coil. After the success of these products, The latest product launch in June 2018, "COOL GEL" is a gel/ cream-based, on-skin application segment where Odomos is a tough competitor.

According to Ankur Kumar, VP-Marketing, Godrej Consumer Products Ltd, out of the 28 crore households across India, almost 50 per cent don't use any kind of preventive methods to keep mosquitoes at bay. "The situation gets more problematic the moment we step into rural India. Out of the 18 crore (approx.) households in rural and far-flung areas of India, close to 10 crore are still not in a habit of using any form of preventive methods", Kumar stresses on adapting preventive methods as a habit for consumers and thinks that it will eventually pave the way for the brand to ensure the scripting of rural success. "We are speaking to the masses (rural India) through this product," he adds. The 14ml 'Weekly Consumption Pack' is priced at Rs 10 and has been created specifically keeping the rural Indian population in mind. The 50ml tube (Monthly Consumption Pack) has a price tag of Rs 45. (Source: http://www.afaqs.com/news/story/53048_Goodknight-woos-rural-consumers-with-Cool-Gel)

To Do Activity

Read, Discuss and present in groups on “Titan to Fight Competition, Corner Rural Markets with Below Rs 300 Watches

Link for Reference: <https://www.livemint.com/Companies/vwNSIb8v7LpLuwkLbXZcJM/Titan-to-fight-competition-corner-rural-markets-with-below.html>

2.2 Category Attractiveness Analysis

An essential component of the marketing planning process is an analysis of a product’s potential to achieve a desired level of return on the company’s investment. Thus the category analysis is done to define the set of competitors against which one most often competes on a daily basis. Analysis of this type not only assesses financial opportunities but also provides ideas about how to compete better under the given structural characteristics of the category. The characteristics of a product category rarely point in the same direction. Consequently, the categories that some firms find attractive will be of little interest to others.

Product categories are groups of products that offer similar benefits. The idea is to consider products part of a group or groups of products that do the same things for customers. The advantage of incorporating benefits into thinking about product categories is to define the benefits that make up the product category. And because, in all likelihood, the other firms included in the product category will be pursuing the same customers, thinking about the product category in terms of benefits also helps identify current and potential competitors.

Category Size

Category Size is an important determinant of the likelihood that a product will generate revenues to support a given investment. That is why, in general larger markets are better than smaller ones. Besides having more market potential, large categories usually offer more opportunities for segmentation than smaller ones. Therefore, both large firms and entrepreneurial organizations might find large markets attractive. Large markets however tend to draw competitors with considerable resources thus making them unattractive for small firms.

Product Sales

The most commonly used measure of category size would be how much product was sold in the category. Product sales may be measured in units or in rupees. The decision on which to use may rest in part with the role of price in sales. If prices among competitors in the category are relatively similar or if prices do not vary much due to negotiation or discounts, then either sales or dollar sales are appropriate measures of category size. However, if prices fluctuate or cover a broad range among legitimate competitors, then sales may be a better measure of category size. By either measure, large category size does not automatically equate to an attractive category. Large categories may have attracted large competitors, which may require large resources to get in or stay in. If so,

companies eyeing these opportunities must have something compelling to offer customers and they must have the resources to promote and distribute it. If the category is crowded, they must also have the ability to cut price, because large crowded categories compete with discounts until some weaker competitors are shaken out.

Number of Customers

A more unusual take on category size is the number of customers who actually purchase in the category. This take on category size intersects with the notions of market and sales potential, as customer valuation, all of which we will cover later. However, the simple truth that not all customers are equally valuable to companies. The question from a category size perspective is whether less valuable customers can be made into more valuable customers. If the overall number of customers and the proportion of them that are not particularly valuable are both relatively high, then this measure of category size may be useful.

Category Growth

While analyzing the category growth as a crucial factor, it has to be remembered that fast growing categories are almost universally desired due to their ability of support high margins and sustain profits in future years. However, the faster the growth the category has, the higher is number of the competitors the category is likely to attract.

Calculating Category Growth. The formula for calculating a growth rate is straight forward enough and is given by the simple formula below where t represents the current time period.

$$\text{Growth in Sales} = \frac{\text{Sales}_t - \text{Sales}_{(t-1)}}{\text{Sales}_{(t-1)}} \times 100$$

The formula calculates what percentage category sales have grown from the previous to the current period. Importantly, the chosen for t depends on the circumstances. Usually with category growth, managers rely on years, however, quarterly or even monthly sales data may also be useful. Whatever is chosen, a single growth calculation will not paint a good picture of what's happening in the category. At least three periods of growth calculations are necessary to even imagine a trend and even this is not much data. Ten years would be closer to a satisfactory amount. This way growth can view over a longer period to see whether any observed trends are likely to be transitory.

Stages in Product Life Cycle

This makes a very interesting stage of the category attractiveness analysis. In the introductory phase, both the growth rate and the size of the market are low, thus making it unattractive for most potential participants. When market growth and sales start to take off, the market becomes more attractive. In the maturity phase the assessment is unclear; while the growth rate is low, the market size could be at its peak. This is a classic pattern for many consumer-packaged goods (esp. eatables). However, the phases do not guarantee the category attractiveness. While the introductory phase despite having low growth rate can be attractive for a participant with long-term perspective, the growth stage can very easily witness failure.

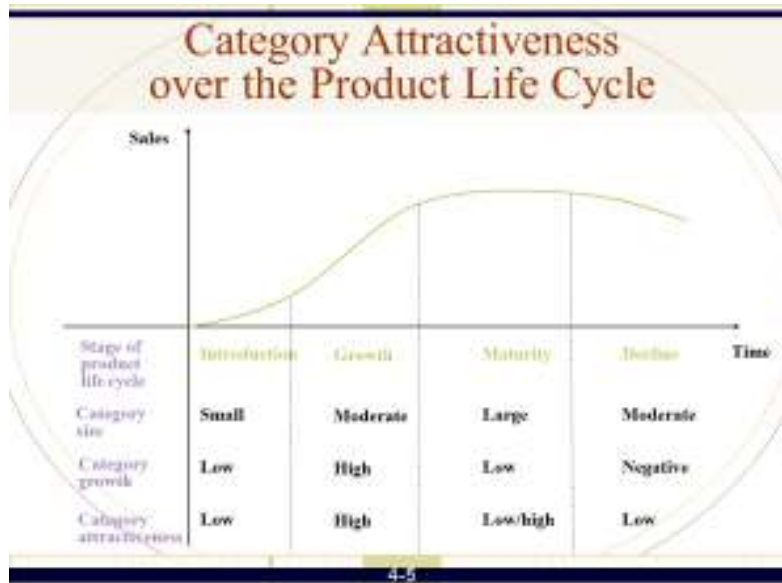


Fig 2.2 Category Attractiveness Over the Product Life Cycle

In the development stage, the product is not yet available for sales so to the market, the category does not yet exist. To the developing firm (or firms) it does exist and it is already losing money in the absence of any sales.

Once the product is introduced, sales begin. At this stage, there may be only one brand in the category (called the category pioneer) but that usually does not last long. Before the end of the introduction stage, competitive brands may already be entering the category. Note that across all brands, the category still loses money. Launching new products requires significant investment and sales will be awhile catching up. In the growth stage, category sales start to increase at an increasing rate. This is because, if the product is catching on with consumers, many competitive brands may jump in. Their combined sales push the category sales curve up rapidly. Losses reach their low point at the start of the growth stage. Early entrants are starting to recoup their investments and so losses moderate. The category usually becomes profitable at some point in the growth stage.

Category growth remains positive but begins to slow during the maturity stage. Profits also begin to rise. During this stage, brands that did not really catch on begin to close. Customers of these firms switch to surviving brands, making them more profitable. Both category sales and category profits reach their high points in the maturity stage.

In a well-established category, the cost of selling should be relatively low, meaning that firms milk their brands for cash during this stage. Eventually category sales begin to drop. More firms begin to leave the category or close as they cut their losses. Perhaps they are turning to whatever product or technology that will replace the current category. Overall category profits may begin to fall, but for strong surviving firms, this stage may remain profitable for some time. Thus, for the overall category, sales and profits may be declining, but for the category leader or leaders, the category may still be producing solid results. Of course, at some point this will begin to fall off, even for the leaders. With good planning, that eventuality need not be traumatic to these firms. The point to the PLC is to illustrate that categories experience periods of rapid growth, slow growth, and similar periods of

decline. For firms seeking to enter categories, the category's position along the PLC will do much to predict future growth opportunities.

Table 2.1 Attractiveness of Market Variables

	Attractiveness	
	High	Low
Market size	+	-
Market growth	+	-
Sales cyclicality	-	+
Sales seasonality	-	+
Profit level	+	-
Profit variability	-	+

High capital-intensive businesses suffer through peaks and valleys of sales as GDP varies. Agricultural goods vary in accordance with the rainfall and similar natural phenomena. Such a category would obviously not be considered to be attractive.

Profits While profits vary in products and brands in category, large inter-industry differences also exist. The higher the profit margin, the higher is the category attractiveness for the potential participants in that category

Porter's 5 forces analysis can be applied to assess category attractiveness.

- Threat of new entrants
- Bargaining power of buyers
- Bargaining power of suppliers
- Current category rivalry
- Pressure from substitutes
- Category capacity

Environmental factors to be considered Technological, Political, Economic, Regulatory and Social

Category Capacity

As economic theory describes, over time supply and demand try to match each other in what economists refer to as equilibrium. Equilibrium occurs when supply just matches demand at a price that just clears the market with no surplus and no unmet demand. In the real world, of course, this does not happen except when considered in the long term.

Buyer bargaining power is high when Product bought is a large percentage of the buyer's cost. Product bought is undifferentiated. Buyers earn low profits. Buyer threatens to backward integrate. Buyer has full information. Substitutes exist for the seller's product or service.

Supplier bargaining power is high when Suppliers are highly concentrated, that is, dominated by a few firms. There is no substitute for the product supplied. Supplier has differentiated its product or built in switching costs. Supply is limited.

To Do Activity

Read about “Attractiveness of Different Product Categories in Rural India” in the below link

<https://www.exchange4media.com/marketing-news/brands-see-big-markets-in-small-towns-89568.html>

2.3 Competitor Analysis

Competitor analysis is a critical part of a firm’s activities. It is an assessment of the strengths and weaknesses of current and potential competitors, which may encompass firms not only in their own sectors but also in other sectors. Directly or indirectly, competitor analysis is a driver of a firm’s strategy and impacts on how firms act or react in their sectors. Gluck, Kaufman and Walleck (2000) showed that competitor analysis is one of two components that give a firm a strong market understanding. This drives the formulation of a strategy and it applies whether a firm formulates a strategy through strategic thinking, formal strategic planning, or opportunistic strategic decision making. Competitor analysis, together with an understanding of major environmental trends, is a key input in strategy formulation and should be developed properly.

Competitor analysis in marketing is an assessment of the strengths and weaknesses of current and potential competitors. This analysis provides both an offensive and defensive strategic context through which to identify opportunities and threats. Competitor profiling coalesces all of the relevant sources of competitor analysis into one framework in the support of efficient and effective strategy formulation, implementation, monitoring and adjustment. Given that competitor analysis is an essential component of corporate strategy, it is argued that most firms do not conduct this type of analysis systematically enough. Instead, many enterprises operate on what is called “informal impressions, conjectures, and intuition gained through the tidbits of information about competitors every manager continually receives.” As a result, traditional environmental scanning places many firms at risk of dangerous competitive blind spots due to a lack of robust competitor analysis.

The key questions to be asked are depicted in a sequential manner. Data of three types can be collected.

Recorded Data This is easily available in published form either internally or externally. Good examples include competitor annual reports and product brochures.

Observable Data This has to be actively sought and often assembled from several sources. A good example is competitor pricing.

Opportunistic Data To get hold of this kind of data requires a lot of planning and organization. Much of it is “anecdotal”, coming from discussions with suppliers, customers and, perhaps, previous management of competitors.

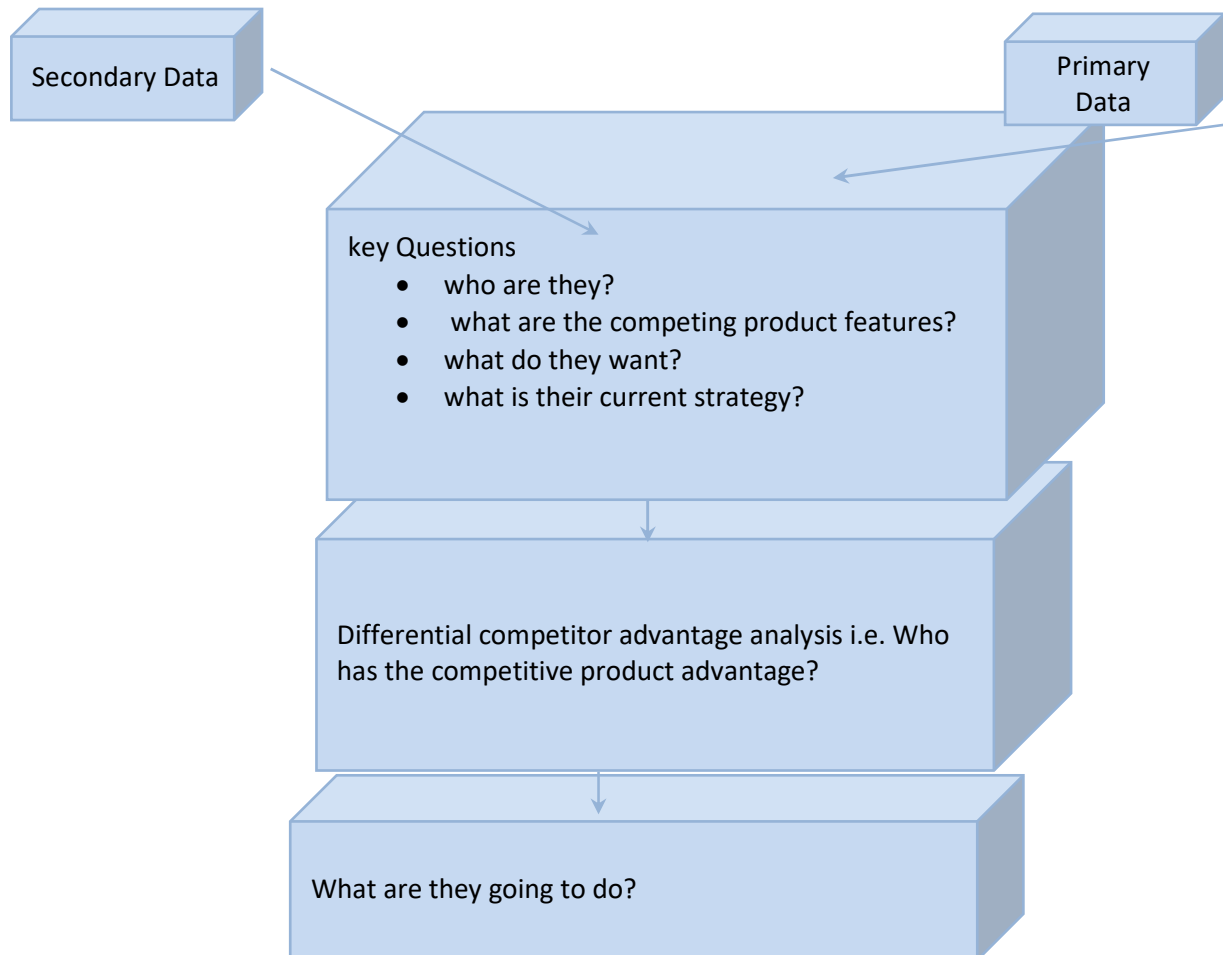


Fig 2.3 Steps in Data Collection

Table 2.2 Possible sources of competitor data using Davidson’s categorization

Recorded data	Observable data	Opportunistic data
Annual report & accounts	Pricing/ price list	Meetings with suppliers
Press releases	Advertising campaigns	Trade shows
Newspaper articles	Promotions	Sales force meetings
Analysts reports	Tenders	Seminar/ conferences
Regulatory reports	Patent applications	Recruiting ex-employees
Government reports		Discussion with shared distributors
Presentations/ speeches		Social contacts with competitors

Assessing Competitors Strategies

Marketing Strategy comparing value chains, marketing mix (Pricing, Promotion, Distribution and Product/Service capabilities)

Technology Strategy Technology selection or specialization, Level of competence, Sources of capability internal versus external, R&D investment level, Competitive timing initiate versus respond, R&D organization and policies.

Competitors' Information to be collected Ability to conceive and design, Ability to produce, Ability to market, Ability to finance and Ability to manage

Table 2.3 Differential Competitor Advantage Analysis

Critical Strategic Factors	Rivals/Products					Our Product
	A	B	C	D	E	
1						
2						
3						
4						
5						
Overall Rating						

Method of Analysing Competitors Strategies

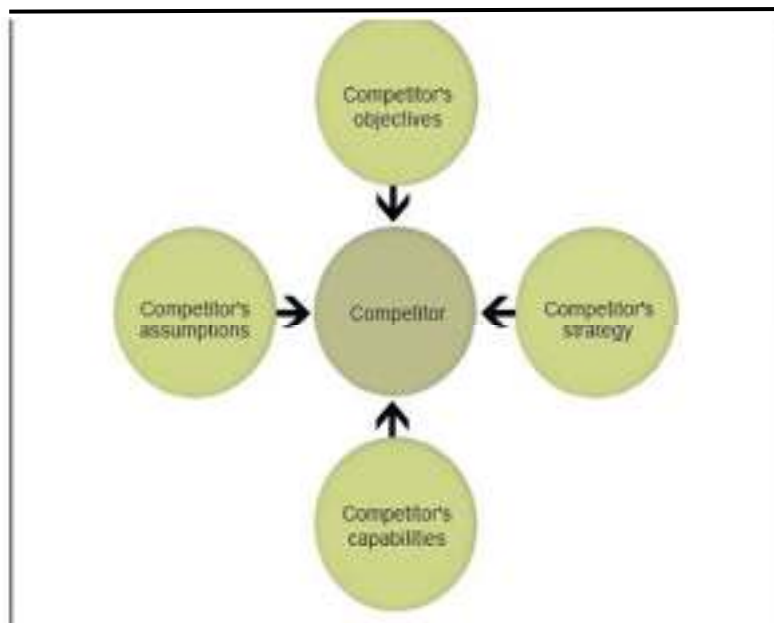


Fig 2.4 Porter's Framework

Michael Porter has defined a competitor analysis framework that focused on four key aspects (Porter, 1980 cited in netmba.com) competitor's objectives, competitor's assumptions, competitor's strategy, and competitor's resources and capabilities. These four aspects of competitor analysis are the areas critical for a firm to understand and they should pursue this knowledge not only for current competitors but also for other potential competitors in the business.

This framework is broken into two parts. The competitor's objectives and assumptions drive the competitor while the competitor's strategy and resources and capabilities define what the competitor is doing or is capable of doing. Together, these four aspects define a competitor response profile which gives the firm an understanding of what actions a competitor may take. Taking this analysis across a firm's key competitors will give the firm a viewpoint on where the sector is heading, and provides the firm with a basis for developing their strategy and actions.

To Do Activity

Read about "**Competitor Analysis of Pesticides in Gujarat**" in the below link.

<http://krishikosh.egranth.ac.in/bitstream/1/5810040647/1/71208%20Vaghela%20Ullash%20B%20mBA%20.pdf>

2.4 Customer Analysis

The term 'consumer' is used to describe two different kinds of consuming entities: one, personal consumers and second, organizational consumers.

Customer segmentation means analyzing our customers and identifying groups of individuals with similar requirements, preferences or competencies. This helps us to tailor our services to ensure that we are inclusive and meet the requirements of all of our customers. Understanding more about our customers helps us to design and deliver appropriate clusters of services in ways that are most convenient for different groups. It can also help us to deliver services in more effective and efficient way Also, it is the practice of dividing a customer base into groups of individuals that are similar in specific ways relevant to marketing, such as age, gender, interests, spending habits, and so on. Segmentation allows companies to target groups effectively, and allocate marketing resources to best effect.

Customer segmentation procedures include deciding what data will be collected and how it will be gathered; collecting data and integrating data from various sources; developing methods of data analysis for segmentation; establishing effective communication among relevant business s (such as marketing and customer service) about the segmentation; and implementing applications to effectively deal with the data and respond to the information it provides.

Information required about current and prospective customers

- Who buys and uses the product?
- What customers buy and how they use it
- Where customers buy
- When customers buy
- How customers choose
- Why they prefer a product
- How they respond to marketing programs
- Will they buy it (again)?

Criteria for Customer Segmentation

Market segmentation is done on the following lines based on Consumer Behavior. The behavior adopted by consumers display in searching for, purchasing, using, evaluating and disposing of services and ideas.

Segmentation-Customer segmentation means analyzing our customers and identifying groups of individuals with similar requirements, preferences or competencies

1. **Geographic factors** Geographic segment is for the region like South, North, West and East of the country. Each region has its own peculiarities in customer needs and therefore consumer behavior too is different for each. In each region, there are Metro large areas, large cities and smaller towns, besides villages. Urban, semi-urban and rural divide provides a market segment.
2. **Demographic factors** Demographic segment is by age, sex, marital status, income, education and occupation. Age segment is important as with growing population of senior citizens and a large teenage group, product needs for these segments are increasing. Health care products and vacation time products are needed for elder citizens. Teens frequent coffee bars, discos and video game parlours. Income separates people in their buying pattern and product groups. Marketers can decide to cater to one income group or the other, make products needed by them and then advertise in the media those that are most seen and read. Low cost readymade garments for low-income segment can be advertised best on radio and local language press. Male and female customers have some specific products for each, like shaving creams for men and lipstick for women. With age, the use of cosmetics change for women and marketers can make use of this change by offering products of their need.
3. **Psychological factors** People's needs like shelter, food, safety, affection and self-actualization makes for different segments. These are the hierarchy of needs as per Maslow. Psychological/Psychographic segment divides customers around their mindsets.
4. **Socio-cultural factors** Family, society, culture and sub-culture affect customer behavior. The needs of bachelors/spinsters vary significantly from married people. In the same manner, nuclear families, joint families have different requirements. The stage and age in life has significant impact on products/services required by customers. Sub-culture in India is very diverse as there are several sub cultures in different parts of the country based on region, religion etc. Companies such as Amazon.in and flipkart.com create targeted sales strategies for Diwali and they are hugely successful in both urban and rural India.
5. **Use related Customers** use different products with different frequencies. Airlines and other organizations create reward points and frequent user benefits to encourage customers to use more of the same services.
6. **Benefit segment** Benefit segmentation is dividing the market based upon the perceived value, benefit, or advantage consumers perceive that they receive from a product or service. Firms can segment the market based upon quality, performance, customer service, special features, or other benefits. Often, different grades of the same product are offered to different market segments. Many different businesses use this type of segmentation, including the auto, clothing, furniture, and consumer electronics industries.
7. **Combination of some of the above-mentioned factors** Almost all organizations use a combination of different types of segmentation to be successful in the market and make the offering attractive to a wide range of customer segments.

Desirable Criteria for Segmentation

A market segment should be

- **Measurable** Market segments are usually measured in terms of sales value or volume (i.e. the number of customers within the segment). Reliable market research should be able to identify the size of a market segment to a reasonable degree of accuracy, so that strategists can then decide whether, how, and to what extent they should focus their efforts on marketing to this segment.
- **Substantial** Simply put, there would be no point in wasting marketing budget on a market segment that is insufficiently large, or has negligible spending power. A viable market segment is usually a homogenous group with clearly defined characteristics such as age group, socio-economic background and brand perception. Longevity is also important here. No market segmentation expert would recommend focusing on an unstable customer group that is likely to disperse, or change beyond recognition within a year or two.
- **Accessible** When demarcating a market segment, it is important to consider how the group might be accessed and, crucially, whether this falls within the strengths and abilities of the company's marketing department. Different segments might respond better to outdoor advertising, social media campaigns, television infomercials, or any number of other approaches.

Differentiable

An ideal market segment should be internally homogeneous (i.e. all customers within the segment have similar preferences and characteristics), but externally heterogeneous. Differences between market segments should be clearly defined, so that the campaigns, products and marketing tools applied to them can be implemented without overlap.

Actionable

The market segment must have practical value – its characteristics must provide supporting data for a marketing position or sales approach, and this in turn must have outcomes that are easily quantified, ideally in relation to the existing measurements of the market segment as defined by initial market research.

To Do Activity

Read about “**Accenture Research on Rural Indian Customer Segmentation and Changing Customer Behavior of Rural Consumers**” in the below link:

https://www.accenture.com/t20160203T072131__w__/in-en/_acnmedia/Accenture/Conversion-Assets/DotCom/Documents/Global/PDF/Dualpub_24/Accenture-Rural-India-Markets-Research-2015.pdf

Table 2.4 Rural Consumer Spending

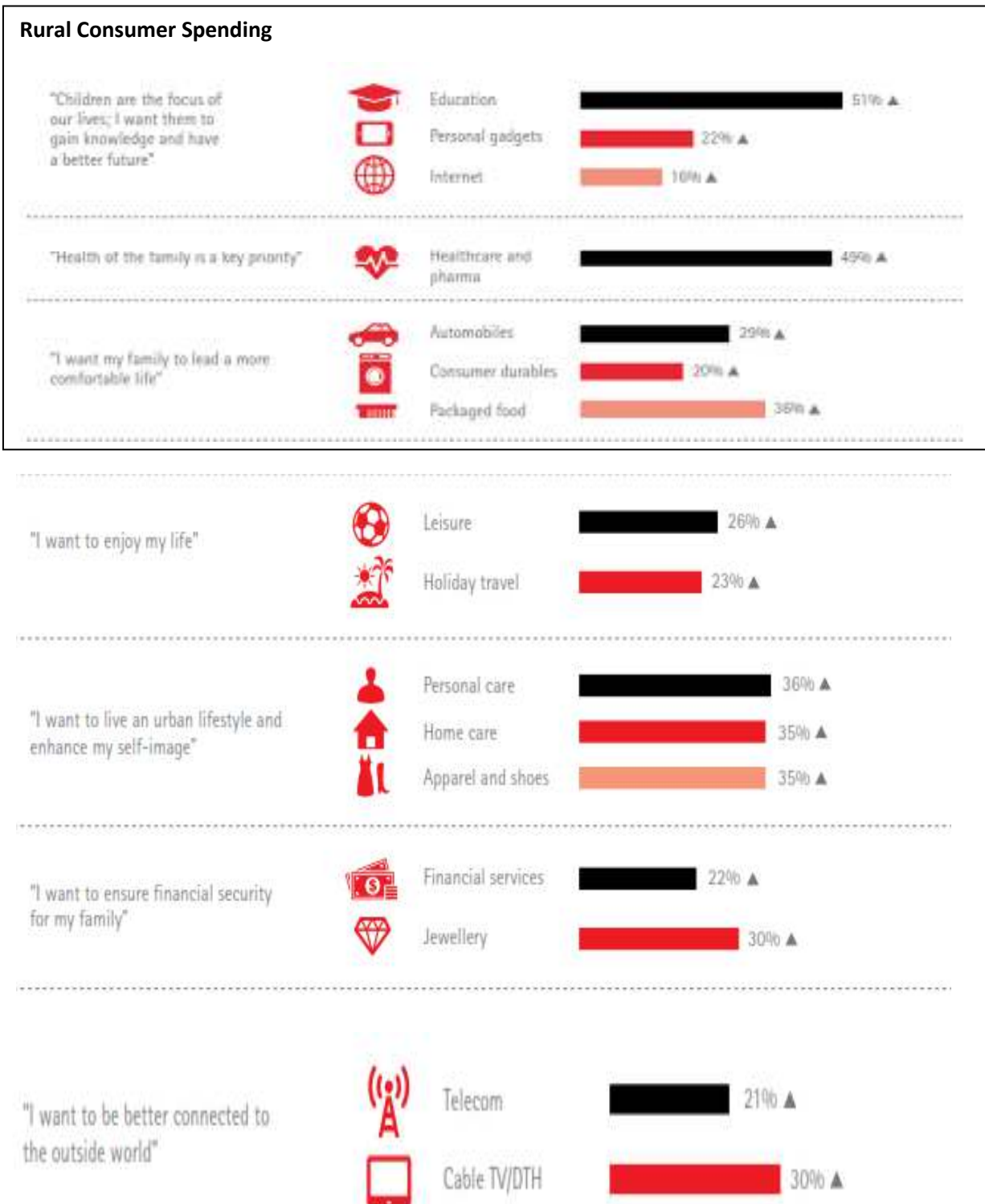


Table 2.4 Different Types of Consumers

<p>Traditionalists are the conservative rural consumers that rely on conventional channels to make their purchase decisions. Necessity drives most of their purchase decisions and they typically select the cheapest offerings available, even if that means compromising on features and aesthetics. Many have harsh lives; thus, they approach buying decisions very cautiously.</p> <p>As an expression of their caution, many still feel more comfortable buying from local, well-known shopkeepers than from formal retail stores. Some may understand that branded products may be higher quality, but any affinity they have for such offerings is constrained by their ability to pay.</p> <p>They often look to friends and family to source information and validate their choices. Traditionalists have minimal education and limited exposure to digital channels.</p>	<p>Steady Climbers want a more comfortable lifestyle. They want to enhance their social standing among their peers, and strive to do so by buying branded products and offerings from categories such as consumer durables, mobile phones and four-wheelers. Like Traditionalists, many are semi-literate and have limited exposure to the Internet. As with members of the rising middle class in urban centers, their newly increased spending power has them experimenting with new product categories and brands. Most of them are members of closely-knit families who value and respect the opinions of spouses, children and elders living in the household. Indeed, these consumers invest in their children's education to ensure the family's continued survival and upward mobility.</p>	<p>Young Enthusiasts, rural consumers aged 18-28, make extensive use of mobile devices to access the Internet, and they buy branded products to enhance their social standing. Their key motivations behind their spending choices are the desire to live like their urban counterparts while also communicating their unique identity. For them, a brand's image speaks volumes about their social standing among their peers.</p> <p>As they are more digital savvy, they powerfully influence one another as well as consumers in other segments who look to Young Enthusiasts' opinions about and experiences with products to make purchase decisions.</p>
--	--	--

2.4 Strategies to Deal with Competition

Every business has competitors. Understanding and countering competitors' actions forms a core activity for product managers. The first step is to understand competitors' objectives. The company has to make efforts to understand what drives each competitor's behavior. Normal micro-economic assumption is that every firm attempts to maximize their profits. However, in actual practice, companies differ in the weights they put on short-term versus long-term. Hence, each firm pursues a mix of objectives, current profitability, market share growth, cash flow, technological leadership, service leadership, etc... with different weights attached to them. A critical step in a competitor analysis is to assess what the current objectives are for the major competitor products. An assessment of current objectives provides valuable information concerning the intended aggressiveness of the competitors in the market in the future. It also provides a context for assessing the capabilities of competitors, i.e., does the firm marketing brand A, have the resources to successfully pursue such an objective?

When discussing objectives, it is important to define them precisely for many different types of objectives that exist. In the context of marketing planning, three basic business objectives can be identified.

1. **Growth Objective** A growth objective usually implies increasing sales or market share, with profit conditions being secondary.
2. **Hold Objective** The hold objective could also be termed as a consolidation objective. A hold scenario might be logical for a brand that is losing market share in that a reasonable first step in reversing its fortunes is to stop the slide.
3. **Harvest Objective** Finally, a harvest objective, also referred to as milking, describes a situation in which profit is paramount relative to market share. At the corporate level, return on investment or other, more aggregate statistics becomes more relevant.

Second Step is to Assess Competitors' Current Strategies

Resourceful competitors revise their strategy through time. Companies have to monitor the strategies of companies that fall in their strategic group more closely. A group of firms following the same strategy in a given target market is called a strategic group. A company needs to identify the strategic grouping in which it competes. It has to monitor efforts of even potential new entrants into this strategic group. Also, it has to monitor efforts of companies in adjoining strategic groups.

The two elements of a strategy are the segments it appeals to and the core strategy. For industrial products, both can be easily determined by examining three sources of information product sales literature, the company's own sales force, and trade advertising. The former provides information about the core strategy because brochures usually detail the point of difference, the competitor wants to emphasize. Even if the sales literature does not present a product features chart, it should indicate the brand's major strengths. Physical brochures are not often needed today; most industrial firms websites provide a wealth of technical and positioning information that help to determine the core strategy. A firm's own sales force can provide some data concerning targeted companies or industries, much of it resulting from informal contacts, trade show discussions, and the like. Finally, differential advantage being quoted. One can determine the differential advantage directly from the ad copy and the target segments at least partially by the location (publication) in which the ad appears.

For consumer goods or other products targeted toward a large audience, simply tracking competition's ads, either by self or by using one of the services provides most of the necessary information. Television ads can be examined for their messages and for the programs in which they appear. TV advertising is quite useful for determining the core strategy because the nature of the medium prohibits communicating all but the most important message. Similarly, print advertising can provide equivalent information, but with greater elaboration of the core strategy.

Information about implementing current strategies is also easily found. Pricing information can be obtained from basic market observation. Distributors, salespeople, customers, advertising agencies, or even firm's own employees acting as customers on their own behalf can be the sources of pricing data. Promotion, distribution, and product information can be obtained from similar sources. In other words, as in determining competitors' objectives, it takes market sensitivity rather than sophisticated management information systems to assess much of the competitive activity.

Both customer and stakeholders get special mailing and information that make strategy assessment easier. Furthermore, personal use of competitors' products often gives one a feeling for them that does not come through even the best-prepared research. A useful way to examine competitors' capabilities is to divide the necessary information into five categories that include the competitors' abilities to conceive and design, to produce, to market, to finance, and to manage their offerings in the market.

Porter's Generic Competitive Strategies (ways of competing)

A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus.

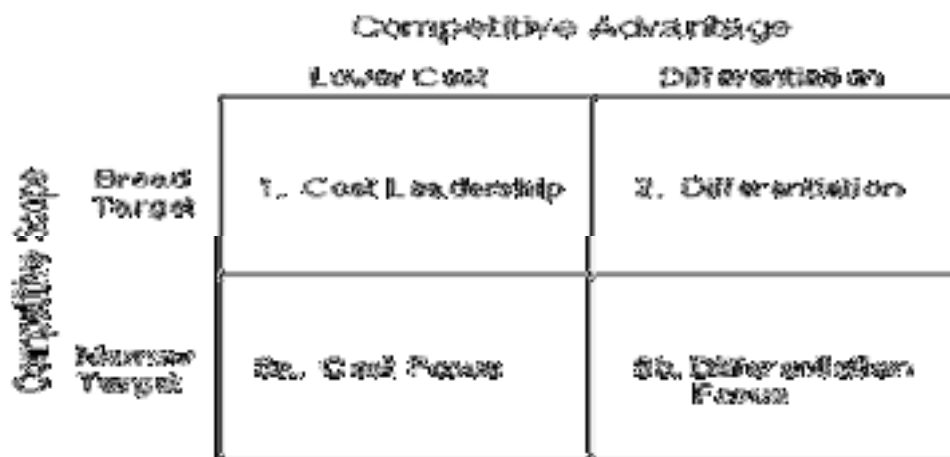


Fig 2.4 Porter's Generic Competitive Strategies

1. Cost Leadership

In cost leadership, a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average.

2. Differentiation

In a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price.

3. Focus

The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. The focus strategy has two variants. (a) In cost focus, a firm seeks a cost advantage in its target segment, while in (b) differentiation focus, a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behavior in some segments, while differentiation focus exploits the special needs of buyers in certain segments.

Strategies to Deal with Competition

Philip Kotler has stated that there are 4 types of companies in any market. Market leader In the majority of industries, there is one firm that is generally recognized to be the leader. It typically has the largest market share and by virtue of its pricing, advertising intensity, distribution coverage, technological advance and rate of new product introduction, it determines the nature, pace and bases of competition. It is this dominance that typically provides the benchmark for other companies in the industry. However, it needs to be emphasized that market leadership, although often associated with size, is in reality a more complex concept and should instead be seen in terms of an organization's ability to determine the nature and bases of competition within the market.

Market challengers and followers Firms with a slightly smaller market share can adopt one of two stances. They may choose to adopt an aggressive stance and attack other firms, including the market leader, in an attempt to gain share and perhaps dominance (market challengers), or they may adopt a less aggressive stance in order to maintain the status quo (market followers).

Market Nichers Virtually every industry has a series of small firms that survive, and indeed often prosper, by choosing to specialize in parts of the market that are too limited in size and potential to be of real interest to larger firms. A case in point would be car company specializing in electric cars. By concentrating their efforts in this way, market nichers are able to build up specialist market knowledge and avoid expensive head-on fights with larger companies.

Types of Companies and their Strategies to Combat Competition

To Do Activity

Read and Reflect on " **Regional Brands Competing with National Brands**" in the below link:

<https://www.sibm.edu/assets/pdf/regionalbrands.pdf>

Model Questions

1. Do you think competition is different in rural and urban markets? Justify your viewpoint.
2. What are the criteria for segmenting customers?
3. Describe how rural customer is different from urban customer in India?
4. What strategies can be developed based on Porters Competitive strategy?
5. How often should strategies of competitors have assessed?
6. Describe characteristics and strategies of leaders, challengers, followers and nichers?

References

1. [https://nscpolteksby.ac.id/ebook/files/Ebook/Business%20Administration/Strategic%20Marketing%20Management%203rd%20Edition%20\(2005\)/12.%20Chapter%2011%20-%20Strategies%20for%20Leaders-Followers-Challengers%20and%20Nichers.pdf](https://nscpolteksby.ac.id/ebook/files/Ebook/Business%20Administration/Strategic%20Marketing%20Management%203rd%20Edition%20(2005)/12.%20Chapter%2011%20-%20Strategies%20for%20Leaders-Followers-Challengers%20and%20Nichers.pdf)
2. Industry of product category analysis, available at <http://academic.udayton.edu/JohnSparks/strategy/webnotes/categories.pdf>
3. Kevin Lane Keller, Strategic Brand Management, Pearson, New Delhi.
4. Kotler, Philip. Marketing Management. 9 th ed. (Upper Saddle River, NJ Prentice Hall, 1997), Chapter 13.
5. Kotler, Phillip. "A Framework for Marketing Management." 2nd ed. (Upper Saddle River, N.J. Prentice Hall, 2003), Chapter 8.
6. Lehmann, Donald R. L and Winer, R.S (2008), Analysis for Marketing Planning (7th ed.). New York McGraw Hill.
7. Porter, Michael E. (2008), "The Five Competitive Forces that Shape Strategy," Harvard Business Review, 86 (January), 78-93.
8. Porter, Michael E., "Competitive Advantage". 1985, Ch. 1, pp 11-15. The Free Press. New York.
9. Ries, A. and J. Trout, Positioning The Battle for your Mind, N.Y. Warner Books, 1991

Chapter 3 Product Strategy, Product Offering & Analysis

A product development strategy provides the framework to orient a company's development projects as well as its development process. There is no one right strategy for a company. The strategy takes into account the company's capabilities (strengths, weaknesses and core competencies), the competition's capabilities (strengths, weaknesses, core competencies and strategy), market needs and opportunities, goals, and financial resources.

3.1 Developing Product Strategy and New Product Development

A product strategy addresses the following questions

1. Where are we headed? Here the focus is on basic objectives such as growth versus profits
2. How will we get there? This is the core of product strategy, it addresses whether the company should focus on current or prospective customers. It is summarized as a targeting and positioning statement defining customer targets, competitive targets, and the proposition (offering) that will enable the firm to succeed in capturing targeted customers.
3. What will it do? This addresses specific programs or tactics to be employed in order to implement the core strategy. Basically it entails describing the marketing mix (4Ps)

A successful strategy

1. Helps achieve coordination among functional areas of the organization.
2. Defines how resources are to be allocated.
3. Leads to a superior market position.

Elements of product strategy

1. Statement of the objective(s) the product should attain
2. Selection of strategic alternative(s)
3. Selection of customer targets
4. Choice of competitor targets
5. Statement of the core strategy
6. Description of supporting marketing mix.
7. Description of supporting functional programs

The first two elements (objectives and strategic alternatives) establish the general direction of the strategy. The next three elements (selection of customer targets, competitor targets and statement of core strategy) refer to the positioning of the product and how it has to be differentiated from competition in the mind of target customers. Finally, the supporting marketing mix and functional programs relate to the implementation of the strategy.

Setting Objectives

An organization has a variety of objectives, beginning from vision and mission to specific product objectives and tactics. The hierarchy of objectives is depicted below



Fig 3.1 Hierarchy of Objectives

The role of marketing managers and product managers starts with divisional objectives level II to Level IV. Product managers have to make several decisions once the overall strategy is decided. The major decisions are on product hierarchy, product systems and mixes, product lines and line stretching.

Selection of Strategic Alternatives



Fig 3.2 Selection of Strategic Alternatives

choice essentially is balancing between long term and short term goals. If growth in sales or market share is an objective then either market development or market penetration strategy is adopted. If short term efficiency is to be improved then reducing costs, decreasing inputs, increasing price etc are options.

The Product Hierarchy

The product hierarchy stretches from basic needs to particular items that satisfy those needs. We can identify six levels of the product hierarchy, using life insurance as an example

1. Need family—The core need that underlies the existence of a product family. Example security.
2. Product family—All the product classes that can satisfy a core need with reasonable effectiveness. Example savings and income.
3. Product class—A group of products within the product family recognized as having a certain functional coherence, also known as a product category. Example financial instruments.
4. Product line—A group of products within a product class that are closely related because they perform a similar function, are sold to the same customer groups, are marketed through the same outlets or channels, or fall within given price ranges. A product line may consist of different brands, or a single family brand, or individual brand that has been line extended. Example life insurance.
5. Product type—A group of items within a product line that share one of several possible forms of the product. Example term life insurance.
6. Item (also called stock-keeping or product variant)—A distinct within a brand or product line distinguishable by size, price, appearance, or some other attribute. Example Prudential renewable term life insurance.

Product Systems and Mixes

A product system is a group of diverse but related items that function in a compatible manner. For example, the extensive iPod product system includes headphones and headsets, cables and docks, armbands, cases, power and car accessories, and speakers.

A product mix (also called a product assortment) is the set of all products and items a particular seller offers for sale. A product mix consists of various product lines. NEC's (Japan) product mix consists of communication products and computer products. A University can have separate academic deans oversee the schools of medicine, law, business, engineering, music, speech, journalism, and liberal arts among others. A company's product mix has a certain width, length, depth, and consistency.

The length of a product mix refers to the total number of items in the mix. We can also talk about the average length of a line. We obtain this by dividing the total length by the number of lines

The depth of a product mix refers to how many variants are offered of each product in the line. We can calculate the average depth of P&G's product mix by averaging the number of variants within the brand groups.

The consistency of the product mix describes how closely related the various product lines are in end use, production requirements, distribution channels, or some other way. P&G's product lines are consistent in that they are consumer goods that go through the same distribution channels. The lines are less consistent in the functions they perform for buyers. These four product mix dimensions permit the company to expand its business in four ways. It can add new product lines, thus widening its product mix. It can lengthen each product line. It can add more product variants to each product and deepen its product mix. Finally, a company can pursue more product line consistency.



Fig 3.3 P & G, India Product Mix

4 product lines

1. Beauty and grooming Brands Pantene, Head & shoulders, Olay Gillette
2. Household care Ariel, Ambipur, Duracell, Tide
3. Health and well-being Brands Pampers, Vicks, Oral-B, Whisper

To Do Activity

Read and reflect on P&G product lines in the below link
https://www.pg.com/en_IN/company/pg-india.shtml

Product Line Analysis

In offering a product line, companies normally develop a basic platform and modules that can be added to meet different customer requirements and lower production costs. Car manufacturers build cars around a basic platform. Homebuilders show a model home to which buyers can add additional features. Product line managers need to know the sales and profits of each item in their line to determine which items to build, maintain, harvest, or divest. They also need to understand each product line's market profile

Line Stretching occurs when a company lengthens its product line beyond its current range, whether down-market, up-market, or both ways. Down-Market Stretch A company positioned in the middle market may want to introduce a lower-priced line for any of three reasons 1. The company may notice strong growth opportunities as mass retailers such as Walmart, and others attract a growing number of shoppers who want value-priced goods. 2. The company may wish to tie up lower-end competitors who might otherwise try to move up-market. If the company has been attacked by a

low-end competitor, it often decides to counterattack by entering the low end of the market. 3. The company may find that the middle market is stagnating or declining. A company faces a number of naming choices in deciding to move a brand down-market 1. Use the parent brand name on all its offerings. Sony has used its name on products in a variety of price tiers. 2. Introduce lower-priced offerings using a sub-brand name, such as P&G's Whisper Choice in India. 3. Introduce the lower-priced offerings under a different name, such as Marico launching Sweekar Sunflower oil brand (Saffola being the premium brand). This strategy is expensive to implement and means brand equity will have to be built from scratch, but the equity of the parent brand name is protected.

Up-Market Stretch Companies may wish to enter the high end of the market to achieve more growth, realize higher margins, or simply position themselves as full-line manufacturers. Many markets have spawned surprising upscale segments. The leading Japanese auto companies have each introduced an upscale automobile Toyota's Lexus, Nissan's Infiniti, and Honda's Acura. They invented entirely new names, because consumers might not have given the brand "permission" to stretch upward when those lines were first introduced.

Two-Way Stretch Companies serving the middle market might stretch their line in both directions. The HUL portfolios of brands have an entire range of products from lower end to higher end.

To Do Activity

Read and Reflect on "MICROMAX in India"

Questions

1. What went wrong with the Micromax product strategy?
2. How can Micromax or other Indian Mobile phone companies regain lost market?

Sources

<http://marketingpractice.blogspot.com/search?q=rural+product+strategy>

<https://www.digit.in/mobile-phones/micromax-intex-htc-loses-market-share-as-xiaomi-oppo-honor-continue-to-grow-in-india-cmr-report-42718.html>

Product Development

The dynamics of markets, technology, and competition have brought changes to virtually every market sector and have made new product development one of the most powerful business activities. The monumental changes that constantly impact commerce have forced companies to innovate with increasing speed, efficiency, and quality. In turn, this has made new product development one of the most complex and difficult business functions. However, firms must innovate in order to survive

Stages of New Product Development

1. Idea generation

Pro-active Idea Generation Customer analysis, Competitor analysis, Active search, Category analysis and Brainstorming, Reactive idea sources Customers, Employees, Suppliers, Distribution channels, Operations people, Internal and External R&D, Design, Entrepreneurs.

2. Concept development is normally conducted using Surveys, Focus groups and Demonstrations
3. Feasibility screening to check feasibility of making and marketing the product along with financial costs and estimated revenues
4. Concept testing customer feedback, qualitative tests such as focus group discussions and demonstrations
5. Product development Actual process of manufacturing is perfected and pilot batch ready for testing
6. Product testing In pilot scenarios, laboratories
7. Market testing choosing specific representative markets to evaluate customer response to new product, typically done for 3-6 months.
8. Go-no-go decision If the results of all above steps is not extremely encouraging its possible to drop the new product from actual release in the market.

Evaluation Criteria for New Products

New products have to be assessed from customer and firm perspectives.

- **Customer Level** Do customers like it?Is it unique?Will they buy it?How soon/fast will they buy it?
- **Firm Level**
 - Does it add to our customer base through Acquisition?Expansion?Loyalty/retention?Enhanced brand equity?
 - Does it detract from our customer base through Cannibalization?Customer defections?Lowered brand equity?
 - Do we have the capabilities to Develop it?Produce it?Distribute and sell it?Buy or partner to do?
 - Will it be profitable on a stand-alone basis?Long-run impact on produce line?
 - Are there other benefits associated with it like Learning/capacity enhancement?PR?
 - Are there other costs associated with it like Legal liability?PR?
 - Can we control the market in the long run?

3.2 Designing the Offer, Market and Sales Potential

Designing the Right Product Offering

Businesses are constantly making decisions about which products and services will attract customers. In an era driven by the mantra of “give customers what they want,” some businesses feel compelled to offer many different versions of their products

Yet some companies continue to stick to a single version of their products, making alterations only when technology impacts what they can provide or when competition shifts.An offering in marketing is the total offer to your customers. An offering is more than the product itself and includes elements that represent additional value to your customers, such as availability, convenient delivery, technical support or quality of service. A strong offering differentiates your products from competitors and creates value by meeting customers’ wider needs better than other options.

A company offers a variety of product lines, each requiring a certain investment and promising a certain return on that investment. In this view of operations, top management’s role is to determine

the products (or businesses) that will comprise the portfolio and to allot funds to them on some rational basis.

Companies use Different Strategies of Designing Product Offerings

Companies have the ability to fashion five distinct types of products from the three different products (square, triangle and square plus triangle) that can be built from the two components (the square and the triangle) (see diagram below)



Fig 3.4 Different Strategies of Designing Product Offerings

A La Carte Offering

With a la carte, companies can treat different product features individually, allowing consumers to create the product version that suits their needs best. Sony Corp., for example, produces both televisions and DVDs. This allows consumers to bundle the two products on their own if they choose.

Specialization Offering

Companies use specialization when they realize economies from providing one basic product feature that customers want or that customers can combine with other features. For example, few airline companies offer only business-class service and few offer only economy class service.

All-in-One Offering

The all-in-one product combines all the different product features, removing the customer’s ability to order items separately. For example, newspaper publishers don’t allow customers to buy the daily paper without the sports or classified sections.

Basic/Premium Offering

The basic/premium product strategy permits companies to offer both a basic product and a premium version that includes some additional features; however, consumers can’t “unbundle” the basic product to get the features they want. For example, cable customers generally can’t get a specific channel without also receiving a basic cable package that includes standard channels.

“Have-it-your-Way” Offering

These offerings are not mutually exclusive, and some companies offer an array of possibilities. Microsoft Corp., for example, sells the complete Office software suite, but it also lets customers buy

the individual software programs separately and several versions of the Office suite with different features. Cable companies offer many different combinations of channels — from basic to super-premium — in addition to providing bundles that include high-speed Internet and voice over IP phone services. Depending on the nature of the product, the number of alternative products increases exponentially with the number of features. For example, three distinct product features can be combined into 125 distinct products by varying the composition of the bundles offered to customers. Practically speaking, many product features can't be sold separately (for example, pockets for jeans) which reduces the number of combinations in practice. Nevertheless, in many real-world settings the number of offerings increases with the number of features available.

To Do Activity

Read, Reflect and Summarise in groups on **“Mahindra & Mahindra Creating the Right Offering for India’s Rural Market?”**

Reference Link: <https://www.thehindubusinessline.com/specials/auto-focus/mahindra-scripts-new-rural-drive-mantra/article7306188.ece>

Market and Sales Potential

Estimating the market or market potential for a new business or business expansion is critical in determining the economic feasibility of a venture. Estimating the market potential will determine if the market is large enough to support your businesses.

Estimating the market potential for a business is critical in evaluating its viability and provides an estimate of the maximum total sales potential for a given market. Once the estimated market potential has been calculated, it is possible to determine if the market is large enough to sustain your proposed business or sustain an addition competitor in the marketplace. It is important to remember that the estimated market potential sets an upper boundary on the market size and can be expressed in either units and/or sales. Unless there are no direct or indirect competitors a business will capture a share of the total estimated market potential not all of it. The following provide the steps and data necessary to estimate the market potential.

Key Steps in Estimating Market Potential

The key steps in estimating market potential are

- a. Define your target market and market segments.
- b. Define the geographic boundaries of your market.
- c. Derive an average selling price.
- d. Determine the average annual consumption.

Estimating the market potential for a business requires specific information on the number of people or potential buyers, an average selling price, and an estimate of consumption or usage for a specific period of time. Once this information has been collected, it can be plugged into the following formula to derive the estimated market potential.

Estimating Market Potential $MP = N \times P \times Q$;

Where

MP = market potential

N = number of possible buyers

P = average selling price

Q = average annual consumption

However, the better the information that is being plugged into the formula, the better the estimate of the market potential.

One of the most important components of estimating the market potential for a business is to determine its target market. A target market can be thought of as the customers who are most likely to buy from you and generally are described using demographic variables (gender, age, education) as well as psychographic variables (life-style and belief system variables). In many cases, a business may have more than one target market. Think about the automobile industry, automobile manufactures have a number of target markets, i.e., truck buyers, luxury car buyers, economy buyers. Your business should be able to develop specific profiles for each of your target markets using demographic and psychographic variables.

The first method of describing your target market segments is using a set of demographics descriptors like the following

1. Age
2. Marital status
3. Household income
4. Gender
5. Race/Ethnicity
6. Family life cycle
7. Education
8. Religious affiliation

It is important to create a profile of your target market describing them with demographic variables like those listed above. Once you have created your demographic profile, you can determine how many people fit your profile using various demographic data sources.

The second profile is referred to as psychographic life-style and describes your target market.

Customers are segmented by their activities (work and leisure), interests (family, animals, environment, home, and community), and opinions. The life-style profile is more important in predicting future patronage than the demographic profile because it will determine what type of experience they are seeking. Failure to meet these needs will result in loss of business. The following are a few psychological descriptors

1. Political affiliation
2. Socially conscious
3. Cutting-edge
4. Family-oriented
5. Conformist
6. Power-wielding
7. Trend follower

8. Thrill seeker
9. "Green"
10. Fun-loving
11. Fashion-forward
12. Sports enthusiast

Psychographic information is more difficult to obtain than demographic information. As a result, it is less frequently used when determining a target market profile.

Market Area

Geography is the simplest form of defining a market area. This method defines the market area by using landmarks or logistical barriers to define the market area. The following are easy-to-use geographical areas

1. Neighbourhoods
2. Zip codes
3. City or County Boundaries
4. Metropolitan Statistical Areas
5. State (multi state) Borders
6. Nation
7. Continent
8. World

Once the market area and target market has been defined, it is possible to determine the number of potential customers for your business. This will allow you to estimate the N (number of potential customers) in the market potential equation. This total market potential will typically have to be adjusted downward to account for non-users.

It is required to determine how often your target market segment uses your product or service. This figure will have a significant impact on the estimated market potential. For instance, is the product purchased frequently, occasionally, or infrequently? Obviously the more frequently the product is purchased, the larger the market potential. Durable goods, products that can be used over a long period of time, are purchased less frequently than perishable items. As a result, the annual consumption of apples is greater than the annual consumption of television sets.

Sales Potential

There are many methods used for estimate the sales potentials and these are

1. Survey method
2. Expert opinion method
3. Market studied methods
4. Sales force opinion methods
5. Statistical methods

1. Survey Method The survey method is based on the opinion of buyers and consumers it is useful with respect to industrial products, but not as far as consumer goods are concerned. According to this method, a company first of all selects potentials buyers/consumers. It then collects their opinions for sales forecasting.

2. Expert Opinion Method According to this method, a company invites the opinions of executives and consultants who are acknowledged experts in studying sales trends. On the basis of their opinions, it forecasts future sales. This estimate is also made on the basis of past performance. However, the method suffers from the drawback of not taking into consideration changes in the future business environment.

3. Market Studies Method This method is commonly used by marketers for consumer goods. It is also known as the Market Test Method. According to this method, market experiments are conducted on changing consumer behaviour, prices, advertising expenditure, etc. This method lets the management know how the people might actually buy the product in question.

4. Sales Force Opinion Method This method estimates the buyers intentions from experienced personnel in the sales force. They can easily forecast for their respective territories. Territory wise forecasts are consolidated at the branch level, and the branch level forecasts are consolidated at the corporate level. This method can be used only when the firm has competent high-caliber sales personnel.

5. Statistical Methods Statistical methods are considered to be superior techniques of estimate sales forecasting, because their reliability is higher than that of other techniques. Statistical methods divided into four different categories and these are

1. Trend method
2. Graphical method
3. Time-series method
4. Regression method

Trend Method This method provides a rough trend of the forecast on the basis of past experience. It does not, however, take into account the changing environment. It is a simple method for business forecasting on the basis of past performance.

Graphical Method According to this method, sales data are plotted on graph paper and a graph is drawn for a number of years

Time Series Method This method is used for long periods duly taking into account cyclical changes, seasonal variation and irregular fluctuation. "A time series may be defined as a collection of magnitudes belonging to different time periods, of some variable or composite variables, such as production of steel, per capita income, gross national product, price of tobacco, or index of industrial production."

Regression Analysis This is a branch of statistical theory, is popularly used on the principles of sciences. It helps determine the relationship among various variables. "Regression analysis attempt establishing the 'Nature of the relationship' between variables that is to study the functional relationship between the variables and thereby provide a mechanism for prediction, or forecasting.

Summary

The estimation of market and sales potential is critical to determine the success or failure prediction accuracy for any organization. This has described the methods to conduct both.

3.3 Pricing, Advertising and Promotion Decisions

Pricing

Introduction

Pricing is an observable component of the product that results in consumers purchasing or not purchasing it and at the same time it directly affects the margin per sold. Price is the marketing mix variable that most often breaks or makes the transaction.

The key to setting price and understanding why customers react to pricing is perceived value. Perceived value is the worth or merits a customer ascribes to a product or service. Usually, customers are unaware of the factors involved in pricing a product or service, such as the actual or estimated costs of production. Customers rely on the emotional or functional appeal of the product or service and their evaluation of the benefits they believe they will receive.

There are three possible relationships between perceived value, price and variable cost.

1. Perceived value > price > variable cost
This strategy is called “leaving money on the table” as customer perceives the price to be lesser than perceived value and sacrifices the profits (either knowingly or unknowingly) which the organization could have otherwise realised.
2. Price > perceived value > variable cost
Customers think this strategy is “bad deal” as the value is not matching the high price. This strategy affects the sales of the product and organizations might have to reduce price or offer other incentives for creating demand.
3. Price > variable cost > perceived value
This is a failure scenario where customer perceives value and variable costs to be lesser than price.

Methods for Estimating Customer Value

1. Industrial engineering methods laboratory tests, indirect survey questions to customers,
2. Overall estimates of customer value Field Value-in-use assessments using customer interviews, focus group assessments, willingness-to-pay direct questions
3. Decomposition approaches Conjoint analysis -a method for estimating customer trade-offs of product attributes.
Benchmarks customer indication of willingness to pay for incremental attributes that can be compared to an example in the product category
4. Compositional approach direct customer questions about value of product attributes
5. Importance ratings customer rank ordering or rating of attributes as well as comparisons

Pricing Objectives

- **Penetration Pricing** When the objective is to gain market share very quickly then companies can choose this option.
- **Example** As an introduction Pricing strategy Reliance Jio services were provided free for six months in India, this helped the company to quickly gain market share. The prices of Jio services are among the lowest among competitors even after six months. This ensured that the market share growth momentum is maintained.

- **Return on Sales/Investment Pricing** This objective is primarily based on the investors/ senior managements' expectations of returns on their investment, not a very useful strategy on the long run.
- **Pricing for Stability** Many industrial products companies adopt this strategy for forward contracts on raw materials, customers are willing to pay higher stable rate rather than pay for highly fluctuating prices.
- **Skimming** This is also called prestige pricing, it is the opposite of penetration pricing. If there is strong price-perceived quality relationship, this strategy works well. Luxury goods follow this type of strategy.
- **Competitive Pricing** As the name indicates prices are set against an industry benchmark or specific competitor. Many FMCG products adopt this strategy, for example all brands of soft drink Colas in India are priced same.

Other Factors Affecting Price, Apart from Objectives

- Stage of the product life cycle
- Category conditions
- Threat of new entrants
- Power of buyers/sellers
- Rivalry
- Pressure from substitutes
- Unused capacity

Specific Pricing Tactics

- Product line pricing similar price range for products of one product line
- Price bundling set of products offered in combination. For Example- Home stereo systems were offered with CD players and DVD players.
- Complementary pricing Combinations of products normally used together, An example can be Razors with blades, Shampoo with conditioner
- Value pricing Pricing based on customer expectations, tries to provide more than what the customer expects for the price paid. Generally backed up with good communications strategy to indicate a reasonably high quality. McDonalds In India offer Rs.20 Value Meals.
- Everyday low pricing A simple approach where prices are lowered permanently and significantly to reduce both trade and consumer promotion expenditure. Globally Wal-mart has been able to successfully use this strategy.

Advertising

The communications mix is usually referred as integrated marketing communications of which advertising is also a component.

The Communications Mix

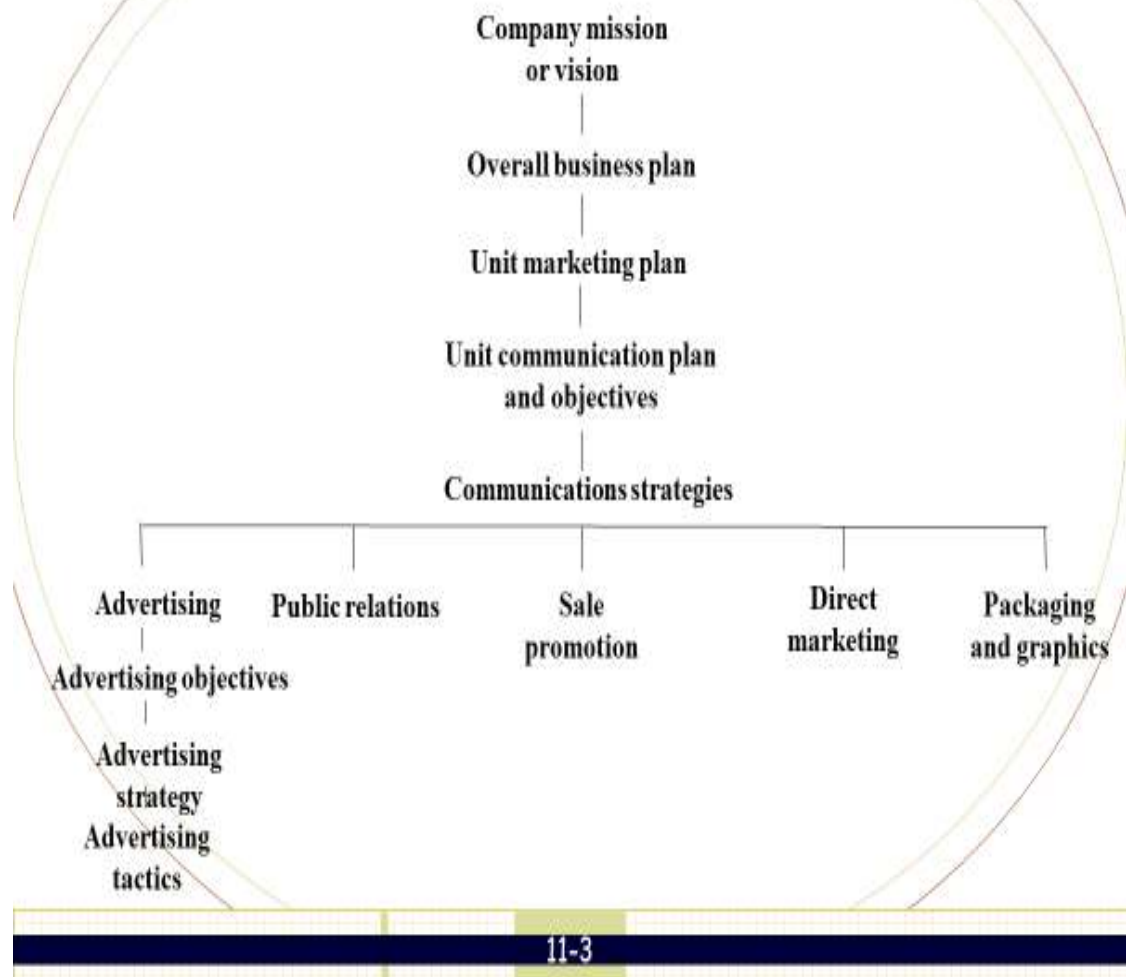


Fig 3.5 The Communications Mix

The Communications mix comprises advertising (paid campaigns), Public Relations (unpaid campaigns), Sales Promotions (short term campaigns to boost sales), direct marketing (by eliminating middlemen) and packaging (often called silent salesperson).

Consumer companies spend heavily on advertising on different mediums such as TV, Radio, Newspapers, Magazines, out of home media, hoardings, and now digital platforms such as social media, search engine marketing, etc. Business to business companies rely more on public relations, and direct marketing along with personal selling.

Table 3.1 The Advertising Planning Process

Stage	Primary Players	End Product
Developing the marketing plan and budget	Product manager	Budget Spending guidelines Profit projections
Planning the advertising	Product manager Advertising manager Ad agency Corporate advertising department	Identification of target market Allocation of advertising budget Development of advertising strategy and message
Creative development and approval	Ad agency Copy research company Product manager Advertising manager Senior management	Finalized copy Media plan Print, radio, and television spots
Execution	Ad agency or media buying company	Actual placement
Monitoring response	Market research manager Product managers Ad agency (research)	Awareness, recognition, and perception tracking Preception maps Sales/share tracking

Majority of the advertising tasks are performed by the product managers in consultation with other teams in marketing.

Methods for Setting Advertising Budgets

- **Objective and Task** Based on whether the advertising is for increasing sales, improving retention or aiding recall.
- **Percentage-of-Sales** Many companies earmark a specific percentage of total sales as advertising budget, this is simple and easy to do. Most companies would try to benchmark their budgets based on industry leaders or competition.
- **Competitive Parity** This approach considers share of advertising money spent (also known as share of voice) rather than absolute rupees to determine sales per share point and set budgets accordingly. Companies try to compare Share of Voice to actual market share or desired market share.
- **Affordable** This views advertising as a cost of doing business. It selects a budget which is most feasible considering all other expenditures.
- **Experimentation** Managers try to vary expenditures on advertising and record changes in sales like a trial and error approach.
- **Decision Calculus** Companies can choose computer-based decision-making systems to fix budgets

Advertising Copy

The advertising copy is the heart of advertising. It is the message conveyed through any medium. The copy should cover the specific objective of advertising in a creative and engaging manner.

There are different ways of evaluating advertising copy

Table 3.2 Different ways of Evaluating Advertising Copy

	Advertising-related test (reception or response to the message itself and its content)	Product-related test (impact of message on product awareness, liking, intention to buy, or use)
Laboratory measures (dependent process of testing and measurement process)	Cell I Processing procedures 1. Content test 2. Aesthetics test 3. Readability tests 4. Physiological measures like galvanic skin response	Cell II Processing procedures 1. Thresh tests 2. Taste tests 3. Laboratory tests
Behavioral measures (dependent process of testing and measurement process)	Cell III Processing procedures 1. Survey advertising vehicle 2. Inquiry tests 3. On-the-air tests Processing procedures 1. Recognition tests 2. Recall tests 3. Association measures 4. Comprehension measures	Cell IV Processing and processing procedures 1. Pre- and posttests 2. Sales tests 3. Measurement tests

To Do Activity

Read, Reflect, summarise on “Amar Ujala Innovative Integrated Marketing Communications” .

Reference link: <https://www.thehindubusinessline.com/business-wire/quotour-success-in-rural-marketing-initiatives-can-be-attributed-to-3-as-affordability-activation-and-amplificationquot-probal-ghosal-director-amar-ujala/article21998976.ece>

Promotions

Sales Promotion (often called simply promotions) are collection of devises/activities aimed at generating active customer response within a short period of time. These activities can be aimed at channel partners (distributors, retailers, e-commerce partners etc, also called trade promotions) or at end customers. Many times channel partners also initiate promotions on their own supplementing manufactures promotions.

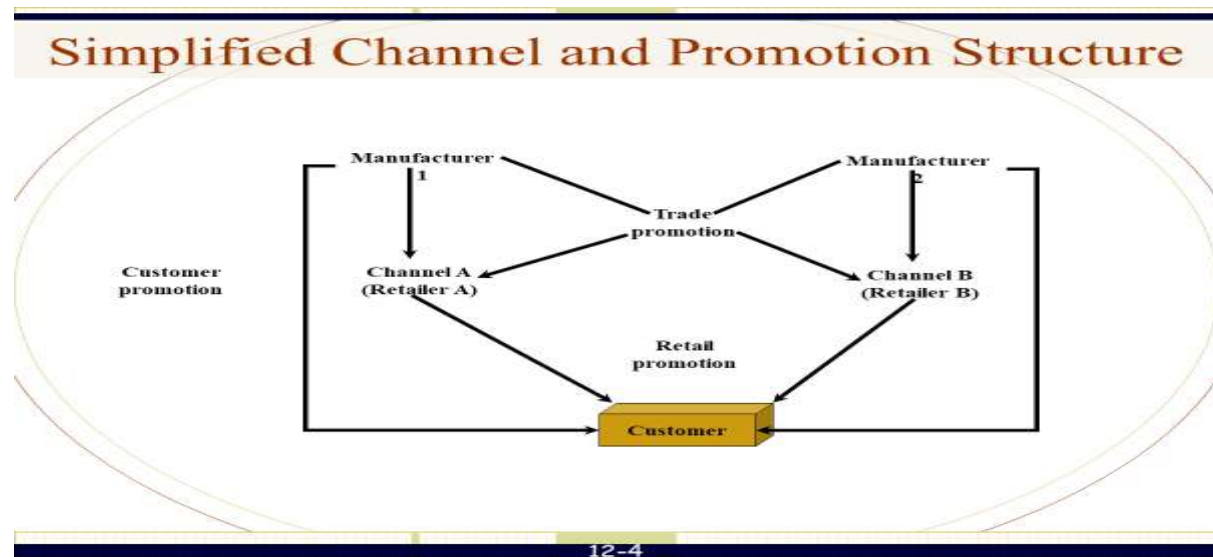


Fig 3.6 Simplified Channel and Promotion Structure

The above diagram shows the different types of promotions engaged in by manufacturers and channel partners.

Final Customer Promotions

The objectives of final customer promotions are varied as shown below. The objectives range from generating trial, to boost sales in short run, for the long term objectives could be to generate awareness, improve brand image and create loyal customers.

Trade Promotions

Objectives for trade promotions could be to get the trade to buy the stocks, to get trade to increase the quantity stocked, or to build long term relationships.

Table 3.3 Trade Promotions

Objective	Typical Programming
I. Long-run (relationship building) <ul style="list-style-type: none"> A. Awareness enhancement B. Image enhancement II. Short-run (transactional) <ul style="list-style-type: none"> A. Current customers <ul style="list-style-type: none"> 1. Buy more 2. Be more loyal 3. Buy now B. Occasional customer (deal prone; brand switchers) <ul style="list-style-type: none"> Capture next purchase C. Noncustomers <ul style="list-style-type: none"> Trial 	Sweepstakes, contests, tie-ins Sponsorships Volume discounts/special “value” packages “In pack” coupons, premiums, frequent buyer programs Rebates, coupons Coupons, displays, rebates Trial sizes, sampling

Table 3.5 Factors Affecting Advertising

Objective	Typical Programming
Transactional increase stocking levels	Volume allowances Financing terms
Transactional increase sales efforts	Discount/price cuts Slotting allowances
Relationship building	Advertising allowances Display allowances Premiums Contests Sales force incentives (not all dealers allow this) Free goods

Factors affecting advertising and promotion budget

1. The product is relatively standardized (as opposed to when the product is produced or supplied to order).
2. There are many end users.
3. The typical purchase amount is small.
4. Sales are made through channel intermediaries rather than directly to end users.
5. The product is premium priced.
6. The product has a high contribution margin.
7. The product or service has a small market share.

Types of Final Customer Promotions

1. Product-Based Promotions
 - A. Additional volume/bonus pack
 - B. Samples
 1. Central location at Malls, big stores
 2. Direct (e.g., mail)
 3. Attachment (in/on-pack coupons)
 4. Media placed (clip-and-save coupons)
2. Price-based Promotions
 - A. Sale Price discounts/offers
 - B. Coupons
 1. Central location (e.g., in-store)
 2. Direct (mail)
 3. Attachment (in/on-pack)
 4. In media (e.g., website)
 - C. Refunds/rebates
 - D. Financing terms
 - E. Frequent users
3. Premiums
4. Place-based promotions- specific locations
5. Games

To Do Activity

Read, Reflect and summarise on **“Khan Khajuria Tesan- HUL in Rural India”**

<https://www.digitalvidya.com/blog/kan-khajura-tesan-a-case-study-on-digital-marketing/>

3.4 Concept and Product Testing

Concept testing is a research tool used to assess the market viability of a new product idea prior to incurring the development expense of actually fabricating a product.

There are many companies which have launched successful products without conducting market research and based on intuition. Steve Jobs (Former CEO of Apple Inc) has mentioned in his autobiography by Walter Issacson (published in 2011) stated that He avoided consumer testing and trusted his intuition especially for radical innovations, he believed that customers would not be able to fathom the complete concept as they had no previous experience of the radically innovation. Apple has been hugely successful in creating new products such as iPods, iPhones, iPads etc. Not all managers rely on their vision and intuition as it is practically not possible to convince investors and shareholders of the process of developing new or modify existing products without due process of market research.

Concept testing provides valuable feedback which will help managers decide on several aspects of the new product development process.

The goal of concept and product testing is to determine which concepts and products can generate enough interest among consumers to merit further development and which do not deserve any more of the company's development and marketing efforts. In other words, testing keeps development resources focused on the highest potential opportunities.

Objectives of Concept Testing

- to develop the original idea further
- to estimate the concept's market potential
- to eliminate poor concept(s)
- to identify the value of concept features
- to help identify the highest potential customer segment(s)
- to generate an estimate of sales or trial rate
- to provide diagnostic information

Process of Concept Testing

Consumers are provided with a stimulus (the concept) and measures of reaction and response are recorded which the researcher believes are predictive of the behavioral response, such as eventual purchase.

Concepts can be placed in front of consumers in different ways

As a statement of fact, as a statement with persuasive language, as a mock advertisement, with or without visual descriptions. Sometimes videos and pictures, sketch drawings, 3 D graphics etc. are also shown to enable consumers to understand the concept.

Example of a Concept Template

1. Core Concept normally has a simple statement describing the concept and in case a preliminary name is available it is used or some code word is used.
2. Benefits The complete attributes and benefits of the product, its sensory description, look and feel etc is mentioned. There can be a factual presentation or one with persuasive style presentation. Or both.
3. Product information Full details about physical appearance, price, sizes, and other product related information is given.
4. Target users description of target customers, personality based segmentation etc is detailed

The best type of collecting data is face to face discussions, however, online methods (email, mobile apps, websites), telephonic surveys are also used.

Customer response is recorded using a questionnaire generally with Likert scale based measurements.

Product Testing

Product testing aims at gathering customer feedback about the product features and its performance. It can also provide valuable insights regarding pricing level, best features to include,

clues for designing marketing messages (at a later stage), comparisons with existing products, improvements over existing products etc.

Product testing will involve choosing a sample of customers and some risks associated are wrong sample selection, sampling bias, insufficient sample size, measurement errors, errors in administration of sample etc.

Other types of errors could be

1. Testing the wrong product testing only physical product and not the value proposition, brand name etc
2. Comparing wrong control product testing against a weak competitor or wrong benchmark
3. Asking the wrong person incorrect sampling
4. Testing in wrong environment sometimes products are tested in urban markets and directly sold in rural markets, while this may be successful for many products, it may not be suitable for certain categories like transportation vehicles.
5. Testing the wrong price too low or too high prices

Two Types of Product Testing

Alpha test is a method where in the employees of the organization are asked to test the product. It was reported that when Reliance Jio was launched in 2017, it was alpha tested by its own employees.

A beta test is to analyse the product usage in natural surroundings of a customer's home or office or where ever the product will be used in real life.

Many times companies may do beta testing in "incognito" mode where the user may not be aware of which company's product is being tested.

It is an accurate method of assessing how the product will perform after launch and the level of interest displayed by users during the usage, their affinity for future purchase can be known. Entire information can be recorded and forms a good resource for future use..

Market Testing Soft-Launching a Product

Market testing is an evaluation saved used for those products whose performance would be difficult to predict or those products that have received inconsistent feedback.

Like product testing, test marketing is used to identify potential problems with a product that exists outside of the development process, but in a real-life buying and usage situation. So unlike product testing, market testing occurs in the market (hence the name market testing). Additionally, a large distinction should be made market testing does not involve communication with consumers like product testing does.

Market testing is meant to

- Understand actual consumer demand and appeal of a product—particularly on-shelf next to competitor products and under influence of external market factors
- Improve the success of a full product launch and mitigate the risk of a failed one

Market testing can be a complicated process of determining where, when, and how long to have a product in the market. While product testing gathers information on how to improve the product and can help you understand the relative satisfaction, test marketing provides metrics on the actual in-market performance of the product. Further, most market testing is primarily meant to provide feedback on how to improve the marketing strategy, not just the product. By using product and market testing together, a strong product and go-to-market strategy are likely to result.



Fig 3.7 Example of Test Marketing PULSE hard Boiled Candy

Pulse is owned by the Noida-based DS Group, which also manufactures Rajnigandha pan masala, Pass Pass mouth freshener and Catch bottled water and soda, among other things.

It was initially launched in just three Indian states, Rajasthan, Gujarat and Delhi, in April 2015 as part of a test-marketing scheme. The explosive success of the product led to country wide launch of the product, and also the subsequent launch of a new 'Guava' flavour in 2016. Within six months of its test release, the demand for Pulse was so high that customers often paid a 50 percent premium for the candy (basically Rs 1.50 instead of Re 1), despite almost zero publicity and advertising.

Pulse was conceptualized in 2013 and the product team dedicated more than two years on it before it's official launch. They realized that kaccha aam was eaten across all ages around every part of the country in one way or the other. Apart from that, they capitalized on the fact that it is eaten with a mixture of salt and spices to add more flavor to it. This led to the foundation of Pulse. And this is where it beat its competitors, the extra inclusion of spices did the trick. In 2018, PULSE has become a 300 cr brand in Indian Market.

To Do Activity

Read, Reflect and Summarise on **"Mahindra Maxx in India"**

Source : The Rural Marketing Book by Pradeep Kashyap and Siddharta Raut, Biztantra, 2006

To Do Activity

Read, Reflect and Summarise on **“Product and Market Testing in Rural India”**

<https://www.livemint.com/Companies/trb2YmIOQxYZQVzvJN18OI/Marketeers-flock-to-rural-India-for-global-innovations.html>

3.5 Financial Analysis for Product Management

Product managers have to be knowledgeable about financial fundamentals as they perform the roles of CEOs to their product portfolio. Product managers have to understand what impacts the profitability of their products, whether or not the short-term objective in the marketing plans is oriented towards market share or profits.

Sales Analysis

Sales analysis is defined as the process of gathering, compiling, classifying and analyzing the sales of all products /product variants for a given time period. It is a critical area for product managers, sales analysis is the understand which product line/lines is generating profits and which ones are making losses.

The components of sales analysis are depicted in diagram below how sales are defined, s of sales recorded, categories or classification of sales data and appropriate standards to be compared. For example a Dairy company may choose to measure milk sales in litres, where as ghee and curd is measured in kgs.

There are some road blocks in understanding sales analysis as there could be that information systems are not designed with product management in mind, Finance, accounting manufacturing, operations and Human Resources personnel all have a role to play in designing information systems.

The mindsets of different department personnel may vary and may complicate matters. Lack of internal marketing to ensure that all department managers are agreeing on core principles of strategy, growth etc .

Components of Sales Analysis Information

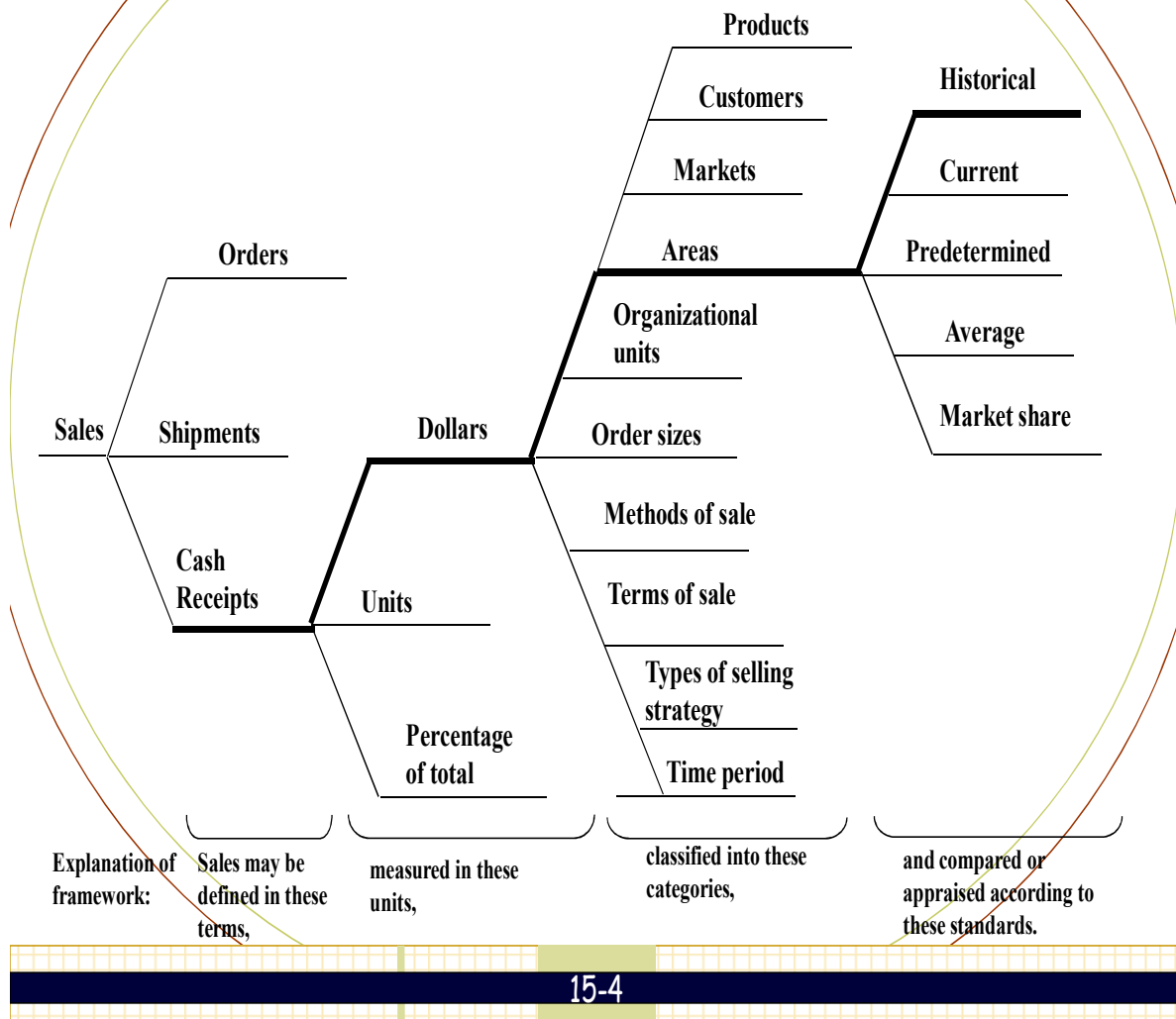


Fig 3.7 Components of Sales Analysis Information

Approaches to Product Profitability

Full costing approach all costs associated with a product or service including corporate overhead is subtracted from revenues. This is the most popular method of product profitability accounting.

The strength of the method is it guarantees that all the costs of the corporation are covered by the products. In other words, the corporation is profitable by ensuring that all products are profitable.

Product: NewCal
 Income Statement, December 31, 2008
 (000's)

Revenues (2M units @ \$5)		\$10,000
Less: Direct labor		2,500
Direct supervisory/clerical		500
Social Security		200
Unemployment		50
Overhead (plant, etc.)		<u>750</u>
Residual from operations		7,500
Operating or gross margin:		5,900
Less: Advertising	\$ 700	
Promotion	200	
Retail sales	1,500	
Product management	50	
Marketing management	200	
Product development	100	
Marketing research	150	
Consumer testing	100	
Travel	300	
General and administrative	<u>1,000</u>	
Net income		4,900
Operating profit		<u>5,800</u>

Here the top line indicated 2 million units of service were sold during the fiscal year at \$5 each for total revenues of \$ 10 Million. Subtracted from this revenue figure are expenses related directly to operations such as labor, materials and certain kinds of operations overhead. This gives the gross or operating margin of \$ 5.9 million. Finally all other expenses are subtracted giving a total profit (loss) of (\$ 100,000).

Contribution –Oriented Systems

Contribution margin is the amount of money left over after accounting for variable costs that goes toward covering fixed costs.

Classification of Costs

Category	Total Cost	Components	
		Variable	Fixed
Operating expenses (\$100)			
Direct labor	\$ 2,500	2,500	
Direct supervision	500	500	
Social Security	255	255	
Materials	5	5	
Operations overhead	840	200	640
Subtotal:	\$ 4,100	3,460	640
Nonoperating expenses (\$600)			
Advertising	\$ 700		700
Promotion	200		200
Field sales	1,200	200	1,000
Product management	25		25
Marketing management	200		200
Marketing research	175		175
Customer service	1,500	240	1,260
Testing	300		300
General and administrative	1,000		1,000
Subtotal:	\$ 6,000	\$ 440	\$ 5,560
Total	\$10,100	3,900	6,200

The above figure categorizes different kinds of costs. Variable costs are those that vary directly with total volume of sales or production. Such costs normally include materials and direct labor but they also include supplies such as packaging. We assume the variable cost per unit remains constant as volume changes. Fixed costs in general do not vary with production or sales volume. Fixed costs tend to be items such as advertising, customer service, etc.

Classifying Costs

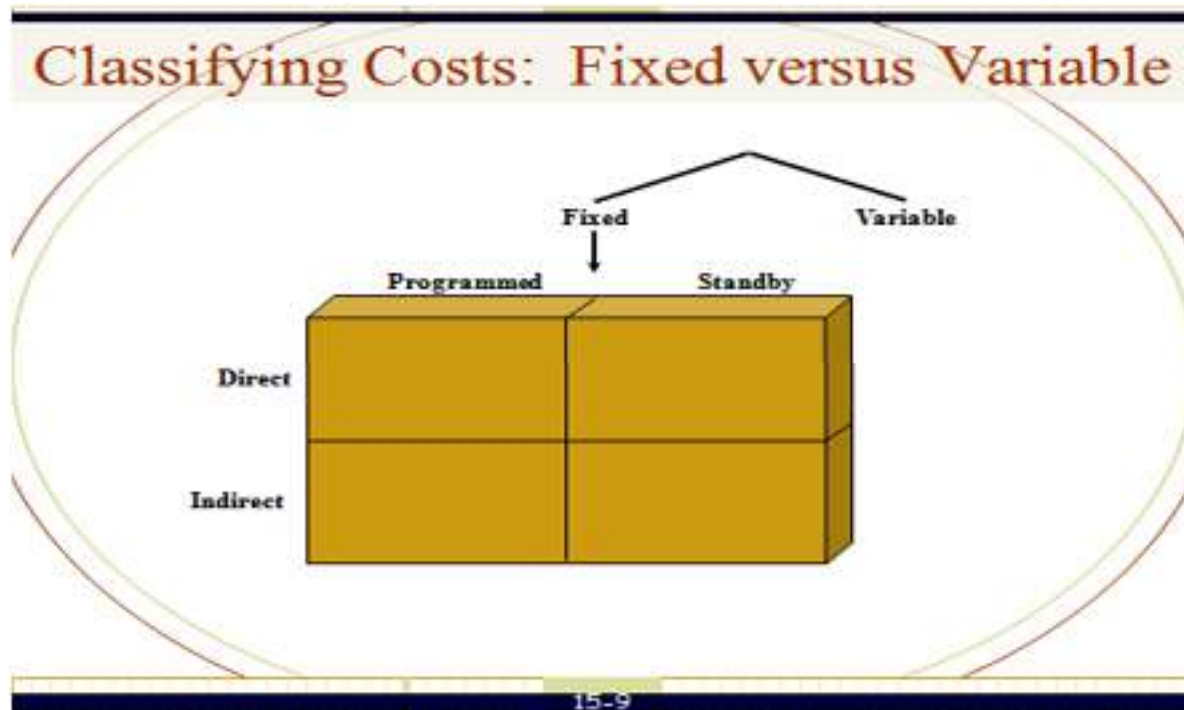


Fig 3.8 Classifying Costs

Examining the operating expenses first, direct labor, social security and materials are variable as they depend on sale volume. Utility bills can vary with production volume, and hence variable, where as depreciation of plant and equipment is fixed. Much of the non operating expense is fixed for field sales which have some commission (fixed percentage of sales) and customer service (on-site service expense is a percentage of the number of s sold).

The contribution margin statement below shows that the revenues remain same at \$ 10 million. However we subtract the variable costs of \$ 3.9 Million, leaving \$ 6.1 million in contribution margin. This is the amount left after direct costs of making the product or delivering the service that will go toward covering fixed costs. Contribution margin rate is the contribution margin divided by the total sales revenue (\$ 6.1 Million divided by \$ 10 Million or 61 %).

- Using the Contribution margin rate
- Breakeven in s= $\text{Fixed costs}/\text{variable margin per}$
- Breakeven in dollars= $\text{Fixed costs}/\text{variable margin rate}$
- Safety factor (amount over or under the break-even volume currently being sold)
- Safety factor= $(\text{Current sales volume}-\text{break-even volume})/\text{current volume}$.

Contribution Margin Statement

Product: NewCall		
Income Statement, December 31, 2005		
(000's)		
Revenues (2M units @ \$5)		\$10,000
Variable costs		
Direct labor	\$2,500	
Direct supervisor/manager	500	
Direct material	300	
Direct manufacturing overhead	500	
Marketing services	300	
Research	50	
Operations research (20% of 2M)	400	
Administrative costs		1,500
Contribution margin @ \$3		\$6,200
Fixed costs		
Operations overhead	600	
Advertising	700	
Production	200	
Field sales	1,500	
Product management	25	
Marketing management	250	
Product development	300	
Marketing research	300	
Customer service	1,200	
Travel	300	
General and administrative	1,500	
Profit before taxes		\$4,200
Operating profit (loss)		(\$100)

Here, the break-even volume in units is the fixed cost figure of \$6.2 million divided by \$ 3.05 or 2032787 units. The break-even volume in dollars is \$ 6.2 million divided by 61% or \$ 10163934. The company NewCall is operating below its break-even level. The safety factor is negative – 21.6%.

Model Questions

1. What are the different pricing tactics?
2. What are final customer promotion strategies and trade promotion strategies.
3. What are final customer promotion strategies and trade promotion strategies.
4. What are the challenges for product managers in understanding accounting profits?
5. What is Contribution margin method?
6. What are the differences between full costing approach and contribution margin approach?

References

1. Designing the Right Product Offerings, Evans and Webster, 2007 , Sloan Management Review available at <https://sloanreview.mit.edu/article/designing-the-right-product-offerings/>
2. <https://archive.ama.org/archive/ResourceLibrary/MarketingResearch/documents/9705084862.pdf>
3. Peng, L & Finn, A (2008). 'Concept testing the state of contemporary practice', Marketing intelligence and planning. 266, pp. 649-674. Available at <http://www.emeraldinsight.com/journals.htm?articleid=1747079&show=abstract> (Accessed 26/11/2012).
4. Product management, Donald R Lehmann and Russell S Winer, fourth edition, 2005, The McGraw-Hill Companies
5. Setting Product Strategy by [https://nscpolteksby.ac.id/ebook/files/Ebook/Business%20Administration/Kotler%20and%20Keller%20Marketing%20Management%2014th%20Edition%20\(2012\)/CChapter%2012%20-%20Setting%20Product%20Strategy.pdf](https://nscpolteksby.ac.id/ebook/files/Ebook/Business%20Administration/Kotler%20and%20Keller%20Marketing%20Management%2014th%20Edition%20(2012)/CChapter%2012%20-%20Setting%20Product%20Strategy.pdf)
6. U.C. Mathur, Product and Brand Management, Excel Books, New Delhi.

Chapter 4 Brands, Branding & Brand Equity

Introduction

During the initial phases of marketing brands and branding techniques were used as a means of identifying and distinguishing the products of one manufacture from another. The origin of the brand is from a German word “burn” which means “to imprint or mark with hot iron” and used for identifying cattle of different cattle farms.

The discipline of brand management was started at Procter & Gamble PLC as a result of a famous memo by Neil H. McElroy, Chief Marketing Officer, P&G PLC. P&G was the first company to create specialized personnel titled as “Brand Manager”. Neil H. McElroy issued a simple and concise description of what he called “Brand Men” and their absolute responsibility for a brand – from tracking sales to managing the product, advertising and promotions. Uniquely he outlined that the way to do this was through thorough field testing and client interaction.

Today a brand signifies different things to different people, to customers brands signify risk reduction, trust, quality, reputation, image, and many more qualities. Customers interpret the brand through every interaction from culture to communications.

To marketers’ brands enable products to establish their core values through powerful branding strategies, to give confidence to investors and shareholders about the capability of the company to create successful products. Brands provide the company an opportunity to charge premium for excellent products. Brands living business assets. Brands Need constant nurturing to keep pace in a rapidly changing world.

Brands exist as a web of associations that consumers have learned and connected to the brand in their memories. This web of associations is called “Brand Knowledge”. Building a brand refers to establishing and maintaining brand knowledge in the minds of consumers. Brand management is actually meaning management.

4.1 Brands and Branding, Types of brands

Definition

The American Marketing Association defines Brand as “A brand is a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.” There are three aspects of this definition. Firstly, it focuses on ‘What’, of the brand. Secondly, it emphasises on what the brand ‘does. A brand can be any combination of name, symbol, logo or trade mark. Brands do not have fixed lifetimes. Under the trade mark law, the users are granted exclusive rights to use brand names in perpetuity.

Brand Name

A good brand name is

1. Be protected (or at least protectable) under trademark law
2. Be easy to pronounce

3. Be easy to remember
4. Be easy to recognize
5. Be easy to translate into all languages in the markets where the brand will be used
6. Attract attention
7. Suggest product benefits (e.g., easy-off) or suggest usage (note the trade off with strong
8. Trademark protection)
9. Suggest the company or product image
10. Distinguish the product's positioning relative to the competition
11. Be super attractive
12. Stand out among a group of other brands like that one compared to the others.

Essentially, a brand is a promise of the seller to deliver a specific set of benefits or attributes or services to the buyer. Each brand represents a level of quality. Irrespective of the fact from whom the brand is purchased, this level of quality can be expected of the brand. A brand is Muchmore complex. Apart from attributes and benefits, it also reflects values.

Evolution of Branding

Classical brand management developed in the retail grocery stores. Manufacturer-retailer relationship underwent transformation in the wake of the Industrial Revolution. Wholesalers were a dominant force then. Manufacturers sold unbranded products to the wholesalers and had little contact with the retailers. But technological advances enabled manufacturer to mass produce goods in anticipation of demand. They questioned their reliance on wholesalers. They tried to protect their investment by branding their products, and by patenting them. They tried to bypass the wholesalers by advertising these brands directly to the consumers. Advertising then focused on creating awareness of a brand, emphasising its reliability, and guaranteeing that branded goods were of a consistent quality.

Manufacturers also began to appoint their own salesmen to deal directly with the retailers. All this happened by the second half of the 19th century. The power shifted from the wholesalers to the manufacturers thanks to the branding process. Manufacturers took efforts to create brand awareness, and to make their brands different from those of the competitors. They also strove to maintain a consistent quality level. Brands came to have three dimensions-differentiation, legal protection and functional communication.

Branding Challenges

1. Well-informed customers After the digital revolution, information is easily available to compare and contrast different brands, the customer has become savvy and it is more difficult to create loyal customers for brands in this scenario.
2. Brand Proliferation There is huge competition in every product category leading to huge clutter in the market. There are many good brand choices for customers in most product categories.
3. Media role the earlier one-way mass communication channels such as TV, Print and Radio have slowly lost their very high importance and direct two-way channels such as social media (Facebook, Twitter, Intergametic) and digital search engines (google, Yahoo, Bing etc.) have gained prominence.

4. Increased Costs Because of increased competition and several good organizations competing with each other, the cost of developing new products and brands is steadily increasing.
5. Greater Accountability In the information age, if any organization is not following authentic and ethical branding strategies, it is very difficult to create a positive reputation and defend the brand in the face of breaching customer trust. Any crisis in the organization can affect the brand image

Branding

Branding is the business process of managing your trademark portfolio so as to maximize the value of the experiences associated with it, to the benefit of key stakeholders, current and prospective

1. Employees
2. Customers
3. Stock/share holders
4. Suppliers
5. Intermediaries
6. Opinion leaders
7. Local commies
8. Purchasers and licensees

Employees The more employees value the company's brands and understand what to do to build them, the more customers, suppliers, local commies and opinion leaders will value them. The more attractive brands are to potential employees, the more they are likely to want to work for the organization.

Customers The more customers value the brand, the more they will buy your products and services, and recommend them to other people. They will also pay a premium for them. This, in turn, will enhance the value of the brands to prospective purchasers and licensees. Research has shown that strong brands are more resistant to crises of reputation.

Stock/shareholders Strong brands multiply the asset value of the company (90% of the asset value of some major corporations lies in their intellectual property), and assure them that the company has a profitable future. They also allow the company to afford to give competitive dividends to current stock/shareholders.

Suppliers like to be associated with strong brands as this benefits their own reputation in the eyes of other current or potential customers. You are therefore likely to get better service at a lower total acquisition cost.

Intermediaries Retailers, distributors and wholesalers' value strong brands as they improve their own profit margins. They are likely to give you more "air time" and shelf space, thus enhancing further the value of brands in the eyes of current and prospective customers.

Opinion Leaders The media, politicians and non-government organisations are more respectful of strong brands.

Local Commies Supportive local authorities are critical for any brand's success. The local commies provide work force and can be highly disruptive if they perceive the company as damaging the environment.

Purchasers and Licensees The question prospective purchasers and licensees ask is "how Muchmore profit can I get for my products and services sold under this brand than under any Brandi might build?" Strong brands can be spectacularly valuable.

Types of brands

Anything and everything can be branded. Different types of brands are

Individual Brands This is typical product brands. For each product or service, a brand is created. Typical product companies in FMCG follows this approach.

Organizations Sometimes also called Corporate Brands, organizations create their own brand image apart from their products and services. Many technology companies, political parties, NGOs build their corporate brands

Personal Brands any person can create his or her own brand. This includes politicians, celebrities, sports stars, movie/TV stars, Fitness and wellness experts, doctors etc

Group Brands A group of branded identities that have inter-connected products and services can form a group brand. Many media houses and companies such as Times Network use this type of branding.

Event Brands Companies that specialise in conducting events for customers form event brands. The hugely successful IPL brand is an example.

Private Label Brands These are also called Store brands, typically grocery chains, supermarkets develop their own product range which competes with national/international brands.

e-brands E-brands exist only in the virtual world. Many e-brands, such as Amazon.com, have a central focus on providing an online front end for delivering physical products or services. Others provide information and intangible services to benefit consumers. Typically, a common denominator among e-brands is the focus on delivering a valued service or experience in the virtual environment.

Key Branding Terminology

Brand

The collective perceptions and impressions people have formed about an organization, its products and/or its services, whether through direct (ads/purchase) or indirect (word-of-mouth) interactions. Any noun can have a brand, including people, places and things — SPORTS PERSONALITIES, FILM STARS ETC

Brand Architecture is the relative structure of an organization's brands. The way in which the brands within a company's portfolio are related to, and differentiated from, one another — i.e, a brand "family tree." Example in FMCG companies a "House of Brands" approach is adopted, where in each product has an individual name. For example, Lux, Dettol etc. In many Technology companies "a

branded house” approach is used, where in all the products have the same name. For example, GE, LG, IBM etc.

Brand Asset Any aspect of a brand that has strategic value — e.g., visual symbols, slogans, sounds, photos, mascots, etc.

Brand Attributes A specific set of characteristics that identify the visual, verbal and behavioural traits of the brand, much in the same manner that personality attributes define the people we know.

Brand Equity The accumulated financial and strategic value of all associations and expectations (positive and negative) that people have of brand. Brand equity can be quantified four ways 1) economic value of the brand and its assets, 2) the price premium that the brand commands, 3) the long term consumer loyalty the brand enjoys, or 4) the market share the brand gains through its reputation alone. brand equity can be negative.

Brand Gap The difference between the brand’s strategy and the actual experience.

Brand Identity The outward expression of a brand — i.e., look-and-feel — as created by a system of standards including colors, fonts, images, photos, graphics and design. (Compare to “Corporate Identity.”)

Brand Image The mental associations, ideas, feelings and beliefs people think of when they see or hear a brand.

Brand Positioning Statement A clear, concise, focused statement capturing the essence of a brand’s differentiation.

Brand Promise

Consumer expectations about what the brand will deliver. The experience — good or bad — one can expect from a brand.

To Do Activity

Read, Reflect and Summarise on “The threat of Fake FMCG Brands in Rural India”

A Few Examples



Reference Links

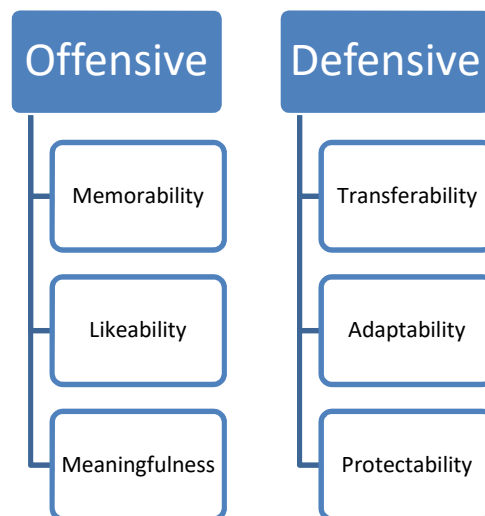
https://www.business-standard.com/article/companies/over-a-fifth-of-fmcg-products-in-india-are-fake-or-smuggled-115090800043_1.html

<https://vrittivaani.wordpress.com/2011/11/06/fake-brands-in-the-race-to-win-the-rural-markets-of-india/>

4.2 Designing a Brand, Brand Identity using Kapferer's Identity Prism

Tangible elements of the brand such as Visual Design (logo, typography, color combination, images, tagline, packaging, URL, Websites, spokes people, characters, slogans, social media pages etc) are called as Brand elements and sometimes as brand design.

Brand elements contribute to the overall brand identity. Brand elements help in identifying the brand, distinguish the brand from competitors and facilitate unique brand associations. The visual identity reflects the brand identity code and has to be managed with strict guidelines for long term consistency without jeopardizing brand identity deviation. Kevin Lane Keller describes four key elements of brand identity URLs, symbols, spokes people, packages and signage and six criteria which play offensive and defensive roles .



1. **Memorability** Brand elements that help achieve a high level of brand awareness or attention to the brand, in turn facilitate the recognition and recall of a brand during purchase or consumption.
2. **Meaningfulness** Here a marketer needs to ensure that brand elements are descriptive and suggesting something about the product category of the brand. This is important to develop awareness and recognition for the brand in a particular product category. Secondly, the brand elements also need to have a persuasive meaning and suggest something about the particular benefits and attributes of the brand. This is necessary for defining the positioning of the brand in a particular category.
3. **Likability** Brand Elements need to be inherently fun, interesting, colourful and not necessarily always directly related to the product. A memorable, meaningful and likable brand element makes it easier to build brand recognition and brand equity, thus reducing the burden on the marketer and thereby reducing the cost of marketing communications. The above 3 criteria constitute the "Offensive Strategy" towards building brand equity
4. **Transferability** is the extent to which brand elements can add brand equity to new products of the brand in the line extensions. Another point, a marketer needs to keep in mind is that the brand element should be able to add brand equity across geographical boundaries and market segments. For example, brand names like "Apple", "Blackberry" represent fruits the world over, thus as a brand name it doesn't restrict brands and product extensions.

5. **Adaptability** Consumer opinions, values and views keep changing over a period of time. The more adaptable and flexible brand elements are the easier it is to keep up changing and up to date from time to time to suit the consumers liking and views. For example, Coca-Cola has been updating its logo over the years to keep up with the latest trends, fashions and opinions.
6. **Protectability** the final criteria in choosing a brand element is that it should be protectable legally and competitively. Brand elements need to be chosen in such a way, that they can be internationally protected legally, legally registered with legal bodies. Marketers need to voraciously defend their trademarks from unauthorized competitive infringements.

The above 3 criteria constitute the "Defensive strategy" towards leveraging and maintaining brand equity

The most ideal brand elements would be those which satisfy all the criteria. But it is not possible to have a brand element which would satisfy all the above criteria. For example, if we choose a brand name which is most meaningful in a country or culture or a market segment, it would be very difficult to make it transferable to other brand extensions and to other cultures and market segments.

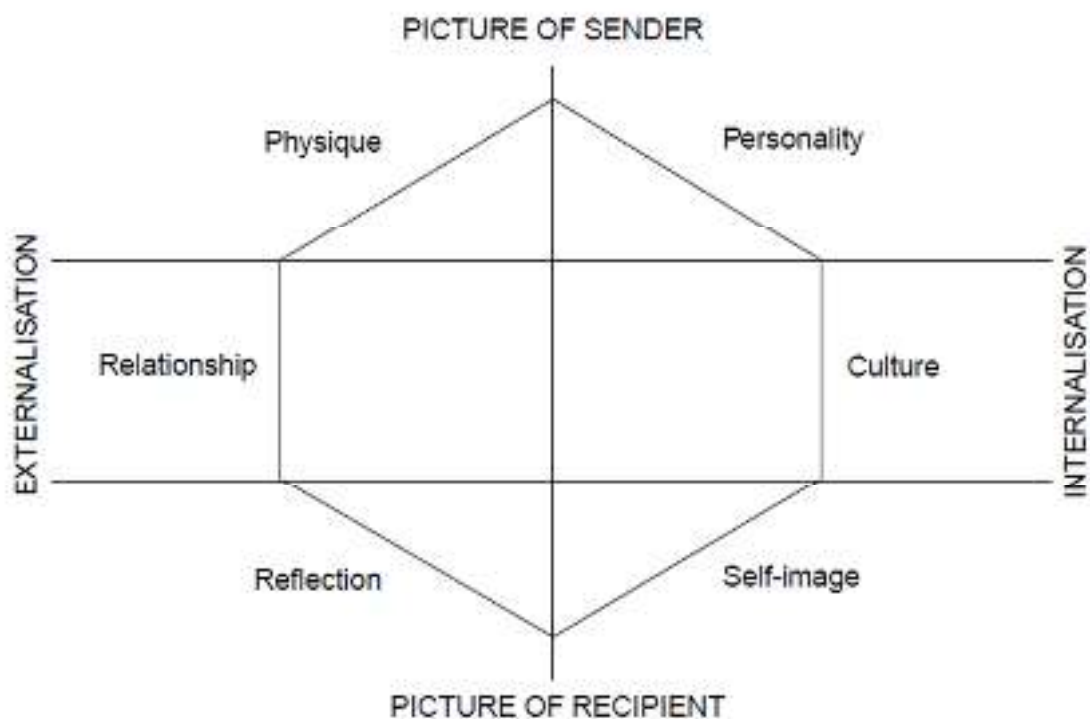


Fig 3.9 The Brand Identity Prism

Image Source <https://marketinglessons.in/kapferer-brand-identity-prism-concept-example/>

The Brand Identity Prism is a concept coined by J. Kapferer in 1986. According to him, any brand can be identified by its characteristics. The Brand Prism is represented by a hexagonal prism which defines 6 characters of a brand.

Physical Characteristics/Physique- Major physical qualities which are seen by the target audience- like its color, shape, logo , design, packaging, slogans or anything that brings an image in the mind of the consumer when thinking or talking about the brand. Ex. The Amul Girl.

Brand Personality- This defines the brand's personality or character. Here the brand is personified and its traits are perceived in the eyes of the consumer in a particular way. It can be related to calling a person shy or stylish or philanthropic. Ex. The Raymond's Complete Man Personality.

Brand Culture- This represents the values and principles a brand stands for. A brand that has a 'Go Green' motto will be eco- friendly is all its aspects- from manufacturing to marketing. Patanjali Ayurvedic products are branded on the usage of natural ingredients and environment friendly nature.

Brand Relationships- The relationship a brand has, with its customers, the way each communication relates to its target audience or how brands influence and provide a particular service to its customers.

Customer Reflection- How a customer reflects with a particular brand. This is different with how customers perceive the brand. This talks more about the consumers who use the brand as opposed to the brand itself.

Customer Self Image- This explains how a customer perceives himself by using the brand. For example- how men and women differentiate certain brands as being masculine or feminine. Understanding the Brand's prism can help a company position the brand better and design effective marketing strategies related to the brand's identity. The brand can be communicated better if its identity is well established.

A few Illustrations of brand Identity Prism



Fig 3.10 A Few Illustrations of Brand Identity Prism

Image Source <http://monitor.icef.com/2016/04/stand-out-from-the-competition-by-sharpening-your-brand-identity/>

AMUL : Kapferer's Prism

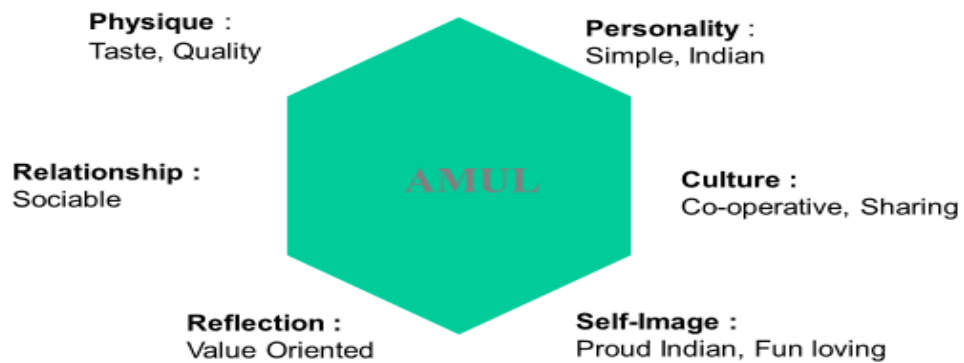


Fig 3.11 AMUL: Kapferer's Prism

To Do Activity

Read and Reflect on "Parle Glucose to Parle G"



4.3 Customer Based Brand Equity Model, Strategic Brand Wheel and Maps

According to Kevin Lane Keller, Brands represent enormously valuable pieces of legal property, capable of influencing consumer behavior, being bought and sold, and providing the security of sustained future revenues to their owner. The value directly or indirectly accrued by these various benefits is often called brand equity.

A basic premise of brand equity is that the power of a brand lies in the minds of consumers and what they have experienced and learned about the brand over time. Brand equity can be thought of as the "added value" endowed to a product in the thoughts, words, and actions of consumers. There are many different ways that this added value can be created for a brand.

Building a Strong Brand

Building a strong brand, is a step wise process, where each step is dependent upon fruitfully achieving the previous step. Certain objectives have to be achieved with customers – both existing and potential customers. The first step is to ensure brand identification with customers and create an association of the brand in customers' minds with a specific product class or customer need. The second step is to firmly ensure the totality of brand meaning in the minds of customers – i.e., by intentionally linking a host of tangible and intangible brand associations/connotations. The third step is to elicit the appropriate customer responses to this brand identity and brand meaning. The fourth and final step is to translate brand response to create an intense, active loyalty relationship between customers and the brand.

The four steps are answers to the 4 questions raised by customers while deciding on choosing a brand or while choosing to remain loyal to the brand.

1. Who are you? (Brand Identity)
2. What are you? (Brand Meaning)
3. What about you? What do I think or feel about you? (Brand Responses)
4. What about you and me? What kind of association and how much of a connection would I like to have with you? (Brand Relationships)

Brand Salience

Achieving the right brand identity involves creating brand salience with customers. Brand salience relates to aspects of the awareness of the brand, e.g., how often and easily is the brand evoked under various situations or circumstances. To what extent is the brand top-of-mind and easily recalled or recognized? What types of cues or reminders are necessary? How pervasive is this brand awareness?

For example, Does the customer think of Cadbury's brand whenever a chocolate image is seen on TV or a hoarding? Or does watching someone drink milk remind the customer of Amul?

The purpose of creating brand salience is to answer the question, what basic functions does the brand provide to customers?

Generally whenever new products are launched in the market, the first few months of the marketing communications are entirely dedicated to create brand salience. Firstly to tell customers the exact nature of problem/need the brand promises to fulfil, the different kinds of situations when the brand addresses customer needs. Later on communication emphasises on several occasions and situations when the brand is the best fit to address customer requirements.

Creating awareness is the foundation as awareness influences the formation and strength of brand associations. High awareness leads to proper category identification and provides clarity to customers regarding the needs that the brand satisfies. Awareness also ensures that the brand remains in the consideration set in the mind of the customer.

Awareness plays a major role in situations of low involvement especially when

- 1) purchase motivation (e.g., when customers don't care about the product or service) or
- 2) purchase ability (e.g., when customers do not know anything else about the brands in a category or lack the expertise to judge quality even if they do know some things).

Key Criteria for Brand Awareness

Brand awareness can be distinguished in terms of two key dimensions – depth and breadth. Depth of brand awareness refers to how easily customers can recall or recognize the brand. Breadth of brand awareness refers to the range of purchase and consumption situations where the brand comes to mind. A highly salient brand is one that has both depth and breadth of brand awareness, i.e., such that customers always make sufficient purchases as well as always think of the brand across a variety of settings when it could possibly be employed or consumed.

Thus, in terms of creating brand salience, in many cases, it is not only the depth of brand awareness that matters, but also the breadth of brand awareness and properly linking the brand to various categories and cues in customers' minds. In other words, it is important that the brand not only be "top-of-mind" and have sufficient "mind share" but it must also do so at the right times and right places.

Breadth is an often-neglected consideration, even for brands that are category leaders. For many brands, the key question is not whether customers can recall the brand or not but, instead, where do they think of the brand, when they do think of the brand, and how easily and often do they think of the brand? In particular, many brands and products are ignored or forgotten at possible usage situations. Increasing the salience of the brand in those settings can be an effective means to drive consumption and increase sales volume.

Brand Performance

Customers are concerned about the primary features of the brand. Customers ask questions about the reliability, durability, and serviceability aspects of the brand. The after-sales services, efficiency of service delivery is important in brand performance. Customers also have to be convinced about empathy during interactions, style, design and pricing of the brand.

Brand performance relates to the ways in which the product or service attempts to meet customers' more functional needs. Thus, brand performance refers to the intrinsic properties of the brand in terms of inherent product or service characteristics. How well does the brand rate on objective assessments of quality? To what extent does the brand satisfy utilitarian, aesthetic, and economic customer needs and wants in the product or service category?

Brand Imagery

Imagery as the word indicates paints a picture of the brand in the mind of the customer. It also adds abstract and addresses psychological and social needs of the customer. Brand imagery is how people think about a brand abstractly rather than what they think the brand actually does. Thus, imagery refers to more intangible aspects of the brand.

Tools for creating brand imagery are

- 1) User profiles. One set of brand imagery associations is the type of person or organization who uses the brand. This imagery may result in a profile or mental image by customers of actual users or more aspirational, idealized users. Associations of a typical or idealized brand user may be based on

descriptive demographic factors or more abstract psychographic factors. Demographic factors might include gender, age, race, income, and marital status. Psychographic factors might include attitudes toward life, careers, possessions, social issues, or political institutions. In a business-to-business setting, user imagery might relate to the size or type of organization. User imagery may focus on more than characteristics of just one type of individual and center on broader issues in terms of perceptions of a group as a whole. For example, during early 2000's chocolates were considered as a product for children, subsequently marketers of chocolates have included teenagers, young adults and even old people as consumers of chocolates.

2) Purchase and usage situations.

A brand should be able to tell customers under what situations is the brand ideal for them. This can be done through several ways

Type of channel (e.g., department store, specialty store, or direct through internet or some other means)

1. Specific store (e.g., Big Bazaar)
2. Ease of purchase and associated rewards, if any. Similarly, associations of a typical usage situation may be based on a number of different considerations, such as
3. Particular time of the day, week, month, or year to use the brand (most retail stores in India offer Wednesday discounts to boost mid-week sales)
4. Location to use the brand (e.g., inside or outside the home)
5. Type of activity where the brand is used (e.g., formal or informal)
6. Personality and values. Brands may also take on personality traits and values similar to people.

Brand personality is often related to the more descriptive usage imagery but involves much richer, more contextual information. Five dimensions of brand personality which have been identified are

1. Sincerity (e.g., down to earth, honest, wholesome, and cheerful)
2. Excitement (e.g., daring, spirited, imaginative, and up-to-date)
3. Competence (e.g., reliable, intelligent, successful)
4. Sophistication (e.g., upper class and charming)
5. Ruggedness (e.g., outdoorsy and tough)
6. History, heritage, and experiences

Brand Responses

Brand responses refer to how customers respond to the brand and all its marketing activity and other sources of information, i.e., what customers think or feel about the brand. Brand responses can be distinguished according to brand judgments and brand feelings, i.e., in terms of whether they arise more from the "head" or from the "heart."

Brand Judgments

Brand judgments focus upon customers' own personal opinions and evaluations with regard to the brand. Brand judgments involve how customers put together all the different performance and imagery associations for the brand to form different kinds of opinions. Customers may make all types of judgments with respect to a brand, but in terms of creating a strong brand, four types of summary brand judgments are particularly important (in ascending order of importance) brand quality, brand credibility, brand consideration and brand superiority.

Brand Feelings

Brand feelings are customers' emotional responses and reactions with respect to the brand. Brand feelings also relate to the social currency evoked by the brand. What feelings are evoked by the marketing program for the brand or by other means? How does the brand affect customers' feelings about themselves and their relationship with others? These feelings can be mild or intense and be positive or negative in nature. A brand can invoke the following types of feelings warmth (think of Hutch Pug), fun (Wonderla), excitement (Mountain Dew), security (life insurance, fire safety), social approval (luxury cars) and self respect (organic products).

Brand Relationships

Brand Resonance

The final step of the model, brand relationships, focuses upon the ultimate relationship and level of identification that the customer has with the brand. Brand resonance refers to the nature of the relationship that customers have with the brand and the extent to which customers feel that they are "in sync" with the brand. Brand resonance is characterized in terms of intensity or the depth of the psychological bond that customers have with the brand as well as the level of activity engendered by this loyalty (e.g., repeat purchase rates, the extent to which customers seek out brand information, events, other loyal customers, and so on). Specifically, brand resonance can be broken down into four categories

1) **Behavioral Loyalty.** The first dimension of brand resonance is behavioral loyalty in terms of repeat purchases and the amount or share of category volume attributed to the brand.

2) **Attitudinal Attachment.** Behavioral loyalty is necessary but not sufficient for resonance to occur. Some customers may buy out of necessity – buying for reasons such as because the brand is the only product being stocked or readily accessible, the only one they can afford to buy, and so on. To create resonance, there needs to also be a strong personal attachment too. Customers should go beyond having a positive attitude to view the brand as being something special in a broader context. For example, customers with a great deal of attitudinal attachment to a brand may state that they "love" the brand, describe it as one of their favorite possessions, or view it as a "little pleasure" that they look forward to.

3) **Sense of Community.** The brand may also take on broader meaning to the customer in terms of a sense of community. Identification with a brand community may reflect an important social phenomenon whereby customers feel a kinship or affiliation with other people associated with the brand. These connections may involve fellow brand users or customers or, instead, may be employees or representatives of the company.

4) **Active Engagement.** Finally, perhaps the strongest affirmation of brand loyalty is when customers are willing to invest time, energy, money, or other resources into the brand beyond those expended during purchase or consumption of the brand.

Box 4.3

Example of CBBE Model Nescafe

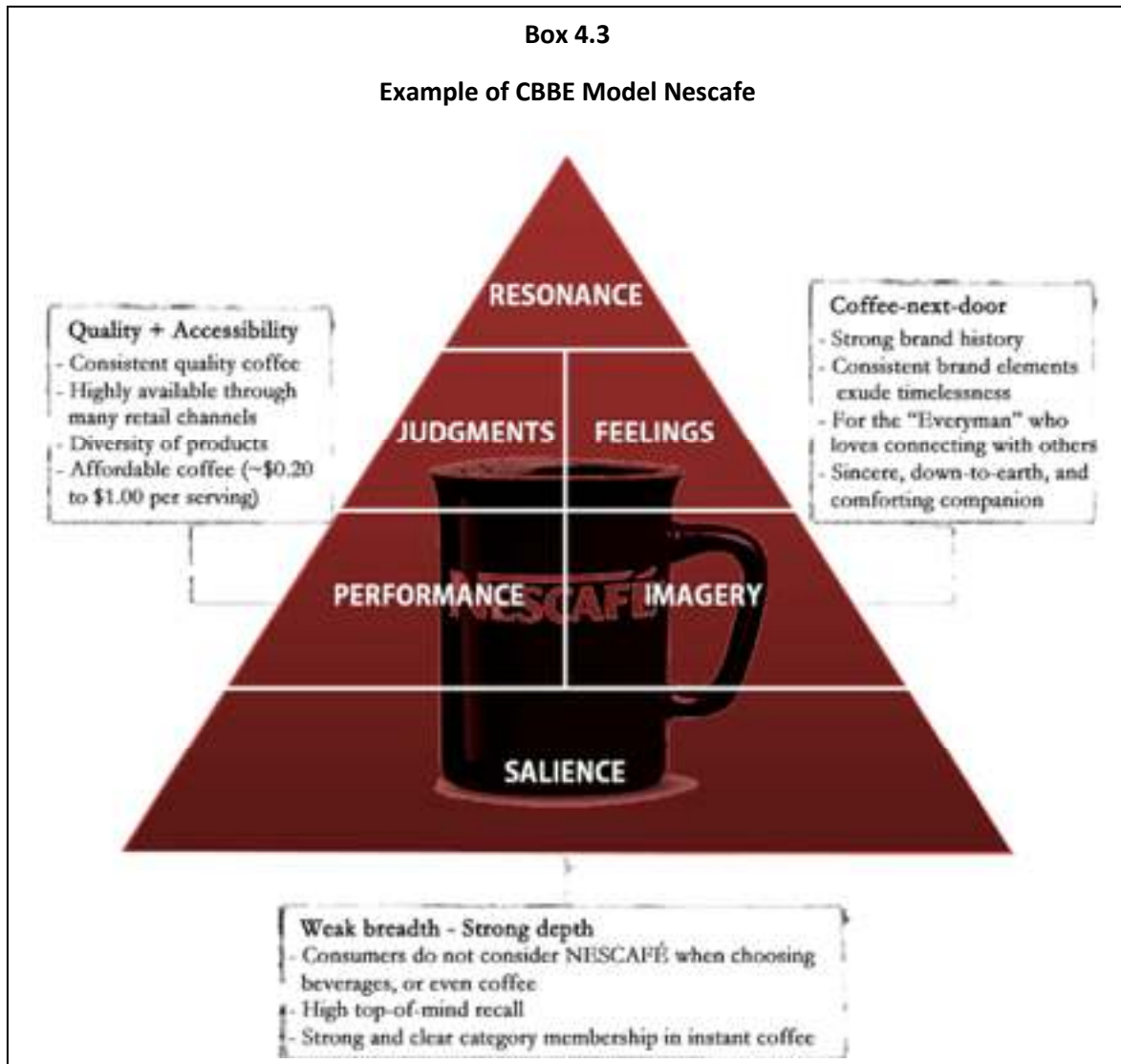


Fig 3.12 Example of CBBE Model Nescafe

Strategic brand Wheel

This is another model to represent a brand.

Brand Essence is the core of the brand, the sum of all characteristics in the wheel. Personality depicts what type of person the brand would represent if viewed as a Person. Values depict fundamental pillars of the brand such as purity, innovation or honesty etc. Benefits depict the gains to the customer while using the brand and attributes depict the physical features of the brand.

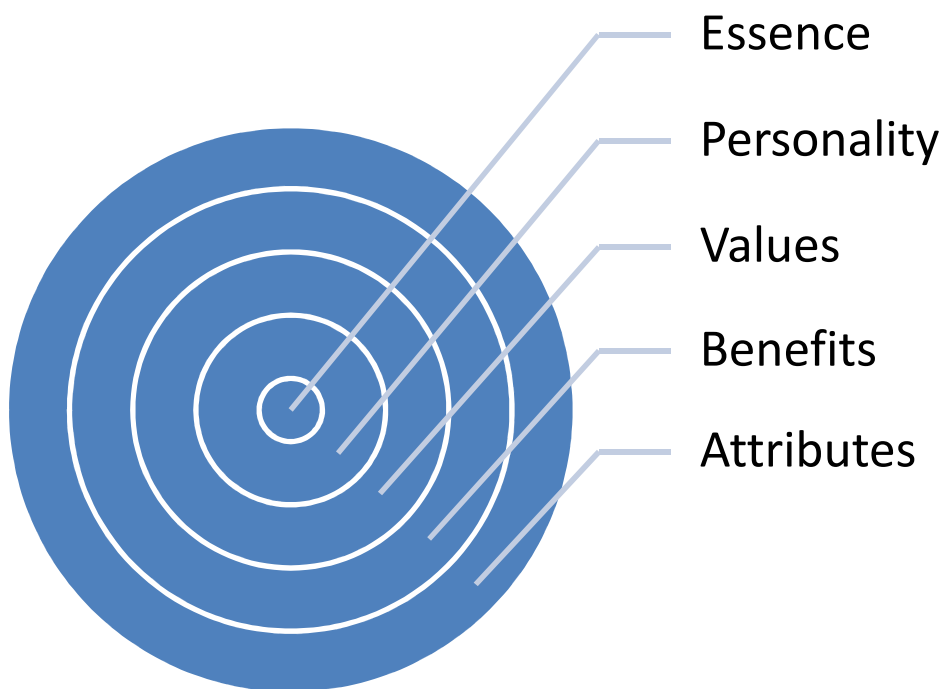


Fig 3.13 Strategic Brand Wheel

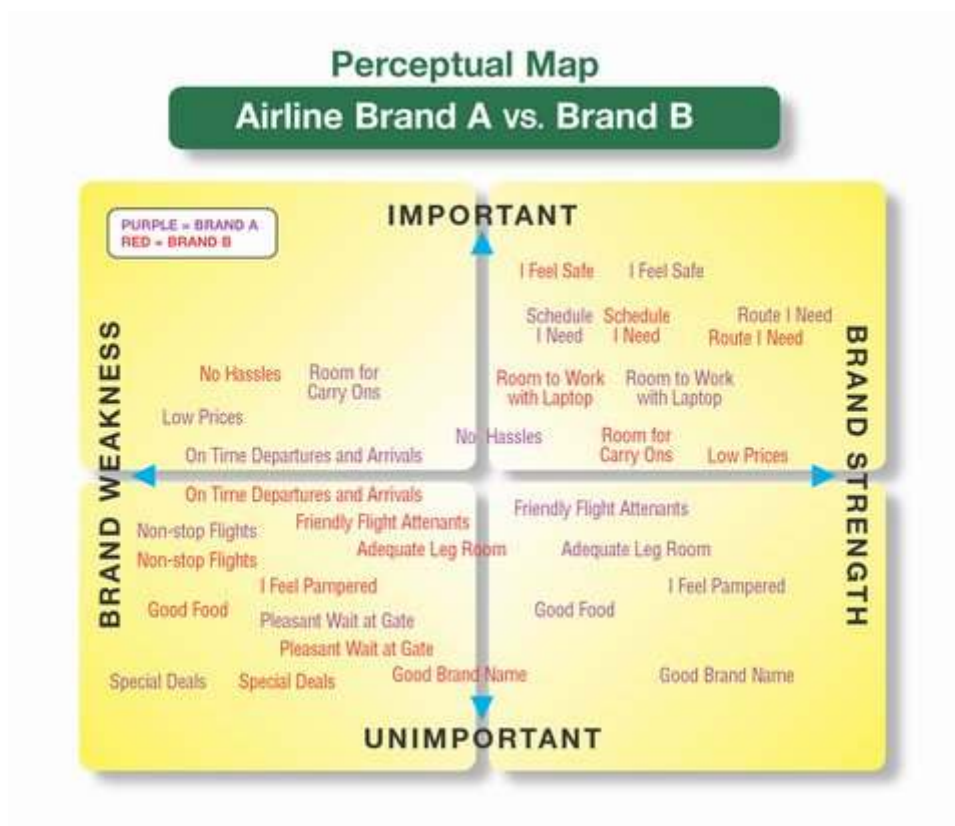


Fig 3.14 Brand Mapping

Image Source <https://www.brandingstrategyinsider.com/2009/09/brand-positioning-and-perceptual-maps.html#.W-FxYjHhW1s>

Brand mapping is an exercise followed to identify what position the brand occupies in the mind of the customer. The above diagram represents two airline brands and customers are asked for their opinions on two aspects typically plotted as X and Y axis on a graph. Here X axis represents Brand strength and Brand weakness at two end points, Y axis represents important and unimportant at two ends. The red color entries are brand B and purple colored entries are brand A.

The more number of entries closer to the axis shows the positioning of the brand towards that aspect in the customers mind. For example, Brand B the strength comes from low prices, and weakness is lack of good food.

The positioning maps are very useful tools to develop actual positioning statements for the brand discussed in the next .

4.4 Brand Mantra and Brand Positioning

Brand Mantra

Brand mantra is an articulation of the “heart and soul” of the brand, similar to “brand essence” or “core brand promise” . it is a short three- to five-word phrases that capture the irrefutable essence or spirit of the brand positioning and brand values. The considerations for brand mantra are to communicate, simplify and inspire customers.

Brand mantras help the brand present a consistent image. Any time a consumer or customer encounters a brand—inany way, shape, orform—hisor her knowledge about that brand may change and affect the equity of the brand. Given that a vast number of employees come into contact with consumers, either directly or indirectly, their words and actions should consistently reinforce and support the brand meaning.

Brand Mantra Components The term brand functions describes the nature of the product or service or the type of experiences or benefits the brand provides. The descriptive modifier further clarifies its nature.

The emotional modifier provides another qualifier—how exactly does the brand provide benefits, and in what way?

Brand function typically addresses the need identification question for the customer. The descriptive modifier addresses the question on attributes and features of the brand, whereas the emotional modifier talks to a customer from a feelings perspective. When used effectively in combination, brand mantras are powerful in making the brand “stick” and invoke the right responses from customers over time.

A few examples are given below

Table 4.1 Designing a Brand Mantra

Brand	Emotional Modifier	Descriptive Modifier	Brand Functions
Nike	Authentic	Athletic	Performance
Disney	Fun	Family	Entertainment
McDonald’s	Fun	Folks	Food
Tanishq	Indian, Classic yet contemporary	Exclusive designs	Jewelry

Brand mantras derive their power and usefulness from their collective meaning. Other brands may be strong on one, or perhaps even a few, of the brand associations making up the brand mantra. For the brand mantra to be effective, no other brand should singularly excel on all dimensions.

For brands facing rapid growth, a brand functions term can provide critical guidance as to appropriate and inappropriate categories into which to extend. For brands in more stable categories, the brand mantra may focus more on points-of-differences as expressed by the functional and emotional modifiers, perhaps not even including a brand functions term.

What does a Brand Mantra do?

Communicate A good brand mantra should both define the category (or categories) of the business to set the brand boundaries and clarify what is unique about the brand.

Simplify An effective brand mantra should be memorable. That means it should be short, crisp, and vivid. A three-word mantra is ideal because it is the most economical way to convey the brand positioning.

Inspire Ideally, the brand mantra should also stake out ground that is personally meaningful and relevant to as many employees as possible. Brand mantras can do more than inform and guide; they can also inspire, if the brand values tap into higher-level meaning with employees as well as consumers.

Brand Positioning

“... the act of designing the company’s offer and image so that it occupies a distinct and valued place in the target customer’s minds.”-Philip Kotler A brand positioning strategy therefore involves creating brand associations in customers’ minds to make them perceive the brand in a specific way. By shaping consumer preferences, brand positioning strategies are directly linked to consumer loyalty, consumer-based brand equity and the willingness to purchase the brand. Effective brand positioning can be referred to as the extent to which a brand is perceived as favorable, different and credible in consumers’ minds.

1. Determining a frame of Reference

A brand’s frame of reference is the context in which consumers view it. The first thing consumers will try to figure out is the category the brand belongs to. In many instances, brand-category associations are straightforward. Pepsi belongs to the carbonated soft drink category. So marketers establish communications which clearly inform customer the frame of reference for the brand. If a customer is confused about the category identification or frame of reference then the customer may not consider the brand during the purchase situation.

2. What are the ideal points-of-parity and points-of-difference brand associations vis-à-vis the competition?

In order to develop the brand positioning strategy, marketers need to know

- Who the target consumer is complete customer profile in terms of socio-economic background, lifestyle, media habits, cultural beliefs etc.
- Who the main competitors are all companies that appear to offer similar products/services to customers or addressing the same customer concerns

- How the brand is similar to these competitors similarity can be assessed in terms of brand mantra, physical features, descriptive and emotional modifiers.
- How the brand is different from them marketers ask the question how is our brand different from close competitors from all aspects of buying, using and servicing, including psychological advantages of their brand versus competitors.

3. Target Market The marketer has to select the target market for different brands

A market is the set of all actual and potential buyers who have sufficient interest in, income for, and access to a product.

Market segmentation divides the market into distinct groups of homogeneous consumers who have similar needs and consumer behavior, and who thus require similar marketing mixes.

Market segmentation requires making tradeoffs between costs and benefits.

Example from Toothpaste Market

Four main segments

1. Sensory Seeking flavor and product appearance
2. Sociables Seeking brightness of teeth
3. Worriers Seeking decay prevention
4. Independent Seeking low price

Depending on the market potential of the above 4 customer segments, marketers may decide to create specific products for each customer group or in some cases one product can offer two or three benefits for different customer groups. A toothpaste may promise to offer brightness of teeth with fighting decay properties.

4. Points of Difference and Points of Parity

Points-of-difference (PODs) are attributes or benefits that consumers strongly associate with a brand, positively evaluate, and believe that they could not find to the same extent with a competitive brand.

Companies possessing strong uniqueness or innovation in products adopt POD positioning. It is powerful in creating a unique association in customers minds.

The risk with this strategy is if the uniqueness is easily copied by other companies, then the differentiation is lost.

For example

Margo Neem Soap Margo's strength is its health positioning supported through ingredients like neem leaves. It is a popular brand in Eastern India. However, the benefit of neem attracted other brands too to follow the suit.



Fig 3.14 Example of Points-of-Parity Associations

Points-of-parity associations (POPs), on the other hand, are not necessarily unique to the brand but may in fact be shared with other brands.

Many Chinese mobile phone brands are positioning in India such as Redmi have adopted POP positioning by offering all features and benefits of leading brands such as Apple and Samsung at affordable pricing.

Companies need to change their positioning under different market situations. Below are various circumstances

Brand is a market leader – In this case, the brand needs to highlight the superior and key differences, thus the brand needs to focus on its Points of Differences.

1. Brand as a “me-too” or a follower brand – In this case, the brand needs to piggy-back on the market leader, hence the brand needs to highlight the points of parity with the market leader.
2. Brand entering an established and mature market – In this case, since the consumer switching would be low due to customer loyalty, hence the brand needs to highlight the points of difference.
3. In a target market where the brand offers multiple products – In this case, the brand should emphasize on the Points of Difference of all the products in order to avoid the cannibalization.
4. In a price sensitive market – In this case, the brand needs to provide additional benefits to the customers, so that customers feels he’s getting more value for his money. Thus emphasis should be on Points-of-difference.

5. Choosing POP’s and POD’s

Desirability criteria (consumer perspective) Customers want brands to be personally relevant, distinctive and superior, believable and credible

Deliverability criteria (firm perspective) Marketers have to analyse the feasibility of offering, profitability and decide on major strategy which can be pre-emptive, defensible, and difficult to attack.

To Do Activity

Study and Reflect on Ghari Detergent



Reference Links

<http://ideasmakemarket.com/2015/05/curious-case-ghari-detergent.html>

[//economictimes.indiatimes.com/articleshow/62060828.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst](http://economictimes.indiatimes.com/articleshow/62060828.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst)

To Do Activity

Read and Reflect on **Maggi Brand Positioning**

Reference Link: <http://www.indianmediastudies.com/brand-positioning-repositioning/>

4.5 Measuring Brand Equity

Brand Equity Measurement using Brand Value Chain

The brand value chain is a structured approach to assessing the sources and outcomes of brand equity and the manner by which marketing activities create brand value.

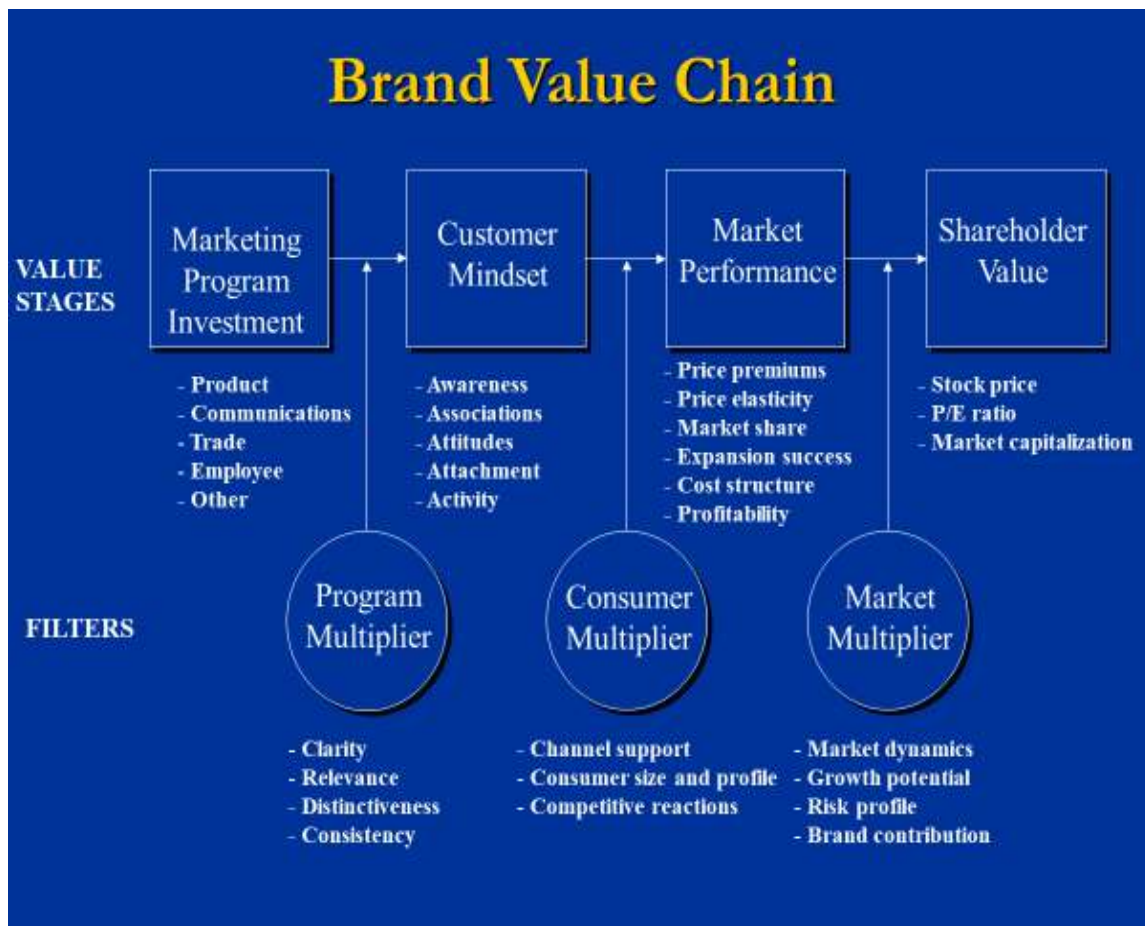


Fig 3.14 Brand Value Chain

Value Stages

Marketing program investment

Any marketing program that can be attributed to brand value development. The company undertakes marketing programs to develop the brand value, create positive perception and loyalty for the brand.

Customer mindset

In what way have customers been changed as a result of the marketing program?

The impact of the marketing program is checked in terms of customer research, has the preference, intention to buy, recommend the brand changed?

Market performance

How do customers respond in the marketplace?

Ideally if program investment is going in the right direction, the brand communications will create positive responses from customers in the form of mindset change as well as behaviour change and market share of the brand will increase.

Shareholder value In for profit companies, investors are keen to see returns on their investments in the form of increased shareholder value.

Multipliers

At every stage in the brand value chain there is a multiplier or a qualifier which has to be effective in order to achieve the desired goals of building the brand.

Program quality multiplier

The ability of the marketing program to affect customer mindset and must be clear, relevant, distinct, and consistent

Customer multiplier

The extent to which value created in the minds of customers affects market performance and it depends on factors such as competitive superiority, channel support, and customer size and profile

Market multiplier

The extent to which the value generated through brand market performance is manifested in shareholder value and it depends on factors such as market dynamics, growth potential, risk profile, and brand contribution

The Brand Equity Measurement System

A set of research procedures that is designed to provide timely, accurate, and actionable information for marketers so that they can make the best possible tactical decisions in the short run and strategic decisions in the long run using brand audits.

A brand audit requires understanding the sources of brand equity from the perspective of both the firm and the consumer. From the perspective of the firm, what products and services are currently being offered to consumers and how are they being marketed and branded? From the perspective of the consumer, what deeply held perceptions and beliefs create the true meaning of brands and products?" – Kevin Keller, Strategic Brand Management

Assess how well the brand delivers against company objectives § Identify customer wants, needs, and trends at the category level § Inventory and categorize brand portfolio elements and assets (trademarks, sub-brands, logos, taglines) § Evaluate the brand's current image (how it is perceived by customers and other key stakeholders) § Identify potential sources of differentiation, tables, takes and vulnerabilities.

A Comprehensive Brand Audit Involves

1. Corporate Information Company mission, vision and values statements, Financial performance and trends (e.g., revenue, profits, margins), Customer service records, Patents and other intellectual property
2. Industry Information Third party research about the competitors in the industry (e.g., financial analysts, syndicated market research, government agencies, industry associations), the company's own research studies (e.g., tracking research, focus groups)
3. Marketing Information Current and past advertising and promotional collateral for the brand and competitors (within and beyond the specific category), Social media reports and conversation analyses.



Sample Brand Audit Outline

1. Company or business unit's strategic direction
 - a. Company / BU growth objectives
 - b. Business model, e.g. direct to consumer, channel partners
 - c. Key alliances / co-branding partners
 - d. Strategic initiatives and implications for brand
 - e. Core competencies and personality
2. Consumer wants and needs
 - a. Target market (category and brand-specific):
 - i. Category purchase or usage behavior
 - ii. Demographic and psychographic characteristics
 - iii. Geographic concentration
 - b. Audience size and segmentation
 - i. How is market typically segmented? e.g., by product type, quality tiering, etc.
 - ii. How big are these segments, where is the volume?
 - c. Target wants and needs relative to the category
3. Market definition and attractiveness
 - a. Define the industry or category your brand is in
 - b. Show industry or category size (revenues), growth over the past 3 years, and projected growth over the next 3 years
 - c. Assess industry/category competitiveness, e.g. industry concentration, number of competitors
 - d. Identify and profile the relevant competitive set, e.g.,
 - i. Most current market share and recent trend
 - ii. Salient brand attributes or descriptors
 - iii. Perceived strengths and weaknesses
 - iv. Implied positioning and brand imagery
4. Current brand image
 - a. What is the brand known for?
 - b. What brand elements are associated with the brand, e.g., trademarks, sub-brands, logos, taglines
 - c. Brand attributes / customer associations
 - d. Points of parity / points of differentiation vs. competition
 - e. Current positioning - taglines, brand visuals/symbols, current ad campaigns

Fig 3.15 Brand Audit

Three Circle Analysis

A comprehensive brand audit will reveal new growth opportunities for the brand, and new ways to make the brand resonate with a new generation of target customers who will represent the brand's

bigger future. Completing a brand audit is a chance to take a fresh and objective look at the brand from a number of critical perspectives.

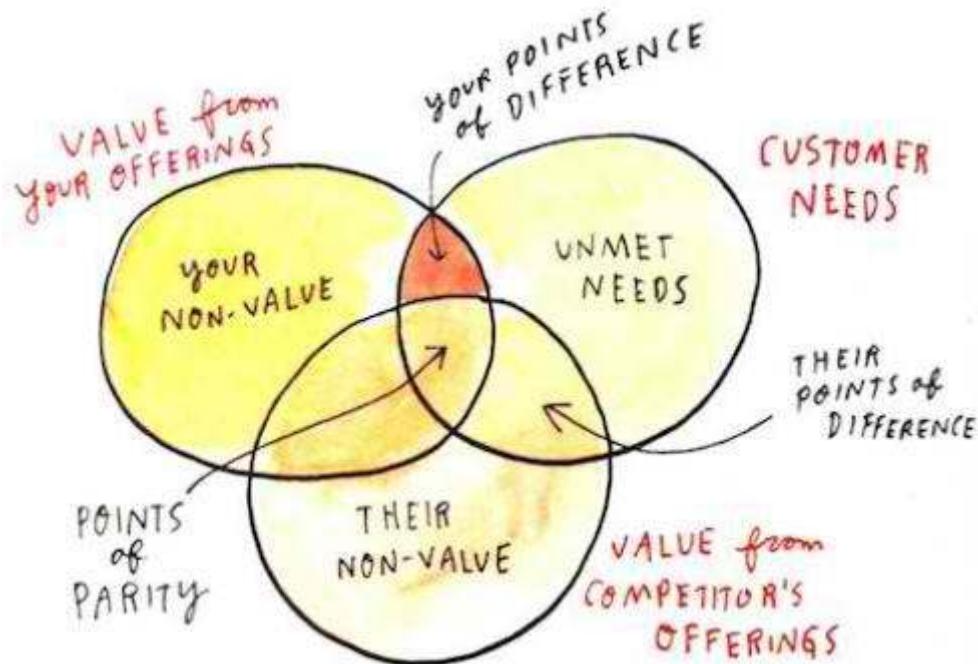


Image Source <https://www.brandingstrategyinsider.com/brand-audit>

This type of brand audit is called 3 circle analysis

1. Potential Point of Differences

It focuses most attention on points of difference as potential sources of competitive advantage. It highlights potentially leverageable points of parity as well as unaddressed customer needs. If these are important to customers and if no one else is talking about them, or if the company’s brand can talk about or deliver them uniquely, they may be more relevant and potentially more differentiating than ‘points of difference.’

2. Refocus on Customer Needs

It allows careful consideration of the brand’s areas of ‘non-value’ –features that may be differentiating or important to keeping up with competitors but that are not important to customers.

3. Ensures Clarity of Competitors Point of Differences

It ensures a close look at potential points of vulnerability. The competitive landscape is dynamic, meaning today’s advantage can be leapfrogged at any moment. Competitive intelligence is not the same as competitive insight. Brands need to keep a keen eye on competitors’ points of difference as well as their own not just for today but for near term (3 -5 years) and if possible long term (10-15 years).

Companies need to develop brand tracking procedures. Tracking studies involve information collected from consumers on a routine basis over time, often done on a “continuous” basis. These studies provide descriptive and diagnostic information.

Tracking studies can be customized tracking surveys to address the specific issues faced by the brand. It usually includes product-brand tracking, corporate or family brand tracking and global tracking.

To Do Activity

Read, Reflect and Summarise on **“Mystery Shopping Audits in India”**

<https://trak.in/tags/business/2012/03/20/indian-brands-mystery-shopping-services/>

Model Questions

1. Distinguish between picture of sender and picture of receiver concepts of brand identity?
2. Who are the components of brand identity as per Kapferer?
3. What is a customer based brand equity?
4. Examine the CBBE pyramid?
5. Explain how a consumer evaluates brand mantra?
6. What is a brand Value Chain?
7. Explain how the 3 circle analysis works?
8. What is brand audit?

References

1. Phillips and Hopelain, 2015, <http://www.brandamplitude.com/images/brandaudit.pdf>
2. Strategic Brand Management. Building, Measuring, and. Managing Brand Equity. Kevin lane Keller. Tuck School of Business. Dartmouth College. 4e.

Chapter 5

Brand Positioning & Branding Strategy

Introduction

Brands may be linked to other entities that have their own knowledge structures in the minds of consumers, based on which consumers may assume or infer that some of the associations or responses that characterize the other entities may also be true for the brand.

This indirect approach to building brand equity is called leveraging secondary associations.

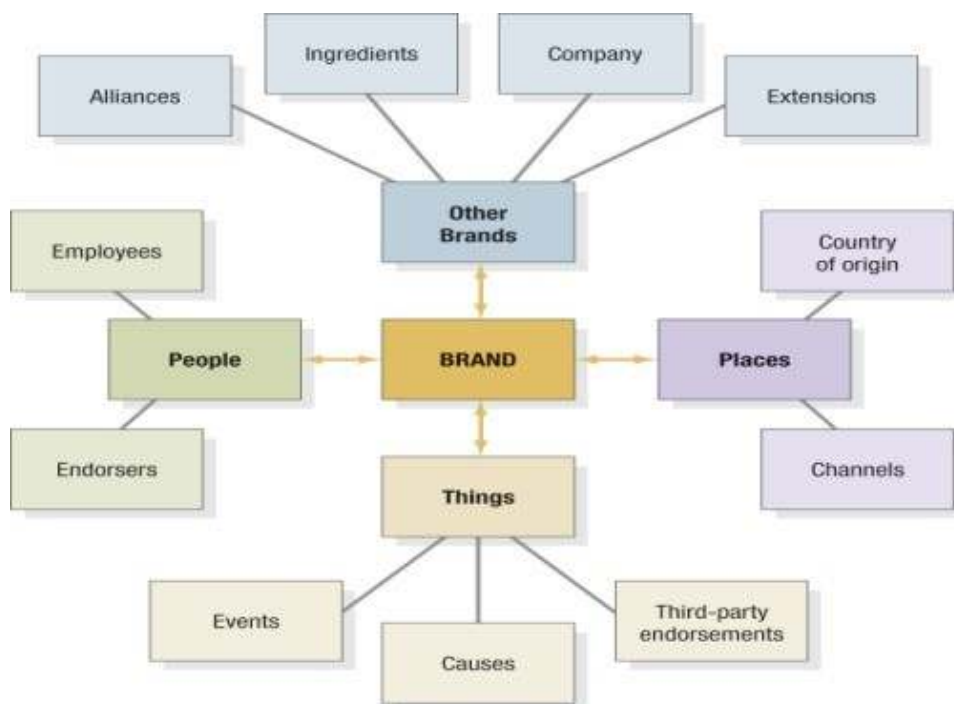


Diagram source <https://rmnisperos.com/marketing/>

5.1 Leveraging Secondary Associations to Build Brand Equity

Brand associations may themselves be linked to other entities, creating secondary associations. Company (through branding strategies) Creating strong perception regarding corporate brand or company values, ethics, etc. for example many Tata products carry a line in the Brand Signage declaring "A Tata product"



Fig 5.1 Country of origin (through identification of product origin)

Before 2000, developed countries such as USA, Japan, and Germany are associated with high quality products and developing countries, such as China and Korea are associated with poorer quality products, however with major manufacturing of technology and other products shifting to China and other Asian and South Asian countries, the perceptions have also been changing.

Consumers often identify and develop beliefs about the country of origin and capabilities to make specific products. For example,

Levi's Jeans of States

BMW- Germany

Gucci Shoes and Purses- Italy

Consumers can also form associations based on region or state within a country such as Saffron from Jammu & Kashmir, Tea from Assam etc.

Channels of distribution (through channels strategy)

Customers may believe certain channels to be more authentic than others. The reputation of the channel partner affects the brand perception and vice versa. Many customers may not trust online e-commerce channels to purchase luxury brands for the fear of fake products.

Other brands (through co-branding) Two or more well known brands are offered together. The Consumer electronics company LG has co-branded with the bank SBI, Hindustan Petroleum has co-branded with ICICI bank .

Special case of co-branding is ingredient branding For example "Intel Inside" , an Intel processor in computers/laptops manufactured by different companies. Teflon coated Cookware. Etc

Characters (through licensing) Disney Pictures has an agreement with fast food company McDonalds for advertising its movies as Toys with McDonald's "Happy meal".

Celebrity spokesperson (through endorsement advertising) An example is of FMCG Indian company Dabur India, using Amitabh Bachchan and M S Dhoni for Dabur Chavanprash for pan India and regional film and TV personalities for rural markets. Kajal Agarwal endorsed Dabur Amla Hair Oil in

south India and Ravi Kishen was the brand ambassador for Dabur Lal Dant Manjan for Hindi Speaking belt in India.

Events (through sponsorship) Many companies in rural markets associate themselves to events. Lifebouy has associated with Kabaddi and Football sports events. General Insurance Company has been associated with Kumbh and Pushkar melas.

Other third party sources (through awards and reviews) Brands use awards and recognitions in marketing messages to improve confidence among consumers. For example, various toothpaste brands are linked in India with Indian Dental Association, British Dental Association, etc.

Conceptualizing the Leveraging Process

- Creation of New Brand Associations Brands can choose to create new brand associations, for example Kellogg's Cornflakes have been promoted as 4 PM evening Snack for school going children (earlier promoted only as breakfast cereal). This is an attempt at creating new association for the brand.
- Effects on Existing Brand Knowledge
 1. Awareness and knowledge of the entity Whenever new associations are added, the aim of the marketer is to increase the awareness and knowledge of customers about the entity.
 2. Meaningfulness of the knowledge of the entity The marketing team has to be careful in ensuring that the new entity chosen must help in deepening the meaningfulness of the brand.
 3. Transferability of the knowledge of the entity Sometimes when brands use celebrities to build secondary associations, the transferability may be hampered if the celebrity is not a good fit with the brands values.

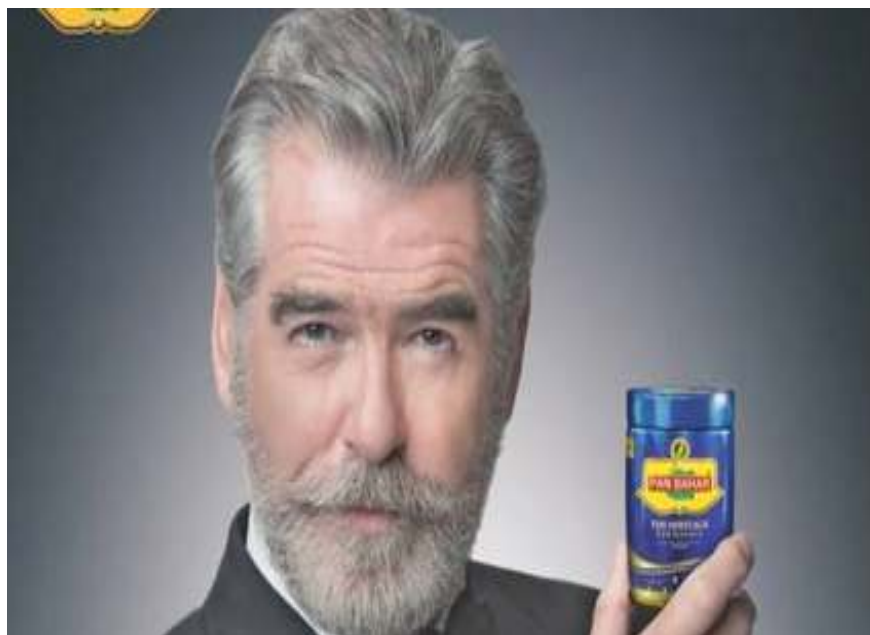


Fig 5.2 Example of Brand Celebrity

One example of Brand-Celebrity mismatch can be, the Hollywood Film Star Pierce Brosnan endorsed an Indian Pan Masala Brand-Pan Bahar.

- Guidelines
 1. Commonality consumers have associations to another entity that are congruent with desired brand associations
 2. Complementary how much value of the entity brand would add to the existing brand.

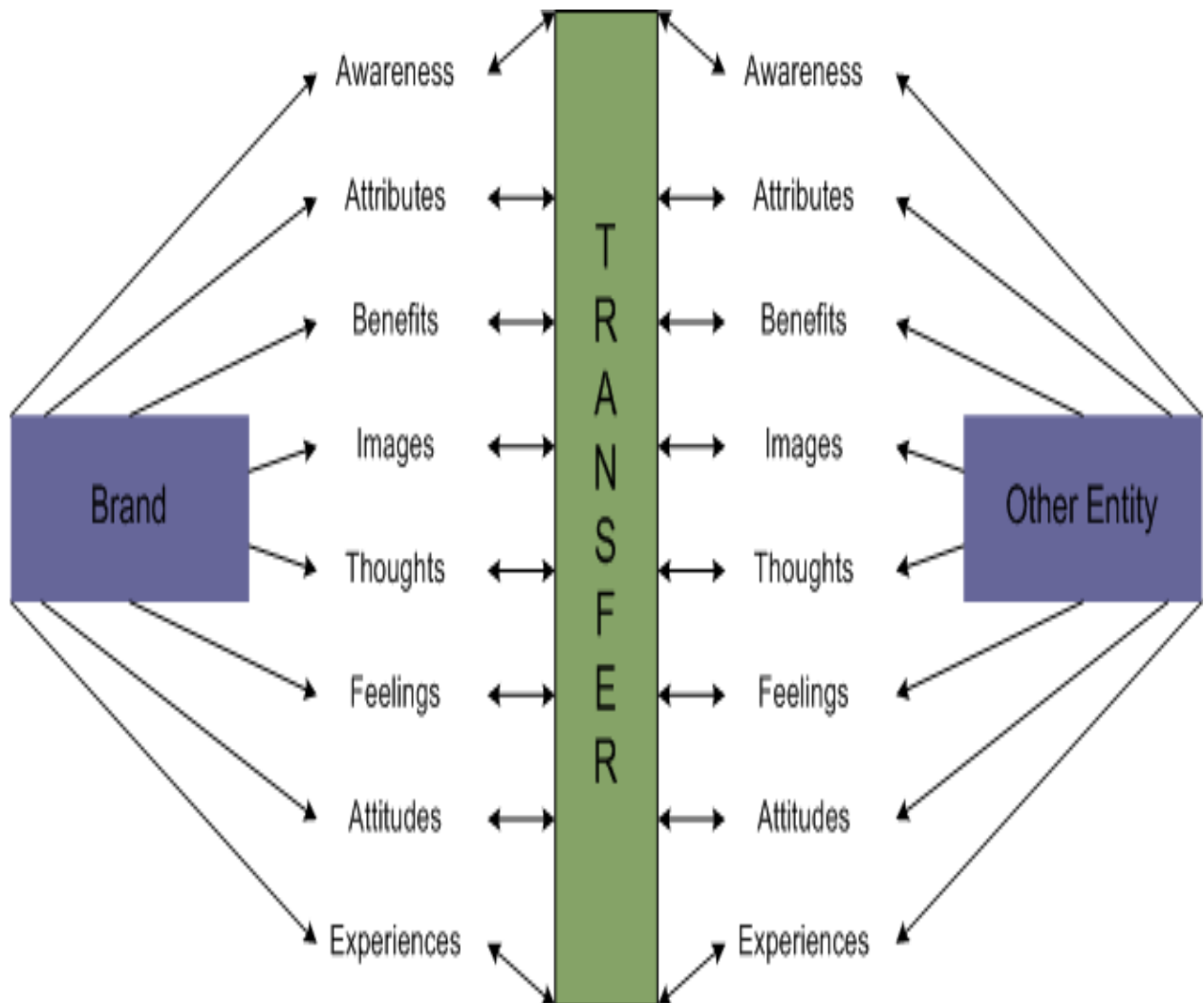


Fig 5.3 Understanding Transfer of Brand Knowledge

The aim of leveraging secondary associations is to ensure that brand knowledge is transferred in terms of awareness, attributes, benefits, images, thoughts, feelings, attitudes and experiences.

To Do Activity

Read, Reflect and summarise on “Amar Ujala in Rural India”

Reference

<https://businesswireindia.com/news/fulldetails/our-success-rural-marketing-initiatives-can-be-attributed-3-as-affordability-activation-amplification-probal-ghosal-director-amar-ujala/53222>

5.2 Integrating Marketing Communications to Build Brand Equity

Marketing communications are various messages by which firms attempt to inform, persuade, and remind consumers about the brands they sell

1. Marketing communications
2. Can contribute to brand equity by
 - a. Creating awareness of the brand
 - b. Linking points-of-parity and points-of-difference associations to the brand in consumers' memory
3. Eliciting positive brand judgments or feelings
4. Facilitating a stronger consumer-brand connection and brand resonance

Marketing Communications Options

There are several options for brands to choose from

1. Media Advertising TV, radio, Newspaper, Magazines
2. Place or Out of Home Media Billboards and posters, movies, airlines, product placements in retail or other areas, point of purchase
3. Sales Promotions are of 2 types, trade and consumer.
4. Trade promotions Point of purchase displays at channel members locations, wholesales, retail, intermediaries etc, contests and dealer promotions, trade shows, co-operative advertising.
5. Consumer promotions samples, discounts, premiums, bonus packs etc
6. Event sponsorships sports, arts, entertainment, fairs and festivals, cause related campaigns
7. Online and mobile channels such as websites, interactive advertisements, social media including, face book, twitter, LinkedIn, search engine marketing, mobile applications etc
8. Personal Selling Business to Business companies utilize personal selling as a major channel. Sales and business development executives meet customers and persuade them to prefer the company's products.
9. Direct Marketing Some companies choose to eliminate middle-men or intermediaries and directly market their products to end customers. Such customers can use mail order catalogues/ online e-commerce websites or TV advertising. Products are directly shipped to the customer.
10. Public Relations Publicity is non personal communications such as press releases, media interviews, press conferences, feature articles, newsletters, annual reports, etc.

Challenges in Designing Brand-Building Communications

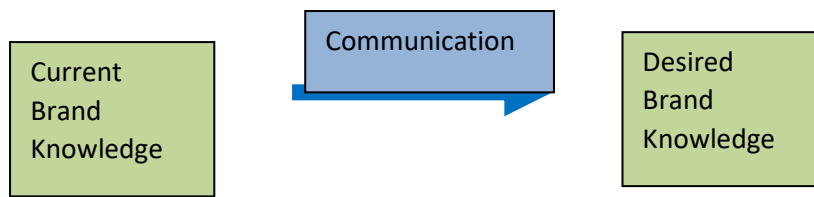


Fig 5.4 Ensuring Right Customer Knowledge

Most marketing teams would conduct a simple marketing communication effectiveness test to answer the following questions

1. What is the customer's current brand knowledge? Has the company created a detailed mental map?
2. What is the desired brand knowledge? Has the company defined optimal points of parity and points of difference and a brand mantra?
3. How does the communication option help the brand get from current to desired knowledge position in the minds of target customers? Has the company clarified the specific effects on knowledge engendered by communications?

Information Processing Model of Communication

For a person to be persuaded by any form of communication the following steps must occur

1. Exposure
A person must see or hear the communication.
2. Attention
A person must notice the communication.
3. Comprehension
A person must understand the intended message or arguments of the communication.
4. Yielding
A person must respond favorably to the intended message or arguments of the communication.
5. Intentions
A person must plan to act in the desired manner of the communication.
Behavior A person must actually act in the desired manner of the communication

Table 5.2 Comparisons between different Types of Marketing Communications

	Advertis- ing	Sales promotion	Public relations	Personal selling	Direct marketing
Communications					
Ability to deliver a personal message	Low	Low	Low	High	High
Ability to reach a large audience	High	Medium	Medium	Low	Medium
Level of interaction	Low	Low	Low	High	High
Credibility					
Given by the target audience	Low	Medium	High	Medium	Medium
Costs					
Absolute costs	High	Medium	Low	High	Medium
Cost per contact	Low	Medium	Low	High	High
Wastage	High	Medium	High	Low	Low
Size of investment					
Size of investment	High	Medium	Low	High	Medium
Control					
Ability to target particular audiences	Medium	High	Low	Medium	High
Management's ability to adjust the deployment of the tool as circumstances change	Medium	High	Low	Medium	High

Kevin lane Keller's advice to marketers regarding designing marketing communication programs

1. **Be analytical:** Use frameworks of consumer behavior and managerial decision making to develop well-reasoned communication programs.
2. **Be curious:** Better understand customers by using all forms of research, and always be thinking of how you can create added value for consumers.
3. **Be single-minded:** Focus your message on well-defined target markets (less can be more).
4. **Be integrative:** Reinforce your message through consistency and cuing across all communication options and media.
5. **Be creative:** State your message in a unique fashion; use alternative promotions and media to create favorable, strong, and unique brand associations.
6. **Be observant:** Keep track of competition, customers, channel members, and employees through monitoring and tracking studies.
7. **Be patient:** Take a long-term view of communication effectiveness to build and manage brand equity.
8. **Be realistic:** Understand the complexities involved in marketing communications.

Fig 5.5 Keller's advice to marketers

5.3 Offline and Online E-Branding Strategies

The role of brands and branding in the new economy that is characterized by digitization and globalization are attracting considerable attention. Taking the organizational perspective the challenges for branding in online environments relate to the message capacity of Web pages, the need to integrate branding and marketing communications across different channels, the trend towards organizational value propositions, brands as search keys, the opportunity to link and develop brand positions.

In the context of the brand experience, key themes are customer control, customization and customer relationships, the help yourself nature of the medium, the increasing emphasis on experience, and the opportunity offered by m-commerce to revolutionize the brand experience.

An online brand development strategy includes the following stages setting the context for the brand, deciding on brand objectives and message; developing a brand specification; developing a brand design, creating the Web site and other communications using the brand, launching and promoting the brand, building the brand experience, and finally, reviewing, evolving and protecting the brand.

"digital channels and assets are used to communicate a brand's positioning (or purpose) as part of multichannel brand communication or engagement programmes".

Digital capability is becoming more necessary for businesses that are seeking to build or enhance their brands through brand building programmes. Digital is a powerful tool for brands and with many brand-building benefits.



Fig 5.6 Digital Branding

Source <https://www.smartinsights.com/online-brand-strategy/brand-development/digital-branding-definition/>

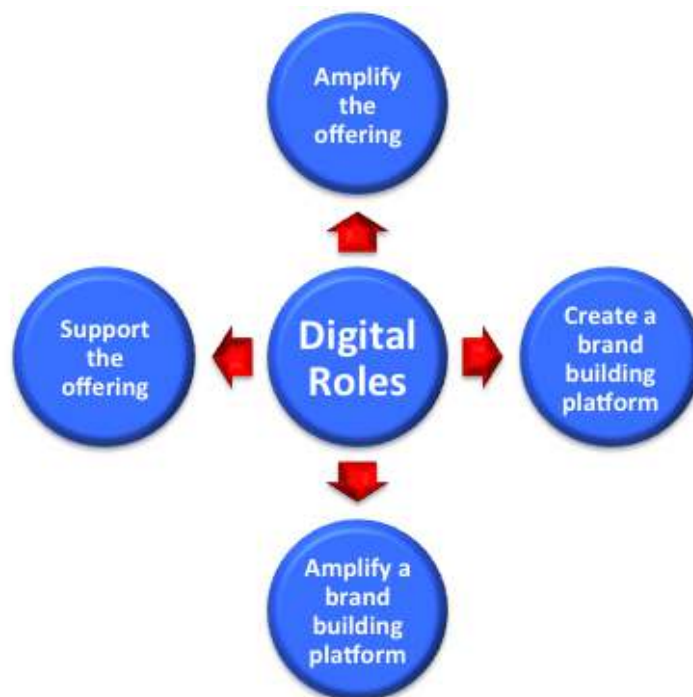


Fig 5.7 Role of Digital/Online Channels in brand building

Digital Mediums

WEBPAGES The message capacity of Web pages Web pages do not allow much scope for communicating messages as well as information about an organization, and how to start navigating a site. Not only is the overall screensize for a home page relatively limited, but Webpages need to be designed to accommodate the different generations of technology that might

beavailable to individual users. This includesvariations in the speed of downloading ofgraphics, screen resolutions, number of coolers,and the types of browser used.

Brands as search keys

In a crowded Internet marketplace, the role of the brand symbol has reasserted itself. A unique brand name has an important role to play as a keyword in the search process. Unique brands that are well known and are not generic terms can be very effective as key words used with search engines. Even more important is the link between domain name and brand. Consistency between domain name and brand name can reinforce familiarity with the brand, and strengthen the message links between channel. For example, at the symbolic level, Barnes & Noble achieved this by retaining the offline parent brand Barnes & Noble, but launched using the same name, but in a different presentation, barnesandnoble.com

Different Types of Digital Channels

(Article Source<https://www.digitalvidya.com/blog/types-of-online-marketing-channels/>)

How do different marketing channels affect customer purchase decisions?

Marketing channels (such as email, display ads, paid search ads, social, and direct visits to your website) influence the customer at different points in the path to purchase.

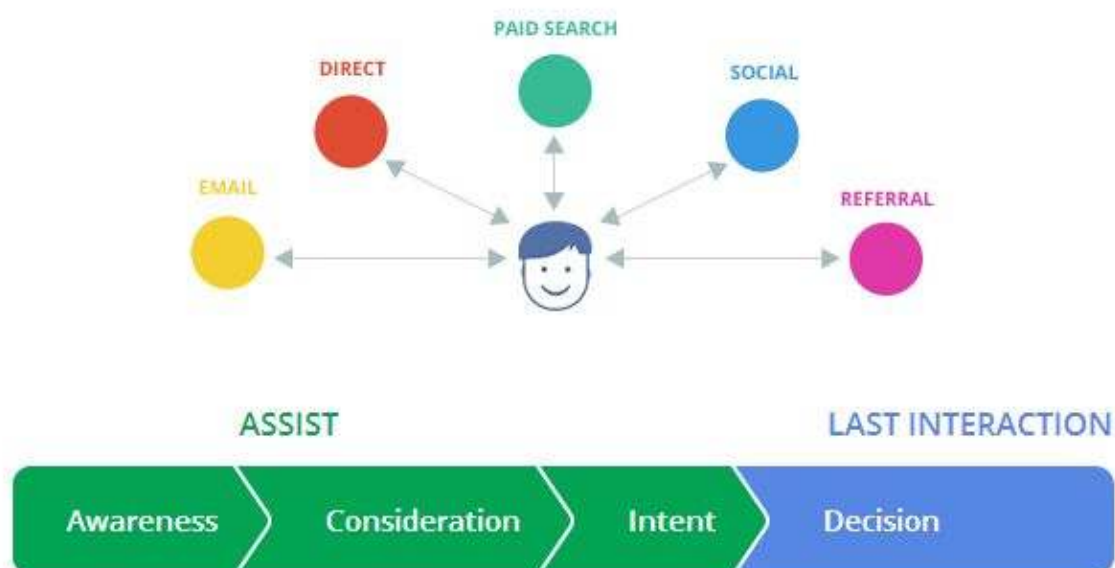


Fig 5.7 Marketing Channels

1. Search Engine Optimization

Search Engine Optimization is the way toward enhancing rankings of a site or website page in the unpaid “organic” search lists. The way of the SEO is to make website pages rank higher in the search engine result pages (otherwise known as SERPs) to increase visibility, authority and Alexa scores. The higher a page positions, the more striking and unhidden it is, and along these lines will get more activity, traffic, and conversions.

From the very starting, Search Engine Optimization played by a genuinely very much-characterized set of principles Optimize a page for particular Keywords, manage links from different sites that utilize your targeted keywords, etc

Some best SEO practices are-

1. Guest Blogging
2. Public Relations
3. Direct Mail
4. Collateral Material
5. Brand Evangelism, etc.
6. Organic SEO Online Marketing Practices

2. Pay Per Click (PPC)

As an effective type of online marketing, Pay per clicks is one of speediest types of marketing channels to drive targeted traffic to your web pages and related services. In any case, when done aimlessly, can cost an organization a huge number of dollars with almost no returns. It's one of my most loved lead generation practices in light of the fact that once your ad campaign is optimized, you're ready to compute a genuinely exact and profitable ROI.

Whatever you do, but never go into PPC under the misguided judgment that you're recently going to target on several keywords, think of some copy, write them, and then watch the money pour in- A long way from it really. With PPC, the whole objective is to transform latent users into engaged prospects and then engaged prospects into purchasers.

To do this you should first lure clients to tap on a promotion and send them to the ideal landing page with content that matches the advertisement. The thought process behind this is that you need to keep similar phrasing all through the experience so your new guest stays engaged and involved all through the experience.

Pay per click promotions are no longer displayed on the sidebar on search engines, and now they can be shown on niche sites, or they may also act as sponsored stories on different social media networks. PPC ads can be shown as product listing, or as a video ad. They are focused on, either via a search term, or by the site on which the pay per click promotion is shown or also by the profile interests.

3. Email

Considered as one of the most important types of digital marketing channels, email marketing can be understood as the bridge between the highest point of your business channel (Awareness– SEO, Social Media, and Internet Networking) and related sales. Certainly, email is not as hot as it's more youthful and hipper partner – Social Media, yet it's a standout amongst the most immediate and private types of correspondence. Along these lines, it is yet a standout amongst the best types of marketing channels in terms of optimizing sales by ensuring engagements.

The best email advertisers grasp the private way of email correspondences and take care to treat their email subscribers somewhat more special compared to non-subscribers. This should be

possible by offering- access to elite content, unique email subscribers' rebates, customized bargains, or other "insider" products not available to the outside audiences.

Email is additionally a famous type of online marketing in light of the fact that, when your email campaigns are set up appropriately, you can attach correct dollar ads up to individual clients. This permits you to make fully targeted messaging that lets you comprehend where your client is in the purchasing cycle. Making email campaigns for each phase of the client lifecycle permits you to develop loyalty and more conversions.

One significant hindrance for email advertisers is the steady development of spam channels in email programs. Organizations should likewise make guarantee their program does not disregard spam laws.

4. Video Marketing

YouTube is the second biggest search engine on the planet. Video can be amazingly social, and brilliant video advertisers are obscuring the lines of what's adequate for branded content. Videos act as one of the most interactive types of online marketing.

5. Blogging

A blog is a channel. It can have recordings, podcasts, content articles, news subjects, offer affiliate marketing, give guideline or knowledge and it incorporates content that fills the channel.

Blogging makes to the list of different types of online marketing channels on the grounds that dealing with that channel is truly an expertise all alone. Planning content, labeling and ordering content properly, overseeing interior linking, upgrading navigations – these are only a modest bunch of things that a genuine "blogger" oversees.

Blog administration is basic to the achievement of the blog as its basic structure is the thing that aids search engines list your blog for the content you need to be known for, and guests to go to proper pages inside the webpage.

6. Content Marketing

Content marketing is one of most powerful types of online marketing channel that continues flying around, yet not very many individuals (counting advertisers) truly comprehend what really matters to it.

Get Shared- The basic role of this sort of content is to spread all through a group and get most extreme exposure. For the most part, this sort of content will interest the distinctive extremes of your market's identity. This should be possible through funniness, stun, inspiration, pity, outrage, being astoundingly cool, making individuals grin, charming, or inconceivably genuine. The trap for something to "be viral around the web" is that it needs to speak to a vast gathering of individuals.

Get Discussed- The objective of this sort of content is to begin a discussion inside a group. This should be possible by utilizing huge news things, tending to a common issue, uncovering a grimy mystery (or truly any debate) or making an important evolving asset. When hoping to make discussion content, there is one particular reason, get individuals talking.

Generate Leads- While the initial two sorts of content advertising are basically about bringing issues to light, getting the lead conversion procedure to work appropriately is about making content that gets your prospects to first recognize their issue, and then say, “I require your assistance”. From that point forward, it’s about offering an answer to settle that issue.

Make Sales- This is fundamentally the same as “lead content” and the reasons this sort of “offering” content happens is because conversion is must to channelize any successful online marketing campaigns, and by making sales through your content, you can ensure conversions.

Content marketing needs to dependably have one of these four objectives at its center with a specific end goal to keep it well targeted.

7. Social Media

Amongst different types of online marketing, Social Media is youngest and as appealing as innovative and powerful.

Typical social networking sites like – Facebook, Google+, Twitter, YouTube, LinkedIn, Pinterest, etc, additionally there are niche networks, forums, discussions, dynamic blog groups, and wherever there’s dynamic two-way discussion happening.

8. Network Marketing

Despite being two different types of online marketing channels, Network Marketing and Social Media have comparable roots, and network marketers take the work the web-based social media advertiser does, and in addition, they make it go to next level. On the off chance that the Social Media advertiser’s job is to distinguish the smaller networks and target to the aggregate outlook of the gathering while recognizing the influencers, the network marketers’ occupation is to assemble associations with those influential people/ marketers/ professionals.

By using those relationships in more advanced and result-oriented fashion, the most striking attribute of these network marketing is their capacity to associate individuals inside their own particular system with each other. Immediately the network-marketing experts can prescribe a modest bunch of specialist co-ops of various aptitude levels and value ranges. Network marketers generally invest a considerable measure of time in messaging, remarking on online journals, collaborating in discussions and ensuring conversions.

The network-marketing specialists understand that for any bit of substance to “Turn into a web sensation”, the substance must be great, as well as “plant seeds” with the greater substance wholesalers/distributors/influences. On account of their unlimited network, the network marketers have a really strong comprehension of what substance will pick up the consideration of a specific system, and hence they ensure better engagement with audiences on all the possible networking channels and ensure more traffic, authority and sales.

9. Affiliate Marketing

Amongst other types of online marketing channels, there is affiliate marketing wherein another person sells your item for you, or selling somebody else’s item is involved. This might also be called as a commissioned sales job. The individual who is offering the item may utilize one of the greater parts of the strategies on this rundown to sell an affiliate product.

Each affiliate-marketing program has its own guidelines, controls, and prerequisites for a dealer to be acknowledged and stay in the program. Many affiliate marketers will give their own one of a kind substance in addition to the affiliate service or product to construct the estimation of the deal. The individual or organization who creates the affiliate item likewise confronts their own set of difficulties. In the first place, they should make an item that is valuable, and then locate the correct individuals to offer their item and offer a commission that is alluring.

The affiliate service or product designer should likewise make a special effort to make a standard arrangement of advertising materials that can be adjusted for their associates to offer. This could incorporate email swipe duplicate for email automated responders, an assortment of banner in all sizes, recordings, videos and also pamphlets or newsletters to advise members about advancements and strategies that are working.

10. Contextual Marketing

In its original form, contextual marketing can be understood as a type of online marketing that in involved in discovering new opportunities all through the web and making funnels that lead back to your website. Not at all like web-based social networking in any case, this kind of online marketing happens outside of interpersonal organizations. Some of the tactics of contextual networking are-

Guest Blogging

Purchasing Reviews from Bloggers

Contextual marketers will search for various opportunities to advance their business, paying little mind to the medium being utilized to do it. A contextual marketer is the nearest thing the web finds similar to traditional media firms, in light of the fact that contextual marketer searches for each chance to advance brand image of their business.

The essential distinction between network marketer and contextual marketer is that while network marketer is responsible for overseeing long-term connections, contextual marketer are centered around finding important stages and building sheer numbers to increase business sales. Contextual marketers need to find the platform with great number of audience overlaps, as this lets them ensure the optimized presence for their brands.

Some noticeable tools for Contextual marketers are-

1. FollowerWonk – for finding overlaps in social media networks
2. Open Site Explorer– to find out who’s linking to the high ranking pages for any particular keyword
3. Similar Sites– this is a plugin used to find sites similar to the one you’re trying to find out

Linking Offline and Online Channels of Branding

New buying behaviours, channels and technologies provide more ways of delivering engaging, consumer-centered brand experiences. Use the right segmentation to communicate with your target consumer to build brand value and loyalty, putting the customer at the centre of everything you do.

In summary, success in digital will comprise participating in a wide range of online activities integrated with offline brand events. An integrated approach is key rather than seeing digital as tactical, experimental, a way of providing great content and an easy way of measuring effectiveness.

The overall aim should be to deliver an authentic and consistent total brand experience that is aligned with the brand’s strategy, positioning and purpose.

To Do Activity

Read, Reflect and Summarise on **“Branding using Mobile Phones in Rural India”**

Reference Link:

<https://www.ascentgroupindia.com/blog/mobile-marketing-strategy-for-rural-india/>

To Do Activity

Read, Reflect and Summarise on **“Dabur Digital Branding”**

Reference Link:

<https://www.digitalvidya.com/blog/dabur-company-digital-strategy-brand-rebuilding-visibility/>

5.4 Line and Category Extensions

Table 5.1 The brand-Product Matrix

Product	1	2	3	4...
Brands				
A				
B				
C				
D...				

- The rows of the matrix represent brand-product relationships and capture the brand extension strategy of the firm in terms of the number and nature of products sold under the firm's brands.
- A brand line consists of all products—original as well as line and category extensions—sold under a particular brand. Thus, a brand line would be one row of the matrix.

A potential new product extension for a brand must be judged by how effectively it leverages existing brand equity from the parent brand to the new product, as well as how effectively the extension, in turn, contributes to the equity of the parent brand

- The columns of the matrix, on the other hand, represent product-brand relationships and capture the brand portfolio strategy in terms of the number and nature of brands to be marketed in each category.

- The brand portfolio is the set of all brands and brand lines that a particular firm offers for sale to buyers in a particular category. Thus, a brand portfolio would be one particular column of the matrix.
- Definition A product line is a group of products within a product category that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same type of outlets, or fall within given price ranges.
- A product mix (or product assortment) is the set of all product lines.
- Thus, product lines represent different sets of columns in the brand-product matrix.

Brand Extension When a firm uses an established brand name to introduce a new product it is termed as brand extension.

Brand extension classification Line extension and category extension

Line Extension Using a sub-brand to target a new market segment within the same product category. For example, companies having a tea brand say “BRAND X” can introduce a new variant of tea such as Peppermint flavored tea (BRAND X peppermint). Thums Up has launched a stronger drink named Thumps Up Charged.

Category extension Using the parent brand in a different product category. For example a tea brand (BRAND X Tea) can be used to launch a new juice brand with same brand Name (Brand X Coffee). Tea and Juice being different product categories. When Nestle company launched Soups under the brand name Maggi, it was Category extension from Noodles to Soup.

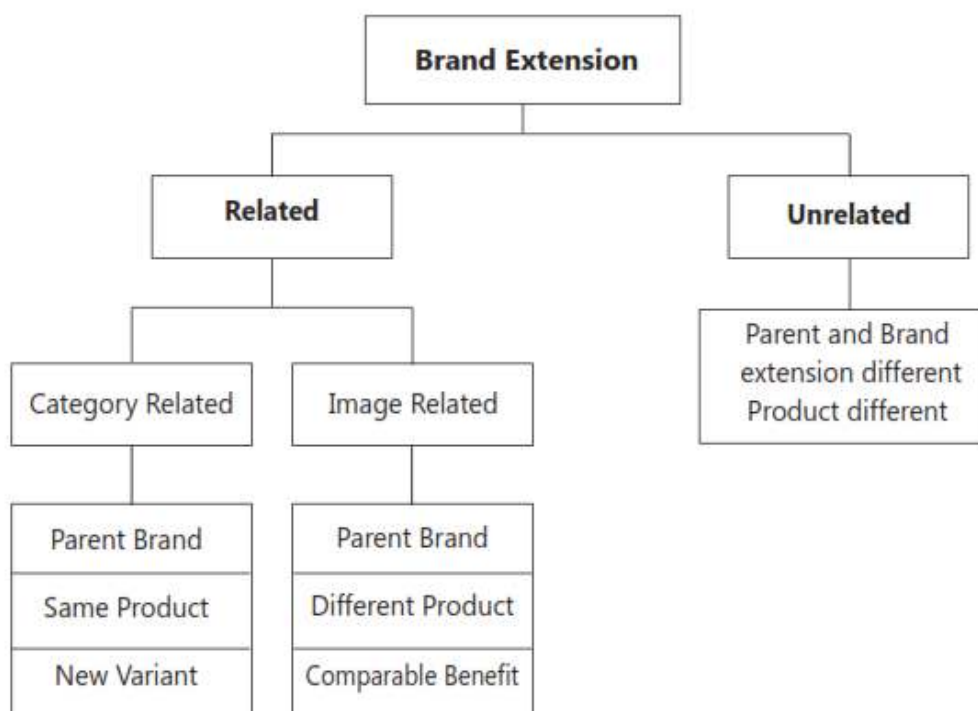


Fig 5.1 Brand Extension

Image source <https://www.sibm.edu/assets/pdf/brandextension.pdf>

General strategies for establishing a category

- Introduce the same product in a different form. Example Dettol antiseptic liquid (earlier antiseptic soaps were available)

- Introduce products that contain the brand’s distinctive taste, ingredient, or component.
Example
 - Maggi tastemaker, having similar ingredients as Maggi masala Noodles.
- Introduce companion products for the brand. Example Shampoo and Conditioner with hair oil
- Introduce products relevant to the customer franchise of the brand. Example SBI bank and SBI life Insurance and SBI home loans
- Introduce products that capitalize on the firm’s perceived expertise. Example Honda lawn mowers (more famous for Honda cars)
- Introduce products that reflect the brand’s distinctive benefit, attribute, or feature. Example Lysol’s “deodorizing” household cleaning products
- Introduce products that capitalize on the distinctive image or prestige of the brand. Example Titan Launching Perfume brand Titan Skinn.

Advantages

- Improve brand image
- Facilitate new product acceptance
- Reduce risk perceived by customers
- Increase the probability of gaining distribution and trial
- Increase efficiency of promotional expenditures
- Reduce costs of introductory and follow-up marketing programs
- Avoid cost of developing a new brand
- Allow for packaging and labeling efficiencies
- Permit consumer variety seeking
- Provide feedback benefits to parent brand
- Clarify brand meaning
- Enhance the parent brand image
- Bring new customers into brand franchise and increase market coverage
- Revitalize the brand
- Permit subsequent extensions

Disadvantages

- Can confuse or frustrate consumers
- Can encounter retailer resistance
- Can fail and hurt parent brand image
- Can succeed but cannibalize sales of parent brand
- Can succeed but diminish identification with any one category
- Can succeed but hurt the image of the parent brand
- Can dilute brand meaning
- Can cause the company to forgo the chance to develop a new brand

How do Customers Evaluate Extensions?

Managerial assumptions Most companies conduct market research to analyse the proposed extensions and look for synergies with existing brand portfolio. Managers assume certain anticipated responses from customers.

- Consumers have some awareness of and positive associations about the brand in memory
- At least some of these positive associations are evoked by the brand extension
- Negative associations are not transferred from the parent brand
- Negative associations are not created by the brand extension

Creating Extension equity

1. Salience of parent brand associations in the minds of consumers in the extension context
2. Favorability of any inferred associations in the extension context
3. Uniqueness of any inferred associations in the extension context

Criteria for Successful extensions

- Must create points-of-parity and points-of-difference in extension category
- Must recognize competitive reactions
- Must enhance points-of-parity and points-of-difference of parent brand
- Must maximize the advantages and minimize the disadvantages of brand extensions

Evaluating and launching brand extensions

- Define actual and desired consumer knowledge about the brand
- Identify possible extension candidates
- Evaluate the potential of the extension candidate
- The likelihood that the extension will realize the advantages and avoid the disadvantages of brand extensions. As with any new product, analysis of consumer, corporate, and competitive factors can be useful.
- Design marketing programs to launch extension
- Building brand equity for a brand extension requires choosing brand elements, designing the optimal marketing program to launch the extension, and leveraging secondary associations.
- Evaluate extension success and effects on parent brand equity If they see some basis of “fit” or similarity between the proposed extension and parent brand

The major mistake in evaluating extension opportunities is failing to take all of consumers’ brand knowledge structures into account.

Often, marketers mistakenly focus on only one brand association and ignore other potentially important

brand associations in the process.

Example of Indian Brand Extensions from EMAMI

Source Business Standard, 30-11-2017

Emami has launched 8 new product variants of its mother brands. Emami introduced BoroPlus Perfect Touch and BoroPlus Zero oil and BoroPlus Pimple Face Wash as extensions of BoroPlus. Zandu Senz-cure and Zandu Gel, Zandu Spray and Zandu Roll under the mother brand Zandu. Emami has ventured into new Product categories such as Hair colour segment with Emami Diamond Shine. Emami is strengthening its urban (30 Urban towns by adding 1 lakh outlets in 2018) and rural (1 lakh new stores under rural coverage) reach

Presided by : Acharya BalKrishna Ji



Read, Reflect and Summarise on **“The Patanjali Diaries – Lessons from the Biggest Brand Extension Story in India”**

Reference Link:

<https://www.linkedin.com/pulse/pitanjali-brand-extension-success-strategy-rohit-sobti>

5.4 Brand Architecture Umbrella Branding/ Branded House and House of Brands

The branding strategy of the firm which tells marketers which brand names, logos, symbols apply to which new and existing products.

Brand architecture is the logical, strategic and relational structure for the company’s brands or put another way, it is the entity’s “family tree” of brands, sub-brands and named products. Two shorthand terms are often used to describe how an organization manages its brand architecture

1. “Branded house” implies that most or all products and services provided by that organization primarily bear the organization’s brand name. FedEx, Google, Coca-Cola and Virgin for example.
2. “House of brands” implies that the organization’s products and services bear a wide variety of brand names as opposed to the organization’s brand name. The Kraft Heinz Company, General Motors, Pepsico and Procter & Gamble for example.

Role of Architecture

Clarify-brand awareness

Improve customer understanding and communicate similarity and differences between individual products

Improve-brand image

Maximise transfer of equity to/from the brand to individual products to improve trial and repeat purchase

The Purpose of Brand Architecture is to Address each of the Following

- What the overarching branding approach is – master brand, brand/sub-brand, endorsed brand, stand alone brands, including or some combination of these
- How many levels of branding should exist
- What types of brands exist at each level
- How brands at different levels relate to each other, if at all
- Decision rules for creating new brands
- Which brands' identities are dominant and which ones are recessive
- What types of names the organization uses – coined, associative descriptive or generic descriptors – and in which circumstances (usually controlled by decision rules)
- Which brands are features in each and every media, vehicle, situation and circumstance (e.g. business cards, stationery, product catalogs, website, shipping boxes, vehicle signage, employee uniforms, building signage, etc.)

Examples in India

Multi-category FMCG Unilever has, according to one estimate, 22 brands in Hair Care alone. Sunsilk, Suave, Tresemme and Clear are some brands on that list. This gives Unilever a powerful position in Hair Care but also brings the need for organization and discipline. Brand Architecture helps Unilever do that through the House of Brands Model.

Another use of Brand Architecture is brand extension. This is when a brand stretches its core equity across multiple categories. There's a Borrow-Build aspect – the extension BORROWS equity from the original category and BUILDS new equity into the brand from the extension category. Brand Extension tends to be more complex and throws up two of the remaining three buckets – Branded House and Endorsed House models. Apple – present in computers, tablets, mobile handsets etc– is an example of the former and the TATA group of the latter.

A third type is the Hybrid House, which as the name suggests is an approach that doesn't fit into the other buckets and uses principles of all three. Marriott – with standalone brands such as the Ritz Carlton in the House of Brands model and Courtyard by Marriott in the Endorsed House model - is an example of this.

Reliance, the iconic Indian business house, uses a Branded House model. Reliance enjoys widespread admiration and respect based on the owners' business acumen and financial mega-success. They brand their businesses Reliance - from petrochemicals and telecom to supermarkets, electronics retail and jewelry. This demands a lot from the Reliance brand by asking it to stretch across a wide range of very diverse businesses, each with different drivers of success. It also exposes the brand name to greater risk – if Reliance's brand equity creating factors become vulnerable for any reason, the entire Branded House will be affected. This is a common issue for any Branded House architecture. It is more than likely that Reliance's decision makers have looked at this closely and feel the benefits of a Reliance Branded House outweigh its risks.

Kapferer's Branding System

Kapferer classified brand naming to be of 4 types

- Product Brand (Ariel, tide and Dash by P & G)- similar to house of brands approach
- Line brand- Across different products (Chevrolet GM), a separate brand name for each product/category line
- Range Brand or Umbrella brand- (Maggi food range), similar to branded house approach

Some business to business organizations use the Corporate brand strategy (all services are under same brand). IT Services companies use this strategy for example, Infosys, Wipro Technologies etc.

- A corporate brand is distinct from a product brand because it can encompass a whole new set of associations
- It's a powerful means to express the company philosophy in a way that is not tied to the product or the service

Umbrella Branding/ Branded House represents a marketing practice which involves selling many related products under a single brand name. Therefore, it involves creating huge brand equity for a single brand. In practice, implementing umbrella branding can be challenging marketing for the marketer because he needs to effectively coordinate amongst all individual brands. But in reality, it can be an amazing advantage as well.

The basic idea behind this strategy is to enhance marketability of products and it follows the psychological concept that any product that carries the same brand name is produced using the same high standards of quality. So a brand may have 10 product lines, but the trust on that brand, leverages the attributes of all the 10 product lines.

For Example Apple is an umbrella brand for a set of distinct but related products like the iPhone, iPad, Mac Book & other accessories. In the FMCG sector Nivea acts as another Umbrella brand with a wide array of products like cream, soap, powder, deodorant etc.

Pros

- More efficient to communicate and manage; enables a more cost-effective means of announcing new companies and product launches
- Streamlines (and can help drive) decision-making for company structure and growth
- Any new addition to the company portfolio automatically gains a level of acceptance and importance because of the public's previous identification with the parent brand
- Simplifies messaging to employees, customers, analysts, agents, and distributors
- Better aligns organization internally and externally
- A combined entity is perceived to have more staying power, suggests strength, and is just easier to remember and recognize
- Customers buy products and services more on attributes of company, rather than just relying on product attributes
- Strong corporate brands have been proven to better preempt competition/defend market share, and to also improve loyalty indicators (there are brand studies that show investing in a corporate brand can improve shareholder value)

Cons

- Ambiguity issues could become a problem if your offering becomes too broad (it may be harder to define what you sell)
- Company management has to be committed and is required to work more closely together
- Bad news more likely impacts all company entities

House of Brands Approach

Consumer products companies like Procter & Gamble engage in this practice because they have thousands of products and invest heavily in building those individual brands.

The role of the master brand is to contribute or defend things like vision, strategy, attraction, and even premium pricing. Whereas, product brands deliver on market needs and preferences. Sub-brands strengthen the master brand.

Pros

- Each brand is free to fight its battles on its own terms, unfettered by the meaning of the parent brand
- Can leverage equity (but only if there has been some investment in building it previously)
- Can impact customer retention (again, only if investment in brand exists)
- Reseller/agents may prefer this approach so that they can sell their own brand label
- May shield the corporate name in the event of problems or negative news and divestiture issues

Cons

- Typically more expensive and complicated to manage, especially if acquisition rate is high
- Makes it difficult to align businesses and inform decision-making around acquisitions
- Managing corporate image is a challenge, as multiple brands can muddle your core message—no one knows who you are or what you stand for, especially if the product brands are non-descriptive (such as numerical series, etc.)
- Customers tend to rely more on product attributes to make decisions and purchase (particularly problematic if they shop on price, or with commodity products)

To Do Activity

Read, Reflect and Summarise on “Tata Gold Plus Story”

<http://vikalpa.com/pdf/articles/2011/Pages-from-Vikalpa36-3-119-130.pdf>

<https://www.livemint.com/Companies/yUS5MleFm7B6U78LeQB13M/Titan-merges-Gold-Plus-brand-with-Tanishq.html>

Model Questions

1. Explain information processing model of communication with an example?
2. Which types of digital media is best for rural brands and why?
3. What is SEO and how can it be linked to branding?
4. Explain how Facebook can be used for branding with an example?
5. What is the logic of line and brand extensions?
6. What are the types of brand extensions?
7. Distinguish between line and category extension with an example?
8. Do internet based research on the reasons for the merger of GoldPlus brand with Tanishq brand?

References

1. Strategic BRAND MANAGEMENT. Building, Measuring, and Managing Brand Equity. KEVIN LANE KELLER. Tuck School of Business. Dartmouth College. 4ed

Block 3

Linking Markets for Rural Produce and SCM



Mahatma Gandhi National Council of Rural Education

Department of Higher Education

Ministry of Human Resource Development, Government of India

Hyderabad - 500004



Contents

Chapter 1 Introduction to Sales and Distribution Management

- 1.1 Nature and scope of sales management, Personal selling objectives, Types of sales management positions
- 1.2 Theories of personal selling, Personal selling strategies
- 1.3 Sales forecasting and budgeting decisions
- 1.4 Emerging trends in selling, Ethical leadership Personal selling in rural markets
- 1.5 Case analysis

Chapter 2 Personal Selling Process, Sales Territories and Quota

- 2.1 Selling process
- 2.2 Relationship selling
- 2.3 Designing sales territories
- 2.4 Sales quotas and sales organization structures
Relationship selling, sales territories and quota in Rural Markets
- 2.5 Case analysis

Chapter 3 Sales Force and Distribution Management

- 3.1 Recruitment and selection of sales force
- 3.2 Sales force training
- 3.3 Motivating and compensating the sales force
- 3.4 Controlling the sales force Developing the Sales force for Indian Rural Markets
- 3.5 Case analysis

Chapter 4 Distribution Management

- 4.1 Introduction, need and scope of distribution management
- 4.2 Marketing channels strategy
- 4.3 Levels of channels, Institutions for channel retailing wholesaling Retail scene in Rural India
Developing rural markets
- 4.4 Designing channel systems, channel management Distribution channels in Rural India
- 4.5 Case analysis

Chapter 5 Management of Logistics and SCM

- 5.1 Management of logistics & SCM Definition & Scope of logistics, Components of logistics
Logistics in rural markets and for rural produce
- 5.2 Inventory & warehouse management Storage and warehousing for rural produce
- 5.3 Transportation, Channel information systems Transportation of rural produce Channel information systems in rural markets
- 5.4 Extension into Supply Chain Management Supply chain management and rural produce marketing
- 5.5 Distribution management in international market Exporting Indian rural produce

Linking Markets for Rural Produce and SCM An Introduction

This book is about sales, distribution and supply chain management. There are various parties to the function and process of sales, distribution and supply chain. In this book, the different contributing parties are discussed; their nature, roles, challenges, importance and functioning. Apart from these key functions, all support systems and processes like transportation, infrastructure, logistics and warehousing are discussed.

This book is divided into 5 Chapters with each Chapter dedicated to different but interrelated concepts and functions. A section is dedicated to rural context of the concepts discussed in each Chapter. Case studies relevant to the topics discussed are included at the end of the Chapters.

Chapter 1 Introduction to Sales and Distribution Management

This Chapter discusses the basics of sales management and personal selling including sales ethics. Important functions of sales management, forecasting and budgeting are also covered. A section is dedicated to rural context of these concepts.

Chapter 2 Personal Selling Process, Sales Territories and Quota

This Chapter describes the selling process, maintaining long term relationship with customers, dividing the markets into sales territories, assigning sales quota to each territory. Also discussed are different types of organization structures suitable to different kinds of industries.

Chapter 3 Sales Force and Distribution Management

This part of the book deals with managing the sales force. All major aspects of sales force management; recruitment, selection, training, motivation, compensation and control are discussed.

Chapter 4 Distribution Management

This Chapter includes elements, design and working of distribution channels. Different levels of channels are discussed, with a special focus on retailing and wholesaling.

Chapter 5 Management of Logistics and SCM

The last Chapter of the book deals with logistics and supply chain which are the backbone of distribution. Support activities such as Inventory and warehouse management, transportation and channel information system are discussed. The major attribute of the course, linking rural markets and SCM is discussed in this pa

Chapter 1 Introduction to Sales and Distribution Management

Introduction

Sales is considered to be the only revenue generating function. Recognizing the crucial role played by sales function, industry is making great effort to professionalize sales. Sales objectives, planning, control and strategies have become key areas of focus across industry sectors.

Sales function and selling as an activity received a push with the development of factory system and mass production post Industrial Revolution. With the passing years, as the industries grew bigger, competition grew stronger and scope of business widened, the sales function witnessed increase in complexity along with growing importance.

Given the importance of the sales function, the sales personnel are getting noticed by the organization, customer and the society. They need to keep these different parties in mind when they sell.

Objectives

- To help students understand the sales management as integral part of marketing functions in a business firm.
- To make students familiar with different theories and strategies of personal selling.
- To help students become conversant with a sales manager's roles and ethical framework in which they have to operate.
- To familiarize students with personal selling in rural markets

Structure

1.1 Nature and scope of sales management, Personal selling objectives, Types of sales management positions	
1.2 Theories of personal selling, Personal selling strategies	
1.3 Sales forecasting and budgeting decisions	
1.4 Emerging trends in selling, Ethical leadership Personal selling in rural markets	
1.5 Case analysis	

1.1 Nature and Scope of Sales Management, Personal Selling Objectives

(Suggested Readings 1, 4, 6 and 7)

Sales Management

- The concept of sales management has evolved over the years and hence its definitions.

- The most accepted and popular definition is that of AMA (American Marketing Association)

“Sales management means the planning, direction and control of personal selling, including recruiting, selecting, equipping, assigning, routing, supervising, paying and motivating as these tasks apply to the personal Salesforce”

The focus of the above definition is managing the Salesforce, which is a major part of sales management but not the entire scope of it. Hence, we shall look into the areas left out in the AMA definition

- Sales strategy formulation, implementation, sales force management
- Organizes selling effort by creating an organizational structure with clearly defined communication system
- Acts as an interface with distribution channels and public
- Provides crucial inputs for important decisions in marketing such as budgeting, setting quotas and territory management
- Aids other marketing functions in their policy formulation
- Sales strategy formulation, implementation, sales force management
- Organizes selling effort by creating an organizational structure with clearly defined communication system
- Acts as an interface with distribution channels and public
- Provides crucial inputs for important decisions in marketing such as budgeting, setting quotas and territory management
- Aids other marketing functions in their policy formulation

The sales management is considered to be a subfunction of marketing, executed by sales managers. Sales managers perform the four key functions sales management functions

1. Salesforce Selection
2. Salesforce Training
3. Sales force Motivation
4. Sales force Control

Nature of Sales Management

1. It is integrated with marketing management
 - a. Marketing team of an organization is made up of two groups
2. Field selling group which is on filed in their territories in contact with existing and prospective customers (prospect).
3. Headquarter marketing team which services and supports the field selling group in their jobs through functions such as promotion, marketing research, marketing logistics, customer service and coordination.
 - a. Promotion sales promotion, advertising, PR, publicity and direct marketing.
 - b. Marketing research collection and interpretation of information about customers, competitors, products, markets, etc.
 - c. Customer service presales to prospective customers, delivery and postsales service to existing customers.

- d. Coordination between customers and company's sales, production and operations personnel.
- 4. Relationship selling is a characteristic of sales management
 - a. The sales personnel have to maintain a range of relationships with buyers. These can be classified under
- 5. Transactional relationship / selling
- 6. Value added relationship / selling
- 7. Collaborative / Partnering relationship / selling
- 8. Sales management has varying sales responsibilities
 - a. Selling comprises of varied range of sales responsibilities or classifications which can be categorized into
- 9. Deliverer / Delivery salesperson (response selling) reliability of delivery, personality of sales person.
- 10. Order taker (response selling) taking order according to customer needs, set up displays, distribute samples to retailers.
- 11. Sales support people missionary salesperson (missionary selling) build goodwill and educate the buying decision maker, sales support.
- 12. Technical sales support / sales engineer (technical selling) provide technical information / knowledge.
- 13. Demand creator / order getter (creative selling) maintaining sales through reorders by existing customers, sales development through new customers.
- 14. Solution vendor / order getter(business selling) expertise in solving B2B customer's problems by offering right products /services.

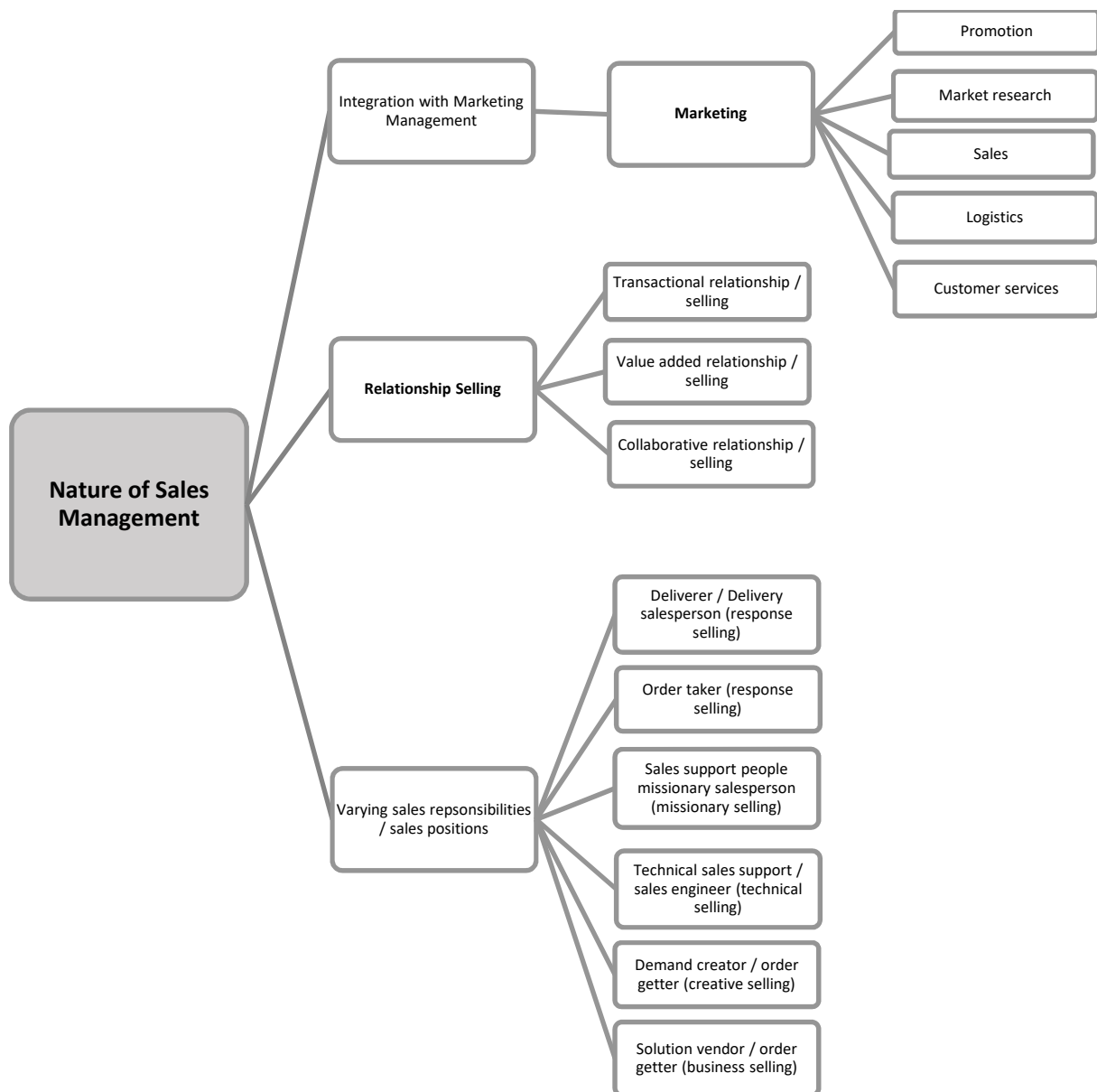


Fig 1.1 Nature of Sales Management

Scope of Sales Management

Salesmanship (art and science of personal selling) is essential for successful and effective sales management. Hence, the scope of sales management includes appropriate solutions to the sales person's issues through sales strategies, sales operations and sales analysis.

Dealing with major issues

1. **Credibility Crisis while** pushing hard to sell, a salesman loses his credibility. Hence, it is desirable to adopt sober gentleman approach in selling.
2. **Specialized Area Personal** selling is a specialized area as each salesperson is dealing with a combination of unique factors such as geography, isolation (alone on field) and task.
3. **Selling Skill Includes** communication, persuasion skills and differentiating (unique) skills.
4. **Effective Sales Management through** Vision, market focus, clear guidelines, a good team, team bonding (spending time with the team), motivation, good communication, sales excellence, innovation and leadership.

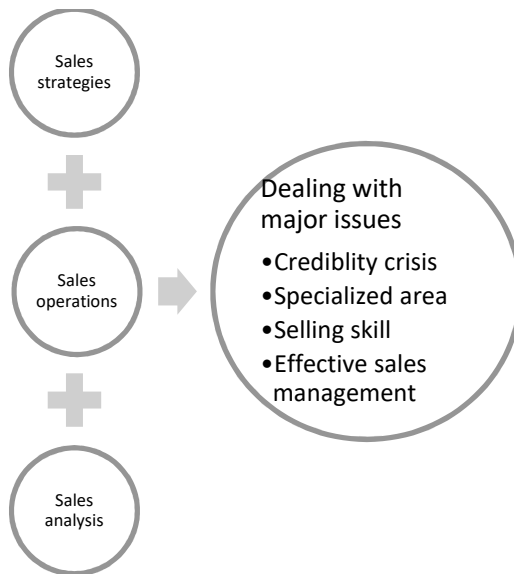


Fig 1.2 Scope of Sales Management

Personal Selling Objectives

Personal Selling is a way of communicating with a prospect at individual / person to person level. It is a customized communication designed to suit the needs of the prospect, with a scope for immediate feedback. The intended action of this communication is sales / actual buying.

Sales management is basically directing personal selling, which is mostly accomplished through salesmanship. Thus, personal selling is broader term of which salesmanship is a part. However, salesmanship is vital for personal selling as salesmanship helps a salesman to persuade and motivate customers to buy products / services that suit their needs and offer desired benefits.

Personal selling is a part of the promotional activity of an organization. Promotional activities of an organization, along with the other three Ps of marketing; product, price and place form the core of Marketing.

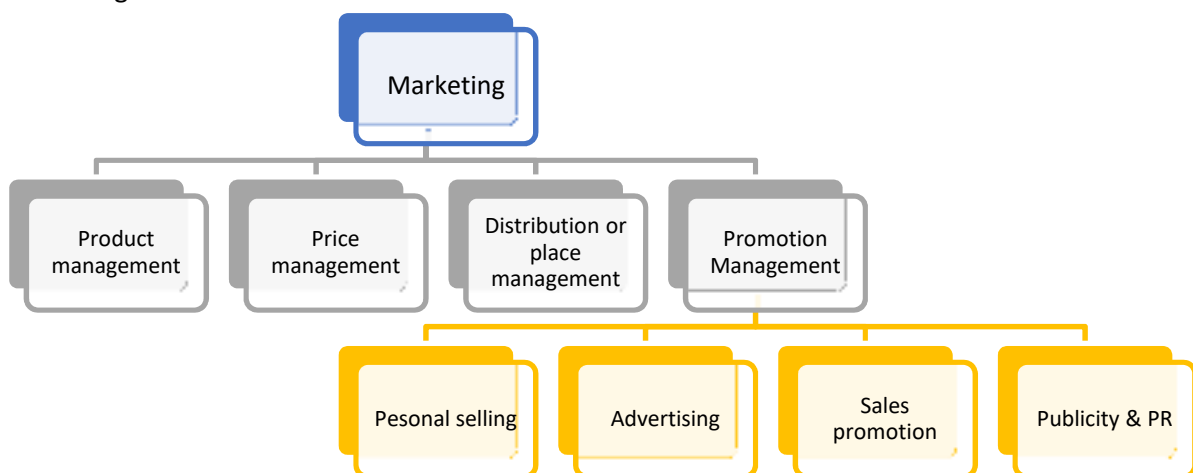


Fig 1.3 Relationship between Personal Selling and Marketing

Source Chaiwallah (2008)

Objectives of Personal Selling

The objectives of personal selling are both qualitative and quantitative in nature.

Qualitative Objectives are long-term in nature and are about the contribution from personal selling expected by management to achieve long term company objectives.

1. To do the entire selling job.
2. To serve existing customers.
3. To acquire new customers.
4. To obtain and maintain customers' cooperation in stocking promoting the product line.
5. To update the customer with information about changes in different aspects of marketing strategies such as product line extensions.
6. To help customers decide on the right product.
7. To give technical advice and help.
8. To help training of middlemen.
9. To advice middlemen about management concerns.
10. To collect relevant market data.

Once qualitative objectives are set, the quantitative objectives are assigned to personal selling for a short term which are adjusted from one promotional period to another.

The most important quantitative objective is setting sales volume. Sales volume objective influences setting of other quantitative objectives personal selling objectives such as

1. To capture and retain a certain market share.
2. To obtain sales volume to help achieve / improve profitability.
3. To acquire certain types of new customers / accounts.
4. To limit the personal selling expenses.
5. To achieve targeted percentage of business from specific accounts.

1.2 Types of Sales Management Positions

(Suggested Readings 1)

Sales management positions are held by sales managers. Sales managers in modern times play roles that are very different from those earlier; their roles have shifted from bossy roles (controlling, demanding, and volume centered) to leadership roles (directing, advising and delegating).

Modern Sales Managers Play

1. a strategic role,
2. being a member of the corporate team
3. working as a team leader
4. managing multiple sales channels,
5. using latest technologies for better buyer seller relationships and
6. continuously aware of the market dynamics.

To Play These Roles Effectively, Sales Managers Require These Skills

1. People skills motivate, lead, communicate, coordinate.
2. Managing skills planning, organizing, controlling, decision making.
3. Technical skills task specific functional skills such as training, selling, negotiating.

Types of Sales Managers / Sales Management Positions

- There are many levels / positions of sales management in organizations.
- “Sales manager” term can be used for any sales executive who manages sales personnel.
- Sales managers are arranged in a hierarchical structure of three levels
 - Strategic (top level) managers
 - Tactical (middle level) managers
 - Operational (first line) managers



Fig 1.4 Types of Sales Managers / Sales Management Positions

Source Adopted from Havaldar and Cavale (2008)

Sales as a Career

- The career path in sales management usually starts from the position of sales trainee / representative.
- They move on in their career occupying different types of sales positions such as delivery, customer support, etc.
- They stick to exclusively sales positions at higher verticals or move to larger role of marketing.
- Sales careers are available in all business sectors (Public, Private, Cooperative, Nonprofit).
- Many CEOs of organizations have started their careers in sales; in fact, as you grow up the corporate ladder, you will be just selling!!!!

1.3 Theories of Personal Selling, Personal Selling Strategies

(Suggested Readings 4 and 7)

Theories of Personal Selling

Selling is an act which is learnt by experience. Hence, we can consider selling as an Art.

Sales professionals use a systematic approach to selling. They use behavioral science knowledge in understanding customer buying behavior. This approach makes selling Science.

Since there are still many things a sales person does in selling which cannot be considered as a science, we can consider selling as an Art evolving into a Science.

There are many theories proposed in the field of Personal selling / Sales management based on how one can be influenced in buying process. Here are the four important ones

1. AIDAS Theory of Selling (Seller Orientation)

- The acronym 'AIDAS' stands the 5 steps in customer buying process; Attention, Interest, Desire, Action and Satisfaction.
- American businessman, St. Elmo Lewis developed the 4 step AIDA (Awareness, interest, desire and action) model in 1898 with a main objective of optimizing sales calls with a special reference to interaction between seller and buyer. It is also known as The Purchase Funnel.
- Satisfaction as the fifth step was added later and Awareness was modified as Attention, thus giving rise to AIDAS theory. It is the guiding theory for many sales training programs.

According to AIDAS Theory, Potential Buyer's Go Through 5 Stages

- a. Securing / attracting attention
 - To attract the attention of the prospect, by making him / her receptive.
 - Convince the prospect for a discussion / face to face interview.
 - Establish rapport with right conversation openers.
- b. Gaining interest
 - Salesperson has to be enthusiastic about the product.
 - Intensify attention and strengthen interest of the prospect.
 - Letting the prospect to try the product, provide brochure and visual aids.
 - Identify the most effective selling appeal.
- c. Kindling / creating desire
 - Ready to buy point.
 - Influence the prospect to desire the product.
 - Handle objections / issues of the prospect carefully.
 - Anticipate queries and concerns of the prospect beforehand and answer them.
- d. Inducing action
 - Prospect is ready to buy.
 - Buying happens only when induced by the salesperson at the right time.
 - It is crucial for the salesperson to sense the right time.
 - At the right time, ask to for the order straightforwardly, don't just drop a hint or tell indirectly.
- e. Building satisfaction
 - Once the order is placed, reassure the customer that he / she has made the right decision.
 - The prospect should feel that it was his / her own decision and the salesperson just helped in deciding.

- The salesperson should not be around the customer (a prospect becomes the customer after the order) after the sale as sometimes unnecessary interactions lead to unselling.

2. “Right set of Circumstances” Theory of Selling (Seller Orientation)

- Also known as situation response theory.
- Has Psychological origin in animal experiments and emphasizes that a certain circumstance in a particular selling situation will influence the prospect to respond in a predictable way.
- These circumstances can be internal and external to the prospect.
- Stresses is on the salesman to control the situation such that sale happens.

3. “Buying Formula” Theory of Selling (Buyer Orientation)

- Focus is on the buyer’s needs or problems; the salesperson has to just help the buyer find solution.
- Tries to find out the prospects’ thinking process that causes the decision to buy or not to buy Hence E. K. Strong, Jr. gave this theory the name “buying formula”.
- Basis of the theory is the fact that purchase decision is made if the need / problem is solved.

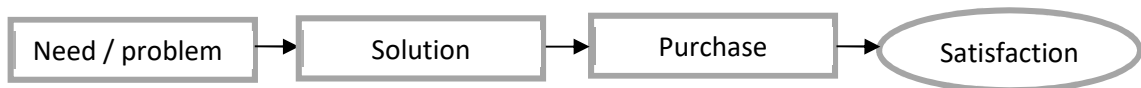


Fig 1.5 Mental Process Involved in a Purchase

Source Still, Cundiff and Govoni (2011).

- Since the buyer knows what he /she needs, they know if there is no satisfaction / dissatisfaction.
- When a buyer buys a solution (whether a product or a service or both), they consider the brand name, the manufacturer / salesperson of the brand name.

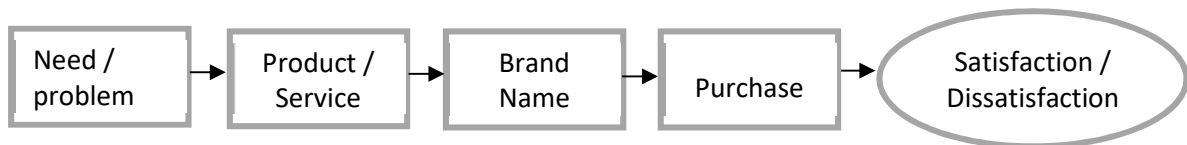


Fig 1.6 Buying Formula after Buying Habit is Established

Source Still, Cundiff and Giovani (2011).

- When a buyer buys a solution considering the brand / trade name, the buyer must experience a pleasant feeling / anticipated satisfaction to ensure purchase.

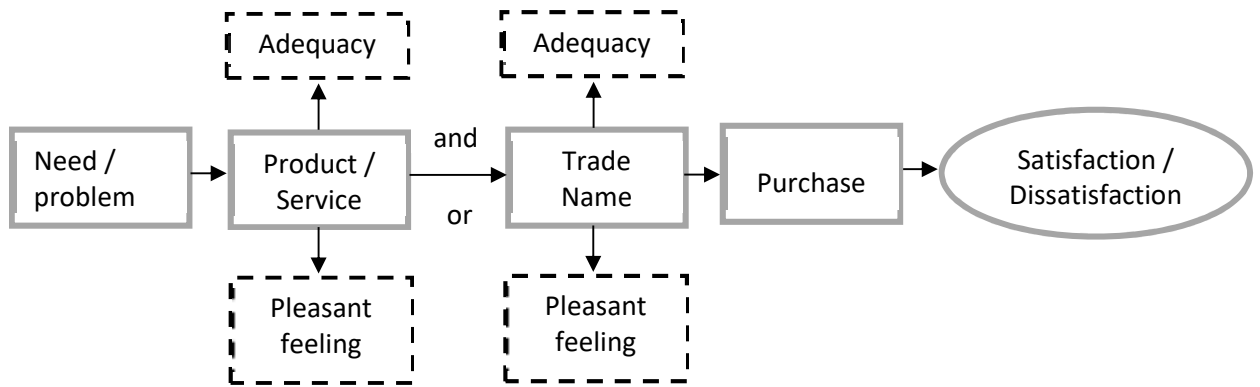


Fig 1.7 Buying Formula with Adequacy & Pleasant Feeling

Source Still, Cundiff and Govoni (2011).

4. After a buying habit is established, the buyer must have clarity as to why the product / service is the right / adequate solution to their need / problem and also need to have clarity about why the trade name is better than any other to buy.

Behaviour Equation Theory of Selling (buyer and seller orientation)

- It is considered to be a sophisticated version of the “right set of circumstances” theory.
- J. A. Howard uses this theory with stimulus response model and findings from behavioural research to explain buying behaviour in purchasing decision process (a phase of learning process).
- Stimulus response model includes four core elements of learning processes drive, cues, response and reinforcement.
 - Drive strong internal stimuli that pushes for buyers’ response. Innate drives arise out of psychological needs and learned drives such as social approval from the demands of the environment.
 - Cues weak stimuli that determine when the buyer will respond. Triggering cues activate and influence Decision process.
 - Response what the buyer does.
 - Reinforcement any event that strengthens the buyers’ tendency to respond in a particular way.
- Howard believed that selling effort and buying action variables have effect of multiplication rather than addition and hence incorporated these four elements into a behavioural equation

$$B = P \times D \times K \times V$$

B = Behaviour

P = Response i.e. the act of purchasing a brand or a particular supplier

D = Drive or motivation level when buying

K = “Incentive potential” that is, the value of product or brand or its perceived potential value to the buyer

V = Intensity of all cues triggering, product or informational

In buyer seller relationship, each one's display of a rewarding behaviour reinforces the other. This is called as Buyer Seller Dyad. Hence, the seller can always take a lead to prompt positive behaviour from the buyer.

Personal Selling Strategies

Personal selling strategies depend on

1. **Competitive Setting** in which the company operates

1. **Pure Competition** there are large number of buyers and sellers in the market where no one is powerful enough to control the market (does not exist in real world). In such markets we can
 - a) Offer better products than cutting price
 - b) Will not put or advertise much
 - c) Will be in direct contact with the customer
2. **Monopolistic Competition** there are large number of sellers of a generic kind of product, but with a well differentiated brand (highly prevalent in modern markets). In such markets, it is easy for new players to enter markets and for individual marketers to build brand preferences among buyers. They achieve this through
 - a) Individualizing one or many components of overall marketing strategy (E.g. Unique packing, distribution, pricing, etc.).
 - b) Promotional strategy (push through advertisement and distribution network)
 - c) Personal selling through servicing the distribution network.
3. **Oligopolistic Competition** more markets are operating in this condition where there are few competitors who are well identified in the market and hence little scope for new entrants. It produces aggressive competition. In such markets the personal selling strategies adopted are
 - a) Competitors' moves are closely monitored and matched / countered.
 - b) If a competitor is offensive, be immediately counteroffensive.
 - c) Quick price adjustments
 - d) Personal selling to maintain good relationship with dealers and distribution network for better cooperation

2. **Personal Selling Objectives** of the organization

Personal selling objectives are set to achieve the long-term organization objectives through these strategies

- a. Size of the Salesforce
- b. Nature of the Sales job
- c. Sales volume

3. **Sales Related Marketing Policies** of the organization

Provides guideline within which the company tries to reach both qualitative and quantitative personal selling objectives. This involves decisions on

1. What to sell?
2. Whom to sell to?
3. Pricing policies including discounts
4. Sales related marketing policies

4. **Customers (Individualized Selling Strategies)**

The trick is using the appropriate mix of abovementioned strategies to suit each customer.

Hence the following personal selling strategies

1. Kind of salesperson needed
2. Desired number of salespersons of desired kind
3. How to make them interact with customers effectively
4. How to make them understand customer 258 behavior
5. Performance planning of the salesperson

5. Other Strategies of Personal Selling are

1. Type of sales persons to hire for different kinds of sales jobs (deliverer, order getter, etc.)
2. Role in securing orders Whose role is to get orders? Whether the sales person or the promotions?
3. Basic selling styles (trade selling, technical selling, missionary selling and newbusiness selling)
4. Size of the Salesforce Determined through

a) Work Load Method (Appeals to sales managers as it is easy to follow, but not practical as only the quantity of time is measured not the quality)

1. Classify customers into different categories depending on their potential (A, B and C)
2. Calculate the average time of sales call for each category of customers
3. Calculate total workload
(number of class A customer’s x av. Sales call time for Class A) +
(number of class B customers x av. Sales call time for Class B) +
(number of class C customers x av. Sales call time for Class C)
4. Keep 40 work hours per week for 48 weeks in a year per salesperson = 1920 hours per year per sales person
5. Allocate these 1920 hours task wise (E.g. selling (960), nonselling(500) and travelling(460)). Consider only the hours dedicated for selling task (960)
6. Divide (total workload) by (the hours dedicated for selling task) = the number of salespeople required
7. Eg total workload is 48000hours; hours dedicated for selling task by each salesperson per year is 960 hours. Total number of sales persons required = 48000/960 = 50.

b) Sales Potential Method (Does not consider the time spend on recruitment, selection, training and development of sales force).

$$\text{Number of sales personnel s (N)} = \frac{\text{Sales Volume Objective (Forecast)}}{\text{Sales productivity estimate of one sales personnel}} \left(\frac{1 + \text{Adjustment for sales force Turnover}}{1} \right)$$

c) Incremental Method (Conceptually, the most sound method).

- Goes by the philosophy that additional sales persons lead to increased sales.

- The additional sales revenue is believed to exceed the additional cost of hiring sales persons.
 - The net profit of each additional salesperson is calculated
 - New salespersons are added till a new addition of sales person shows negative profit.
 - Thus, arrive at an optimum Salesforce size.
5. Customer tailored selling strategies (E.g. Multilevel marketing).

1.3 Sales Forecasting and Budgeting Decisions

(Suggested Readings 1, 3 and 7)

Sales Forecasting

Sales forecasting is nothing but predicting future sales. It is an essential aspect of a business. Forecasting gives direction and focus to the activities in a business; helps in making better decision, planning and budgeting. If not, the organizations have to work randomly.

Forecasting is essential, but accurate forecasts are desirable. If the forecasts are inaccurate, it will have serious repercussions across business as most of the decisions as seen above, are based on the forecasts.

Importance of Sales Forecasting

1. Makes systematic working possible.
2. Helps production manager in setting realistic targets.
3. Helps in fixing the responsibilities to salesmen.
4. Due the focus, avoids wastage of resources.
5. Binds different departments to coordinate and cooperate with each other.
6. Easy to control performance as targets are set.
7. It is the core / essential input to prepare budgets.
8. Helps identify production capacity requirement gap.
9. Helps in cutting down wasteful expenditure, thus enables fair pricing.
10. Helps in product mix decisions.

Uses of Sales Forecasting for Other Functions

1. Manufacturing / Production function to set up production capacity and planning
2. Finance investments, operations and profit planning
3. Purchase
4. Human resource management manpower planning

Types of Sales Forecasting

Businesses refer to sales forecast by defining three factors product level, time period and geographic area. There are different types of sales forecasting based on each of the factors mentioned above.

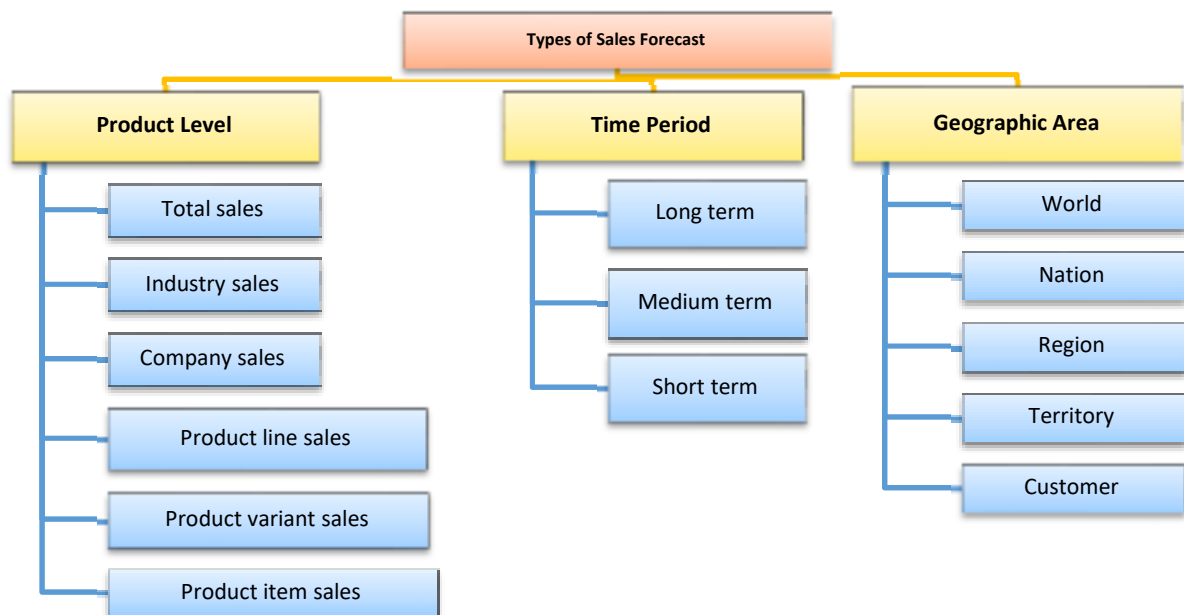


Fig 1.8 Types of Sales Forecast

Source Adopted from Havaldar and Cavale (2008)

Forecasting Approaches

There are two basic approaches to sales forecasting Top down and Bottom up approach



Fig 1.9 Top down / Breakdown Approach to Sales Forecasting

Source Adopted from Havaldar and Cavale (2008)

- Top down approach is quick and economical.
- Based on secondary data such as planning commission reports and industry level economic research.



Fig 1.10 Bottom up / Buildup Approach to Sales Forecasting
Source Adopted from Havaldar and Cavale (2008)

- Bottom up approach is very accurate for short term forecast.
- Based on primary data (hence expensive and time consuming).

Methods of Sales Forecasting

Sales forecasting is done using both qualitative and quantitative methods.

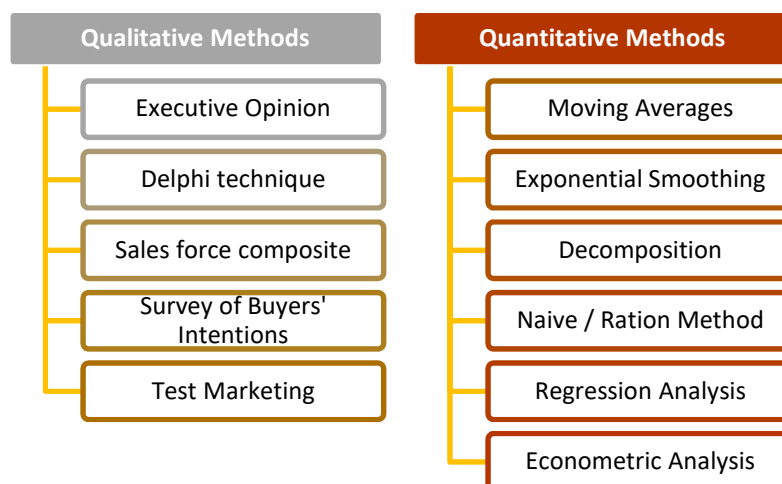


Fig 1.11 Sales Forecasting Methods
Source Adopted from Havaldar and Cavale (2008)

1. Executive Opinion (Jury of Executive Opinion)

- Oldest forecasting method.
- Has a committee approach.
- One or more experienced executives with good knowledge about market factors estimate the expected sales considering all the external and internal factors.
- If there are many executives, they will arrive at a figure after discussion or their estimates are averaged to forecast sales.
- Merits
 - Simple, quick and economical.
 - No need for detailed data.
 - Popular method, especially among SMEs
- Demerits

- Unscientific and subjective
- Difficult to breakdown the forecast into subs (branch, region, etc.)

2. Delphi Method / Expert Opinion

- Developed by Rand Corp during late 1940s, it is similar to the executive opinion method.
- A panel of experts are selected from inside and outside the organization.
- A coordinator collects forecast from each expert separately in writing and anonymously.
- Then, summarizes the forecasts in a report form and shares that report with each panel member.
- Each panel member again makes a forecast with the summarized forecast as guidance.
- The process continues till there is a consensus among all experts.
- Merits
 - Objective and accurate forecast.
 - Useful for industry level new product / technology forecast.
 - Useful in long, medium and short period forecasts.
- Demerits
 - Difficult to get experts for panel.
 - Time consuming (to arrive at consensus)
 - Difficult to breakdown the forecast into territories, branches, regions, etc.

3. Sales Force Composite Method / Grassroots Approach

- Adopts bottom up approach.
- Salesmen are in close touch with the consumers and have a fair idea about the future demand trends. Hence,
- Salesmen or intermediaries are required to estimate sales in their respective territories for a given period.
- All the sales force estimates are processed, integrated, modified, and a sales volume estimate formed for the whole market, for the given period.
- Merits
 - Forecast is given by those who are closest to the market and have better insight.
 - Can be broken down to territories, branches, regions, etc.
 - Involvement of sales people makes them feel a part of the entire process.
- Demerits
 - Most of the times, the forecasts are inaccurate (low or high) as the sales people are not trained in forecast.
 - Sales people may underreport the forecasts, if sales quotas are linked to incentives.
 - Forecasting might not be interesting work for sales people.
- Modifications to the Method
 - Sales people are given the information about their past forecasts and actual sales along with company outlook, strategy, tactics, proposed plans, etc.
 - The salesperson and supervisor work on forecasts separately and then meet to discuss and arrive at a mutually acceptable figure.
 - Training is conducted in forecasting process and methods.

4. Survey of Buyers' Intentions / Consumers' Buying Plan / Market Survey /Research

- Existing and potential customers are the source of information in this method.
- They are asked how likely they are going to buy the company's products or services in a specific forecast period (quarter, year, etc.).
- The responses are recorded on a purchase probability scale

0.0	0.2	0.4	0.6	0.8	1.0
Not at all	Slight Possibili	Fair Possibili	Good Possibili	High Possibili	Certain Buying

- In addition to purchase possibility, other information related to the product such as quality, feature, price, etc. are recorded.
- Though it is a qualitative method, when probability sampling and statistical tools are for analysis are used, it can be considered as quantitative method.
- Generally used for B2B context and where expensive goods are sold to a limited number of buyers.
- Personal interview is conducted using survey method to keep track of changes in buying behaviours and decisions.
- Merits
 - Useful in forecast for industrial and new products, and consumer durables.
 - Relatively inexpensive and quick if consumers are small in number.
- Demerits
 - Inaccurate forecast due to buyers' unwillingness to reveal actual plans or their over optimism.
 - Expensive and time consuming if consumers are in big numbers.

5. Test Marketing Method / Test Marketing Result

- Products are introduced in a selected geographical area and the result is studied.
- Used to forecast sales of new products or existing products in a new market.
- Test marketing is conducted using either of these three methods
 - a. Full blown test marketing
 - Conducted in a few representative areas in which full promotions are done, as done in actual marketing for a set duration.
 - Then buyer surveys are conducted to know product usage, consumer attitude and satisfaction.
 - Based on the results, changes are made in product / policy / strategy in the actual marketing scenario.
 - b. Controlled test marketing
 - Research firms are hired to deliver new product to a selected panel of stores in specific geographical areas and arrange for promotions.
 - The sales are measured and consumers are interviewed to know about their perceptions.
 - c. Simulated test marketing

- Select a small group of shoppers (3040 in number) based on their preferences and familiarity of similar brands.
 - Show them the advertisements of existing / known products and new products without telling the reason / purpose.
 - Give them money to buy any of these products from stores.
 - Researcher notes the how many of them buy new products and existing products, interviews the shoppers about why they bought / did not buy new products, interviews those who bought new products after using it to record their opinion and satisfaction levels.
- Merits of Test marketing
 - Useful to forecast new / modified product sales.
 - Can decide on full-fledged launch of product without spending huge amount.
 - Demerits of Test marketing
 - Chances of information leak to competitors in full blown and controlled methods.
 - Difficult to measure results in case of products with long repurchase periods.

6. Moving Average Method

- Simple calculation using past years' (3 or 6 years') sales data substituted in the formula given below

$$\text{Sales Forecast for next year} = \frac{\text{Actual sales for past 3 or 6 years}}{\text{Number of years (3 or 6 years)}}$$

- To calculate forecast for subsequent periods, the data from the oldest period is dropped, hence the name moving average. For eg to forecast for 2019, if we use 3 years data, data from 2016, 17 and 18 are considered. To forecast for 2020, we drop data from the year 2016 and use data from 2017, 18 and 19.
- In case of cyclical trends in an industry, instead of annual data, cyclical data is collected.
- Merits
 - Simple to use and easy to calculate.
 - Can use for short and medium term forecasts.
- Demerits
 - Not possible to forecast upward or downward trends.
 - Not possible to predict long term forecasts accurately.
 - Dependence on historical data.

7. Exponential Smoothing Method

- Similar to moving average method, but uses exponential smoothing equation.

$$\text{Sales Forecast for next year} = (L) (\text{actual sales this year}) + (1-L) (\text{sales forecasted for this year})$$

Where L is a smoothing constant / probability weighing factor

- The value of 'L' is >0 and <1 based on
 - Review of sales data.
 - Conditions observed in the forecasted period and previous periods.
 - Intuition.

- E.g. If L is 0.3, actual sales for 2018 is ₹ 900 million and forecasted sales for 2018 is ₹ 1000million,

$$\begin{aligned} \text{Then, Sales forecast for next year (2019)} &= (0.3) (900) + (0.7) (1000) \\ &= 270 + 700 = ₹970\text{million} \end{aligned}$$

- Merits
 - Simple and used by many firms.
 - Forecaster's intuition and knowledge are used.
 - Suitable when sales data have trends / seasonal patterns.
 - Can respond immediately in case of change in sales trends.
- Demerits
 - Smoothing constant might not be accurate.
 - Not suitable for long term or new product forecasting.

8. Decomposition Method

- Company's previous period's sales data is split (decomposed) into 4 components (Trend, Cycle, Seasonal and Erratic events).
- Trend E.g. Increase in sales by 4% due to population growth and new technology.
- Cycle 5% decrease in sales due to recession trends.
- Seasonal E.g. 20% increase in sales due to Diwali season.
- Erratic Natural calamities to reduce sales by 2%.
- Calculation if the sales forecast is ₹ 100 million,
 - Due to trend factor it will be $100 \times 1.04 = ₹ 104$ million
 - Due to cycle factor it will be $104 \times 0.95 = ₹ 98.8$ million
 - Due to Seasonal factor, $98.8 \times 1.2 = ₹ 118.56$ million
 - Due to Erratic factor, $118.56 \times 0.98 = ₹ 116.19$ million
- The seasonal factor affects the quarterly sales figures.
- Merits
 - Conceptually sound.
- Demerits
 - Difficult and complex calculations.
 - Dependence on historical data.

Naive / Ratio Method

- Time series method of calculation (assumption what happened in the immediate past will continue to happen in immediate future)
- Formula

$\text{Sales Forecast for next year} = \text{Actual sales this year} \times \frac{\text{Actual sales of this year}}{\text{Actual sales of last year}}$
--

- Eg Sales forecast for 2019 (if actual sales of 2018 is 900 and 2017 is 850),

$$= 900 \times \frac{900}{850} = 952.94$$

- Merits
 - Simple calculations with less data
 - Accuracy is good for short term forecast
- Demerits
 - Not suitable for long term forecasts and new products.
 - Due to sales fluctuations, accuracy suffers.

9. Regression Analysis

- Statistical method of sales forecasting, where,
 - Dependent variable (Y) is predicted sales.
 - Independent variable (X) or if more than one, then they are called factors.
- A cause and effect relationship between sales and factors is identified
- If there is only one independent variable, a linear (simple) regression is used.

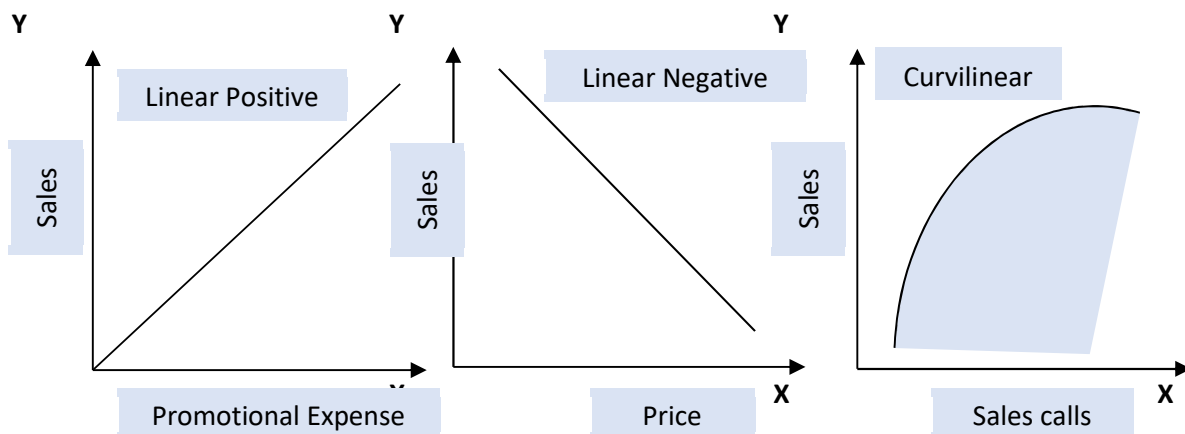


Fig 1.12 Relationships in Regression Analysis

Source Havaldar and Cavale (2008)

- **Linear Positive Relationship** as promotional expenses increase, sales also increase.
- **Linear Negative Relationship** as price increases, sales decrease.
- **Curvilinear Relationship** as sales calls increase, sales increase to a particular point (saturation), later additional sales calls result in decrease in sales.
- A more accurate method is least squares method, where a formula is used for best fitting line $y = a + bx$ (a is the intercept of the line on y axis and b is the slope or trend of the line)
- When there are multiple independent variables (which is true in reality), Multiple Regression Analysis is used.
- Merits
 - Objective method.
 - Highly accurate forecasting when relationship between variables is stable.
 - Can predict turning points in sales.
- Demerits
 - Complex, expensive and time consuming.
 - Need assistance of spreadsheets / statistical software packages.

10. Econometric Analysis

- Different Regression equations are built to forecast industry sales, general conditions or future events.
- To carry out econometric analysis, it is important to know how the factors are related to each other and what economic factors affect the sales and trends.
- Merits Economic conditions and industry sales are predicted accurately.
- Demerits Enormous amount of data is to be collected for the analysis of multiple factors.

Other Methods of Sales Forecast

1. Market Factor Analysis
2. Other statistical methods Trend analysis, Semi average method and Correlation.

Challenges for Sales Forecast

1. Buyers' tastes and preferences change, which cannot be recorded in forecasts immediately.
2. Dynamic and heterogeneous economic conditions.
3. Impact of political environment and government policies.
4. Competitor's actions and policies.
5. Changes in science and technology

How to Improve Forecasting Accuracy?

1. Use multiple forecasting methods.
2. Identify suitable methods.
3. Develop few factors when using multiple regression and econometric analysis.
4. Obtain a range of forecasts.
5. Use computer hardware and software tools / packages.

Conclusion

Knowledge of customers' location and ability to predict their buying strength is important for business survival. Inaccurate prediction of sales demand can prove disastrous for profitability. Managers should employ qualitative and quantitative techniques suitably for accurate forecasting.

Budgeting Decisions

Sales Budget

Once the sales are forecasted,

- An expected sales volume is estimated (sales volume is set lower than the forecast to reduce risk).
- An estimate of selling expenses is calculated.
- Sales budget is the detailed estimation of sales volume (revenue) and selling expenses.
- Sales volume budget is derived from splitting the forecast into
 1. Product wise quantity, average selling price per, sales revenue
 2. Territory wise expected sales quantity and sales revenue
 3. Customer wise and salesperson wise sales quantity over different time periods (monthly, quarterly, and annually).
- Selling expenditure budget includes salaries, incentives / commissions and other expenses for the sales force.

- Administrative budget includes expenditure of the sales department such as rent, salaries to the territory sales managers, sales supervisors, secretaries, office staff, power, stationary, equipment, maintenance and other overheads.

Purposes of Sales Budget

1. **Planning** for sales goals, strategy and action plan, and execution costs.
2. **Coordination** of the activities of various functional areas.
3. **Evaluation / Control** budgets are tools to control the activities by measuring actual performance against budgeted ones.

Methods used for Deciding Sales Expenditure Budget

1. **Percentage of Sales Method** by assigning percentage to each category of expenses and multiplying it by sales volume (E.g. Expenses on sales people is 1% of budgeted sales revenue).
2. **Executive Judgment Method** Sales manager decides the selling expenses for each category based on his / her own judgment.
3. **Objective and Task Method** Tasks and actions to be carried out to achieve the sales volume objective of a budget period, marketing strategies and sales strategies is the basis for allocating the budget.

Sales Budget Process

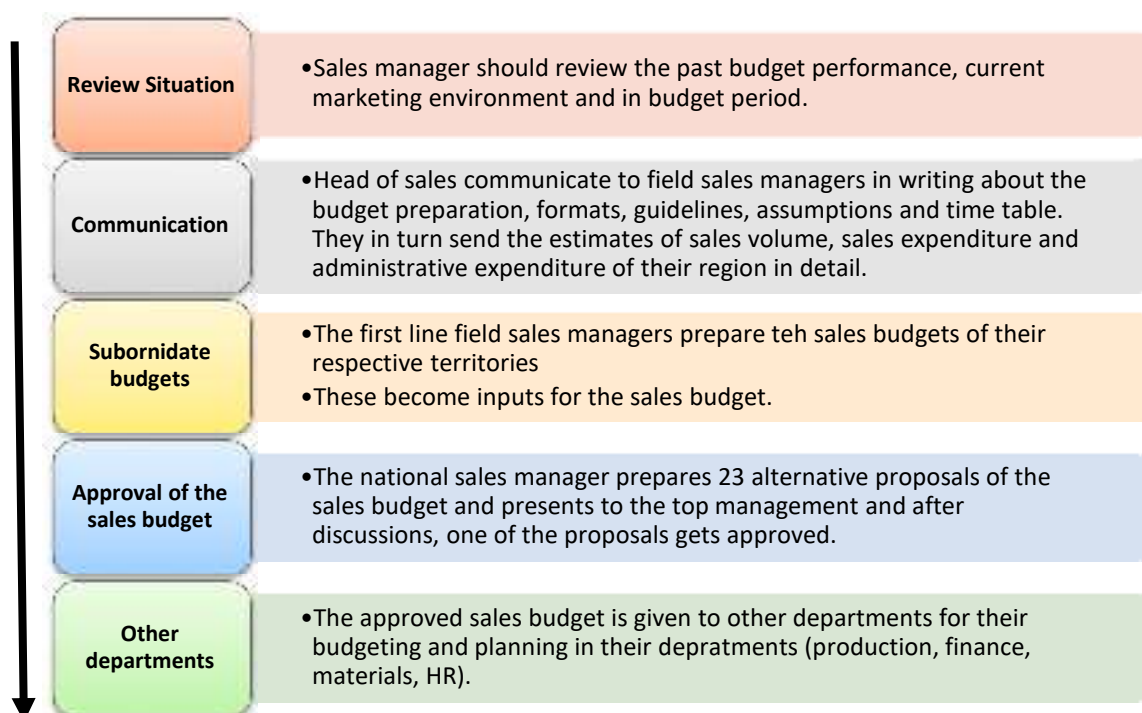


Fig 1.13 Sales Budget Process

1.4 Emerging Trends in Selling, Ethical Leadership

(Suggested Readings 1, 5 and 6)

Emerging Trends in Selling

With the dynamics of marketing environment, one needs to understand the current and emerging trends and adapt to the same, to sustain.

1. **Global Perspective** Sales managers need to have global perspective (different cultures, languages, buying requirements, negotiation styles, etc.) to manage their sales force in domestic and international markets.
2. **Revolution in Technology** Digital revolution and management information systems provide opportunity to information access about customers in real time. One should make use of this to build better relation with the customers. On the other hand, technology enables data processing and analysis with amazing speed which will help in quick and rational decisions.
3. **Customer Relationship Management (CRM)** Aims at building lasting mutually beneficial relationship between customer and providers. CRM is technology assisted activity and one need to adapt it for profitability.
4. **Sales Force Diversity** Heterogeneous sales force is an asset if employed appropriately. Need special skills to understand and manage a diverse workforce which includes people from different demographics.
5. **Team Selling Approach** Helps in building long-term relationship with large account customers and in selling technically complicated products. A team with a mix of behavioral and technical skills will work wonders.
6. **Managing Multichannel** Multiple distribution channels are used to reach multiple customer segments at low cost, with increased market coverage and customized selling.
7. **Ethical and Social Issues** Sales managers have social and ethical responsibilities. They face ethical issues such as bribery, deception, high pressure selling tactics; social issues such as inequality. They need to practice honesty, integrity and pluralism.
8. **Sales Professionalism** Overselling, wrong selling, aggressive selling may not help in markets where competition is intense, customer sophisticated and products more complex in terms of technology. Knowledge, skills and right attitude is a must for professionalism.

Ethical Leadership

Leading the Sales Force

Sales managers need to lead their team effectively to be effective. Being a leader, one need to be people oriented to influence them towards goal achievement.

Sales leadership is about equipping and empowering the salespeople. Leaders exhibit emotional influence on the team due to which they can motivate the team to realize his / her vision.

When faced with ethical dilemma, people are prone to unethical behavior. Managers / Leaders play an important role in shaping the ethical behavior of sales persons.

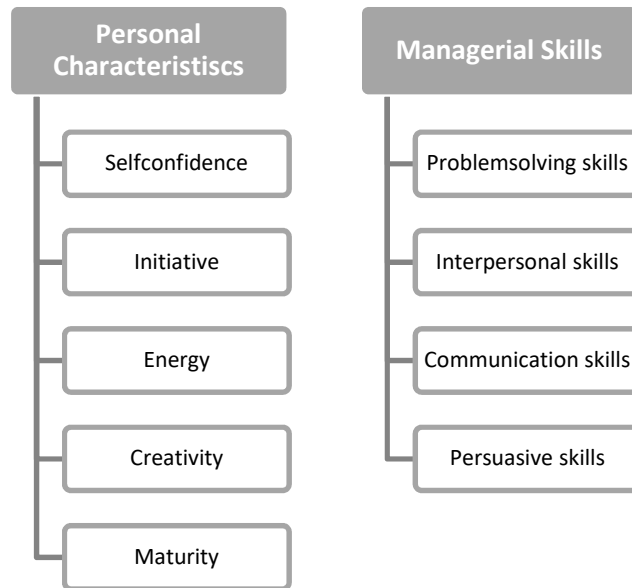


Fig 1.14 Leadership Characteristics and Skills

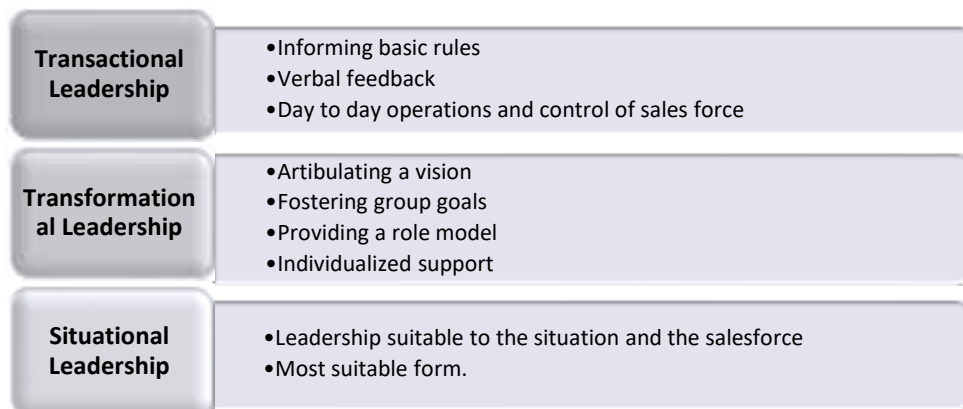


Fig 1.15 Leadership Styles

Tools and Techniques of Leadership

1. **Personal Contact** visit sales persons on the field and help them. This develops confidence and trust.
2. **Sales Reports** to monitor and evaluate the sales persons. Helps in assigning territories.
3. **Telecommunications** for better customer and industry information, selling assistance, sales support, reporting and communication.
4. **Printed Aids** sales manuals, bulletins, newsletters, etc. help in answering queries.
5. **Meetings** for keeping stock of situation and disseminating information, discussions and decision making.
6. **Indirect Supervisory Aids** compensation plans, territories, quotas, expense accounts and sales analysis procedures.

Outcomes of Effective Leadership

1. **Well Trained Salespeople** a good leader trains his salespeople through verbal feedback and remodeling.

2. **Trust Among Salespeople** if the subordinates feel that their leader genuinely cares for them, it is easy to manage them and persuade them to work in team.
3. **Citizenship Behaviors** great leaders nurture citizenship behavior (voluntary behavior's not part of a formal job description but are important for a firm's success) among salespeople.

Citizenship Behaviors Exhibited by Sales People

- Offering help and encouragement to the struggling new team members.
- Coming to work on time and attending meetings regularly, without fail.
- Facing problems without complaining.
- Volunteering for commy services.
- Courteous and respectful of others' rights.

Citizenship behavior improves the overall productivity of the Salesforce.

4. **Better Performance** when salespersons believe that their leader cares about them and recognizes their work, they perform better.
5. **Sales Force Morale** Salesforce under an effective leader is comprised of well trained, high performing sales group whose members trust each other and work together towards organizational goals. This environment and common purpose keep their morale high and leads to job satisfaction.

Problems Encountered in Leadership

While managing a team of sales people, the leaders commonly face these challenges

1. **Poor Performance** a good leader tries to understand and solve the reason behind poor performance and do everything possible to protect that person. If they fail to protect them, then there are possible discrimination cases against them.
2. **Substance Abuse** leaders need to detect and deal with salespeople with substance abuse problem. Sometimes, it is difficult to detect substance abuse, still leaders have to be alert to the signs such as breath, slurred speech, missing work, declining performance. Once detected, leaders have to deal with such cases delicately.
3. **Expense Accounts** fake expense accounts are part and parcel of selling. Companies make it clear in terms of policy that expense account is grounds for dismissal. A leader should be able to discover such discrepancies in expense accounts and review to understand the situation better. Leaders who are compassionate to the genuine requirements of the salespersons can be a solution to this unethical behavior.
4. **Unethical Behavior** Other than the manipulation of accounts, there are many other unethical behaviors' in sales such as
 - Recommending unnecessarily high product quality levels or inventory.
 - Selling out of production items without informing the customer.
 - Providing misleading information about the competitors.

Leaders should not overlook such unethical behaviors. If overlooked, the long term consequences are serious (lawsuits, negative publicity, etc.). Hence, they should take appropriate action without delay. However, before taking action, it is ethical to follow these steps

- State the problem.

- Get the salesperson's agreement on the problem.
- Listen to the salesperson's assessment of the problem.
- Consider explaining the circumstances.
- Design an action plan.
- Get the salesperson's agreement on the action plan.

5. Sexual Harassment Unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of sexual nature constitute sexual harassment.

Usually, sexual harassment involves 2 people working for the same firm. However, in sales organizations, third party harassments (harassment by someone outside the firm) is common and that someone is most often a customer.

Ethical leadership is about taking immediate corrective actions in such instances. Corrective action can be reassigning the salesperson to a new customer / territory, requesting the customer to stop inappropriate behavior's, in worst case scenario, if the customer is not ready to budge, close that account.

Leaders should be proactive in creating a harmonious work environment free of harassment of any nature.

Personal Selling in Rural Markets

A good salesperson has thorough knowledge about the product he sells and tries to match the customer needs through the product offered.

Personal selling is not considered as a feasible practice in rural areas because of various reasons such as isolated location, wide geographic spread, bad infrastructure, etc. However, on ground, personal selling has proven to be a preferred choice for many local manufacturers of products such as garments, edibles, utensils, kitchen tools, etc.

There are several challenges faced in personal selling in rural areas such as low literacy, seasonal demand, mostly not connected by railway transports, rough roads, ineffective distribution, poor communication infrastructure, traditional / conventional lifestyle, concentrated buying decisions, with head of the household, usually a man takes most of the buying decisions.

Forecasting in Rural Markets

Due to seasonal fluctuations and largely nature dependent agricultural practices, the demand forecasting for products to be sold in rural areas is a tricky activity.

The same is with the rural produce, forecasting the supply of agricultural produce is also mostly difficult because of the reasons quoted above.

Benefits of Forecasting

Demand forecasting in agriculture produce is done through planning approach in India. Demand and supply forecasting help at micro and macro levels

1. Knowing in advance about the surpluses and shortage of commodities will give us an

indication of which item needs push and when?

2. Monetary planning can be done based on the shortages.
3. In case of surplus, exports can be planned.
4. The region wise surplus and shortage data helps us plan interstate movement of produces.
5. Infrastructure planning (transport equipment, handling, storage, etc.) can be done.
6. Policies can be framed for encouraging desired levels of growth.
7. Can use the data to convince farmers about importance of scientific methods of farming.

Methods of Forecasting Demand

1. Survey of Buyer's Demands

- Survey is conducted using questionnaires or interview method.
- Buyers' responses are sought to understand their choices in multiple possible situations.
- The data on consumer preference, financial standing, spending power, etc. are collected.

2. Sales Force Opinion

The field salesman will estimate a future sales figure based on his previous experience, and the market situation.

3. Expert Opinion

Dealers, distributors, suppliers, marketing experts, consultants, industry trade associations and cooperatives forecast demand based on their expertise, knowledge and experience.

4. Market Test Method

To introduce new products in a market, direct market test is conducted to forecast demand.

Forecasting Agriculture Produce Supply

Is extremely difficult due to many uncontrollable factors

- Most of the produces are seasonal.
- Change in climatic conditions affects the yield.
- Variation in productivity across regions due to soil quality and other factors.
- Government incentives to support certain crops.
- Price and cost factor.
- Adoption of science and technology.

Rural Market Rating Tools

1. Thompson Rural Market Index by Hindustan Thompson Associated limited

Uses area of the district, demographics, occupation pattern, agriculture related data such as gross irrigated area, gross cultivated area, agricultural inputs data such as pump sets, tube wells, tractors, fertilizer consumption, rural electrification data, commercial banks data

2. Mica Rural Market ratings

Uses fertilizer consumption, irrigated area, cropped area, bank advances and value of agricultural rate the rural markets.

Recent Trends in Rural Production

1. Contract Farming

- It is a system of producing and supplying agricultural produce under forward contract between producers and buyers (farmers grow certain crops for an agency who will have an agreement to buy back the produce from the farmers). Both private and cooperative s

of contract farming are there.

- Contract farming is useful to overcome issues of inefficiencies and inadequacies in agricultural production and marketing.
- Ensures timely supply of quality products, price stability and adopting best agricultural practices.

2. Organic Farming

- After realizing the ill effects of chemical fertilizers and pesticides on human health, people across globe, especially in developed countries are consciously avoiding the agricultural produces which used chemicals.
- Organic farming, though not produce, is still desired due to the increasing demand for organic products. Organic products (graded and branded) fetch handsome price.

3. Agriculture and Food Processing

- With the growing dual income households, the need and demand for processed food has been on rise.
- Farmers and corporate make use of this excellent oppority and set up agribusinesses.
- Government has recognized this and has set up mega food parks which offer infrastructure, technology, R&D, quality assurance and human resource development facilities to the businesses operating from there.
- These parks offer sales, distribution, logistics and supply chain support.

4. Farmer's Markets

- Set up to by government for farmers to sell directly to urban consumers.
- Beneficial due to elimination of middlemen.
- Challenge is transportation and logistics, which is addressed by the market committee who provide cold storage, warehousing and stall facilities.

5. Organized Retailing

- Major retailers procure farm produces / mostly vegetables and fruits directly from the farmers.
- To facilitate procurement, they have set up collection centers in farming areas.
- This facility is advantageous to farmers too. They get paid well by retail giants compared to middlemen. They save on transportation cost too.

6. Use of IT and Internet

- Agriculture market information provides information on harvest, postharvest, production, processing, agriculture markets, etc.
- Price forecasting system indicates the future price of agriculture produces using statistical tools and scientific methods.
- Creation of national market atlas includes creating infrastructure facilities, new market identification, modernization of existing markets, assessing movement of surplus, developing submarkets, etc.
- Electronic auction system is the electronic platform to auction agriculture produces.
- Electronic displayer system to keep the players in the markets informed about prices, crop varieties, seasonal price trends, historical data, etc.
- Ecommerce for selling agriculture produces online directly to the retailer, eliminating middlemen.

- Information kiosks to help farmers with the knowledge of modern agricultural practices, sources of agricultural inputs, farm finance, historical and forecasted data.

Ethical issues in rural sales

1. Product safety

- Many consumers will not be in a position to evaluate a product for its safety standards.
- In such situation, the onus is on the producers and other channel members to ensure that the products are safe.
- E.g. Farmers do not have the expertise to evaluate the harmful effects of fertilizers, pesticides, etc.

2. Product quality

The product should adhere to the quality claims of the organization.

3. Pricing

Avoid unethical pricing practices such as price fixing and predatory pricing.

4. Packaging and Labeling

- It is the marketer's responsibility to provide accurate and sufficient information about the product through packaging and labeling.
- E.g. Expiry date, usage instructions, claims of being organic, environment friendly with explanation.

5. Distribution Channel

- **Demanding Exclusive Dealership / Distribution** (forcing the distributor not to accept other company's distribution. In rural areas, due to scarce distribution networks, exclusive dealership is unjust.
- **Tying Contracts** where distributors are forced to buy unwanted / slow moving products along with desired and fastmoving products.
- **Full Line Forcing** similar to tying contracts, here the seller forces the buyer to purchase all the products when the buyer wants only a part of the product line. E.g. fertilizer and pesticides along with seeds.

6. Advertising

- **Deceptive Advertising** exaggerated claims, misrepresentations, and ambiguous statements.
- **Harmful Effects** advertisements which invoke emotions like anger, fear, which appeal to bad habits, violence, risky adventures, etc.
- **Confuses People** through biased and emotional advertising messages.
- **Forceful Selling** emotional appeal, persuasive advertising and pushing unwanted products on the consumer.
- **Media Misuse** with wrong claims in print, broadcast and electronic media.
- **Moral Influence** project materialistic things and influence the viewer's morals and value judgments.
- **Impact on Children** children are susceptible to deception and it is easy to influence them through advertisements. They end up craving for unhealthy products based on advertisements.

7. Agricultural Inputs

- Wrong claims of yield potential of hybrid seeds.

- Pushing old seeds, which fail to germinate.
- Aggressively selling unwanted products such as micro soil nutrients, enzymes, etc.
- Highlighting only the benefits of chemicals, without informing about the possible ill effects.
- Unreasonably high prices during low supply high demand periods.

The above discusses issues in ethics should be addressed by the channel members voluntarily. If they fail to do so, there are councils to look into ethical issues.

1. **Consumer Complaint Council (CCC)** for regulating advertisements.
2. **Council for Fair Business Practices (CFBP)** to check unfair business practices.

1.5 Case Analysis

You have recently joined Ace Foods Ltd., a food processing firm as regional sales manager. As a part of understanding the working of your region, you see the sales data of the past 6 years. The data is as given below

Sl. No.	Year	Actual Sales (In million ₹)	Forecast (In million ₹)
1	2014	700	
2	2015	750	
3	2016	820	
4	2017	890	
5	2018	970	
6	2019		1110

Out of curiosity to know how the firm might do this year, you want to forecast sales for Ace Foods for 2019.

Questions

1. You need to use more than one forecasting methods. Why?
2. Which are the most appropriate methods to forecast?
3. Use the chosen methods, forecast, compare and conclude.

Model Questions

1. Why is sales management important?
2. What is the difference between the position of order taker and order getter?
3. How is a sales organization arranged?
4. Explain the sales strategy development.
5. Explain the different approaches to forecasting sales? Compare them.
6. Explain the different roles played by sales managers at different levels of hierarchy.
7. Describe the qualitative and quantitative methods of forecasting.
8. How can forecasting be accurate?
9. What are the purposes of sales budget?
10. Explain the sales budget preparation.
11. What are the recent trends in rural production?
12. Write a note on forecasting in rural markets.
13. How can a sales manager maintain ethical environment in a sales organization?

14. What are the ethical issues in rural sales?

Suggested Student Activities

1. Talk to salesperson / manager and find out whom do they report to and who report to them?
What is the nature of their job?
2. Students can use forecasting techniques to forecast stationary requirements on their campus for the next year.
3. Students can conduct hard selling activities to have a firsthand experience of selling.

Chapter 2 Personal Selling Process, Sales Territories and Quota

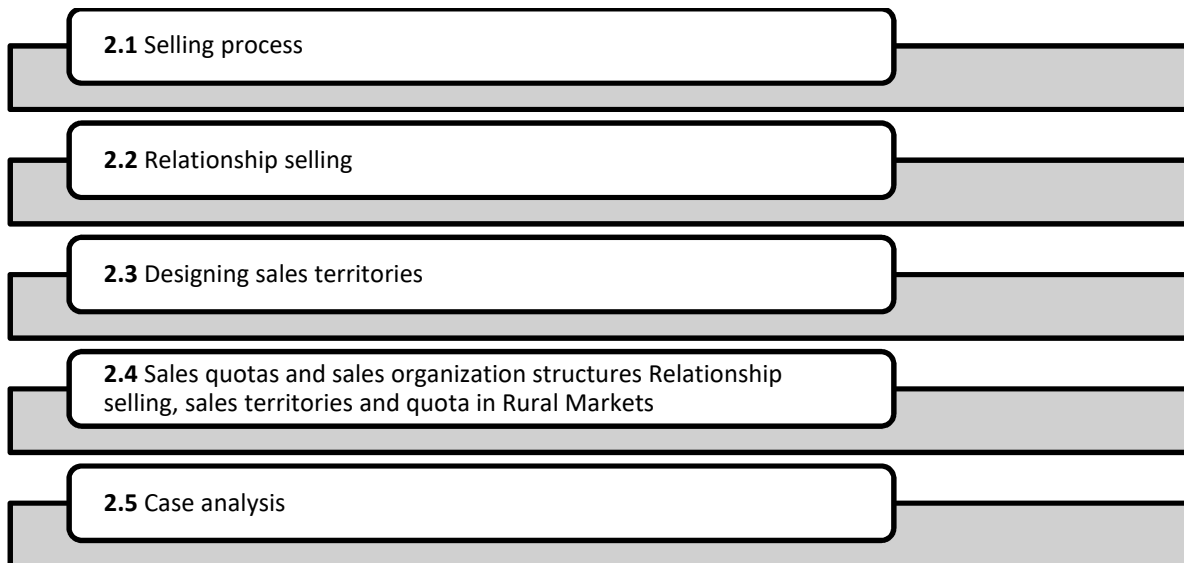
Introduction

Selling is not an incident; it is a process. The process may vary from person to person in different situations; there is no magical method which can work across people and situations. However, over the years, a consensus has evolved on a set of techniques which works better than others in most situations. We are going to discuss those set of techniques in this section.

Objectives

- To make students familiar with selling process and how it can be used to establish long term relationship with customers
- To help students learn how design territories and allocate quota.
- To educate students about different types of organization structures and their suitability.
- To introduce students to the practices of relationship selling, designing sales territories and setting sales quota in rural markets

Structure



2.1 Selling Process

(Suggested Readings 1, 4 and 6)

Selling Process

Sales personnel are involved in many activities which can be categorized under 2 heads Selling and Nonselling activities. The set of activities carried out under selling head, forms the steps in selling process.

- Selling process is described as a set of 6 / 7 / 8 activities by different authors. We shall discuss the 8step process here.
- It is important to note that all the 8 steps need not occur or even if occur, need not occur in the same sequence. Also, it is important to note that each step can overlap others.

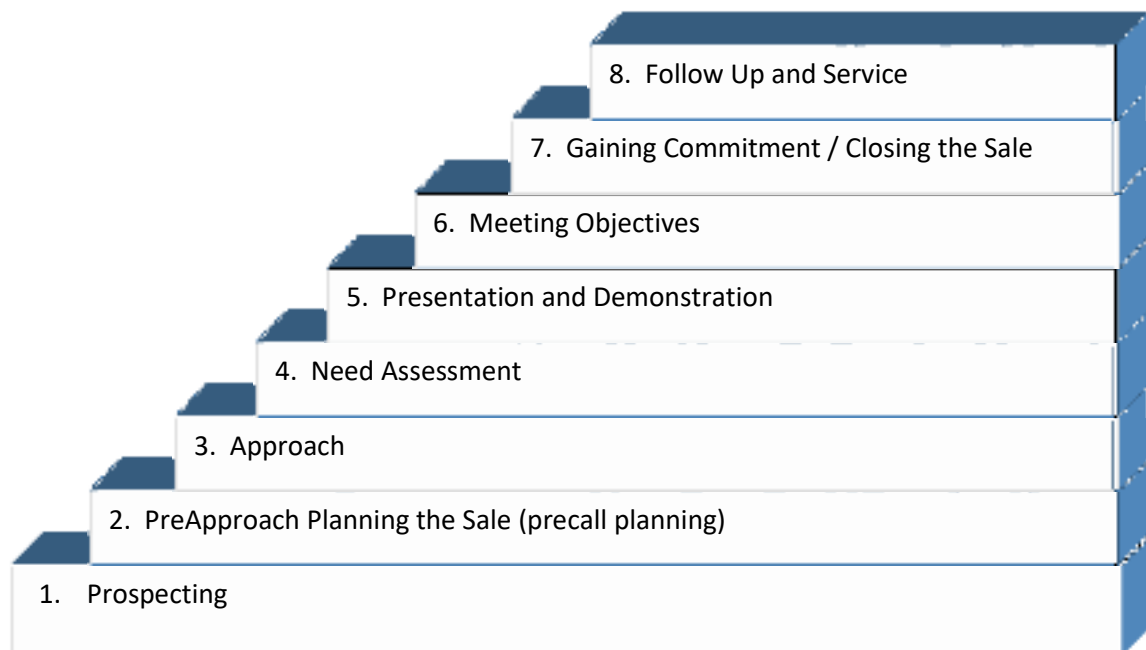


Fig 2.1 Selling Process

Source Spiro, Stanton and Rich (2005).

1. Prospecting

- Selling a product / service has a prerequisite someone should have a need and ability to buy the product you are selling.
- A prospect is a party (individual / family / organization) who needs and has the ability to buy the product / service being sold by a salesperson.
- Prospecting is a method or a system through which a salesperson comes to know the names of people who need and has the affordability to buy the product being sold.
- Prospecting happens in two steps

(1) Identifying Leads

There are many ways in which we can gather the names and addresses of the prospects

Prospecting / Lead Generation Techniques

- a. Referrals from existing customers (believed to provide nearly 2/3rd of referrals)
- b. Referrals from internal sources of the company (Marketing dept., telemarketing dept., sales managers, etc.)
- c. Referrals from external referral agencies (provide list of leads for reasonable fees)
- d. Published directories (by trade associations, chambers of commerce and industry, yellow pages, Registrar of Companies, etc.)
- e. Salesperson's networks (friends and acquaintances of salespersons provide referrals)
- f. Cold canvassing (salespersons make unannounced calls on businesses that may need the products. This practice is fast declining due to time and cost factors)

(2) Qualifying Leads

The leads generated through various sources have to be qualified (who need products / services being sold). Whether the lead is a good prospect or notes determined by the

salesperson or the referral source if the lead fulfils these conditions

1. The customer should have a need for the products / services being sold.
 2. The customer should afford to buy the products / services.
 3. The customer should be open to meet the salesperson.
- Sales persons are usually responsible to find their own prospects as it is considered as a part of their job.
 - Things are changing now; marketing department is found to be more effective in prospecting.
 - Not all prospects end up buying. Depending on their likeliness to buy, they are categorized into
 - The following figure gives the real picture about prospecting.

Qualifying of Prospects

- a. Hot prospects good requirement and financially sound.
- b. Warm prospects medium or average requirements and financially sound.
- c. Cool prospects low requirements and not so good financial capacity.

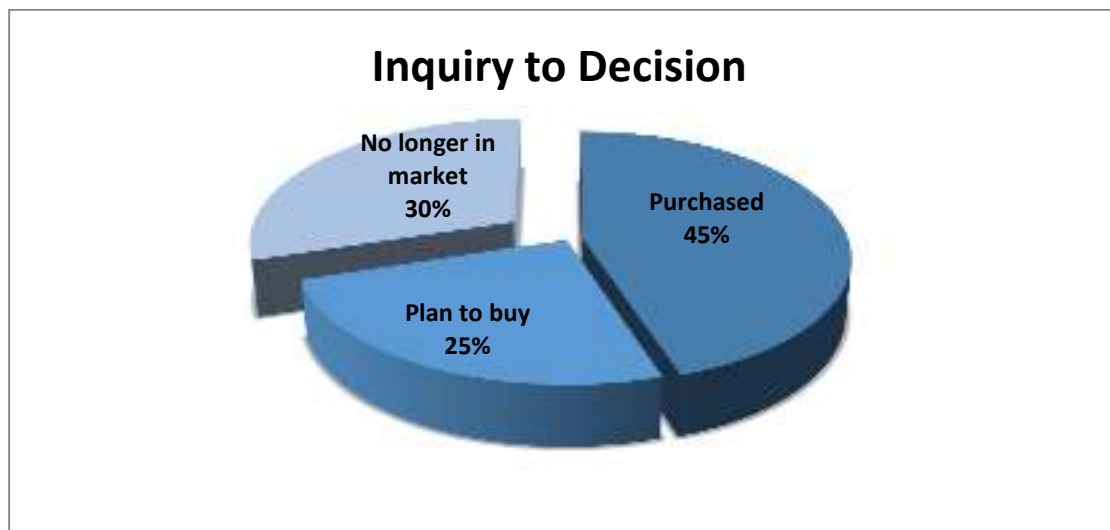


Fig 2.2 Lead Conversion Ratio (12 months after inquiry)

Source Spiro, Stanton and Rich (2005).

- The above figure shows that when checked after a year of inquiry, 45% would have made the purchase either with you or your competitor, 25% still plan to buy, but the other 30% are no more a prospect.
- It is important to convert a prospect into sale. The salespersons should follow up.
- With proper follow up, salespeople have converted up to 80% of leads to a sale.

2. PreApproach Planning the Sale (precall planning)

- Salespersons collect all possible information related to needs, situation and relevant facts about the prospects.
- Based on the information, salespersons plan their presentations and set objective for each call.
- This stage is divided into two sub stages

1. Customer Research

- Collect all possible information about the customer's buying behavior.
- In case of business customers, learn about their business; size, decision makers, influencers, etc.
- In case of existing customers, dig files for previous interactions, sales records, etc.

2. Planning the Sales Presentation

- Presentation reflects the goal / objective of the sales call.
- Salespeople decide the approach they are going to adopt and be ready to answer probable questions from the prospect this is called adaptive selling.

3. Approach

- After planning for the presentation, it is time for approaching the prospect taking an appointment is a good way to start.
- It is a good opportunity to make a favorable impression and establish rapport.
- Use the principles of verbal and nonverbal communication appropriately for effective outcome.

4. Need Assessment

- In a business to business selling, the customer is very keen on whether the product / service satisfies the intended need and improves the current performance.
- Hence, need assessment is crucial; to discover, clarify and understand buyer's needs.
- Effective questioning is essential, hence, use appropriate questions
 - a. Situational questions (factual questions about the buyer's current situation). E.g.
 - What is the productivity of this machine?
 - How automated is the accounting process?
 - b. Problem discovery questions (questions about current issues faced by the buyer for which your product is a solution).
 - E.g. What problems are you facing with the machine?
 - What are the issues with semiautomated accounting process?
 - c. Problem impact question (questions about how the issues are impacting the company's operations).
 - E.g. What are the implications of the machine problems?
 - What are the implications of the accounting process issues?
 - d. Solution value questions (questions about the importance / value of the solution to the problem).
 - E.g. How much loss are you facing due to machine problems?
 - How many man hours are wasted due to the accounting issues?
 - e. Confirmatory questions (questions to confirm if the buyer feels your product is a solution to the problems)
 - E.g. Would you be interested in a product that can save you the loss?
 - Will a fully automated accounting software solve your problem?
- Sales persons ask need assessment questions in a logical order (just as shown above) so that problem discovery, impact and solution value are discussed. It is advisable to use minimum situational questions.

5. Presentation and Demonstration

- Once the need assessment is done and the salesperson understands the requirement of the customer, the core of the selling process (presentation) begins.
- **Presentation** is a discussion about the features, advantages and benefits of the product to the customer. This is based on the need assessment.
- **Prepared Sales Presentations** give confidence to the salesperson, to the buyer about the working of the product and simplify sales training.

Effective Presentations

- a. Are kept simple.
- b. Talk the prospect's language.
- c. Stress the application of the product / service to the prospect's situation.
- d. Ask for credibility (if the prospect trusts what is presented?) at every stage.

- **Demonstrations** are the display of the product / service to the customer to show its working and features. The product demonstration is strengthened advanced graphics and video testimonials of other customers.

6. Meeting Objectives

- During presentation, the prospect will raise objections to what you are saying / the solution you are offering.
- This is good for the presenter as it shows that the prospect is listening to what is being said and is interested in it.
- When a buyer raises objections, the presenter should
 - a. Listen to the buyer.
 - b. Clarify the objections (understand the objections clearly by asking questions).
 - c. Respect the buyer's concern (don't get offended / become defensive).
 - d. Respond to the objections (address the concerns).
- Prospects raise different kinds of objections.

The Most Common kinds of Objections

- a. Price or value objections (I don't need it, it's too expensive)
- b. Product / service objections (not sure if the product will solve the problem)
- c. Procrastinating objections (I should speak to my boss, need some time)
- d. Hidden objections (act as if they didn't like the product when it is expensive)

7. Gaining Commitment / Closing the Sale

After convincing the prospect about the product, take the sale forward by asking the prospect to commit to some action (placing order, approval in writing, etc.).

Common Sales Closes

- a. The assumptive close assuming that the prospect is buying, ask for size, no., etc.
- b. Special offer close if you close the deal today, then this is the offer.
- c. Summary close summarize the benefits of the product and ask for finalizing.

8. Follow up and Service

- Keep in mind that getting order is not end of a sale.
- Good sales persons follow up after the sale and check for feedback, support required, etc.
- This is the beginning of relationship selling.

2.2 Relationship Selling

(Suggested Readings 1, 4 and 5)

When a sales person concentrates on presentation, overcoming objection and closing the sale, he has done a successful transactional selling. Transactional selling focuses on getting the order using less / medium efforts, offering products at low prices, etc. This no doubt results in a sale, but the customers might not be of high profit potential and may stay with the company for a short period of time.

On the contrary, relationship selling (partnering / collaborating relationship) strives to achieve long term relationships with the customers with strong social, economic, service and technical ties. The sales person sells the products with maximum effort, discussion, and involvement of the customers, joint problem solving and multiple connections.

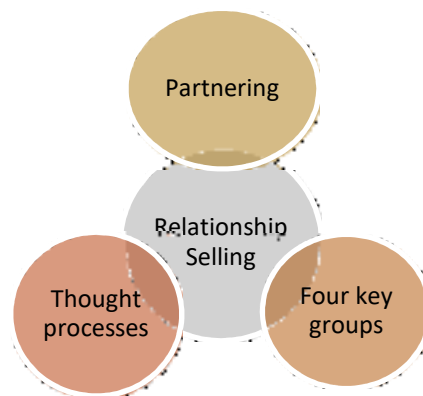


Fig 2.3 Features of Relationship Selling

Features of Relationship Selling

1. Partnering

- The sales person relates well to the customer, has supportive attitude, maintains quality and long-term relationship (life time customer), offers quality product.
- The customer gives repeat business.
- Sales person and customers have shared values and understand mutual expectations.

2. Four Key Groups

Besides the sales salesman, relationship is established with these key groups

- a. Customers
- b. Secondary decision makers (secretaries, assistants, receptionists, etc.)
- c. Support staff in the company (marketing research, production management, training, dispatch, etc.)
- d. Managerial personnel under whom the sales man works

3. Thought Processes

Another important aspect of relationship selling is the way we think, the thought processes, which

can be categorized as

- a. Self-image a result of one's ideas, attitudes, feelings and competence, it influences others.
- b. Win win situation selling should satisfy both the parties.
- c. Character and integrity character is what you are made up of; your behavior standards, moral fiber, sense of right and wrong, etc. If we practice what we believe in, it is integrity.

NonVerbal Strategies for Improving Relations with Customers

1. Good posture.
2. Confident walk.
3. Firm hand shake.
4. Smiling and welcoming face.
5. Professional hair style, subtle perfume and accessories.
6. Formal outfit.
7. Confident tone and well modulated speech.
8. Etiquettes how you address others, what topics you choose to speak about, etc.

Conversations and Relationships

The introductory talk and conversations go a long way in establishing and maintaining relationships. Carefully choose your opening statements as first impressions last long.

Self-improvement

Sales persons should have a continual improvement plan for self. self-improvement to achieve a goal happens in 4 steps

1. Emotional intelligence and communication skills (verbal and nonverbal).
2. Visualization (how would you like to see yourself and yourself to be seen by others).
3. Give positive feedback to yourself in the mind.
4. Monitor progress towards the goal.

2.3 Designing Sales Territories

(Suggested Readings 1, 4, 6 and 7)

Defining sales territories brings clarity in the functioning of sales persons; it in a sense defines the geographical scope of sales persons.

Sales Territory is a group of customers and prospects in a market, usually defined in terms geographical boundaries, assigned to a salesperson / branch / intermediary.

Clearly defined sales territories help in

- Matching the sales opportunities with the selling effort.
- Planning and controlling sales.
- Effective sales operations.



Fig 2.4 Benefits of Good Territory Design

Benefits of Good Territory Design

1. Enhances customer coverage when the market is large, there are chances of missing important customers if territory is not designed properly.
2. Reduces travel time and selling cost avoid overlapping of efforts of 2 or more sales persons, hence reduces the travel and overall selling costs.
3. Provides more equitable rewards when the potential in a territory is less, the sales figure will also be modest. This is not because of the ability / motivation levels of the sales person; it is because of the nature of the territory. This understanding will make it possible for fair evaluation of sales persons.
4. Aids evaluation of sales force.
5. Improves coordination between sales persons.
6. Increases sales.
7. Increases morale of the sales force good design results in productive sales people who serve the customers better, as a result, customers are happy and the sales person's morale high.

Factors which Determine Size of a Territory

1. Number of prospects / customers in a specified area.
2. Extent of geographical area.
3. Possible sales volume.
4. Frequency of visits required.
5. Intensity of selling effort required.
6. Ease of travel to and inside the territory.
7. Inventory turnover at the retail level.

8. Ease / difficulty in selling a product.

Designing Territories (Establishing / Redesigning Territories)

The desirable and ideal goal of a territory design is dividing geographical area in such a way that there is equitable distribution of workload and sales potential among sales persons.

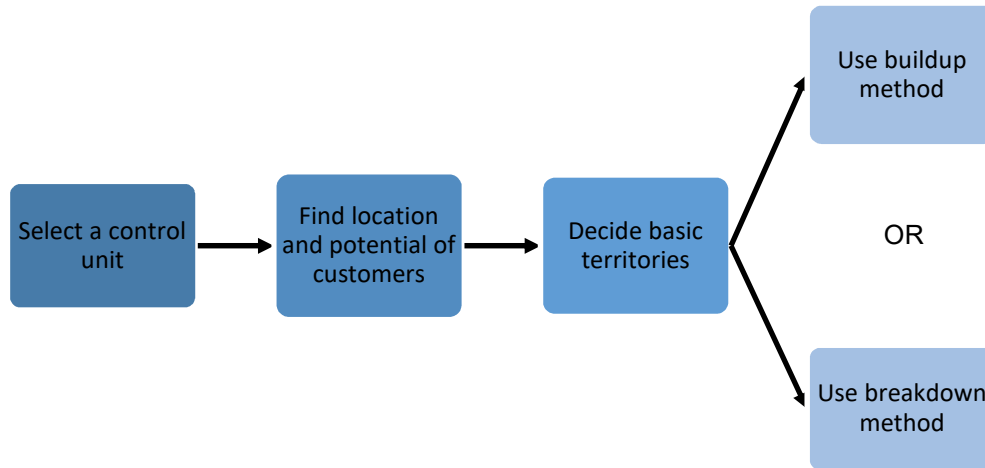


Fig 2.5 Procedure for Designing Sales Territories

Source Havaldar and Cavale (2008)

1. Select a Control

Control is a territorial base used in the territory analysis.

- The sales managers should select the smallest control because it's easy to
 - Calculate market potential and sales potential for company's product
 - Modify / adjust small tentative territories when finalizing / redesigning
 - Hence, state as a is not very popular

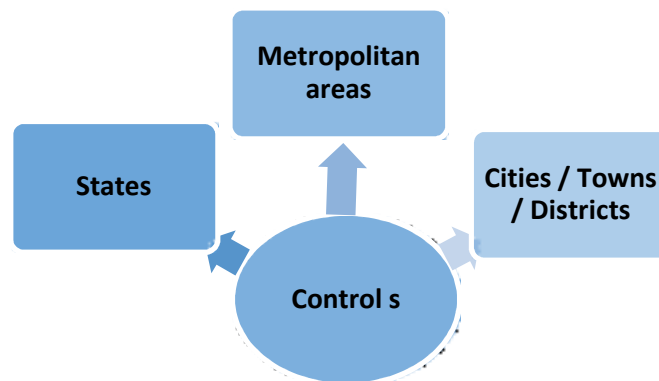


Fig 2.6 Control s in Indian Situation

Source Havaldar and Cavale (2008)

2. Find Location and Potential of Customers

Once the control s are defined, location and sales potential of the existing customers and prospects has to be found out.

- Information about the existing customers can be obtained from company records.
- Information about potential customers from internal (salespersons, lead generation department) and external (agencies, directories, customers, etc.) lead generation sources.

- Once the existing and potential customers are identified, estimate the potential sales for all in each control (Refer Chapter 1, 1.4 for details of the following steps).
 - Use suitable forecasting method to estimate the market potential.
 - Sales potential is decided based on the company's share in market potential in a control.
 - Classify customer using ABC analysis.

3. Decide Basic / Fundamental Territories

Fundamental / basic territories are decided by either of the following methods

a. Buildup Method

- Basic territories are decided by building up from the controls
- Purpose is distribution of workload equally among sales persons.

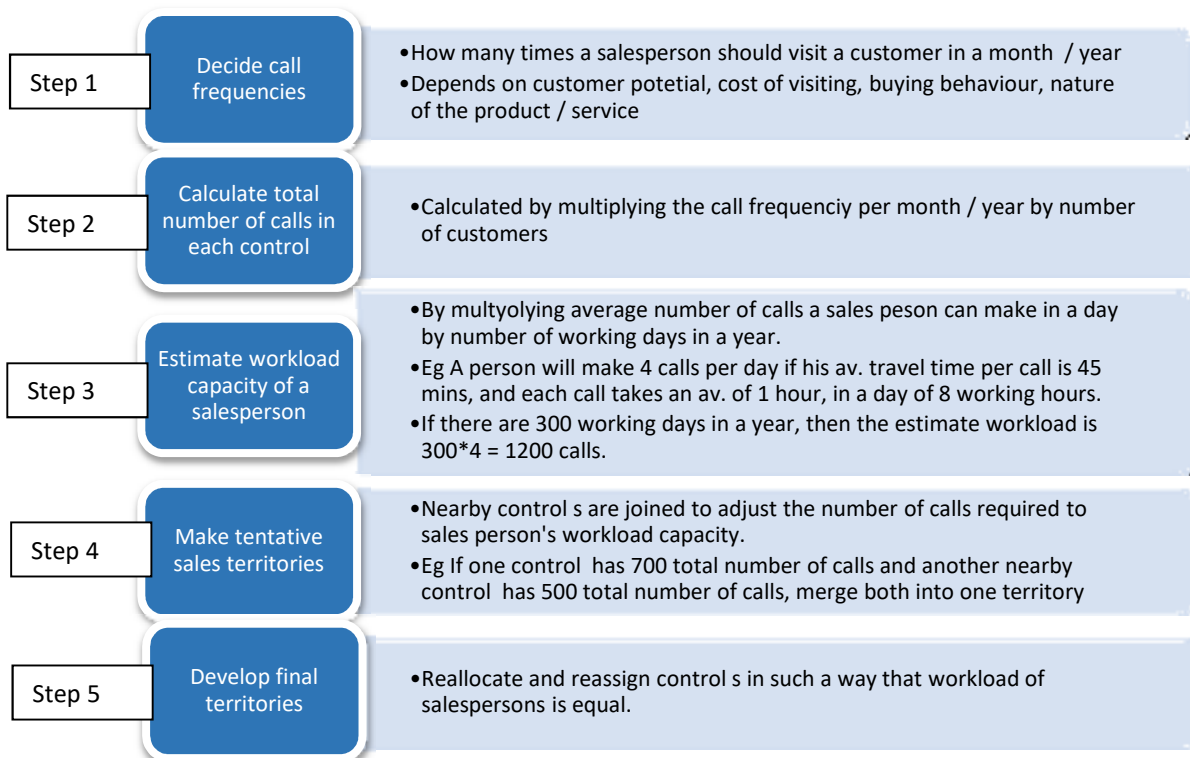


Fig 2.7 Buildup Method of Deciding Basic Territories

Source Havaldar and Cavale (2008)

b. Breakdown Method

- Used when companies have intensive distribution strategy.
- Mostly used for consumer products.
- Purpose is to equally distribute sales potential across territories.

(Refer Chapter 1 1.4 for Details of the Following Steps)

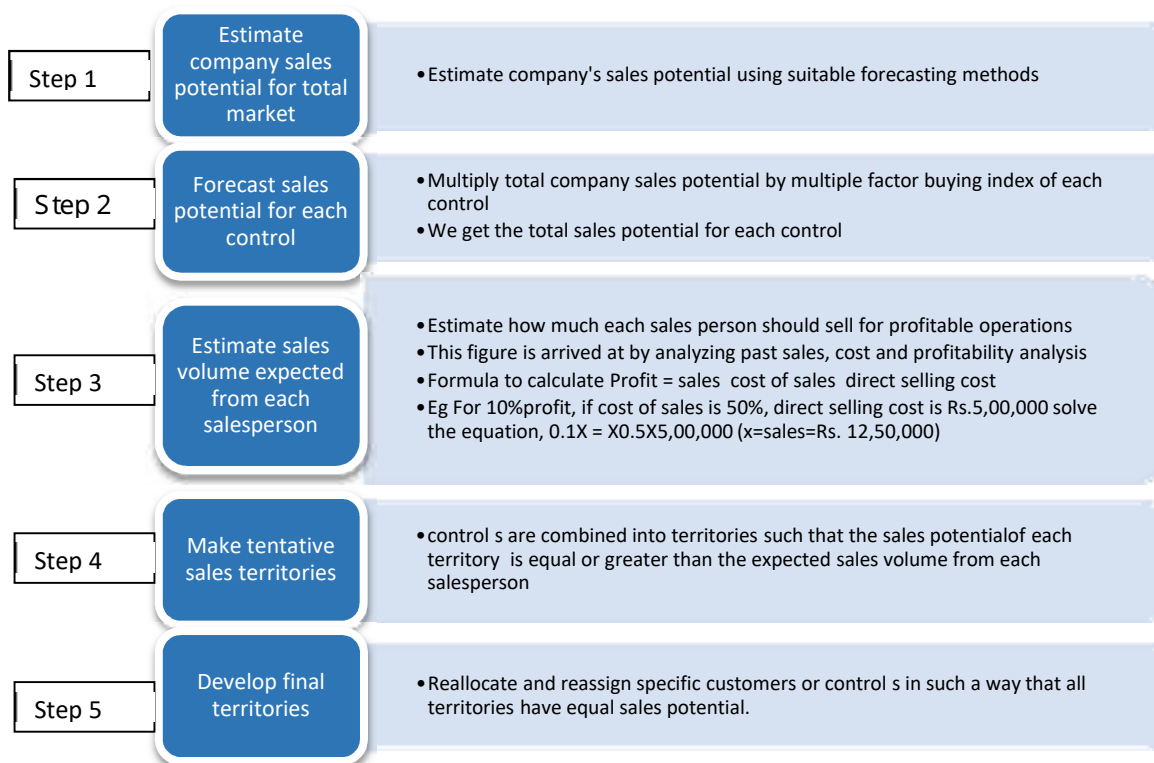


Fig 2.8 Breakdown Method of Deciding Basic Territories

Source Havaldar and Cavale (2008)

Assigning Salespeople to Territories

Once the sales territories are designed, they are assigned equitably among salespeople. For assigning, the manager should have realistic approach / assumptions.

- The manager needs to follow 2 criteria for assigning sales people to territories
 - Relative ability of sales people (product and market knowledge, past performance, communication, selling skills, etc.).
 - Sales person's effectiveness in a territory (social, cultural and physical characteristics suitable to the territory).
- Software is used to assign sales territories. This largely eliminates the human bias.

Managing Territorial Coverage

After designing sales territories and assigning sales people, coverage of territory is to be managed. Managing territory coverage includes

- Routing** planning routes for salespeople to cover the territory effectively. Territory shapes are used for routing.
 - The shape of a territory
 - Affects the coverage and selling expenses.
 - Facilitates time management.
 - Increases sales force morale.
 - Three Territory Shapes** are widely prevalent
 - Wedge suitable for urban and nonurban areas. Starts from a thickly populated centre of the area.

- b. Circle suitable for areas with scattered customers.
- c. Cloverleaf suitable for areas where prospects / customers are scattered randomly. Each leaf is attended separately, usually one in a week.

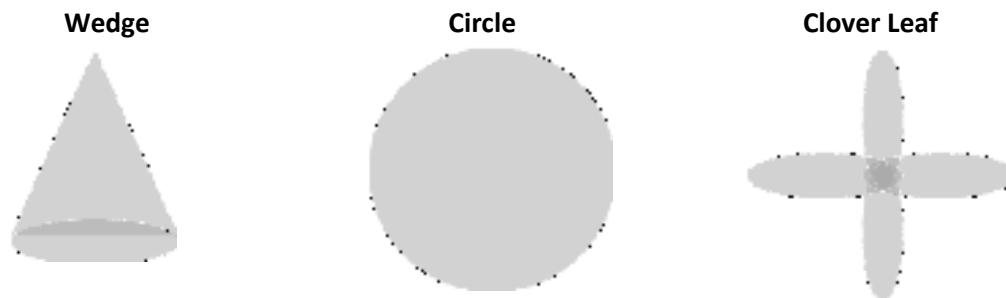


Fig 2.9 Commonly used Territory Shapes

Source Chunawala (2008)

2. Scheduling

planning sales person's specific customer visit time. Includes

- Allocation of time for different tasks (administrative, service calls, face to face selling, waiting / traveling, telephonic selling, etc.)
- State norms for customer visits (how much time to spend with customers and prospects, large and small buyers, etc.)

3. Time Management

- Tools available to manage time are computers, mobile phones, video calling facilities, etc.
- Time can be managed with the help of internal sales people (sales assistants, technical support, telemarketers) who take off pressure of selling on field sales people.

2.4 Sales Quotas and Sales Organization Structures

(Suggested Readings 1, 4, 6 and 7)

Sales Quotas

- Quotas are assigned based on the forecasts and budget with a purpose of controlling the performance.
- Quotas are assigned for sales volume, expenses, profit margins, activity, customer satisfaction, etc. either exclusively or in combination.

Quotas are quantified goals assigned to individuals (sales persons, agents, retailers, wholesalers, etc.) / s (branch, office, territory, etc.) of sales.

Objectives of Sales Quota

- 1 **Providing Quantitative Performance Standards** setting quantitative goals to each salesperson against which his performance will be measured later.
- 2 **Controlling Performance** sales person's performance is controlled by setting quotas on his activities, sales volume, selling expenses, etc.
- 3 **Motivating People Towards Desired Performance** by linking compensation, incentives, rewards and recognitions to the achievement of sales quota.
- 4 **Identifying Strengths and Weaknesses** when sales person's performances are compared with their assigned quotas, their strengths and weaknesses can be identified. This measurement can be used for evaluation, training, assigning further quotas, etc.

Methods of Setting Sales Quotas (Refer Chapter 1 1.4 for Details of the Following Steps)

Before discussing the types of quota, let us understand the methods used in setting sales quota.

- 1 Territory Potential**
 - a. Estimate the market potential (potential for a product line in a geographical area). E.g. market potential for antidandruff shampoo in Bangalore.
 - b. Estimate the multiple factor index based on influencing factors
E.g. factors such as population and buying power
 - c. Expected industry sales in each territory (territory potential)
 - d. Company's estimated share in the territory
- 2 Past Sales Experience** Past years' sales for a territory + an arbitrary percentage.
- 3 Total Market Estimates** Based on following year's total market estimates, followed by company's share in the market.
- 4 Executive Judgment** Senior executives use their judgment, based on their past experience to predict sales.
- 5 Salespeople's Estimates** Asking the salesperson to set quotas in given situation on field.
- 6 Compensation Plan** Set quotas to fit their sales compensation plan. If the salesperson achieves better sales than last year, he will be given incentives on percentage of additional sales basis.

Types of Quota

Sales volume quotas	Financial quotas	Activity quotas	Combination quotas
<ul style="list-style-type: none"> • Set for smallest marketing s such as individuals / geographical areas / products for a specific period of time. • Rupees / dollars sales volume quota is set in terms of monetary value of the sale • Sales volume quota is set in terms of number of s to be sold • Point sales volume quota set in such a way that more s of products which earn more profit 	<ul style="list-style-type: none"> • Set to control gross margin / profit contribution and expenses of various marketing s (branches, regions, individuals and products) • Grossmargin or profit contribution quotas subtracting cost of goods from sales volume • Expense quotas to control selling cost, along with sales volume quota, expenses quota (travelling, food, lodging, etc.) Are set 	<ul style="list-style-type: none"> • Set to direct sales people to carry out important job related activities which help in achieving performance targets. • Steps include <ol style="list-style-type: none"> 1. Defining the important activities 2. Finding out the time required to carry out each activity 3. Prioritising activities 4. Deciding quotas / frequency of important activities 	<ul style="list-style-type: none"> • Set to control salesforce performance on important selling and nonselling activities. • Use points as a common measure • To overcome the problem of different measures used by different quotas.

Insights into Setting and Administering of Sales Quotas

Set Realistic Quotas by proper estimation of territory potential.

- 1. Ensure Salespeople Understand Quotas** by allowing participation of salespeople in quota setting.
- 2. Continuous Feedback** to salespeople on their performances so that they can improve their performance.
- 3. Flexibility in Administering Quotas** to accommodate changes in market demand, company's strategies, policies, etc. The purpose of revisions in quotas should be informed to the salespersons.

4. **Understand Relationship between Quota Selection and Marketing Environment** and select the right type of quota.

Sales Organization Structures

- Organizing function contributes to the efficiency of the organization by ensuring that all necessary activities will be performed and objectives are achieved.
- Organizing is the process of grouping jobs into a framework for coordination and direction.
- Organizing is a function by which the concern is able to define the role positions, the jobs related and the coordination between authority and responsibility (Bernard, 1948).
- Organization structure is the framework in which the organization defines how tasks are divided, resources are deployed and coordinated.

Concepts of Sales Organization

1. Degree of centralization based on the extent to which authority and responsibility is placed at highest levels of management, organizations can be termed as centralized (concentration of authority and responsibility at the top) and decentralized (authority and responsibility is distributed across the levels of hierarchy through delegation).
2. Degree of specialization assignment of work is based on specialization of the person. Specialization is categorized into geographic, product, market and functional specialization.
3. Line or staff position Line positions have formal authority and responsibility to direct and control immediate subordinates. Staff positions have authority to advice and recommend in their areas of specialization.
4. Marketing orientation adapting to the market demands / requirements.
5. Effective coordination diverse activities performed by different individuals in the organization should be properly synchronized. The interactions between the departments should be harmonious.
6. Span of control Span of control or span of management means the number of subordinates placed under the direct supervision and control of a manager. There is a limit to the number of subordinates which a manager can supervise and control.

Types of Sales Organization Structure

1. Basic Types of Sales Organizational Structures

(1) Line Sales Organization

- Simplest and oldest form of organization.
- Direct lines of authority flowing from the top to the bottom levels of the organizational hierarchy.
- All managers (from top to the middle level) have line authority. Orders and instructions flow from a superior directly to his subordinates and each subordinate is directly responsible to his superior for work performance.
- Authority is highest at the top and reduces through each successive level down.
- Merits Clear authority and responsibility, quick decision making and cost effective.
- Demerits Too much dependence on the top positions. In the absence of staff structure, no support in terms of specialized skills and knowledge.
- As organizations grow, this structure will not sustain due to huge burden of work on top management.

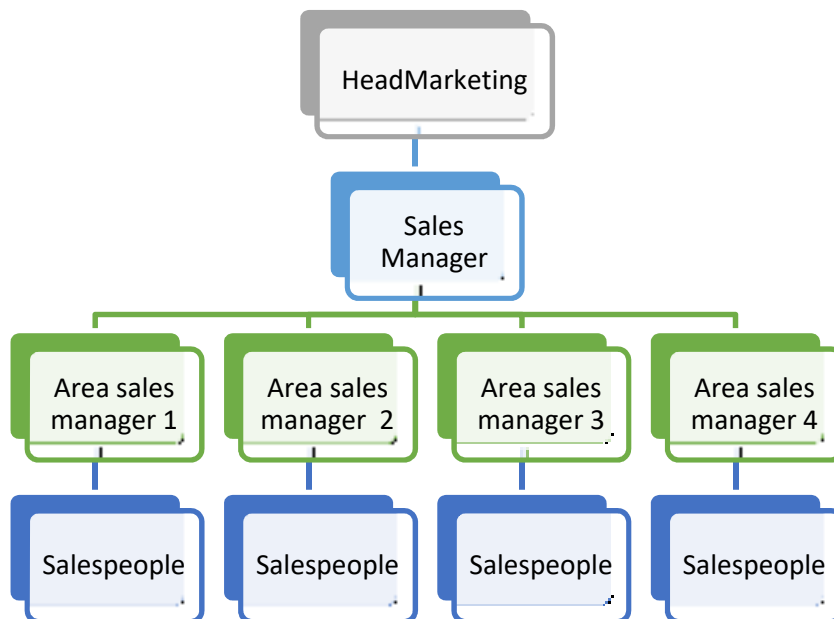


Fig 2.10 Line Sales Organization Structure

Source Havaladar and Cavale (2008)

(2) Line and Staff Sales Organization

- Overcomes the demerits of line sales organization.
- Line managers get support from staff in terms of specialized skills and knowledge in areas such as marketing research, sales training, integrated marketing communication, etc.
- Line managers take decisions based on the suggestions and recommendations of the Staff.
- Though staff managers don't have authority over the line managers, they have authority over their own staff.
- Structure is used in medium to large size organizations where the customer base / product range / sales force / geographical coverage is big.
- Merits better decisions due to support of staff, better sales performance, not much burden on top management so that they can concentrate on planning and strategic roles.
- Demerits more cost and coordination, slow decision making, line and staff conflicts.

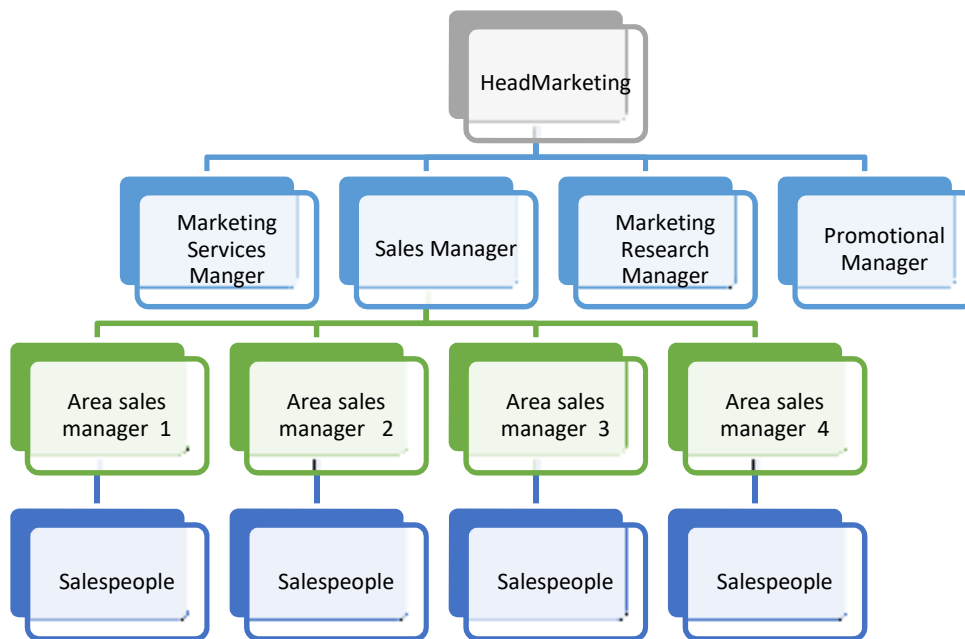


Fig 2.11 Line and Staff Sales Organization Structure

Source Havaladar and Cavale (2008)

(3) Functional Sales Organization

- An organizational form in which the major functions such as services, research, promotions, sales, are grouped internally.
- Functional authority is a limited form of line authority given to functional experts over employees in other departments (E.g. marketing research manager has direct authority over salespeople to get information about market trends)
- Large size organizations with multiple products / market segments use this structure with limited number of functional groups.
- Merits specialists guiding the sales force, high degree of division of labour, simple to administer.
- Demerits confusion and frustration for sales people as they have to respond to multiple bosses (no y of command), difficult to coordinate.



Fig 2.12 Functional Sales Organization Structure

Source Havaldar and Cavale (2008)

(4) Horizontal Sales Organization

- An organizational form without hierarchies and departmental boundaries.
- Support functions (strategic planning, human resource management, finance) are looked after by a small team of senior executives.
- All others are members of cross functional teams which work on core processes (product design, sales, production, operations). They also work with customer teams to solve customer problems (in B2B context).
- Companies with long standing partnership relationship with customers use such structures. E.g. Motorola, GE, etc.
- Merits reduction in supervision, unnecessary tasks and costs, improved efficiency and customer response.

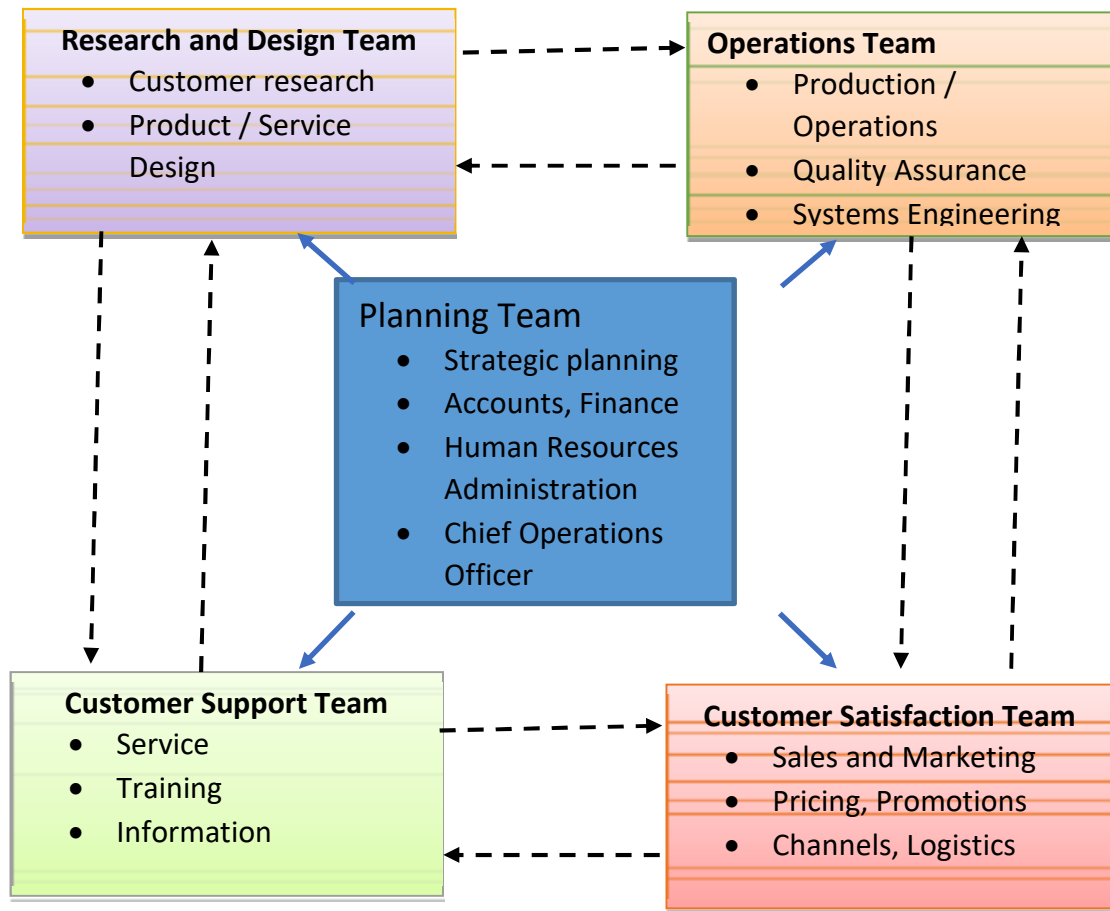


Fig 2.13 Horizontal Organization Structure

Source Havaldar and Cavale (2008)

2. Specialization within Sales Organization

These are the expansion of a basic sales organization structure to a specific specialized design for increased effectiveness of the sales force.

1. Geographic Specialization

- Suitable for large organizations selling in national markets
- A geographic area is assigned to a salesperson; the salesperson is responsible for all selling activities to all the customers in that area.
- The national market is divided into regions; each region is made up of a cluster of districts with similar demographics and ethnicity. It makes easy to have different promotional strategies for each region.
- The cluster of districts will have multiple territories, each territory assigned to one sales person.
- Merits improvement in market coverage, control over sales force, customer service and response to local conditions and competition.
- Demerits limited specialization tasks. To overcome this, geographic structure is combined with market / product structure.

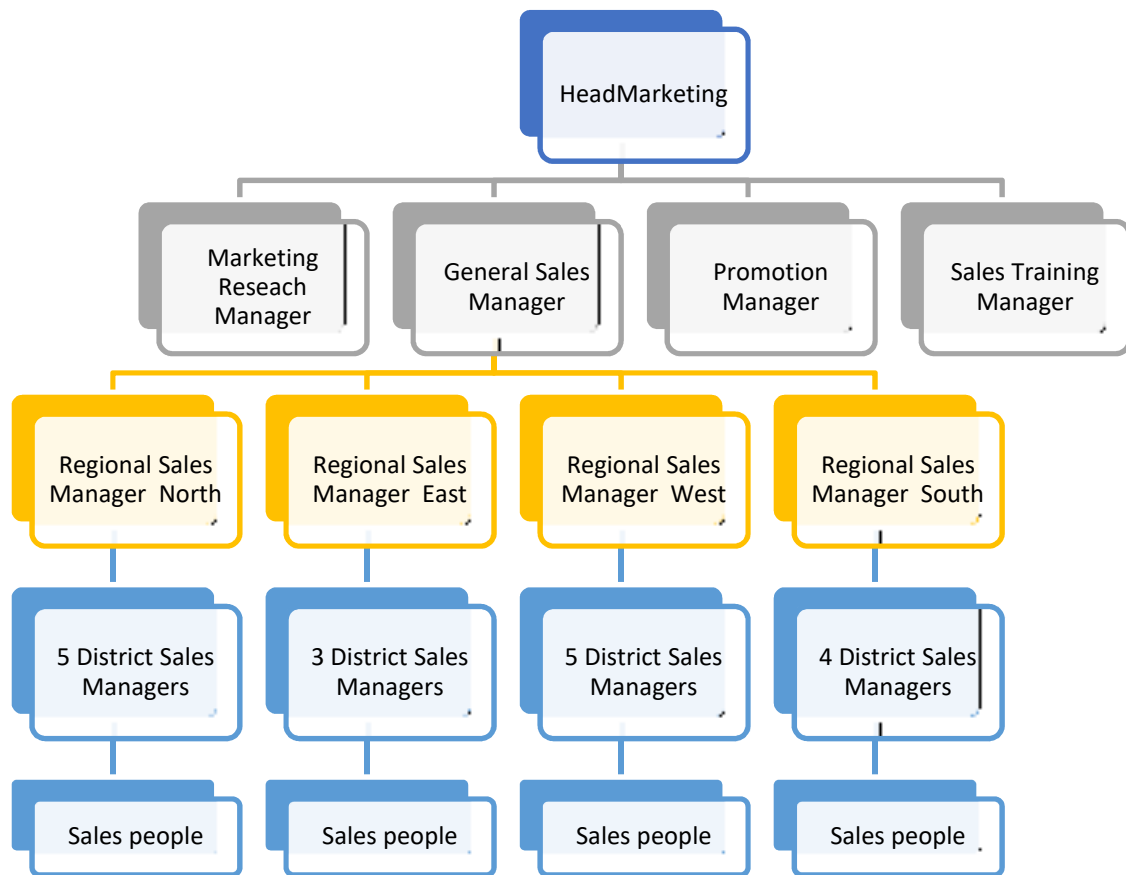


Fig 2.14 Sales Organization with Geographic Specialization

Source Havaldar and Cavale (2008)

2. Product Specialization

- Suitable for organizations with multiple products / brands.
- When an organization has different groups of products, each group is the responsibility of a product manager (divisional marketing manager).
- Product manager is responsible for planning and implementing a marketing plan for each group of products.
- They don't have line authority on salespersons, but can recommend or request regional sales managers.
- Merits specialized attention to each product from salespersons and manager.
- Demerits a customer is contacted by more than one salesperson resulting in customer dissatisfaction and high costs.
- Two types of product specialization
 1. Sales organization with product specialized sales force.
 2. Sales organization with product managers as staff specialists.

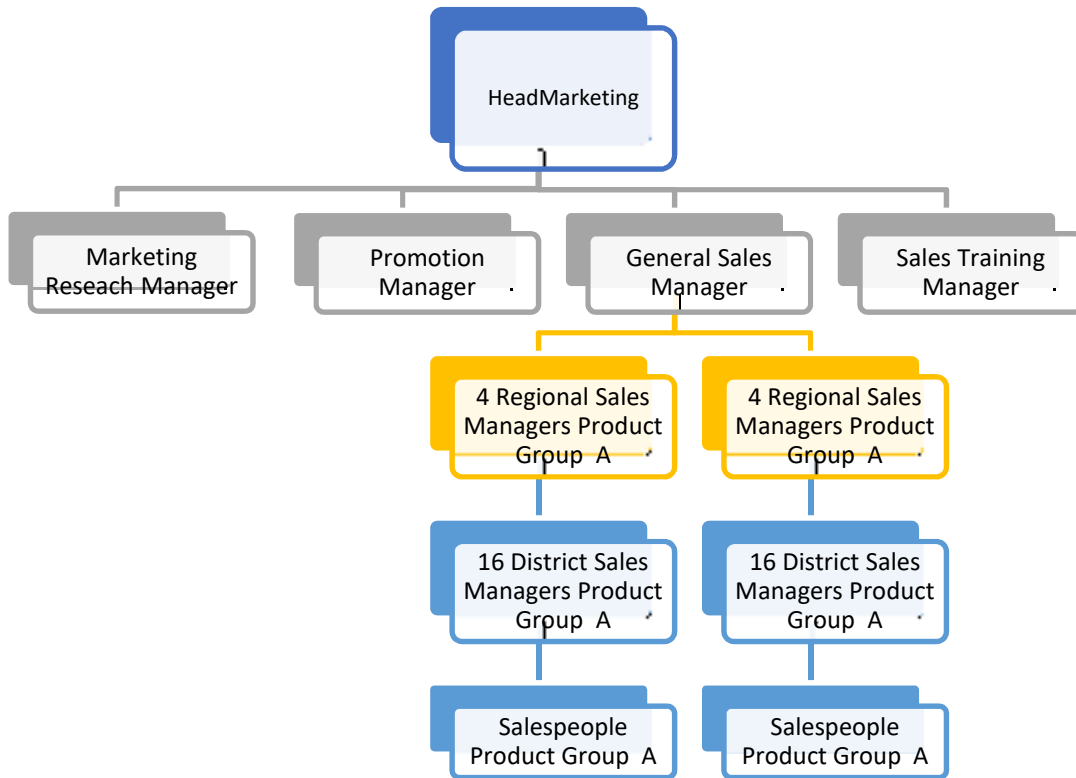


Fig 2.15 Sales Organization with Product Specialized Salesforce

Source Havaldar and Cavale (2008)



Fig 2.16 Sales Organization with Product Managers (or Divisional Marketing Managers) and Staff Specialists

Source Havaldar and Cavale (2008)

Market specialization

- Suitable when customers are classified based on customer type / industry / channel of distribution.
- Sales people engaging in all selling activities of all products for a specific customer group.
- Increasingly popular structure.
- Merits sales and marketing efforts match specific customer needs, efficient and effective.
- Demerits duplication of territory coverage (this can be overcome by proper planning) and high costs.

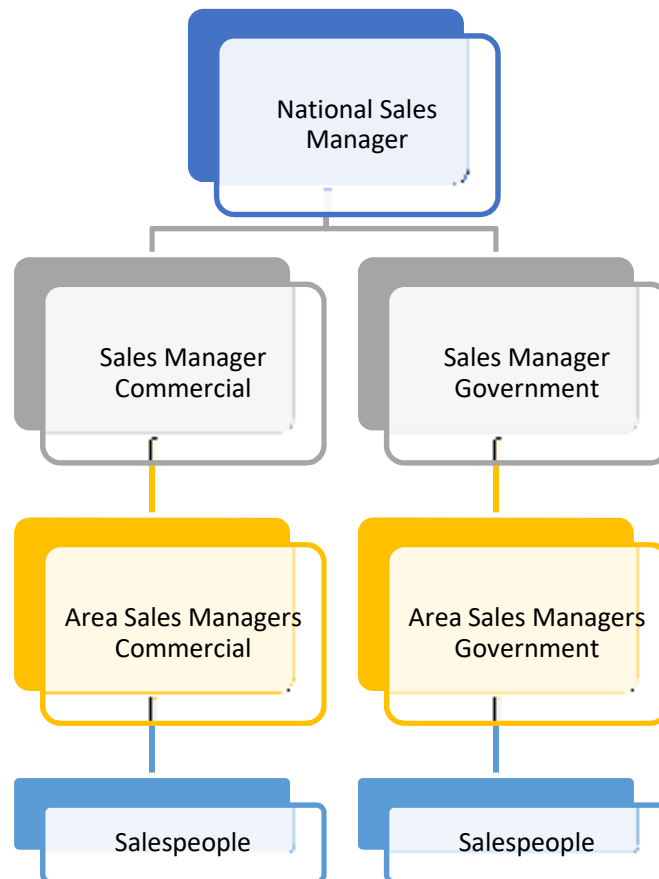


Fig 2.17 Sales Organization with Market Specialization

Source Havaldar and Cavale (2008)

3. Combination Sales Organizations

To overcome the disadvantages and to enhance the advantages of different structures, combination structures of sales organization are used.

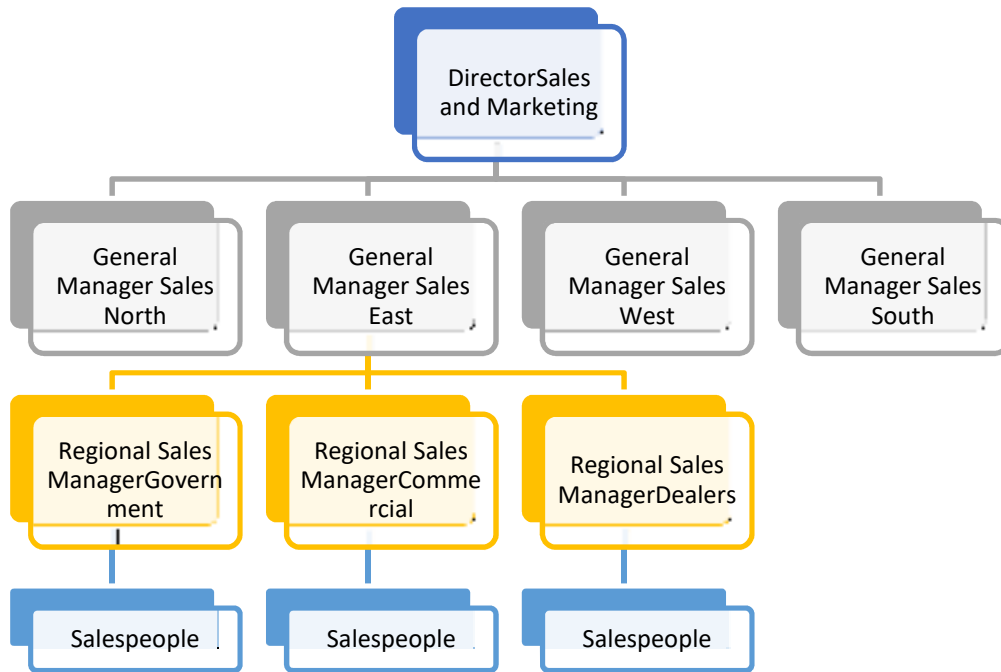


Fig 2.18 Combination / Hybrid Sales Organization
 Source Adopted from Havaldar and Cavale (2008)

Summary There is no one best organization structure for sales. Each organization’s products, market, strategy and environment are different, so is the suitable structure.

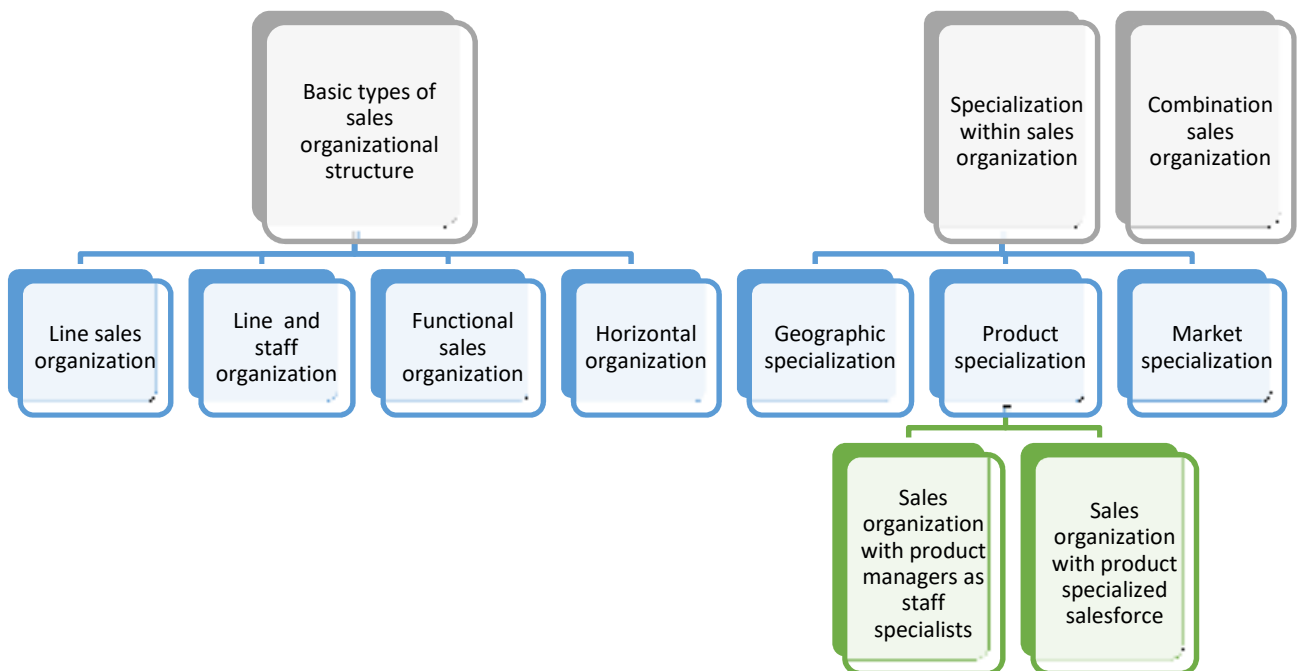


Fig 2.19 Types of Sales Organization Structure
 Source Adopted from Havaldar and Cavale (2008)

Relationship Selling, Sales Territories and Quota in Rural Markets

Agricultural Inputs and Customer Relationship Management

The agricultural inputs scenario has changed tremendously since the opening up of Indian economy. The farmer has a plenty to choose from in terms of seeds, fertilizers, pesticides, equipment and machinery. With many players and options in the market, the farmers desire for best possible products and benefits.

The desire is coupled with affordability. This makes a potential sale for the organization. To attract such farmers, satisfy and retain them is possible only when the provider has to offer better service and value addition.

Relationship Selling

Relationship selling is philosophy where a sale is considered as a beginning and not the end of selling. Meaning, a sale is an opportunity to build relationship with the customer so that they stay back with your company and does not deflect easily even when tempted by offers and discounts by your competitors.

For the customer / rural customer in this case, has to stay back with you, you need to keep track of his changing needs and preferences and address them.

- Personal selling is the best way to establish relationship with rural customers as rural customers prefer face to face interactions.
 - Hence, most sales in rural markets happen through personal selling. Personal selling is a great opportunity for relationship selling.
 - But the salesperson should be judicious in choosing the customers for relationship selling as not all customers are profitable and investing much time, effort and resources on such category is not wise and not productive.
 - After identifying the right set of customers, the salesperson should focus on customized service / product offering. They need to focus on channel members and influencers as well.
1. Selection of villages with
 - Important crops of different varieties
 - Irrigated land, adoption of modern and scientific agricultural methods
 - High consumption of agricultural inputs and easy access
 - Arrange the villages in the order of potential and choose the village / villages of highest potential.
 2. Selection of farmers based on
 - Size of farm
 - Type / variety of crops
 - Irrigation facilities
 - Willingness to try innovative methods of farming
 - Buying behavior (concern for quality, user status, usage rate, brand / store loyalty, and attitude towards the product).
 3. Frequency of visits to selected villages based on how many farmers and retailers should the salesperson visit.
 - Each account needs repeated visits.
 - The salespersons are engaged in relationship building activities such as
 - Visiting the farm along with the farmers
 - Identifying the issues in the farm

- Suggestions and recommendations to resolve those issues
 - Product demonstration
 - Organizing training for farmers
 - Conducting meetings with farmers during offseason period.
4. Distribution channel developing retailing network which is stable and committed so that they help in improving service, sales and profitability. Salespersons can use IT tools for data processing and better channel partner experiences.
- a. Distributor business development has to be planned with the distributors. They can discuss and evaluate previous performances and forecasting. Can tour the territory jointly to gather firsthand information about the product performance and customer issues, needs and opinions.
 - b. Retailer not all retailers are successful in selling large volumes. To find out the performance of retailers, the salesperson should collect quantitative and qualitative information. The salesperson has to ensure increased involvement of the retailers, which can be achieved through
 - Educating the retailers about product features and benefits.
 - Giving them training for their development and regarding problems faced by farmers.
 - Taking them along on farm visits.
 - Helping them liquidate the stocks.
 - Implementing their suggestions which are feasible.
 - Offer credit facilities to them.
 - Giving incentives on achieving targets.
5. Influencers the salesperson has to identify the influencers whose recommendation or opinion about a product is deal breaker in rural markets. The common influencers are agriculture field development officers, teachers, bank officials, panchayat members, researchers working on field, etc. Salespersons should meet them regularly, involve them in meetings, trainings and product demonstrations.
6. Brand influence the overall experience of the customers with the company.
The relationship can be maintained by follow up visits, direct mails and telephone calls.

Designing Sales Territories and Sales Quota

The procedure and approaches of sales territories design and allocating sales quota in rural markets are same as discussed in the earlier part of this Chapter.

However, in rural markets, the most suitable territory shape is clover leaf, as the customers are dispersed across wide geographic areas. Usually, the sales person visits one leaf each week.

Clover Leaf Territory Shape



While designing territories and allocating quota, challenges involved in rural infrastructure, customer mix, diversity, language, nature of interaction with the rural customers and the physical difficulties faced by the salesperson should be considered.

2.5 Case analysis

You are the regional sales manager West of IndChem Pvt. Ltd., an industrial chemicals manufacturing company who manufactures Sodium Hydroxide (NAOH). Sodium Hydroxide is used as a cleaning agent with a range of industrial applications in paper production and textile manufacturing. It is considered to be an inexpensive product but demanded in high volumes.

You are in charge of the most profitable region of India as Maharashtra and Gujarat are the two prominent states in textiles manufacturing in India. You have to design the sales territories to optimally cover the entire Western region.

One more thing which draws your attention is the frequently occurring problem between sales persons from Goa region about one intruding in another's territory. The same problem is often reported from Gujarat and at times from Maharashtra and Rajasthan.

Questions

1. What kind of organization structure is your organization following?
2. Is the organization structure suitable to your industry? Give reasons.
3. If you have to choose an organization structure, which one would you choose? Why?
4. How would you design the sales territories?
5. What criteria would you use to assign sales persons to different territories?

Model Questions

1. Explain the selling process.
2. What is relationship selling?
3. Define Market Potential.
4. What are the benefits of a good territory design?
5. What are the most frequently used territory shapes?
6. How is territory potential different from sales potential?
7. What is sales territory?
8. What is scheduling?
9. What is routing?
10. What is the importance of sales presentation?
11. What are the different types of quota?
12. Briefly explain different sales organization structures.
13. How is relationship selling adopted in rural markets?

Suggested Student Activities

1. Talk to salesperson / manager and find out the selling process, quotas and organizing practices they follow and write a brief report about the same.
2. Students can study sales organization structure for various organizations and make an analysis of preferred structure in different industry sectors.

Chapter 3 Sales Force and Distribution Management

Introduction

Recruitment and selection of sales force has attracted a lot of interest in recent times as the costs of recruitment and selection of sales force are mounting. Recruitment and selection process has improved by leaps but still there are many instances where recruitment is done randomly or with a gut feeling of the managers.

Objectives

- To make students familiar with need and process of the recruitment and selection of sales force.
- To help students understand about the training needs of sales force and how they are to be trained.
- To make students understand the importance of motivation, compensation and controlling of sales force and how they are used by managers.
- To make students understand how sales force development for rural markets is different.

Structure

3.1 Recruitment and selection of sales force

3.2 Sales force training

3.3 Motivating and compensating the sales force

3.4 Controlling the sales force Developing the Sales force for Indian Rural Markets

3.5 Case analysis

3.1 Recruitment and Selection of Sales Force

(Suggested Readings 1, 4, 5, 6 and 7)

Introduction

For the managers, recruiting and selecting sales force is one of the jobs, but it is the most important job.

- Recruitment and selection are crucial part of sales staffing process and sales strategy implementation.
- Recruitment and selection is mostly decentralized; is done at various levels of an organization.

To have a broader perspective of recruitment and selection of sales force, we need to understand sales force staffing process.

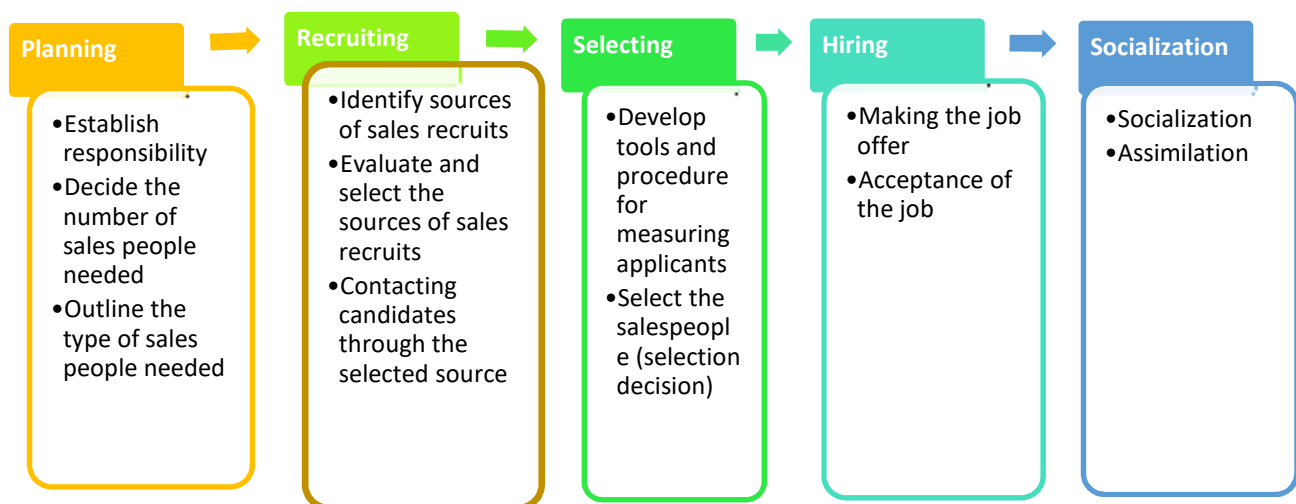


Fig 3.1 Sales Force Staffing Process

Source Havaladar and Cavale (2008).

Planning

1. Who is Responsible for Recruiting?

The answer for this question depends on the size of the firm, nature of the selling task, nature of recruitment, etc.

- In small firms, the toplevel sales executives usually are responsible for recruiting.
- In large firms, where recruitment is an ongoing process and the size of the recruits is large, lowerlevel sales managers are made responsible for recruitment. However, HR department is involved in initial screening process.

2. How Many People are to be Recruited?

Forecasting is an essential activity in sales management, which has been discussed extensively in 1.4.

In addition to the forecasts, the following factors play important role

1. Changes in the deployment of sales personnel due to territory adjustments (addition / deletion / rearrangement)
2. Promotions out of sales force
3. Retirements

4. Sales force turnover

3. What Types of People Need to be Recruited?

Developing profile of types of people needed involves three tasks

1. Job analysis determining the tasks involved in a job.
2. Job description documenting the job analysis with the skills required.
3. Job qualifications hiring specifications about the personal qualifications and characteristics desired in the candidates.

Recruitment of Sales Force

Recruitment is a process of finding and hiring the most suitable and best qualified candidate from a pool of candidates for filling a job position on time and with minimum cost.

Recruitment process is about attracting applications from suitable candidates; it follows job analysis and is followed by screening and selecting them, hiring and inducting them into the organization work force.

Recruitment is an ongoing activity in a sales organization as turnover of sales force is quite high across industries.

Sources of Recruitment

- a. **Internal Sources** Sources within the organization include employees and customers.

- i. **Employee Referral Programmes**

- Current employees recommend someone known to them, to be hired for a position.
- Most effective and cost-efficient source in sales force recruitment.
- Those hired through referral programmes usually perform well initially.

- ii. **Current Employees**

Apart from referrals, employees working in other functional areas might apply for sales jobs.

- iii. **Internal Mobility (Promotions and Transfers)**

Employees might be promoted / transferred / might apply for openings based on internal job postings.

- b. **External Sources**

- i. Advertisements mostly in newspapers and trade journals.
 - ii. Internet company websites, job portals, bulletin boards, etc.
 - iii. Employment agencies have a database, do initial screening based on the job description for a fee.
 - iv. Educational institutions / campus recruitment popular among large recruiters, get fresh graduates at low salaries compared to experienced candidates.
 - v. Competitors and noncompeting companies usually come with industry / market / customer knowledge. Though their salary demands are high, they deliver immediately.
 - vi. Job fairs many employers meet multiple candidates, less expensive than other targeted recruitments.

Evaluation and Selection of Recruitment Sources

- Various sources of recruitment are evaluated based on these criteria

- vii. Performance of previous recruits from those sources at the end of two years after recruiting.
 - viii. Retention rates, two years after recruitment.
 - ix. Cost of recruiting.
- Based on evaluation, the best source is selected.

Contacting Candidates through the Selected Source for selection process.

Recruiting Sources	Number of recruits	Number hired	Number retained (after 2 Years)	Percentage retained (after 2 Years)	Cost of recruiting	Performance rating (after 2 Years)	Special remarks (if any)
Employee referral							
Current employees							
Promotions and transfers							
Advertisements							
Internet sources							
Educational institutions							
Employment agencies							
Other companies							
1. Competitors							
2. Customers							
3. Non competing firms							
Job fairs							

Fig 3.2 Format for Evaluation of Recruitment Sources

Source Havaldar and Cavale (2008).

Selection of Sales Force

As a result of recruitment process, a pool of candidates is available to the sales company to select from. The selection of candidates most suitable to the company requirement happens in 7 stages.

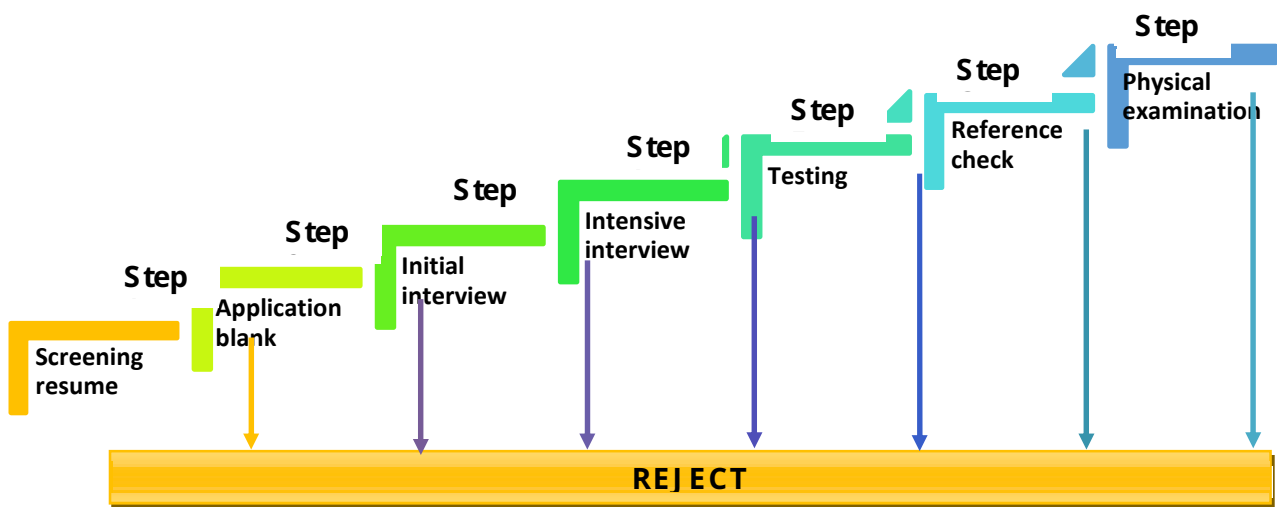


Fig 3.3 Sales Force Selection Process (Steps / Tools in Selection Process)

Source Adopted from Havaldar and Cavale (2008).

The steps in selection involves rejection at every level, to arrive at the best fit for the job (matching skills to job specifications)

1. **Screening Resume** best way of selection is elimination. While screening the resume, applicants who do not match the job specifications are eliminated. There are tools available for resume screening
2. **Application Blank** formal written application submitted by the candidate. Based on the information provided by the candidate in the application blank and the requirement of the job, the interview questions are designed.

Interviews

1. Interviews can assess the candidate's skills and predict success on a sales job.
2. Interviewer behavior and skills are important for an effective interview.
3. **Types of Interviews**
 - a. Structured interviews (guided or directed used when there are multiple candidates interviewed by multiple interviewers. To bring in a common evaluation ground, interviews are structures.
 - b. Unstructured interviews (nonguided or nondirected) give scope to discuss about family, background, interests, etc. Interviewer asks questions in such a way that he has to do less talking and allows the candidate to speak elaborately.
 - c. Semi structured interviews moderates between structured and unstructured, gives enough scope for the candidate to speak, gives interviewer flexibility to manage the interview also provides few structured essential questions to be used.
 - d. Behaviors and performance-based interviews meant to predict the success of the candidate on job if selected. Includes job related questions, may include presentations and demonstrations by the candidates.
3. **Initial Interview** done in person or over phone, initial interview covers a range of questions related to product and marketing, economy, politics, regional news and general awareness.

The purpose of this interview is to test the candidate's communication skills, attitude and personality along with the knowledge.

4. **Intensive Interview** if there are any clarifications to be sought from the candidate, this is the platform. Besides that, questions related to the position and compensation offered, and negotiations happen during intensive interview.
5. **Testing** selection tests are given to check how good a candidate is for the job. There are standard assessment tests used for sales force selection and few companies design their own tests. Commonly used selection tests aptitude, intelligence, knowledge, interest, personality (traits, attitude, confidence, empathy, etc.).
6. **Reference Check** call the references given by the candidate to check about their opinion regarding the candidates (specific questions related to attitude, competence, personality, etc. are asked). Background verification through agencies is a trend now. Another source of background verification is the social media accounts of the candidates.
7. **Physical Examination** sales people need to be physically fit for travel and field work. Assessment centers are used for conducting simulated exercises, business games, case analysis, etc.

Best fit among the candidates who successfully complete all the steps are hired. Other than the candidate performance, their willingness, expectations about salary and other benefits, etc. are considered before hiring.

After Selection

- Job offers
 - The company makes a job offer to the selected candidates by the HR department / the sales department.
 - Usually job is offered over the telephone / during the final interview.
 - If the candidate accepts the oral offer, a formal job offer is made through offer letter.
- Acceptance of job offer by the candidate / applicant
 - A formal consent to the offer letter will be sent by the candidate.
 - Acceptance of date of joining and document verification is also communicated.
- Socialization and assimilation
 - The newly hired will socialize with the existing sales department employees and other concerned personnel.
 - They are introduced to the organization culture, values, working processes, procedures, etc. through induction and onboarding activities.
 - Wherever required, the sales personnel are helped with data base, joined by some senior sales person on their first client visits.

The new sales person spends quality time in the office interacting with coworkers; understanding about the organization's working and developing personal relationships with coworkers. The new sales person, after integrated into the organization environment, is all set to deliver.

3.2 Sales Force Training

(Suggested Readings 1 and 7)

Introduction

Good job performance is a great motivator for a sales person. Bad performances are major deterrents for the organization as well as the employees. Performance of sales personnel improves over time with experience. However, to improve performance without waiting for years, training is provided. There are multiple training opportunities for sales force to improve their effectiveness / performance.

Sales Training Process



Fig 3.4 Sales Training Process

Source Havaldar and Cavale (2008).

1. Assess Sales Training Needs

Methods Used for Assessing Training Needs

- a. Sales manager's observation
- b. Sales force survey
- c. Customer survey
- d. Performance testing
- e. Job description
- f. Sales force audit

Popular Sales Training Needs

- a. Product knowledge
- b. Customer knowledge
- c. Competitive knowledge
- d. Sales techniques / selling skills
- e. Company knowledge

2. Design and Execute Sales Training Programme

After assessing the sales training needs, sales managers have to take five decisions when planning for sales training Programme.

Designing the Sales Training Programme using ACMEE Method of Sales Training Programme

Decisions

- The first 3 parts of ACMEE and organizational decisions relate the design aspects of sales training program
- The other 2 parts consists of execution and evaluation of sales training program.

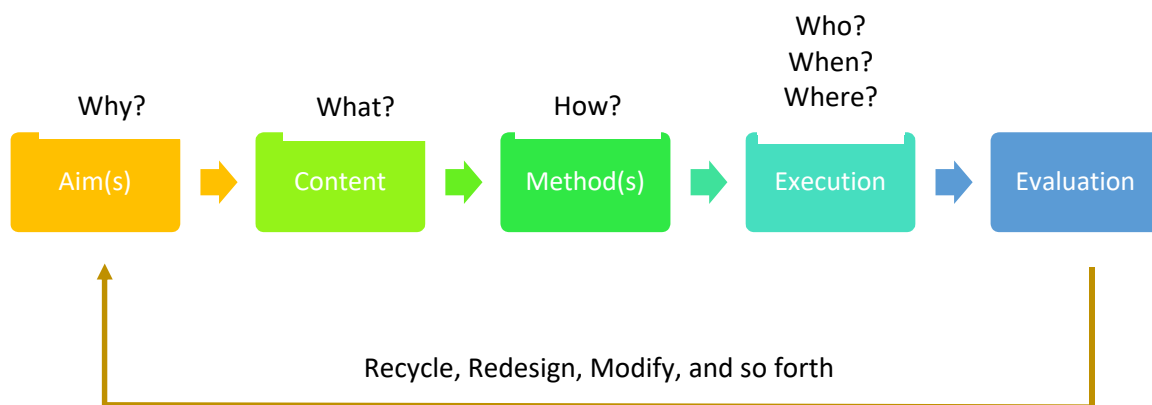


Fig 3.5 ACMEE Approach to Sales Training (Related to Kipling’s Six Honest Serving Men)

Source Still, Cundiff and Govoni (2011).

a. Aim(s)

- Decide specific purpose of the training which changes from company to company, in different situations.
- Common objectives of sales training will be related to better sales productivity, sales volume, profits, customer relations, team work, cooperation; lower sales force turnover; introduce new products, markets, promotional programmes; create positive attitude; prepare sales force for assignments, etc.
- Usually multiple objectives of sales programmes are interrelated (E.g. productivity, sales volume and profits).

b. Content

1. For initial training new sales force hires are trained in company, product, customer and competitor knowledge, selling skills and techniques.
2. For existing sales force / advanced training training is given based on the training aims.

Identifying Continuing Training Needs

1. Key elements of job.
2. Knowledge of the key job elements in the sales person.
3. Presence of key job elements knowledge but lack of motivation.
4. Presence of key job elements knowledge but lack of implementation skill.

c. Method(s)

- Certain methods suit a particular training programme.
- Different methods are used in a sales training programme to meet the aims.



Fig 3.6 Methods used in Sales Training Programme

Source Adopted from Havaladar and Cavale (2008).

- a. Classroom / conference training
 1. Lectures when trainers have to present more information in a short time to a large audience.
 2. Demonstrations used to demonstrate how to operate products / how product works.
 3. Group discussion trainer leads the discussion and encourages participants / sales persons to share their thoughts and ideas.
- b. Behavioral learning used to either correct behavioral mistakes of the sales persons or inculcate desirable behavior's in sales persons.
 4. Role playing highly popular to teach selling techniques, where sales persons play the role of buyer and sales person.
 5. Case studies presenting real life business / sales situations linked to learning objectives (mostly related to consumer behavior).
 6. Simulation games programmed computer packages based on reality used in training for decision making (mostly related to forecasting, pricing, advertisements, etc.).
- c. On-the-job training
 7. Mentoring senior sales personnel act as mentors; give advice and support to new sales persons, pass on organization culture, etc. The approach is informal.
 8. Job rotation new sales persons are put on different job profiles for a short time so that they understand different job profiles with which they interact while doing their job.
- d. Online training uses technology / internet for training.
 9. EPSS (Electronic Performance Support System) computer-based training where information is readily available to the trainees in a personalized manner.

10. Interactive multimedia training usually used to retrain sales persons, where they can skip or repeat content as per their requirement.
 11. Distance learning television network / intranet is used to train sales persons, the instructors can be reached over phone for clarifications.
- e. Absorption training / self study
12. Audio cassettes humorous skits related to sales lessons / time management / motivational content is recorded on audio cassettes that a sales person can listen to while driving / travelling. This method is becoming increasingly popular as it keeps the sales person engaged during the not so interesting / engaging travel or commuting time.
 13. Manuals, books traditional methods use by sales persons out of their own interest to update or refresh their knowledge related to products / markets / customers / competitors.
 14. CDROM content of manuals and books on a digital platform.

d. Execution (Organizational Decision for Sales Training)

1. Who will be the trainees?
 - i. New sales personnel
 - ii. Existing sales personnel
 - iii. Intermediaries
2. Who will be the trainers?
 - i. Line sales personnel for initial sales training
 - ii. Staff trainers for continuing sales training
 - iii. Trainers for staff trainers
 - iv. Outside experts
3. When will the training take place?
 - i. Timing group v/s individual training during induction / off periods.
 - ii. Timing initial sales training programmes before / after initial field experience
 - iii. Timing continuing sales training programmes how often? When?
4. Where will training take place?
 - i. Centralized training facility
 - ii. Decentralized training sessions at branch / territory level
5. Instructional material and training aids
 - i. Manuals
 - ii. Other printed material
 - iii. Training aids
 - iv. Advance assignments
6. How much should be the budget for training?

Budget is approved by top management after considering the aims and need.

e. Evaluation Training programmes are evaluated based on these parameters

1. Reactions of the participants.
2. Learning as a result of training.
3. behavioral impact / changes on the trainees.
4. Results of the training (whether the aims / objectives are met?).

3. Evaluation and Reinforcement of Sales Training Programme

Session Review			
A brief, candid review of this training session will help you evaluate what you have learnt and help us in our efforts to improve the programme. Please answer all questions. Do not sign your name as the results are anonymous.			
Please 'Tick' the appropriate box to indicate your reactions to each of the following			
1. Material covered	Exciting	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Dull
2. Instruction	Excellent	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Poor
3. Worth of material	Great	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Little
4. Completeness of coverage	Very complete	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Total incomplete
5. How might the session have been better?			
<hr/>			
<hr/>			
<hr/>			
<hr/>			

Fig 3.7 Sales Training Evaluation Form

Source Still, Cundiff and Govoni (2011).

Reinforcement

1. Refresher training is a continuous process for overcoming deficiencies of experienced sales personnel.
2. Retraining sales personnel whose job requirements change due to change in their territories or job roles (promotions, additional charges, etc.).
3. Senior sales people coaching / mentoring new sales force.
4. Technology enabled training to reinforce formal training sessions.

3.3 Motivating and Compensating the Sales Force

(Suggested Readings 1, 4 and 6)

Motivating the Sales Force

There are people who are enthusiastic about selling and they deliver without much of external push. For those who are not intrinsically motivated, sales people have to be encouraged, trained and given incentives.

- Motivation is to move people from one state to another desired state; desire to put efforts towards fulfilling a need.
- Motivation has three dimensions to it
 - a. Intensity amount of mental and physical effort the salesperson puts on a given task.
 - b. Persistence how long and consistent is the salesperson's effort towards achieving task.
 - c. Direction the purpose / focus area of the efforts (increase sales, better customer retentions, etc.).

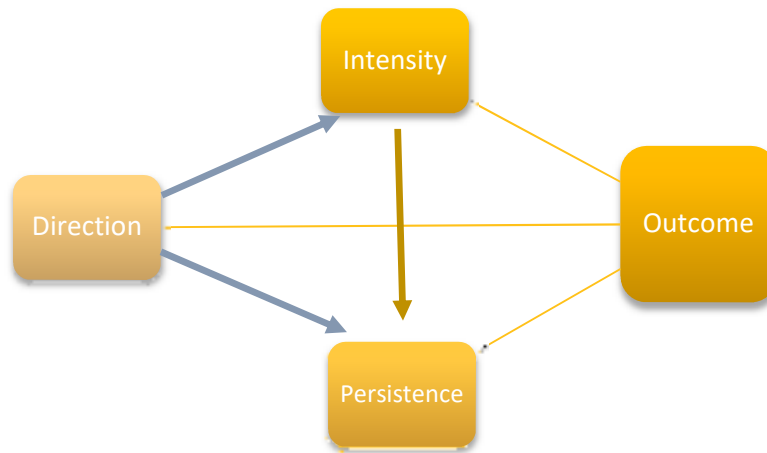


Fig 3.8 Dimensions of Sales Motivation

Source Havaladar and Cavale (2008).

Importance of Motivation

- Task of motivating salespeople is difficult and important due to
 1. Unique nature of the sales job
 - Successful sales effort excites the salespersons, but an unsuccessful one frustrates them.
 - Since every selling effort is not a successful one, keeping the salespersons motivated is very important and also challenging.
 2. Individuality of salespersons
 - Each sales person has different goals, strengths, weaknesses and problems.
 - Hence, each may respond differently to different motivational efforts.
 - Many a times the salesperson themselves will not know what motivates them.
 - It is important to identify the motivational factors for each sales person.
 - Due to the above factors, it becomes difficult to motivate the salespersons.
 3. Diverse company goals
 - Sometime organizations have conflicting goals. E.g. relationship building with customers (where sales person has to spend a lot of time with each customer) and also, attending to more number of customers (where you cannot spend more time with one customer).
 - To motivate sales persons towards both the conflicting goals is important and yet very difficult.
 4. Changes in market environment
 - Due to the dynamics in market environment the motivating factors keep changing. An advanced gadget might motivate today, but might fail to on a later date.
 - Hence, finding appropriate motivators always is a challenge but however, is important.

Motivational Theories in Sales Force Management

1. Maslow's Hierarchy of Needs

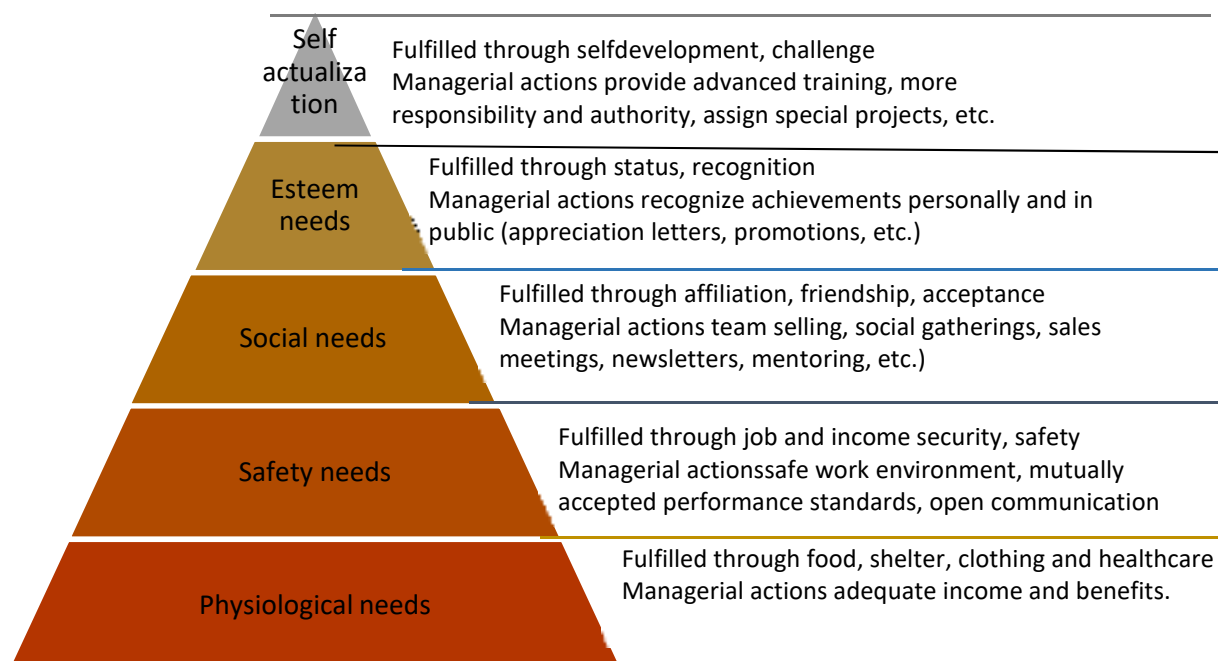


Fig 3.9 Maslow's Hierarchy of Needs

Source Adopted from Spiro, Stanton and Rich (2005).

2. Herzberg's Dual Factor Theory

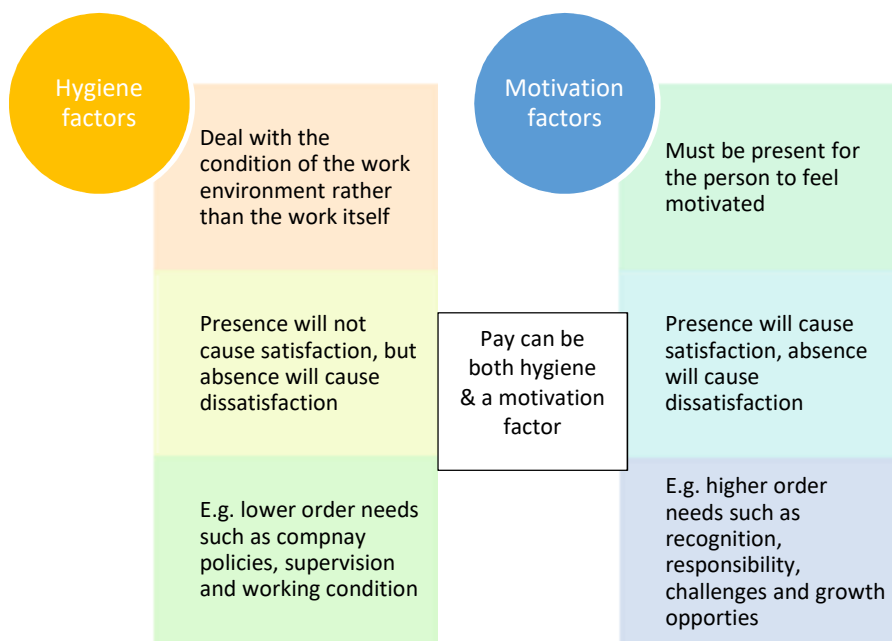


Fig 3.10 Herzberg's Dual/Two Factor Theory of Hygiene and Motivation

Source Adopted from Spiro, Stanton and Rich (2005).

3. Vroom's Expectancy Theory

Based on the assumption that a person feels motivated to put efforts based on his expectations for success.



Fig 3.11 Vroom's Expectancy Theory of Motivation

Source Havalдар and Cavale (2008).

- Expectancy it is the sales person's perception of relationship between effort and performance. A sales person perceives that more sales calls results in increased sales and better customer satisfaction.
- Instrumentality it is the person's perception of relationship between performance and reward. A sales person perceives that better performance lead to some kind of reward (higher salary, recognition or promotion).
- Valence how much does the salesperson value a particular reward / what a particular reward means to a salesperson.

E.g. If a salesperson feels that better efforts lead to higher sales which will fetch him higher incentives (which is important to him), he will put better efforts.

Sales managers should understand this and communicate to the sales persons the following

- Expected performance (sales quota / targets); targets / quota which are achievable
- Rewards associated with achieving the targets / quota.

4. Churchill, Ford and Walker Model of Sales Force Motivation

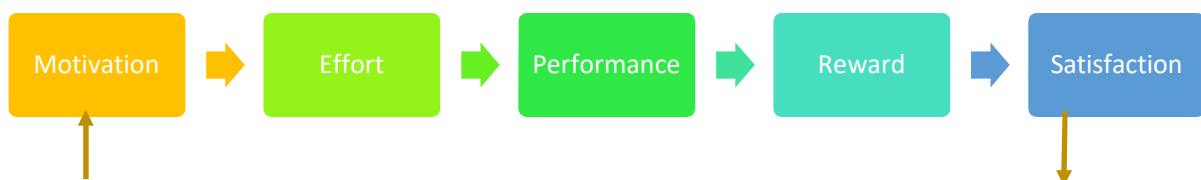


Fig 3.12 Sales Force Motivation Model

Source Havalдар and Cavale (2008).

This model emphasizes the importance of Salesperson's motivation; higher the salesperson's motivation, greater his efforts, leading to better performance, which attracts higher rewards, which results in higher levels of satisfaction of the salesperson.

The managers should convince salespersons of this relationship; if the salespersons are convinced of this, the motivational initiatives of the company will prove effective.

Selecting an Effective Mix of Motivational Tools

Sales organizations adopt best takeaways from different motivational tools and theories to motivate their Sales force for meeting organization goals / objectives and better organization performance.

Rewarding Salespersons

Rewards play an important role in applying the motivational models successfully in sales organizations.

The rewards are categorized into financial and nonfinancial rewards.

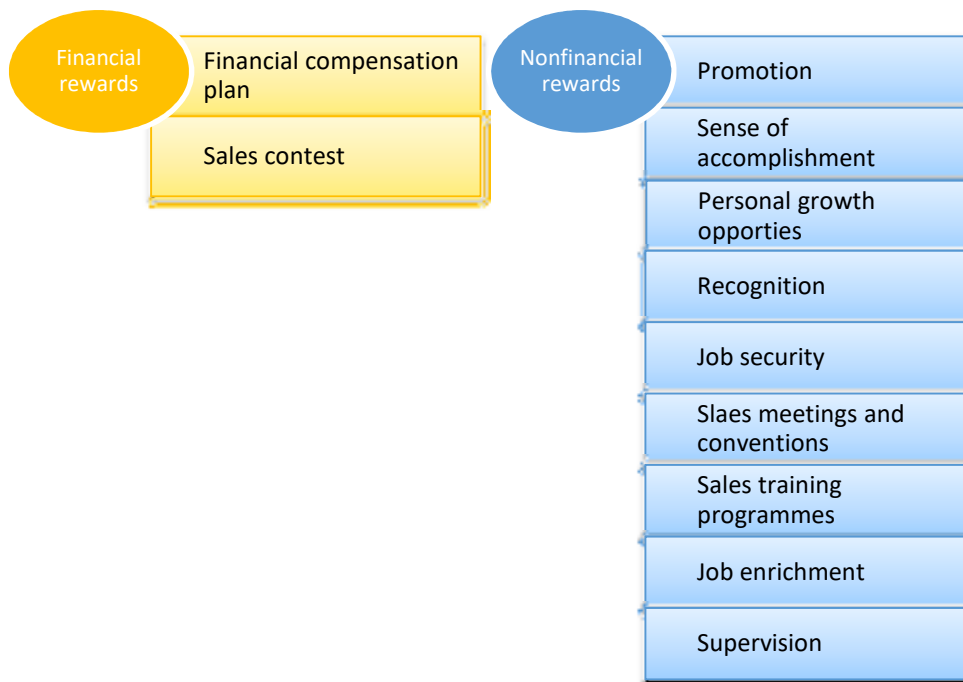


Fig 3.13 Rewarding Salespersons

Source Adopted from Havaldar and Cavale (2008).

Guidelines for Motivating Salespersons

- Differentiate between can't do and won't do differentiate between ability and willingness of the salesperson to do the expected. If it the deficiency in ability, train them, if it is deficiency in willingness, use other motivational factors.
- Include individual needs into motivational programmes though the focus of a sales organization is to achieve organizational goals and fulfil organization's needs, design the motivational programmes in such a way that achieving personal needs of the salespersons should lead to fulfilling organizational needs.
- Plateaued salespeople salespersons rise to a position in their careers and efforts and then stagnate there. It is a challenge to motivate such salespeople who are usually in their middle age. A combination of financial and nonfinancial rewards work in such cases.
- Proactive approach sales managers have to anticipate the potential problems in motivating his Sales force and design motivation programs accordingly.

Compensating the Sales Force

Sales force compensation is nothing but the rewards offered to the sales persons. As discussed earlier, compensation is of two types

- Financial compensation
 - Direct payment of money (salary, commission and bonus).
 - Indirect payment (fringe benefits such as retirements benefits, medical reimbursements, leave travel allowances, insurance plans, etc.

2. Nonfinancial compensation As mentioned in Fig 3.13.

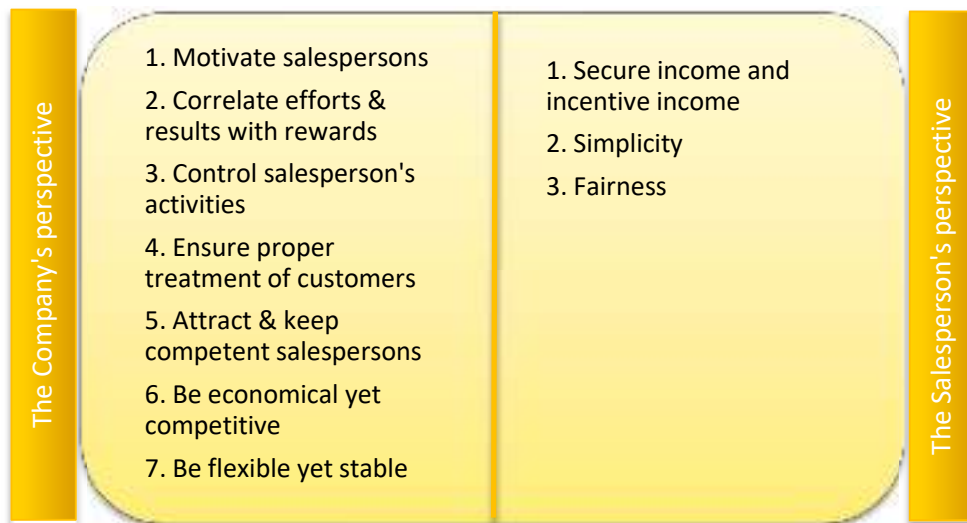


Fig 3.14 Objectives / Purpose of Good Sales Compensation Plan

Source Adopted from Spiro, Stanton and Rich (2005).

Designing a Sales Compensation Plan

Before designing a new compensation plan or revising an existing plan, a sales manager should review a few fundamental points as shown below.

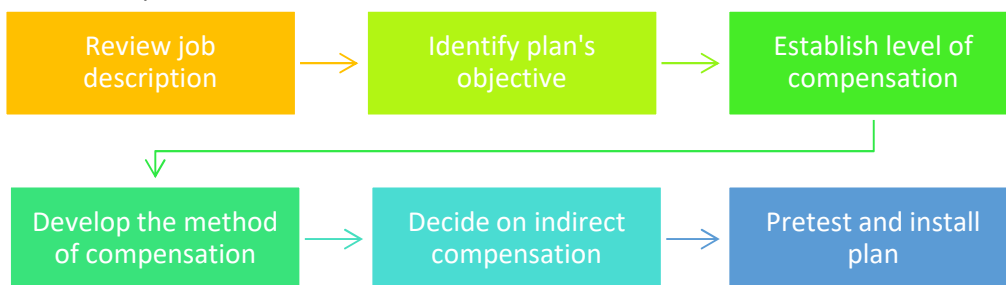


Fig 3.15 Steps in Designing a Sales Compensation Plan

Source Spiro, Stanton and Rich (2005).

1. **Review Job Descriptions** design a new job description / review an existing job description.
2. **Identify Specific Objectives**
 - The objectives range from increasing profits by certain percentage / sales volume by certain percentage of s / customer satisfaction, develop new territory, etc.
 - The objectives should be such that
 - The salespersons can control it and
 - The company can measure it.
3. **Establish the Level of Compensation** people are usually more concerned about how much they get than how they get it.
 - Compensation should be enough to attract the salespersons.
 - Compensation rates for salespersons are different in different industries.
 - Compensation rates for salespersons are varied compared to that of office jobs.

- Methods of compensation influence the levels of compensation.

4. Develop the Methods of Compensation the most commonly used methods

- Salaries
- Commissions
- Bonuses
- Indirect monetary benefits
- Expenses

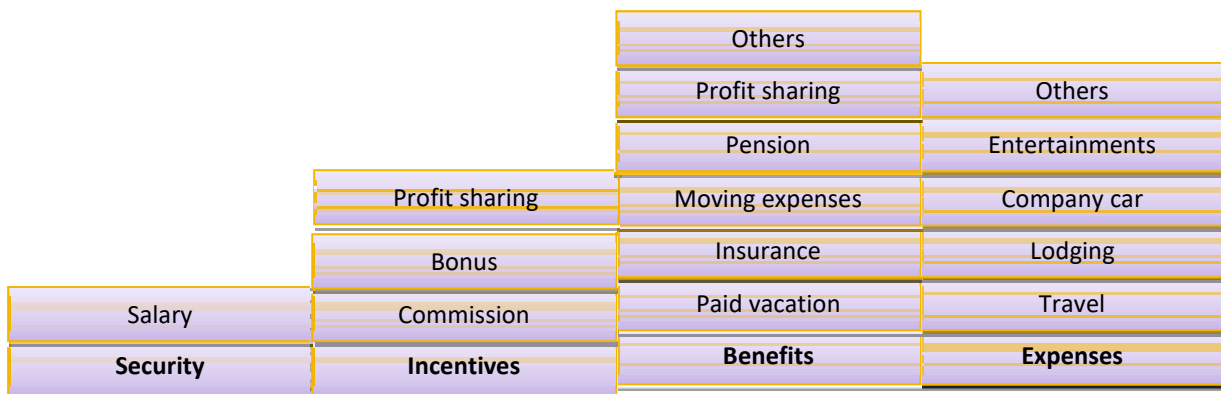


Fig 3.16 Building Chapters / Commonly used Methods in a Compensation Plan

Source Spiro, Stanton and Rich (2005).

Basic Types of Compensation Plans

Conventional thinking about compensation lays emphasis on generating sales volume through compensation plans. However, the recent compensation plans revolve around customer satisfaction.

Three methods of compensation are commonly used.

1. Straight salary
 - A direct monetary reward paid for performing certain duties over a period of time.
 - The amount paid is for the time spent on work (a month) than for the work accomplished.
 - It is a fixed pay component.
 - Merits Regular income
 - Gives a sense of security to the salespeople.
 - Leads to loyalty and satisfaction.
 - Will take off pressure to deliver sales volume, so salespersons can concentrate on customer relationship.
 - Demerits
 - Does not provide a strong, direct incentive to the sales force as does the commissions.
 - Bases of salary adjustments / revisions are not convincing.
 - A fixed salary irrespective of performance can lead to lack of motivation to better performers.
 - When sales are bad, salaries are a burden.
2. Straight commission
 - Regular monetary reward / payment for a of work done.

- It is a variable pay component.
- Includes 3 components
 - Based on which performance is measured (monetary value of sales, s sold, etc.).
 - Rate is the amount paid for each of accomplishment (percentage of total monetary value, fixed amount per sold, etc.).
 - Starting point which is considered for paying commissions (minimum Sales volume, minimum revenue generated, etc.).
- Merits
 - Incentives given to the sales force.
 - Impressive income oportties (especially when there is no cap on upper limit for commission)
 - Can weed out ineffective sales persons.
 - Expense is related to revenue, so commissions are not a burden.
- Demerits
 - Difficult to supervise and direct sales activities as their major focus is to sell more and not the company or customer interest. However, there are mechanisms to deal with such problems.
- Suitable in situations where the company’s financial position is not good, salespeople need incentive push, contract sales employees are hired, long term relationship with customers have to be developed.

3. Combination of compensation elements

Extensively used compensation plan, where the company uses strengths of different compensation plans to their advantage.

- Usually, salary is kept at industry standards and additional variable component of commission and bonus is added.
- The additional variable component is based on the performance of the salesperson against the quota allotted.
 - Salary plus commission
 - Salary plus bonus (bonus is a lumpsum payment for above normal performance)
 - Salary plus commission plus bonus

Linking Compensation Method to the Objective

Compensation plan has to be linked to the achievement of specific objectives.

E.g. If objective is to increase sales by 15 percent, then ensure that incentive in the form of commission is given to the desired sales volume and once the desired sales volume is achieved, bonus can be given.

5. Decide on Indirect Compensation

Indirect compensation can be divided into

1. Indirect monetary benefits include honor’s, recognition, promotions, desirable transfers / postings, etc.
2. Nonfinancial compensation includes fringe benefits, such as retirement plans, paid vacation days, vacation allowances, medical insurance, etc.

6. Pretest and Install Plan

Once the tentative plan for compensation is ready, pretest is done

- The compensation plan is assessed based on how such a plan has worked earlier.
- Estimated cost of the compensation plan.
- Simulations.

After pretest, the compensation plan is introduced to the sales force for them to be informed about it and take their feedback if necessary and then install the plan. All compensation plans have to be periodically evaluated for their effectiveness and relevance in changing contexts.

Some Useful Generalizations about Sales Force Compensation Plans

1. There are inherent conflicts in the objectives of most compensation plans.
2. No single plan fits all situations.
3. It is very important to achieve external parity in salesperson's earnings.
4. Management should solicit suggestions from the sales force regarding the compensation plan.

3.4 Controlling the Sales Force

(Suggested Readings 1, 4, 6 and 7)

Sales Force Expenses

Sales force expense accounts are considered to be nuisance by most of the sales managers. If these accounts are not managed properly, the results might be catastrophic for the organization.

Sales organizations specify in writing the legitimate travel and business expenses for which they will pay.

- Reimburse the fare, hotel and food bills.
- Set band of expenses for different categories of expenses for different sales force cadre.
- Set limit for different expenses which will be borne by the company. Any additional expenses should be borne by the sales person.

Characteristics of a Good / Sound Expense Plan

No net gain or loss for the sales representatives (reps)	<ul style="list-style-type: none"> •The net income of the rep should be same whether he is on road or at home •This is difficult to put in practice
Equitable treatment of the reps	<ul style="list-style-type: none"> • Reps should be able to maintain similar standards of living on the road and at home •They should not struggle to stay within expense limit / should not compromise on their comforts
No curtailment of beneficial activities	<ul style="list-style-type: none"> •Should not hamper the selling duties and should not restrict activities that are beneficial to the company • Calculating sales expenses at a percentage of sales will hamper selling duties.
Minimal detail and administrative expense	<ul style="list-style-type: none"> •Simple control plan which is easy to administer. Avoid duplication and unnecessary information •Minimized clerical and administrative expenses
Clarity	<ul style="list-style-type: none"> • To prevent misunderstandings between management and sales force. • Consult sales force when establishing or revising an expense control plan.
Company control of expenses and elimination of padding	<ul style="list-style-type: none"> •A good plan controls expenses and curtain padding (padding is inflated or false expense entry in book). •Control is not stinginess (A manager should be able to get control without affecting sales force morale).

Methods of Controlling Expenses

Management has to decide if the company will pay for sales rep's field selling cost or the reps pay their own expenses from their earnings. If the company is paying, they adopt salary method otherwise, they usually adopt commission method.

1. Salespeople pay own expenses
 - Salespeople compensated by straight commission method usually pay their own expenses on field.
 - Whatever is left over after adjusting company cost is for the reps.
 - Reps prefer this method as they don't have to submit bills of their expenses, they will have freedom to operate and spend according to their convenience.
2. Unlimited payment plans
 - Most popular and widely used method.
 - Company reimburses all legitimate expenses.
 - It is flexible, cost differentials between territories, jobs or products are taken into consideration.
 - Lessens friction between management and reps but discrepancies in the expense account leads to disagreements.
 - It is difficult for management to estimate direct selling cost in this method.
3. Limited payment plans
 - There are two forms of limited payment plans
 - There is a limit on the amount to be reimbursed for each expense item (food, boarding in a particular tier city, etc.)
 - A flat sum is provided for a period (per day or week) to cover all expenses, territory wise.
 - Suitable when a rep's activities are routine and travel routes are repetitive.

- Setting limits for each expense item is a challenge in times of variations.
 - High performing reps might object for this method.
4. Combination plans
- A combination of unlimited and limited payment plans are used to the advantage of the company and satisfaction of the reps.
 - Expense quota plan is setting limits on legitimate expenses based on the net sales quota or a percentage of net sales.

While reporting travel expenses, organizations use different formats. Besides, there are standard formats available for free. Below is one such format by MSOffice 365.

TRAVEL EXPENSES

Name	[Name]	Department	[Department]
Email	[Email]	Approved by	[Approved by]
Employee ID	[Employee ID]	Purpose	[Purpose]

TRIP HOURS		
Dates	Hours	How spent
[Date]	[Hours]	[How spent]
[Date]	[Hours]	[How spent]
[Date]	[Hours]	[How spent]
[Date]	[Hours]	[How spent]

EXPENSES			
Category	Dates	Detail	Amount
[Transportation]	[Date]	[Air Parking Rental car Taxi Other Item not listed]	[Amount]
	[Date]	[Air Parking Rental car Taxi Other Item not listed]	[Amount]
	[Date]	[Air Parking Rental car Taxi Other Item not listed]	[Amount]
	[Date]	[Air Parking Rental car Taxi Other Item not listed]	[Amount]
[Own car]	[Date]	[Mileage] [Mileage]	[Amount]
[Lodging]	[Date]	Location [Location]	[Amount]
	[Date]	Location [Location]	[Amount]
[Meals]	[Date]	Location [Location]	[Amount]
	[Date]	Location [Location]	[Amount]
[Conference fees]	[Date]	[Not to exceed \$50/day]	[Amount]
	[Date]	[Not to exceed \$50/day]	[Amount]
	[Date]	[Not to exceed \$50/day]	[Amount]
	[Date]	[Not to exceed \$50/day]	[Amount]
[Other]	[Date]	Purpose [Purpose]	[Amount]
	[Date]	Purpose [Purpose]	[Amount]
	[Date]	Purpose [Purpose]	[Amount]
	[Date]	Purpose [Purpose]	[Amount]
	[Date]	Purpose [Purpose]	[Amount]
		Subtotal	[Amount]
		Less amount paid by company	[Amount]
		Total amount owing to employee	[Amount]

[Signature]	[Date]
-------------	--------

Fig3.17 Travel Expense Report Form
Source Microsoft Office

Control of Sales Force Transportation

A major selling expense is towards meeting transportation cost. Hence, management will have clear transportation expense decisions.

1. Ownership / Leasing of Automobiles Decision is Based On

Size of the sales force	<ul style="list-style-type: none">•When a company has small sales force, they either allow sale persons to use their own vehicles or by leasing vehicles on their own.•When the sales force is large, it is feasible to have company vehicles.
Availability of centralized maintenance and storage facilities	<ul style="list-style-type: none">•A centralized vehicle storage and service facility ensures smooth supply of cars to their sales force.
Unusual design required	<ul style="list-style-type: none">•Customize the look and space for company advertisements / product.•At times these cars act as delivery trucks also.
Control of car's operating condition	<ul style="list-style-type: none">•When the vehicle is owned by the company it is to be kept presentable which the company cannot control if the sales rep's use their own / leased vehicle.
Personal preferences	<ul style="list-style-type: none">•Some reps prefer their own vehicle; some prefer not to use their own vehicle. Company should not impose otherwise.
Operating cost	<ul style="list-style-type: none">•The annual mileage of a rep influences his / her decision to use own / leased / company vehicle.•Another factor is the travel / autoexpense allowance provided by the company. <p>•Whichever option (repowned / leased / companyowned) has lowest operating cost is preferred.</p> <p>•Other factors include willingness to drive, prestige factor, location, etc.</p>
Investments	<ul style="list-style-type: none">•If a company's financial condition does not allow it to invest in own vehicles, they prefer leasing or rep's vehicles.
Administrative problems	<ul style="list-style-type: none">•Company owned cars / vehicles have a dilemma as to whether the reps can use it for personal reasons? If so, to what extent?•If a company does not restrict, reps prefer using company cars / vehicles. Otherwise, they prefer to use their own.

2. Reimbursement Plans for Employee Owned Cars

When an organization decides to allow employees to use their own cars / vehicles, they have to design reimbursement plans.

1. Fixed allowance plans based on mileage or period of time they will fix an allowance.
2. Flexible allowance plans
 - a. Graduated mileage rate based on slabs for total miles / kilometers driven in a time period, they set rates per mile / kilometer in each slab. Up to 5000-kilometer, 5000-10000 kilometer, etc.
 - b. Combination rate combines allowance per time period with a mileage rate.
 - c. Runzheimer plan the most recognized and respected plan. Similar to graduated mileage plan but more miles driven, the smaller the per mile allowance. It allows the consideration for car model, territorial operating costs along with miles driven.

3. Other Methods of Expense Control

1. Training and enforcement about how the company expect reps to spend its money, what are the results of violations, etc.

2. Credit cards by accepting credit card charges only from a designated travel mode / hotels / restaurants. Company credit cards discourage reps carrying cash.
3. The expense bank accounts separate bank accounts to deposit travel / field expenses are provided where they deposit money for estimated / budgeted expenditure. The employees need not wait for reimbursements, but have to submit expense report with proof.
4. Change in nature of entertainment money spent on entertaining clients can be controlled by alternative methods like home entertainment, quiet dinners, small parties, etc.
5. Internet selling and telemarketing reduces fieldcosts to a great extent. Can be used for initial contact or to sell to small customers.
6. Careful travel planning proper scheduling and routing will help reduce travel expenses.

Sales Force Performance Evaluation and Control

Besides expense control, evaluation and control of sales force performance is another key area.



Fig 3.18 Sales Force Performance Evaluation and Control Procedure

Source Adopted from Havaldar and Cavale (2008).

Step 1 Set Policies on Performance Evaluation and Control

Before evaluating the performance, the management should put in place the basic policies such as

1. Frequency of evaluation annually, once in 6 months, every quarter, monthly, etc.
2. Who conducts evaluation? Field sales manager or field sales manager and his boss.
3. Assessment techniques most popular is 360° feedback (from customers, superiors, team members, peers, subordinates and self).
4. Management by objectives the performance objectives would be set in consultation with the salesperson and the performance will be evaluated against these objectives periodically and corrective actions taken.
5. Sources of information using multiple sources to evaluate performance (sales reports, feedback, expense reports, etc.)

Step 2 Decide the Bases of Salespeople's Performance Evaluation

A sales organization has to know what is important for it; results, salesperson's behavior or both. This becomes the basis of their performance evaluation.

1. Outcome / result based viewpoint
 - Sales person's performance is evaluated based on the results achieved by him / her with the direction / supervision of sales manager.
 - Use quantitative criteria which reduce the scope for bias / subjective evaluation.
 - Quantitative criteria include sales volume, quota, s sold, number of customers acquired, etc.
2. behavior / activity / effort based viewpoint
 - Focus is on salesperson's behavior and characteristics, with enough direction and supervision of sales manager.
 - Qualitative criteria is used for evaluation, hence scope for bias.
 - Qualitative criteria include customer / team orientation, professional competence, commitment, culture, etc.
3. Both outcome and behavior based viewpoint
 - Hybrid approach where results are seen along with behavior's, effort and activity of the salesperson.
 - How much is achieved as important as how it is achieved.
 - Common ratios as indication of performance
 - sales volume customer calls
 - sales volume personal efforts
 - orders direct selling expense

Step 3 Establish Performance Standards

- Generally represented in terms of sales quota.
- In relationship with goals / objectives for territories / regions / branches / products.

Step 4 Compare Actual Performance with Standards

- Organizations use many performance evaluation methods / forms
 - Semantic differential / graphic rating scales comparing actual performance with standards.
 - BARS (behaviourally anchored rating scales) which rate different behaviour indicators and skills on a 7-point scale. To build BARS, the following steps are used
 - Identify decisive events (sales managers / sales people / customers are asked to describe specific effective and ineffective events) E.g. product demonstration.
 - Improve decisive events into behaviour anchor statements (divide those events into behaviours) E.g. what kind of behaviour was exhibited during product demonstration.
 - Rate the effectiveness of the behaviour statements other sales persons are asked to rate how accurate the behaviour statements are.
 - Select the behavioural anchor statements for the performance dimension use those behaviour statements to be rated on a 7point scale.

- Management by objectives.

Step 5 Review Performance Evaluation with Sales People

- After evaluation of performance using the suitable method among those mentioned above, the sales manager conducts performance appraisal session with the sales person.
- The sales manager should handle these sessions judiciously and sensitively.
 - Discuss the performance criteria based on which he / she is evaluated.
 - Ask the sales person to review his / her performance.
 - Present your (sales manager's) view on sales person's selfreview.
 - Arrive at a mutually agreeable performance evaluation

Step 6 Decide Sales Management Actions and Control

1. Identify the problem areas in performance of sales person. E.g. Inability to convince.
2. Find causes for the problems. E.g. Bad communication.
3. Decide sales management actions. E.g. Training in sales communication.

Sales performance evaluation and control should be used as in intervention to motivate and enable the sales force not to punish them.

Developing the Sales Force for Indian Rural Markets

Introduction

A salesperson attending to rural markets has the same roles to play as does his urban counterpart. However, the extent to which they involve in different roles is different.

Rural Salesperson's job Includes

1. Increase Sales

- Due to the restricted or modest spending power of most of the rural populace, it is a challenge for the salesperson to increase sales.
- The rural population's buying decisions are influenced by opinion leaders such as teachers, postman, Panchayath officials, bank managers, etc.
- A lot of educational efforts, information sharing and personal guarantees work in rural sales.

2. Effective use of Resources

- Rural distribution is not as efficient and advanced as that of urban and semiurban areas.
- The salespersons should consider sales targets, inventory at dealer / distributor level, promotions and offers and use the resources judiciously.

3. Manage Credit

- Most of the rural consumers buy on credit. Hence, organizations sometimes end up offering credit facility to their dealers / distributors.
- Salespersons should ensure that the dues are collected before replenishing the dealers / distributors with fresh stock.

4. Develop Market for Future

- Rural markets are a future destination of marketers due to its huge untapped potential.
- The demands in rural market are sensitive to seasons.
- Keeping track of dynamics in rural markets is crucial for facing the competition today and in future.

- The sales persons should be alert to the products and strategies adopted by their competitors.

5. Establish and Maintain Company's Image

- Since transactions happen face to face and by cash in rural markets, trust is a major factor.
- The salespersons should be careful in communicating with the rural consumers as any inappropriate communication about one's own company or competitor's will break the trust factor, without which it is impossible to deal in rural markets.

6. Self-Development

- Rural sales are physically demanding due to the infrastructure and access issues.
- This should not be an excuse for not updating self and developing continuously.
- The salespersons should acquire new skills, improve on the existing skill, work on communication skills and presentation skills.

The salespersons prefer to deal with village merchants, wholesalers and distributors and get orders by using pressure tactics, impressive presentation and spot order booking. This technique requires very good communication skills.

In this process, the salesperson should not forget demand generation. Both demand generation and market / bazaar selling should go hand in hand as without demand generation, it is difficult to establish products.

Selecting Rural Sales Force

Rural sales force has to be creative, honest, reliable, helpful and knowledgeable. With these demands in mind, organizations select candidates based on

1. Educational Background

- For consumer goods, any graduation with additional qualification in marketing. For agricultural inputs and equipments, a graduation in agriculture is preferred with marketing knowledge.

2. Fluency in Local Language

- The rural consumer is not fluent in English.
- Fluency in local language is a must to interact and to establish rapport with rural consumers.
- Hence, preference is given to local youth.

3. Knowledge of the Rural Markets, Products and Competition

- These aspects are unique in the sense, the category, and brand and volume preference of rural markets.
- The sales persons should have a thorough knowledge of it.

4. Basic Knowledge about Agriculture

- Most of the villagers are engaged in agriculture and related activities, which are affected by nature and seasons.
- A rural salesperson should have an understanding about how things have played out when, so that they use appropriate strategies to sell suitable products at the right time.

5. Knowledge of Cultural Factors

- Cultural factors influence buying behavior and product preference.
- Knowledge about who is the decision maker in the households, what products are

purchased routinely, what occasionally, what is allowed, what is objected, etc. is important.

- For sales people who are not familiar with these aspects of culture are to be given appropriate training.

6. Knowledge of Different Types of Customers

- Rural consumers on an average have lot of free time compared to their urban counterparts. Hence, spend lot of time to make purchase decisions.
- They are mostly friendly, talkative, talk personal stuff, inquisitive and at times argumentative and suspicious.
- The sales person should be able to understand this and deal with them patiently.

7. Sales Personality

- Rural consumers value honesty, empathy and reliability.
- Along with these traits, salespersons should be confident and energetic to influence rural consumers.

8. Selling Skills

- Technical and product knowledge are important.
- Equally important are skill to understand consumer needs, demonstrate the product, answer queries out of the books and convince them.

9. Capacity to Work Extended Hours

- Rural markets are highly scattered and spread over vast area, with poor road connectivity and poor public transport. Hence, salespersons need to spend more time.
- During fairs and seasons, the markets work till late night, salespersons should be able to work till the business hours closing.

10. Ability to Bear with Inadequate Boarding and Lodging Facilities

- If the salesperson has to stay in a rural area, he won't find lodging / boarding facility in the village, they have to travel to nearby Taluka or District headquarters.
- These places are low on hygiene and cleanliness. The sales persons should be able to manage it. Experienced people will have a proper travel preparedness.

11. Experience

- Rural consumers respect experience over educational qualification when they have to trust the words of a salesman.

12. Matching Men and Markets

- The salesmen's skills, experience and knowledge should match the market requirements.

Selecting Village Youth

It makes more sense to hire local youth for field job. As there are not many employment opportunities in rural area, this will help generate employment and also, the local youth have the market and consumer buying behavior knowledge.

Criteria for Selection 25-30 years old, male, preferably from agricultural family background, who is not interested to relocate to other places, has minimum high school education and who is interested in meeting and communicating with people.

Training Rural Sales Force

1. Induction Programme About the organization, culture, environment, markets of operation, policies and procedures, facilities and benefits, etc.
2. Role plays For better understanding of how different customers behave and how to deal with them.
3. Workshop on territory management Includes identifying and classifying consumers, dealers and influences, tour Programme and routing, sales calls management, market segmentation, running campaigns, village intelligence gathering, running campaigns, conducting effective meetings with villagers, etc.
4. Selling skills training About buying motives, preparing for sales call, stages of selling, dealing with objections, closing sales, etc.
5. On the job coaching and mentoring During initial days, a superior accompanies the sales person on field. Introduce him to the market, distributors, dealers, important customers, influencers, etc. Share knowledge about the consumers and the market.
6. Other trainings Include time management, communication skills, people handling skills, etc.

Training Rural Youth Give class room training about product, organization, competition, product usage and benefits, handling queries and objections. Provide on the job training about product demonstration or explanation, organizing meetings of villagers, handling retail calls, etc.

Compensation, Evaluation and Control

- Provide regular and steady income and adequate incentives.
- Evaluate the performance against the set targets. Also consider situational factors as rural demands are closely linked to the agricultural prospects.
- Difficult to supervise and control salesperson's activities due to isolated places and communication infrastructure.

3.5 Case Analysis

The group general manager of a popular international home appliances company with a geographical structure is responsible for the sales and marketing of all its products.

Since it is a geographical structure, he has no support from product managers or functional managers. He is assisted by deputy sales managers who take care of different sales zones. These deputy sales managers delegate work to area sales managers. Area sales managers have sales officers under them who are incharge of different territories.

Sales officers scope of work includes meeting dealers, taking orders, looking after sales and services, track competitor's activities, taking position of stock with dealers, etc.

Since the company is well established and its products are well known and in demand, these were the practices followed

- Quota for each territory is fixed based on the production and supply capacity of the company instead of demand for the products.
- Sales officers did not get any reward for achieving the targets.

However, the salespeople have to give a daily activities report and their performance evaluation was done on the basis of target achievement.

To engage the dealers, the company had allotted liberal entertainment allowances which were an indirect motivation for the sales people.

The sales people were evaluated for performance twice a year on the following criteria target achieved, cost incurred, personality, how they display / demonstrate the product, relationship with dealers, honesty, loyalty and rapport with top management.

Questions

1. Discuss in detail the motivation, compensation and evaluation practices given in the case and related them to the concepts.
2. Give your opinion about the motivation, compensation and evaluation practices. Do you think such practices are healthy and will work for the company?

Model Questions

1. How to determine the size of sales force?
2. Explain the Salesforce recruitment process.
3. Explain how salesmen are selected?
4. What are the different sources of recruiting sales persons? What are the advantages and disadvantages of the same?
5. Why is it important for new hires to socialize?
6. Explain how different theories of motivation help in Salesforce management?
7. How to assess the training needs of salespeople?
8. What kind of training are conducted to salespersons? Which are most effective? Why?
9. Why is a good compensation plan important in sales management?
10. How are sales performances evaluated and controlled?
11. What is the nature of job for a rural sales person?
12. What is the selection criteria for rural sales jobs?
13. How to involve rural youth in rural sales?

Suggested Student Activities

1. Enact a skit of recruitment and selection of Salesforce.
2. Categorize class into different levels of need hierarchy based on what motivates them.

Chapter 4 Distribution Management

Introduction

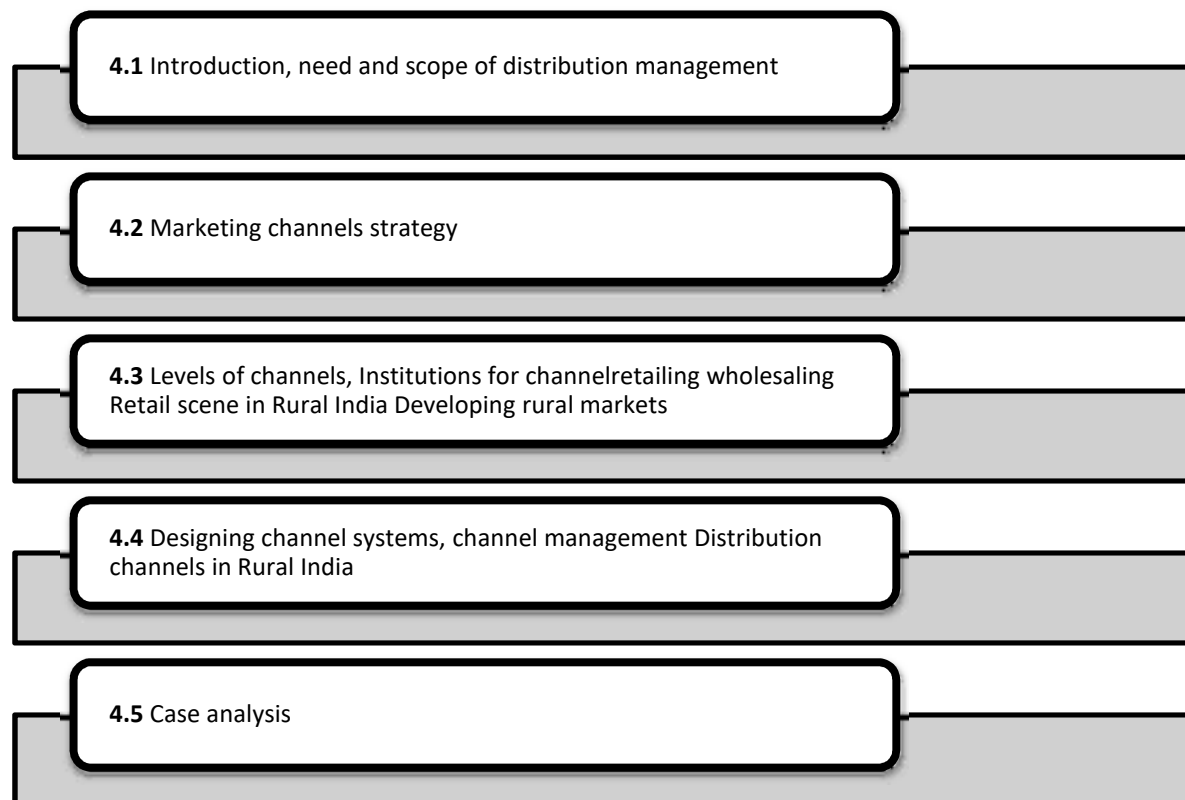
To implement its strategies, an organization needs a proper distribution management in place. Distribution management is part of the 'Place' in 4Ps of Marketing. A well managed distribution can put an organization at advantage over its competitors by propelling organization's efficiency.

Distribution management indirectly impacts the GDP of a country by increasing the efficiency of manufacturing sector operations. Hence, distribution activity has drawn lot of focus and has undergone a drastic change over the last few decades.

Objectives

- To help students understand the importance of distribution and using right channels.
- To make students understand the difference between different retailing and wholesaling formats and their relevance.
- To make students familiar with channel management activities.
- To create awareness among students about retailing and distribution channels in rural India and to educate them on developing rural markets.

Structure



4.1 Introduction, Need and Scope of Distribution Management

(Suggested Readings 1, 3 and 4)

Introduction

Traditionally, distribution activity was part of a sales force job. However, with growing business volumes and worldwide distribution prospects, distribution activity needs a specialized skill and knowledge. Intermediaries come with that kind of skills and knowledge. The well-established intermediary networks in different industries have made it possible to deliver goods from the company to the customer at minimum cost.

Distribution Management

Distribution management is about deciding the requirements, acquiring, distributing and maintaining products in an operationally ready condition for entire product life.

Distribution management is management of all activities for facilitating movement and coordination of supply and demand for creating time and place utility in goods.

Distribution management consists of a wide range of activities related to efficient movement of finished products from the end of the production line to the consumer. At times it also includes raw material movement from the source of supply to the beginning of the production line.

A consumer mostly does not interact directly with any company when he / she buys a product. They buy a company's products through a retailer. The company distributes its products through its distribution channel to the retailers, who in turn sell the product to the consumer in a particular geographic location (place).

Distribution management facilitates intermediaries to offer three types of utilities to a consumer

1. Place utility product is made available at a place near the consumer.
2. Time utility product is made available to the consumer at a time when he / she needs / wants it.
3. Possession utility product is made available for the retailer to sell and a consumer to buy, thus allowing the consumer to possess it.

Intermediaries are indispensable today; every industry has a network of intermediaries (distribution channel). Though the extent of their involvement varies from company to company, industry to industry, they are an essential part of supplying the goods to the customer.

Objectives of Distribution

Distribution has to help in fulfilling customer needs with minimum cost. This is depicted in the form of distribution pyramid strategy by The Anderson Consulting.

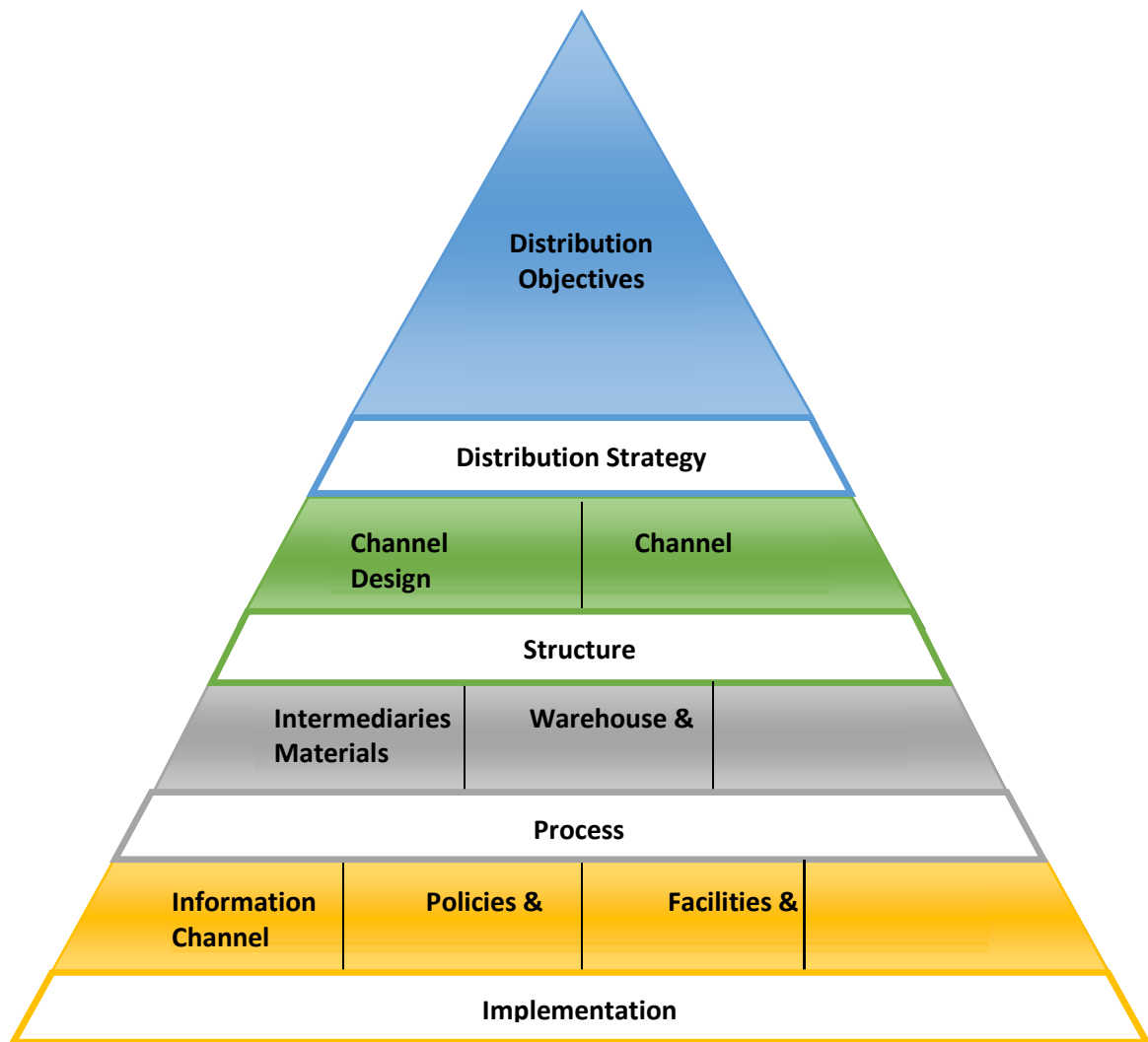


Fig 4.1 The Anderson Consulting Distribution Pyramid Strategy
Source Chunawala (2008)

Need for Distribution / Distribution Channels

Distribution channels are needed by the companies to reach their consumers and sell their goods to them. When the companies have large number of consumers whom they cannot reach directly due to time / resource / cost constraints, they look toward distributors.

Distribution channels are required for smooth flow of goods and services; to distribute products widely so that it reaches maximum number of consumers.

Good distribution network ensures presence and success of a company in the market place and helps to have competitive advantage in the market through effective distribution (good distribution networks help effective functioning of a company).

1. To accumulate the right kind of goods, aggregating and sorting to meet consumer needs at the point of purchase.
2. To efficiently carryout routine and simplified transactions and work with a large number of products (at the wholesaler and retailer level), for minimum distribution cost.
3. To provide information to the sellers and the buyers, for managing the business better.

4. To buy a large variety of goods and compare costs and prices and make the right recommendations to their customers.
5. To be aware of the environment in which they operate and hence isolate the companies from the direct impact of the local conditions.
6. To reduce the number of touch points; the company will not be able to meet the demands of thousands of its consumers directly and hence needs intermediation.

Intermediaries are essential; we can eliminate the intermediaries, but not the functions carried out by them. If not intermediaries, someone else should do the job.

Role of Intermediaries

- Companies will have large quantity of small number of products.
- Consumers want small quantity of large number of products.
- Intermediaries' role is to moderate the situation.

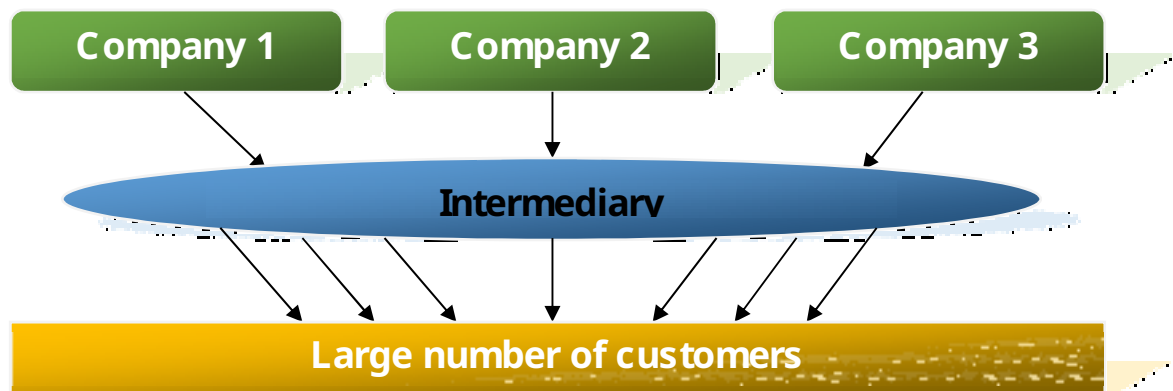


Fig 4.2 Role of Intermediaries

Source Adopted from Havaladar and Cavale (2008)

Intermediaries collect the large quantity of products from different companies and sell them in small quantities to the consumers.

'Are Intermediaries / Distribution Channels Necessary?'

The answer to this question is 'Not always'.

- Sometimes, the company's distribution effort is unparalleled. E.g. Amzaon, Bata, Eureka Forbes, Dell, iPhone (earlier), etc.
- Also, in cases of technically advanced / complicated product, the company prefers to distribute on their own. E.g. Medical equipment, robotic equipment, military equipment, etc.

Then, when is Distribution Channel Required?

A combination of direct distribution and indirect distribution modes work better.

The preference for direct or indirect distribution depends on

1. Nature of the company (If they have broad product line, they prefer direct distribution).
2. Nature of the products (For FMCGs and small value big volume goods, they prefer indirect distribution, for perishable, technically complex and expensive goods, they prefer direct distribution).
3. Nature and geographic spread of the company's customers (diverse customers, spread widely across geographic area prefer indirect distribution).

4. Goals of the company (To reach wider market presence, higher market share, indirect distribution is preferred).
5. The market expectation of credit (not feasible for direct distribution).
6. The company's distribution capabilities and strengths (if it is good, they go for direct distribution).
7. How fast the company wants to cover the market and increase its sales(if they want to reach and cover fast, indirect distribution with an already established distribution network should be chosen).
8. Nature of competition and how the competition operates (companies prefer distribution channel similar to that of their rivals in oligopolistic markets).
9. Company's market shares and size of the company (small companies / companies with small market share prefer direct distribution).

Scope of Distribution Management

1. Transportation Which mode to use?
 - Common carriers can be hired
 - Contract carriers contractual work with individual shippers
 - Private carriers owned by shippers
2. Storage
3. Material handling (protecting the goods during warehousing)
4. Specifying responsibility for delivery terms
 - Paying freight costs
 - Selecting the carriers
 - Bearing the risk of damage
 - Selecting the modes of transport

Distributor's Scope of Work

1. Selling and distribution
 - a. Number of sales forces per channel per area
 - b. Number of outlets covered
 - c. Number of outlet transaction per month
 - d. Number of items sold per outlet per month
 - e. Total sales value per month
2. Stocking
 - a. Total inventory (in days)
 - b. Inventory per item (in days)
 - c. Out of stock (number of items per month)
3. Delivering Percentage of on time delivery (OTD) and on time delivery in full (OTIF)
4. Collecting receivables / due amount.
5. Merchandising
 - a. Percentage of products placed at eye level
 - b. Number of items at eye level per store per month
 - c. Percentage of product with right price tag

Functions of Distribution Channels

1. Logistics and Physical distribution Assembly, storage, sorting and transportation of goods from company to the consumer.
2. Facilitation before and after sales Financing buyers, collecting required information about the customers and competitors, passing on the information from company to the consumer and viceversa, channel coordination and maintenance.
3. Act as link between the company and the consumer
4. Bulk breaking buying in bulk from the manufacturer and selling in parts to the retailer / consumer.
5. Creating assortments buying different products from different companies and offering them at a single place
6. Sharing risks by buying products, they share the risk of selling with the manufacturers.
7. Marketing they act as core touch points through which marketing strategies are executed.

Based on the functions, Distribution channel (intermediaries / middlemen between the producer and the consumer) can be classified into

1. Sales channel motivates buyers, share information between consumer and company, negotiates fair bargains for consumer, finance the transactions.
2. Delivery channel carries out physical distribution.
3. Service channel provides after sales services.

How a distribution channel works? (Example)



Fig 4.3 Working of distribution channel

In the above example, there are 3 intermediaries between the company and the consumer

1. Carrying and forwarding agent
2. Distributor
3. Retailer

However, there can be more number of intermediaries or less depending on the company's distribution structure / route to reach consumers.

1. No intermediaries Company consumer (Campaigns, exhibitions, etc.)
2. 4 intermediaries Company C&FA Distributor Wholesaler Retailer Consumer.

The other possible intermediaries are transporters, stores personnel, labour and all those who participate in the distribution operation to ensure the product is available for the consumer when needed.

“Distribution channel is a structure of intra company organizations and extra company agents, dealers, wholesalers and retailers through which a commodity, product or service is marketed”
American Management Association

Participants in a Distribution Channel

As seen in the above example, there can be many participants in distribution channel. A distribution channel is a team / group of people / firms involved in the ownership transfer of a product as it moves from the company to the consumer.

1. Company owned distribution centers (DCs) / C&FAs / Consignment selling agents (CSAs)
 - a. **(DCs)** Sell to customer directly from the company.
 - b. **C&FAs**
 - Act as facilitators.
 - Transporters, acting as midpoint between company and its approved distributors.
 - Collect products from the company plant, store in a central location, and break into bulk against the indents from the distributors.
 - They do not pay for the goods (title / ownership of goods is not transferred to them).
 - c. **CSAs**
 - Act as C&FAs but also sell the goods to the market and then submit the revenue from the goods sold to the company.C&FAs and CSAs are on contract with the company.
2. Distributors, stockists, value added resellers, guarantors and agents
 - The above intermediaries are different due to the extent of redistribution they undertake for the company.
 - **Agents and Dealers** are least involved as they do not buy the product from the company. Others,
 - Buy the product from the company
 - Get commission / margin / markup
 - May or may not get credit from company, but they offer credit to wholesalers /retailers.
 - **Distributors** redistribute the stocks to the next party in the distribution channel (wholesalers / retailers).
 - **Stuckists** just stock the products, company sells the product to the customers.

Agents and dealers help distribute the product in the market. A company might have one or many distributors and a distributor can sell one company's or many companies' products. They will document this arrangement in the form of a contract or agreement.

3. Wholesalers
 - Mostly operate from inside the main markets, having a shop in trade areas.
 - Deal with many companies' products of their choice.

- Not on contract / agreement with any company.
 - Work on low margins, but high volume.
 - Sell to other wholesalers, retailers and institutions / businesses.
 - Get credit from distributors (usually for a week or 15 days).
 - Offer credit to their regular customers.
4. Retailers
- Shop keepers from whom consumers buy.
 - Operate from market / residential areas if located in busy areas, can negotiate better terms with the distributors / companies.
 - Get credit from distributors / wholesalers, offer credit to customers.

Value Added Retailers buy parts / incomplete product, assemble them and sell (E.g. personal computer) or buy a raw material, make the product and sell (E.g. wheat flour from wheat) or bundle the products and sell (E.g. mixed dry fruits).

For industrial products, the company's own sales force and marketing team act as channel members.

Patterns of Distribution

1. Intensive distribution product is made available in as many outlets as possible so that wherever the consumer goes, he finds the product (E.g. Colgate toothpaste)
2. Selective distribution product is made available only in carefully selected outlets, which are strategically chosen to build and maintain the image of the company / brand (E.g. clothing brands available only in upscale malls).
3. Exclusive distribution product is made available in only one outlet in a market (E.g. cell phones)

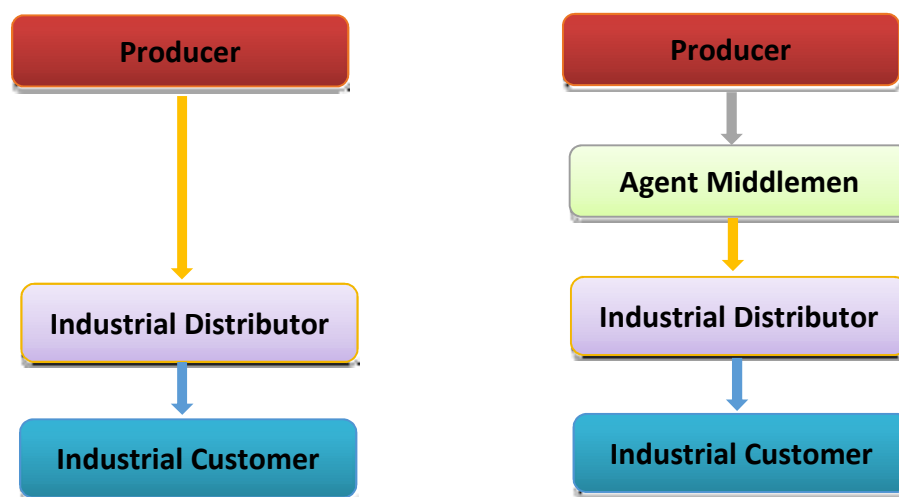


Fig 4.4 Indirect distribution channels for industrial products

Source Havaldar and Cavale (2008)

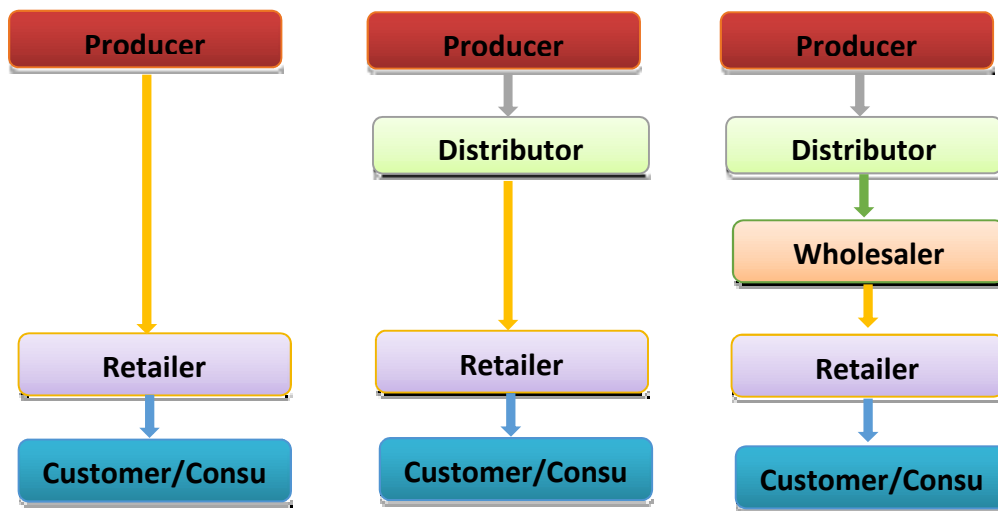


Fig 4.5 Indirect Distribution Channels for Consumer Products

Source Havaldar and Cavale (2008)

At times, consumer acts as a channel member when he stocks the products offered at attractive prices and deals. Stocking up of a product by a customer prevents competitor brand to approach him.

4.2 Marketing Channels Strategy

(Suggested Readings 1)

After understanding the basics of distribution / marketing channels, let's move on to understand its working in detail

Possible Marketing Channel Formats

There are four possible categories of marketing channels comprising of multiple formats.

Producer Driven	Seller Driven	Service Driven	Other Formats
<ul style="list-style-type: none"> • Company owned retail outlets • Licensed outlets • Consignment selling agents (CSAs) • Franchisees • Brokers • Vending machines 	<ul style="list-style-type: none"> • Existing retailers • Department stores and supermarkets • Specialty stores • Discount stores • Existing wholesalers • Doortodoor sales people 	<ul style="list-style-type: none"> • Transporters • Warehouse space providers • C&FAs • Logistics services providers • Couriers 	<ul style="list-style-type: none"> • Multilevel marketing systems • Cooperative societies • Kiosks • Gift and souvenir producers • Catalogue shopping formats • Intenet • Exhibitions and fairs • Database marketing

Marketing / Distribution Channels Strategy

Distribution strategy evolves from the corporate strategy; corporate strategy of an organization drives the marketing strategy which in turn drives its distribution strategy. Distribution strategy is a crucial part of marketing strategy of an organization as creating a distribution channel is a longterm activity which involves big investments.

Marketing / Distribution strategy includes factors such as

Defining customer service levels	<ul style="list-style-type: none">•What level of customer service a company can promise its customers.•Depends on the industry, products / services, market share, nature of competition and affordability.•Categorizing customers using ABC analysis (Pareto's law)*.
Setting distribution objectives	<ul style="list-style-type: none">•Based on the customer's expectations from the company and its channel partners.•Objectives may be in terms of time, place, period of credit, etc., That a company or its channel partners are willing to offer.
Set of activities	<ul style="list-style-type: none">•Defines how a company and its channel partners can work to achieve the objectives•Includes activities like periodic sales forecast, market visits, collecting sales proceeds, etc.•The activities are mostly jointly performed by the company and its channel partners.
The distribution organization	<ul style="list-style-type: none">•Defining the organization structure to support the strategy•How many incompany and how many outsourced members•Selecting channel partners (c&fas, distributors, wholesalers, retailers, etc.), Setting objectives for them and ensuring financial investments by them
Policy and procedure	<ul style="list-style-type: none">•Meant for sales personnel and channel partners to fulfill their responsibilities•Policy guidelines are prepared for redressal of complaints from channel partners, settling disputes, additional payments, service levels to be extended, etc.
Key performance indicators (KPIs)	<ul style="list-style-type: none">•To judge the effectiveness of the strategy, certain measurement criteria are set in consultation with the channel partners•Typically includes achievement of targets, market share, profitability, zero customer complaints, ability to handle emergencies, manging accounts recievables, etc.
Critical success factors (CSFs)	<ul style="list-style-type: none">•Support and backing of the management ensures success.•The critical success factors are clear and transparent policies and procedures, committed channel partners, fair dealing, clearly defined customer service policy, integrity, fair compensation, etc.

Source Adopted from Havaladar and Cavale (2008)

***ABC Analysis (Pareto's law)** classifying customers into A, B and C category customers.

- A category contributes maximum to the company volume and revenues (most important)
- B category regular contributors, buy moderate levels (second priority)
- C category low and irregular contributors (least priority)

4.3 Levels of Channels, Institutions for Channel Retailing, Wholesaling

(Suggested Readings 1)

Levels of Channels

As discussed in the previous sections, the number of intermediaries involved in a distribution channel can be none, one or two. Based on the number of intermediaries involved in transferring the title / ownership of goods from the company to the consumer, there are different distribution channel levels.

Marketing / Distribution Channel Levels

1. Zero level channel no intermediary
2. One level channel one intermediary retailer.
3. Two level channel two intermediary's distributor / wholesaler and retailer.

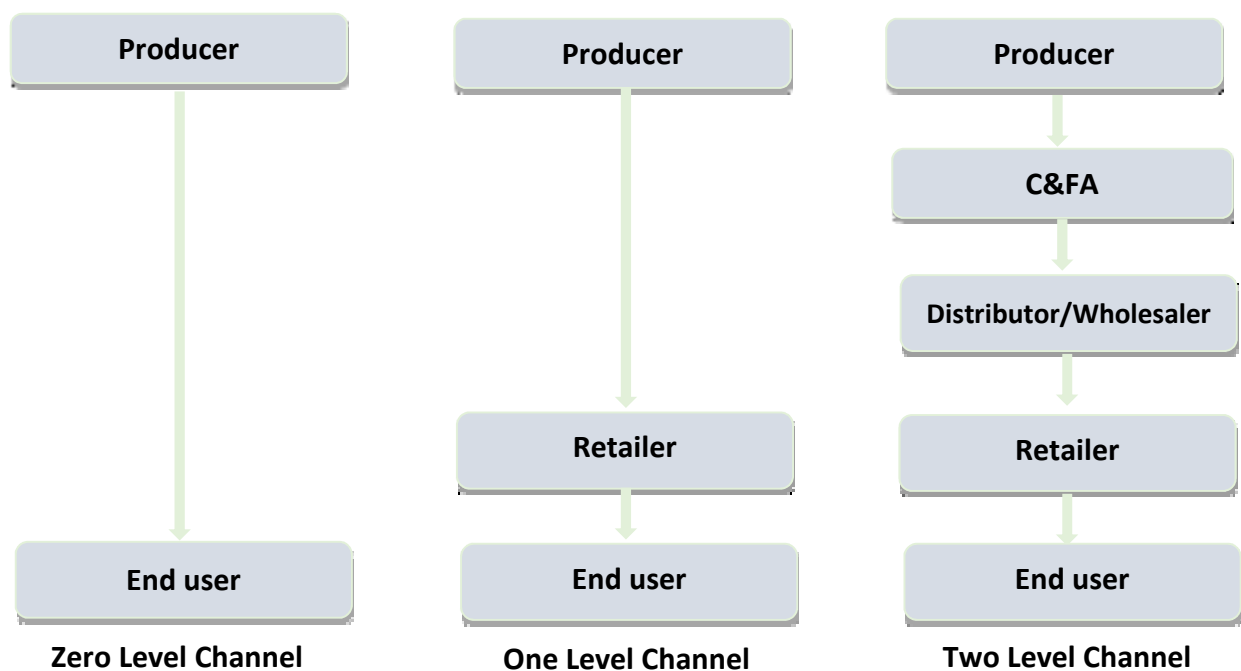


Fig 4.6 Marketing / Distribution Channel Levels

Source Havaldar and Cavale (2008)

Service Channels

In case of services, like banking, insurance, healthcare, leisure, education, etc. companies establish unique channels of distribution to serve a larger consumer base.

They work on different models Branches in banking and insurance, franchising in education and leisure, joint ventures / tieups in healthcare, etc.

They also use multimedia to reach wider audience (E.g. live telecasts).

Institutions for Channel

The two intermediaries involved in the twolevel distribution (retailers and wholesalers) channel form the institutions for channel / channel institutions.

Retailing

Retailing is derived from the French term 'Retailleur' which means 'to break bulk'; it is the activity carried out by a retailer, who deals with the customer / consumer directly. Due to the direct contact with the consumer, he understands them and their preferences better.

Any business entity selling products and services to consumers is retailing. It includes all activities involved in selling or renting consumer products and services directly to ultimate consumers for their personal or home consumption.

Characteristics of Retailing

1. Small sized orders, more in number.
2. Caters to wide range of customers with large assortment of products.
3. Managing inventory is critical due to impulsive buying from customers.
4. Need to ensure availability and visibility of the products.
5. Services personnel and visual merchandising is important.
6. Marketing mix of the retailer to optimize investments depends on the customer mix.

Consumer Criteria for Choosing Retailers

There are multiple retailers in a locality for a consumer to choose from. Their choice of retailer depends on

1. Price / value offered (credit, discounts, etc.)
2. Location (convenience, parking, safety, proximity, etc.)
3. Product selection (brands and variety)
4. Special services (home delivery, valet parking, special orders, extended hours, etc.)
5. Salespeople (helpful, knowledgeable, courteous and efficient)

Functions of Retailing

1. Marketing functions that enable them to make a wide variety of products available to consumers.
2. Help create time, place and possession utilities.
3. Create an image for products he sells.
4. Add value to products in terms of customization, credit, services, etc.

Classification of Retail Firms

Based on ownership	Based on operational structure	Based on service and price orientation	Merchandise offering	Where the sale takes place
<ul style="list-style-type: none"> •Sole ownership •Partnership •Corporation •Consumer cooperatives 	<ul style="list-style-type: none"> •Independent •Chain •Franchise 	<ul style="list-style-type: none"> •Full service •Limited service •Self service •Normal margin •Discounter •Offprice 	<ul style="list-style-type: none"> •General •Mass or speciality 	<ul style="list-style-type: none"> •Instore •Nonstore

Trade / Retailing Formats

Consumers have the choice to shop from an instore format or nonstore format (online). Many consumers still prefer instore format for their many buying requirements. For such purposes, they have a host of retail formats to choose from

1. Location formats based on the location of the store relative to the location of the customer.
2. Merchandise based formats based on the products offered by the retailer.
3. Size based formats based on total store space.
4. Price based formats based on pricing strategies.
5. Concession based formats a major retailer chooses a concessionaire (who offers complimentary products to the retailer's customer) to operate from their premises. E.g. café outlets in malls.
6. Ownership based formats based on who owns and runs the store.

Types of Retailers

1. Chain Store	<ul style="list-style-type: none"> •Multiple locations with unique identity in terms of store design, brand name /logo, merchandising plan, customer service and promotional strategies.
2. Family store	<ul style="list-style-type: none"> •Apparel store catering to the entire family
3. Speciality store	<ul style="list-style-type: none"> •Large variety of a limited range of goods, E.g. Bata, Fast track, Wildcraft, etc.
4. Department store	<ul style="list-style-type: none"> •Big size with different sections for different category of goods, E.g. Food World, More, etc.
5. Supermarket	<ul style="list-style-type: none"> •Similar to department stores but smaller in size •Usually the same brands own both department store and supermarket depending upon the demand and location
6. Emporium	<ul style="list-style-type: none"> •Used by government or export firms to promote selling of a particular category of products, E.g. Cauvery Emporium

7. Superstore	<ul style="list-style-type: none"> •Bigger than supermarket, but operate from single floor
8. Shopping mall	<ul style="list-style-type: none"> •Number of retail stores in one premises, multiple floors, with food and entertainment services, E.g. Central, Forum, etc.
9. Shopping centre	<ul style="list-style-type: none"> •Any market where there are many retail outlets of small size usually taken on lease
10. Hypermarket	<ul style="list-style-type: none"> •Large size retail outlets belonging to one retailer brand, including range of products, E.g. Big Bazaar has super and hyper markets.
11. Discount stores	<ul style="list-style-type: none"> •Buy in bulk and sell at discounted price to certain listed customers.
12. Factory outlet	<ul style="list-style-type: none"> •Garments and footwear brands have factory outlets, where they sell regular goods, seconds and export surplus, E.g. Nike, Louis Philippe
13. Warehouse	<ul style="list-style-type: none"> •Temporary stores set up during sale period. •Usually rent huge spaces like marriage halls.
14. Stop over store	<ul style="list-style-type: none"> •Small stores selling grocery or food in petrol stations
15. Kiosks	<ul style="list-style-type: none"> •Small independent located in busy places like airports, bus and railway stations, selling beverages, snacks, etc. Some are kept for providing help and information
16. Vending machines	<ul style="list-style-type: none"> •Dispense fixed quantities of products (chips, beverages, snacks, chocolates, etc.) for fixed price, through machines operated by customers. •Vending machines are experimented for other goods such as gold as well.
17. Independent stores	<ul style="list-style-type: none"> •Owned by an individual or in partnership with one or two partners. •Most common in India (grocery, chemists /medical stores, etc.)
18. Franchise	<ul style="list-style-type: none"> •Licensed by a franchiser to a franchisee for a fee to sell his brand and products. •Franchiser controls the quality, training the personnel, pricing and ambience. •E.g. Dominos, McDonalds, etc.
19. Hawkers	<ul style="list-style-type: none"> •Visit residential locations with fresh consumables every day. •Very popular and common in India
20. Every day low price (EDLP) stores	<ul style="list-style-type: none"> •Discounted stores who offer discounts every day on some selected merchandis (Popular in western countries)
21. High street stores	<ul style="list-style-type: none"> •Small stores located in busy shopping areas, with limited assortment of merchandise, no parking facilities (Popular in Western countries)
22. Destination stores	<ul style="list-style-type: none"> •Large stores, with good bargains, wide assortment of merchandise, enough parking space (Popular in Western countries)
23. Convenience stores	<ul style="list-style-type: none"> •Found around the corner for daily needs, open almost 18 hours a day •Western concept similar to Kirana stores
24. Category killer	<ul style="list-style-type: none"> •Speciality store with a large assortment of merchandise offered at the best price. •Can kill other retailers.
25. Single price denomination store	<ul style="list-style-type: none"> •All items sold at one or two attractive low prices (Popular in Western countries, catching up in India). E.g. Dollar stores, Rs.99 stores, etc.

Role of Retailers

1. Merchandising a set of activities involved in acquiring goods / services and making them available at places, times, price and quantity that enable a retailer to reach his goals.
 - a. Merchandise planning planning the assortment and variety.
 - b. Merchandising strategy stocking, positioning, etc., to attract and retain customers.
 - c. Category management maintaining the stocks of product categories in demand and profitable.
 - d. Merchandising function making products available, decisions to introduce new products and packs, planning the shelf space and display.
 - e. Financial aspects of merchandising stock and inventory valuation and accounting.
2. Customer service provide the goods most likely to be brought by his prospective customers at a place and time when a customer wants it.
 - a. Customer service needs location, prices, free demonstrations, taking orders in store, over phone, etc.
 - b. Planning customer convenience store ambience, layout planning, availability of products, assortment, assistance at store, etc.
3. Planning retailing format choosing from the above discussed formats to suit the customer and organization needs.
4. Customer communication announce opening of store, tell customers about the promotions running, inform customers about any additional facilities introduced at the store.

Store exterior and communication choice is very important.

Retail Strategies

Strategies are designed to improve the key drivers of a retail business.

The key drivers are

1. Number of footfalls each day in the store.
2. Number of footfalls converted into purchase.
3. Increase the depth of purchase of each purchase.
4. Retention of the customers.

The strategies adopted are

1. Positioning strategy identity, the store develops for itself in terms of what it has to offer the customers.
 - It is a combination of the product range being offered and the value added by the store.
 - It lasts for some time.
2. Product differentiation strategy built around the products that the store or chain deals in.
 - Exclusive national brands
 - Mostly private labels
 - Big specially planned merchandising events
 - Speciality stores follow the principle of exclusivity in the product they offer.
3. Operational superiority to provide long lasting value to the customer.
 - Clearly defined processes
 - Streamlined processes to deliver value to customers
 - No waste of effort or resources

- Ensuring zero stockouts and optimum inventory
 - Large assortment
4. Store location for competitive advantages.
 - First mover advantage
 - Commercial prospects of the location

Factors in Development of Retail Strategy

1. Background and experience of the promoter
2. Products and merchandise to be sold
3. Profile of the potential customers
4. Availability of real estate
5. Availability of good suppliers
6. Profitability

The Global Retailing Scene

Retailing is a well-organized sector globally and contributes significantly to a country's GDP. In developed countries with higher per capita income, retailing thrives. In developing countries, retailing is still unorganized or partly organized. However, the contribution of retailing is significant to developing economies also.

Wholesaling

Wholesaling is concerned with the activities of those persons or establishments that sell to retailers and other merchants, and/or industrial, institutional, and commercial users, but that do not sell in large amounts to final customers US Bureau of Census

Functions / Tasks of Wholesalers

1. Assembling and aggregating goods Buying assortment of goods from different companies.
2. Order booking and execution
3. Sales and promotion of chosen company products.
4. Bulk breaking to suit customer requirements
5. Warehousing of goods Storage and protection of goods till sold out
6. Grading and packing goods
7. Transportation of goods to the customer
8. Financing of the business they buying of the goods and extension of credit to the customers
9. Risk bearing Sharing business risk with the manufacturer
10. Providing market information Collecting and passing on information to suppliers and customers

Since wholesalers are intermediaries between the producer suppliers and retailers, they perform function for both the parties. The above function can be classified into

1. Wholesaling Functions for Producer Suppliers

- a. Selling to customers
- b. Stocking till customers buy
- c. Financing buys goods from producers
- d. Market information pass information to the producer

- e. Risk reduction by buying products, giving credit to customers, maintaining inventory

2. Wholesaling Functions for Retailers and Other Consumers

- a. Buying products to meet customer needs
- b. Stocking to make products available to retailers when they need
- c. Market information provide information about producer suppliers
- d. Financing giving credit
- e. Risk reduction by maintaining inventory on behalf of retailers
- f. Relationship maintain relationship with retailers in such a way that they spend more time in selling than buying.
- g. Aggregation of quantity and assortment of products.

Classification of Wholesalers

Wholesalers can be classified based on the extent of service offered Full service and Limited service.

1. Full Service

General merchandise	<ul style="list-style-type: none"> •Stock a wide assortment of unrelated product lines (drugs, hardware, detergents, cosmetics)
General line	<ul style="list-style-type: none"> •Carry one or two product lines in depth
Speciality	<ul style="list-style-type: none"> •One line of products
Producer cooperatives	<ul style="list-style-type: none"> •Most common in agricultural products set up by farmers to buy and sell in large quantities
Rack jobbers	<ul style="list-style-type: none"> •Stock displays of products usually not carried by retailers, regularly call on retailers to restock the racks and shelves (popular in western countries)
Voluntary chains	<ul style="list-style-type: none"> •Wholesaler combines the requirements retailers and gets quantity discounts (popular in western countries)

Limited Service

Cash and carry	•Store a limited number of fast turnover and staple products to sell to small retailers (E.g. Metro cash and carry)
Truck wholesalers	•Operating mobile warehouses, sell a limited line of products directly from their trucks
Mail order	•Send catalogue to small retailers and industrial users, sell based on catalogues
Retailer cooperative	•Independent retailers form groups to get quantity purchase discounts (common in grocery retailing)
Manufacturer's agents	•Independent middlemen who sells on commission basis for several manufacturers of related but noncompeting products (speciality foods, furniture, electrical equipment, etc.)
Commission agents	•Have control of product, provide storage and negotiate sales between principals and buyers, control prices, methods and terms of sales (agricultural marketing).
Selling agents	•Handle competing product lines, operate nationally, handle entire range and marketing tasks
Auction companies	•Sales made to highest bidder, charge a fixed fee /commission for their service (used cars)
Merchandise brokers	•Bring buyers and sellers together but do not physically handle products
Drop shippers	•Deal in bulky products, take orders from customers and pass on to manufacturers, do not store, handle or deliver (western concept)

Major Wholesaling Decisions

1. Which markets to operate in? To get profitable volumes.
2. Manpower to store and supply products on time, to man front office, etc.
3. Which product to sell? Width and depth of the merchandise, purchasing policies and additional service offerings, etc.
4. Promotional support passing on the price benefits to their customers.
5. Credit and collections to retain customers, this is necessary.
6. Image and customer perception selling at best prices without harming the perception about the product in the minds of the customers.

7. Warehouse location and design in the hearth of the market / business centre. Not much concerned about design.
8. Inventory control balance between optimum inventory levels and getting benefits of quantity purchases.

The Retail Scene in India

Retailing in India contributes 10 percent to India's GDP (McKinsey and Company, 2007). The Indian retail market is considered to be one of the top five retail markets in the world in terms of economic value. Also, India is one of the fastest growing retail markets in the world (Majumder, 2011).

Salient Features of Retail in India

Traditionally India's retail needs have been served by thousands of small next door format retail outlets. Since Indian rural areas consists of multiple small villages, a retail outlet a village also amounts to Lakhs of outlets.

According to a report by Kotak Institutional Equities (2016), 98% of ₹ 19.9 Lakh Crore Indian grocery retail market is controlled by Kirana stores. Grocery retail forms 48% of total retail consumption in the country. By this data, grocery retailing is a huge factor in Indian economy. But it is least organized due to the local stores / vendors and the late introduction of organized brick and mortar retailers. There is a scope for organized players to the extent of ₹3.4 Lakh Crore.

Talking about the Indian retail industry, Price Waterhouse Cooper in its 2017 publication notes that

1. Domestic retail market is estimated at ₹42.8 Lakh Crore.
2. Organized retail market is estimated at ₹3.42 Lakh Crore.
3. Over ₹2.14 Lakh Crore online retail sales in 2018.
4. 8% of Indians are employed in retail industry.

Retailing Trends in India

The abundant growth in Indian retailing is due to the following factors

1. Informed and demanding consumer.
2. Educated and literate consumers of urban and rural markets.
3. Higher disposable income.
4. Explosion of communication media (TV, mobile, internet, cable network, etc.).
5. Nuclear families.
6. Globalization brought in foreign brands and players.
7. Better infrastructure leading to smoother supply chain and logistics.
8. Efficient retailing due to Information Technology.
9. Advent of new retail formats (convenience stores, vending machines, kiosks, food and grocery retail chains, etailing, etc.).

Indian retailing is projected to grow at a fast pace to reach ₹78.47 Lakh Crore by 2020 (FICCI and Deloitte, 2018).

Organized Retailing in India

Indian organized retailing as discussed above still have a huge untapped potential. The growth of organized retailing in India can be seen in stages

1. Birth of organized retailing (Infancy) 1960s saw first set of supermarkets offering lower prices and a wide range of products.
2. Meeting customer expectations (Youth) multiple retail formats to suit customer needs.
3. Shift in the power equation (Adulthood) retailers willing to act solely in the interest of their customers have overtaken the manufacturers in importance.
4. Consolidation (Maturity) increasing presence of organized retailing.

Foreign Direct Investment (FDI) in Indian Retail Industry

Foreign direct investment (FDI) in multibrand and retail was not allowed in India till 2011, preventing the entry of foreign companies having ownership in supermarkets, convenience stores or any retail outlets. The FDI cap in singlebrand and retail was 51 per cent ownership. However, in Jan 2012, India allowed 100 per cent FDI investment in singlebrand and stores with a condition that the single brand retailer should source 30 percent of its goods from India. In December 2012, India allowed 51 per cent FDI in multibrand and retail (Maps of India, 2014).

In January 2018, Government of India allowed 100 per cent FDI in single brand retail through automatic route. With these encouraging policy initiatives, 20% of the global executives favour India as the host destination for investments in retailing (Retailers Association of India and Deloitte, 2018).

Development of Retailers in Rural Markets

The existing retail formats in rural markets

1. Cooperative societies
2. Public Distribution system
3. Agricultural input dealers
4. Potential villages (villages of over 2000 population)
5. Feeder markets / mandis
6. Post office and bank branches (for services such as railway ticket booking, passport applications, bill payments, insurance, investments, application for higher education, competitive exams and jobs openings, address verification, issue of ID cards, etc.)

Physical Distribution Methods

Physical distribution includes order processing, goods handling, packaging, warehousing, transportation, inventory control, and banking and customer service.

1. Company owned delivery vehicles / vans (owned by the company or the distributor) used for delivering the stocks to retailers and collecting money.
2. Hired vans wholesalers hires vans to supply retailers, the cost of which is borne by the company and the wholesaler.
3. Bullock carts or camels are used to cover remote areas.
4. Syndicate van distribution firms selling noncompetitive products, use a common van for distribution.

Developing Rural Markets

Due to the challenges in developing distribution networks in rural areas, distributors will be entrusted to develop interior rural markets within about 2025 km of radius of the distributor's location.

To begin with, rural markets won't attract distributor's attention, but as their business stabilizes and salespeople understand markets, they work towards establishing themselves in rural markets.

1. Outlet coverage
 - Width of distribution (number of brands / packs of the company sold to rural outlets)
 - Depth of distribution (stock volume / s maintained)
 - Merchandising (getting maximum shelf space)
2. New accounts
 - As new outlets open in markets, distributors have to keep track of them and cover them
3. Institutional accounts
 - Rural institutions consumers
4. Secondary sales effort and tracking
 - Selling to retailers and institutions with or without direct involvement of the company sales personnel
5. Competition tracking
 - Be alert to the competitor's activities and respond to acquire and retain markets without losing out the market to them.
6. Handling product promotions
 - Trade promotions, consumer promotions and merchandising / display schemes
7. Managing damaged goods
 - Take back damaged stocks from influential retailers in the market (this service is appreciated because of logistics and infrastructure limitations in rural markets)
8. Attending to customer complaints
 - Due to their direct contact with them, customers complain to wholesalers, who in turn pass on the information to the producer / salespeople for further action.
9. Organizing and participating in promotional events
 - Different kinds of promotional events in rural areas fairs / melas / Jathras / local exhibitions, retail counters, home to home selling campaigns.
10. Reimbursement of the cost of promotions to the distributor
 - Most trade promotions run by the company and operated in the market are initially paid by the distributors. It will be later reimbursed by the producer / manufacturer
11. New product / pack launch
 - Rural customers prefer small quantity of products.

These set of activities to develop rural markets are to be mastered by distributors as rural markets are the future of business.

4.4 Designing Channel Systems and Channel Management

(Suggested Readings 1)

Introduction

Distribution management function can split into 2 phases

1. The ex ante phase designing and establishment of distribution channel.
2. The ex poste phase motivating channel members and resolving conflicts among channel members.

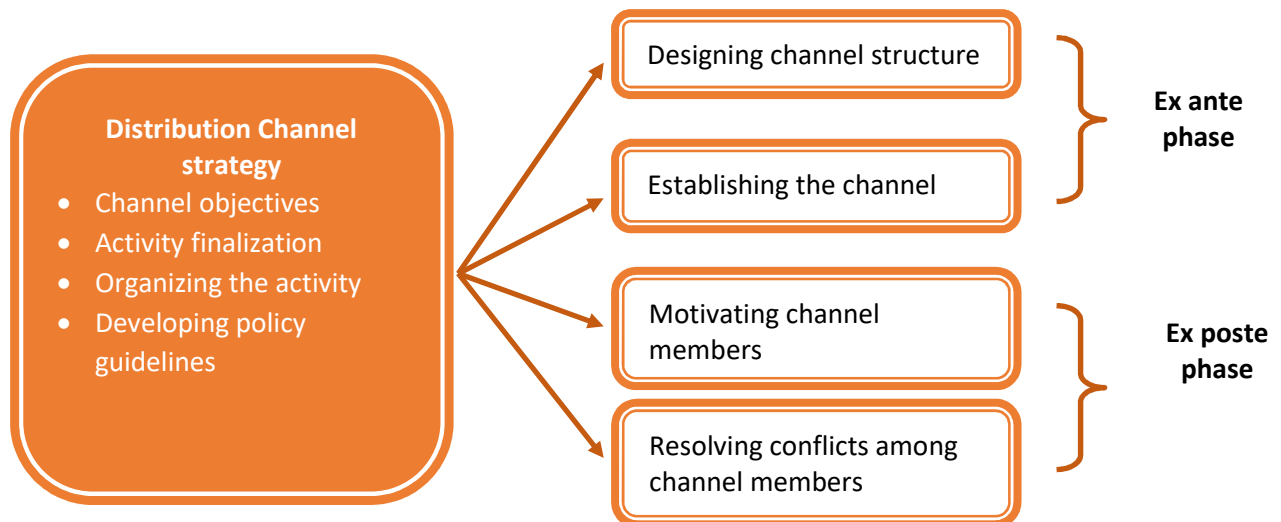


Fig 4.7 The Framework for Channel Management

Source Panda and Sahadev (2014)

Designing Channel Structure

Channel structures has to be designed before distribution channel starts working.

Factors Influencing Channel Design

1. Product mix and nature
2. Marketing mix elements
3. Width and depth of market / outlet coverage planned
4. Long term commitments to channel partners
5. Level of customer service planned
6. Cost affordable on the channel system
7. Channel control requirements of the company

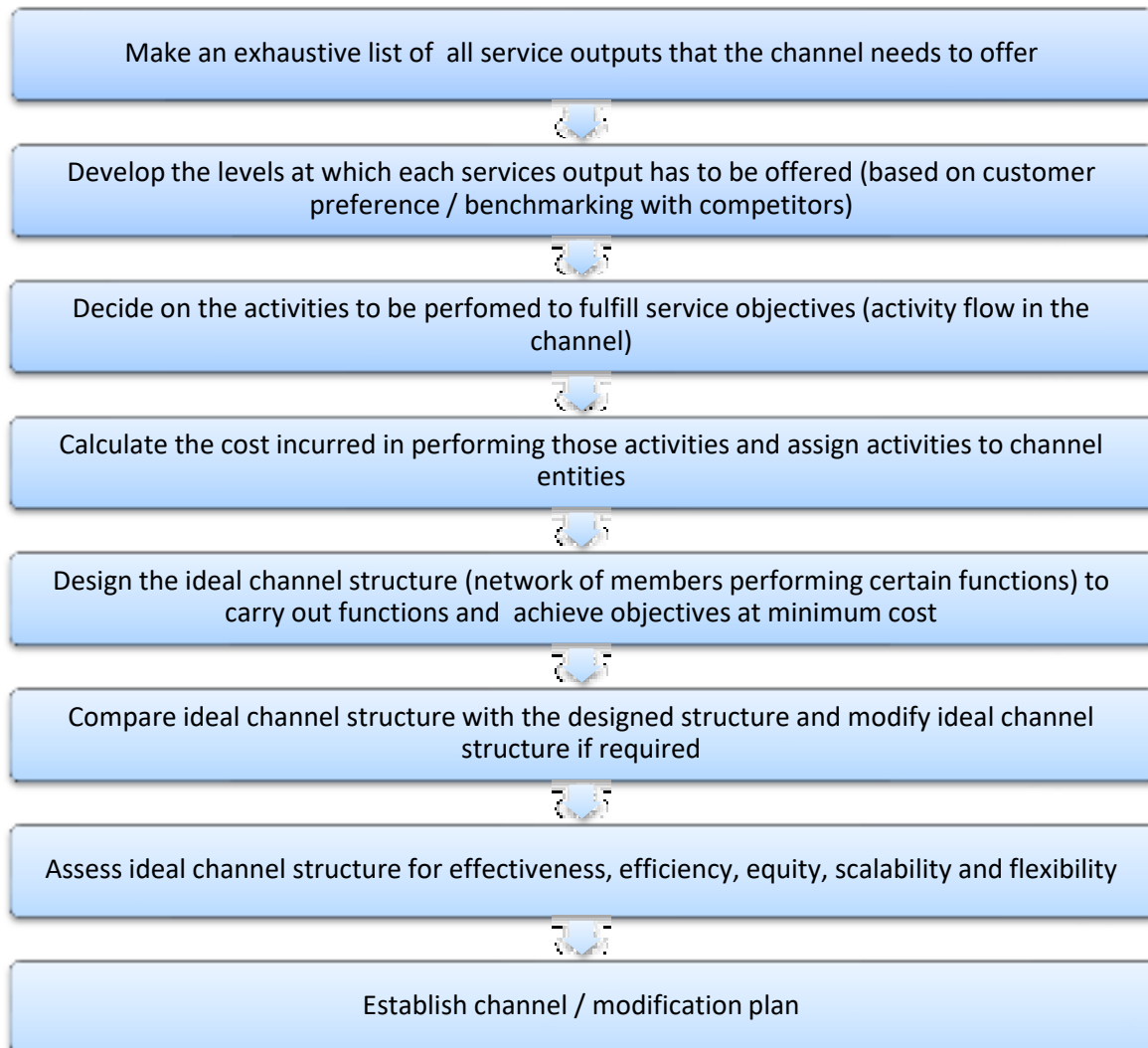


Fig 4.8 The Channel Design Process

Source Panda and Sahadev (2014)

Service Output Delivered

The output of the service delivered by channel entities can be in the form of

1. Bulk breaking large volume of goods is broken into small s.
2. Spatial convenience well spread outlet network (at least one in 23 km radius) depending on the population density.
3. Waiting time not more than 2 days is desirable.
4. Assortment competitor's products are available in the same outlet.
5. Installation support available.
6. Aftersales support free service during warranty / guarantee period (which can range from 1 to 5 years). Post this period, paid service to be extended.
7. Consumer financing available.

Establishing Channel Structure / Implementing Channel Design

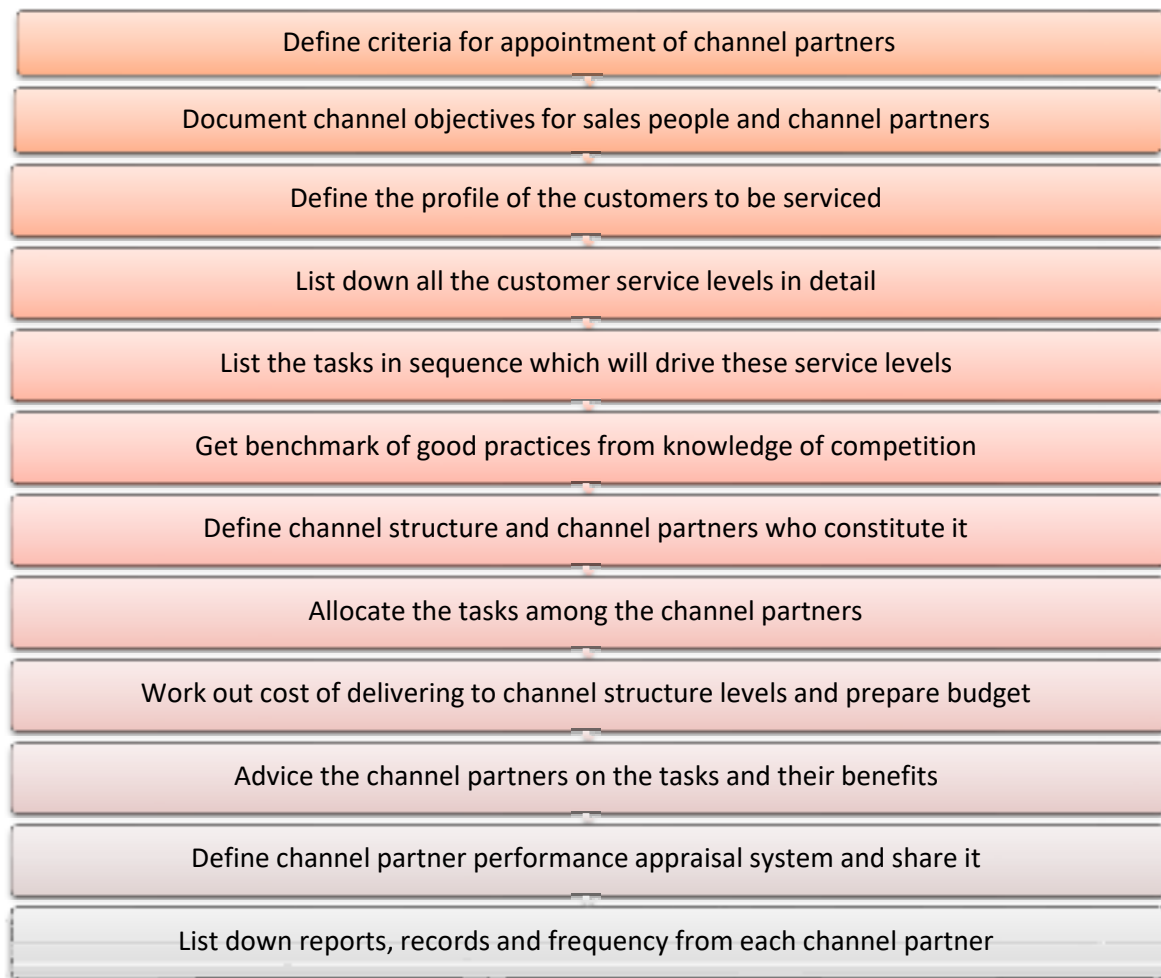


Fig 4.9 Implementing Channel Design

Source Havaladar and Cavale (2008)

Distribution Channel Management

Includes all the activities involved in distribution function of a company. Ensuring smooth working of the channel is the responsibility of the channel managers.

Motivating Channel Members

Through proper coordination, in time supply of stocks, information sharing, giving credit, training, marketing research, assisting in promotions, etc.

The channel members have to be kept motivated to achieve volume and growth targets.

To make the channel members effective, different power formats suggested by French and Raven (1959) can be used

1. Referent power due to the position a company hold in the industry. Intermediaries associated with such companies appreciate the recognition and respect they get and feel motivated.
2. Expert power due to the expertise / special knowledge a company has which they pass on to the intermediaries. This works to the benefit of intermediaries in terms of their performance. Good performance is a motivator.

3. Legitimate power ensured due to the legal agreement between the company and the intermediary. The intermediary is responsible to deliver certain things as per the agreement. Responsibility is a motivation.
4. Support power due to the support extended by the company to the intermediaries in selling the products. The support of the company will motivate the intermediaries.
5. Competition power method of generating rivalry among channel partners to perform better. The competition with rival channel partner is a motivation to perform well.
6. Reward power motivation due to the incentives given by the company to the intermediaries on reaching or beating the targets.
7. Coercive power of a threat (such as withdrawing support, discontinuing association, etc.) used by the company to put a defaulting channel partner back to track.

Resolving Conflicts Among Channel Members

Channel Management consists of three broad phases.

1. Use of Power Bases

The channel system consists of multiple channel players, who are differ in the extent of motivation to implement channel design and expectations from channel. Power bases can be used to motivate them (as discussed in the previous section).

2. Identifying and Resolving Channel Conflicts

The channel members experience different kinds of conflicts

- a. Goal conflict different channel members understand the objectives differently
- b. Domain conflict difference in the understanding of their responsibilities and authorities by different channel members
- c. Perception conflict difference in the understanding of market place by different channel members

Conflict is basically a mismatch in understanding, which affects the channel output. It is important to resolve conflicts for channel efficiency and effectiveness.

3. Channel Coordination

Channel manager has to ensure proper coordination between the channel members managed by him despite their conflicts on ground.

If each channel member understands his role correctly and performs it to help customers and serve objectives, the channel is well coordinated.

A coordinated channel

- Protects the interest of all channel members
- Ensures actions of all channel members to be in line with the overall channel objectives
- Ensures streamlined channel flow to deliver customer service objectives.

What is channel conflict?

It is the disagreement or discord between channel members of the same marketing channel system.

Conflicts develop over a period of time when the initial misunderstandings and differences are left unattended.

Stages of Conflict

1. Latent conflict conflict exists but not seen or felt or does not affect the working of the channel.
2. Perceived conflict the conflict becomes visible and the conflict members become aware of the differences and opposition.
3. Felt conflict the parties in conflict feel the conflict, try to obstruct each other. This is a cause of concern or worry.
4. Manifest conflict full blown conflict, impact of which is shown in the behaviour of the conflicting parties to the extent that they are detrimental to each other.

Reasons for Channel Conflict

1. Goal incompatibility when the goal of the company and the intermediaries does not match. Can be reduced by frequent interaction and clear communication.
2. Unclear role definition when the role of the intermediary is not clear to him, or when an organization's representative trespasses into the intermediary role. Can be resolved with clear negotiation terms.
3. New channel partner any new partner is added to the channel, existing ones feel threatened and intruded. Can be dealt by reorganizing the regions / markets.
4. Target fixing exercise the company field personnel and channel members are in conflict because of the target fixing. The channel members usually feel victimized. The field personnel feel that the channel members can do much more. To deal with this, targets are set in discussion with the channel members, who knows about the market first hand.
5. Extension of credit when company forces channel members to extend credit to customers whom they are not confident about. Companies should avoid such scenarios.
6. Multiple distributors lead to encroaching each other's customer base. A proper territory design will resolve this.
7. Difference in perception of the company's sales and marketing personnel and the channel members.
8. Loss of opportunity in case of exclusive dealership, if the company products do not do well, the investments, network, efforts all go waste. Hence, distributors prefer multiple products / companies.
9. Clash of interest when channel partners feel that they have been denied certain benefits compared to their counterparts.

Managing Conflict

Conflicts cannot be avoided in the business, they will occur, hence companies should have a mechanism to deal with them.

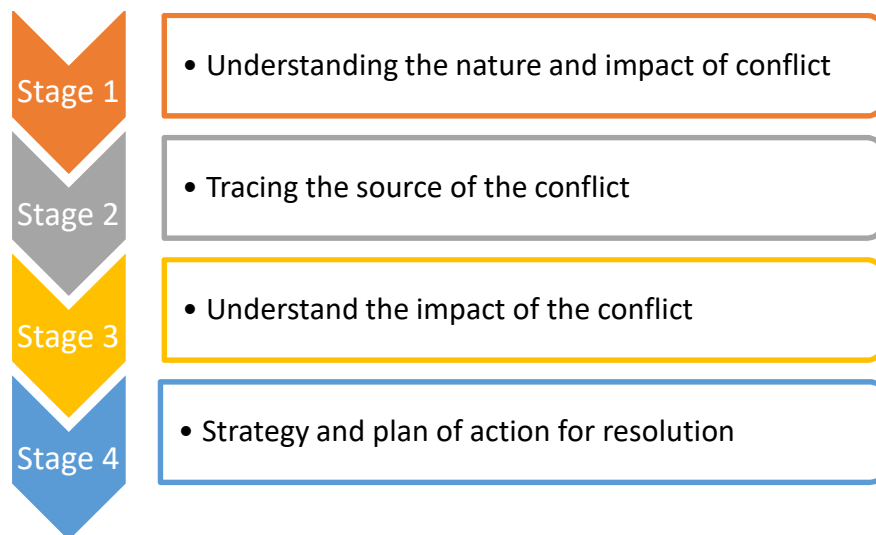


Fig 4.10 Stages in Conflict Resolution
Source Adopted from Havaladar and Cavale (2008)

Stage 1 Understanding the nature and impact of conflict

- List the issues between the conflicting parties in the last 6 months which can be a cause of concern and which cannot be settled routinely (bill settlement, infrastructure provided, credit, coverage, etc.).
- Know the frequency of the issue occurrence and perception of the parties about the issue.
- Rank the issues based on importance, frequency of occurrence and perception of parties.

Stage 2 Tracing the source of the conflict

Sources of conflict can be traced by talking to channel members, taking their opinion about irritants in the channel system, talking to salespeople, etc. The common causes / sources are

- Clashing goals
- Differences in perception of market situation
- Unclear domains and market domain conflicts
- Similar channel members
- Conflicts between channel members at different levels inside the channel system and channel members outside the system

Stage 3 Understand the impact of the conflict

Understand how the conflicts if not resolved will affect the channel effectiveness. The impact might be in the form of loss of business, lower profits, inefficient working, etc.

Stage 4 Strategy and plan of action for resolution

There are several effective ways of resolving conflicts with fairness and equity.

- Distributor unions, trade associations and legal arbitration are found to be effective in mediating between the conflicting channel members.

Best way to deal with conflicts is not allowing them occur in the first place through regular, open and clear communication between channel members, clearly defined policy for incentives, territory allocation, etc.

Styles of Conflict Resolution

Kenneth W. Thomas has identified 5 styles of conflict resolution (Thomas, 1976).

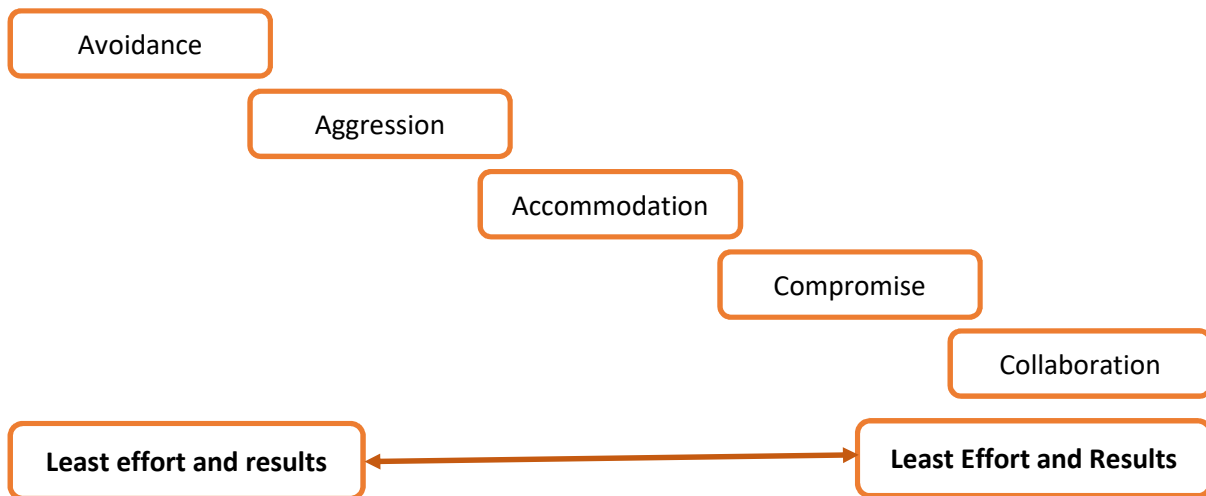


Fig 4.11 Styles of Conflict Resolution

Source Havaldar and Cavale (2008)

1. Collaboration most effective and desired problem-solving style, which results in a win win situation for both the parties in conflict. Possible with lot of effort, time, and more importantly the willingness of the parties to share sensitive information.
2. Compromise where both the parties leave their stand and meet half way, both lose some and gain some. Suitable for small issues / conflicts.
3. Accommodation one party surrenders completely to the other (losewin situation). Losing party helps the winning party achieve its goals without worrying about their own goals. Strengthens relationship but, might lead exploitation of the surrendering party.
4. Aggression / competition opposite to accommodation, a party in conflict is concerned about its own goals and not considerate about the other.... Selfish style. Not good in long run.
5. Avoidance the least effective conflict resolution style, used by weak channel members. When the relationship is not important, the problem is not discussed. In effect, the conflict is not resolved.

Ways of Managing Channel Conflicts

If the conflicts are not resolved, the company will have to resort to

1. Diplomacy
2. Mediation by a third party
3. Arbitration
4. Legal recourse in worst cases.

Distribution Channels in Rural India

Rural distribution covers over 70% of customers in Indian market and needs a separate strategy to suit the rural business practices, consumer buying behavior and infrastructure.

Indian rural market lacks physical infrastructure and commercial prospects as most of the rural households spend meagerly. The rich in rural areas mostly prefer to buy from nearby towns and cities.

However, there is an alternative network established in rural markets by public distribution system, fertilizer companies, farm equipment leasing businesses, etc.

These networks are criticized for being rigid and inefficient. Therefore, many companies do not make use of these networks; they prefer to extend their urban / semi urban distribution network to nearby rural areas instead.

Traditional Distribution Methods

1. **Haats** weekly open-air markets, set up on a particular day of a week. Sell a range of products from vegetables, fruits, grains, meat, snacks to clothes, small farm supplies like ropes and utensils.
2. **Melas / Jathras Specialized** fairs for commodity, cattle, religious fairs, etc. Companies are experimenting creative stuff at these melas; selling sim cards, advertising / giving test drive for bikes, etc.
3. **Mobile Traders** Known as pheriwalas, they serve interior markets and rural households, where women are usually confined to homes.

Major Issues in Rural Distribution Channels

Establishing and managing distribution channels in rural areas is a far cry from the experience in urban areas.

The challenges in rural distribution are many; hence, the penetration in rural area is very scanty. This works to the advantage of the manufacturer as there is a huge untapped market out there.

To tap the untapped potential, the manufacturers have to deal with the following issues related to rural distribution

1. Economic issues
 - Due to the low income and low purchase power, rural customers look for cost advantage in products they buy.
 - If the manufacturer has to reach rural markets, they have to spend a big amount on distribution as there are no established networks there. This involves cost which will be passed on to the consumer (in fact distribution cost is a major component in the product cost). Resulting in higher product prices.
 - There needs to be an innovative solution to tackle this issue.
2. Physical infrastructure
 - Poor but improving transportation network
 - Poor but improving electricity supply
 - Inadequate storage facilities
 - Well established telephone, internet and mobile phone connectivity.

Manufacturers should judiciously plan and use the available infrastructure to their advantage.

3. Service output issues
 - Due to infrastructure issues, manufacturers are not able to serve rural markets on par with urban markets.
 - Lead time in closing issues or after sales service requests is usually high leading to dissatisfaction.

- Inadequate storage facilities make it difficult for perishables to be sold in rural markets.
 - Though few manufacturers have used innovative methods to resolve these issues and serve the rural market, they are not feasible for all goods / services.
4. Diversity related issues
- In terms of language, food, customs, festivals, consumption patterns, trading practices, rural market is vibrant and diverse.
 - To adapt distribution strategies to such variations is an expensive and resource demanding affair.
 - Because of variations, forecasting, stocking and logistics becomes tricky.

Indian Rural Distribution Models

Major players in Indian rural markets like Hindustan Unilever Limited (HUL), Marico, Coca Cola, have developed their own distribution channels.

1. Star Sellers (HUL)

- One or two distributors are allocated in each district.
- Each distributor have around 2530 wholesalers known as star sellers.
- Each wholesaler invests and stock the products of HUL and covers around 60100 sales outlets which include grocery shops, general stores, etc.
- The wholesalers may also supply the products to Shakti entrepreneurs, who cover small villages of population less than 2000.
- With this model, HUL reaches over 7.5 Lakh rural outlets which is a good number considering that they cover total 60 Lakh outlets.

2. Project Shakti

- As part of Development of Women and Children in Rural Areas (DWCRA) initiative, many states have formed women self help groups (SHGs).
- It is an economic model, whose financial resources are made up of member savings, government assistance and bank loans.
- They use the corpus for their personal as well as their income generation / business needs.
- HUL involves these SHGs in sustainable enterprise opporties to improve their living standards by spreading awareness about health and hygiene.
- A woman from the SHG is selected as Shakti entrepreneur (popularly known as Shakti Amma) who receives health and hygiene products of HUL like salt, tea powder, soaps, toothpaste, talcum powder, hair oil, detergent powder, etc.
- These products are delivered at her doorstep by HUL distributors. Shakti Amma sells these to small village merchants.
- Each Shakti entrepreneur covers 610 villages with a population between 1 and 2 thousand.
- They will be trained and hand held for the first three months.
- They normally see a turnover of 10 to 20 thousand per month with a profit margin of 7%.
- They are allowed to sell noncompeting products of other brands like edible oil, sugar, match boxes, bangles, etc.

- Annual turnover through this project is over ₹ 1,000 Crores.
- The project serves multiple purposes of women empowerment, health and hygiene, reaching remote areas, corporate social responsibility, etc.

3. Hub and Spoke Method (CocaCola)

- The manufacturer in the area appoints distributors (hub) in important markets
- The distributors appoint sub distributors (spokes) and assigns smaller divisions of the markets to each of them.
- The sub distributors supply to the retailers, who sell it to consumers / customers.

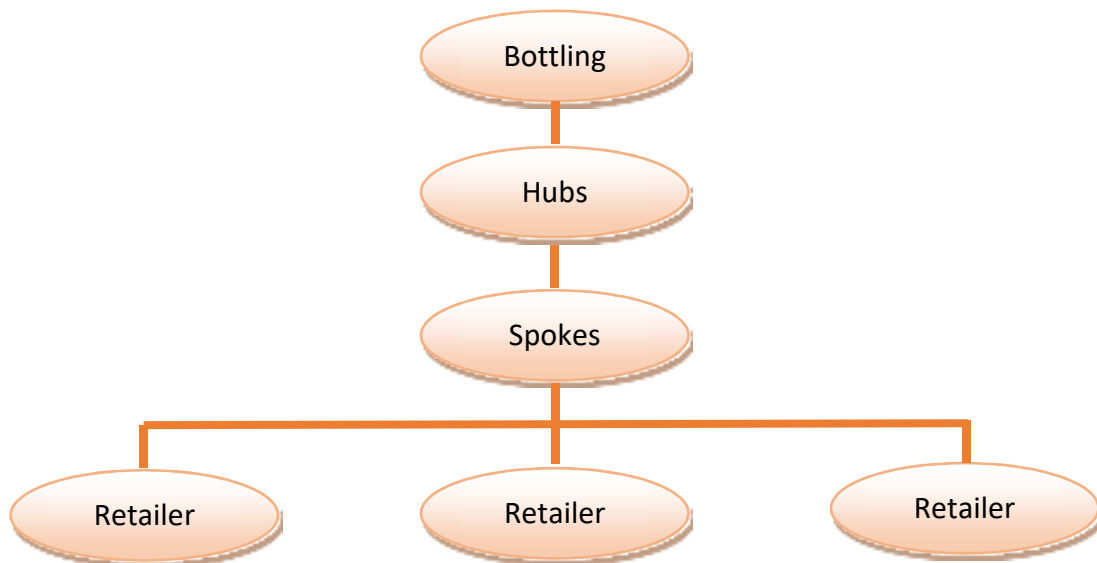


Fig 4.12 Hub and Spokes Distribution Method (coca Cola)

Source Krishnamoorthy (2011)

4. LPG Distribution (HPCL)

- Works on three different models
 1. Villagers come and get the refilled cylinders from the extension counters opened and operated by distributors in feeder towns (towns nearby a group of villages, where the villagers sell their produces and buy their needs).
 2. LPG cylinders are stocked at HPCL fuel stations in highways and agricultural centers. The villagers who come to fill fuel to their tractors, carry the cylinders.
 3. Filling vans are made available in large villages and haats (open air markets found in rural areas) for refilling cylinders.

5. The Bicycle Distribution Model (MART Rural Marketing and Research Agency)

- Provide educated rural youth with a sustainable business opportunity.
- Select candidates in the age group of 18-35 years
- Train them and provide bicycles with inbuilt storage box, a colorful umbrella, T-shirts and cap.
- The promoter buys FMCG stocks from authorized stockiest of the company and gives to the youth to sell in nearby haats and village shops for stipend of ₹ 1,500 plus margin on sold products.
- The youth earns about ₹3000 per month.
- HUL adopts this model and has termed it Shakti man.

6. Satellite Distribution

- Includes a feeder town, where regular trading centers are located and which has fairly good infrastructure.
- These feeder towns act as distribution and collection centers.
- Town traders distribute the consumer products to the village shops or to consumers directly.
- The town traders collect / buy the farm products from the villagers.
- The company appoints Stockists in important towns who are responsible for placing orders with the company, receiving and sorting stocks and supply to retailers in small quantities.
- This model is used by Marico, Nestle and HUL.

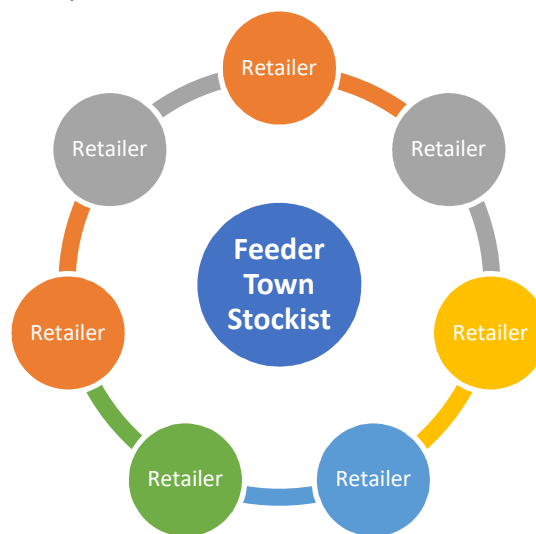


Fig 4.13 Satellite Distribution
Source Krishnamoorthy (2011)

Current Trends in Rural Distribution Channels

Despite the issues afflicting the rural market, the scope for growth and the untapped market potential is a major attraction to the companies.

Innovative methods are designed to tap the rural market. Besides using public distribution system (PDS), companies are experimenting with innovative models in logistics and relationship networks to

1. Manage decentralized activities efficiently and effectively.
2. Develop a viable and sustainable franchisee model (which allows companies to tap the local knowledge).
3. Appointing agents to scout for orders.
4. Tapping selfhelp groups, NGOs, cooperatives, post offices and banks.

For all these efforts to fetch desired results, a sound infrastructure is a must.

4.5 Case analysis

European Pesticides Ltd. (EPL) is planning to make inroads into Indian rural markets to tap the huge untapped potential. They are planning to set up their manufacturing facility on the outskirts of Panipat, Haryana.

They want to establish a distribution system to penetrate remote villages in India. Since, most of the existing pesticide manufacturers in the area produce pesticides for staple grains like wheat, paddy, mustard etc., EPL's pesticides are suitable for variety of crops. The existing distribution system is moderately efficient in supplying the pesticide needs of the rural Indian market.

Pesticides are considered as not very necessary by most Indian farmers. They buy pesticides in very less quantities when it is absolutely necessary. They buy pesticides generously when there is a prospect of huge crop loss due to pest infection. Hence, the distributor has to make the stock available in such distress buying situations too.

Due to economies of operations, the stores are not located in all villages. There is one store in 50 km radius. These stores sell other farm related products along like fertilizers, farm equipment, etc. These stores operate on a small margin of 10-15% and also offer credit to regular customers (farmers). The farmers visit these places once a week or on need basis. For their immediate needs, the local Kirana shops will sell small packs of essential pesticides.

Though the outlets sell pesticides along with other farm related products, due to safety reasons, they cannot store them in the outlet. Pesticides are stored separately in a facility usually owned by the company and accessed by company's salespeople or the authorized distributors of a company.

Information about farm related products are more effective when given at the time of purchase at the store. Though agriculture officers of the area discuss these things routinely with the farmers, the information at stores influence the farmer's decision better.

Questions

1. What are the channel options available for EPL?
2. Which is the ideal channel design for EPL?
3. Design a distribution channel for EPL in your state.
4. Discuss the functions of wholesalers expected by EPL.
5. What are the service output demands of the farmers?

Model Questions

1. What role do distribution channels play in the marketing of products?
2. What is the need for distribution channels?
3. How does a distribution channel work?
4. Who are the different channel partners? How are they different from each other?
5. Explain the three different patterns of distribution suitable in different situations.
6. What are the important factors in distribution strategy effectiveness?
7. Briefly explain the functions of marketing channels.
8. Describe the different channel formats.

9. Explain the channel flows.
10. Who is a retailer? What functions does he performs?
11. Explain the retail scenario in India. Give your opinion about the same.
12. Why Merchandising is important in retailing?
13. Write a brief note on franchising.
14. Explain any 10 retail formats which are popular in India. Explain with examples.
15. How to develop rural markets?
16. Explain how channels are designed and established.
17. Why is motivation of channel members important? How to motivate them?
18. What are the different types of channel conflict? How to manage them.
19. How are wholesalers classified? Briefly explain the different wholesale types.
20. Write a note on wholesaling in rural India.

Suggested Student Activities

1. Go to a Kirana store and two other retail formats of your choice and compare the following
 - a. Location
 - b. Store arrangement
 - c. Assortment and bulk breaking
 - d. Product range
 - e. Pricing and discounts
 - f. Credit facility
 - g. Service
 - h. Parking and other facilities
2. Do a primary study by interviewing retailers and hawkers regarding the impact of organized retail on their business. Also interview households to see whether they prefer organized retailing over unorganized? Reasons for the same. Make a small report on the findings and discuss in class.
3. Speak to wholesalers in your areas to understand what are the problems and prospects in wholesaling in your area for different categories of products.
4. Visit a village fair and observe how the arrangement, product range, pricing, service and assortment is different from exhibitions in urban areas.
5. Discuss with retailers and wholesalers about the stocking problems faced by them. Analyse and suggest if they have to change their strategy.

Chapter 5 Management of Logistics and SCM

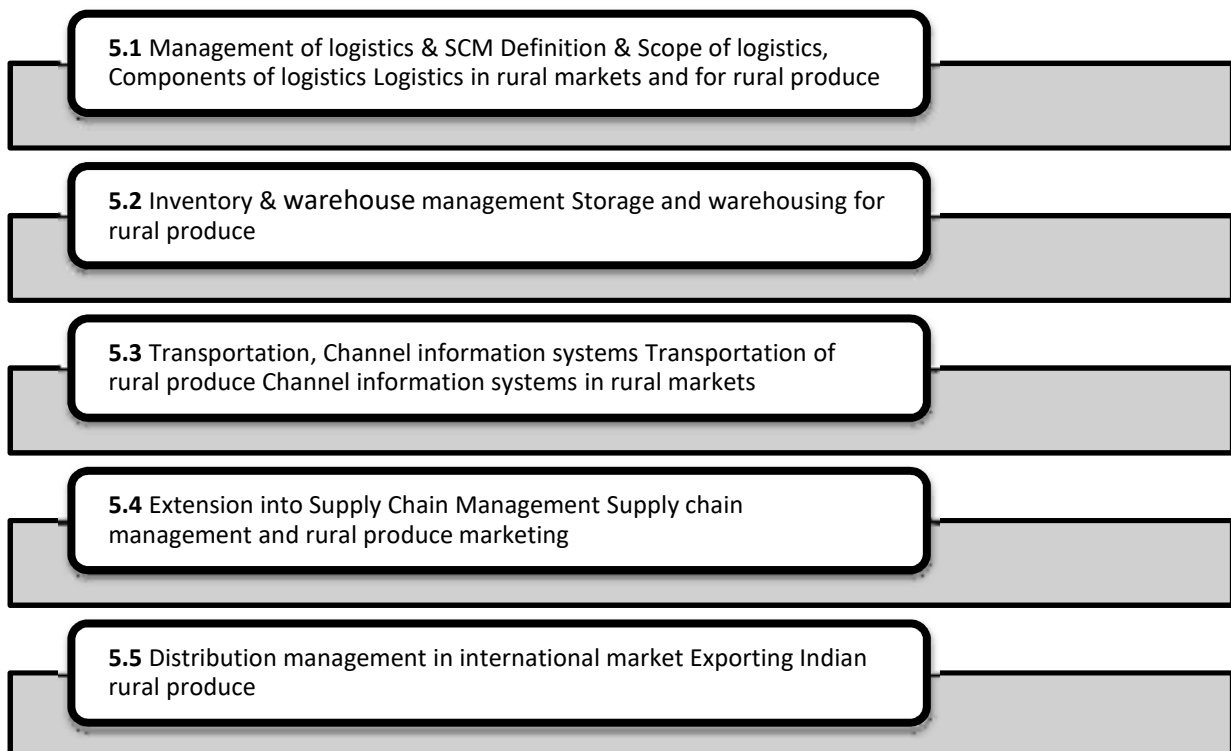
Introduction

Logistics is the process of management of acquiring resources, storing and transporting them to their final destination. Management of Logistics includes identifying prospective distributors and suppliers, and determining their effectiveness and accessibility.

Objectives

- To help students understand the sales management as integral part of marketing functions in a business firm.
- To make students familiar with different theories and strategies of personal selling.
- To help students become conversant with a sales manager's roles and ethical framework in which they have to operate.
- To make students understand logistics and supply chain from rural markets perspective.

Structure



5.1 Management of Logistics & SCM Definition & Scope of Logistics, Components of Logistics

(Suggested Readings 1)

Introduction

Logistics is the process of management of acquiring resources, storing and transporting them to their final destination. Management of Logistics includes identifying prospective distributors and suppliers, and determining their effectiveness and accessibility.

The term 'Logistics' was first used in armed forces.

According to Webster's Dictionary, "Logistics is the procurement, maintenance, distribution and replacement of personnel and materials". Personnel in the definition indicate army personnel. Logistics means having the right thing at the right place at the right time, achieved at the right cost.

Definition of Logistics

Logistics is a business planning framework for the management of materials, service, information and capital flows. It includes the increasingly complex information, communication and control systems required in today's business environment Logistix Partners, Helsinki

The process of planning, implementing and controlling the efficient, effective flow of goods, services and related information from the point of origin to the point of consumption for the purpose of conforming to customer requirements Council of Logistics Management

1. Planning Logistics is dependent on other functions in the organization and coordination between Logistics and other functions like marketing, production, purchase, etc. is essential for smooth conduction of activities. Hence, while planning for logistics, inputs from different functional departments have to be considered.
2. Focus on flow of materials, services and information.
3. Implementing Suggests that logistics is action oriented; the plan has to be put into action so that the organizations objectives are achieved.
4. Controlling Indicates that the logistics operations should meet the business parameters like speed, consistency, efficiency and effectiveness.
5. Communication The parties involved in logistics such as production department, suppliers and customers, have to be updated with information It may be noted here that the entire gambit of activities in logistics are centered on customer needs.

Logistics Operations

Logistics operations can be considered as

1. Function logistics involves functions such as planning, procuring, transporting, supplying and maintaining.
2. Processes the processes involved in logistics are requirement taking, acquiring products, storing / conserving the products and distribution of products.
3. Business logistics is a crucial part of business which ensures smooth transactions of procuring, inventorying, warehousing, distribution, transportation, etc.

Scope of Logistics

Logistics encompasses different industry segments, from manufacturing to services organizations who are interested in providing best possible customer service.

In this pursuit logistics covers retailers, traders and financial service organizations.

Besides these, the scope includes

1. Choice of markets for operation.
2. Plant layout and location decision.
3. Inventory management.
4. Customer service policies.
5. Building distribution network.

6. Store location and management.
7. Choosing transportation mode and carriers.
8. Packaging decisions with due consideration for storage and transportation facilities.

Components of logistics

Customer service	<ul style="list-style-type: none"> • Making the product available to the customer when and where he wants it (time and place utility) consistently.
Inventory management and control	<ul style="list-style-type: none"> • Making sure that the required level of inventory is available to service the customers well. The control aspect is about finding a balance between ideal and expected inventory.
Transportation and traffic	<ul style="list-style-type: none"> • Ensure that the products reach all the channel members (C&FAs, distributors and institutions).
Storage and warehousing	<ul style="list-style-type: none"> • These places either owned or leased by the company are set up to ensure smooth supply of products on time and at a place required by the consumer.
Materials handling	<ul style="list-style-type: none"> • Physical handling of goods in the firm and till it reaches the consumer. • Includes storing and moving the raw material, packaging material, work in progress and finished products.
Packaging	<ul style="list-style-type: none"> • To protect the product from any kind of damage in transit or storage and for marketing communications (branding in particular).
Information processing	<ul style="list-style-type: none"> • Communicating updated information such as order status, delivery dates, etc.
Demand forecasting and production planning	<ul style="list-style-type: none"> • Based on the sales forecast, decisions regarding the order quantity to be procured from suppliers, quantity to be supplied to the customer and the time of supply are taken.
Purchasing / procurement	<ul style="list-style-type: none"> • Support the firm in vendor selection, negotiating price, and terms of purchase and supplier assessment for quality when the firm is purchasing materials and services from outside the organization.
Facility (plant and warehouse) location	<ul style="list-style-type: none"> • Help in choosing the ideal location at optimum cost for the company, using linear programming models and other scientific methods.
Other activities Order processing	<ul style="list-style-type: none"> • After sales support and service • Handling returned goods • Reverse logistics getting back material for disposal, reuse, reprocess / recycle • Salvage and scrap disposal includes all material which are not usable in its original form / for original purpose.

Logistics in Rural Markets and for Rural Produce

In rural distribution management, the major challenge is handling raw materials and finished products, which have low shelf life. Hence, when compared to other sectors, efficient logistics is more important in rural markets for safe delivery.

Logistics in rural markets handle two categories of goods

1. Agricultural inputs and consumer goods (inflow)
2. Agricultural produce (outflow)

Agricultural Inputs and Consumer Goods (inflow)

Agricultural Inputs

Agricultural inputs can be classified as under

Consumable inputs	Nutrition, food (fertilizer, water, manure)
	Soil care (Calcium and Gypsum content fertilizer)
	Plant care (Chemicals used against pests and diseases)
	Seeds care (Use of High Yield Variety)
	Power need (electricity, diesel)
	Food for cattle
	Tools (spade, rake, sickle, crowbar, baskets, brooms)
Durable inputs	Facilities (tractor, harvester, power tiller, thresher)
	Water supply (sprinkler, pumpset, motor)
	Sheds (made of tile / sheet / cement / thatch)
	Transport (cart, tractor, trailer)
	Livestock (bullocks, cows, sheep, poultry)
	Spares (tyres, maintenance spares and tools)

Fig 5.1 Agricultural Inputs
Source Badi and Badi (2007)

For inflow of goods into rural markets, a producer should look into the following aspects of logistics

1. Customer service due to the low connectivity and infrastructural hassles such as road, transport, no nearby storage facility, to make the products available to customers with time and place utility consistently is a challenge. With proper logistics planning and support, the rural markets are better served today compared to earlier years.
2. Inventory management and control due to low population and low demand for products, maintaining expected inventory is a challenge.
3. Transportation transport services in rural areas are not as well developed and efficient as in urban areas. Hence, making products reach on time is a challenge to the channel members (C&FAs, distributors and institutions).

4. Storage and warehousing not feasible to operate storage / warehousing facility in all villages. Another issue for storage in rural areas is electricity supply and fluctuations.
5. Materials handling storing and moving the products is difficult in rural areas.
6. Packaging should rural markets and expectations at the same time, ensuring product safety in storage and transit.
7. Information processing keep the customer / farmer updates with information about the order status and delivery date.
8. Demand forecasting and production planning challenges here are due to the dependence of farmers on monsoon and nature for income. In instances like unseasonal rains, unexpected heat, etc., the production / yield suffers, in some cases where the yield is more than the demand, farmers will not get good price for their produce. In such situations, farmer's buying intention and capacity suffers. Hence, it is difficult to forecast the demand.
9. Other activities such as order processing, after sales support, handling returned goods, reverse logistics and scrap handling and disposal are to be facilitated with logistics.

Agricultural Produce (outflow)

Agricultural produce are different from other products, throwing unique challenges to rural market produce logistics.

1. High cost of internal transport due to considerable distance to the farm from economic centers, dirt roads, multiple trips during the sowing and harvest time.
2. Requirement of large warehouses / storage facilities.
3. Possibility of low harvest, resulting in losses due to fixed expenses on transportation and storage.
4. In absence of / in case of disruption of transportation services, the products might spoil incurring losses. E.g milk.
5. Uneven demand for factors of production (menfarm labor, materialseed, fertilizer, pesticide, farm machinery and money) due to seasonal factors.
6. Require wide range of transport means due to the product variety. E.g., a farmer might be growing, grains, vegetables of different nature (potato, onion, tomato, etc.), leafy greens, milk and livestock. Each of these requires different storage and transport facilities.
7. Animal transport has to meet international regulations
 - a. The carrier should have license to transport animals
 - b. Personnel with proper knowledge of animal transport should be hired to do the job
 - c. Loading of animals should be done properly with appropriate space in the vehicle
 - d. Animals should be taken care of during transit with water, food and rest
 - e. Animals should be healthy to be transported
8. The weight of the agricultural produce varies with products. Some will be voluminous and heavy, some will be light, and some will occupy less space, some more. Because of this, empty vehicles are a common feature leading to low utilization levels of vehicles.
9. The rough and dirt roads are not ideal for transport of certain variety of fruits, vegetables and leafy greens. IT is a challenge to transport such goods. Appropriate containers and transport environment is necessary.
10. Goods which are highly perishable such as milk, meat, leafy greens, sensitive fruits and vegetables are a challenge to transport, especially if the travel distance is more. Suitable storage facilities are to be arranged in such cases.

Logistics in agricultural enterprises affect the functioning of entire agriculture food supply chain. In addition to the factors mentioned above, weather and biological factors also affect the agriculture produce logistics. It is a challenge to

1. Maintain the taste, aroma and consistency of the produce.
2. Avoid contamination / infection issues.

Issues in Indian Rural Produce Logistics

1. Logistic models cannot be sustained by small and medium farms.
2. The final price of the produce increases by 23 times the original price due to logistics cost.
3. Lack of modern storage, infrastructure, information and communication technology, training, etc.
4. No specific handling procedures for loose products and products packed in small quantity.
5. Lack of food safety management systems, standard package systems.

• IFS PAC secure is a safety standard for

Focus Areas of Logistics and SCM

1. Inventory management
2. Storage and warehousing
3. Transportation

5.2 Inventory & Warehouse Management

(Suggested Readings 1)

Inventory Management

Inventory includes all the goods used in production or in finished form, held by a company.

Business operations are conducted smoothly due to inventory of raw material, packing material and finished goods.

Objectives of Inventory

1. Maximize customer service by supporting time utility (making stocks available when needed). Inventory gives protection against uncertainty in markets caused due to shortage of supply.
2. Minimize operating cost by helping to maintain lot sizes as per schedule and build up stocks.
3. Minimize investment while delivering customer service as agreed.

Inventory supports production, operations and customer service.

Functions of Inventory moderates the difference / gap between

1. Supply and demand reduces the pressure of peak and low demand periods and reduces the gap between quantity demanded and supply.
2. Demand and finished goods quantities and the timing of the demand
3. Operations and output ensuring smooth supply of output from one process to another without delay and loss of production hours on the shop floor.
4. Raw material and supplier ensuring availability of raw material from the supplier required to start operations.

Categories / Types of Inventory

1. Anticipation inventory built anticipating / expecting future requirements.

2. Safety or fluctuations inventory maintained to accommodate unexpected fluctuations in demand, supply and lead time (time delay in order and supply).
3. Lot size inventory maintained due to the minimum lot size sold by the suppliers.
4. Transportation (pipeline / movement inventories) company's products that are in transit from one place to another (on road / air / water) are still considered as company's inventory till they reach the designated channel member / customer.
5. Hedge buying material in more quantity when prices are low and keeping in inventory. Used in case of material / commodity with price volatility (price fluctuations).
6. Maintenance, repair and operating supplies (consumables) maintained to support the operations or maintenance. Usually include tools, lubricants, adhesives, etc.

Reasons for Carrying Inventory

1. Work in progress stocks to ensure smooth operations from production task to another. The production tasks are definite and well-defined. Inventory is maintained to supply material required for each task so that the work in progress is smooth.
2. Cycle stock planned amount of inventory to be used during a production cycle.
3. Seasonal stock / inventory keeping stock ready to meet high demands during certain seasons / periods of the year (festive seasons, weather seasons, beginning of school, vacation time, etc.).
4. Safety stock additional inventory of an item to accommodate unexpected demand or to reduce the risk of running out of stock in case of inability of the supplier to supply on time in future.
5. Stock against price fluctuation and market shortage.

Wrong Reasons for Carrying Inventory

1. Poor quality material / yield
2. Unreliable supplier deliveries
3. Extended order cycle time
4. Inaccurate / uncertain demand forecast
5. Customized items used in standard applications
6. Extended material pipelines
7. Inefficient manufacturing processes

Inventory Performance Measures

1. Based on value of business

$$\text{Inventory turns / inventory turnover ratio} = \frac{\text{Annual cost of goods sold}}{\text{Average inventory in value}}$$

Shows how much the company has earned with the help of the inventory it has held. Higher the inventory turns value, better is the inventory management.

2. Based on number of days of supply

$$\text{Days of supply} = \frac{\text{Inventory on hand}}{\text{Average daily usage}}$$

Shows for how many day's production can be carried out with the current inventory.

Inventory Management

Inventory management is about keeping track of goods held / stocked by a company. It is an important element in supply chain management, which oversees the flow of goods from producer to warehouse to point of sale, all the while maintaining a detailed report of product movement.

Scope of inventory management includes supervising ordering, storage and control of inventory.

ABC Classification of Inventory / ABC Analysis

The inventory is classified or categorized into 'A' items, 'B' items and 'C' items based on their revenue contribution / value, where 'A' are the most valuable items and 'C' the least. The managers are expected to pay attention to the 'A' items which are critical and less in number and not much to the 'C' items.

Features of ABC classification

1. Inventory optimization costs can be kept under control by carefully managing the critical items ('A' items), which generally cost more.
2. Pareto's law / principle which states that demand is not distributed evenly for all items; 20% of items (A items) contribute to 80% of the total value, 30% of the items (B items) contribute to 15% and the rest 50% items (C items) to 5% of total value.

3. The total value (annual consumption value) =
$$\frac{\text{Annual demand}}{\text{Item cost per}}$$

4. ABC classification helps the manager to identify crucial / critical items of inventory and separate them from the rest.
 - a. A items are the high priority items which need tight inventory control, high security storage, and better sales forecast with frequent reorders.
 - b. C items are the low priority items, which are reordered less frequently as even stock outs does not harm the business.
 - c. B items enjoy moderate priority. However, they have to be monitored to see if they can be upgraded to A or downgraded to C.

Inventory Handling

Inventory is handled by classifying the stocks into MSD (Moving, Slow moving and Dead).

1. Moving stocks being consumed within 6 months' time. Maintain the procurement of such items.
2. Slow moving stocks being consumed between 6 months and 2 years. Reduce the procurement of such items.

3. Dead stocks not consumed for more than 2 years. Stop procurement of such items.

Inventory Control

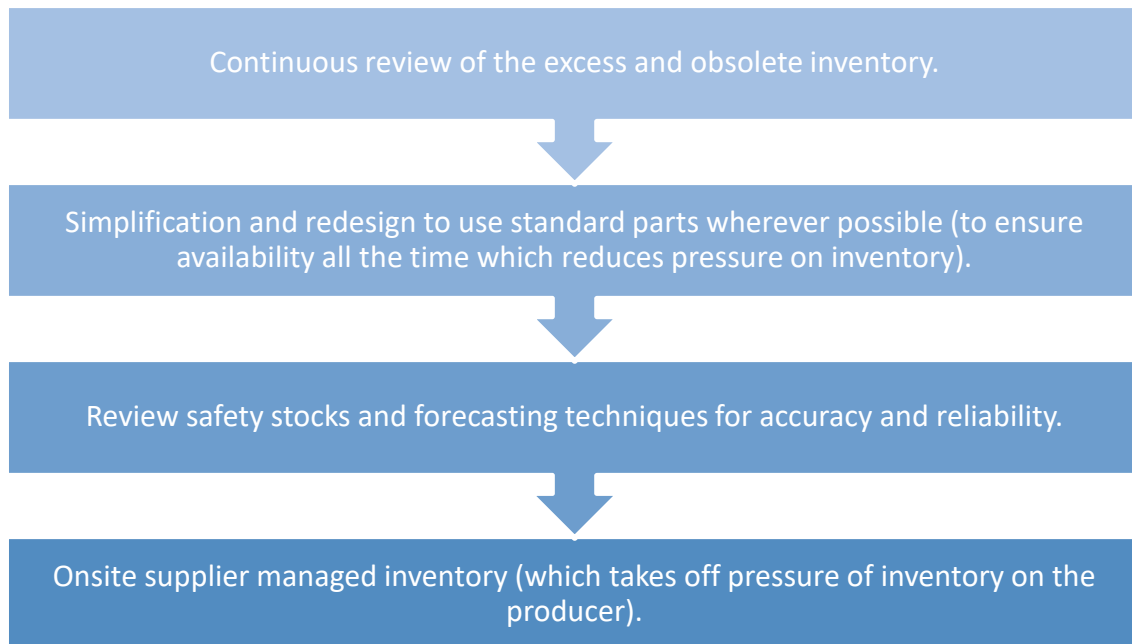


Fig 5.2 Steps in Inventory Control

Source Adopted from Havaladar and Cavale (2008)

2 bin system	<ul style="list-style-type: none"> • used for storing C items in shop floor. The items are stored in 2 bins. Items from one bin will be used first, once the items in the first bin are used, they take from second bin. By the time the second bin is empty, they will fill the first bin.
Perpetual inventory record	<ul style="list-style-type: none"> • counting physical stocks and comparing with book stocks on daily basis to see the remaining quantity.
Periodic review system	<ul style="list-style-type: none"> • check the stock at periodic intervals.
Defining target level inventory / stock norms	<ul style="list-style-type: none"> • based on consumption rates, lead time, safety stocks and lot order quantity.
Inventory turnover ratio	<ul style="list-style-type: none"> • (discussed under inventory performance measures).
Number of days' inventory	<ul style="list-style-type: none"> • (discussed under inventory performance measures)

Fig 5.3 Methods of Inventory Control

Source Adopted from Havaladar and Cavale (2008)

Inventory Management Methods

1. Work with suppliers to reduce lead time
2. Supplier warehouse location closer to the manufacturing plants

3. Keep track of trend in material usage
4. Updated stock records
5. Arrange inventory in a visible manner
6. Follow FIFO (First in First out goods first in will go out first) method
7. Involve suppliers and consumers in inventory planning
8. Use storage space optimally
9. Proper coordination between sales and dispatch sections
10. Quick disposal of unwanted stocks
11. Regular checking of store records against accounting and stock book records
12. Quick disposal and emptying of scrap
13. Training for sales personnel regarding forecasting and inventory
14. Review stock norms periodically
15. Use of Information Technology for efficiency

Inventory Costs

Managing inventory involves 3 kinds of costs

1. Item / cost
2. Carrying cost
3. Material ordering cost
4. Stock out costs (order loss cost)
5. Quality costs (items not meeting quality are scrapped)
6. Other costs (duties, exchange rates, etc.)

Inventory Strategy

Depends on

1. Delivery lead time and service levels expectations in the market.
2. The market being served by the company.
3. Position of the company in the market.
4. Effectiveness and accuracy of sales forecast.
5. Inventory in relation to demand.
6. Company's ability to take care of short-term demand fluctuations.
7. The product life cycle stage.

Warehouse Management

Warehousing

Part of logistics which provides place for storage for a business along with transportation services. Warehousing intends to provide desired level of customer service as promised at the lowest possible cost.

Reasons for Warehousing

1. To support company in serving customers by making the goods available when required.
2. To provide uninterrupted source of supply
3. For economies of production (by easing the inventory pressure on the company)
4. For economies of transportation (utilizing the complete truck capacity)
5. To pass on benefits of bulk purchase discounts
6. To support changing market conditions and demand fluctuations

7. Reducing logistics cost
8. To reduce the gap between manufacturing and the markets
9. To support JIT (just in time) programmers
10. To provide right mix of products to customers in all locations at all times.
11. Providing temporary space for material before disposing off / recycling

Distribution Warehousing

Network of warehouses set up near customer locations to enable better customer service at minimum cost.

The network includes, company owned distribution centers, depots or C&FAs.

They are

1. Market positioned located near the final customers based on
 - a. Order cycle time (time between the placing of order and delivering product)
 - b. Transportation cost
 - c. Sensitivity of goods (perishability of goods)
 - d. Order sizes
 - e. Levels of customer service offered
2. Production positioned located near manufacturing set up based on
 - a. Perishability of raw material
 - b. Number of products in product mix
 - c. Transportation efficiency
3. Intermediately positioned in between the customer and the manufacturing facility to balance the customer and the manufacturer requirements.

Factors Influencing the Distribution Warehouse Site Selection

1. Location of major markets
2. Nature of the products dealt
3. Quality of carriers available in the market
4. Quality and size of labor available
5. Labor rates and stability of labor rates
6. Cost of industrial land
7. Scope and potential for business expansion
8. Tax structures
9. Building operation clauses
10. Costs of construction / lease
11. Cost and availability of basic infrastructure like electricity, water, etc.
12. Government policies to encourage business such as tax concessions, subsidies, etc.

Factors Influencing Warehouse Size

1. Customer service levels
2. Stock norms
3. Rates
4. Size of markets to be served
5. Materials handling system

6. Stock layout
7. Office space
8. Aisle size
9. Level and pattern of demand

Storage and Warehousing for Rural Produce

Agricultural / rural produce are seasonal in nature and have to be stored till the next season for consumption. Storage of rural produce is as much an art as it is a science.

Rural produce should be stored such that it is protected from pests, rodents, birds, etc., while protecting the food value.

It is matter of great concern that despite availability of scientific methods of storage, large volumes of rural produce stale in god owns, while many people die of hunger.

A well-managed storage system is essential to make best use of the rural produce to suffice the growing population.

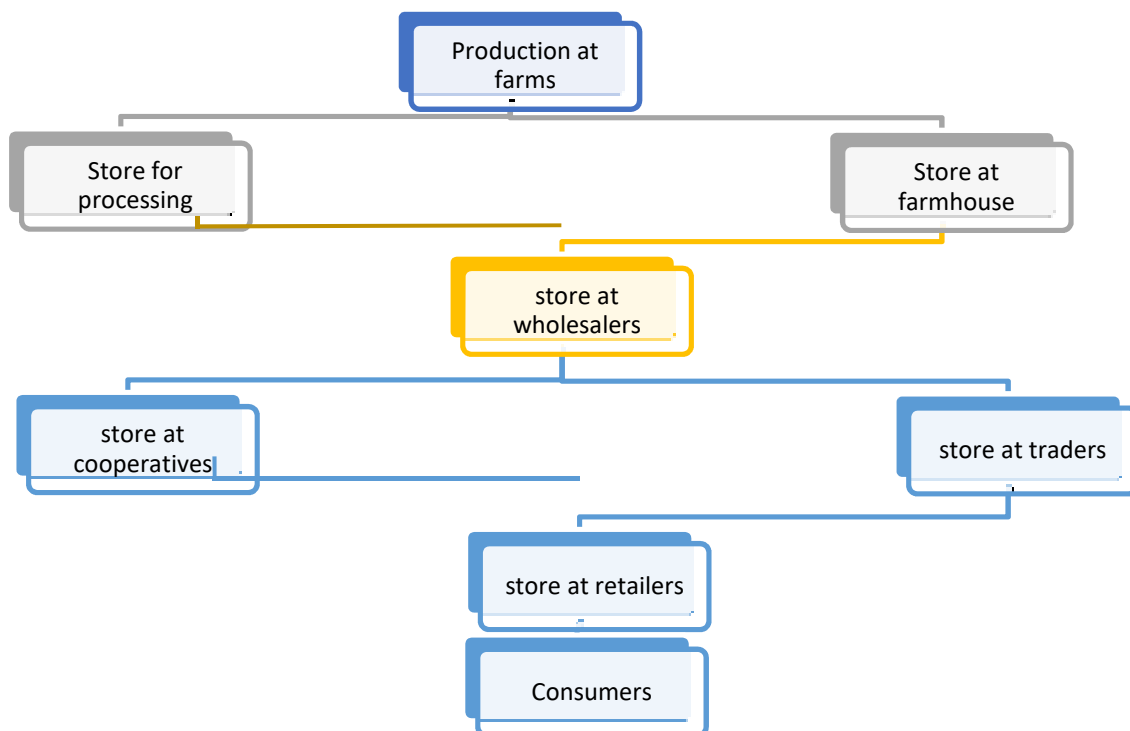


Fig 5.4 Flow Chart of Rural Produce Storage

Source Adopted from Badi and Badi (2007)

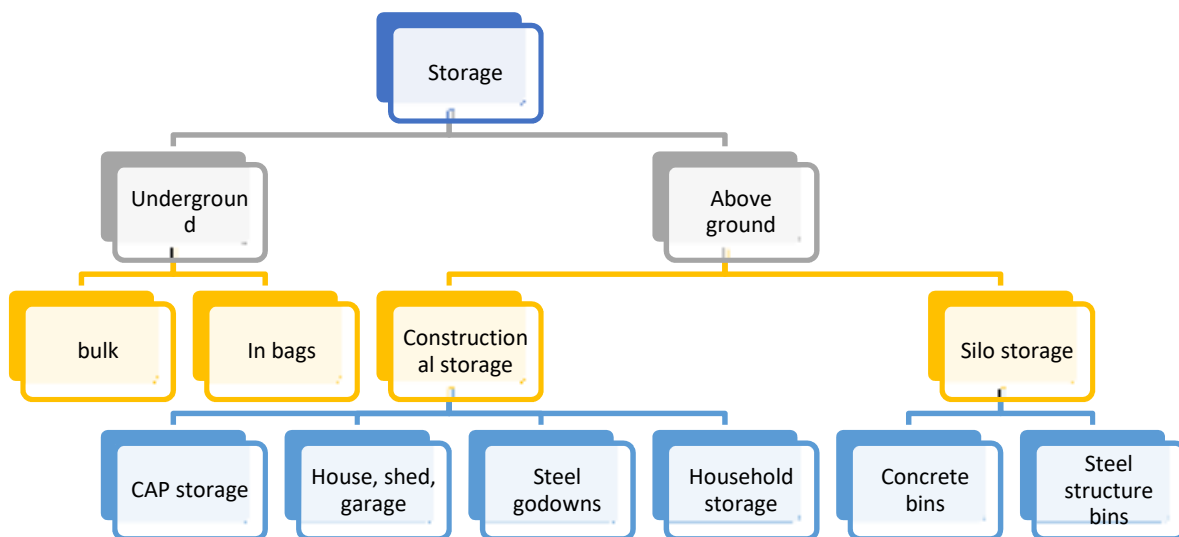


Fig 5.5 Various Storage Methods for Rural Produce

Source Adopted from Badi and Badi (2007)

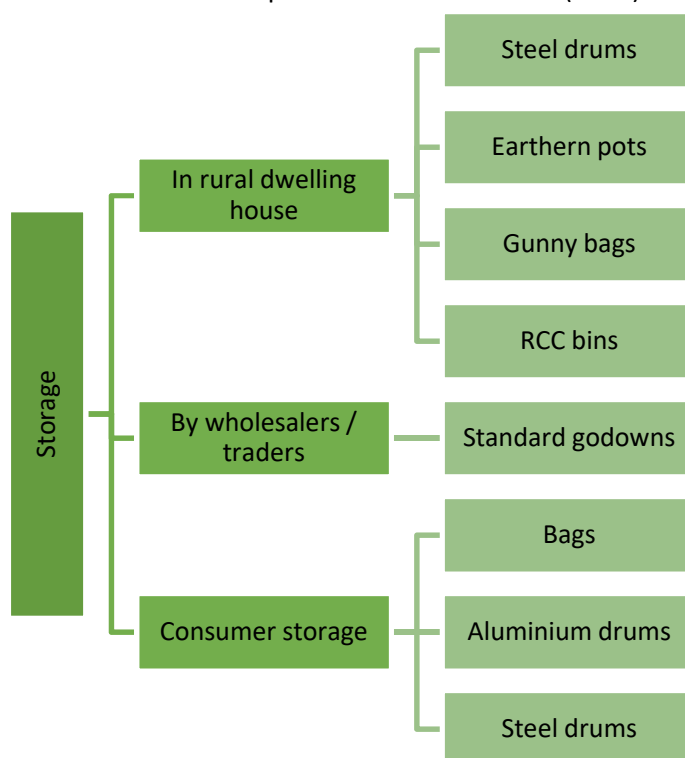


Fig 5.6 Rural Produce Storage at Different Stages

Source Adopted from Badi and Badi (2007)

Storage practices in India

Storage dates back to origin of humanity. However, the methods, quantity and safety factors involved in storage have evolved over the years.

Underground Storage

- In olden days, grains were stored in graneries which were dug inside or just outside the farmer's house.
- Care is to be taken to safeguard the granery from rainwater.
- The grains were retained in good condition for upto 2 years. However, at times, the grains use to catch a wiered smell when stored for longer duration.

Above the Ground Storage

- House buildings, small shed, garages
- Storage godowns
- CAP (cover and plinth) storage grain bags were stacked on a platform in the storage areas
- Silo storage the most advanced kind of efficient storage in terms of space and cost. These are steel structures of drumshape in huge sizes, which protects grains from moistures, rodents, pests, etc.
- Concrete bins
- Consumer storage at their houses.

Advantages and Disadvantages of Underground and above the Ground Storage Structures

Underground storage

Advantages

- Three Types of structure circular, square and rectangular based on the item stored
- Free from seasonal and weather effect
- Easier to fill
- Safe from theft, fire, animals and rains

Underground storage

Disadvantages

- Only one type of grain can be stored
- Quality suffers during long storage periods
- Lifting the material is difficult and cumbersome

Above the ground storage

Advantages

- Can store multiple variety of grains
- Easy to handle, store and move goods
- Suitable for prolonged storage
- Can be of different sizes and shapes

Above the ground storage

Disadvantages

- Affected by theft and fire
- If bags are used, danger of rodents, pests, moisture, pilferage

Risks in Storage of Rural Produce

Maintaining quality and quantity of stored rural produce is a challenge.

1. Price risk

Rural produce prices vary with the yield quantity. If the yield is surplus, the price drop, if there is shortage of yield, the prices go up. When people store rural produce in anticipation of better prices, if there is a bumper yield, then they will be losing their profits / incur losses.

2. Quality risk

Prolonged storage will spoil the quality of the produce in terms of taste, smell, and color and

food value.

3. Quantity risk

Theft, moisture, rodents, pests, insects, handling wastage, fire, etc. will reduce the quantity or empty the storage.

Warehousing for Rural Produce

Warehouse is different from storage

Criteria	Warehouse	Storage
Scale	Large	Small
Structure	Vast and exclusively built with required facilities	Sheds and houses which are multipurpose places, not exclusive for storage
Scientific design	Yes	No, built as per convenience

Functions of Warehousing

1. Price stabilization storage in warehouse assures of constant supply, reducing uncertainty and risk. Hence stable prices.
2. Scientific storage graded labels makes it easy for handling and maintenance, protection against pests and rodents, providing suitable storage conditions.
3. Finance arrangements warehouses and cooperative banks offer finance to the extent of 80% of goods value in warehouse. Also, the produces in warehouses can be insured.
4. Market information warehouse offices will have information about markets, trends, forecasts, prices, etc.

Types of Warehouses

1. Public warehouses operated by government, where public and farmers can store their produce for a rate levied on per bag basis.
2. Private warehouses owned by individuals or a company. Usually created for own use, sometimes they rent it out to others for a fee.
3. Bonded warehouse for the purpose of import clearance at sea ports and airports.
4. Warehouse for special commodities are customized to safeguard goods from fire.
5. Refrigerated warehouse to store perishable goods such as vegetables, fruits, milk, meat, etc.

Warehousing Facilities in India

1. The National Cooperative Development Corporation (NCDC)
Provides finance to cooperative societies which are engaged in food processing, storage, warehouse and marketing of agricultural produces.
2. Central Warehousing Corporation (CWC)
Started in 1957 throughout India for safe storage and distribution of food grains and other essential commodities.
3. Food Corporation of India (FCI)
Established in 1965 to procure and store food grains and sugar to distribute through Public Distribution System.

Cold Storage Facilities

To preserve perishable goods and to maintain price stability of such good, cold storage facilities are made available.

Category	Temperature	Purpose
Cool storage	5°C to 20°C	Storing food, juices, water and milk at home
Cold storage	0°C to 5°C	Storing food, meat, poultry, fish and vegetables in hotels and retail outlets
Chilled storage	0°C to 5°C	Keeping items in semi frozen state for prolonged period. Used by restaurant chains, wholesalers and retailers.
Frozen storage	5°C to 30°C	Keeping food in frozen condition retaining the water content in it. Used in movement of food items and storage for a longer period

Storage and warehousing are essential functions of marketing.

5.3 Transportation, Channel Information Systems

(Suggested Readings 1)

Transportation / Freight

Another important function of logistics, transport is essential for providing time and space utility to the customers.

Transportation is a major cost factor in logistics and impact the final selling price of a product and profitability.

There are multiple modes of transport road, rail, air, water and pipeline.

Transportation Costs are of two types; product related and market related.

1. Product related costs are based on
 - a. Density of product
 - b. Ease of stacking / loading
 - c. Ease of handling
 - d. Liability on loss or damage of the product.
2. Market related costs depend on
 - a. Location of markets (distance to be covered).
 - b. Whether the freight is booked for transporting back from markets.
 - c. Seasonal demand due to seasonal movement of products such as seasonal fruits.
 - d. Customer service (frequency, load size, etc.)
 - e. Extent of competition between transporters of same mode or transporters of different modes of transport.
 - f. Government regulations like permits.

Customer Expectations from Transport Services

1. Consistency and dependability
2. Transit time (from origin to destination)
3. Area coverage (door to door service)
4. Flexibility in handling a range of products
5. No loss and damage

6. Customized services such as cold storage, etc.

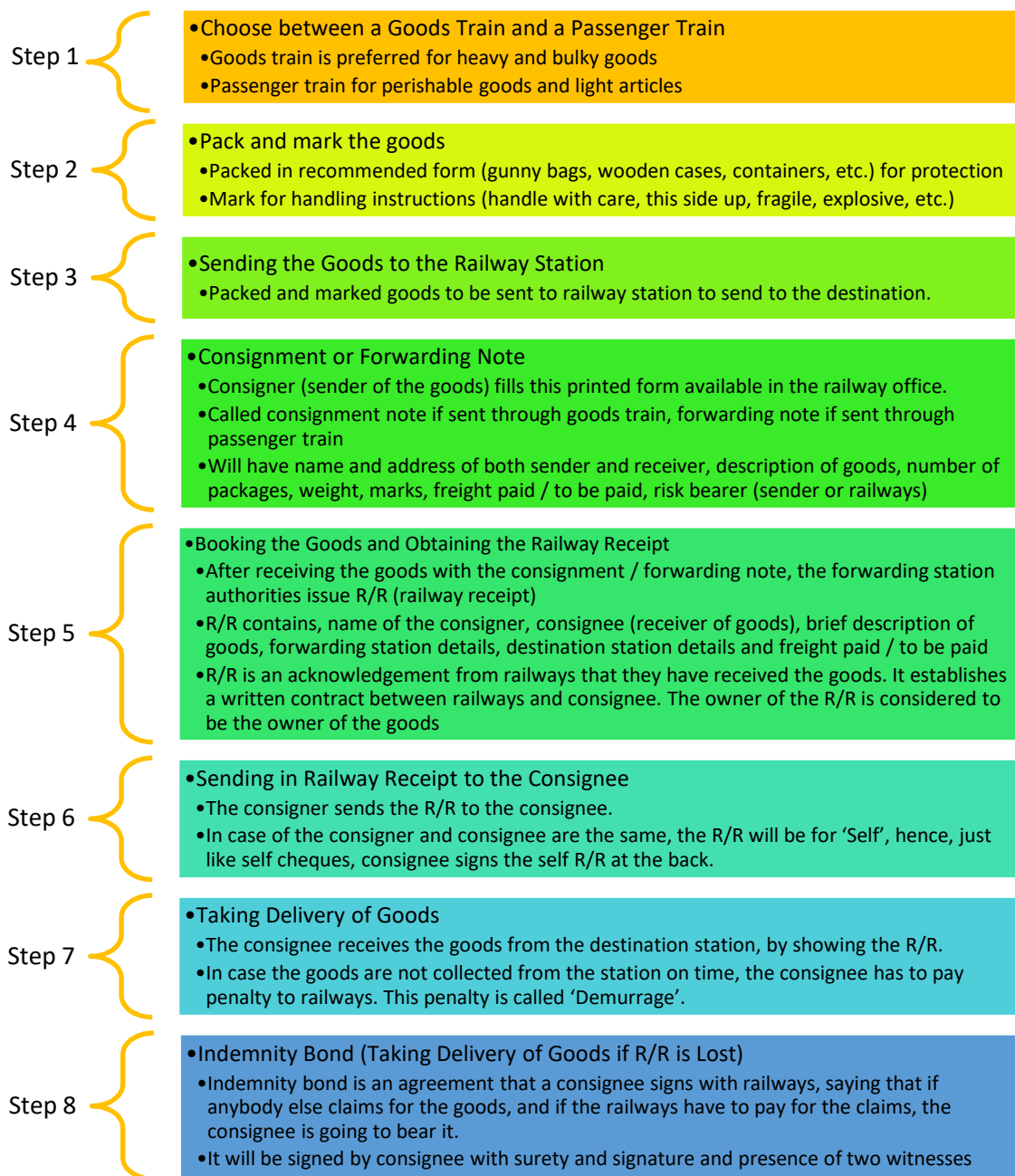
Advantages of Transportation

1. Allows businesses to operate from low cost areas without affecting the customer service.
2. Economies of scale as they serve multiple clients.
3. Reduce costs associated with packaging and inventory.

Railway Transport

Factors influencing the choice required speed of delivery, distance, rates, availability of wagons, concession, special transport requirements (a/c container, etc.)

Procedure to transport by rail



Road Transport

- The most popular mode of transport in India for goods
- Can hire vehicles to any destination (last mile connectivity)
- Truckers bear the risk in transit
- Works on both prepaid and postpaid methods
- Well-developed network
- Special services available

Procedure to transport by road

- No rigid formalities like railways
- Consignor signs a goods consignment note (GCN) or lorry receipt (LR)
- The GCN or LR is sent to consignee who has to produce it while receiving the goods.

Air Transport

- Expensive but fastest mode
- Suitable for high value, low volume goods
- Higher costs, but is fine when time factor is important
- Suitable for perishable high value products as well
- Used to deliver emergency products (medicines) and live stock (race horses, etc.)
- Charges based on volume and the economy of routes

Procedure to transport by air

- Consigner gets a receipt for the goods called Air Way Bill (AWB) or Air consignment note (ACN).
- Consignee uses AWB / ACN to receive goods from destination airport.

Water Transport

- Mostly international transports
- Used only between coastal regions in domestic transport
- Used to transport low value goods in bulk (domestic transport)
- International shipments are used for all types of goods
- 2 kinds of shipping services are available for international shipments
 1. Liner conference group of carriers operating two or more vessels in international waters. They have designated routes and do not usually deviate.
 2. Tramp services operate like taxis in an unorganized way, can be hired to reach any points of interest of the customer.

Procedure to transport by water

- Booking cargo by sea
- C&FA forwards the goods to the dock
- Shipping / custom documents to be prepared (some times by C&FA himself) for paying export duty.
- Order carting from the shipping company
- Shifting the goods from the plant to the docks by C&FA
- Goods are delivered to the designated stevedores of the ship at dock
- Shipper gives mate's receipt after paying port charges

- C&FA submits the mate's receipt to the shipping company and gets Bill of Lading (BOL)
- Shipment has to be done within 7 days of BOL to avoid demurrage
- Consignee has to produce BOL at the time of goods delivery

Pipeline Transport / Movement

- Mostly laid underground, owned by a company
- Used for transporting continuously large quantities of liquids and gases over long distances (petroleum, gas and slurry are the most commonly transported goods through pipeline)
- Reliable, continuous (24/7), safe and all weather transport
- Low cost and less energy consumption
- Low maintenance and operating cost
- Can be used in difficult terrains
- Minimum transit losses
- However, installation costs are high and are not suitable to transport solid goods.

Transport using Ropeways

- Used to connect two places which differ a lot in altitude.
- Suitable for transporting solids like ore in hilly areas
- Can work in long routes and circuitry routes
- Usually for not more than 50 kms.

Transportation Selection Criteria

1. Transportation rates
2. Customer service capabilities
3. Safe transport of goods to destination and whether the transporter claims responsibility of damage and loss happened in transit.

Channel Information Systems (CIS)

Channel information systems are meant to collect and analyse the data about the channel operations to assess their performance.

Channel information system is the orderly flow of pertinent operational data, both within and between channel members, useful in decision making regarding specified responsibility areas of channel management.

Stages in CIS

1. Collection of data
2. Processing data
3. Storage of data in an intact condition till it is needed
4. Use the information for management decision making

Each stage denotes a key activity involved in CIS.

Advantages of having Information

1. Timely information on internal and external environment helps marketing planning
2. Helps tap market potential
3. Information about competitors will keep marketers alert against threats of competition

4. Helps in spotting trends
5. Useful to develop action plans for growth
6. Information on consumer needs help marketing / distribution programmes

Need for an Information System

- To make convert raw data into useful information
- To apply the information for different purposes
- For efficient storage and retrieving of data

Developing CIS / Channel MIS (Management Information System)

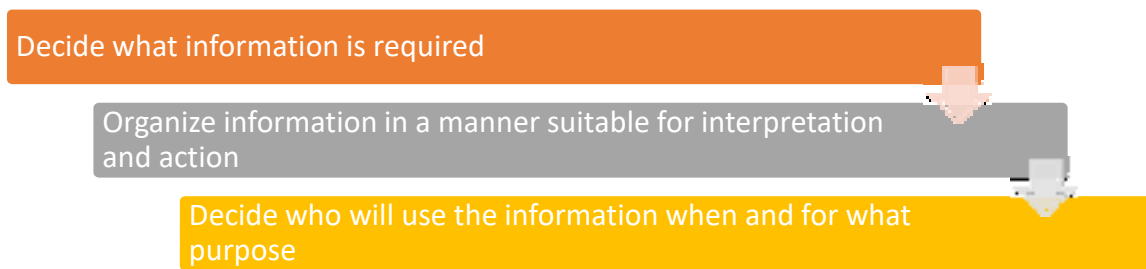


Fig 5.7 Development of CIS

Source Havaladar and Cavale (2008)

Features of a Good CIS

A good CIS

1. Is an integrated system to handle regular data
2. Is useful for decision support system
3. Reflects the style of the marketing organization
4. Is user friendly and user oriented
5. Is cost effective
6. Convinces the information provider about need for continuous information supply
7. Does not need cross verification / verification from other sources
8. Be fast and reliable

Elements of a CIS

1. Market information
2. Competition tracking
3. Distributor profiles and database
4. Primary sales
5. Secondary sales
6. Pricing trends
7. Promotions history
8. Promotions evaluation
9. Primary and secondary freight and storage costs
10. Inventory control
11. Order history from contracted channel partners
12. Distribution cost
13. Distributor ROI
14. Retailer details

15. Statutory information and reporting (Earlier, sales tax, VAT, etc., now GST)

16. Distributor's payment record

Transportation of Rural Produce

Transportation in rural markets has undergone continuous change and improvement over the decades. Animal driven vehicles such as bullock carts, horse driven tongas and manual trolleys are replaced with trucks, rickshaws, railways, water and air transportation. The adoption of modern methods has helped to save time, effort and cost and resulted in better outcome of high volume with convenience.

- Railway transport contributes to highest movement of rural produces in bulk over long distances.
- Lorry services are used for shorter distances, if the transit needs stop over for loading and unloading arrangements and if the quantity of goods in transit is between 1 to 10 tonnes.
- Tempos and Lorries are used for transport from towns to cities / villages to cities.
- Tractors are used to transport to nearby towns or villages.
- Even today, bullock carts are used for transport of produces locally and to nearby towns.

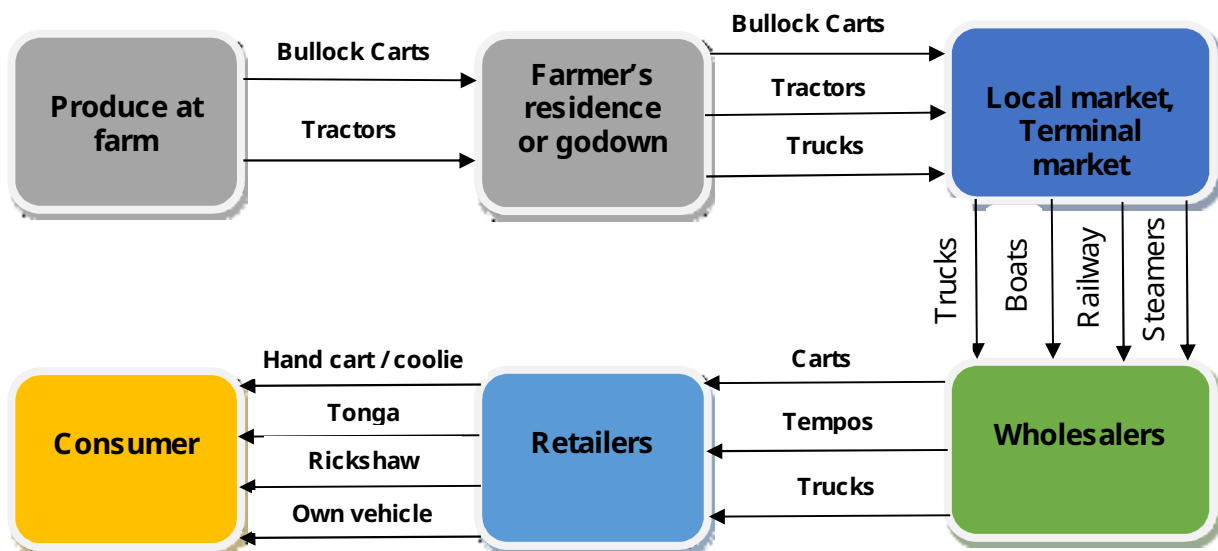


Fig 5.8 Transportation Chain of Rural Produce

Source Badi and Badi (2007)

Advantages of Transport Functions for Rural Produce

1. Helps to reach domestic and global markets access to far off markets both domestic and international means more clientele and higher market share.
2. Price stabilization by moving goods from surplus areas to shortage areas.
3. Employment generation technical, drivers, labour.
4. Farm industry and transportation Farm industry produces such as sugar factories, jute mill, rice mill, etc. use transportation extensively.

Methods / Modes of Transporting Rural Produce

For short distance transport, farmers carry produces on their head, on bicycle, hand carts, bullock carts, horse carriages, on donkeys/ mules, manual trolleys, tricycle, tractors, etc.

However, for long distance, they use the modern methods / modes of transport.

1. Air transport
 1. Features and procedure is the same as discussed in the previous section.
 2. Used for high value perishable or sensitive rural produces such as exotic fruits, few flower varieties, etc.
 3. Use helicopters and aeroplanes (passenger planes and air cargo)
 4. Till the produce reaches nearest airport, they use road transport.
2. Water transport
 - Other than the water transportation types discussed in the previous section, in case of rural produce transportation, farmers use boats /canoes in rivers and canals to reach nearby places, which if have to travel by road takes more time and distance.
 - To reach sea ports, however, they use railway / road transport. Further to reaching there, all procedures remain the same as discussed in the earlier section.

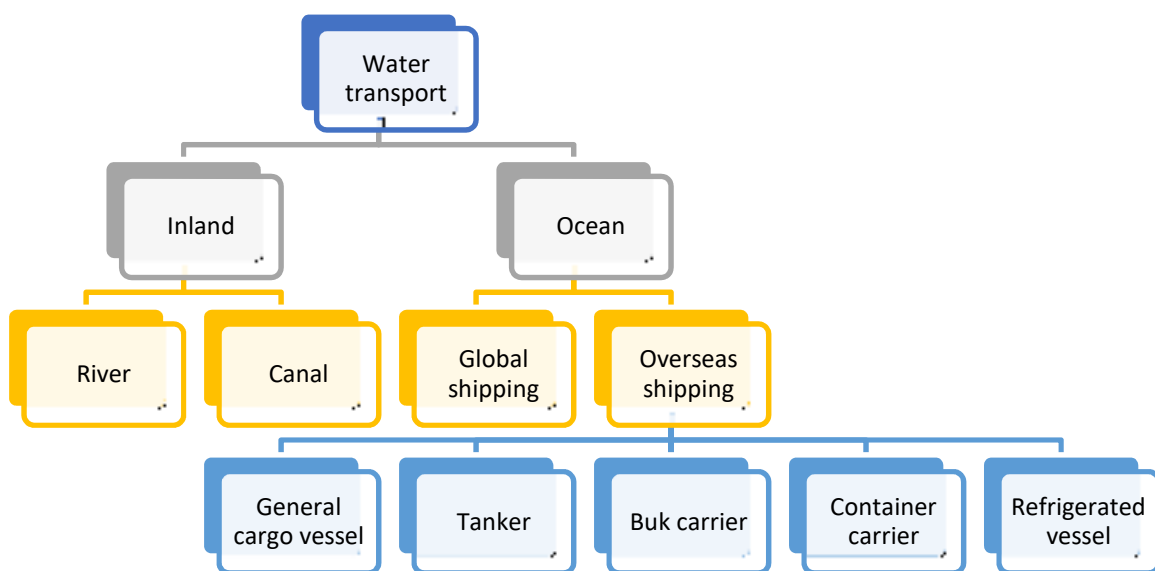


Fig 5.9 Water Transport Types for Rural Produce
Source Badi and Badi (2007)

3. Land transport
 - i. Railways goods, passenger and express trains
 - ii. Highways lorries, trolley trucks, covered trucks and buses
 - iii. Road trucks, tempos, buses, rickshaws, 2 wheelers, tractor trolleys and tricycles
 - iv. Passages (untarred / kaccha / mud / dirt roads)

Irrespective of the types of land transport, the transit becomes troublesome if the road conditions are not good.

Despite the comforts of automobile and modern transport facilities, farmers still use traditional rural transport methods because of

1. Initial capital cost is low for traditional methods
2. Rural roads are not compatible for modern transport methods
3. Difficult to hire lorries due to rent, lesser load and cash crunch for farmers
4. Farmers feel that the unemployed members of the family can take care of transport
5. Utilizing ideal bullocks during no harvest period

6. Rural people are used to the old methods and are comfortable using them

Costs of Transportation Depends on

1. Special facility extra cost for special facility like tanker for milk transport, etc.
2. Travel distance longer the distance, higher the cost.
3. Capacity utilization the cost of fuel, wear and tear remains same if a truck of 10 tonnes capacity is used to transport 10 tonnes or 6 tonnes. It's desirable to use vehicles to their optimum capacity.
4. Transport type and road conditions costs vary for different types of vehicle, road conditions affect the fuel efficiency and wear and tear of the vehicle.
5. Product related factors cost will be higher in case of special products such as
 - a. Voluminous products like cotton occupy more space.
 - b. Perishable products like fruits and vegetables need special transport conditions.
 - c. Fragile products like grapes, tomatoes, cannot be stacked and stuffed.
 - d. Leak proof products like milk and oil need special facilities.
 - e. Protection of livestock demands bigger space.

Transportation Problems for Rural Produce

1. Transport uses due to loose stocking, problem of pilferage / leakage during transit, handling and storing.
2. Transshipment problems occur when rural produces such as grains, fruits, vegetables, etc. are sent by train and they need to be transshipped if there is deviation of route at junction. During transshipment / movement of goods from one shipment container to another, there are possibilities of damage and delay.

How to Improve Transportation of Rural Produce

1. Nationwide single gauge railway tracks will avoid transshipment issues
2. Improve road conditions and width in rural areas
3. Fixed transportation cost for rural produces
4. Mechanism to prevent damages, spillage, wastage and pilferage during transit
5. Advanced request for additional train wagons to accommodate movement of bumper harvest
6. Improve bullock cart efficiency using technology
7. Ease congestion in certain railway junctions for smooth transit of produce
8. Training farmers and rural youth to use / drive modern transport modes

Channel Information Systems in Rural Markets

Management information system (MIS) comprises of

1. Information sources/ providers
2. Information management
3. Information dissemination mechanism
4. Target user

AGMARKNET, the agriculture marketing system of Government of India uses ICT to link the channel members.

1. Information is collected from wholesale markets
2. That information is consolidated and analyzed

3. After consolidation and analysis, the information high in utility value is disseminated to agriculture offices and organizations so that they can plan their rural produce

Aims of Agmarknet To

1. Establish an information network for fast collection and dissemination of market information across the country
2. Computerize data on wide range of agriculture related information needs
 - a. Market related information market fee, charges, stock status (sold / unsold), sales method, payment, market personnel (trained/ untrained, functionaries, Market Committee composition, income and expenditure and other activities of the Agriculture Produce Market Committees, State Marketing Boards and Departments.
 - b. Price related information arrivals (direct and through agencies), prices (variety and quality wise), sources of supply and dispatches (with information on destination), costs, etc.
 - c. Infrastructure related information mode of transportation, storage, warehousing, grading and weighing facility, infrastructure facilities, etc.
 - d. Promotion related information finance, development programmes, market credit, etc.
3. Ensure smooth flow of reliable data to producers, traders and consumers on a regular basis so that they get maximum benefit from sales and purchases.
4. Increase the efficiency in marketing of rural produce
5. Link all important agricultural produce markets in the Country, the State Agricultural Marketing Boards and Departments, under Agricultural Marketing Information Network (AGMARKNET)

The application software, “AGMARKNational Level”, has been developed and installed at DMI (Directorate of marketing and information) headquarters which facilitates the daily downloading of market information on prices and arrivals for generating analytical reports.

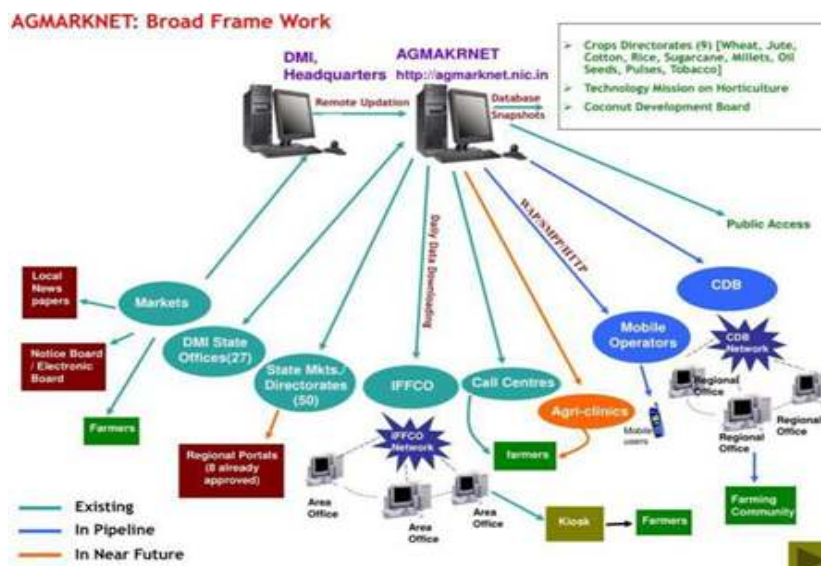


Fig 5.10 Broad Framework of AGMARKNET
Source AGMARKNET portal presentation

AGMARKNET Comprises of

1. Information Sources/ Providers

- Wholesalers give complete commodity transaction details (varieties, grades, and places of origin)

2. Information Management

- The information provided by wholesalers is passed on to the respective State Marketing Boards/ Directorates and DMI Headquarters for updating in the AGMARKNET server.
- The AGMARK software facilitates transmission of daily prices (minimum, maximum, modal).
- The daily price information for different commodities, commodity variety, commodity origin and commodity grade.
- Other than the daily price information, arrivals data are available by commodity.
- In addition to the real time price data, AGMARK software provides time series analysis of data at the wholesale market, state and national levels.

3. Information Dissemination Mechanism

- Information processed using the data inputs by wholesalers is shared with those who are responsible for implementing the market information system at state level (Agricultural marketing departments and marketing boards) and national level (DMI)

4. Target User

- Agriculture offices, policy makers, Agri entrepreneurs, and farmers.

Results of AGMARKNET

1. Reliable, on time information to various target users.
2. Information about market scenario, price, quantity, etc. had reduced uncertainty and has helped farmers and Agri entrepreneurs to make informed and better decision about production capability.
3. Informed decisions about production gives farmers and Agri entrepreneurs better bargaining power in the markets.
4. Information about agri production, postharvest processing, marketing, etc, made available by AGMARKNET has resulted in efficient agricultural practices in India.
5. It helps in collection, storage and analysis of large volumes of data accurately in very less time.
6. Quick, efficient and economical dissemination of information due to ICT.

5.4 Extension into Supply Chain Management

(Suggested Readings 1)

The concept of supply chain management (SCM) is a recent one and fast evolving. SCM has become a source of competitive advantage for many companies.

Supply Chain Management is Viewed as the Integrated Philosophy to Manage the Total Flow of Distribution Channel From the Supplier to The Enduser.

Extended supply chain extends outward beyond company boundaries to customers and suppliers and connect with them by use of Internet technologies supporting integrating practices. The Lean Institute, University of Oklahoma

Stakeholders in an Extended Supply Chain

1. Raw material suppliers
2. Production site
3. Customer
4. Outsourcing partner
5. B2B (extended digital supply chain) ecommerce giant like Amazon sources products form other manufacturers. These manufacturers are a part of extended supply chain

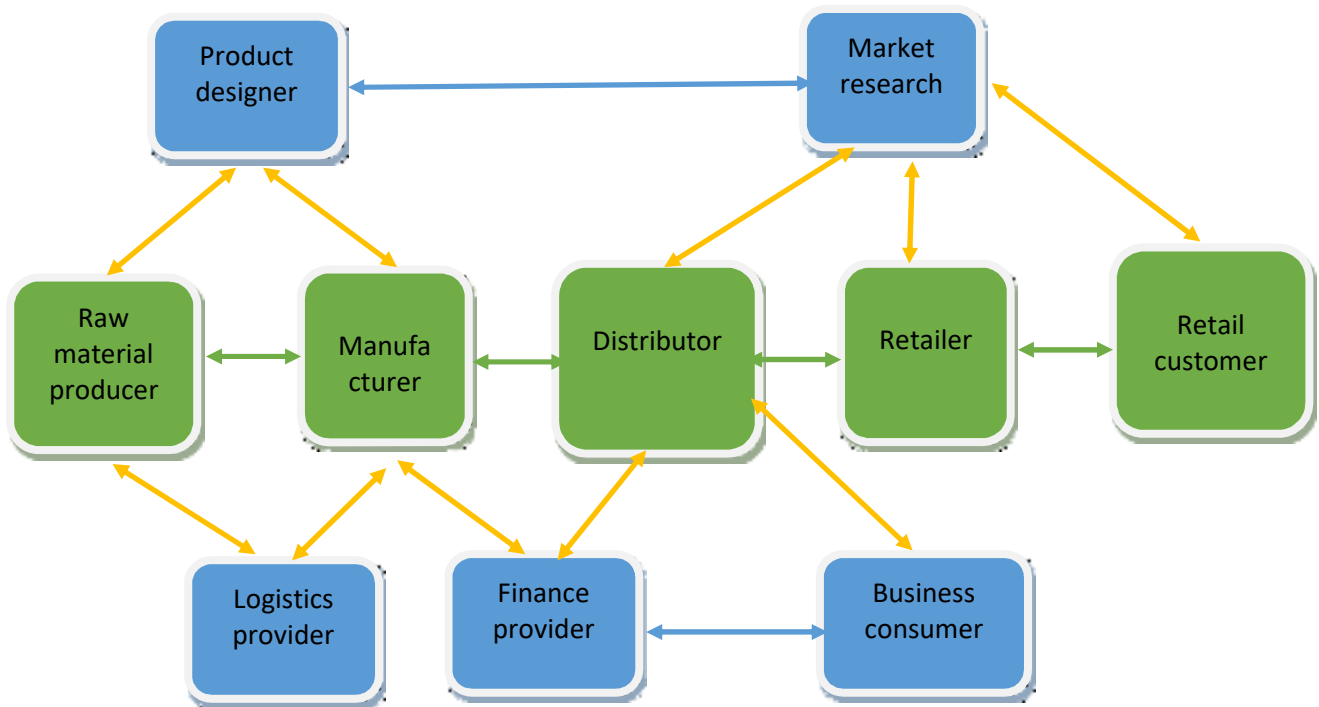


Fig 5.11 Extended Supply Chain an Example

Source Hugos (2014)

Extended Supply Chain

1. Extends outward to Suppliers who participate in information flow, resource sharing, collaborative planning, performance feedback, lead time planning, inventory management, and customer relationship management.
2. Extends outward to Customers

Outcome of Extended Supply Chain

1. Efficient customer response
 - Delivering to the final user only what they want, but in an efficient manner.
 - When a customer buys a product, at the billing counter, when the barcode scanner scans the product, the information about the sale is sent to the supplier.
 - The supplier will replenish the stock immediately.
2. Category management
 - Groups of products which the customer finds complementary (E.g. every time a customer buys floor cleaner, he buys mop).
 - The understanding of this, will help in logistics planning.
3. Continuous replenishment

- With the help of updated market information, retailer shelves are replenished to maintain ideal stock levels.
4. Quick response logistics
 - Customer decides what he wants when and where.
 - Quick response logistics, helps in providing that to the customer then and there.
 - This is done through point of sale analysis.
 5. Handling functional and innovative products
 - Functional products are the basic products (soap, paste, etc.) needed by the customer, they are a must have, hence easy to forecast.
 - Innovative products are the not essential products (fashion jeweler), hence difficult to forecast.
 - When a supply chain responds to such demands, it is called market responsive supply chain.
 6. Benchmarking
 - Comparing the performance of a company's supply chain performance with that of competitors.
 - Benchmarking can be done for supply end processes, internal processes as well as distribution end processes.

Supply Chain Management and Rural Produce Marketing

Agriculture plays a crucial role in developing the economy as well as the prosperity of a country. It has already made a remarkable contribution to the economic prosperity of developed countries and it plays an important role in the economic growth of underdeveloped countries.

Agriculture plays a vital role in the Indian economy. Over 70 per cent of the Indian rural households depend on agriculture. Agriculture, the primary sector of Indian economy contributes about 17.18% to the total GDP and provides employment to over 50% of the population (Indian Economic Survey, 2018). However, the agricultural supply chain management in India is still lagging behind when compared to European countries that are largely dependent on agriculture.

Supply chain management (SCM) in the agricultural domain deals with maintaining the correlation between the organizations responsible for the effective production and distribution of the products from the farmer's stage to the consumer's stage in order to meet the needs of consumers in terms of quality standards, cost and quantity of products (Devlin and Bleackley, 1988).

Agricultural supply chains are characterized as economic systems which distribute benefits as well as risks among the different participants of the supply chain. These supply chains implement internal mechanisms and develop incentives throughout the chain so that the effective production and delivery actions are met on time. The cost that are incurred in one link of the supply chain are determined by the actions that are taken or not by the members in the other link of the supply chain. Effective planning and coordination are required for new product launches, forecasting, scheduling and promotion of sales.

Agricultural supply chain management impacts positively in the following ways

- i) They aggregate and increase the traditional markets capacity and potential beyond its existing boundaries and thus increasing the volume of sales.

- ii) They reduce the cost of delivery of the products below that of their contenders in the supply chains and thus the working capital is increased to a way new higher level by the members of the supply chain.
- iii) They aim at particular sections of the market with earmarked products and they differentiate with respect to the parameters such as the services offered, quality of the product and the brand name of the products they deliver, to these sections of the markets and thus they strengthen the belief that the consumers have on the products and the company manufacturing the products. In this way, they allow chain members to charge exorbitantly high prices(National Institute of Agricultural Extension Management, UD).

Rural produce supply chain management in India

The supply chains in India are encountered with many obstacles leading to a lot of inefficiency in the agricultural system of India. Some of the major scenes that are seen in the agricultural system are the dominance of the well off farmers over the farmers having relatively lower capital, inadequate infrastructure facilities for farmers making it difficult for them to sell their produce. These are the major causes for the supply chain in India to be fragmented (National Institute of Agricultural Extension Management, UD).

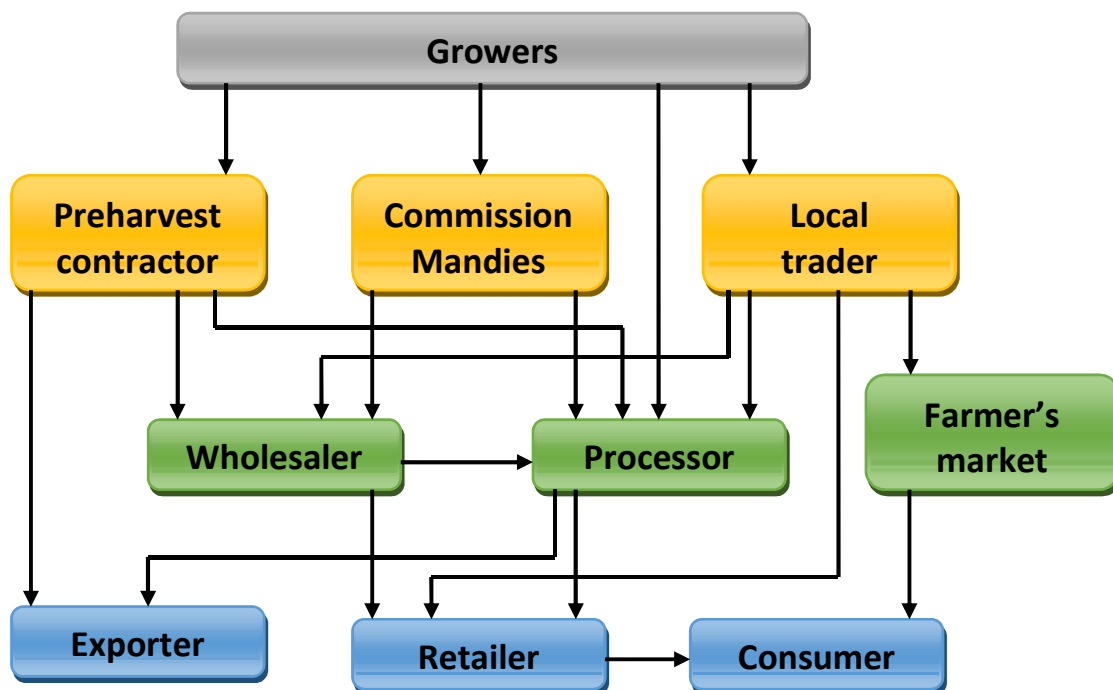


Fig 5.12 Rural Produce / Agricultural SCM in India
 Source National Institute of Agricultural Extension Management

In India, the produce of farmers is sold at a lesser amount and at higher profit margin to the commission mandies and local traders. These local traders sell the agricultural produce to the wholesalers at a greater margin of profit than that of the farmers. Similarly the same cycle takes place in the case of the retailers too, hence the retailers and wholesalers end up making a large amount of money and profit when compared to the farmers ,which makes it difficult for the farmers to repay the loans they have taken up for their agricultural activities.

Agricultural Supply chain in India faces many problems such as

1. Small and fragmented landholdings
2. Large wastage of produce
3. Inadequate irrigation facilities
4. Lack of mechanization
5. No availability of proper and clean storage facilities

5.5 Distribution Management in International Market

The opening up of world markets and multiple free trade agreements have opened up large avenues for companies to operate. This means, increased competition and risk too. To handle the risk and survive, organizations adopt multiple strategies.

One way to sustain in international markets is by good channel decisions and choices.

Important Points Involved in Making Channel Decisions

1. Channel Structure

Types of Channel Structures

1. Import oriented (traditional) distribution structure
 - Strong dependence on imported manufactured goods
 - Demand exceeds supply
2. Japanese distribution structure
 - Features
 1. High density of middlemen
 2. Channel control
 - Everyone in channel is tied to manufacturers thru such things as inventory financing; cumulative rebates, merchandising returns and promotional support
 3. Business Philosophy
 4. “Largescale retail store law” and the “Largescale Retail Store Location Acts”
 5. Most in Japan and in the U.S. see the Japanese distribution as a “major nontariff barrier”
 - Note the Japanese distribution system is changing because of the globalization of markets (more competition, more access, lower prices, etc)

2. Distribution Patterns

Understanding these general patterns is important

1. Middlemen services (after sale service, repair service, etc.)
2. Line Breadth (how many product lines are there?)
3. Costs and margins (direct selling is usually costlier, though the margins are high)
4. Channel length (how many intermediaries are there in the distribution channel?)
5. Nonexistent channels (in some countries, proper channels are not existing; they depend largely on informal distribution network. E.g. In Peru, only 25% of the channel are formal)
6. Chaptered channels (international marketers cannot use certain channels / channels of their choice in few countries. This is highly practiced in China)
7. Stocking Foreign intermediaries do not stock items due to uncertainty in inflation, limited capital, high cost of credit, etc.

8. Power and Competition In many countries, the distribution power is concentrated with only a few wholesalers to distribute the goods. Such powerful wholesalers Chapter the channels, killing the competition from outsiders.

Retail Patterns

1. Size patterns (includes number of retailers, people served per retailer and number of internet uses per 1000 people)
2. Direct Marketing
3. Resistance to Change

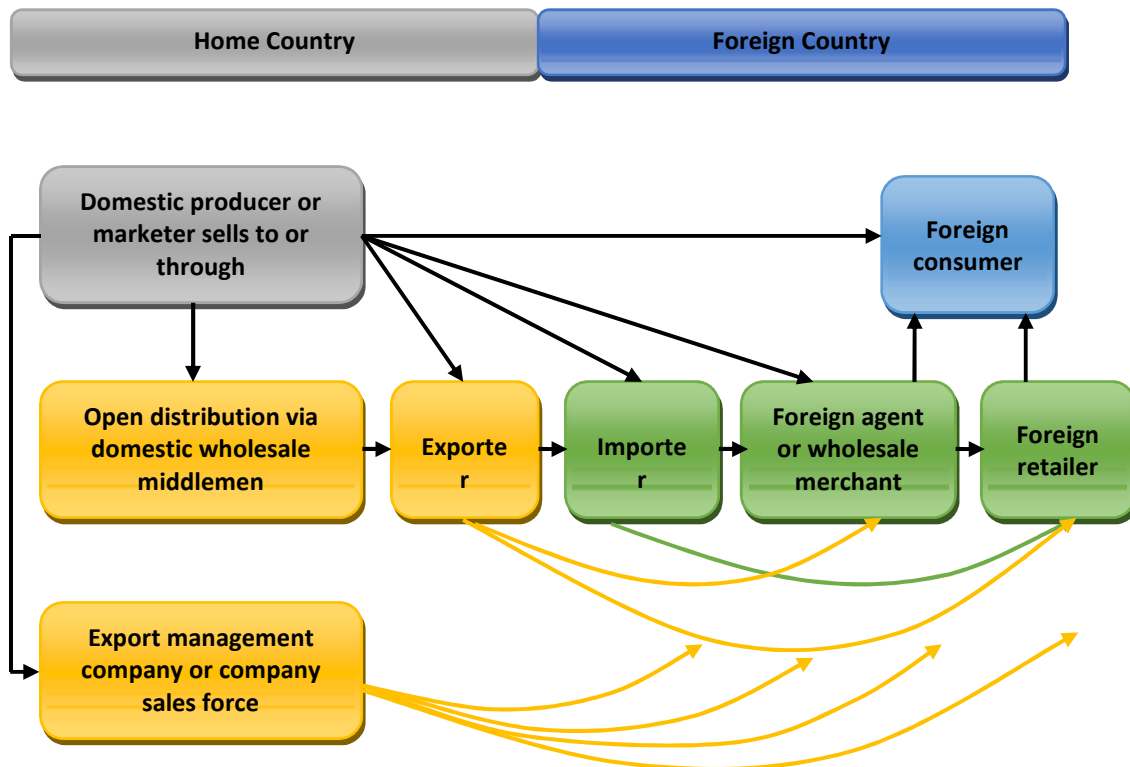


Fig 5.13 International Channel of Distribution Alternatives

Source Adopted from Codita (2011)

3. Alternative Middlemen Choices

Classification of Middlemen

1. Agent Middlemen

- Do not take title to the goods distributed
- Works on commission basis
- Less risk (manufacturer assumes risk)

2. Merchant Middlemen

1. Take title of goods being distributed (manufactures have less control)
2. Motivated by profit, tend to be less loyal to one brand

3. Alternative Types of Middlemen

1. HomeCountry / domestic Middlemen Based in and operated from the country of the producing firm.
2. ForeignCountry Middlemen They can be the manufacturer's representative in that foreign country, local distributors, brokers and agents based in foreign country.

3. Government Affiliated Middlemen appointed by the foreign governments for delivering products / services / commodities for government's own use.

4. Factors that Affect Choice of Channel

The "6 C's" need to be considered

1. Cost Investment cost of developing channel; and cost of maintaining channel
2. Capital requirements How much capital is required
3. Control How much control is desired? Example company's own sales force exerts most control vs. using middlemen
4. Coverage Full market coverage, or targeted coverage to densely populated areas...
5. Character Channel of the distributions system must meet the "character of the company" seeking to do business
6. Continuity Will there be longevity issues? How to build loyalty with middlemen is much more difficult than a company's own sales force?

5. Locating, Selecting, Motivating and Terminating Middlemen

- Factors affecting locating middlemen
 - Things to look for Financial stability, managerial stability, productivity, reputation, etc.
 - Sources to use Dept. of Commerce, foreign consulates, commercially published directories
- Selecting Middlemen Two steps
 - Screening
 - Developing the "Agreement"
- Motivating Middlemen Common methods used to motivate middlemen
 - Financial rewards, psychological rewards, communications, company support and corporate rapport
- Terminating Middlemen Must consider things such as
 - Legal protection
 - Control over middlemen
- Controlling Middlemen
 - Control over the system (distribution network)
 - Control over the middlemen
 - Volume of sales, market coverage, services offered, pricing, advertisement, payment of bills and profitability.

Exporting Indian Rural Produce

Supply of Indian rural produce to international markets is on increasing trend since economic reforms and WTO agreement.

Indian rural produce exports have seen a shift from traditional farm produce to horticulture, dairy and poultry.

The rural produce exported can be classified into 2 categories

1. Traditional produce Cotton, wool, silk, spices, cashew, mango, basmati rice, etc.
2. Modern / latest produce craft beer, roses and lilies, egg albumin, dairy products, etc.

On the supply side

- Successive Indian governments have taken up many initiatives to encourage agricultural exports. The initiatives are in the form of policies and support systems (technology support, Agri export zones, export documentation and procedure assistance, etc.).
- Various autonomous bodies and export promotion councils under the Ministry of Commerce work with line ministries, State governments and exporters for identification and bridging the gaps related to infrastructure, facilitating agricultural exports.

On distribution side

1. Indian missions abroad are equipped and actively involved in providing information on export prospects in various countries and facilitating the exports.
2. Essential infrastructure facilities required for distribution of various agriculture products in countries where India is exporting would help exporters to provide consistent supplies, maintain inventory and reduce distribution costs.

APEDA (The Agricultural and Processed Food Products Export Development Authority) established in December, 1985 by the Government of India carries out a range of support functions to encourage export of agricultural products.

Head quartered in New Delhi, APEDA has regional offices in Mumbai, Kolkata, Hyderabad, Bengaluru and Guwahati and have their virtual offices in Uttar Pradesh, Andhra Pradesh, Arunachal Pradesh, Chhattisgarh and Nagaland.

Functions of APEDA Include

- Development of industries producing scheduled products for export through financial assistance / undertaking surveys and feasibility studies / reliefs and subsidy schemes.
- Fixing of standards and specifications for the scheduled products to be exported.
- Inspecting meat and meat products in slaughter houses, processing plants, storage premises, conveyances and other places to ensure the quality of such products.
- Improving of packaging of the Scheduled products.
- Improving of marketing of the Scheduled products outside India.
- Collection of statistics from the owners of factories or establishments engaged in the production, processing, packaging, marketing or export of the scheduled products
- Training in various aspects of the industries connected with the scheduled products.

Steps in Exporting Rural Produce from India

Establishing an Organisation

Opening a Bank Account

Obtaining Permanent Account Number (PAN)

Obtaining Importer/Exporter Code (IEC) Number

- You can apply online at www.dgft.go.in.

Registration cum membership certificate (RCMC)

Selection of product

- All items are freely exportable except few items appearing in prohibited/ restricted list.

Selection of Markets

- An overseas market should be selected after research covering market size, competition, quality requirements, payment terms etc.

Finding Buyers

- Participation in trade fairs, buyer seller meets, exhibitions, B2B portals, web browsing are an effective tool to find buyers. EPC's, Indian Missions abroad, overseas chambers of commerce can also be helpful. Creating multilingual Website with product catalogue, price, payment terms and other related information would also help.

Sampling

- Providing customized samples as per the demands of Foreign buyers help in getting export orders

Pricing/Costing

- The price should be worked out taking into consideration all expenses from sampling to realization of export proceeds on the basis of terms of sale i.e. Free on Board (FOB), Cost, Insurance & Freight (CIF), Cost & Freight (C&F), etc.
- Goal of establishing export costing should be to sell maximum quantity at competitive price with maximum profit margin.
- Preparing an export costing sheet for every export product is advisable.

Negotiation with Buyers

Covering Risks through ECGC

- International trade involves payment risks due to buyer/ Country insolvency. These risks can be covered by an appropriate Policy from Export Credit Guarantee Corporation Ltd (ECGC).

Source Indian Trade Portal

Processing an Export Order

Confirmation of order

- On receiving an export order, it should be examined carefully before entering into a formal contract with the overseas buyer.

Procurement of Goods

- Procurement/manufacture of the goods meant for export as per buyer's request.

Quality Control

- Need to strictly adhere to quality requirements of the export goods. Products like agriculture, fishery, certain chemicals, etc. are subject to compulsory pre-shipment inspection.
- Foreign buyers may also lay down their own standards/specifications and insist upon inspection by their own nominated agencies.

Finance

- Exporters are eligible for pre-shipment and post-shipment finance from Commercial Banks at concessional interest rates to complete the export transaction.

Labeling, Packaging, Packing and Marking

- The export goods should be labelled, packaged and packed strictly as per the buyer's specific instructions.

Insurance

- Marine insurance policy covers risks of loss or damage to the goods during the while the goods are in transit.

Delivery

- Adhere to the delivery schedule.

Customs Procedures

- Business PAN and current account is a must.
- Filing of shipping bill for clearance of export good.

Customs House Agents

- Exporters may avail services of Customs House Agents (professionals and experts) licensed by the Commissioner of Customs.

Documentation

- FTP 20152020 describe the following mandatory documents for import and export.
- Bill of Lading/ Airway bill
- Commercial invoice cum packing list
- shipping bill/ bill of export/ bill of entry (for imports)
- (Other documents like certificate of origin, inspection certificate etc may be required as per the case.)

Submission of documents to Bank

- After shipment, it is obligatory to present the documents to the Bank within 21 days for onward dispatch to the foreign Bank for arranging payment. Documents should be drawn under Collection/Purchase/Negotiation under L/C as the case may be, along with the following documents
- Bill of Exchange
- Letter of Credit (if shipment is under L/C)
- Invoice
- Packing List
- Airway Bill/Bill of Lading
- Declaration under Foreign Exchange
- Certificate of Origin/GSP
- Inspection Certificate, wherever necessary
- Any other document as required in the L/C or by the buyer or statutorily.

Realization of Export Proceeds

- As per FTP 20152020, all export contracts and invoices shall be denominated either in freely convertible currency of Indian rupees, but export proceeds should be realized in freely convertible currency except for export to Iran.
- Export proceeds should be realized in 9 months.

Source Indian Trade Portal

Indian economy has been largely dependent on the primary sector (agriculture sector). Over the years, with the contribution of secondary / manufacturing sector and tertiary / services sector, the contribution of agricultural sector has come down, but still significant.

The agricultural activities got a new push with the catching up of agricultural exports. With scientific farming methods, improved infrastructure, open economy and the demand for Indian agricultural products abroad, agricultural exports are here to stay and grow strong in the coming years.

Model Questions

1. What is logistics? What is its scope?
2. What are the components of logistics?
3. Explain the relevance of logistics in agriculture sector.
4. What are the functions and objectives of inventory management?
5. How is inventory performance measured?
6. What is ABC analysis?
7. Describe distribution warehousing.
8. Write a note on how rural produce are stored?
9. What are the warehousing facilities available in India?
10. Explain the procedure to transport by rail
11. Evaluate different modes of transport.
12. Analyse the transport options for rural produce.
13. What is channel information system? How is it useful for rural markets?
14. Write in detail about AGMARKNET.
15. Who are the members of an extended supply chain?
16. Explain with the help of a neat diagram, the rural produce SCM in India.
17. What are considerations in international distribution channels?
18. Explain the rural produce export procedure followed in India.

Suggested Student Activities

1. Visit a logistics company near your place and see how the documents are maintained.
2. Evaluate inventory using ABC analysis at your department / institution.
3. Visit a nearby village
 - a) Go to a grocery store and check for the kinds of products sold there.
 - b) Visit a Fair / Haath and write relating what you have read with what you observe.
 - c) Put a stall in a village fair try to sell suitable FMCG products doortodoor.
 - d) Visit a granary
4. Go to the nearest sea / airport and observe the transportation process followed there. If they do things differently compared to what is explained above, write a comparative analysis.

References

1. Chunawala, S. A., Sales and Distribution Management, 2nd Ed., Himalaya Publishing House Pvt. Ltd., Mumbai (2008), 11.
2. Havaladar, Krishna K., Cavale, Vasant M., Sales and Distribution Management Text and Cases, The Tata McGrawHill Publishing Co. Ltd., New Delhi (2008), 1.6, 3.83.18.
3. Still, Richard R., Cundiff, Edward W., Govoni, Norman A. P., Sales Management Decisions, Strategies and Cases, 5th Ed., Pearson Education Inc., New Delhi (2011), 355364.
4. Barnard, Chester, I. (1948), Organization and Management Selected Papers. Cambridge, MA Harvard University Press.
5. Chunawala, S. A., Sales and Distribution Management, 2nd Ed., Himalaya Publishing House Pvt. Ltd., Mumbai (2008), 287.
6. Havaladar, Krishna K., Cavale, Vasant M., Sales and Distribution Management Text and Cases, The Tata McGrawHill Publishing Co. Ltd., New Delhi (2008), 4.45.11.
7. Spiro, Rosann L., Stanton, Willian J., Rich, Gregory A., Management of a Sales Force, 11thEd., The Tata McGrawHill Publishing Co. Ltd., New Delhi (2005), 59.
8. Havaladar, Krishna K., Cavale, Vasant M., Sales and Distribution Management Text and Cases, The Tata McGrawHill Publishing Co. Ltd., New Delhi (2008), 5.156.33, 7.13.
9. Microsoft Office, Travel expense report form, retrieved from <https://templates.office.com/enau/TravelexpensereportformTM44896451>.
10. Spiro, Rosann L., Stanton, Willian J., Rich, Gregory A., Management of a Sales Force, 11thEd., The Tata McGrawHill Publishing Co. Ltd., New Delhi (2005), 227259, 285295.
11. Still, Richard R., Cundiff, Edward W., Govoni, Norman A. P., Sales Management Decisions, Strategies and Cases, 5th Ed., Pearson Education Inc., New Delhi (2011), 355364.
12. Chunawala, S. A., Sales and Distribution Management, 2nd Ed., Himalaya Publishing House Pvt. Ltd., Mumbai (2008), 293.
13. FICCI and Deloitte (2018), Consumer LEADS, Retrieved from <http://ficci.in/spdocument/23038/ConsumerLEAD.pdf>
14. French Jr, John R. and Raven, Bertram (1959), The Bases of Social Power in Studies in Social Power, edited by Dorwin Cartright, University of Michigan, 150166.
15. Havaladar, Krishna K., Cavale, Vasant M., Sales and Distribution Management Text and Cases, The Tata McGrawHill Publishing Co. Ltd., New Delhi (2008), 8.5, 8.118.18, 9.2, 12.26, 13.11, 13.16,
16. Kotak Institutional Equities (2016), 98% of Grocery Retail Market is Controlled by Kirana Stores Study, Brand Equity, Retrieved from <https://brandequity.economicstimes.indiatimes.com/news/businessofbrands/98ofgroceryretailmarketiscontrolledbykiranastoresstudy/50797310>
17. Krishnamoorthy, R. (2011), Introduction to Rural Marketing, 3rd Ed., Himalaya Publishing House, Mumbai, 123125.
18. Majumder, Sanjoy (2011), Changing the way Indians shop, BBC News
19. Maps of India (2014), FDI in Retail Sector, Business, Retrieved from <https://business.mapsofindia.com/fdiindia/retail.html>
20. McKinsey & Company (2007), The Bird of Gold The Rise of India's Consumer Market, McKinsey & Company
21. Panda, Tapan K. And Sahadev, Sunil, Sales and Distribution Management, 2nd Ed., Oxford University Press (2014), New Delhi, 496, 508,

22. Price Waterhouse Cooper (2017), The Promise of Indian Retail from Vision to Execution, Retrieved from <https://www.pwc.in/assets/pdfs/publications/2017/thepromiseofindianretailfromvisiontoexecution.pdf>
23. Retailers Association of India and Deloitte (2018), Retail FDI in India Leaping Forward , Retrieved from <https://www2.deloitte.com/in/en/pages/consumerindustrialproducts/articles/retailfdiindia.html>
24. Thomas, Kenneth W. (1976), Conflict and Conflict Management Handbook of Industrial and Organizational Psychology, edited by M.D. Dunnette.
25. AGMARKNET portal presentation retrieved from, <https://slideplayer.com/slide/12897952/>
26. Badi, R. V., Badi, N. V. (2007), Rural Marketing, Himalaya Publishing House, Mumbai, 223, 274, 276, 311313.
27. Codita, R. (2011) Contingency factors of marketingmix standardization. Gabler Wiesbaden, 51.
28. Devlin, G. and Bleackley, M. (1988), Strategic Alliances Guidelines for success, Long Range Planning, 21(5), 1823.
29. Havaladar, Krishna K., Cavale, Vasant M., Sales and Distribution Management Text and Cases, The Tata McGrawHill Publishing Co. Ltd., New Delhi (2008), 14.3, 15.22,
30. Hugos, M. (2014), Four Participants in Every Supply Chain, SCM Globe, Retrieved from, <https://www.scmglobe.com/fourparticipantsineverysupplychain/>
31. Indian Economic Survey (2018), Agriculture and Food Management, Chapter07, Retrieved from, http://mofapp.nic.in8080/economicsurvey/pdf/099119_Chapter_07_Economic_Survey_2017_18.pdf
32. Indian Trade Portal, Retrieved from, <http://www.indiantradeportal.in/vs.jsp?lang=0&id=0,25,44>
33. National Institute of Agricultural Extension Management (UD), Supply Chain Management in Agriculture, Training Programme Reading Material, Retrieved from, <http://www.manage.gov.in/studymaterial/scmE.pdf>
34. The Lean Institute University of Oklahoma, Business Process Glossary, Retrieved from, <https://www.businessprocessglossary.com/11435/extendedsupplychain>

Suggested Readings

1. Krishna K. Havaladar and Others Sales and Distribution Management, TATA McGrawHill Co.
2. Louis W. Stern and Ansar Marketing Channels, Printice Hall India.
3. Dr.Martin Khan Sales and Distribution Management, Excel Books.
4. S.A. Chunawala Sales and Distribution Management, Himalaya Publishing House.
5. Mark W.Johnstan and Others. Sales Force Management, TATA McGraw Hill Co.
6. Spiro Stanton Rich Management of Sales Force, TATA Mcgraw Hill Co.
7. Richard R Still and Others Sales Management,
8. Rosen bloom Marketing Channels, Cengage Learning.
9. Shah, J, "Supply Chain Management", 2009, 1st Ed. Pearson.
10. Crandall, Richard E & others, "Principles of Supply Chain Management", 2010, CRC Press.

Auxiliary Material

1. Badi, R. V., Badi, N. V., Rural Marketing, Himalaya Publishing House, Mumbai (2007).
2. Krishnamoorthy, R., Introduction to Rural Marketing, 3rd Ed.. Himalaya Publishing House, Mumbai (2011).
3. Tapan K. Panda and Sunil Sahadev Sales and Distribution Management, 2nd Ed., Oxford University Press, New Delhi.
4. Philip R. Cateora, John L. Graham & Prashant Salwan, International Marketing, 13th Ed., McGraw Hill Education (2006).
5. Joshi, Rakesh Mohan, International Marketing, Oxford University Press (2005)
6. Website <http://agmarknet.gov.in/>

Block 4

Rural Procurement Management and Retailing



Mahatma Gandhi National Council of Rural Education

Department of Higher Education

Ministry of Human Resource Development, Government of India

Hyderabad - 500004



Contents

Chapter 1 Introduction to Rural Retailing and Management

- 1.1 Definition and Concept of Retailing Retailer's role in distribution channel.
- 1.2 Functions of Retailing Socio Economic significance of retailing.
- 1.3 Formats of retailing
- 1.4 Recent trends in retailing organized and unorganized retailing
- 1.5 Role of technology in retailing E retailing

Chapter 2 Procurement of Retail Goods

- 2.1 Introduction Category Management, Project Management for Procurement
- 2.2 Sales Skills for Procurement Professionals Supplier Relationship Management (SRM)
- 2.3 Negotiating and Influencing for Procurement
- 2.4 Stakeholder Management, Finance and Procurement
- 2.5 ICTs in Procurement

Chapter 3 Retail Merchandising

- 3.1 Retail Merchandizing and Pricing
- 3.2 Types of Merchandise Assortments
- 3.3 Merchandise procurement Process, Sales Forecasting
- 3.4 Merchandise Planning Merchandise buying systems
- 3.5 Retail Pricing Factors influencing Retail Pricing, Setting Retail Prices Different approaches of Retail Pricing

Chapter 4 Retail Communication and Distribution & Store Management

- 4.1 Need and importance of promotion mix in retailing Communication programs to develop brand images and customer loyalty Methods of communication, Retail Promotion Budgets
- 4.2 Retail Logistics Supply Chain Management, Transportation & Warehousing Inventory management
- 4.3 Retail Locations Store layout design, Store Design Objectives, Space management
- 4.4 Visual Merchandising Fixtures, Atmospheric
- 4.5 Human Resource Management (HRM) in Retailing Recruitment, Selection Motivation, Compensation and Control of Store employees

Chapter 5 Retail Customer Behavior and Customer Service

- 5.1 The buying Process Types of Buying Decisions, Factors influencing buying process
- 5.2 Factors influencing customer loyalty
- 5.3 Customer Service Strategies Setting Service standards
- 5.4 Improving retail service quality
- 5.5 Service recovery

Chapter 1 Introduction to Rural Retailing and Management

Introduction

This is the first unit of the course, 'Rural Procurement Management and Retailing'. The purpose of this unit is to acquaint you with the concept of rural retailing. This unit will also discuss different formats and functions of retailing in the rural perspective. Velayudhan, (2002) has shown thrust on rural development since 1950 eventually prepared India into a lucrative rural market. Increased awareness along with rise in income levels influenced the rural marketing environment in the country. According to 2011 Census, 68.84% of Indians live in about 5,97,464 villages. Nevertheless, even today a significant proportion of Indians lives in and derives their livelihood from villages. Therefore, rural market assumes a considerable significance in any form of rural growth and development. People from rural areas buy the goods and services from local retailers, haats, mandis etc. As a matter of fact, the typical rural customers trust retailer service providers in their villages because of existing trust level. Yet, retailers are aware and conscious that their customers listen to them because of the trust factor, a peculiar feature found in rural areas unlike urban landscapes.

In this unit we will discuss the role of retailer in distribution channel; we will also attempt to answer some model questions like what is meant by the terms like 'entailing', 'category killers', 'convenience stores', 'Momandpop Stores', 'Supermarkets'? The unit will also discuss the distinctions between different formats of rural retailing namely organized and unorganized retailing. In the remaining units of this Chapter we will discuss latest trends in Indian rural retailing sector.

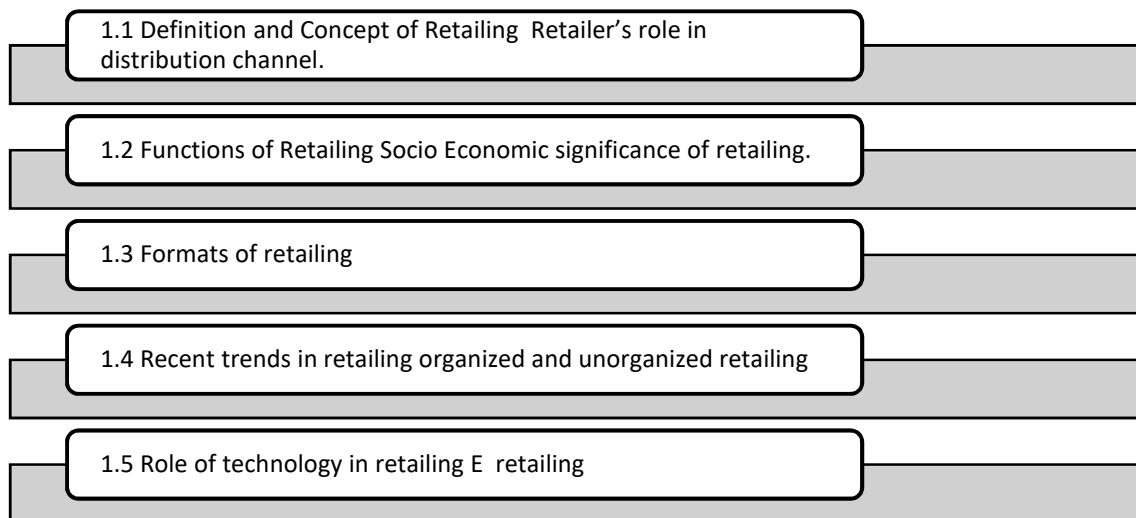
Objectives

Hello Students, the study of retailing is an important aspect to students interested in to develop overall understanding of rural employment opportunities with large retail chains. Thus, with the rapid growth in organized retail formats, the study of retailing has become more relevant ever than before.

After reading this lesson, you will be able to

- Define and understand the concept of rural retailing;
- Functions of retailing and its socioeconomic significance;
- Different formats of retailing
- Latest recent trends in retailing organized and unorganized
- Role of technology in retailing

Structure



1.1 Definition and Concept of Retailing

The word retailing derives from French word retailer means 'to cut a piece off' or 'to break the bulk'. According to Philips Kotler "Retailing comprises all the associated activities comprised in selling commodities, goods or services to the final users for personal consumption or of non business use".

Definition from Consumer Point of View

A set of business activities that adds value to the products and services ultimately sold to the end consumers for their personal usage, family or household use.

Definition from Marketers' Point of View

A set of marketing activities designed to provide satisfaction to the end consumer and profitably sustain the present customer volume base by continuous improvements in quality parameters across all areas concerned with the selling of goods and services.

In reference to the rural context, retail involves the sale of the goods from a single point local retailer (haats, mandis etc.) directly to the consumer in small quantities and volume for the end use. However, retail concept in India has been evolved to support the unique requirement and needs of our country as per its geographic location, given its size and complexity, the Haats, Mandis and Melas have always been a part of the Indian backdrop. Moreover, the haats are managed by village panchayat and are the direct interface between consumers and farmers. The retailers and its unending, interwoven network continue to be present in almost every parts of the country which form a quintessential part of people's life and trade. Since historic times the PDS (Public Distribution System) emerged as the single largest retail chain existing in the country and in the world. The evolution of the PDS of Grains in India has its origin in the "rationing system" introduced by the British during world war II

Market Any arrangement or place where different parties are involved in exchange and inter change of either goods or services is called as market. The parties involved in the process are called as buyers and sellers respectively. The seller basically offers the goods or services to the buyer. Whereas in return the buyer procures and purchases it in the exchange of money and other form.

Goods are tangible (things which can be weighed, seen and touched), physical products which can be transferred from the seller to the buyer (customer or consumer) to fulfill the latter's need, wants and demands.

Shopping The process of buying and procurements of commodities by the consumer is called as shopping. However, in certain case shopping does not only end in buying of the product or commodities.

- **Manufacturers** Manufacturers are the ones who produce, manufacture or make the goods or services with the help of men, machines, labor and raw materials.
- **Wholesaler** The wholesaler generally purchases the goods from the producers or manufacturers and then sells it to the nearby retailers in large quantities, but at price lower than the retailers. Wholesaler do not sell commodities directly to the end users.
- **Retailer** The retailer then comes at the termination end in the supply chain which completes the whole supply chain system. Generally, retailers sell their products in smaller quantities but more frequently to the ultimate end users (customers or consumers) as per the necessity and need.

The end users in the form of customers or consumers approach the retailer to buy the goods (products) in small quantities to satisfy the needs, wants and demands. This whole series of sequential process is also called as Shopping.

Sine Post Independence era India has been called as the nation of shopkeepers. Thus, as per the standard definition retailing is the combination and blend of sequential activities involved in selling or renting or dispose consumer goods and services directly to the ultimate consumers for their personal or household usage. Moreover, as compared to selling, retailing includes other diverse activities namely buying, advertising, promotion, data processing and maintaining inventory.

Retailing Involves

- Understanding the customer
- Determining on the merchandise mix as per the customer needs
- Acquiring the merchandise in the most cost-effective and efficient way
- Manage the display of merchandise to attract and persuade customers
- Attract, retain and grow customers
- Products
- Services
- Brick and mortar(traditional and conventional business ways of serving customer), or click and mortar or pure click formats
- Unorganized street vendors to organized multistore, multicounty corporate operation

Retailing is a high intensity competition industry. The reasons for existing competition level because of its capacity to provide easier gain to a variety of products, forms, assortments and other forms of choice to the consumers. The Indian retail can be featured by conventionally market place area fondly called as bazaars or haats. These haats composed of very small, small, medium and large shops thereby selling homogenous and heterogeneous merchandise. There are more than 3500 haats in Maharashtra state.

Retailing concept can be understood based on the following four orientation

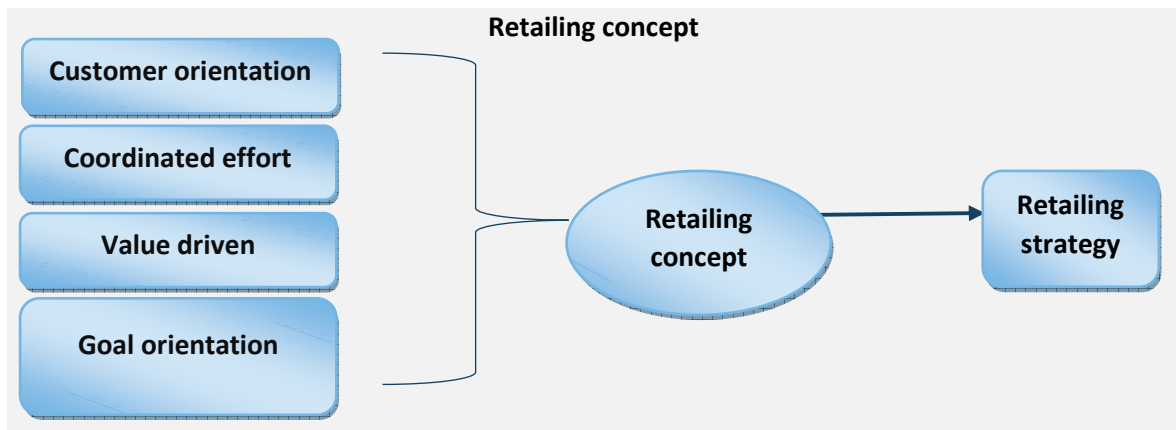


Figure 1.1 Retailing Concept

Source Weitz, Levy (2008) Retailing Management

Retailer's Role in Distribution Channel

The retailer plays the most important role and function while acting as the 'last point of contact' for the consumers. They (retailer) also comes at the last stage in the supply chain and distribution management system. This can be evident below flow diagram

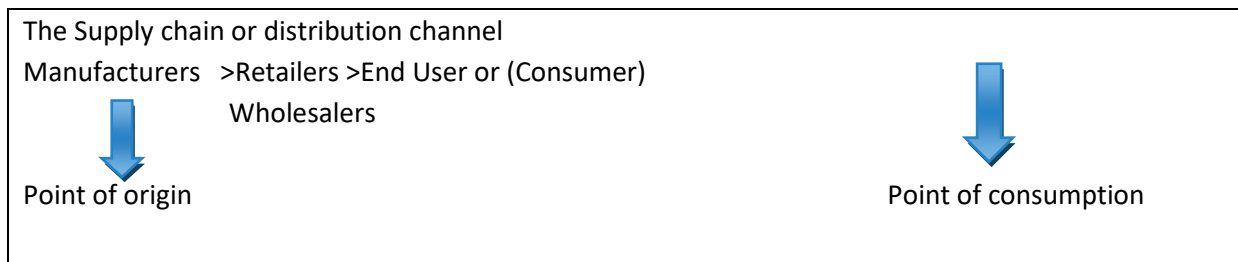


Figure 1.2 Retailer's Role in Distribution Channel

Manufacturers also involves in providing retail facilities (besides selling at conventional retailers). In running their stores, these firms compete the full range of retailing functions & compete with other types of conventional retailers.

Role of Retailer It Plays 3 important roles or activities

- 1. For Consumers**
 - Bulk breaking (quantity utility)
 - Providing assortment
 - Holding inventory
 - Place and time utility
 - Providing after sales services
 - Providing information
 - Providing credit
- 2. For Manufacturers and Wholesalers**
 - Bulk breaking (quantity utility)
 - Holding inventory
 - Place and time utility

- Providing after sales services
- Gathering and Providing marketing intelligence and other information
- Sharing Risk due to obsolescence
- Physical (Inventoryrelated), Technological, Fashion
- Providing Credit (loan or advance deposits)

3. For the Economy as a Whole

- One of the largest industries
- One of the biggest employment creators
- Significant contributions GDP
- Modern retailing giving boost to real estatesector, manufacturing and other service sectors

The Retailer and Distribution Equation

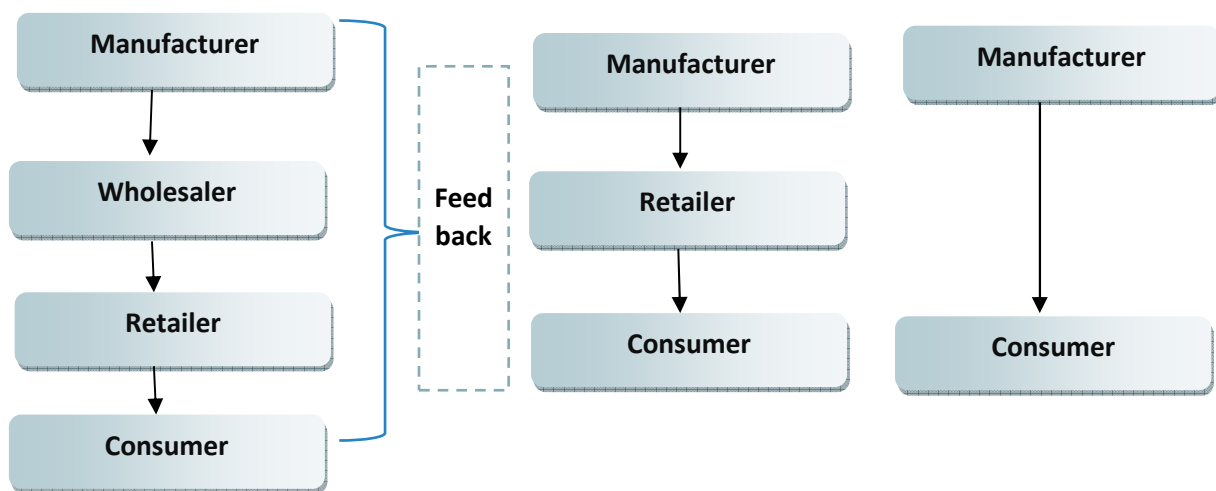


Figure 1.3 The Retailer and Distribution Equation

Source himanshuchauhanretailing.blogspot.com

To Do Activity

Pick up any three retailers (rural based) in your neighborhood and try to understand the nature of activities carried out by them. List out the activities accordingly.

1.2 Functions of Retailing Socio Economic Significance of Retailing

Retailing has multidimensional effect on the economy of a country by contributing for company sales and options for decent employment. Below diagram reflects the major functions performed by the retailers towards the whole logistics and distribution chain system

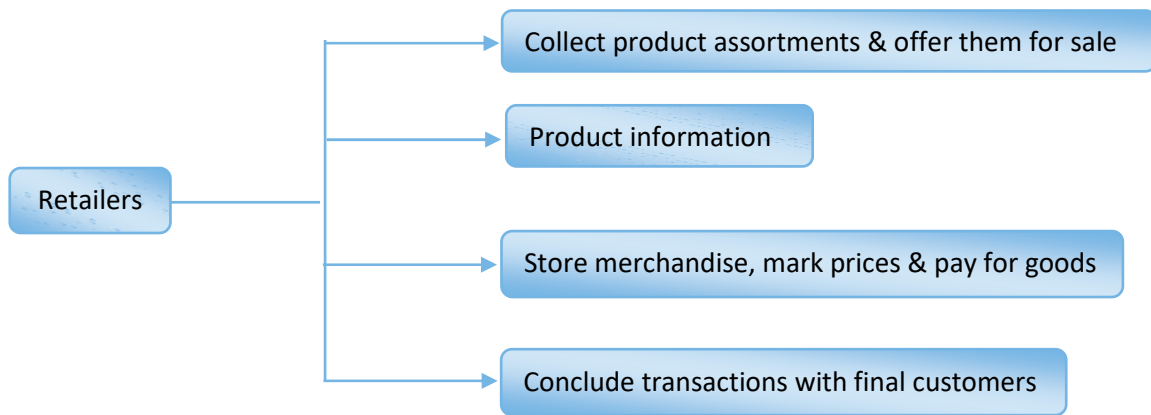


Figure 1.4 Retailer Functions

Source Scribd.com

Functions of Retailing

- Retailers collect the assortments of products from distributor or wholesaler. The received merchandise is then categorized according to the retail format and the offer them to the end users for sale.
- Retailers provide information pertaining to the products and services to the consumers via various integrated marketing communication channels like advertising, sales promotion, direct marketing, personal selling, displays and signs.
- They store and keep the merchandise, mark prices as per the assortment on it, keep items on the selling area and floor, handle the products by creating right categorization and assortment. Moreover, they pay the vendors and suppliers for items received before selling them to end users.
- Retailing is the final stage in supply chain and marketing channels for consumer services and products. Finally, they successfully complete the transaction with the end customers.

Several work areas are being effectively and efficiently handled by the retailers. Below one is showcasing allied work areas in the retail sector

Value Creation by Retailers Retailers provide assortment of products and services, break the product bulk, holds the inventory and providing necessary service to the end users by the following ways

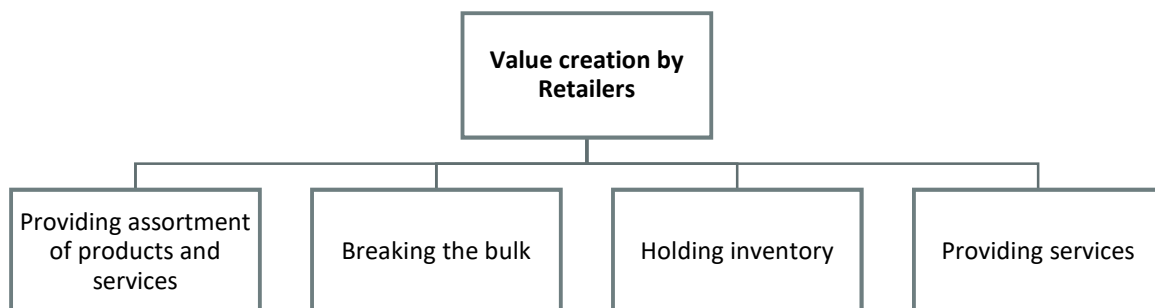


Figure 1.5 Retailers Value Creation

Source relivingmbadays.com

From the customer point of view, the retailer serves him by providing the goods that he needs in the required assortment, at the required place and time.

From the social point of view, Retail is the new buzzword in India. The global Retail development Index has ranked India first, among the top 30 emerging markets in the world. It is believed that India has the potential to deliver the fastest growth over the next 50 years. While barter would be oldest form of retail trade, since independence, retail in India has evolved to support the unique needs of country, given its size and complexity.

- Second largest sector after Agriculture. Contributes about 10-11 % of the GDP
- The estimated size of the organized retail industry in India is Rs. 16,000 crores. This is 2 % of the total estimated retail trade.
- India's first true shopping mall complete with food courts, recreation facilities and large car parking space was inaugurated as lately as in 1999 in Mumbai. (this mall is called "Crossroads").

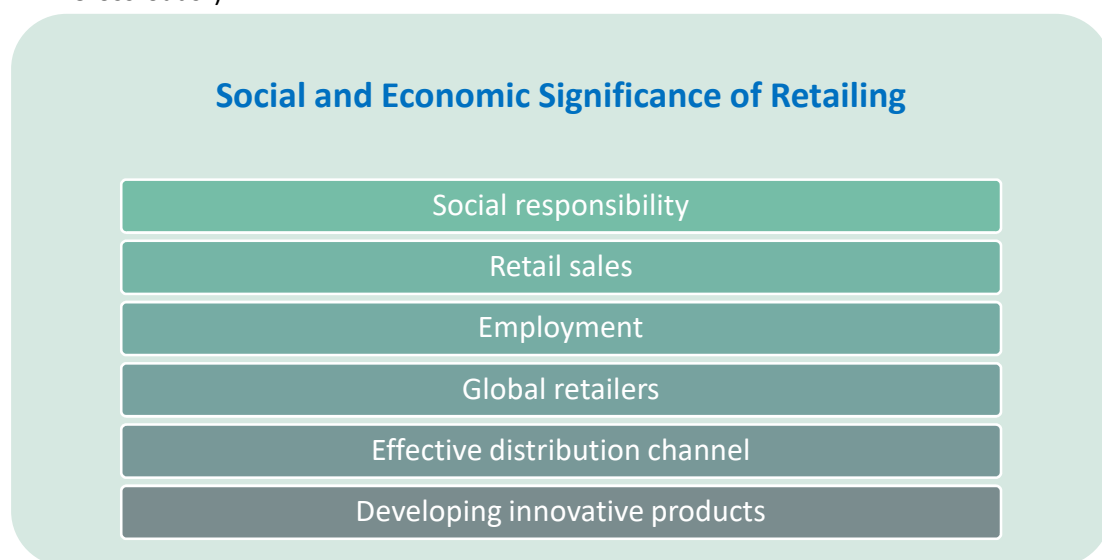


Figure 1.6 Retailing Socio and Economic Significance

From an economic standpoint, the role of a retailer is to provide real added value or utility to the customer.

- It employs around 17% of population.
- Retail sector will create additional eight million jobs though retailing in India.
- Contract Farming
- Provides adequate management training and entrepreneurial opportunities.



Figure 1.7 Retail Market Importance



Figure 1.8 Economic Significance of Retail in India

To Do Activity
 Conduct an environmental analysis for any one service retailer of your choice.

1.3 Formats of Retailing

Following are the general classification of formats of retailers based on different parameters and features

- Number of outlets
- Margin vs. turnover
- Location
- Size

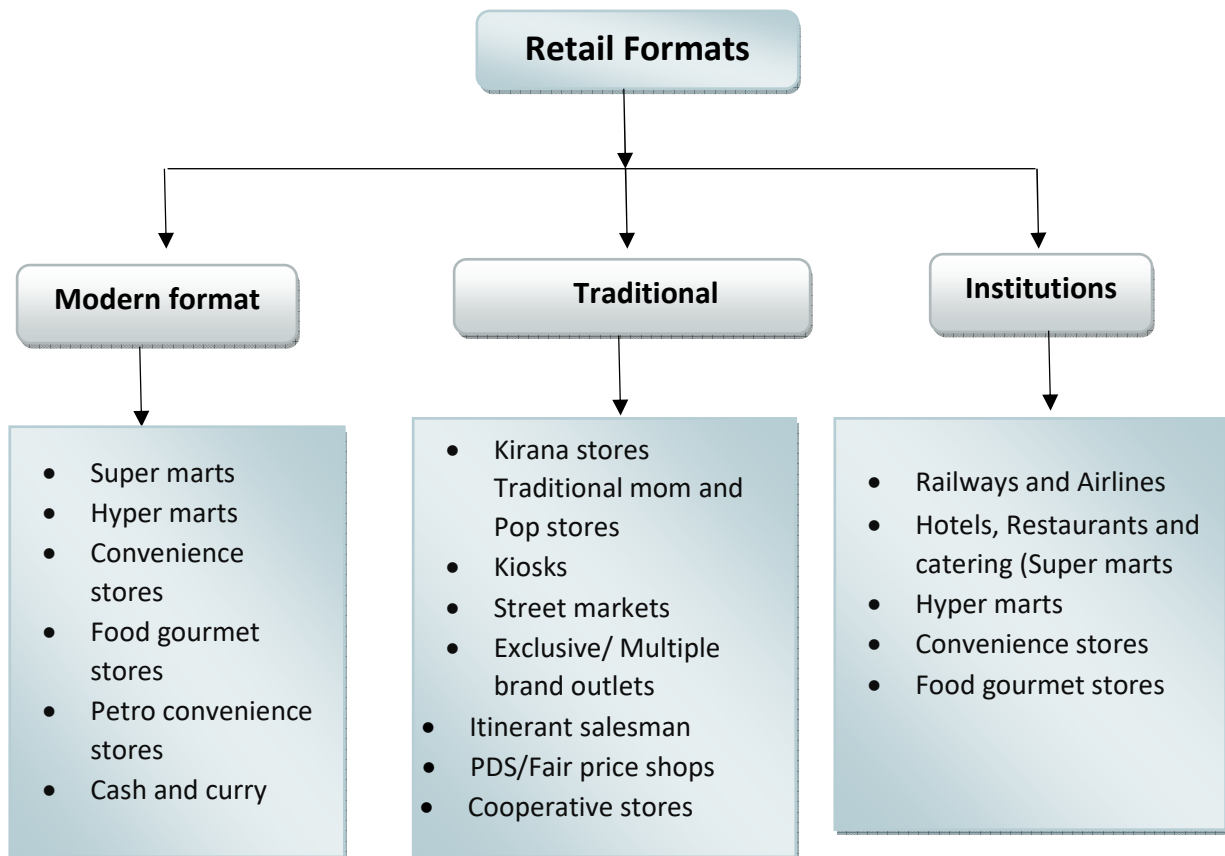


Figure 1.9 Different Retail Formats

Some of the stores may be classified as following different categories

- Store based retailing formats
- Non-Store based retailing formats
 - Direct Selling
 - Door to Door
 - House sales Parties
 - Home Demos Avon, Tupperware, Amway
 - Direct Marketing
 - Direct Mail
 - Catalogue Marketing
 - Telemarketing
 - Electronic Shopping
 - Television Direct response Marketing
 - Automatic Vending Used in variety of Merchandise
 - Cigarettes
 - Soft drinks
 - Candy
 - Magazines
 - Newspapers
 - Cosmetics
 - Hot food etc.

These Automatic Vending machines can be located at

- Factories
- Offices
- Large stores
- Hotels
- Restaurants
- Railway Stations
- Airports

Service retailing Store less Retailers

- Serving specific Customers
- Employees of Large Organization
- Travel Agencies
- Car Rental

Corporate Retailing

- Economies of Scale
- Greater Purchasing Power
- Wider Brand Recognition
- Better Trained Employees

Major Types

- Chain Stores Corporate and voluntary chains
- Retailer Cooperatives
- Franchise organizations
- Merchandising Conglomerate

Emerging Formats

- Exclusive Retail outlets
- Internal Retail
- Malls/Speciality malls
- Multiplexes
- Rural Oriented formats
- Fast Food Outlets
- Service Galleries etc.

Franchisers The contractual association between two businesses, having three characteristics

- The franchiser owns a trade or service mark, and licenses it for use for royalties
- Franchisees must pay to be part of the system
- Franchisers Provide a packaged, marketing and operations system

Levels of Services in Retailing

- Self service
- Self-selection
- Limited service
- Full service

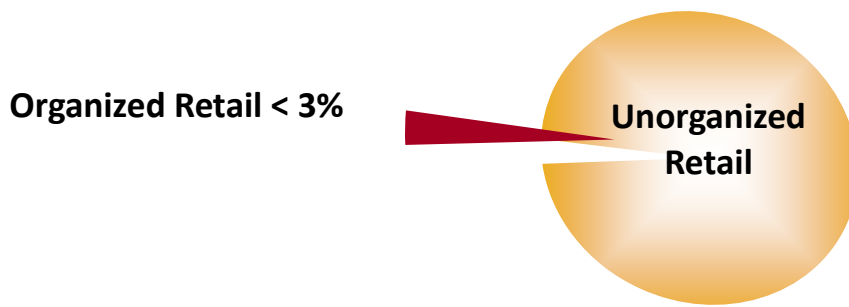


Figure 1.10 Organized and Unorganized Retail Division

New Customized Retail Formats

- Customized stores
- Portable stores
- Merchandise depots
- Retail theater
- Customer made stores
- Interactive kiosk 'shopping arcades'

Types of kiosk

- Tele kiosk
- Financial services kiosk
- Photo kiosk
- Instant Print Stations
- Digital Order Stations
- Internet kiosk
- Movie ticket kiosk
- Vending kiosk
- Visitor management and security kiosk

Future Adaptation and Changes in Retail Sector Retailers in today's everchanging marketplace can expect dynamic changes in retail competition. A few of the trends shaping the retail landscape include

1. Non-Store Retailing

- a. Consumers need to save time.
- b. The erosion of fun in the shopping experience.
- c. The consumers' desire to eliminate the middleman's profit.

Nonstore Retailers Include

- a. Direct Selling Establishments involved in the sale of merchandise on personally approach or direct contact basis in the home or workplace. In the United States sales from direct selling total about \$15 billion annually and are made by over 4 million individuals who are not employed by the organization they represent but are independent contractors. Worldwide direct selling sales are \$50 billion, with Japan being the largest direct selling country.
- b. Mail-order retailers sold their offerings via catalogue and mail order.

- c. Every major player in the retail industry, computer industry, telecommunications industry and the transaction processing industry is committed to this growth since already half of the American households are connected either at home or at work. However, before conceding that e-commerce will replace the traditional store, it may be advisable to consider several key facts.

2. New Retailing Formats Retailing is continually evolving. Innovation in retailing is the result of constant pressure to improve efficiency and effectiveness in a continual effort to better serve the consumer. The pressure to better serve has also resulted in a shortened life cycle for retail formats. Innovation in retailing is the result of the pressure to improve efficiency and effectiveness in a continual effort to better serve the consumer. As a result, new formats are born, and old ones die.

Supercenters are a cavernous, onestop combination supermarkets and discount department stores carrying over 80,000 to 100,000 products that range from televisions to peanut butter to fax machines should continue to be the key growth format for the mass merchants. These stores offer the customer onestop shopping (and as a result are capable of drawing customers from up to a 60 80 miles radius in some rural areas) and lower the customer's total cost of purchasing in terms of time and miles travelled without sacrificing service and variety. Recently, the supercenter concept has even branched out into the automobile market.

Recycled Merchandise Retailers Recycled merchandise retailers sell castoff clothes, furniture, sporting goods, and even computers and include pawn shops, thrift shops, consignment shops, and even flea markets. With the advent of the Gen Ys this is a period when consumers would rather gloat about a good buy than an expensive product. Besides selling clothes no longer needed increases an individual's income.

Liquidators With over 15,000 retailers seeking the protection of the bankruptcy courts annually, liquidators are needed to come in and liquidate leftover merchandise so that the troubled retailer can shut down or downsize.

Source management study guide.com

To Do Activity

Interview a few retired people in your neighborhood to find out if they know about retail theaters if they know, then do they use them, how often do they use them, and do they find them beneficial

Super Market The concept of supermarket is based on the self-service shop proposing a comprehensive food variety and different household products mostly organized into multiple sections and associated shelves. It is larger and has an extensive selection of merchandise than the grocery stores. The supermarkets are smaller and limited in the merchandise range as compared with a hypermarket.

Example Dmart, Easy day, Food world, Hypercityetc

Rural Example HariyaliKisan Bazaars operated by DCM and NayaYug Bazaar

- **HyperMarkets** The word has been derived from the French term hypermarche. A hypermarket is the giant size store and is the result of combination of a supermarket and the department store. The outcome is an extensive expansive retail facility comprising a wide range commodity product under one roof which includes full groceries lines and general merchandise assortment.

Example Walmart, Big bazaar etc.

Rural Example Aadhar joint venture of Pantaloons Godrej and apna bazar



Figure 1.11 Picture of Hypersmart
Source Wikipedia. Modern format com

- **Discount Store** These stores are self-service, offers merchandise at lower price, less focus on margins and thrives for higher total sales over a period. Following are the features
 - Sells products at reduced price
 - Self-service stores to minimize operational costs
 - Most popular discount store is Walmart.

Examples from India are Subhiksha, Reliance fresh, Big Bazaar, Spencer.

Rural Example Anandadhara



Source wikTraditional formatsipedia.com



Figure 1.12 Picture of Discount Store

- **Department Store** They are retail institution which offers a widespread range of commodities goods in diverse product categories popularly as departments. The size spans from 100200 square feet. It includes broad categories and variety of goods with deep to average assortment of merchandise offered. The examples are the regional and local malls of metros or tier 1 and 2 cities.
Rural Example Choupal Sagar a venture by ITC
- **Specialty Stores** A specialty retail store is a shop that provides a specific retail market. Examples include any specialist categories like the mobile stores, pharmacies, watches, gift stores, stationers and bookstores etc. The average size spans from 414 square feet.
Rural Example KisanSansar developed by Tata group
- **Variety Stores** also known as pound shop, dollar store etc.) It is a type of retail store format that caters and deals in broad and wide range of inexpensive, economical, staple household items and goods.
Rural Example Project Shakti (HUL)
- **Mom and Pop Store (generally called as Kirana Store in India)** They wouldn't offer high end products. Merchandise offered Eggs, Bread, Stationery Toys, Cigarettes, Cereals, Pulses etc.
Rural Example katta or tapri
- **General Store** A rural store that supplies the main needs for the local community.
- **Category Killers or Category Specialist** Also called as Multi brand outlets (MBOs).
- **Vending Machines** This is an automated piece of equipment wherein customers can drop in the money in machine and acquire the products.

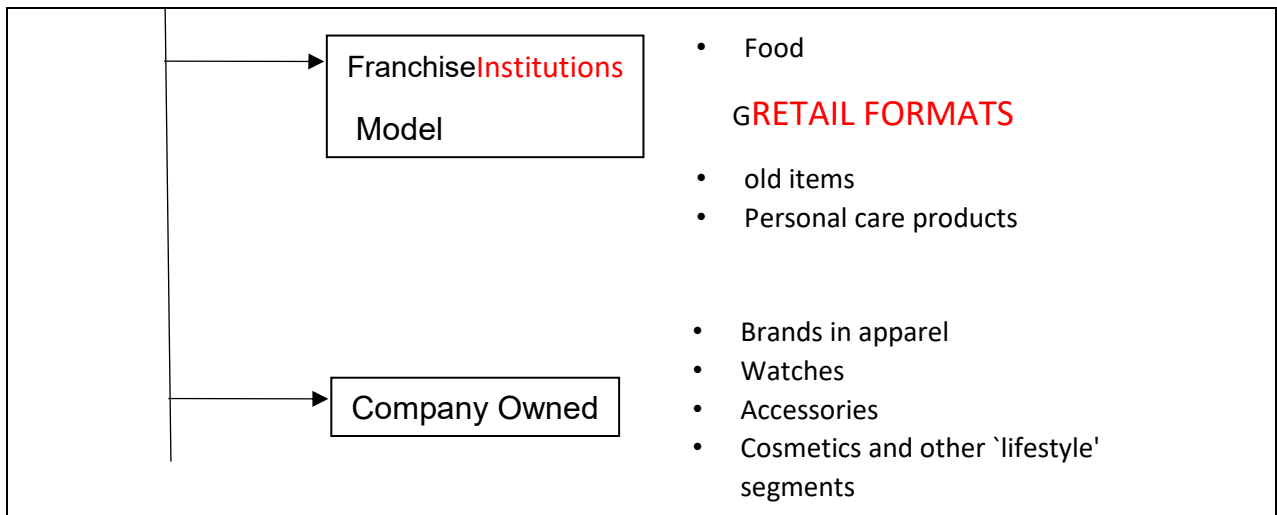


Figure 1.13 Other Retail Formats

To Do Activity

Make a visit to nearest departmental/supermarket and list down all the major categories (for e.g. snacks, home care products). Then choose categories of the products falling under each format of retailing.

Major Sector in Indian Retail

- Clothing, textiles and fashion Accessories
- Food & food based Services
- Consumer Durables
- Books & Music categories

Other emerging sectors

- Jewellery retail
- Footwear retail
- Time Wear Retail
- Fuel Retail/ Petro chemical retail

To Do Activity

Try to form a group amongst your friends. Plan a visit to nearby Kirana store and a departmental store, thereby try to find out what different activities the retailers provide for the customers and the suppliers. Correlate your findings in the group. Also ensure if you could find more.

1.4 Recent Trends in Retailing Organized and Unorganized Retailing

Traditionally three factors have overwhelmed the retail industry as recent trends

1. **Organized retailing** refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc.

Example Pantaloon Retail, Shoppers' Stop, Spencer's, Hyper CITY, Lifestyle, Subhiksha & Reliance Retail etc.

2. **Unorganized** The broader majority of the twenty million stores are small mom and pop store outlets. It includes the traditional formats of low cost retailing.
Example The local kirana shops, owner operated general stores, paan/beedi shops, convenience stores, handcart and pavement vendors, etc.
3. **Fragmented** For the smallest individually owned businesses, the average size of outlet equals 50 square ft. Nevertheless, India has the highest number of retail outlets per capita in the world. Despite the retail space per capita at 2 square ft. per person is amongst the lowest.

Rural Biasedness It's nearly two thirds of the stores are in rural areas. Rural retail industry has typically three forms "Haats" "Melas" and "Mandis". The Haats are the weekly markets which serves groups of 1050 villages and sell daytoday necessities items. The Melas are larger in size and more sophisticated and complex in terms of the goods sold (like TVs). Mandis are the types of more a vegetables and perishable market like the Azaad Mandi of Delhi.

Recent Changing Scenarios in Retail Sector

Experimentation with Different Formats Retailing in India is still in its nascent and evolving stage. The sector is embracing a series of experiments across pan country with new formats being tested out. Examples are Quasimall, suburban discount stores, Cash and carry etc.

Store Design and Ambience the Biggest challenge for organized retailing to create a "customerpull" environment which increases the number of impulse shoppers. Moreover, the latest research shows that the chances of impulse shopping based sales are up to 1015%. Also, the retail chains like Music World, Baristas, Piramyd and Globus are putting major emphasis & investing heavily in ambience and store design in order to make shopping more of a "experience".

Advent of Discount Stores They are expected to spearhead and lead from front the organized retailing revolution. Stores trying to imitate the model of Wal Mart. Example Big Bazaar, Bombay Bazaar, RPGs (Spencer).

Unorganized Retailing is Getting Organized To meet the challenges of organized retailing such as large Cineplex's for movie goers, and the malls which are now backed by the big honchos corporate house like 'Ansals' and 'PVR' the unorganized sector is getting organized. Thanks to the effort from government side as well. Across the country more stores are under the banner of Provision mart joining hands to combine monthly buying. The best examples in this domain are the Bombay Bazaar and Efoodmart, they formed as a result of aggregations of Kiranas.

Recent Trends



Figure 1.14 Picture Shows Recent Shifts in Retail

Source imagesbazar.com

- Some clothing, accessory, and general merchandise stores are moving toward obtaining goods directly from the manufacturer, bypassing the wholesale level completely.
- Ecommerce also continues to be a popular way for consumers to shop and for stores to showcase all their items for sale.
- Some larger national retailers, such as superstores, have begun to institute Radiofrequency Identification Technology (RFID) into their logistics and inventory systems.
- The Indian retail industry is the fifth largest in the world.
- The industry is expected to grow at a pace of 2530% annually.
- The Indian retail industry is one of the fastest growing sectors in the world. As per Deloitte Report, the Indian retail industry is expected to grow to US \$1.1 trillion by 2020, thereby registering a CAGR of 8.79 percent between 2000 and 2020.
- The organized sector will be 20% of the total market share.

To Do Activity

Compare the customer base and sales of unorganized grocery retail outlets and organized grocery retail sector outlets in your locality.

Retail Market not Limited to Metros but Widely Across India

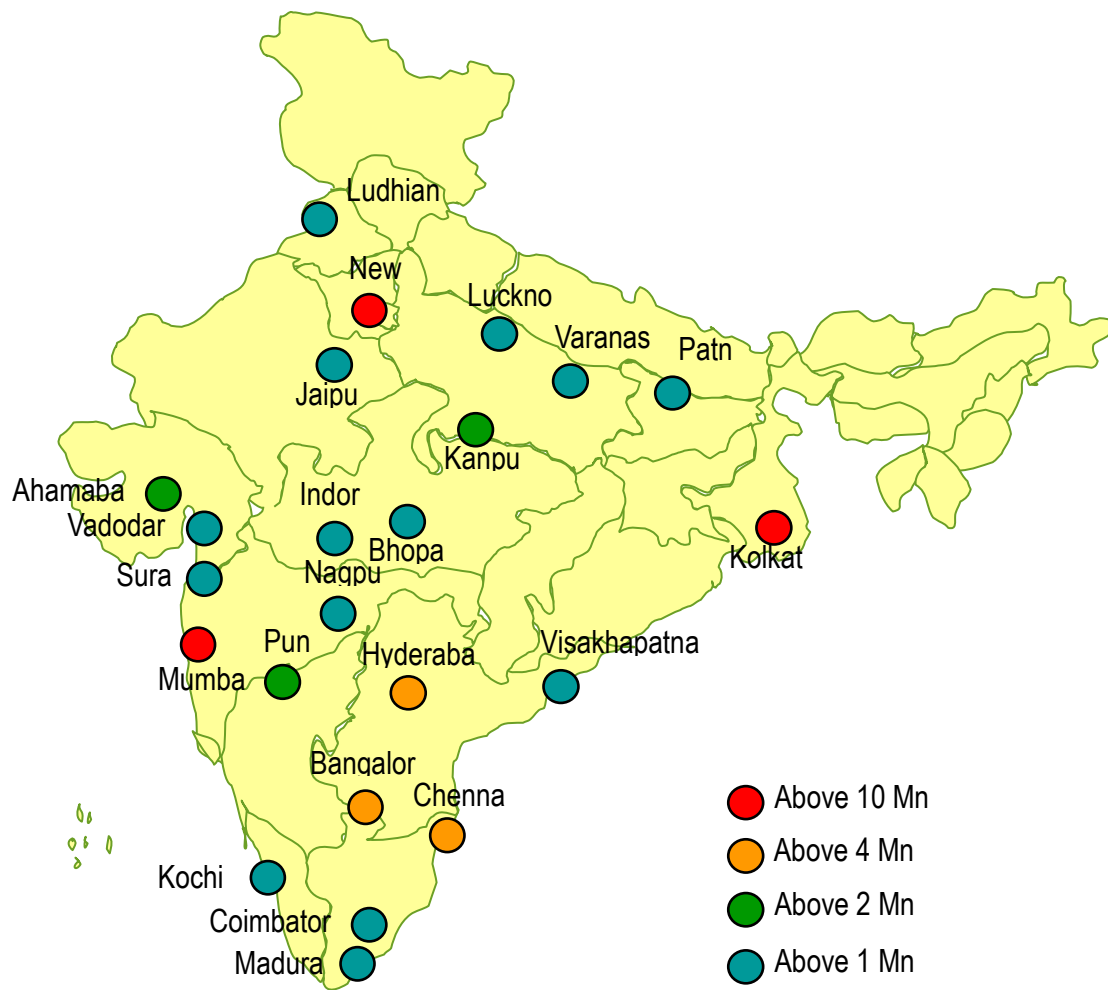


Figure 1.15 All India Retail Market Presence

The common conventional strategy in the metro and aligned areas are no longer enough. It must cover or mark its presence over 100 cities including the tier I, II, III and smart cities. As a matter of fact, over 250 large size shopping malls in different regions are currently under construction. Over a span of time more than 2030 malls are forecasted to be set up at Mumbai, New Delhi, Chandigarh, Kolkata, Bengaluru, Ahmedabad, Chennai etc.

To Do Activity

Name any 5 Foreign retail companies who could operate franchise by Government in India in rural areas.

To Do Activity

Name 10 major service retailers that operate in India. Compare the offerings in India and abroad (mainly in their home country), for any two. (Make sure the two you choose are not of Indian origin).

High Income Opportunities	Changing Attitude	International Exposure	Market & Government
<ul style="list-style-type: none"> • Service Sector creating new jobs. • Working Population in 2010 will 70% • IT Industry increasing professional opportunities • Rising Salary levels • MNCs entering India and homegrown companies going global 	<ul style="list-style-type: none"> • From Save to Spend • High disposable income family structures on a rise • Nuclear Families • DINKS (Double Income No Kids) • Multi income families • DISK (Double Income Single Kids) 	<ul style="list-style-type: none"> • International travel • Exposure to global trends • Highest Growth in outbound tourists in the world 	<ul style="list-style-type: none"> • Easing out on Import barriers, Government sponsorship taking shape (FDI Policy, Tax and Duty structure, Subsidies) • Fluid retail Segments • MCommerce& eCommercebo osts retail

Figure 1.16 Indian Retail Drivers

Source woodworkingnetwork.com

1.5 Role of Technology in Retailing e Retailing

E tailing stands for electronic retailing. Combination of E commerce and retail.

Etailing is the process of selling of retail goods on the Internet. Short for "electronic retailing," used in Internet discussions as early as 1995, the term refers to email, ebusiness, and ecommerce. Etailing is synonymous with business to consumer (B2C) transaction.

The great unknown for today's retail managers is what will be the ultimate role of online shopping. Despite a slow start, some retailers are preparing for the soon to comeday when, as people find the computer more user friendly, that etailing will account for over 20% of total retail sales. In 2000, etailing total sales were\$20 billion or 1 percent of total retail sales. Perhaps the very efficiency of etailing that contributed to the consumer's economic prosperity is turning out to be a principal cause of some etailer's demise. The Internet allows transactions without the overhead of sales clerks and a store. But for many etailers, it has turned out to be too competitive. Some etailers have found that they have had to keep prices low, often viaspecial promotions that never seem to end, to please customers who with just the click of a mouse, can find competing etailers. Also, in the race to distinguish themselves from the crowd, etailers have been spending lavishly on advertising

Internet has opened several opportunities for using IT innovatively to extend the reach of the retailer into the homes of his customers.

Role of Technology to Involve Competitiveness

- It decreases liability by reducing the cost of expected failures and increase flexibility by reducing the cost of adjustment.
- It results in remarkable decline in the costs of synchronization that would result in new, concentrated business structures.
- Allows the businesses to respond to the new and urgent competitive forces by providing effective management of interdependence.
- To deal with the information glut companies will need to introduce methods for selective contraction of information.
- With improvements in telecommunications, it will become easier to control business units located in different parts of the world
- Revolutionizes retailing by the altering the relationship between vendor and retailers and between retailers and customers.
- Provides a huge platform for the vendors and retailers to collaborate
- Aids data collection about consumers and frequency of their buying.

Role of Technology in Satisfying Market Demand

The emergence of industry standards and technology advances, along with an increasingly skilled workforce, are contributing to improvements in the CP manufacturer's critical business processes

- Insight development,
- Analytics, category management,
- Account management,
- Trade promotion management and
- Customer service.

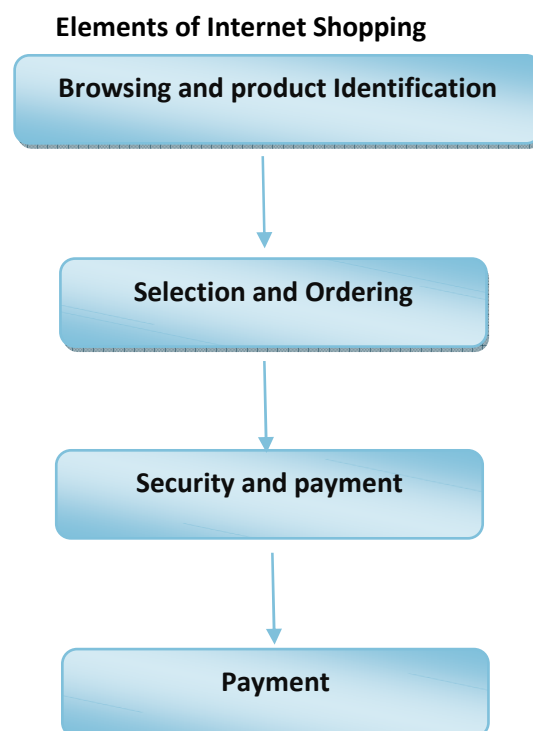


Figure 1.17 Elements of Internet Shopping

Technology in Retail Marketing Decisions

'Marketing Information Systems' refers to a program for managing and organizing information gathered by an organization from various internal and external sources.

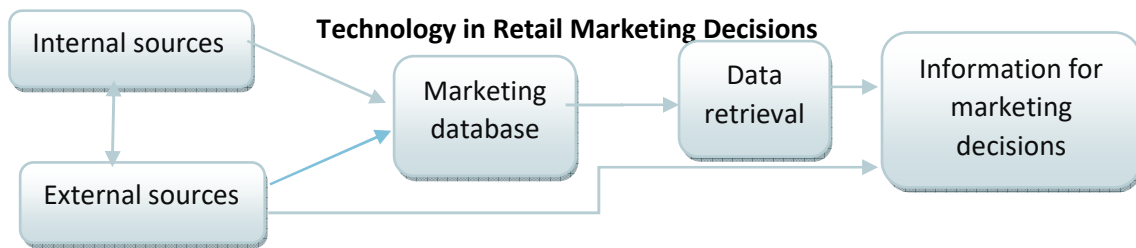


Figure 1.18 Technology in Retail

Elements of Marketing Information System

- Databases
- Internal records
- Electronic Data Interchange (EDI)
- Enterprise Resource Planning System (ERP)

Supply Chain Decisions

- Location decisions
- Production decisions
- Inventory decisions
- Transportation decisions

Etailing Coming up as a Revolution in the Retail Sector

- No real estate costs
- Ease and comfort
- Customer interaction
- Mass media
- Search option
- User friendly
- Effective price discrimination
- Customized product placement
- Global reach

Almost every industry and sectors apply the concept of e tailing towards its products and services offering to the end users. The following diagram deals with few of them namely

Electronics	Travel and tourism	Employment
Computers and peripherals	Hospitality	Banking
Toys and games	Real estate	Placement

Figure 1.19 e Tailing Sector Applicability

Disadvantages of Entailing

- While shopping through the online media, consumers are vulnerable with plenty of security issues.
- Most of the people who buy online out of curiosity and are unlikely to be a repeat customer.
- Typical Indian customers always want to touch and feel the products that they intend buying, especially products like clothes, cosmetics etc. Thus, etailing is not suitable for certain product categories.
- Some etailing sites have a complex design and therefore, people find it difficult to navigate through the pages.
- Limited access to internet and cards to make payment.

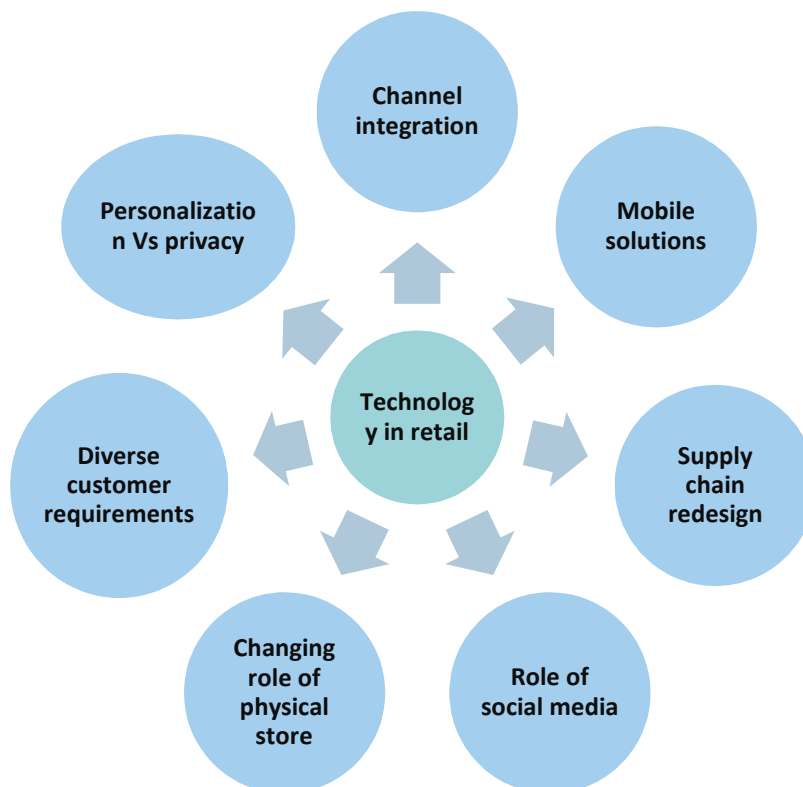


Figure 1.20 Technology in Retail

Challenges to Entailing

- Controlling customer data
- Maintaining privacy and safety for customers information
- Integrating on and offline orders
- Delivering the goods cost-effectively
- Handling returns

Issues in Entailing

- Customer Service, Distribution and Logistics related issues
- Mode of Payment related issues

Some alternative modes of payment include

- Smart Cards
- VeriSign
- PayPal
- Personalization vs. Privacy related Issues
- Paytm
- BHIM Bharat Interface for Money
- JAM JanDhan account, Aadhar, Mobile numbers
- COD (Cash on delivery)
- E wallet
- Bar code etc.

Critical Success Factors for Eretail

- Information
- Communication
- Transaction processing
- Supply
- Distribution
- Integration of old and new systems

Major Legal Deviations Over the Internet Space

Disagreements on online shopping occurs often because of the following reasons (typical situations)

- The customer pays in advance, but the product does not deliver.
- The customer pays in advance, but the trader delivers wrong merchandises or in lesser quantity or in damaged condition.
- The customer pays in advance, but the transaction amount does not reach at the seller side.
- The merchant delivers the product, but the buyer refuses for payment.
- The merchant delivers the product, but the buyer is not aware of anything.

Privacy Protection

The recent Cambridge Analytica fiasco that involves collecting the personal data of users by Facebook without user's consent arises many concerns regarding data breach in the social domain. Fair practices about online marketing practices that include collecting and applying consumer information

1. The Customers ought to be conscious that personal data will be collected.

2. The end user should have the final decision regarding application of the information sought.
3. The buyer must be able to verify the collected data in order to ensure that it is comprehensive and accurate.
4. The data collected must be secured.
5. The site be dutybound to be liable for applying these practices into reality.

To Do Activity

Visit famous online shopping site like Amazon, Flipkart, Big basket, Zomato etc. Find out the whole transaction process and compare amongst others. Try to notice the complexities involved in the whole process and the probable solution.

Model Questions

1. Summarize the total number of operating haats and mandis in India. Compare the data year wise. Did you find any upward or downward trend? Find out the reason.
2. Discover the total volume and amount of transaction of any rural haat of your choice.
3. What is the typical footfall in rural mandis of Uttar Pradesh state?
4. Evaluate the retailer and distributor role in reaching the products to end user.
5. Categorize the functions of retail as a process for the society. How it makes life at ease and comfort?
6. Recommend the different economic functions performed by retailers in building the economy of a country like India.
7. Construct the model of value creation by retailers for consumers in a rural situation and landscape.
8. With the help of a diagram show different stages of value additions by rural retailers with offering of HUL products in a village.
9. Classify and compare the retail formats of urban areas to those of rural areas in Indian perspective.
10. Illustrate different franchise model existing in rural areas in the field of agricultural related equipment and machinery.
11. Research the model of retail formats in India. Carefully observe the trends in shrinking the difference between urban and rural. Make a list of it.
12. Categorize different latest trends persisting in rural retail sector in India.
13. Estimate the upcoming trends in rural retail sector in India keeping in mind the current one
14. Discuss different pushing factors revolutionizing Indian retail scenario
15. Discuss the role and function of information and communication technology in revolutionizing Indian retail sector.
16. Discover the recent scams, invasion of privacy and tampering of personal data in the vertical of e tailing.
17. Outline the challenges faced by e payment vendors after product delivery.

References

1. <http://himanshuchauhanretailing.blogspot.com/2010/08/note.html>, 12.02.201915.02
2. <https://www.fibre2fashion.com/industryarticle/4895/retailingconceptsintroduction>, 13.02.201913.16

3. <https://www.thebalancesmb.com/whatisretail2892238>, 13.02.2019 13.20
4. Velayudhan, S. (2002). Rural Marketing Targeting the Nonurban Consumer, New Delhi Sage Publications India (P) Ltd.,
5. <https://www.managementstudyguide.com/characteristicsfunctionsandservicesofaretailer.htm>, 13.02.2019 13.32
6. Levy, Weitz and Pandit (2008) Retailing Management, New Delhi Tata McGraw Hills.
7. <https://www.docsity.com/en/retailformats>, 22.12.2018 10.02
8. <https://www.ibef.org/industry/retailindia.aspx>, 22.12.2018 15.56
9. <https://accountlearning.com/retailstoremeaningtypesofretailstores/> 13.02.2019 13.45
10. <https://www.managementstudyguide.com/typesofretailoutlets.htm>, 13.02.2019 13.36
11. <https://www.marketing91.com/10typesofretailstores/> 13.02.2019 14.45
12. Levy, Weitz and Pandit (2008) Retailing Management, New Delhi Tata McGraw Hills.
13. <http://itmnm201012.blogspot.com/2011/03/differencebetweenorganisedand.html>, 31.12.2018 22.55
14. http://shodhganga.inflibnet.ac.in/bitstream/10603/22928/7/07_chapter%201.pdf, 31.12.2018 12.55
15. <https://www.gr8ambitionz.com/2017/03/essayorganisedvsunorganisedretail.html>, 30.12.2018 21.55
16. <https://www.woodworkingnetwork.com/news/almanacmarketdata/woodindustryalmanac20162017marketdriversstorefixturesinteriors>, 31.12.18 11.01
17. <https://www.nirico.com/theimportanceofinformationtechnologyintheretailsector/> 13.01.2019 18.08
18. <https://www.retaildive.com/news/5technologiesreshapingretailin2017/433954/> 13.01.2019 11.08
19. <https://www.techfunnel.com/informationtechnology/roleoftechnologyinretailindustry/>, 13.01.2019 15.08
20. Lamba (2002) Art of Retailing, New Delhi Tata McGraw Hill

Video References

1. <https://www.youtube.com/watch?v=JJPrGCVC4w>, accessed on 24.12.2018 18.02
2. <https://www.youtube.com/watch?v=kNGNQGPdRgA>, accessed on 28.12.2018 23.02
3. <https://www.youtube.com/watch?v=F1CMo1HQOZM>, accessed on 30.12.2018 22.10
4. <https://www.youtube.com/watch?v=iRvaWHk3A8k>, accessed on 01.01.2019
5. https://www.youtube.com/watch?v=CM_3HOBG0e4, accessed on 20.01.2019

Reading Material

1. Gopaldaswamy, TP (2009) Rural Marketing Environment, Problems and Strategies 3e Mumbai, Wheeler Publishing Company Limited
2. Levy, Weitz and Pandit (2008) Retailing Management, New Delhi Tata McGraw Hills.
3. Marketing to rural consumers (2014) IIM Kozhikode Conference proceedings
4. Barry Berman and Joel R Evans (2013) Retail Management, New Delhi, Pearson Education
5. Gopala Swamy, TP (2009) Rural Marketing Environment, Problems and Strategies 3e Mumbai, Wheeler Publishing Company Limited
6. Sinha, P, K (2007) Managing Retailing, New Delhi Oxford University.
7. Barry Berman and Joel R Evans (2013) Retail Management, New Delhi, Pearson Education

8. Gopaldaswamy, TP (2009) Rural Marketing Environment, Problems and Strategies 3e, Mumbai, Wheeler Publishing Company Limited
9. Sinha, P, K (2007) Managing Retailing, New Delhi Oxford University.
10. Gopaldaswamy, TP (2009) Rural Marketing Environment, Problems and Strategies 3e, Mumbai, Wheeler Publishing Company Limited
11. Nair, S (2009) Retail Management, Mumbai Himalaya Publishing House
12. Sinha, P, K (2007) Managing Retailing, New Delhi Oxford University.
13. Gopaldaswamy, TP (2009) Rural Marketing Environment, Problems and Strategies 3e, New Delhi, Wheeler Publishing Company Limited
14. Kumar, S A (2007) Retail Marketing, Delhi Excel Books
15. Nair, S (2009) Retail Management, Mumbai Himalaya Publishing House
16. Sinha, P, K (2007) Managing Retailing, New Delhi Oxford University

Chapter 2 Procurement of Retail Goods

Introduction

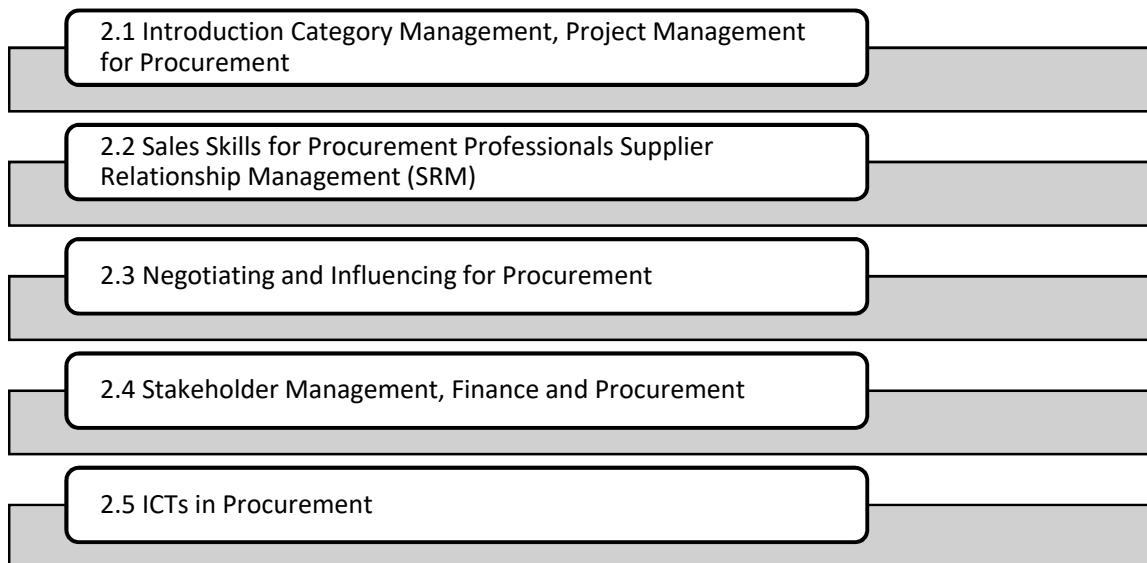
After understanding the concept and function of retailer and retailing, this Chapter would help you to understand the basic prerequisites of retail procurement. In this Chapter, we will discuss definition and meaning of procurement, SRM its importance, process of negotiation and influencing. Stakeholders are the responsible partners of any organization providing finance and look after wellbeing of the firm. We will also see the impact of ICT in the procurement process as a whole

Objectives

After reading this lesson, you will be able to

- understand the concepts and process of category management, project management for Procurement;
- assess and analyze required skills for Procurement Professionals;
- develop and plan Supplier Relationship Management process;
- learn and appraise how negotiating and influencing are important for Procurement
- evaluate importance of stakeholder management and finance in procurement
- finally, why and how ICT plays a pivotal role for Eprocurement

Structure



2.1 Introduction Category Management, Project Management for Procurement

The business market versus the consumer market shows remarkable differences. It can be evident below

Business Market Features

- Fewer buyers
- Larger buyers
- Close supplier customer relationship
- Geographically concentrated buyers

Organizational buying is commonly known as procurement process of firm which involves project management. Individuals involved in such procurement process are known as procurement professionals.

Project Management for Procurement

Based on the following variables

- Derived demand
- Inelastic demand
- Fluctuating demand
- Professional purchasing
- Several buying influences
- Multiple sales calls
- Directed purchasing
- Reciprocity
- Leasing

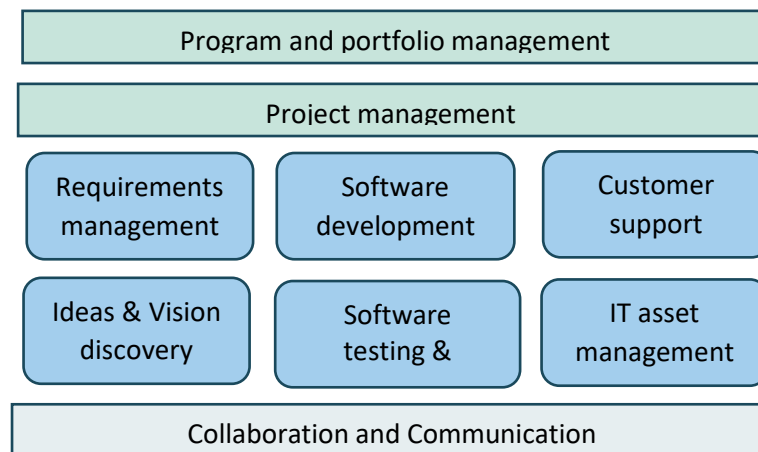


Figure 2.1 Project Management for Procurement

Source Industrybuying.com

Procurement Situations

- Straight rebuy
- Modified rebuy
- New Task

Systems Buying and Selling

- Systems buying
 - Turnkey solution
 - Systems selling
- The Procurement Center
 - Initiators
 - Users
 - Influencers
 - Deciders
 - Approvers

- Buyers
- Gatekeepers
 - Key buying influencers
 - Multilevel indepth selling

Types of Procuring Processes

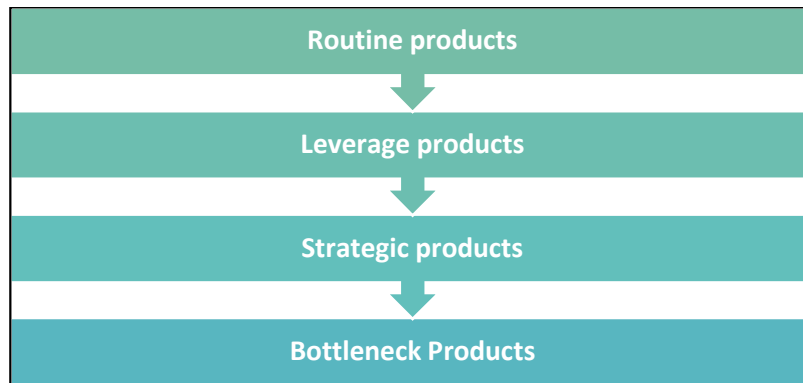


Figure 2.2 Types of Procuring Processes

Major Influences on Procurement Decisions

- **Organizational Factors**
 - Purchasing Department Upgrading
 - Cross Functional Roles
 - Centralized Purchasing
 - Decentralized Purchasing of Small Ticket Items
 - Internet Purchasing (ICTs)
- **Other Organizational Factors**
 - Long Term Contracts
 - Vendor managed inventory
 - Continuous replenishment programs
 - Purchasing Performance Evaluation and Buyers' Professional Development
 - Improved Supply Chain Management
 - Lean Production
 - Just in time
- **Interpersonal and Individual Factors**
 - Interests
 - Authority
 - Status
 - Empathy
 - Persuasiveness
 - Age
 - Income
 - Education
 - Job position
 - Personality

- Risk attitudes
- Culture
- **Environmental factors**
 - Level of demand
 - Economic outlook
 - Interest rate
 - Rate of technological change
 - Political & regulatory developments
 - Competitive developments
 - Social responsibility concerns

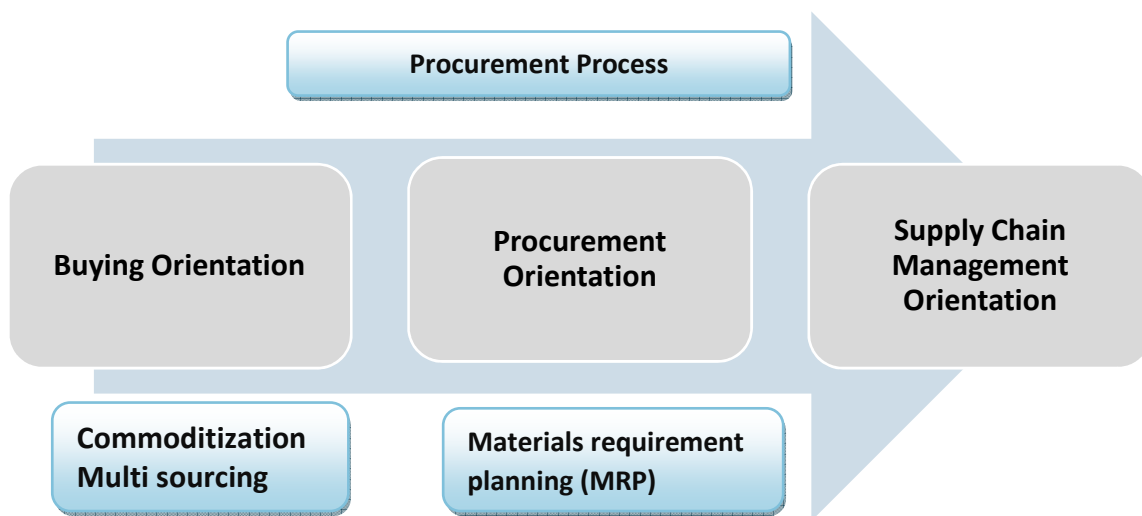


Figure 2.3 Procurement Process

Stages in the Procurement Process


- Problem Recognition
- General Need Description and Product Specification
 - Product value analysis
- Supplier Search
 - Vertical hubs
 - Functional hubs
 - Direct external links to major suppliers
 - Buying alliances
 - Company buying sites
 - Request for proposals (RFPs)
- Proposal Solicitation
- Supplier Selection
 - Customer value assessment
 - Routine order products
 - Procedural problem products
 - Political problem products

- Order Routine Specification
 - Blanket contract
 - Stockless purchase plans
- Performance Review
 - Buy flow map

Procurement Framework Major Stages (Buy phases) of the Procurement Process in Relation to Major Procurement Situations (Buy classes)

The procurement framework deals with the typical situation of retail procurement process. As discussed earlier the difference between consumer & organizational process, this table 2.1 shows different buyers’ classes new task, modified buy and straight buy. The table shows phases of buying starting from problem recognition and need description. Product specification is done after knowing the need which leads for search of suppliers. A supplier is finalized following certain checks and verification leading for final order as shown below.

Table 2.1 Procurement Framework

		Buy classes		
		New Task	Modified Rebuy	Straight Rebuy
Buy phases 	1. Problem recognition	Yes	Maybe	No
	2. General need description	Yes	Maybe	No
	3. Product specification	Yes	Yes	Yes
	4. Supplier search	Yes	Maybe	No
	5. Proposal solicitation	Yes	Maybe	No
	6. Supplier selection	Yes	Maybe	No
	7. Order routine specification	Yes	Maybe	No
	8. Performance review	Yes	Yes	Yes

To Do Activity
 Build a procurement framework for fertilizer company like IFFCO for procurement of fertilizer.

Category Management

Category Management is a method which arranges procurement process to emphasize on precise spending areas in an organization. It helps to focus on time and thereby conduct a market analysis to utilize procurement decisions for the organization.

Functions

- Optimize contract vehicles
- Manage data collection & analysis
- Leverage supplier relationships

- Maximize customer relationships
- Grow & share expertise

Strategic Sourcing Process

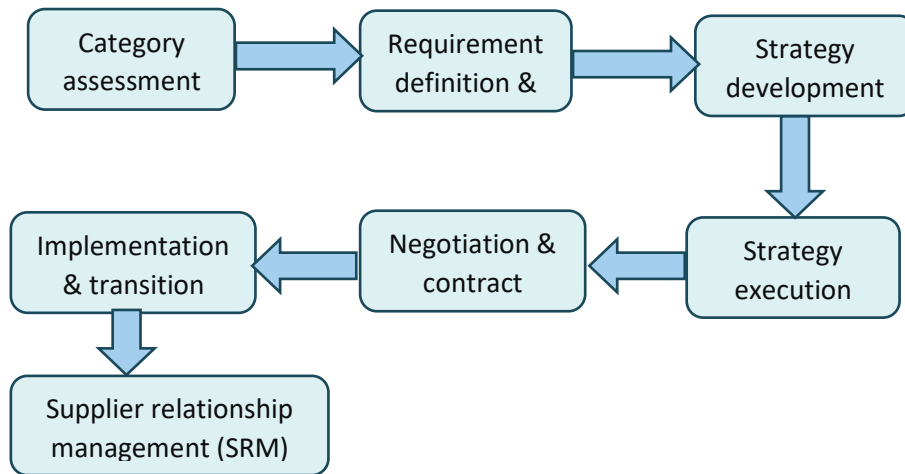


Figure 2.4 Strategic Sourcing Process

Sourceframegroup.com.au

2.2 Sales Skills for Procurement Professionals Supplier Relationship Management (SRM)

Approaches to Supplier Relationship Management (SRM)

1. Reactive Approach

This Supplier Relationship Management approach is handled to respond in occurrence of a negative situation.

2. Proactive or Strategic Approach

It is a planned approach and starts even before signing an agreement or contact with the vendor.

Table 2.2 Changing Relationships between Manufacturers and their Suppliers

Current Relationship	Target Relationship
Adversarial relationship	Collaborative relationships
Price	Total cost management
Many suppliers	Few 'alliances' suppliers
Functional silos	Cross functional
Short term buying	Long term buying
High levels of just in case inventory	Compressed cycle times and improved demand visibility
Expediting due to problems	Anticipating due to continuous improvement
Historical information	Realtime' information (EDI)
Short shipments	Reliability focus
Inefficient use of capacity	Run strategy and synchronization

Supplier Communication Process



Figure 2.5 Supplier Communication Process

Source researchgate.com

Relationship Development Process

- Name recognition
- Develop understanding
- Interactive communication
- Solidify relationship

Supplier Relationship Management Category

- Catalog management
- Procure to pay optimization
- Contract management
- Reporting functionality
- Self service management

Assessment of Vendors

- Vendor profiles and risk assessment
- Vendor audits and certification
- Nonconformance / corrective & preventive actions
- Product sampling & test results
- Performance monitoring & reporting

An Example of Vendor Analysis

Table 2.3 Vendor Analysis

Attributes	Importance Weights	Rating Scale			
		Poor (1)	Fair (2)	Good (3)	Excellent (4)
Price	.30				x
Supplier reputation	.20			x	
Product reliability	.30				x
Service reliability	.10		x		
Supplier Flexibility	.10			x	
Total score $.30(4) + .20(3) + .30(4) + .10(2) + .10(3) = 3.5$					

Interrelationship between SRM Supplier and SRM Customer



Figure 2.6 Interrelationships between SRM Supplier and SRM Customer

Source researchgate.com

Steps in Supplier Relationship Management

- Identification of critical spares
- Strategic supplier categorization
- Contracts by strategy
- Relationship Management

Supplier Management Includes

- Supplier sourcing
- Supplier evaluation
- Supplier development

- Phasing out of suppliers

Steps of Supplier Management

- Buyer/ supplier daily operations
- Performance information collection through
 - IT system
 - Human interaction
- Supplier scorecard
- Action item register
- Top to top reviews
- Operational reviews
- Day to day interaction

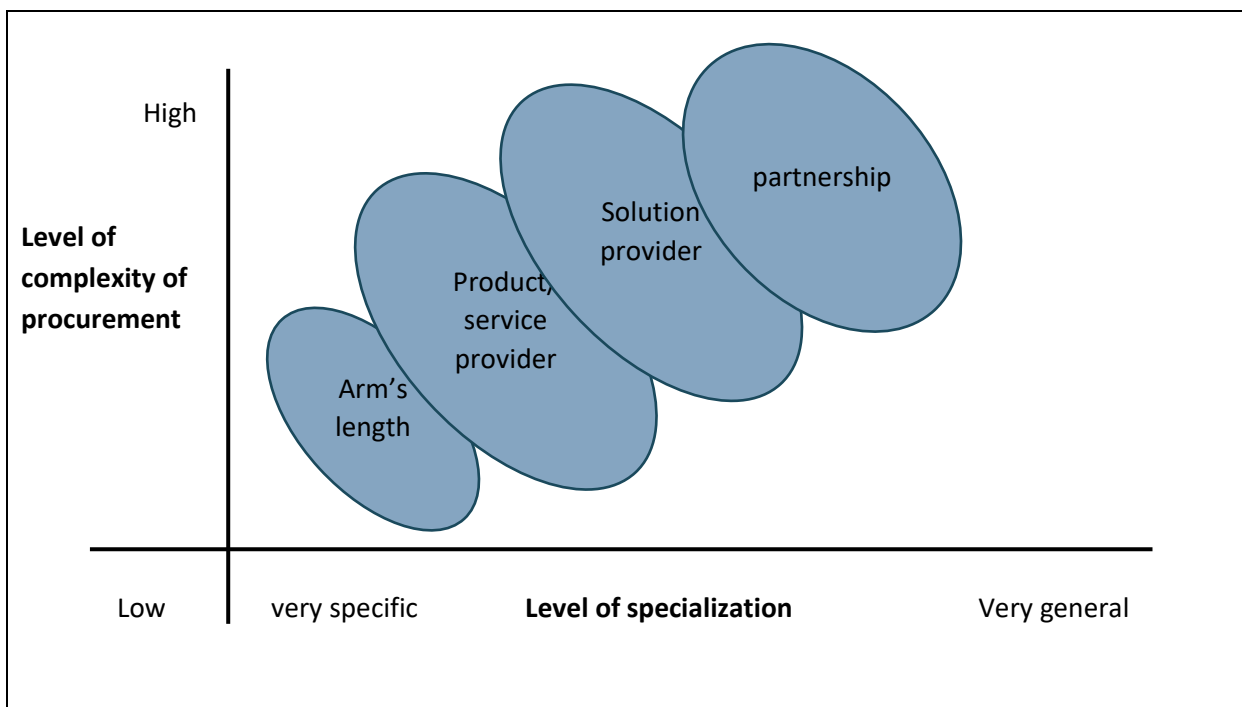


Figure 2.7 Stages of Supplier Relationship Management

Source indiamart.com

Types of Supplier Relationships and Features

based on time and closeness of relationship

- **Competitive Suppliers**
 - Multiple sources
 - Frequent negotiations
 - Arm's length relationship
 - Price change measurement
- **Preferred Suppliers**
 - Fewer evaluated sources
 - Short term agreements

- Regular benchmarking of cost
- **Performance Partnerships**
 - Single/ dual sourcing
 - Joint focus on cost and quality
 - Managed risk
 - Technology sharing
 - Key performance indicators (KPIs)
 - Balanced scorecard
- **Business Alliances**
 - Single sourcing
 - Dedicated resources
 - Mutual dependency
 - Shared risk
 - Joint R & D
 - Exclusive rights
 - Communication plan
 - Transparent metrics

However, based on the above relationship category two things needs to be maintained

- resources required and expected duration of relationship
- Identify and invest in the appropriate relationship

Reasons for having Relationship Improvement Approach

- Identify the baseline relationship and set goals for improved RoI (return on investment)
- To establish where the real relationship differs from the normal relationship
- To address any gap in the relationship
- To shift power in the relationship

Benefits of Supplier Relationship Management

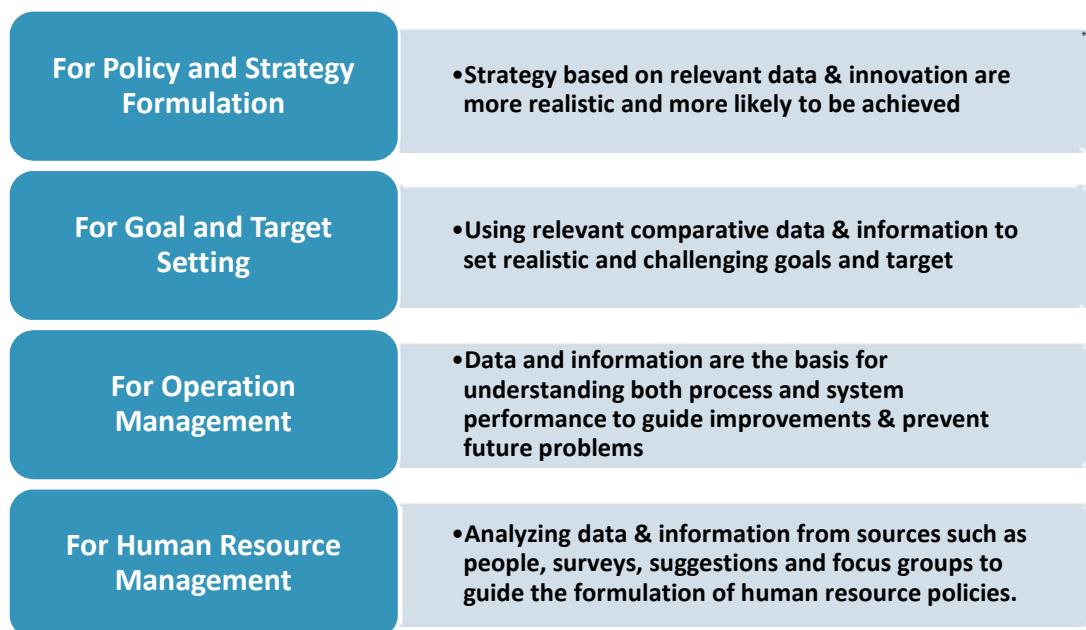


Figure 2.8 Benefits of Supplier Relationship Management

2.3 Negotiating and Influencing for Procurement

Requirement of Negotiation Skills for Procurement

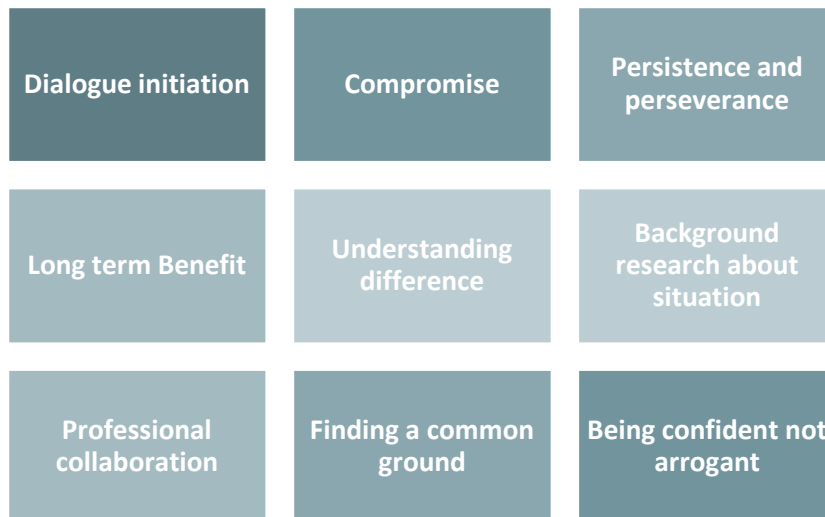


Figure 2.9 Negotiation Skills for Procurement

Vendor Negotiations

The climax of a successful buying plan is active negotiation and influencing with suppliers. The effectiveness of the buyer vendor relationship depends on the negotiation skills of the buyer and the economic power of the firms involved.

A. The retail buyer must negotiate prices, freight, delivery dates, method of shipment and shipping costs, exclusivity, guaranteed sales, markdown money, promotional allowances, return privileges, and discounts. The smart buyer will discuss everything, leaving nothing to chance.

B. **Price** is probably the first factor to be negotiated. The retailer should be aware of the following five types of discounts

1. Trade Discounts are a form of compensation which the buyer may receive from performing certain services for the manufacturer.

2. Quantity Discounts are price reductions offered as an inducement to purchase large quantities of merchandise. There are three types of quantity discounts

- a. noncumulative (based on single purchase)
- b. cumulative (based on total amount purchased over time)
- c. free merchandise (merchandise is offered in lieu of price concessions)

3. Promotional Discounts are given when the retailer performs an advertising or promotional service for the manufacturer.

4. Seasonal Discounts can be earned by retailers if they purchase and take delivery of goods in off seasons.

5. Cash Discounts are earned by retailers for prompt payment of their bills.

There are several types including

- a. End of month (EOM) dating allows for the cash discount and full payment period to begin on the first day of the following month instead of on the invoice date.
- b. Middle of month (MOM) dating is like EOM except the middle of the month is used as the starting date.
- c. Receipt of goods (ROG) dating sets the starting date as the date goods are received by the retailer.
- d. Extra dating (Ex) merely allows the retailer some extra or free days before the period of payment begins.
- e. Anticipation allows a retailer to pay the invoice in advance of the expiration of the cash discount period and earn an extra discount.

6. Delivery Terms are also important to negotiate because they specify where title to the merchandise passes to the retailer, whether the vendor or buyer will pay the freight charges, and who is obligated to file any damage claims. Three most common shipping terms are

- a. Free on board (FOB) factory. The buyer assumes title at the factory and pays all transportation costs from the vendor's factory.
- b. Free on board (FOB) shipping point. The vendor pays the transportation to a local shipping point, but the buyer assumes title there and pays all further transportation costs.
- c. Free on board (FOB) destination. The seller pays the freight and the buyer takes title on delivery.
- d. Retailers need to have some means of handling incoming merchandise, including merchandise handling and receiving space. Several types of theft occur, and most can be controlled.

Vendor collusion includes losses that occur when the merchandise is delivered. Such losses typically involve the delivery of less merchandise than is charged for, the removal of good merchandise disguised as old or stale merchandise, and the theft of other merchandise from the stockroom or the selling floor while making delivery.

Negotiation Framework BASC

- This framework was formulated by G. Subramanian, a Harvard Professor
- As per the framework there might be 4 key aspects of analyzing decision to make, bid or negotiate.
- It is based on research of thousands of deals made in the sector of banking, procurement, merging & acquisition, real estate and other areas.
- BIDDER → ASSET → SELLER → CONTEXT

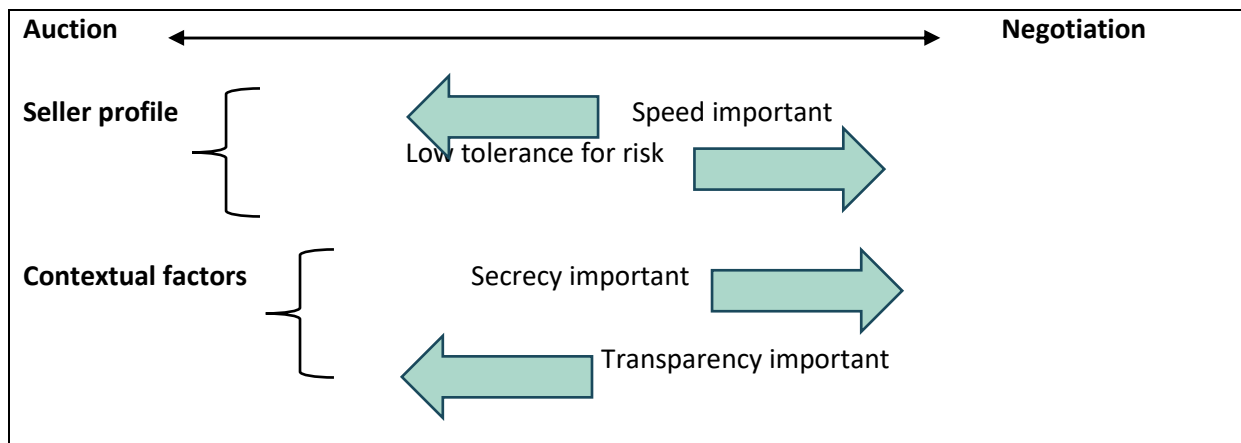


Figure 2.10 Negotiation Framework BASC

Source Subramanian, Harvard Business Review (Dec2009)

Initiation or Moves for Negotiation

- I. Set up moves It establishes the terms of entry into a negotiation or auction situation
- II. Rearranging moves It reconfigures the assets or the parties or even both in such a way that create value for both the parties
- III. Shut down moves This move closed or shut down proceeding on same side of the table competition in an undergoing negotiation.

Retail negotiation is the process in which two or more parties talk and exchange goods or services and make effort to agree on the exchange rate decided for (both parties) them.

Batna

The Best Alternative to a Negotiated Agreement. It is the process of lowest acceptable value (outcome) to an individual or firm for a negotiated agreement.

Examples situation based

- Walking away
- Prolonging a stalemate
- Approaching another buyer
- Making something inhouse rather than procuring it externally
- Going to court rather than settling
- Forming a different alliance
- Going on strike

Bargaining Strategies

Distributive Bargaining Kind of negotiation seeks to allocate up a fixed amount of resources; may be a win lose situation

Integrative Bargaining Kind of negotiation seeks to allocate one or more settlements that can create a win win solution

- Goal To get as maximum share. Expansion of the share as much as possible
- Motivation To adopt either a Win Lose situation OR a Win Win situation (best)
- Focus Should be on the strategic positions and individual cum group interests

- Information Flow of information from low to high
- Sharing Duration of Short term to the long term relationships

Negotiation Process

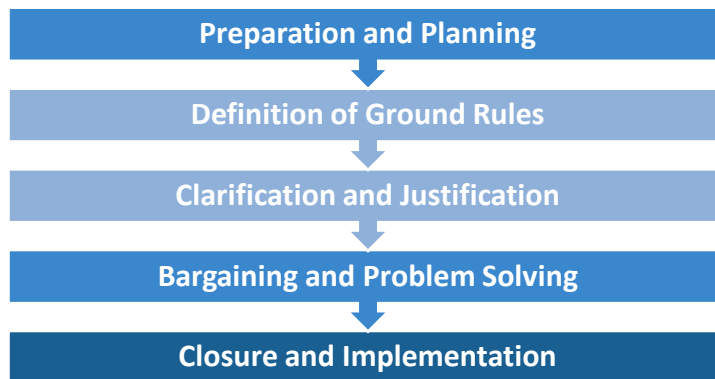


Figure 2.11 Negotiation Process

Below figure 2.12 shows the ZOPA Zone of possible agreement between seller and buyer's agreement and alternative for the final purchase deal. Depending on the situation, best alternative needs to be chosen if there is no deal from both perspectives.

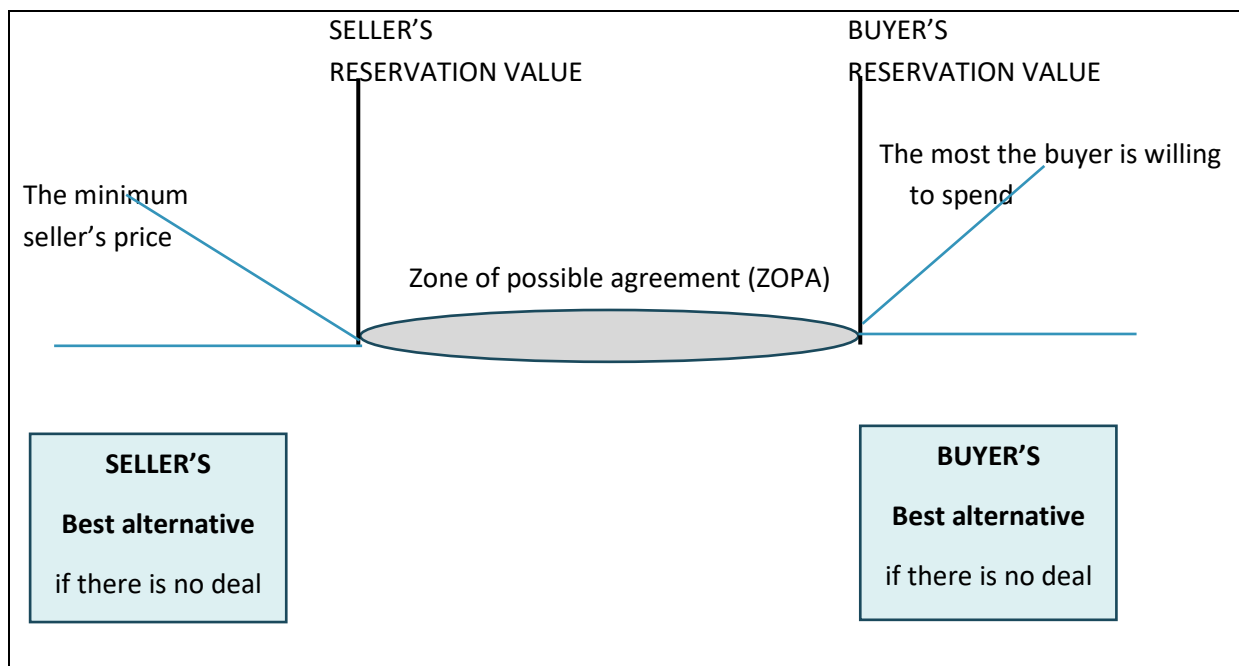


Figure 2.12 Zone of Possible Agreement between Buyer and Seller

Source successfulnegotiations.com

PNI Triad Techniques



Figure 2.13 PNI Triad Techniques

Parties may leverage quick win PNI techniques to shift mindsets and drive the greatest financial impact.

Persuasion

1. Strategic framing Telling a story from your desired perspective like why is it good for your opponent?
2. Sequential request strategies Sequencing small requests together to reach a larger request.
3. Commonalities Leveraging similarities to build trust

Negotiation

1. Counter attitudinal advocacy role reversal
2. Group brainstorming Helps in understanding opponent's interests, thoughts and likely behaviors.
3. Rhetorical questioning Pointed questions to shift mindsets via perspective taking
4. Silence Makes opponent expose additional information.

Influence

1. Neurolinguistic programming Mirroring one's opponent to subconsciously build their trust
2. Anchoring Grounding opponent on an initial value
3. Labeling technique Covertly influencing by attaching a desired characteristic to the opponent.
4. Prospect theory Framing losses over gains.

2.4 Stakeholder Management, Finance and Procurement

Stakeholder management is an important domain and skill for any procurement activity. The procurement managers must have learned the procurement techniques in order to build a strong relationship with their internal customers.

Efficient stakeholder management results

- substantial improvements in the internal customer satisfaction
- proactive engagement for sourcing
- more overall costs savings
- effective strategic sourcing and purchasing
- leads to better saving results

Business prioritization strategies achieved through stakeholder management by

- 79% in total cost reduction
- 57% risks management
- 52% new market / product development
- 48% increase in cash flow
- 46% expanding organically
- 21% expansion by acquisition
- 18% increased capital expenditure
- 13% disposing of assets (Source Deloitte)

Stakeholders in the Procurement Process

Identity stakeholder’s process composed of combination of inputs with the respective tools and techniques. The resultant output are stakeholder strategy formulation and management.

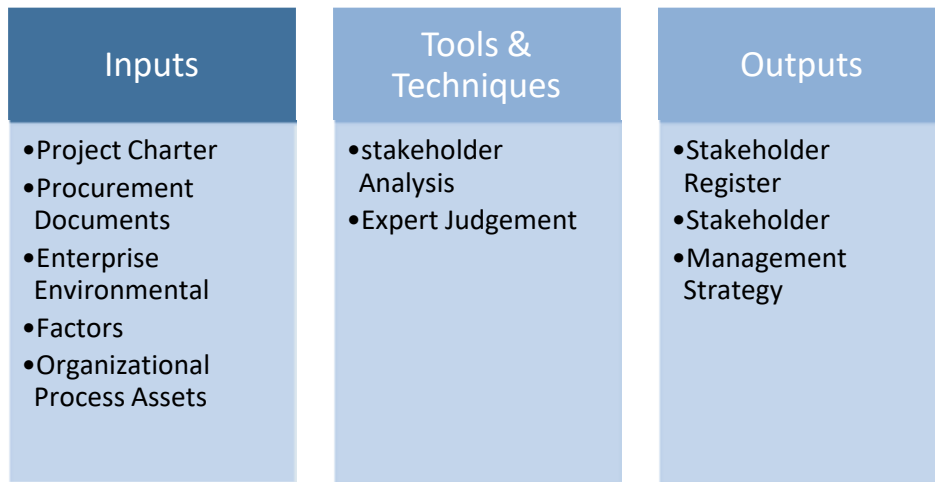


Figure 2.14 Stakeholder’s Identity Process

Successful stakeholder management depends on the identification of stakeholder at first stance followed by evaluation of its performance. Formulation of stakeholder’s strategy is required in order to check the overall functionality and performance. A strong and honest feedback is required for smoothing the operations of procurement as shown below in figure 2.15.



Figure 2.15 Successful Stakeholder Management Stages

Procurement Stakeholder’s Categories

Stakeholders are those persons or groups who rely on the organization to achieve their own objectives and in turn the organization alters. These entities either harmed by or assistances the company or whose rights can be violated, or have to be respected, by the company as shown in figure 2.16

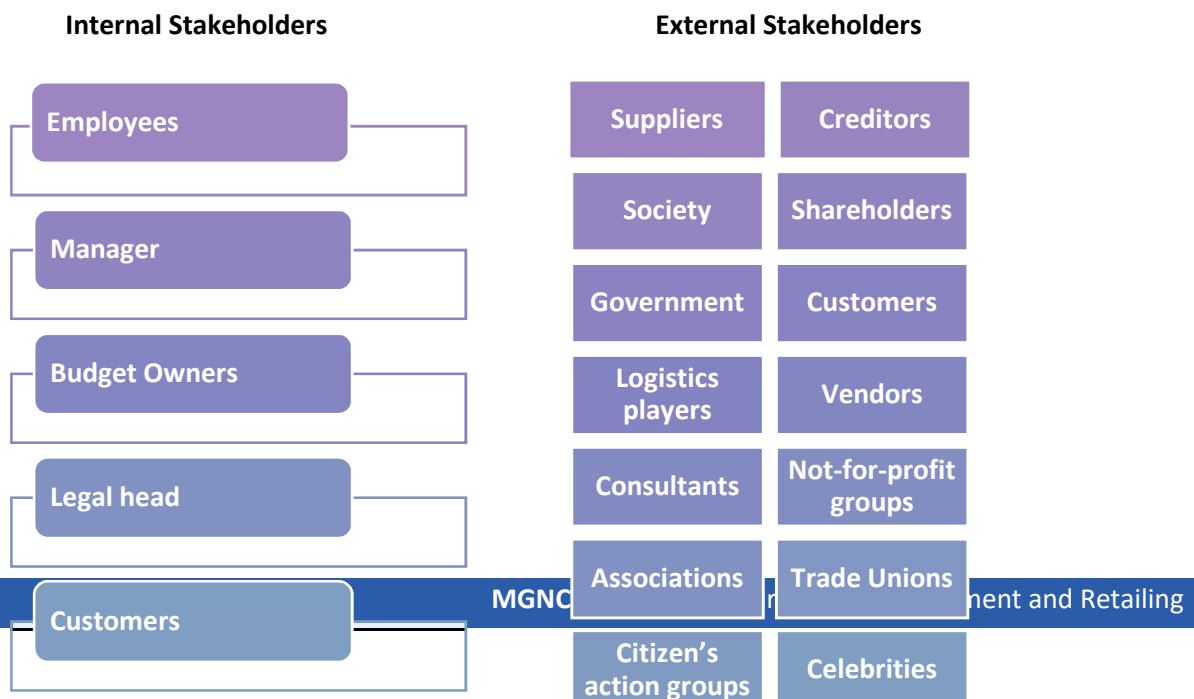


Figure 2.16 Procurement Stakeholder's Categories

Source stakeholdermap.com

Procurement Strategy Alignment with Stakeholders

Stakeholders are affected by the organization's actions in diverse ways and to diverse degrees. Moreover, stakeholders have the power to affect organization's activities in different ways and to dissimilar degrees as shown below in figure 2.17.

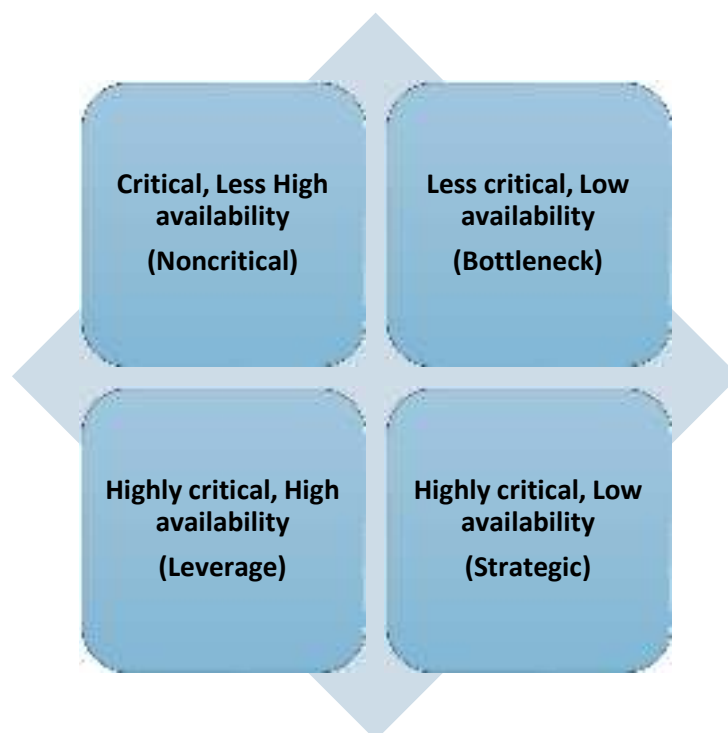


Figure 2.17 Procurement Strategy Alignment

Source sourcinginnovation.com

Role of Finance in Procurement Cycle

Basic Principles

- Open tendering system
- Effective Advertisement mode
- Non-discriminatory tender conditions throughout & Technical specifications
- Public tender opening for transparency
- Award to most advantageous bidder, most desirable

Spend Management is an interrelated process that Procurement and Finance should design, formulate and operate together. Both the functions need to aid each other not only as internal buyer/suppliers but also to aid jointly to budget owners and external stakeholders (shareholders, external customers, suppliers, regulators etc.) Organized and systematic groups optimize spend management through the approach of enterprise process ownership adoption, through development of metrics, by self-funded their services, performance, and capabilities. Moreover, these firms are aspiring to be the talent and tools available.

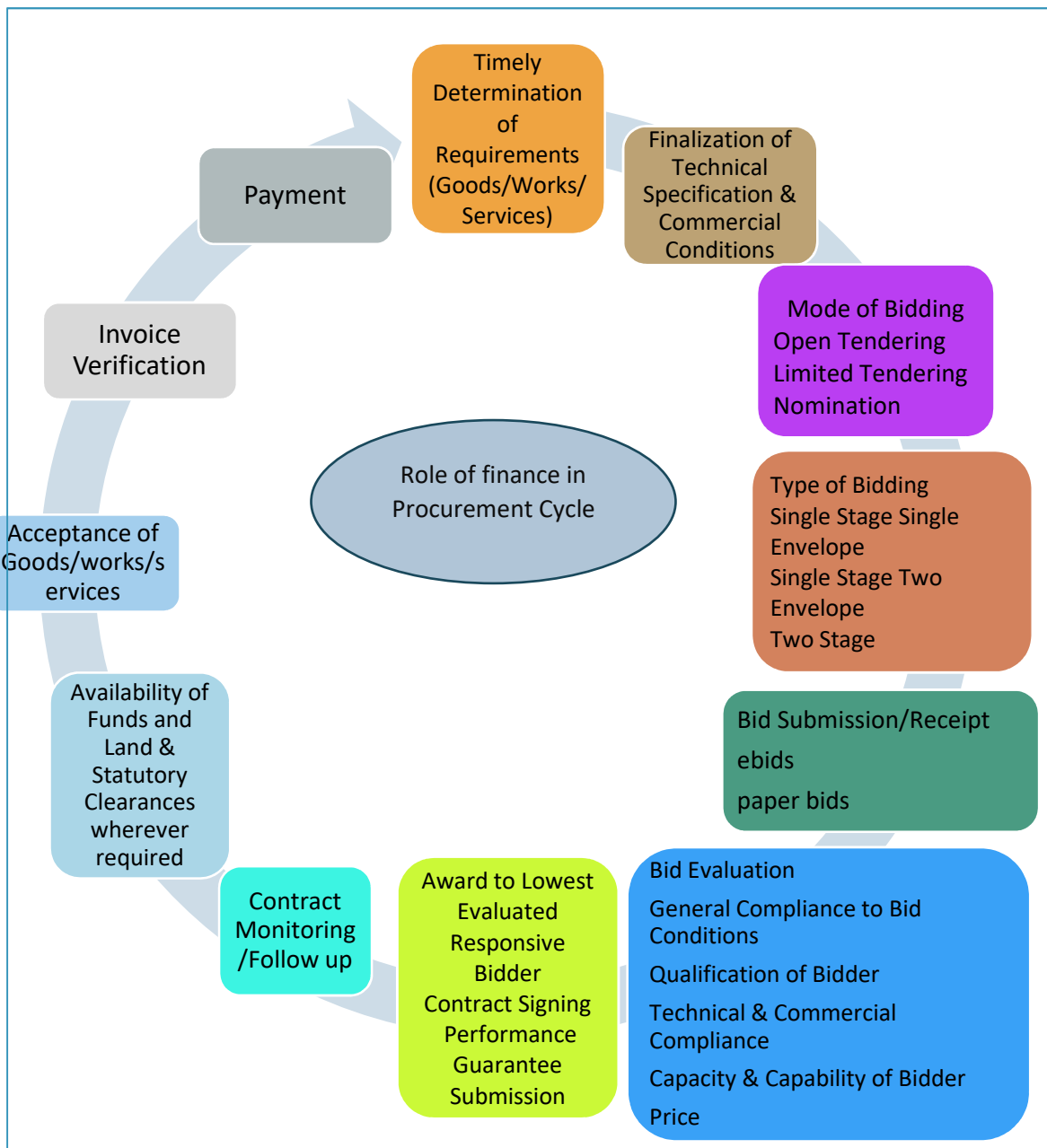


Figure 2.18 Role of Finance in Procurement Cycle

Holistic Stakeholder Management, Finance and Procurement

There are numerous ways to implement categories for procurement, including by type of good or service, by business function, geographically or by other characteristic such as pricing flexibility. Moreover, the planning and executing for category management must be combined within the organization's tactical, commercial and budget planning. It may specifically obstruct by procurement plans of firm, legislature, guideline, procedure and actions. The range statement relates to the competency. It allows for diverse work environments and situations that may affect the performance. Each department approach is detailed below. Important operating conditions including vendor analysis, proper planning of procurement, consideration of merchandising department, finalizing buying process, looking for effective distribution channels, achieving optimum sales level over a desirable period and approaching a customer to provide maximum satisfaction through offerings.

Vendor Planning Merchandising Buying Distribution Sales Customer

- Planning**
- Demand Forecasting
 - Merchandise, Assortment & Space Planning and Opt.
 - Item Management
 - Retail Price Management
 - Promotion Management
 - Buying
 - Vendor Relationship Management
 - Operational Buying
 - Global Import/Export Management
 - Markdown Management

- Buying**
- Vendor Relationship Management
 - Operational Buying
 - Global Import/Export Management

- Supply Chain**
- Replenishment and Inventory Opt.
 - MultiChannel Order Fulfillment
 - Chain Wide Inventory Management
 - Warehouse and DC Management
 - Transportation Management
 - Supply Chain Visibility and Tracking

- Store & Multi Channel**
- Point of Sale
 - Store Operations
 - Catalog Management & eCommerce
 - Call Center
 - MultiChannel Customer Service
 - MultiChannel Customer Loyalty

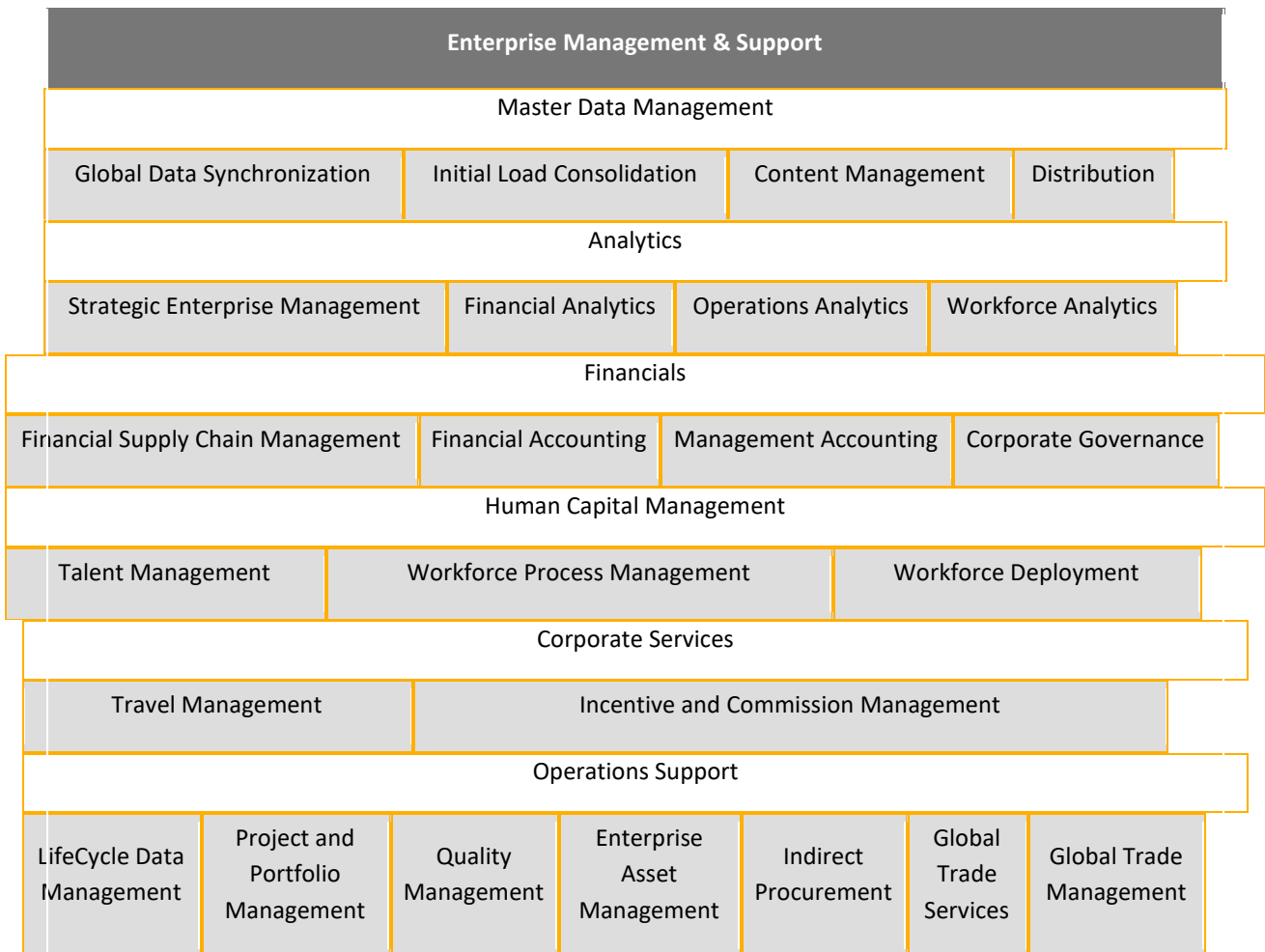


Figure 2.19 Holistic Stakeholder Management, Finance and Procurement

2.5 ICTs in Procurement

Information and communication technology play the most important role in executing the planning done at first level for materials procurement. The involvement of ICT in procurement is inevitable and pivotal. Different parties may be involved for the procurement. Involvement of people from operation department are highly sought for it. Procurement documents like RFPs, RFTs, RFQs, RFIs are sophisticated and complex in nature. It combines commercial and technical content providing by different parts of the organization.

Holistic Approach of ICT in Procurement

Components

According to De Boer et al. (2002)

- Web based ERP (enterprise resource planning) creating procuring requisitions, placing purchase orders and used for receiving the goods
- EMRO (material requirement order) it deals with indirect items
- Esourcing
- E tendering
- Ereverse auctioning helps buyers to contact unknown suppliers and vendors
- Einforming

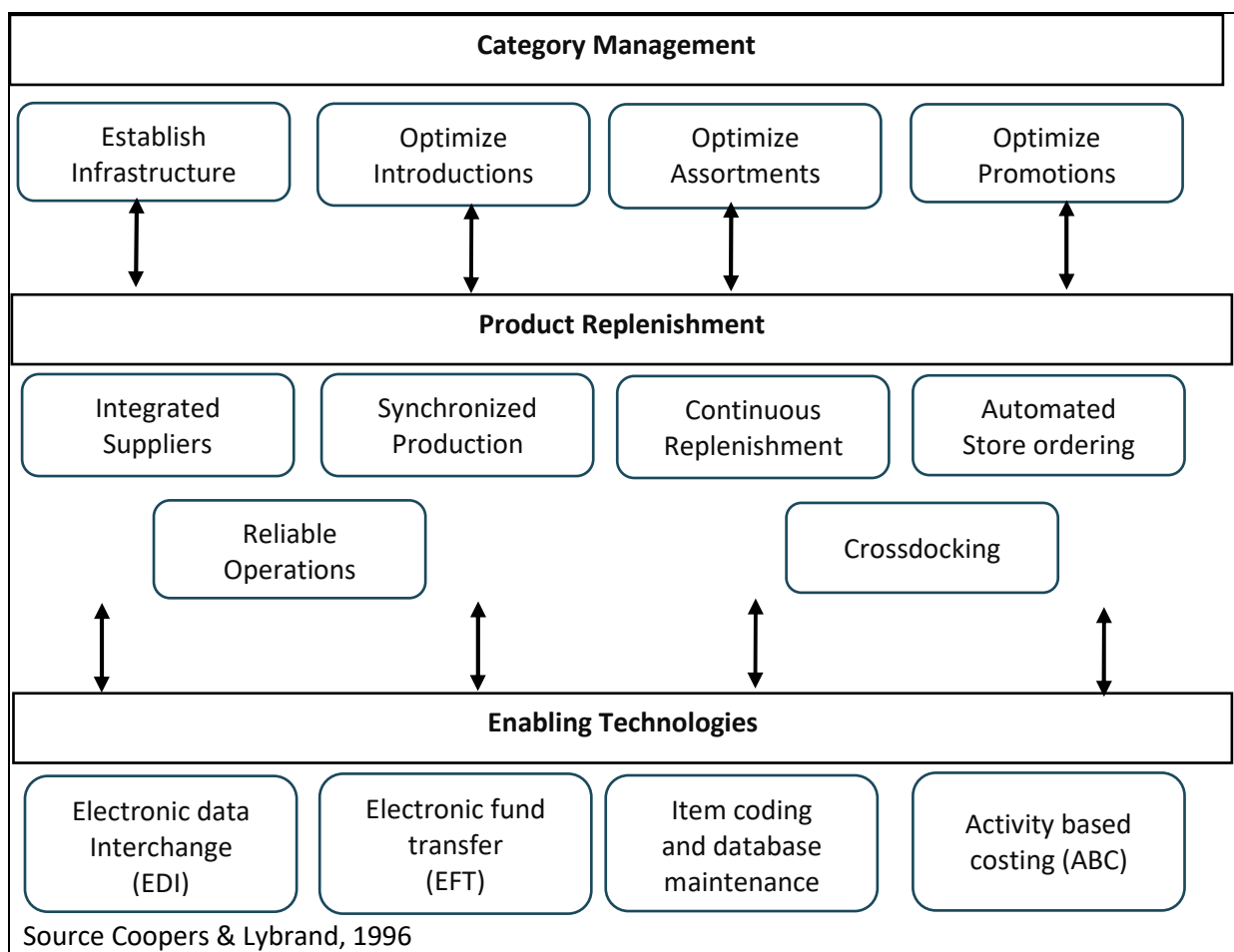


Figure 2.20 Holistic Approach of ICT in Procurement

Use of ICT in Procurement

- To publish and distribute public procurement information available online
- To support public procurement transactions
 - E tendering
 - Purchasing from e catalogues
 - E reverse auctions
- To monitor and manage public procurement
- To improve the transparency and fairness of tendering process
- Providing all suppliers same information at same time or real time
- Improving audit trail (the recorded history of events and decisions leading up to the contract award) providing evidence in the event of a legal challenge to the contract award decision

ICT procurement Process



Figure 2.21 ICT Procurement Process

ICT Procurement for Products/ Services

- Ensure sustainable exploitation of natural resources
- Decouple economy growth from the use of natural resources
- Innovate world's system of production, trade and consumption
- Procure environmentally friendly products and services.

Challenges of ICT use

- Lack of awareness and capacity building programs
 - EGP in not just ICT
 - Lack of institutional capacity for public procurement
- Resistance to change
 - Procuring entities bidder’s reluctance to convert to eprocurement



Figure 2.22 Result of Poor eProcurement Deployments

Adoption of ICT in Procurement by Retail Firm

The process of adoption of ICT in procurement by retail firm can be evident from the above figure. It includes the analysis of current status & capacities of the procurement department or activities. The need for ICT may be based on the benefits received after its implementation across the company and on the critical success factors. CSFs are the important points and variables responsible for making a process successful. After considering these factors, its overall performance needs to be finalized keeping barriers in implementation in mind.

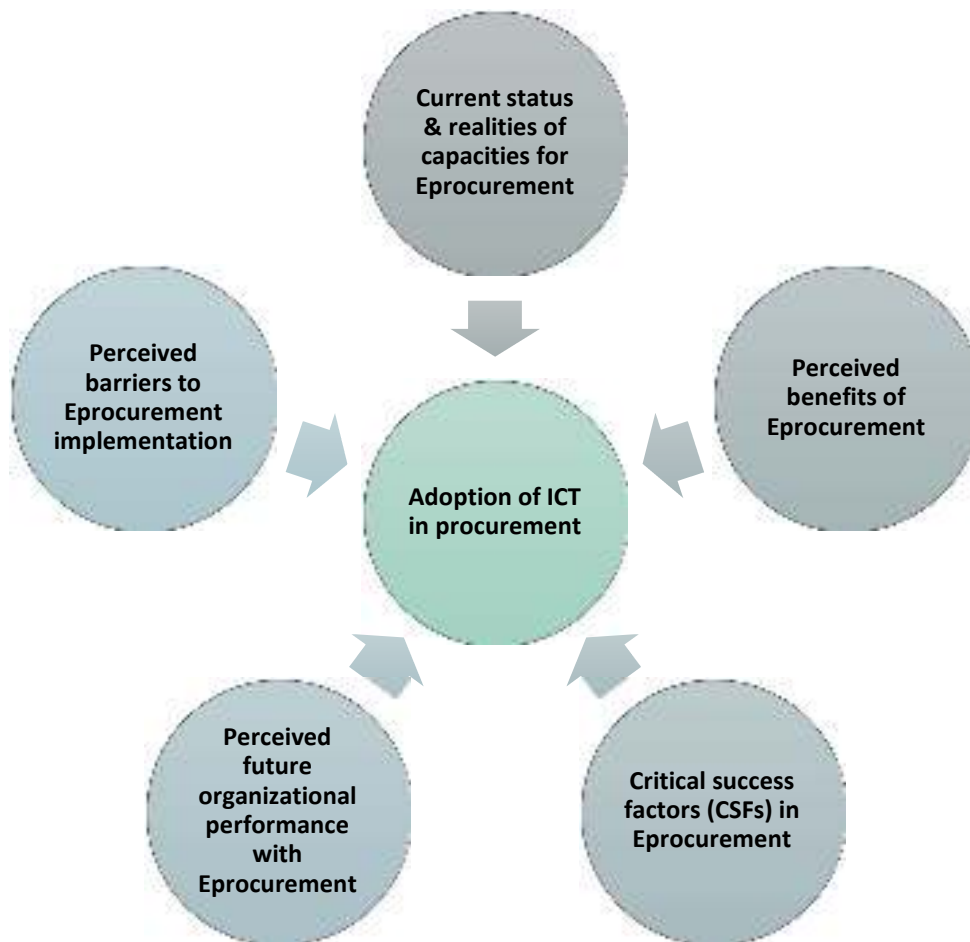


Figure 2.23 Adoption of ICT in Procurement

Source academicstar.us

References

1. <https://contractingacademy.gatech.edu/tag/categorymanagement/page/4/>, 18.02.201916.26
2. <https://www.determine.com/blog/procurementretail>, 19.02.201915.33
3. <https://www.pitt.edu/~super7/3001131001/30961.ppt>, 20.02.201919.45
4. <web.nchu.edu.tw/pweb/users/arborfish/lesson/9419.ppt>, 20.02.201922.16
5. <www2.gsu.edu/~accrss/Procurement%20Chain%20Management.ppt>, 20.02.201909.56
6. <www.imagesure.comindiamart.com>, 15.02.2019 15.55
7. <www.itilv3examquestionpapers.blogspot.com> indiamart.com, 17.02.2019 21.02
8. <www.rbpaonline.comdailyrevshare.comgratuitxblcodes.com> Procurement Academy, 17.02.201914.36
9. <https://www.managementstudyhq.com/factorsinfluencingnegotiations.html>, 18.02.20191157
10. <https://www.oxfordcollegeofprocurementandsupply.com/8tipsforimprovingyourpersuadingandinfluencingskillsinprocurement/>, 18.02.201919.54
11. <https://www.pniconsulting.com/articles/tenbestnegotiationpractices>, 18.02.20191114
12. De Boer L., Harink J. and Heijboer G., A conceptual model for assessing the impact of electronic procurement, European Journal of Purchasing and Supply Management, Vol. 8, No. 1, 2002, pp.2533.
13. <http://summusindustries.com/roletechnologyprocurement>, 20.02.201917.53

14. https://www.academia.edu/24268350/Role_of_Information_Technology_in_EProcurement, 20.02.2019 16.23
15. <https://www.framegroup.com.au/capabilities/ictsourcindingandprocurement/>, 20.02.2019 14.55

Video References

1. <https://www.youtube.com/watch?v=ntHnQrQBG2Y>, accessed on 20.02.2019 10.26
2. <https://www.youtube.com/watch?v=flxeYtdJSAM>, 20.02.2019 11.55
3. <https://www.youtube.com/watch?v=ekNt6dY6aTM>, 20.02.2019 12.30
4. https://www.youtube.com/watch?v=kqeFBFm_kYg, 20.02.2019 18.30
5. <https://www.youtube.com/watch?v=XibS0susCP8>, accessed on 18.02.2019
6. <https://www.youtube.com/watch?v=QFtJv7SxXIY>, accessed on 18.02.2019
7. <https://www.youtube.com/watch?v=ae0IEnumwdg>, accessed on 18.02.2019
8. <https://www.youtube.com/watch?v=FSVCiLXDosl>, accessed on 18.02.2019
9. <https://www.youtube.com/watch?v=bgz2vNMTpxQ>
10. <https://www.youtube.com/watch?v=kwfJifxukZ0>
11. <https://www.youtube.com/watch?v=6haoaWH1Z0>
12. https://www.youtube.com/watch?v=UG8lq_F19AU
13. <https://www.youtube.com/watch?v=sZEKveqftD8>

Reading Materials

1. <https://www.biddingo.com/docs/ProcurementPolicy.pdf>
2. https://www. Kearney.com/documents/10192/554023/AEP2004Monograph_s.pdf/6c054d0dcc254328bb5a6f8820438cbc
3. <https://blog.procurify.com/2014/02/07/whatisthedifferencebetweenprocurementandpurchasing/>
4. <https://www.determine.com/wpcontent/uploads/2017/03/ImprovingRetailProcurementInsightsThinkingBeyondCostforDeliveringInnovation.pdf>
5. <https://www.nigp.org/docs/defaultsource/NewSite/globalbestpractices/supplierrelationshipmanagement.pdf?sfvrsn=2>
6. https://www.procurementleaders.com/AcuCustom/Sitename/DAM/052/samplestrategyguideSRM0613_1.pdf
7. <https://www.pwc.nl/nl/assets/documents/pwcsupplierrelationshipmanagement.pdf>
8. https://www.researchgate.net/publication/208868549_A_Framework_for_Supplier_Relationship_Management_SRM
9. https://www.researchgate.net/publication/322068731_Supplier_Relationship_Management_and_Selection_Strategies__A_Literature_Review
10. <https://www2.deloitte.com/content/dam/Deloitte/ch/Documents/processandoperations/ch/enoperationssupplierrelationshipmanagement.pdf>
11. http://www.mypurchasingcenter.com/files/9812/9771/7420/Best_Practices_for_Negotiating_with_Key_Suppliers.pdf
12. <http://www.undp.org/content/dam/undp/documents/procurement/documents/Effective%20Negotiations%20in%20Projects%20and%20Procurement.pdf>
13. <https://procurementandsupply.com/freewebinarpowerfulprocurementeffectivenegotiationskillsthatgetresults/>
14. <https://www.bradford.ac.uk/purchasing/media/purchasing/campusonly/Negotiations.pdf>

15. https://www.nigp.org/docs/defaultsource/NewSite/positionpapers/150105_negotiation_positionpaper_complete_updated.pdf?sfvrsn=2
16. http://chss.uonbi.ac.ke/sites/default/files/chss/MBA_PROJECT_D61_73043_2009_APPLICATION_OF_ICT_IN_PROCUREMENT_IN_NCWSC_BY_C.MWAI_OCT_2013.pdf
17. https://www.researchgate.net/publication/257546259_Role_of_Information_Technology_in_EProcurement
18. <https://joinup.ec.europa.eu/sites/default/files/document/201412/media1851.pdf>

Chapter 3 Retail Merchandising

Introduction

After understanding the concept of rural retailing concept and process in Chapter 1 and about procurement in Chapter 2 this Chapter deals with retail merchandizing in details. The purpose of this Chapter is to acquaint you with the concept of whole merchandising process.

This Chapter will comprise of five units pertaining to respective concepts and understanding regarding the merchandise assortments, merchandise planning and buying, merchandise procurement and finally

Pricing of merchandise

In this Chapter we will discuss the basic concept of merchandise; we will also attempt to answer some model questions like what is meant by the terms like procurement, forecasting, buying process, retail pricing categories and types? The Chapter will also discuss the strategies of setting retail prices. In the remaining units of this Chapter we will discuss fixation of retail pricing of any merchandise.

Objectives

After reading this lesson, you will be able to

- analyze retail merchandizing and its basis of pricing
- understand the types of merchandise and its assortments;
- assess the whole merchandise procurement process and techniques of sales forecasting;
- develop and plan merchandise buying systems;
- understand and evaluate different factors influencing retail pricing, mode and different approaches of setting retail prices.

Structure

3.1 Retail Merchandizing and Pricing

3.2 Types of Merchandise Merchandise assortments

3.3 Merchandise procurement Process, Sales Forecasting

3.4 Merchandise Planning Merchandise buying systems

3.5 Retail Pricing Factors influencing Retail Pricing, Setting Retail Prices Different approaches of Retail Pricing

3.1 Retail Merchandizing and Pricing

The term merchandise refers to the process amalgamation of planning, buying, selling and or dispose of a merchandise over a time period.

The efficiency of a retail store lies in his ability to provide the right goods of good quality to the consumer

- In the right quantity
- At the right place
- At the right time

It depends on efficient inventory management.

The merchandise management process allows the retail buyer to forecast with some degree of accuracy what to purchase and when to have it delivered.



Figure 3.1 Place of Retail Merchandising

Source smartsheet.com

Merchandise Presentation Techniques

Merchandise displays are the form of special presentations of products in a retail store for the customers.

- Predicated on basic principles designed to increase product purchases.
- Vary from industry to industry.
- Should be viewed from the customer's perspective.

Merchandise displays generally take one of several basic forms

- Storefront Window Displays
- Showcase Displays
- Found Space Displays
- Cross merchandising is simply grouping related products together.

- Cross merchandising is a practical merchandising solution for online stores.
- Grouping merchandise is like suggestive selling without the verbal aspect.

Factors Affecting Merchandising Functions

There are different factors that affect functions of merchandise. Major ones are organizational size, organizational structure, types of store and range of merchandise which is to be carried out by the retailer in order to serve the customer keeping in mind the need and requirement of end user. The retailer must know the impact of each factors on the performance of each merchandise category and its outcome.

Factors affecting merchandising functions

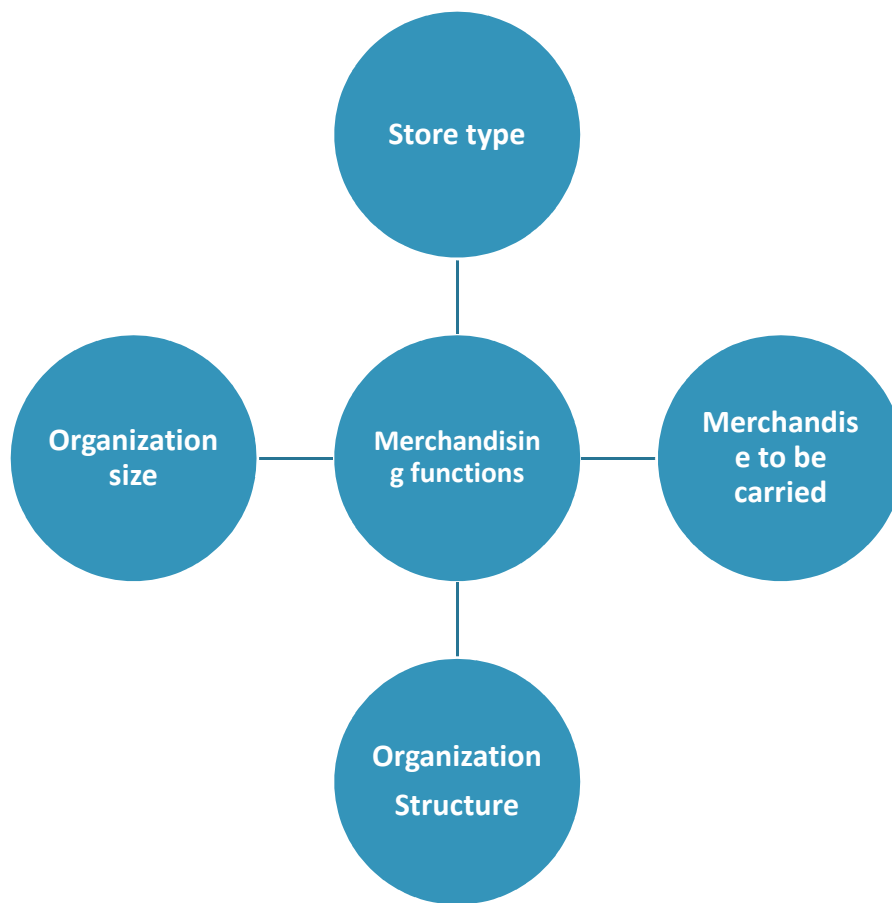


Figure 3.2 Merchandising Functions

Source Witz, Levy (2004)

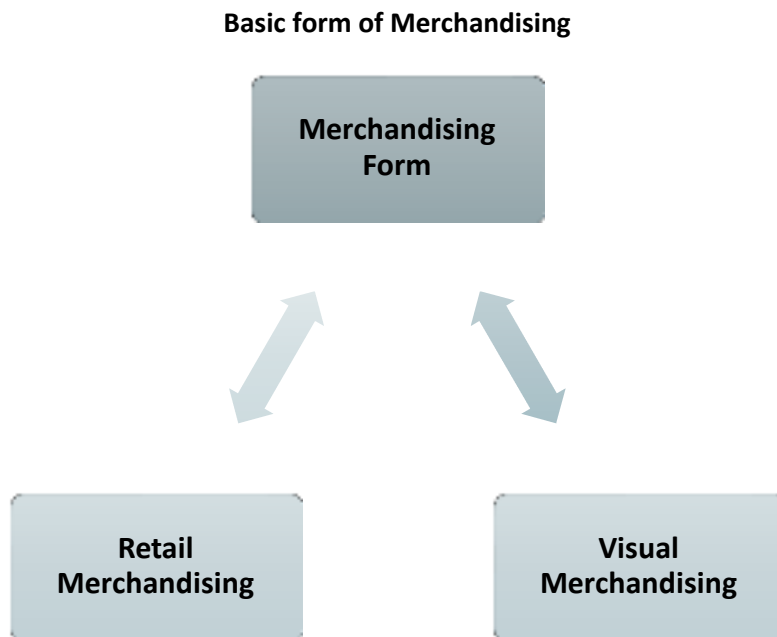


Figure 3.3 Basic Merchandising Forms

Merchandising involves to basic form and category. The first one is retail merchandise which includes all the form of retail activities and functions related to the merchandising.

The other one is the visual merchandise category which comprises the image formation in customers mind through the appeals to the sight or make it easier to interpret and understand. It is something that visually explains or decorates the ambience and whole environmental set up for the merchandise.

Successful Merchandise Display Tips

- Keep your target customer's demographics in mind while allocating merchandise display space and expenditures
- Careful of pursuing merchandise display designs that sacrifice effectiveness for the sake of originality
- Make certain that the display area is clean and well maintained
- You should try not to overcrowd a display
- Combine complementary products together in displays
- Use the merchandise displays to educate customers

Challenges in Visual Merchandise

- Limited display space
- Limited flexibility
- Low budget
- Conflict of interests
- Security risks

Setting Merchandising Financial Objectives

- Focus is of achieving acceptable profitability in a company's pursuit of its mission/vision, long term health, and ultimate survival.

- Ensures outcomes as good cash flow, creditworthiness, earnings growth, an acceptable return on investment, dividend growth, and stock price appreciation.

Examples of Financial Objectives

- Growth in revenues
- Growth in earnings
- Wider profit margins
- Bigger cash flows
- Higher returns on invested capital
- Attractive Economic Value Added (EVA) performance
- Attractive and sustainable increases in Market Value Added (MVA)
- A more diversified revenue base

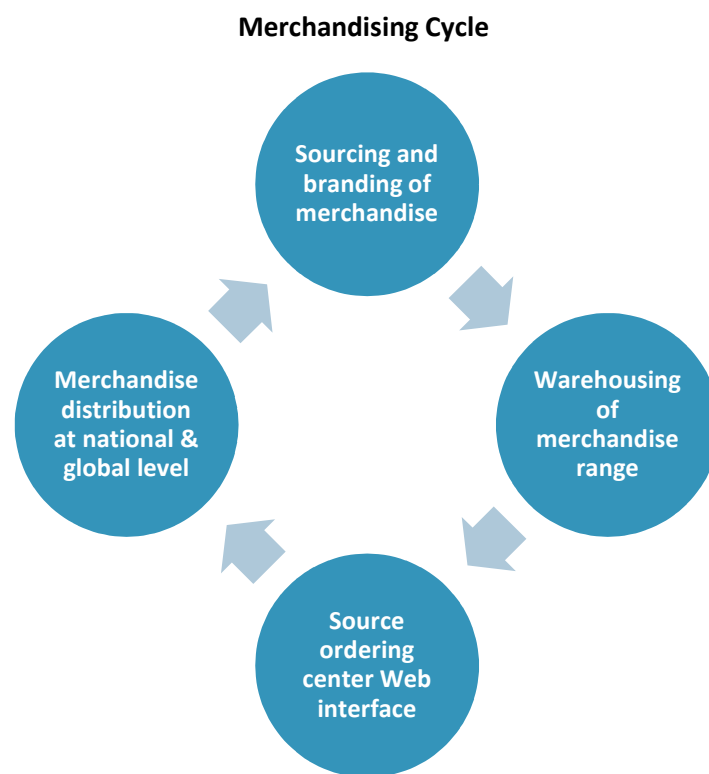


Figure 3.4 Cycle of Merchandise

Source smartsheet.com

Visual Merchandise Key Success Factors (KSFs)

- Store view as a customer
- Signage
- Lighting
- Uniforms
- Menu
- Point of sales material (POSM)
- Point of display (POD)
- Color

- Shape and texture
- Packaging and coding
- Presentation
- Wow feeling

To Do Activity

Visit Kisan mandi in your area and make a note of their merchandise presentation technique. If possible, take some pictures. Suggest any alternative arrangement, if you think the current one is not effective.

Retail Pricing Concepts

Price of the merchandise should be fixed and decided in such a way that it attracts customer for purchase and satisfies thereby achieving profitability for the firm. An inappropriate and unaffordable pricing policy will keep the retailer out of the market and from the competition. There are high chance of losing the potential customers to the rival group if the pricing is not accepted by the buyers. A combination of time, retailer position in market, expected sales and profitability and proper investment returns must be considered before finalizing the price.

Pricing Options Generally, there are 4 options for pricing with retailers posing its own advantages and flaws which are mentioned below

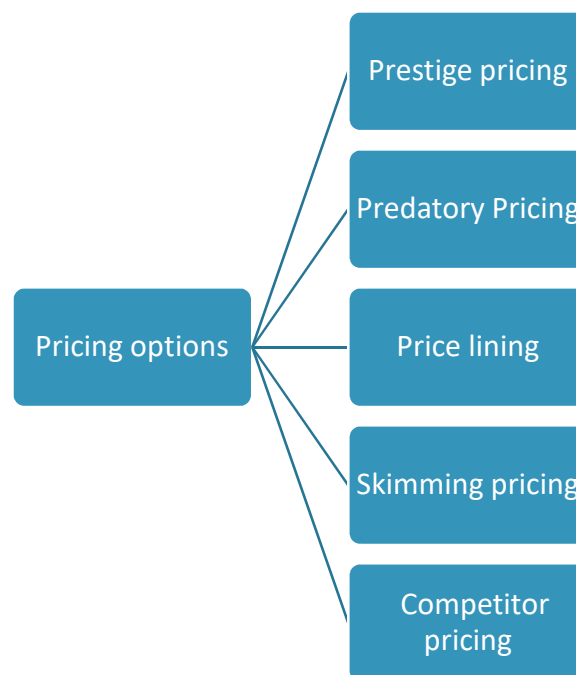


Figure 3.5 Options of Pricing

Source yourarticlelibrary.com

Pricing Types Most retailers adopt the following pricing categories to end users

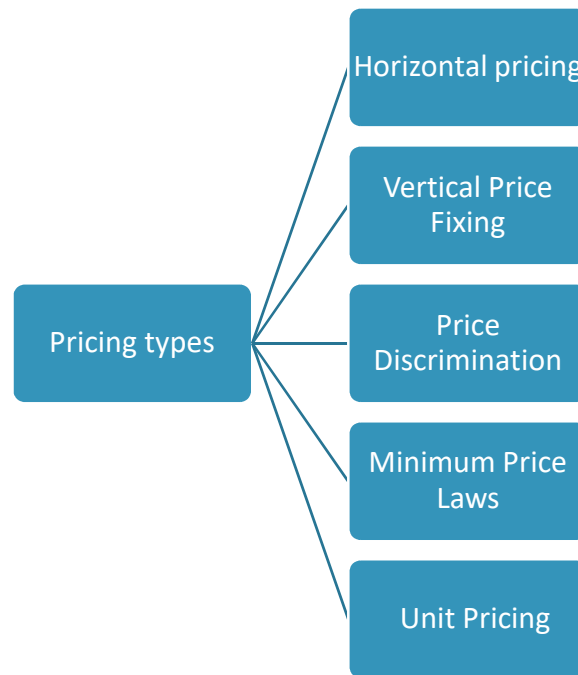


Figure 3.6 Types of Pricing
Source yourarticlelibrary.com

3.2 Types of Merchandize Assortments

The Assortment Planning Process

- Store grades are used to lessen the involved number of strategic choices undertake.
- Strategic Planning for store grading enables and found to be operational because of execution of proper strategy concerned.
- Sales value is most commonly used strategy for grading the stores
- While making decisions regarding assortments it is decided that placing of items done based on size and category.

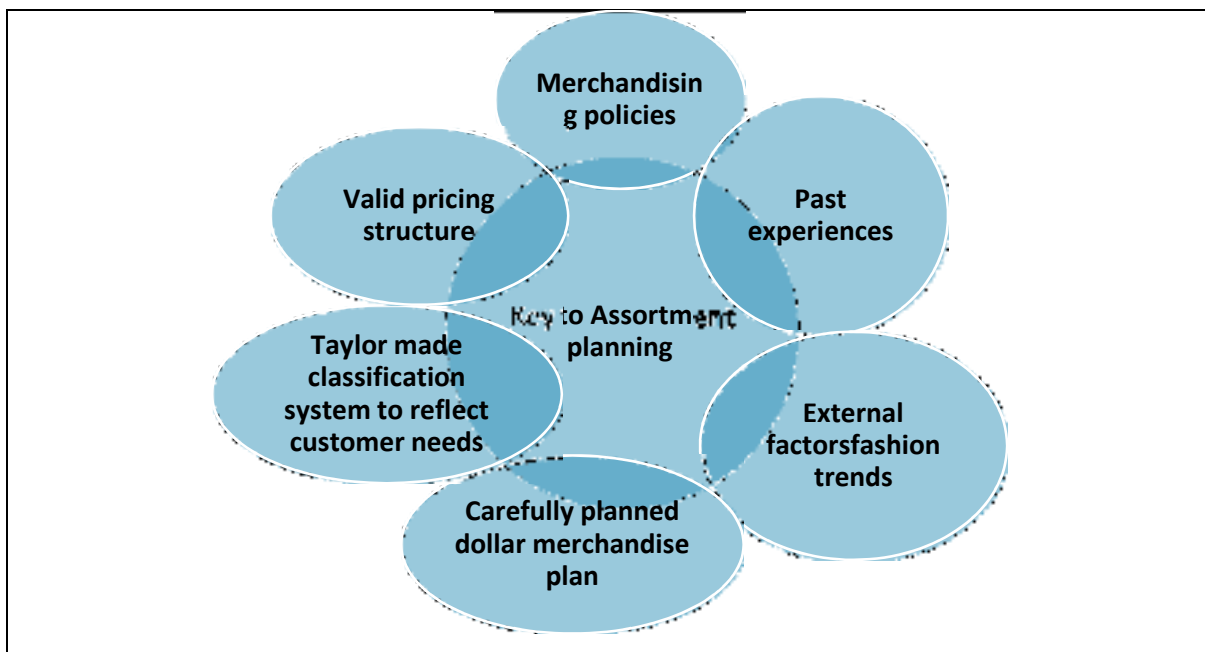


Figure 3.7 Assortment Planning

It can be inferred from the above diagram the importance and place of following in the process of planning of merchandise assortment

- Existing organizational policies of merchandising
- Previous experience in handling the merchandise
- External factors attitude, interest, opinions, values, life styles of prospects and markets
- Meticulous draft regarding basic merchandise planning
- Customized merchandise classification system keeping in mind the customer requirement
- A valid, justified, competitive pricing system and structure.

Salient Features of Effective Assortment Plan

- Efficient sales forecasting techniques
- Inventory turnover
- Experienced decision
- Adoption and implementation of situational approach
- GMROI

Functions of Merchandiser and Merchandising Department

- Planning
 - Budget preparation based on sales estimates, expected return, organizational goals and objectives
 - Planning for whole organization
 - New product addition in the list, dispose off old and obsolete product category
- Directing
 - Direction and guidelines to purchase department for quality, quantity and total budget
- Coordinating
 - Effective and effective communication
 - Timely information dissemination
 - Adoption of balanced approach
 - Vendors and supplier's negotiation
- Controlling
 - Whole operations controlling and managing
 - Procurement
 - Merchandise allotment to stores
 - Visual displays
 - Final pricing of products
 - Activities of sales promotion

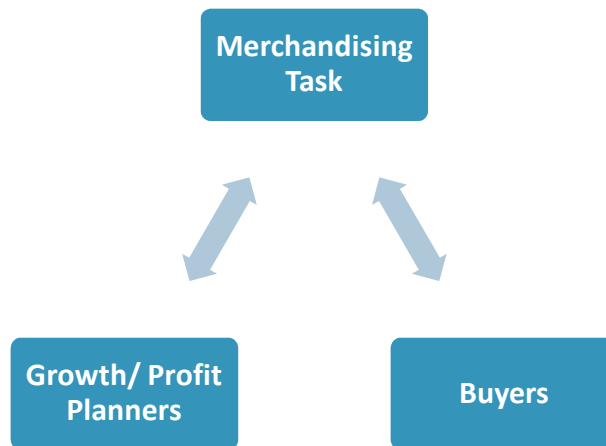


Figure 3.8 Merchandising Task

The merchandiser task majorly involves as planning for the merchandise, to buy and stock the product based on the customer need and expectations. The approach needs to be buyers oriented and focused.

The objective should be growth oriented and profit based. This would be achieved only by selling the desired products to the customer thereby meeting and surpassing the expectation. The delighted customer always brings profitability for the organization. It should be twoway transaction. Meeting the needs profitably.

Different Types of Merchandise

- **Staple Merchandise**
 - Basic necessities of life items like food to eat, clothes to wear, household items, stationary, toiletries items, all FMCG categories products
 - Characterized by constant, stable and regular demand and consumption
- **Fashion Merchandise**
 - As the name suggests the consumption pattern is depending on the current and latest fashion trends. Mostly youngsters are the potential buyers of these merchandise.
 - Frequent or sudden changes in the trend because of changes in consumers
 - Attitude
 - Interests
 - Opinion
 - Values
 - Life styles
 - Culture
 - Perception
 - Preferences
- **Fads Merchandise**
 - Risky to store for long period as the demand stays for a shorter period
 - Not advisable to hold the inventory for long
- **Seasonal Merchandise**
 - Products and goods is demanded for a particular season only

- Like during summer season there is hike in selling of ice creams, sun glasses, umbrella, rain coats etc

This can be evident from the diagram below

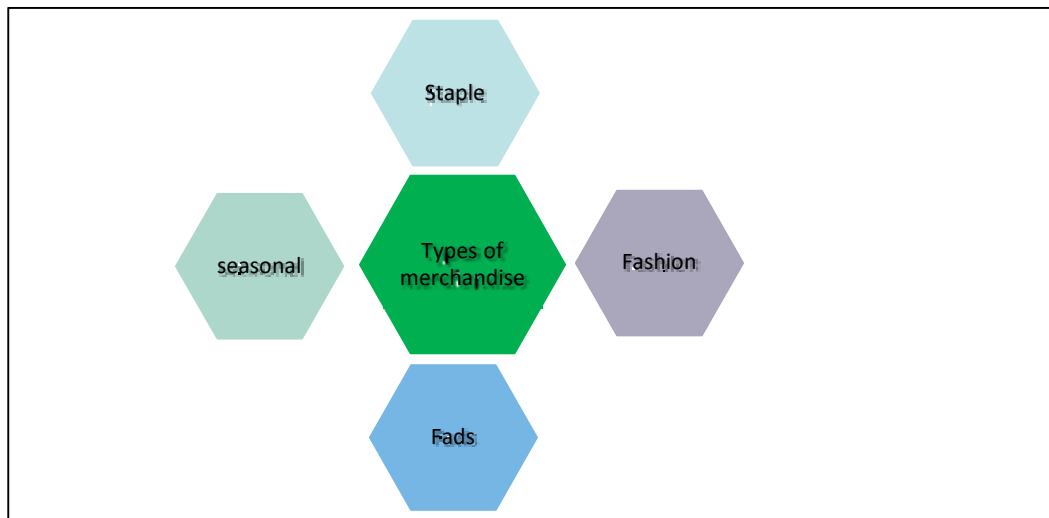


Figure 3.9 Merchandise Categories

To Do Activity

Visit nearby merchandise store and observe the types of merchandise and its assortments. Write down the length, breadth and depth of the goods.

The process of merchandise assortments can be visualized by the following categories and tasks

1. Length / Number of products
2. Breadth/ Number of product lines
3. Depth/ Number of product varieties in a product line
4. Consistency to the retail need of buyer to meet the expectations.

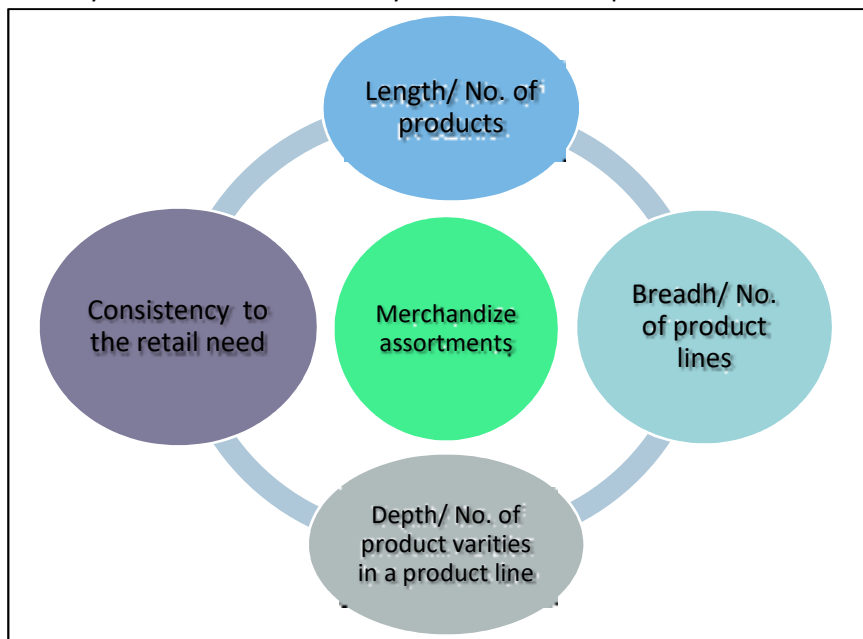


Figure 3.10 Merchandise Assortments

3.3 Merchandize Procurement Process; Sales Forecasting

Merchandise procurement is a triad process of process, people and systems. Here are the specific details

- **Merchandising Process**
 - Desirable product/ category margin
 - Open to buy system and provision
 - Performance analysis of individual category
 - Inventory Management
 - Supply chain and logistics
 - Sales forecasting
 - Stock allocation for each SKU
- **People Involved**
 - Locations
 - Distribution
 - Finance
 - Marketing
 - Suppliers
- **Systems Application**
 - Management reporting
 - Point of sale
 - Merchandising

To Do Activity

Experiment with the nearby retailer deals in rural FMCG products. Try to note the merchandize procurement process.

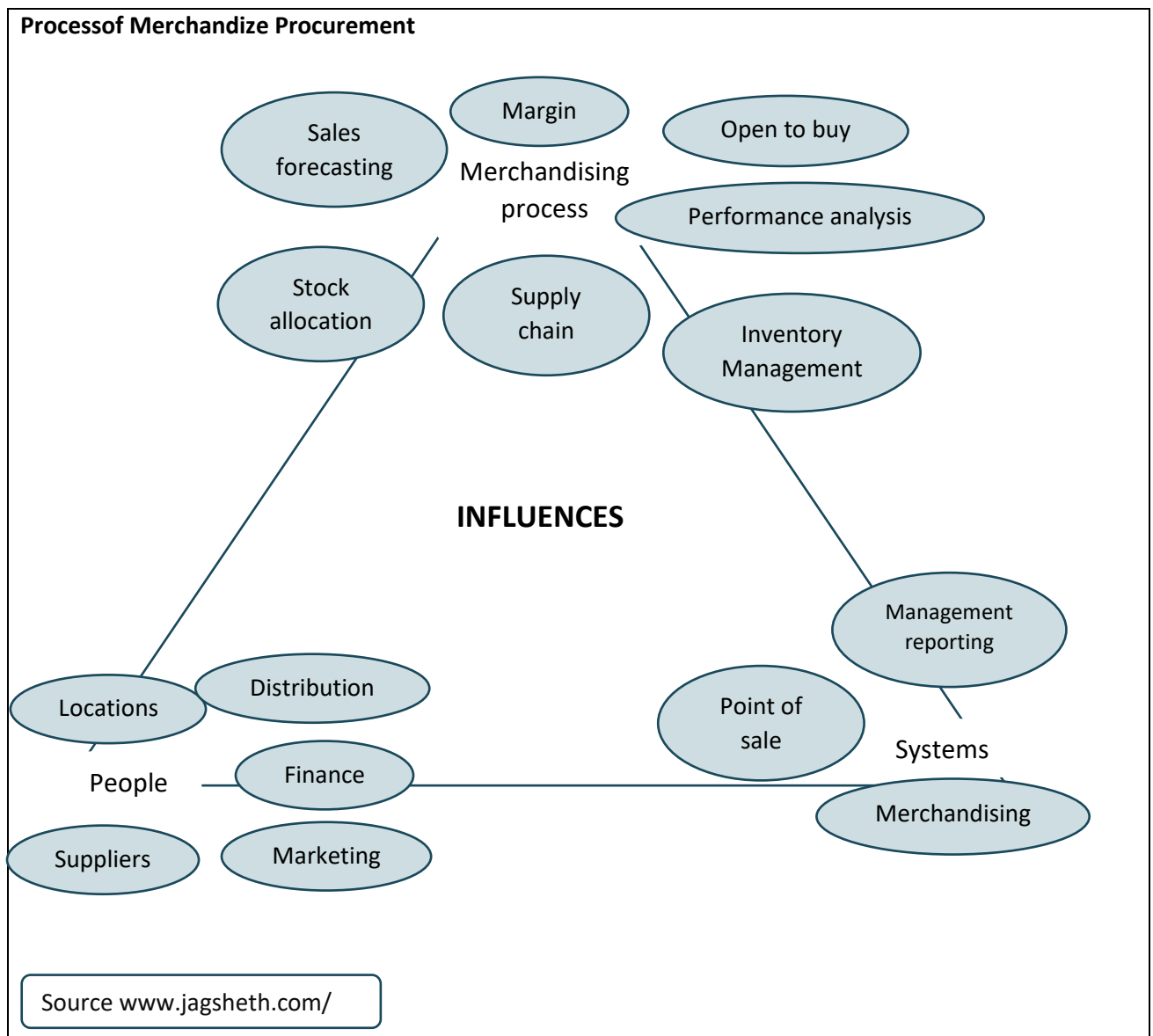


Figure 3.11 Merchandise Procurement Process

Methods of Procuring Merchandise

Identifying the source of supply from either domestic or international market assessment

Contacting and evaluating the source

1. Evaluation criteria for potential vendors
 - The target market to be served by the vendor earlier or presently
 - The image of the retail organization
 - The merchandise and process offered
 - Terms and conditions of services offered by vendors
 - Vendor's reputation and reliability
2. Negotiating with source
 - Trade discounts
 - Quantity discounts
 - Seasonal discounts

- Cash discounts
- 3. Establishing vendor relations
 1. Mutual trust
 2. Open communication
 3. Common goals
 4. Credits commitments
- 4. Analyzing vendor performance

Merchandise Communication Matrix

- External communication via
 - Buyer
 - Supplier
 - Sub-contractor
- Internal communication via
 - Owner
 - Manager Respective division manager
 - Incharges production, quality, procurement, supply chain, R &D
 - Supervisor
 - Operator
 - Co worker

Allocating Merchandise to Stores

Allocating merchandise to stores involves three basic decisions

- What type of merchandise to allocate?
- When to allocate?
- How much merchandise to allocate?

Merchandise policy can be defined based on the following business components

- Demographics of current and potential customers.
- Store's image.
- Merchandise quality levels.
- Price point policy.
- Marketing approach.
- Customer service levels

The Merchandising Process is the amalgamation and inter linked system of category management, field verification, formulation of the merchandising policy, implementation of the process and performance reports based on the actual turnover or output.

The process also includes one vital aspect of updating the information related to the sort of activities done with regards to the product categorization.

The Merchandising Process

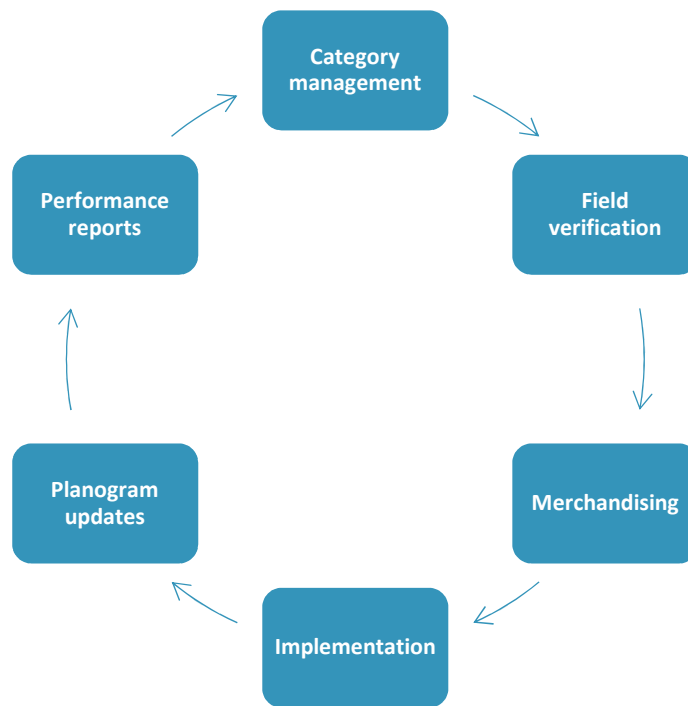


Figure 3.12 Process of Merchandising

To Do Activity

Visit any rural store and make a note of the assortment on display. Make a merchandise hierarchy for the store.

Sales Forecasting

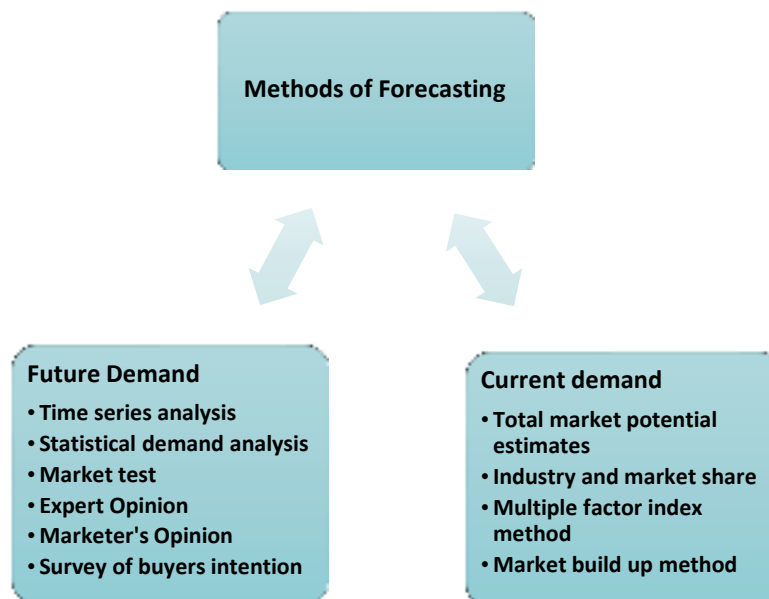


Figure 3.13 Methods of Sales Forecasting

Base on the past sales data of the organization, the merchandiser can decide the best and worst possibility of successful merchandising process. By adopting extrapolation and forecasting techniques 3 expected results and situations can be arrived. The first one would tell about the worst case followed by most likely case and finally the best suitable case for merchandise management.

Scenario Based Sales Forecasting

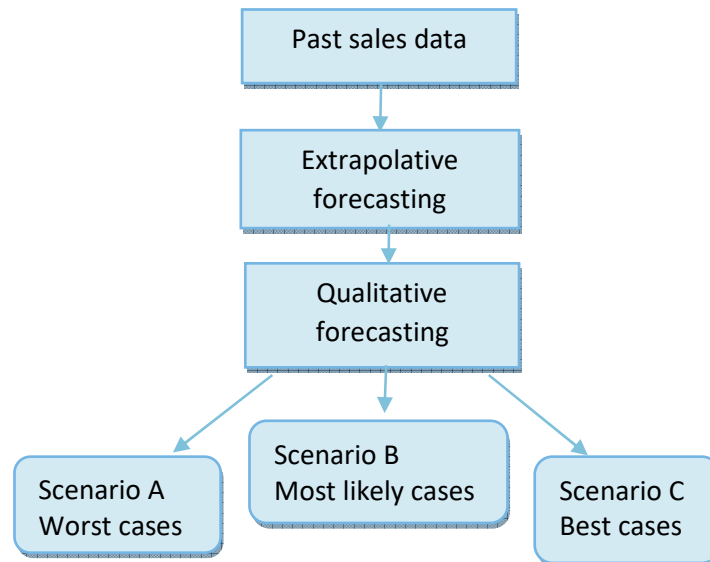


Figure 3.14 Sales Forecasting Scenarios

Other Methods of Sales Forecasting

- I. Moving average method
- II. Exponential smoothing models
- III. Regression models
- IV. "Mustdo" calculations
- V. Capacity based calculations

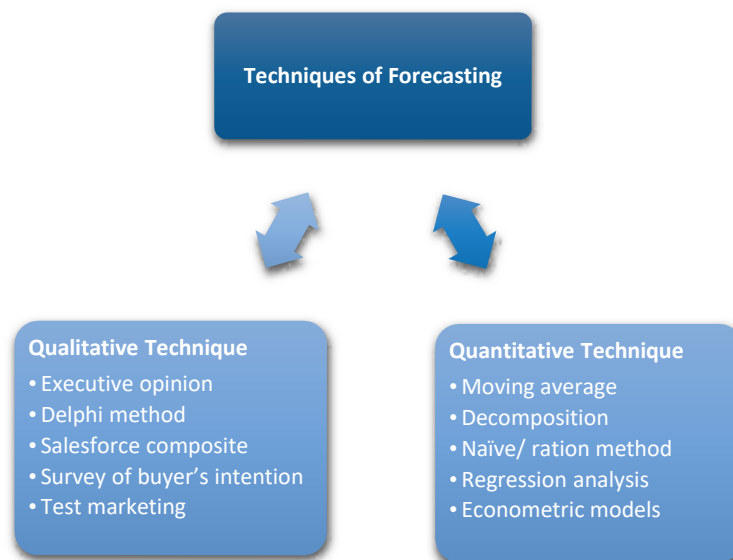


Figure 3.15 Techniques of Sales Forecasting

3.4 Merchandise Planning Merchandise Buying System

After the process and steps of merchandising assortments and procurement, the next sequence is the merchandising planning. This process involves sequential, logical and systematic process of proper merchandising planning and proper control which can be depicted below.

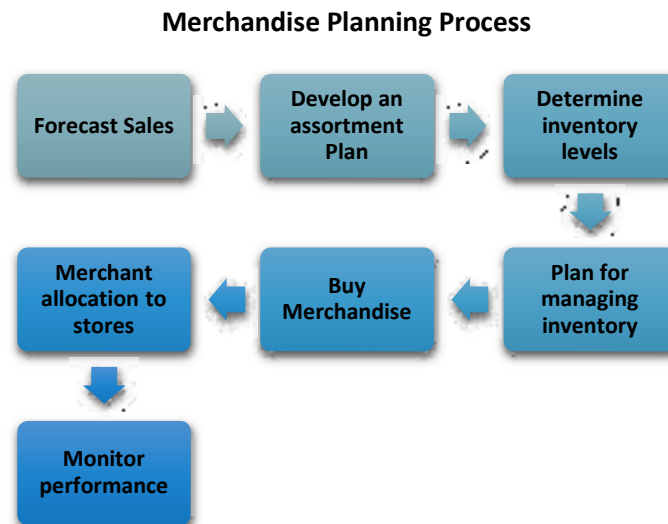


Figure 3.16 Merchandise Planning Process

Source iibmindialms.com

Merchandise Planning Process

- Gather historical information
- Perform qualitative analysis
- Customer profile analysis
- Department analysis
- Key department trend
- Major vendor analysis
- Advertising review
- Visual presentation analysis

Merchandise Planning process is all about to determine what & how much merchandise should be carried in a typical merchandise category.

It also deals with the strategy to increase total sales & the desirable margin. It plans to improve inventory productivity and finally to meet customer expectation and customer satisfaction.

Nevertheless, merchandise planning recommends the depth & breadth of the assorted merchandise of retail. It functions as to identify store level selling patterns thereby arranging and providing flexible products & location based attribute efficiently.

All the points can be easily interpreted by referring below table for 3 Ws.

Merchandise Planning



Figure 3.17 Basic Merchandise Planning 3 W's

The below diagram depicts and outlines the merchandising planning process. Basically, it includes having the right quality of product at the right location, at right time, through right process, by the right kind of people and in right and required quantity.

Key Drivers of Merchandise Planning

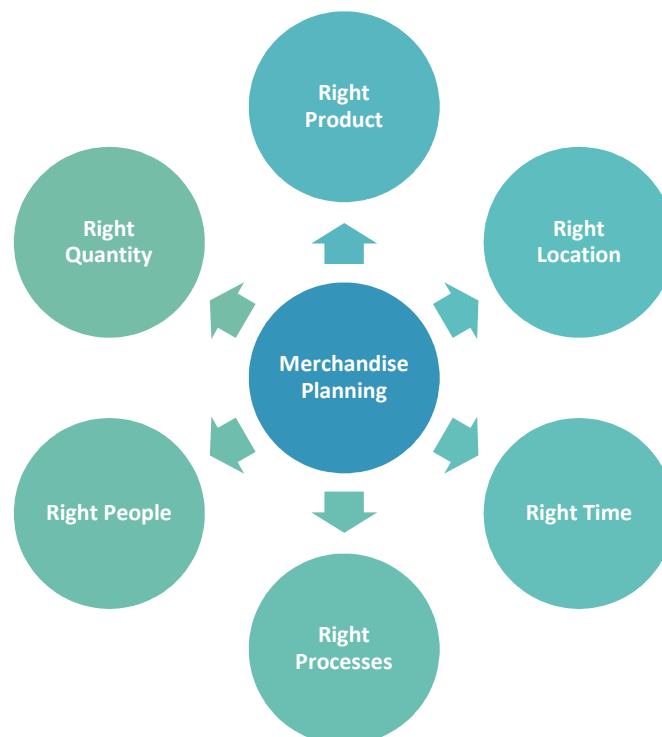


Figure 3.18 Drivers of Merchandise Planning

Sourceslideshare.com

Evaluating Merchandising Performance

ABC Analysis

- ABC analysis ranks the merchandise based on how important the item is.
- **It Determines**
 - Types of items should not be of finished stock category,
 - Types of items should as per requirement and contingency may be kept under finished stock category
 - Types of items ought to be removed from the selection of that stock

Contribution Margin = Net Sales of Goods - Cost of Goods Sold - Other Variable Expenses

Sell through Analysis

A comparison between the actual and planned sales, to assess whether early markdowns will be required or more merchandise will be needed to satisfy the demand.

Multiple Attribute Method

This method uses a weighted average score for individual vendor. Steps

- List of pertaining concerns to be framed in order to consider for planning and decision-making.
- Proper weightage to be given each attribute.
- Sound and justified judgments to be made regarding individual brand's efficiency on each concern.
- Altogether need to combine the significance and evaluate the performance scores.

Lastly all variables to add in order to arrive at respective brand scores.

The concept of Gross Margin Return on Investment (GMROI)

- Gross margin percentage is the measurement and analysis of comparative profitability without considering, the costs of stockholding investment.
- Week's cover indicates how efficiently the stock was turned without informing about the relative profitability.
- GMROI is derived as gross margin/average inventory at cost
- GMROI is a planning of the merchandise and optimum decision-making tool.
- It helps the customers identify and evaluate whether the products purchase earn a enough gross margin, as compared with investment in the category of inventory essential to create the gross margin.

To Do Activity

Select any rural retailer of your choice and match their factors of merchandise planning with those studied by you. Note the difference

Visual Merchandising Planning Process

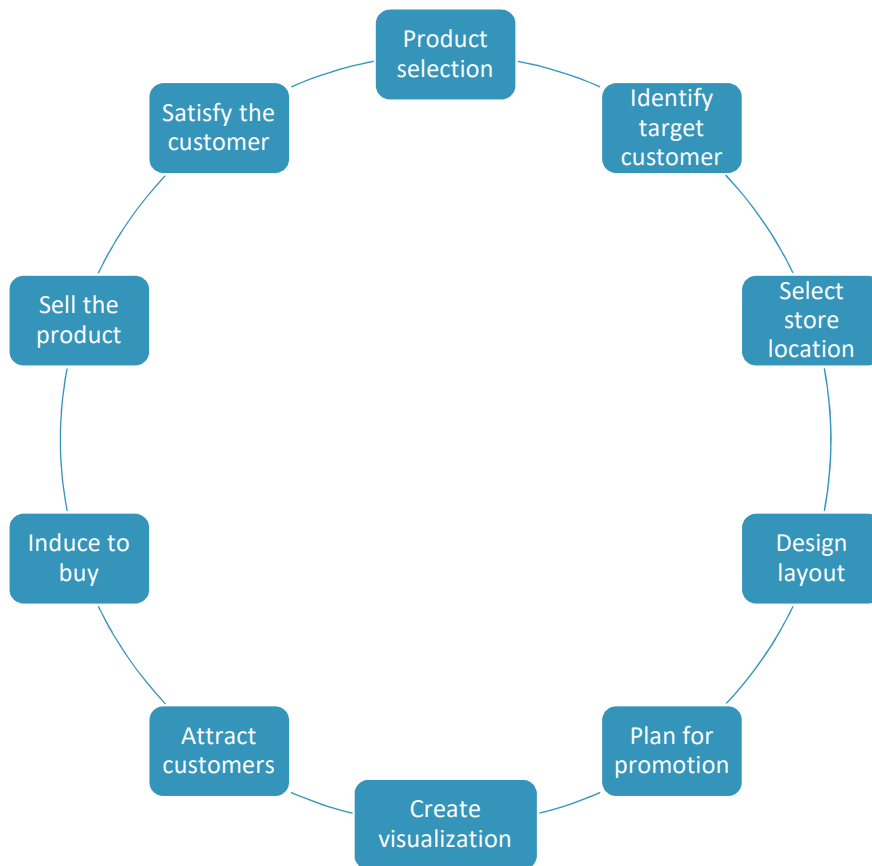


Figure 3.19 Visual Merchandising Planning Process

Source amazonaws.com

Visual Merchandising Planning Process of Rural Store

- Selection of the product category
- Target customer identification
- Selecting the location of the store
- Store layout design
- Effective promotion plan
- Creation of effective visualization
- Attraction of potential and prospective customers
- Make or induce the customers to buy the merchandise
- Product selling
- After sales service
- Feedback
- Creation of value addition

The Merchandise Buying systems and process for both retailer and merchandiser includes the following steps as can be depicted below. The buying systems for a merchandise involves the following stages

- Forecasting sales
- Fixation of quantities
- Selling projection through market analysis
 - Estimation relative market share (RMS)
 - Analysing market growth rate (MGR)
- Deciding whether to make or to buy



Figure 3.20 Merchandise Buying Systems

At organization level the merchandise planning needs to be done involving different hierarchy of the organization. The planning should span and includes every levels, divisions, departments and associated person involved in it.

The company > The department > Classification of merchandise on company criteria > Selection of merchandise category > Selection of merchandise subcategory > SKU (stock keeping unit) or the individual product of a single category.

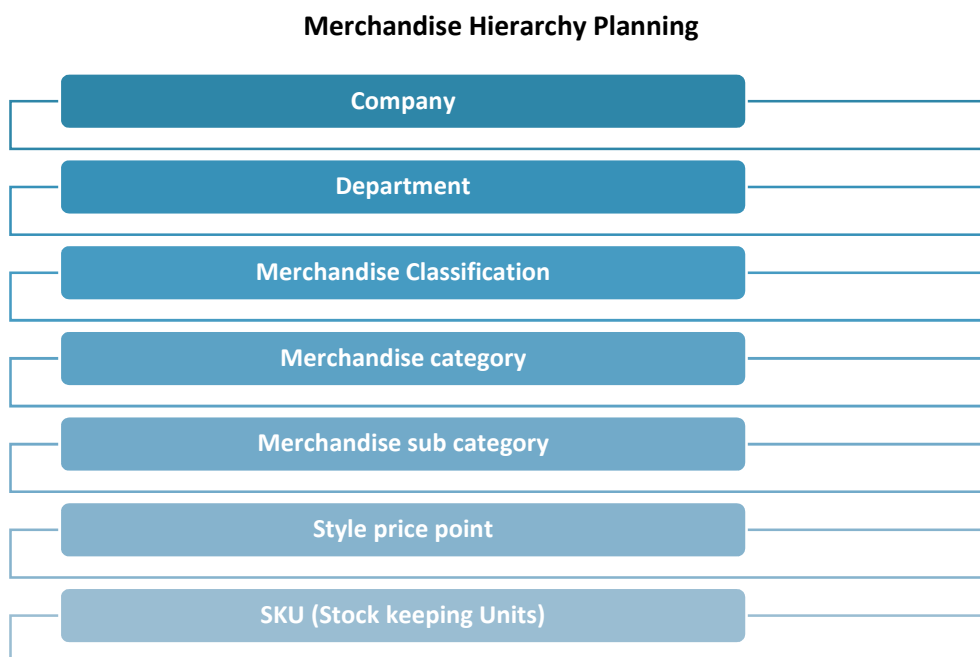


Figure 3.21 Merchandise Hierarchy Planning

Sourcescribd.com

3.5 Retail Pricing

In this unit, you will learn about the implications of the pricing decision which a retailer should consider while deciding the pricing for the retail sales.

Price is the factor which makes or mars a retail organization. It is also the easiest and quickest element to change. Price is the main reason to visit a store for a Customer.

Pricing Objectives

- Profits maximization for complete product line.
- Promoting longrange prosperity tactics of firm may also influence the pricing decision
- Adaptability of price ranges to acceptable limit in the cut throat competitive market
- Elasticity and sensitivity to changing prices in response to changing market condition
- Stabilization of prices and margins
- Market Penetration strategy adoption
- Market Skimming strategy adoption
- Predatory strategy adoption

Multiple Factors Influencing Pricing

- Price is the source of revenue
- Every firm wants to maximize
- most important device a firm can use to expand its market share
- general considerations for formulating pricing strategy
- Objectives of business
- Competitive environment
- Product and promotional policies of the firm
- Nature of price sensitivity
- Conflicting interests between manufacture and intermediaries
- Routine pricing decision
- Number of pricing decisions
- Speed in making a pricing decision
- Quality of available information
- Competitive market

Cost factors in Pricing

- In the long run, prices must cover costs.
- Cost must be regarded only as an indicator of the price, which ought to be set after taking into consideration the demand and the competitive situation.
- Cost at any given time represents a resistant point to lowering of price.
- Relevant costs are those costs that are directly traceable to an individual product.
- If factors of demand and/or competition prevent a firm from setting a price for one of its products that will cover direct costs, there may be no alternative but to discontinue the product.

Demand Factors in Pricing

- Demand based factors are external factors and emerge out of marketing factors.
- The pricing policy of a firm would depend upon the elasticity of demand.
- It would not be profitable for the firm to reduce its prices, if the demand is inelastic

Factors Affecting Retail Pricing

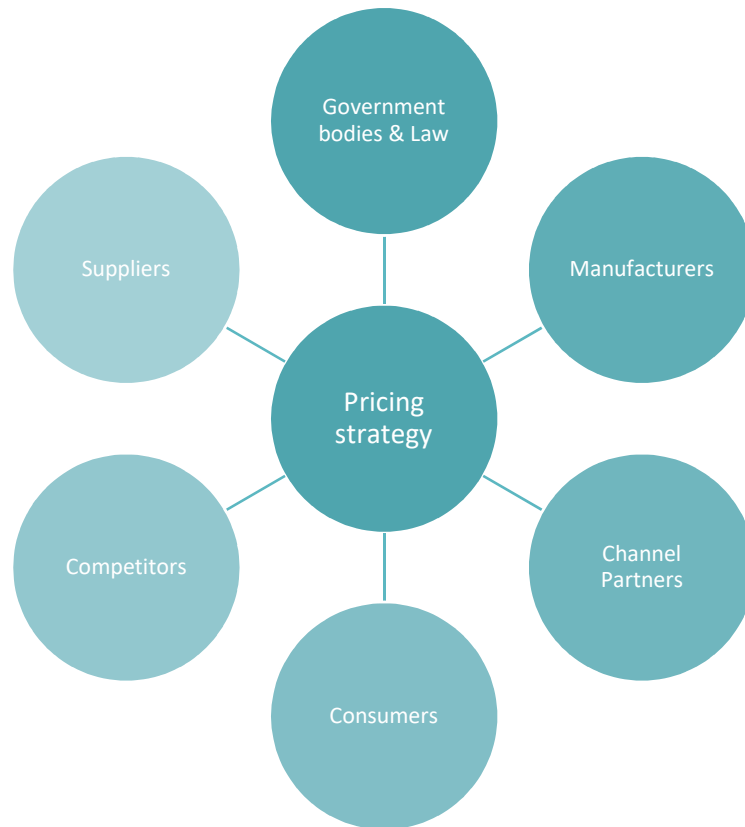


Figure 3.22 Factors Affecting Retail Pricing

Price Sensitivity

- Demand is based on the consumption patterns of the consumers.
- Sensitivity to price change will vary from consumer to consumer

Important Characteristics of Consumer Behavior

- Prices are quantitative and unambiguous, whereas product quality, brand image, customer service, promotion and similar factors are qualitative and ambiguous.
- Price constitutes a barrier to demand when it is too low just as much as when it is too high
- Price inevitably enters the consumer's assessment of quality
- Consumers may be persuaded to pay more for heavily advertised goods.
- Whether the price is considered a bargain or not would depend upon the average market price of the item, the gender of the potential consumer, and the value of the item to the purchaser
- In a comprehensive survey of consumer consciousness, it was revealed that the basic postulate of the demand theory.

Pricing Strategies

- Price sensitivity is the most common feature of Indian customers famously called as consumerism.
- Pricing is a crucial part of rural marketing mix and has its own importance and place in the

To Do Activity

Prepare a report on Factors affecting Prices Indian urban vs rural consumers

strategic planning and decision-making process.

Demand Oriented Pricing

- In the strategies of demand-oriented pricing the retail prices are created based on customer's expectation or level of willingness to pay.
- Retailers think through the incurred profit structure in addition to price margin effect which affect the price level on total sales volume.
- Demand oriented Pricing focuses on the quantities that the consumer would buy at various prices.

Price setting Strategies

- **Cost Oriented Pricing**

Cost oriented pricing strategies finalize the price to recover the production cost, operating cost and a prefixed profit percentage.

Markup Criterion

The retailer's markup percentage or cost-plus percentage depends on following considerations

- Product's traditional markup policy
- Competition in the market
- Supplier's guidelines regarding selling price
- Operating expenses of store
- Rented or own retail store
- Inventory turnover
- Level of customers service offered

Calculation of Mark-up Percentage

$$\text{Mark-up percentage} = \frac{\text{Retail selling price} - \text{Merchandise cost (at retail)}}{\text{Retail selling price}}$$

$$\text{Mark-up percentage} = \frac{\text{Retail selling price} - \text{Merchandise cost (at cost)}}{\text{Merchandise cost}}$$

Initial Markup This strategy is centered on the selling price allocated to the merchandise minus the costs of the commodities sold.

Maintained Markup

Initial Markup = Retail selling price initially Cost of goods sold set for the Merchandise

Whereas,

Maintained Markup = $\frac{\text{Actual selling price} - \text{Cost of merchandises sold}}{\text{retailer wants for its merchandise}}$

- Gross Margin

Gross margin = $\frac{\text{Net sales} - \text{Total cost of goods}}{\text{Net sales}}$

Competition Oriented Pricing

- Competitive pricing lowers the market rate
- Competitive pricing overhead the market rate

Retail Pricing Approaches

- Above the market
- At the market
- Below the market

Some Key Pricing Related Terms

- Horizontal Pricing
- Vertical Price Fixing
- Price Discrimination
- Minimum Price Laws
- Unit Pricing
- Item Price Removal
- Price Advertising

Psychological Pricing

Psychological pricing prices are set at a certain level where the consumer perceives the price to be fair.

Consider Consumers Perception of Price

- Positioning
- Popular price points
- Fair pricing

To Do Activity

Make a brief note on pricing strategy adopted by any Nirma detergent in rural part of Chattisgarh.

Markup and Markdown Pricing

Markdown

'Markdown's one of the best common technique to drive sales offering specific merchandise at lesser price than the merchandise normal price.

Reasons for markdown include

- Overstocking/overbuying
- Season changes

- Clear out shopworn/slow-moving merchandise
- clear outold fashioned/old trend merchandise
- Generate customer traffic

Types of Markdowns

- Temporary markdown
- Permanent markdowns
- Seasonal markdowns

Markup

Additional markup price is proposed to raise the price over the actual markup price because of following reasons like

- The demand of offered merchandise is extremely high.
- There is a monopolylike situation.
- When the competitors are unable to meet consumer's demand.
- When private brands are doing well as compared with their local competitors in retail market.
- When there is a positive and good demand of merchandise and the retailer prefers quicker returns.
- "In today's world of retailing where brands are easily available and competition is becoming tougher, markdowns are increasingly applied by Indian as well as global retailers rather than markups."

To Do Activity

Conduct a few interviews of people residing in your locality (urban/ city) to find out their views on psychological pricing. Try to find out the difference with rural counterparts.

Model Questions

1. Recall and relate different forms of retail merchandise presentation in a rural store of any district of West Bengal.
2. Demonstrate and interpret different factors affecting rural retail functions and strategy of Hero Moto corp for driving its sales in Orissa.
3. Apply and construct a typical rural retail visual merchandising system of a mobile store.
4. Analyze and examine the steps of a typical cycle of rural merchandise of Emami group.
5. Construct a model showcasing a holistic approach of rural retail with associated functions and strategy.
6. Distinguish between different types of merchandize assortment of a rural merchandiser.
7. What is the technique of sales forecasting of a rural retailer?
8. Determine the plan of retailers for assortments and keeping inventory levels at minimum cost.
9. Infer the triad variable of merchandise procurement and develop the rural model for Timken
10. India Ltd for the category of Large Appliances, Home & Kitchen operating in Maharashtra.
11. Why is it important for companies to maintain a cordial relation with external and internal stakeholders?

12. Formulate a sales forecasting technique of appliances companies like Videocon, Godrej, Samsung, Whirlpool serving in the rural parts of Rajasthan and Haryana
13. How can you differentiate between qualitative and quantitative sales forecasting techniques for a typical mobile manufacturing companies in rural parts of North East India?
14. Design and discuss the merchandise buying system from the perspective of a) rural retailer b) rural merchandiser c) Rural buyer
15. Critically analyze and evaluate major drivers of merchandise planning. What would be the output if few of the factors found missing for a merchandiser?
16. Estimate and evaluate the merchandise performance in rural areas of Jharkhand by
 - ITC
 - HUL
 - Nestle
17. Appraise the visual merchandising planning process of Syska, Halonix and Philips in rural areas of North Uttar Pradesh.
18. Formulate the organization hierarchy planning of Eicher Motors for the rural part of Punjab.
19. Outline and contrast the difference between skimming and penetration pricing adopted by
 - a. Britannia Industries
 - b. Marico Ltd.
 - c. Proctor & gamble
 - d. In the rural parts of Assam and Nagaland.
20. Examine the factors affecting retail pricing in rural areas of Bihar by Godrej group.
21. Examine the typical rural consumerism towards adoption of “cheap, small & best” policy of pricing of products.
22. Discuss how psychological pricing by companies affect rural consumer buying behavior process.

References

1. Pradhan, S (2009) Retail Marketing Management, New Delhi Tata McGraw Hills.
2. <http://www.yourarticlelibrary.com/retailmanagement/merchandisepricingintroductionoptio nsubjectivesandpricingstrategy/48130>, 13.02.201914.20
3. <https://www.mytotalretail.com/article/merchandisingfourpricingstrategieswhenusethem467 82/all/13.02.201915.20>
4. <https://www.smartsheet.com/retailmerchandising>, 02/02/201914.20
5. <https://www.rmservicing.com/industryupdates.aspx>, 13.02.201917.20
6. <http://www.businessmanagementideas.com/retailarketing/merchandising/merchandisingde finitionstypesprinciplesandfunctionsretailmarketing/17534>, 09.02.2019 19.57
7. <https://www.slideserve.com/doria/theassortmentplanningprocess>, 09.02.2019 21.52
8. <https://www.thebalancesmb.com/productbreadth2890171>, 13.02.2019 16.11
9. <http://www.yourarticlelibrary.com/retailing/merchandisebuyingandhandlingprocess6stages/ 48212>, 05/02/2019 15.22
10. <https://www.jagsheth.com/consumerbehavior/amodelofindustrialbuyerbehavior/> 11/02/2019 15.22
11. <https://www.purchasecontrol.com/blog/procurementprocesscycle/> 14/02/2019 15.22
12. <https://www.scribd.com/presentation/224932106/MerchandiseProcurement>, 09/02/201922.55

13. Levy, Weitz and Pandit (2008) Retailing Management, New Delhi Tata McGraw Hills.
14. [http://www.iibmindialms.com/library/marketingmanagement/retail marketing/merchandise planning/](http://www.iibmindialms.com/library/marketingmanagement/retail%20marketing/merchandise%20planning/) 01.02.201907.12
15. <http://www.yourarticlelibrary.com/retailing/merchandisebuyingsystemstwotypesstapleandfashion/48206>, 01.02.201907.25
16. <https://www.retaildirections.com/merchandisemanagement/>01.02.201910.25
17. Levy, Weitz and Pandit (2008) Retailing Management, New Delhi Tata McGraw Hills.
18. <https://www.mytotalretail.com/article/merchandisingfourpricingstrategieswhenusethem46782/all/>13.02.201916.20
19. Levy, Weitz and Pandit (2008) Retailing Management, New Delhi Tata McGraw Hills.
20. Pondicherry University Retail Management University press
- 21.

Video References

1. <https://www.youtube.com/watch?v=uSw4hS979ZA> accessed on 05/02/201916.11
2. <https://www.youtube.com/watch?v=qLVu1tgwjGw>, accessed on 31.01.2019 22.23
3. <https://www.youtube.com/watch?v=2Q0F6vHQMk>, accessed on 09.02.2019 20.15
4. <https://www.youtube.com/watch?v=XggKKhU3tXE>, accessed on 09.02.2019 20.55
5. <https://www.youtube.com/watch?v=cojB0d76Mfk>, accessed on 07/02/2019 20.48
6. <https://www.youtube.com/watch?v=tOjkQfzE0mY>, accessed on 07/02/2019 20.02
7. <https://www.youtube.com/watch?v=1ZKSW9iqAtg>, accessed on 03/02/2019 21.06

Reading Materials

1. Levy, Weitz and Pandit (2008) Retailing Management, New Delhi Tata McGraw Hills.
2. Sinha, P,K (2007) Managing Retailing, New Delhi Oxford University.
3. EILM University Retail Management University press
4. Gilbert D (2012), Retail Marketing Management, Edition II New Delhi, Pearson India
5. Sinha, P,K (2007) Managing Retailing, New Delhi Oxford University.
6. Pondicherry University Retail Management University press
7. Sinha, P, K (2007) Managing Retailing, New Delhi Oxford University.
8. Pondicherry University Retail Management University press
9. Sinha, P, K (2007) Managing Retailing, New Delhi Oxford University.
10. Madan, KVS (2009) Fundamentals of Retailing, New Delhi Tata McGraw Hill
11. Pradhan, S (2009) Retail Marketing Management, New Delhi Tata McGraw Hills.
12. Sinha, P, K (2007) Managing Retailing, New Delhi Oxford University.

Chapter 4 Retail Communication and Distribution & Store Management

Introduction

After summarizing the concept of rural retailing and process in Chapter 1, about procurement in Chapter 2, and with retail merchandizing in details in Chapter 3, this Chapter deals with retail communication and distribution. The objective of this Chapter is to appraise you with the perception of elements of retail communication mix and its role in logistics management.

This Chapter will comprise of five units concerning to label and develop integrated retail communication programs. It also deals with the retail logistics and the whole supply chain management system.

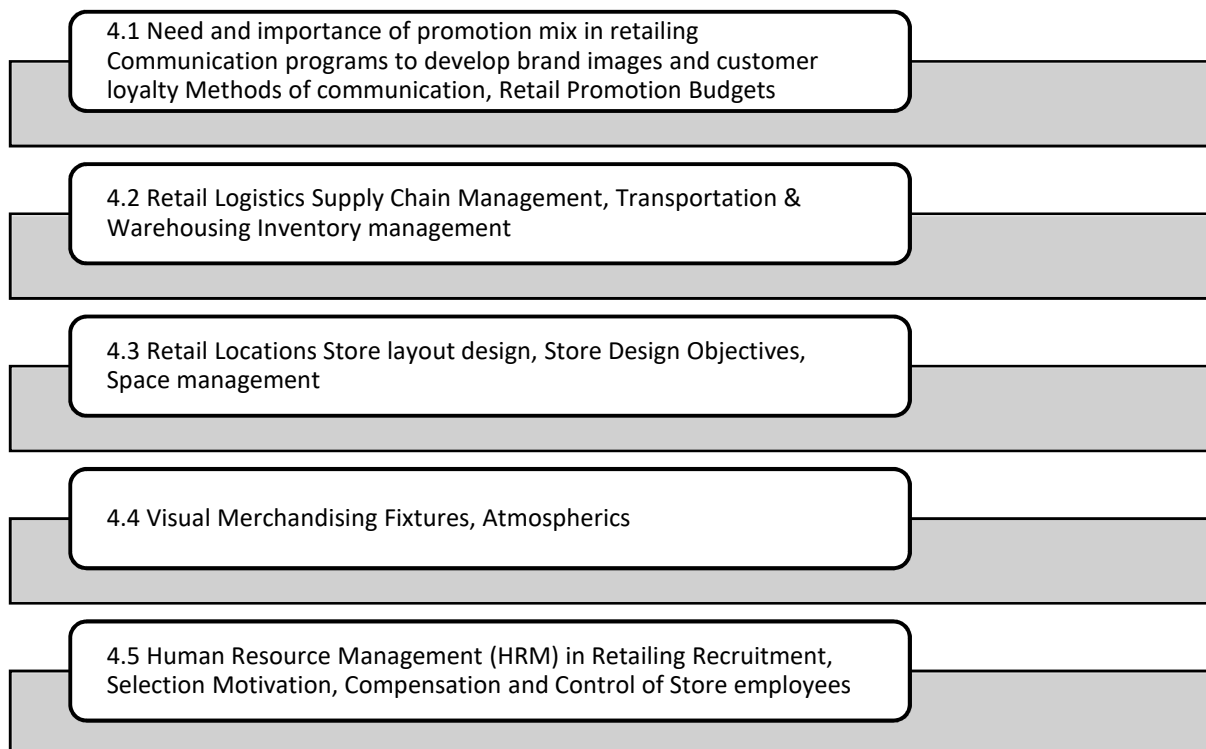
Emphasis has been made to this Chapter to know types of warehousing, store layout designing and strategies in addition to visual merchandising process in detail. The Chapter will also discuss the HRM process for retail employees and its proper control mechanism.

Objectives

After reading this lesson, you will be able to

- define and explain the importance of promotion mix in retailing;
- classify and compare the types and methods of communication;
- understand why communication programs are important to develop brand images and customer loyalty;
- develop the model of retail Logistics and associated categories;
- deduct retail locations, its designing and space management;
- assess the importance of visual Merchandising
- recommend ways of managing elements of human Resource Management (HRM) in Retailing

Structure



4.1 Need and Importance of Promotion Mix in Retailing Communication Programs to develop Brand Images and Customer Loyalty Methods of Communication, Retail Promotion Budgets

The concept of marketing mix is known to every marketer. Likewise, the associated concept of retail mix is not new, but related to gamut of activities in retail market. The retail mix is the strategy and communication program developed by a retailer over a time in order to be with the market need and demand. Also, to keep them abreast with that of the nearby competitor.

Retail Promotion Mix Features

- Product includes categories of products, assortment of products, individual brands and service level
- Price margins, price emphasis, mark down policy
- Place store location, operating hours, space requirement
- Promotion public relations, personal selling, advertising, sales promotion, direct marketing
- Personnel selling persons, service support, internal marketing
- Presentation merchandising display, uniforms of employees, fleet / category for showcasing

You will learn about retail promotion strategies in this unit. Retail marketing plans, sales promotion ideas, branding and advertising resources for retailers. Here, we will learn how to use cost leaders, media buys and sales events to the benefit of your retail store.

Retail and Vendor Communication Programs

Table 4.1 Features of Retail and Vendor Communication Programs

Vendor	Retailer
<ul style="list-style-type: none">• Long term objectives• Product focused• National• Specific product	<ul style="list-style-type: none">• Short term objectives• Category focused• Local• Assortment of merchandise

Retail Communication Programs to Develop Brand Images and Customer Loyalty

Integrated Marketing communication(IMC) is the process of informing, persuading and reminding the consumers about a merchandise or service.

The Objective of Communication Programmer

- Building a brand image of the retailer in the customer's mind
- Increasing sales and store traffic
- Providing information about the retailer's location
- Offering, and announcing special activities

Retailers Communicate with Customers Through

- advertising
- sales promotions
- websites
- store atmosphere
- publicity
- personal selling
- Email and word of mouth

Planning Retail Communication Methods of Communication

Parts of Retail Communication

- Advertising
- Personal selling
- Sales promotion and
- Publicity/public relations
- Direct marketing

Various Elements of Retail Communication Mix

- Chainwide sweepstakes
- Coop media
- Frequent shopper programs
- Inad coupons Coupons
- Instore advertising
- Instore coupons
- Instore demos/sampling

- Instant redeemable coupons (IRC)
- Internet programs
- Manufacturer purchased display space
- National sweepstakes
- Near pack offers
- Paperless coupons
- Premium giveaways
- Promotion tied to local organization or charity
- Retailer crossruff

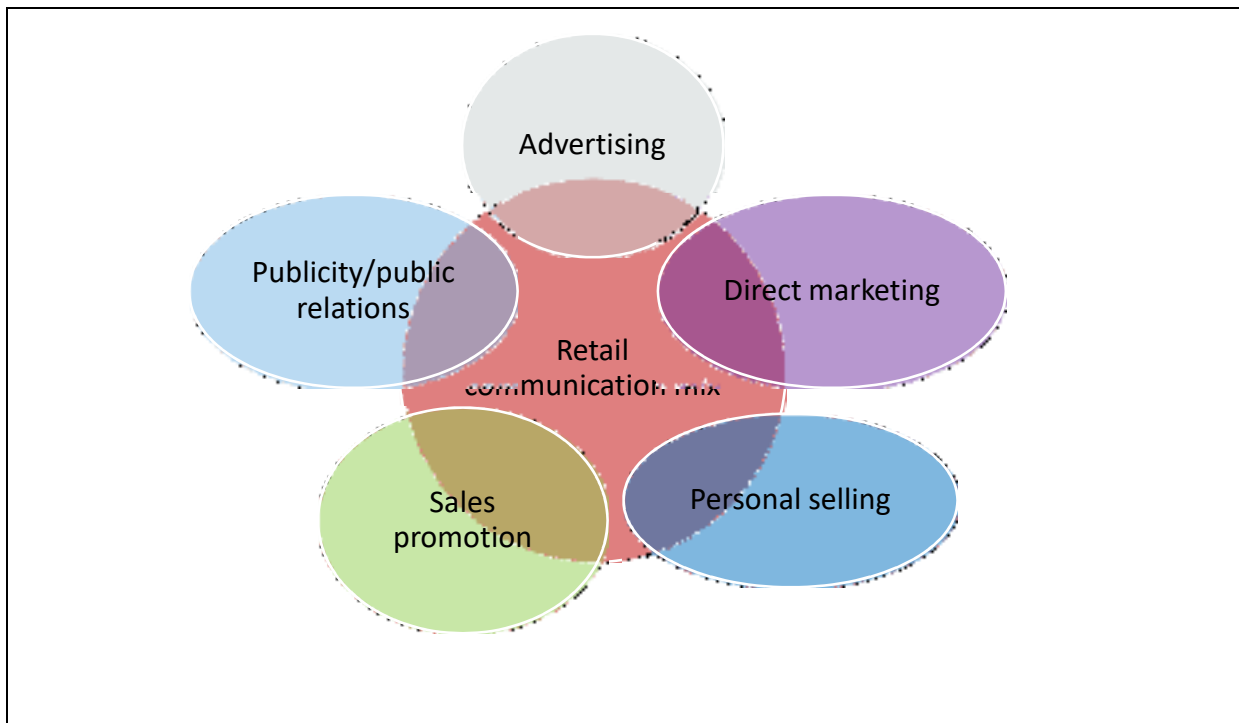


Figure 4.1 Retail Communication Mix

Source Kotler, P marketing Management

Belowtheline Promotion

Communicating through nonmedia forms or nonmedia advertising is referred to as belowtheline promotion.

Integration of Mix Element

- Tools used by Retailer to communicate with target customers
- Advertising
- Sales promotions
- Store atmosphere
- Public relations
- Personal selling and the word of mouth
- Effective communication means effective marketing
- An effective marketing communications system also allows feedback from the consumer to the seller

Calculating Promotional Profitability

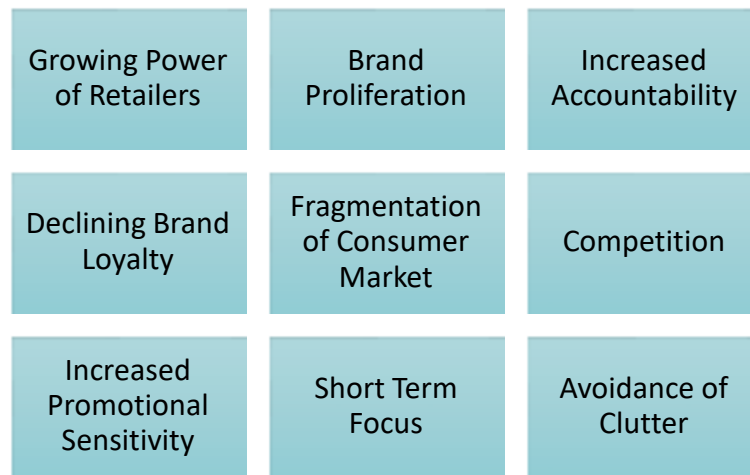


Figure 4.2 Profitability of Promotional Activities

Consumer Promotions

Some of the Popular Consumer Promotions Techniques are

- Sampling
- Couponing
- Premiums
- Contests and sweepstakes
- Refunds and rebates
- Bonus packs
- Priceoff deals
- Frequency programs
- Event marketing

Personal Selling

Personal selling involves a direct, face to interaction with the customers wherein there is quick response and personal confrontation.

Techniques of Personal Selling

- Prospecting
- Preapproach
- Approach
- Sales presentation
- Handling of customer's objections
- Closing the deal
- Follow up post purchase

Advertising

According to American Marketing Association (AMA) advertising is any paid form of nonpersonal presentation and promotion of ideas, goods or services by an identifiable sponsor. (AMA,1998)

Characteristics of Advertisement

- Paid form
- Provide some information
- Motivation of sales
- Nonpersonal presentation
- Promotion
- Identifiable sponsor
- Advertising is not the guarantee of sales

Advertising Creativity

- Creativity is the ability to generate fresh, unique and appropriate ideas that can be used as a solution to problems.
- People who work for the creative team in advertising, must take all the research, creative briefs; strategy statements, communications objectives and other input and transform them into an advertising message.
- The advertising message must be put into a form that will engage the audience's interest and make the ads memorable.

Advertising Appeals

- It refers to the methodology used to charm or have the consumer's attention in order to affect their feelings toward product, service or cause.

Basic elements of appeals

- Attention
- Interest
- Desire
- Action



Figure 4.3 AIDA Model

The Appeals HAVE Two Categories

- informational/ rational appeals and
- Motivational appeals.

Basis for Emotional Appeals

Emotional Appeals

- Emotional Appeals relate to the customer's social and/or psychological requirements for buying commodities. Many consumer's motives and desires are more important than information of products features or attributes.

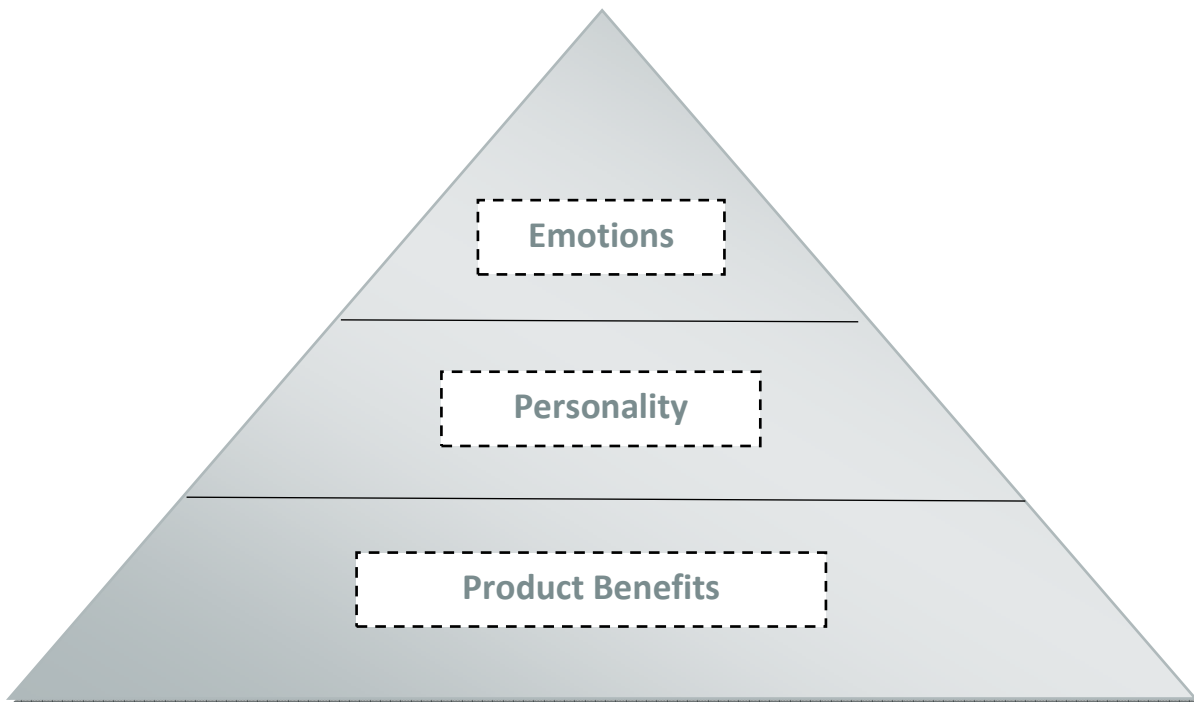


Figure 4.4 Emotional Appeals

Sales Promotions

Objectives of Sales Promotions

- Increasing trial and finally, adoption of new products
- Increasing Consumption of an Established Brand
- A firm can custom sales promotions techniques to load the customer with the merchandise, involve them indirectly from the market for assured time frame.
- Sales promotion programs may be inclined to specific user group's vs nonusers or high versus heavy users.
- Augmenting (IMC) Integrated Marketing Communications and developing a customer brand Equity

Retail Oriented Sales Promotions Objectives Include

- Obtaining Distribution for New Products
- Maintaining Trade Support for Established Brands
- Encouraging Retailers to Display Established Brands
- Building Retail Inventories

Retail Oriented Sales Promotion Techniques

- Contests and incentives
- Displays and pointofpurchase materials
- Sales training programs
- Trade shows
- Cooperative advertising

To Do Activity

Visit 5 retail stores in your city and conduct a comprehensive study about the various relationship building and personal selling techniques used by them.

Planning a Retail Promotion Budget Campaign

A retailer's promotion budget campaign is a six-step process

- I. **Selecting Promotion Objectives**, the promotion objectives should flow from the retailer's promotion objectives but need to be more specific because promotion itself is a specific element of the IMC (integrated marketing communication) mix.

The objectives should be chosen and adopted only after the retailer considers those factors which are unique to retailing.

The detailed objectives that promotion can accomplish are many and varied and depend on the target market the retailer is pursuing to reach.

Nevertheless, of the objective chosen, it must be directed at a specific market segment and be specific, measurable, attainable and realistic over a given time period.

Methods for Setting Budget

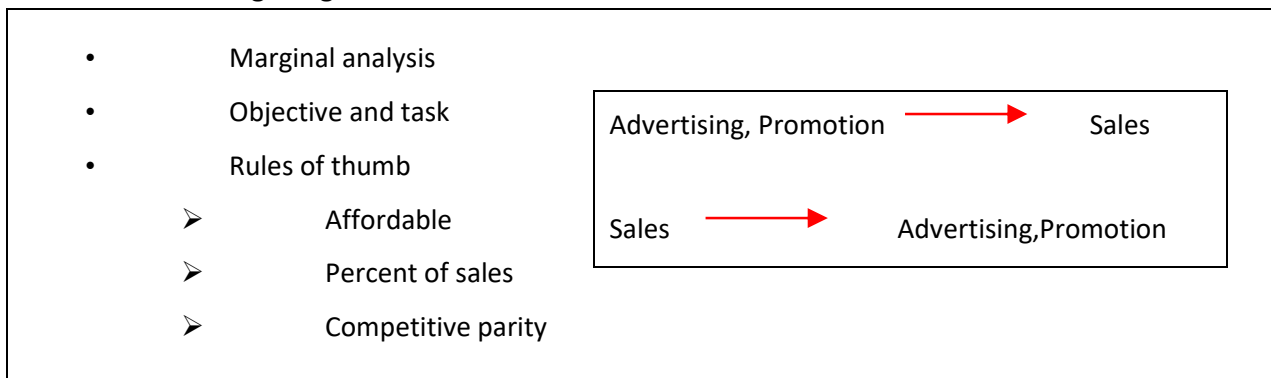


Figure 4.5 Methods for Setting Retail Promotion Budget

ii. Budgeting for the Promotion Campaign While developing a budget, the retailer should first determine sponsor for the campaign. It means will the retailer be the only sponsor, or will it get cooperation and support from other retailers or the manufacturer.

a. Retailer Only Campaigns A retailer generally uses one of the following methods to determine the amount of money to be spent on the advertising campaign.

b. Cooperation Based Campaigns Sometimes manufacturers and other retailers may bear part or all the costs for the retailer's promotion campaign.

Vertical Cooperative Advertising The retailer and other channel members, such as a manufacturer, share the expense of advertising. This is not always a good deal for retailers, especially if the retailer could get a better rate of return by spending the money on a different product.

Horizontal Cooperative Advertising Two or more retailers collaborate to divide promotion costs. Provides more bargaining power to smaller retailers when purchasing advertising and can generate increased store traffic.

- iii. Designing the message
- iv. Selecting the Correct Media Alternatives
- v. Scheduling of Promotion
- vi. Measuring Promotion Results

4.2 Retail Logistics Supply Chain Management, Transportation & Warehousing Inventory Management

In this unit you will learn about retail logistics, supply chain management including different marketing channels and inventory management.

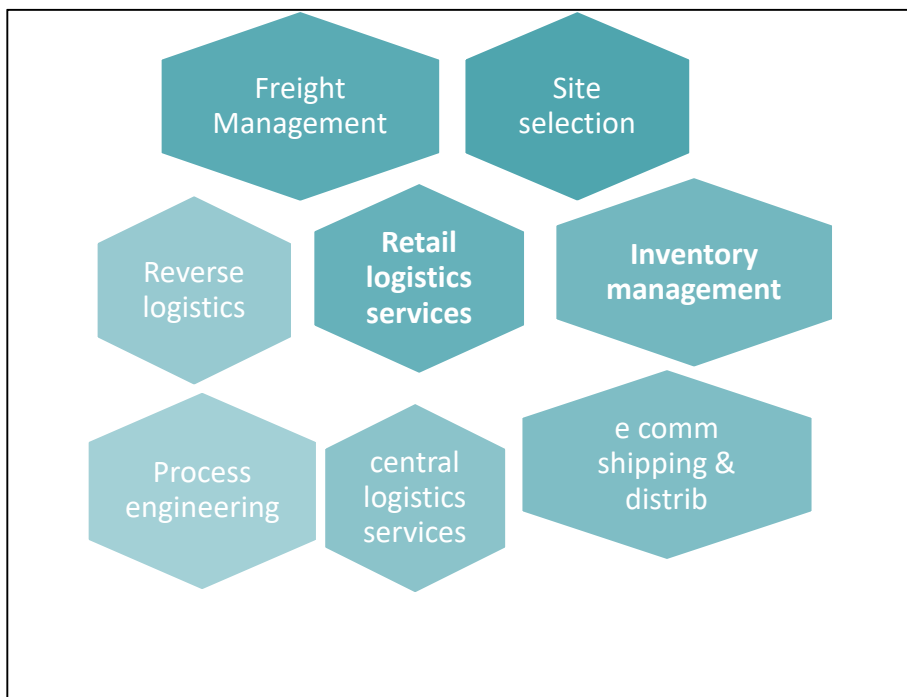


Figure 4.6 Retail Logistics Services

Objectives of Logistics Management

- Inventory reduction
- Reliable & consistent delivery performance
- Freight economy
- Minimum product damage
- Quick response

Distribution System

- Agents
- Wholesalers and
- Retailers

Marketing channels are made up of independent firms. Intermediaries constitute a marketing channel. Marketing channels are sets of interdependent organizations involved in the process of making a product or service available for use or consumption.

Marketing Channel Systems

- An organized network of agencies and institutions which in combination perform all the activities required to link producers with users to accomplish the marketing task Bennett
 - Possession
 - Ownership
 - Financial flow
 - Information flow
 - Risk flow
 - Negotiation

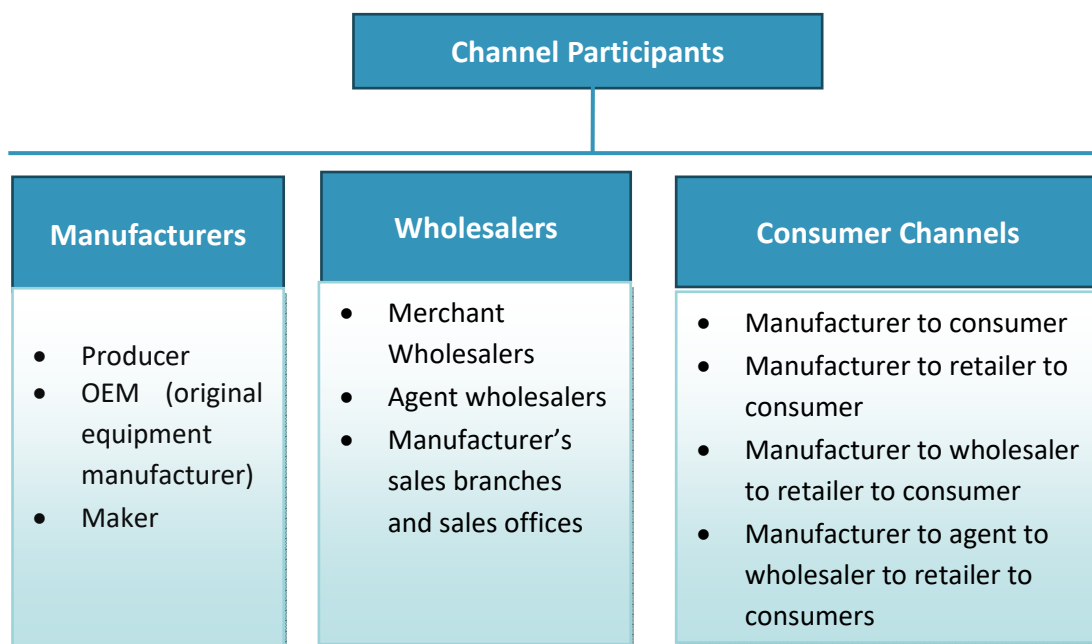


Figure 4.7 Channel Participants

Types of Channel Competition

- **Channel Structure to Channel Structure** is competition between two parallel channels operating with in different channel structures.
- **Manufacturer to Manufacturer** is direct competition between two manufacturers or marketers that use the same marketing channel.
- **Channel Member** is the competitive relationship established between all channel intermediaries
 - Whole saler to whole saler
 - Retailer to retailer
 - Wholesaler to retailer in the same marketing channels.

Channel Behavior Process

- Behavioral marketing delivers positive results to three main groups.
- Averaging behaviors
- Viral behavior
- Mobile behavior

- Behavioral targeting and online media Bringing it all together

Channel Selection

Marketing Factors

- Buyers' expectations may dictate that the product be sold in a certain way
- The willingness of channel intermediaries to market a product influences channel decision.
- The profit margins demanded by wholesalers and retailers and the commission rates expected by sale agents also affect their attractiveness as a channel intermediary.
-

- **Manufacturing Factors**

- Manufacturers may lack the financial and managerial resources to take on channel operations
- A wide mix of products may make direct distribution cost effective
- Company objective
- Company resources
- Breadth of product life

- **Product Factors**

- Life cycle
- Product complexity
- Product value
- Product size and weight
- Consumer perception

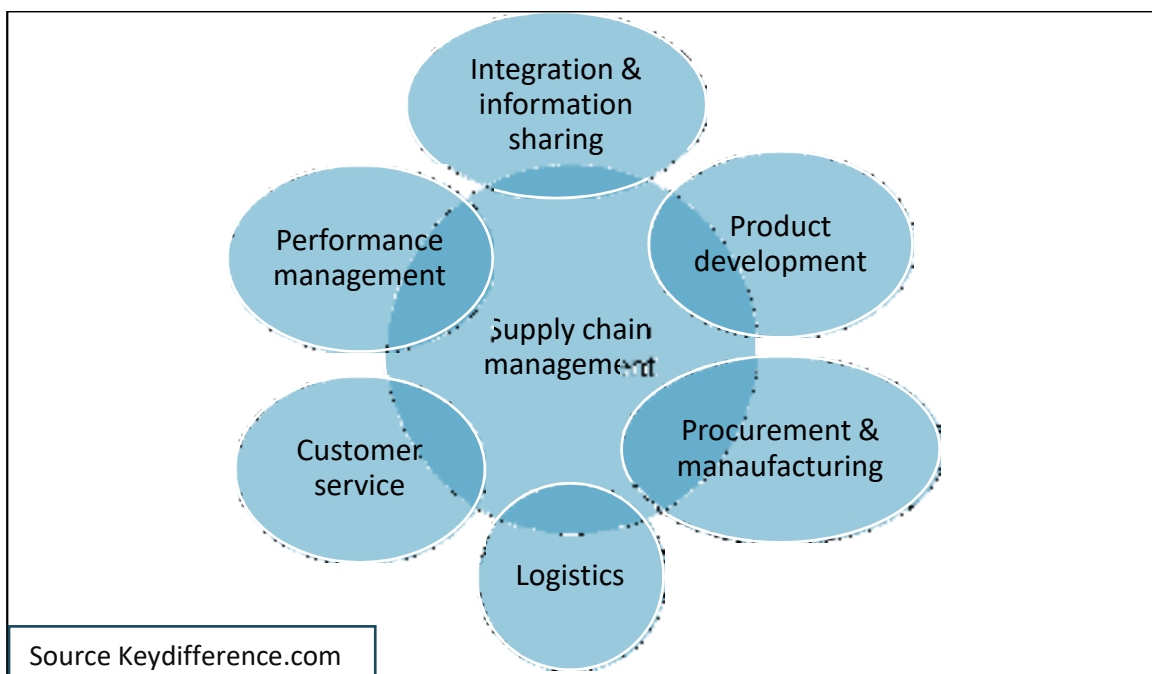


Figure 4.8 Supply Chain Management Services

Supply Chain Management Scope

- IT
- Freight & transportation
- Industry initiatives & support activities
- Material handling
- Supplier management
- Inventory management
- Distribution management
- Channel management
- Payment management
- Financial / Revenue management
- Sales force management
- Global procurement
- Order management
- Warehousing & distribution
- Towards lean supply chain management

Developing the Marketing Channel Strategy

Channel Design

- Designing of the distribution channels deals with the decisions that are associated with forming a new distribution channel or modifying an existing.
- In designing marketing channels, manufacturers must decide what is ideal, what is feasible, and what is available.

Analyzing Customers' Desired Service Output Levels

- Lot Size
- Waiting Time
- Spatial Convenience
- Selection Utility
- Service Back Up
- **Establishing the Channel Objectives**
 - Bucklin(2002) has shown that "Under competitive conditions, channel institutions should arrange their functional tasks so as to minimize total channel cost with respect to desired levels of service out puts"
 - Channel objectives vary with product characteristics perishable products require more direct marketing because of the dangers associated with delays and repeated handling.
- **Terms and Responsibilities of Channel Members**
 - Distributor territorial rights
- **Types of Intermediaries**
 - Company sales force
 - Manufacturers' agency
 - Industrial distributors

- **Evaluating Channel Alternatives**
 - Economic criteria
 - Control criteria
 - Adaptive criteria
- **Modifying Channel Arrangements**
 - Strategy
 - functions and roles
 - availability and affordability
- **A Channel Alternative is Described by Three Elements**
 - The types of available business intermediaries
 - The number of intermediaries needed
 - Terms and responsibilities of each channel participant.

Warehousing Management

Types of Warehouses

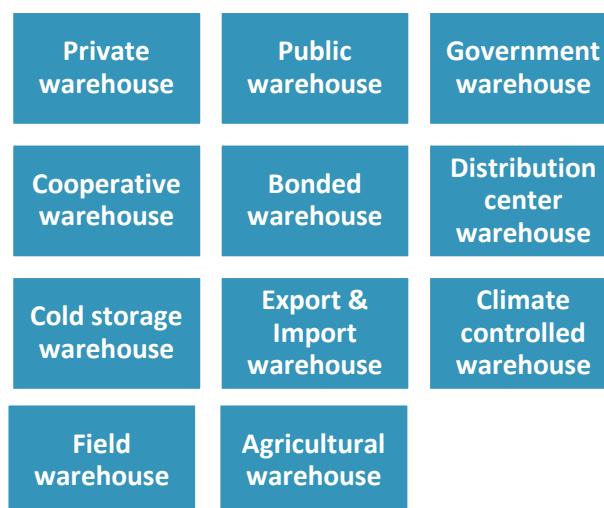


Figure 4.9 Warehouses Categories

Source Supplychain247.com

Movement Functions

- Receipt of products from manufacturing plant
- Transfer into warehouse
- Placement at designated place
- Regrouping products
- Transferring on transport vehicle

Storage Function

Performed by storing products in the warehouse till delivery to ultimate consumer

Importance of Warehousing Management

- Better inventory control
- Better space utilization
- Reduce loss sales & damages
- Improve customer service
- Great visibility into supply chain
- Improve safe working environment
- Achieve transportation economies
- Achieve production economies
- Take advantage of quantity purchase discounts
- Support firm's customer service policy
- Meet changing market conditions
- Overcome time & space differential
- Accomplish least total cost logistics

Product Movement

Distribution Option Available

- Intensive distribution
- Exclusive distribution
- Selective distribution

Inventory Management

Components Raw material, workinprogress, stores & spares, finished goods

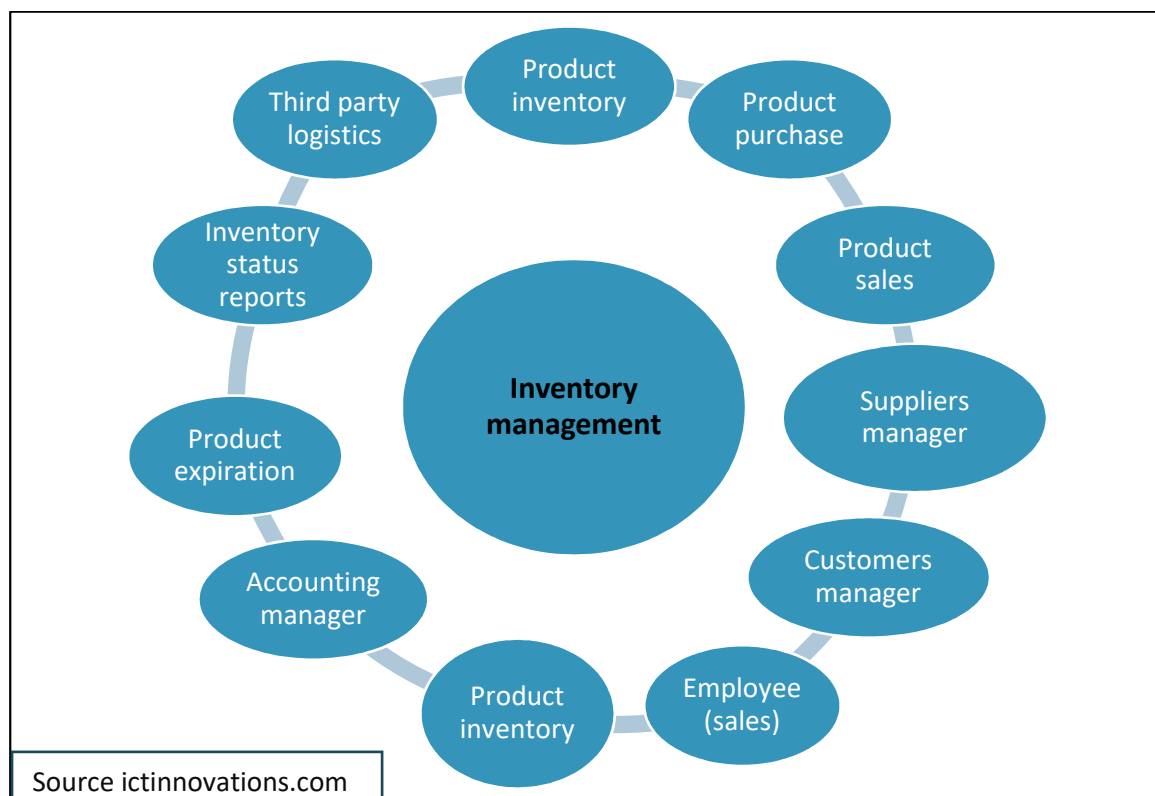


Figure 4.10 Inventory Management Services

Role of EDI in Distribution

EDI stands for electronic data interface. It is the process of interchange or exchange of business documents between different companies electronically. Before the emergence of ecommerce and retail, EDI was in use.

- It provides a safe, reliable and secure way of documents exchange on online platform.
- Retail sector utilizes EDI as the medium of exchanging documents such as purchase order (PO), invoice, bills of materials (BoM), material requirement planning (MRP) etc.
- Accurate and efficient to use as the errors during data entry can be eliminated.
- Cost reduction
- Enhanced Processing speed of documents.
- It takes CRM (customer relationship management) to next level for better customer experience.

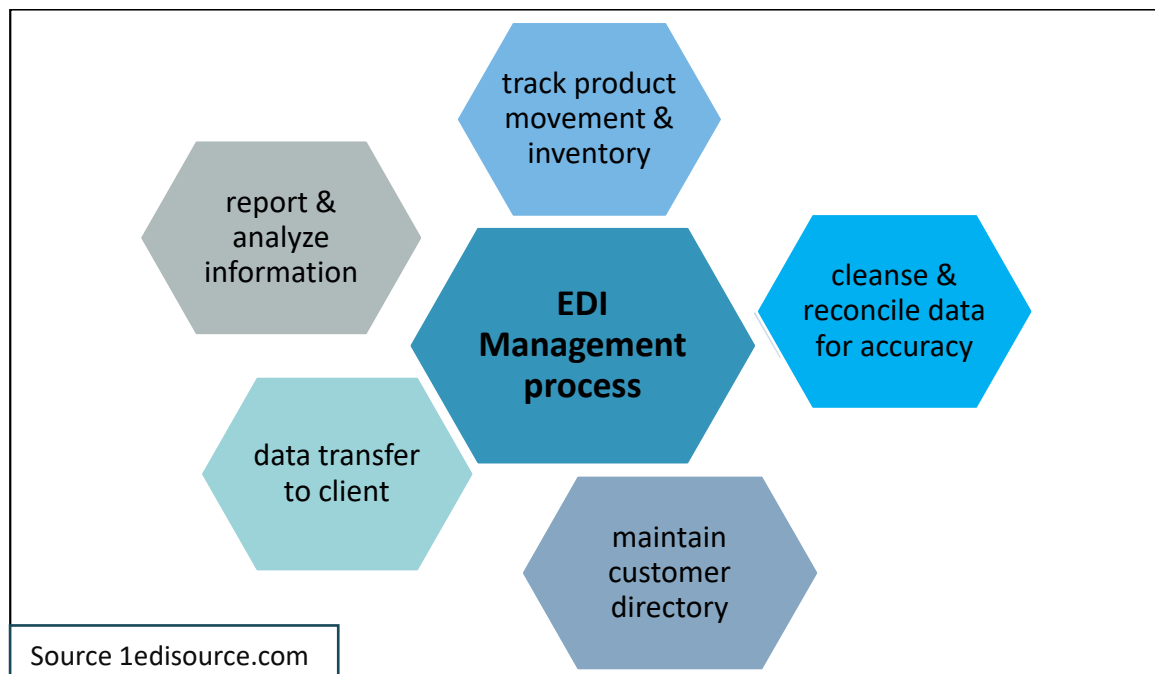


Figure 4.11 EDI Process

Channel Platform

Multichannel Retail Platform

- Multichannel retailers sell directly to the customers using more than one distribution channel.
- Use mail order catalogs and "brick & mortar" retail stores.
- Some multichannel retailers have started selling online as well.

To Do Activity

Find out the channel strategy of Reliance Retail and Shopper's Stop.

4.3 Retail Locations Store Layout Design, Store Design Objectives, Space Management

In this unit, you will learn about the importance of store location. A store may have good merchandise, good customer service and good sales promotion, but if the location where retailing must take place is not proper, the retailer will face several day to day selling problems. Location decision is strategic and long term and hence involves a large investment. Location decisions eventually select the prospects and total profit percentage of the organization. It is a necessity in order to have even and resistance free flow of goods and day to day operations, such as packing and unpacking of goods.

Types of Retail Stores Location

- Mall space
- Free standing locations
- Downtown area
- Shopping center
- Homebased

Factors Affecting Retail Location Decisions

- Population demographics
- Accessibility, visibility and traffic
- Signage, zoning and planning
- Competition and neighbors
- Location costs
- Personal factors
- Other considerations

Distribution Centre Location Decision Drivers

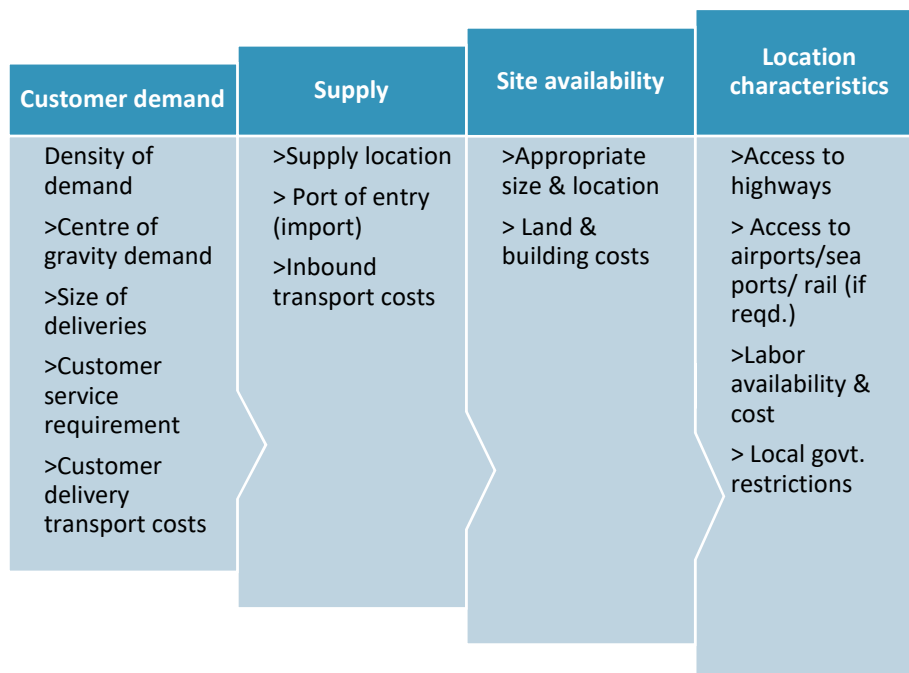


Figure 4.12 Distribution Centre Location

Country/Region Analysis

Home Country vs. Abroad

Key factors should be considered while deciding upon the name of a country

- Political factors like political policies and political stability
- Trade barriers
- Synergy
- Economies of scale
- Regulations
- International competition
- Incentive

Selection of Region

The factors influencing such selection are

- Availability of merchandise
- Proximity to the market
- Infrastructural facilities
- Transport facility
- Climatic conditions
- Government policy
- Subsidies and sales tax exemptions

To Do Activity

Based on your discussion with the store managers evaluate the following case. A specialized "mobile" chain of stores is planning to open outlets across the major rural areas. Evaluate with detailing as to where it should be located (planned markets, unplanned markets, isolated stores)

Selection of the Locality/Community

- Urban area
- Rural area
- Suburban area

The Selection of a Locality in an Area is Determined by

- Labor and wages
- Community facilities
- Community attitudes
- Banking facilities
- Existence of supporting stores
- Local taxes and restrictions
- Water supply
- Personal and emotional factors
- Historical issues
- Traffic flow

To Do Activity

Interview a retailer in your locality to identify the decision factors he uses to analyze the merchandise in his outlet.

Trade Area Analysis

The analysis of trade area is essential in order to estimate the market potential, to understand customer profile, to assess competition, to develop required merchandising plan and to focus in associated promotional activities.

Market Potential

Important Indicators of Market Demand

- Population characteristics and its trends
- Purchase power and its distribution
- Business climate

Competition

Based on levels of competition, trade area can be classified into three types

- A saturated trade area
- Understored trade area
- Overstored trade areas

Site Evaluation

Table 4.2 Site Evaluation Features

Location type	Potential advantage	Potential disadvantage
Downtown	<ul style="list-style-type: none">• Good transit• Established market• Independent focus• Strong business audience	<ul style="list-style-type: none">• Perceived parking problems• Possibly in decline• Usually poor evening traffic
Regional mall	<ul style="list-style-type: none">• High traffic• Plenty of parking• Established draw• Professional image	<ul style="list-style-type: none">• High rent• Very competitive• High building costs• Controlled hours
Community mall	<ul style="list-style-type: none">• Trading area defined• Good parking• Community driven	<ul style="list-style-type: none">• Mixed images• Limited market• Limited traffic
Strip mall	<ul style="list-style-type: none">• Specialized tenant mix• Visibility• Convenient	<ul style="list-style-type: none">• Limited draw• Limited access/ transit
Free standing/ Big box	<ul style="list-style-type: none">• Lower rents• Value image• Lower overheads	<ul style="list-style-type: none">• Unit size (large)• Exclusive to major tenants• Harder to attract customers

Choosing a Shopping Center

- Total Rent
- Sales per Square Foot
- Cost per Shopper Analysis
- Renegotiating a Lease
- Responsiveness of the Landlord

Retailer Must Consider the Following Factors While Selecting a Site

- Kind of products sold
- Cost factor in location decision
- Competitor's location
- Ease of traffic flow and accessibility
- Parking major thoroughfares
- Market trends
- Visibility

Location Based Retail Strategies

Prospective retailers use the latest innovations and methodologies in the location research process to identify and quantify factors that affect store sales performance

Location Quotient

- **The Location Quotient (LQ)** is the index developed for comparing share of an area's activity with the area's share of some simple or aggregate phenomenon.
- **If $LQ > 1$** , this indicates a relative concentration of the activity in the area compared to whole area of the region
- **If $LQ = 1$** , the area has share of the activity relative to its base of the share.
- **If $LQ < 1$** , the area has less of a share of the activity than is more generally, or regionally, found.
 - Other forms of location analysis
 - Range and its dimensions
 - Location in metros the areas of organized retail growth
 - Nature of metro development
 - Development of central places

To Do Activity

Suppose you are going to set up an electronic store. What factors will you keep in mind and considering the area (rural) to which you belong, where will you set up your store?

To Do Activity

Consider any three big retail stores in your area (rural). Comment on their location and suggest any alternative location that you think will be more suited to that store

Store Design

In this unit you will learn, about the elements in a retail store design and how a retailer plans his store's design. Good store design generates the dynamic variance in today's competitive open market. Successful businesses custom design as an influential technique in their overall marketing plan and strategy thereby creating better products, services and developing a stronger retail identity.

Good design provides multiple benefits

- an enormously improved quality dimension;
- a defined and formulated statement of identity;
- an effective and efficient utilization of resources

Store Design and Layout

- Store layouts generally show the overall size, location of individual department, any permanent assemblies, fitting locations and patterns of flow of customer traffic.
- Also, the individual floor plan and store layout will be largely determined by the type and category or merchandise of products sold, the location of building and the overall affordability the business can put into the store design.

Straight Floor Plan

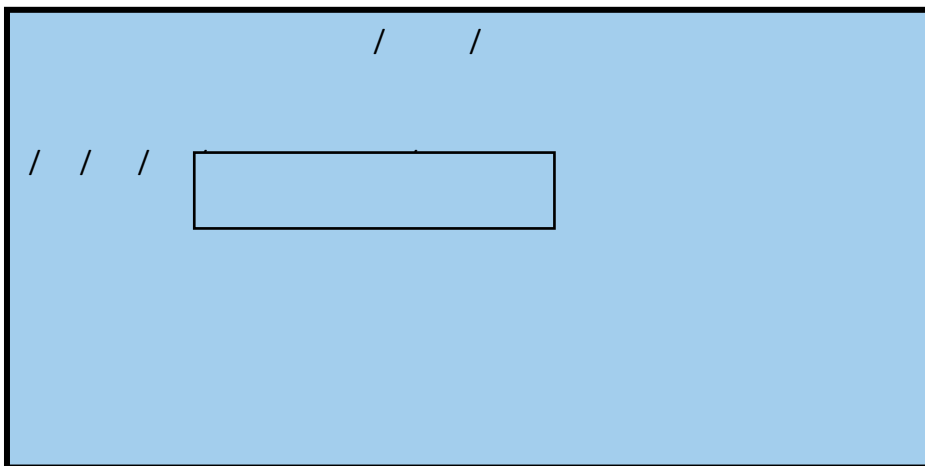


Figure 4.13 Straight Floor Plan

Diagonal Floor Plan

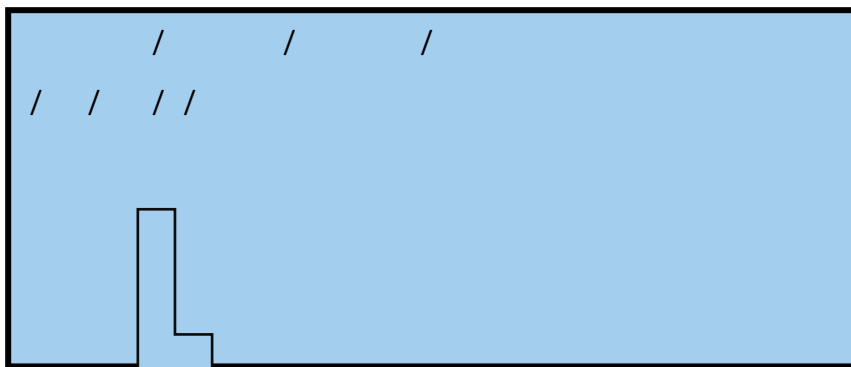


Figure 4.14 Diagonal Floor Plan

Angular Floor Plan

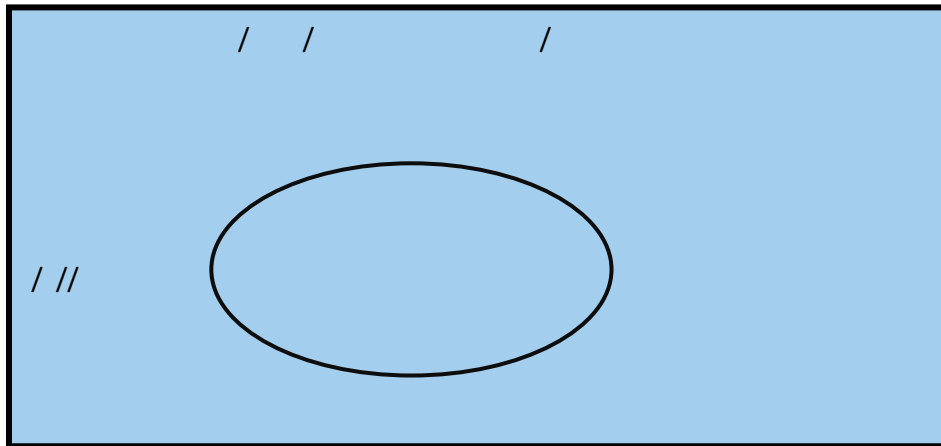


Figure 4.15 Angular Floor Plan

Geometric Floor Plan

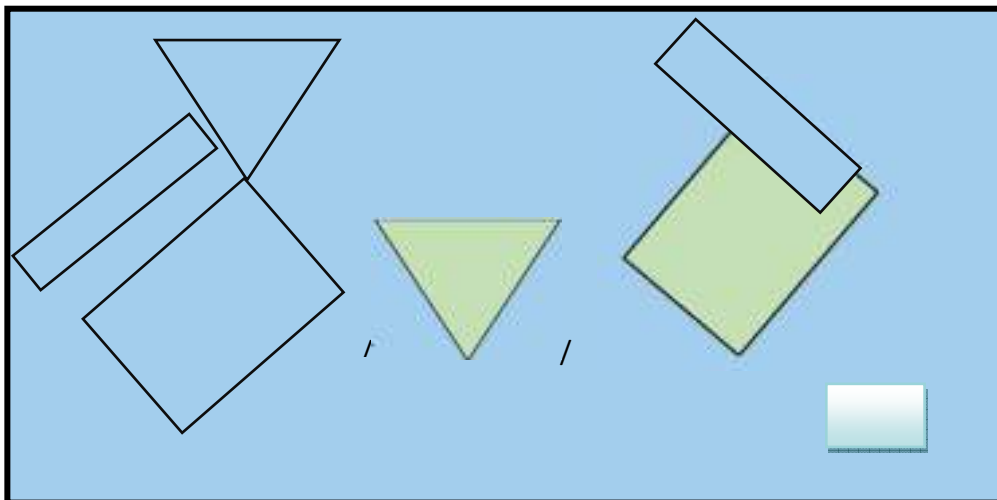


Figure 4.16 Geometric Floor Plan

Mixed Layout (unable to draw)

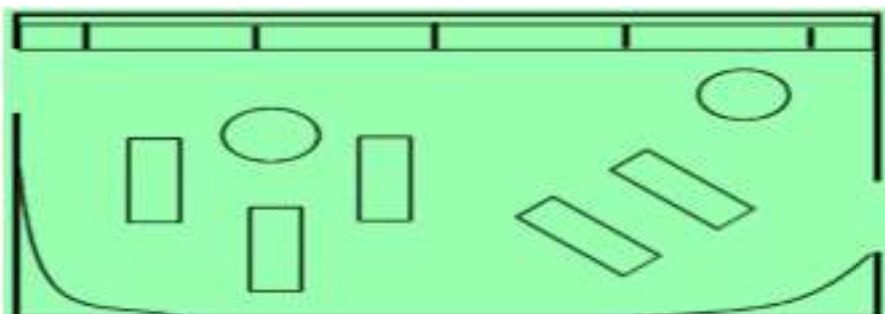


Figure 4.17 Mixed Layout Plan

Straight Layout at Subhiksha



Mixed Layout at a Reebok Store



Design in Nonstore Retailing

Although nonstore retail formats place some significant restrictions on the use of design in the selling environment, innovative approaches have often paid off as a source of competitive advantage.

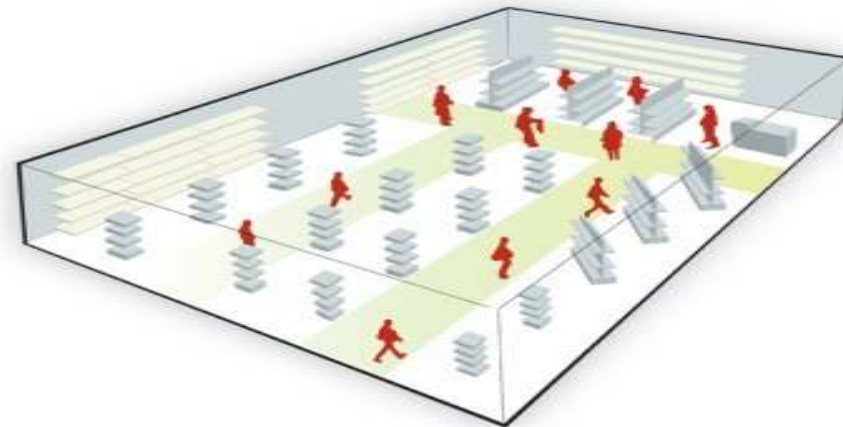


Figure 4.18 3D Diagram (unable to draw)

To Do Activity

Talk to a few rural retailers in your neighborhood and understand the role of location in their business decisions.

Space Management

Features

- find out the merchandise profitability

- Analyze the inventory turnover and stock to sales ratio affect units stocked
- Finalizes the merchandise to be displayed
- helps the retailer wish to emphasize
- enables to fix the location of certain merchandise to draw the customer through the store

Points to ponder

- Productivity ratios are based on output to input
- Sales per square foot
- Sales per linear foot
- Gross or total contribution margin per square foot
- Relative advantage depends on floor location, position within a floor, and location relative to access routes

To Do Activity

Try and meet a few rural store managers of local retail chains in your area discuss with them and prepare a list of activities that need to be undertaken for a proposed "food & groceries" chain of stores coming up across the rural area with respect to locational

Visual Merchandising Fixtures, Atmospheric

Visual Merchandising

- It refers to visualization, building image, creating perception and or imagination with the interiors and with the exteriors of store through items or merchandise on display, decorations, layout and signs and banners. The consumers’ experiences all these while shopping at the store.
- It’s the integrated, proactive approach towards creation of look, products display, stimulating shopping behaviour and enhance physical behaviour. The visualization must be created as per target and prospective customer in mind.

Visual Merchandisers Role

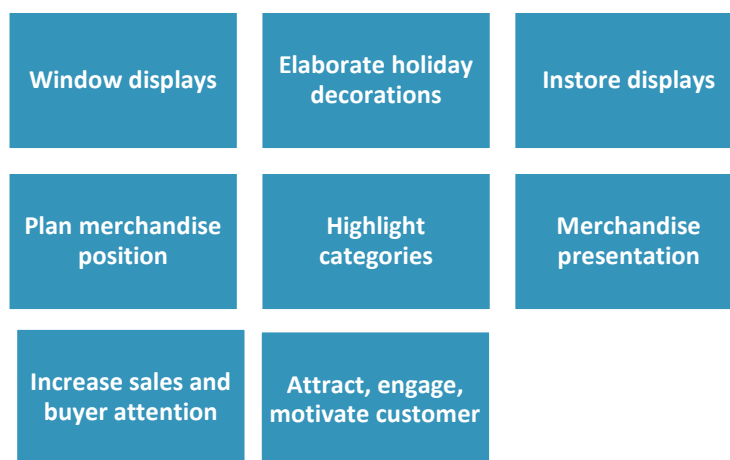


Figure 4.19 Visual Merchandisers Role

Factors Affecting Visuals of a Retail Store are

- Primary factors
- Complimentary factors

Primary Factors Basic factors for deigning the store at initial level

Two ways of presenting merchandise in a store

- To place or stack a product on fixture; stacked merchandise can be neatly arranged
- To hang the product; either directly onto a hanger, or onto a prong, using specially designed packaging.

Store Planning Involves Important Decisions Pertaining to

- a) Fixtures
- b) Displays
- c) space allocation and
- d) visual merchandising

Key Elements of Visual Merchandising



Figure 4.20 Elements of Visual Merchandising

Visual Merchandising Presentation Components

- Lighting
- Sound
- Price lining
- Color presentation
- Item presentation
- Fixture
- Aroma

Store Décor style and appearance of interior furnishings should be based on company's image and coordinated with merchandise

Atmospherics features intended to create an emotional mood or attitude through sound, smell and décor, based on customer psychology induced for buying.

Example type of music or pleasant aromas.

Complimentary Factors

The shopping experience provided in the store, customer service, sales staff and the brand associations that the store provides also affect the store image.

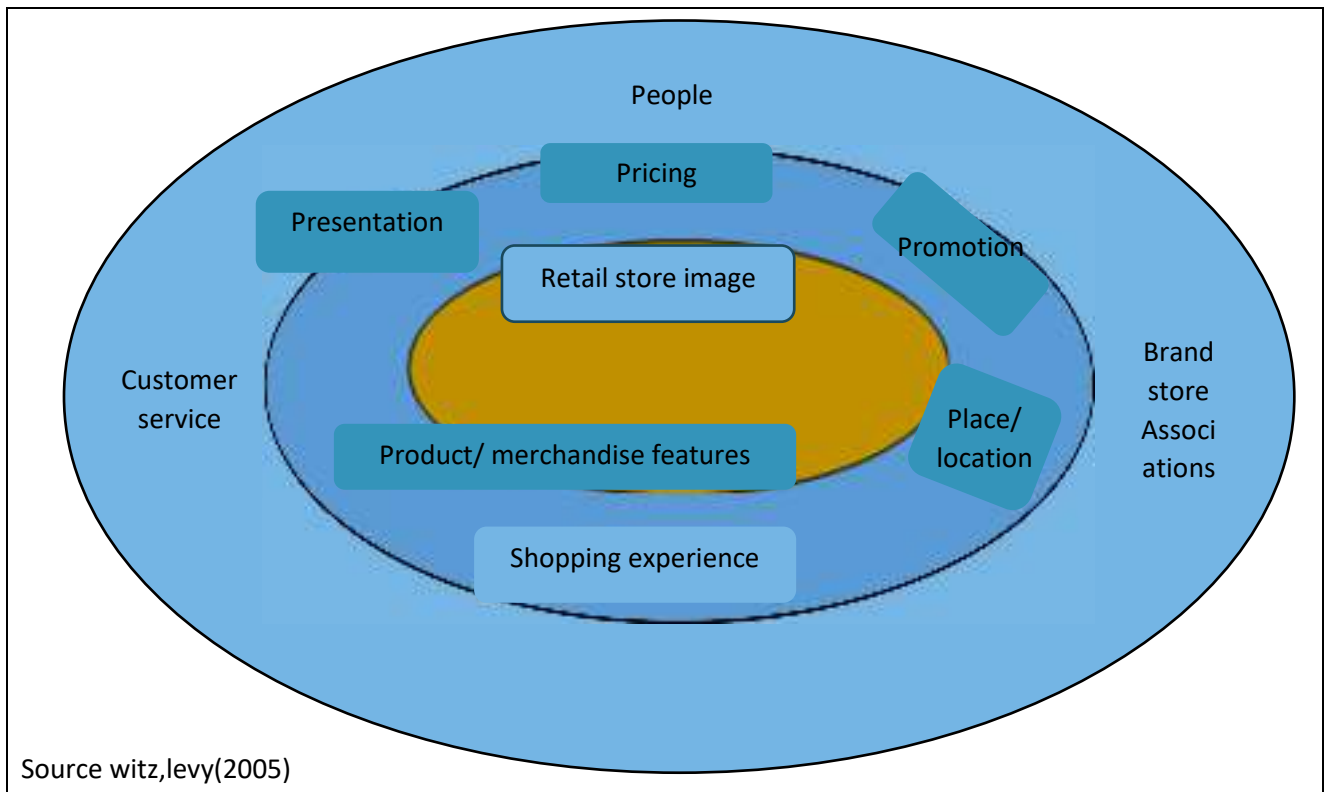


Figure 4.21 Retail Store Image

Store Design Elements

- Exterior elements like marquee, entrances, windows, banners, planters, awnings and lighting
- Display areas
- Corner shops
- Shelves
- Ledges
- Merchandise walls
- Color and lighting
- Sound and aroma

Visual Merchandising Fixtures

1. Straight rack
2. Rounder (bulk fixture, capacity fixture)
3. Four way fixture (feature fixture)
4. Gondolas

Categories of fixtures

Table 4.3 Fixtures Categories

Aframes	Base cabinets	Buildups	Card holders	Crack
Drapers	Dump or table bin	four-way rack	Gondola	Grid units
Hangars	Pedestal units	Pegboard	Quad rack	Rounders
Showcases	Slat wall units	Spiral costumer	Straight arm	Super squad
Tables	Tstand	Tier tables	two-way racks	Waterfalls

Exterior Design and Layout

The Exterior of Most Stores Includes

- a) the fascia
- b) the store entrances
- c) the architectural features of the building
- d) Windows.

Point entrances may be designed to be either open and welcoming or closed and exclusive ones.

Three Other Important Functional Aspects of Exterior Design are

- a) Customer visibility
- b) Store security and
- c) Potential for efficiency among staff and associates.
- d) Simplicity matters
- e) Getting around
- f) Prioritize
- g) Design layout based on what you want to accomplish
- h) Follow the standards of the industry leaders



Interior Store Design and Layout

Elements

- Fixtures/Display areas used to highlight categories, hold fewer items, best used as lead in fixtures, interspersed throughout store to add variety
- Feature areas
 - End caps
 - Promotional aisle
 - Freestanding fixtures
 - Point of sale areas
- Bulk of stock
- Walls

- Corner shops
- Shelves
- Counter and table display
- Ledges
- Merchandise walls
- Color and lighting
- Sound and aroma
- Free Form Design
 - Fixtures and aisles arranged asymmetrically
 - Used in small specialty stores and departments within large stores.
 - Pleasant ambiance doesn't come cheap

To Do Activity

Visit 10 retail stores in your city and notice the kind of layout they follow. Do you think it would have been better, if they used some other kind of layout design? If yes, suggest an alternate arrangement.

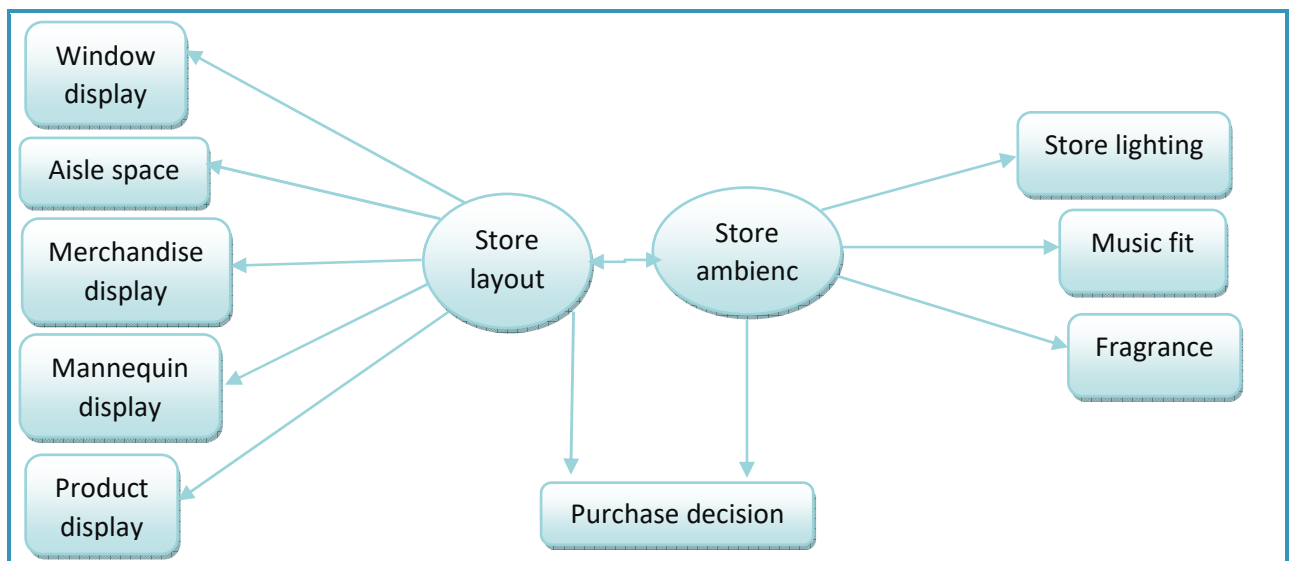


Figure 4.22 Elements of Store Interiors

Visual Communications

- Coordinate signs and graphics with the store's image.
- Inform the customer.
- Use signs and graphics as props.
- Keep signs and graphics fresh.
- Limit the copy of signs.
- Use appropriate typefaces on signs
- Create theatrical effects.

Lighting

- Highlight merchandise.

- Structure space and capture a mood.
- Downplay features.

Atmospheric Issues

- Design of a store environment through color, music, scent, lighting, visual communication to stimulate customer's perceptual and emotional response and finally affect their purchase behavior.
- Create an atmosphere that increases customer curiosity and desire to shop.

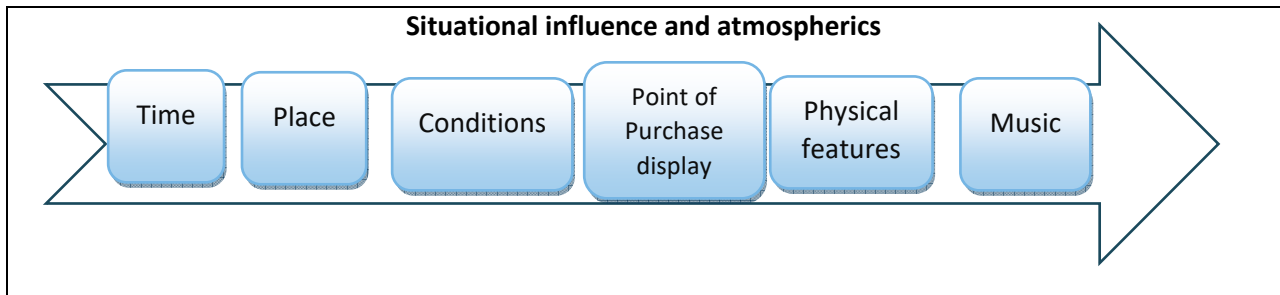


Figure 4.23 Situational Influence and Atmospherics

To Do Activity

Suppose you are going to set up a departmental store. Prepare a design of your store focusing on layout, fixtures and displays

To Do Activity

Conduct a survey of 5 retail stores and put your observations regarding on shelf and off shelf displays.

4.5 Human Resource Management (HRM) in Retailing Recruitment, Selection Motivation, Compensation and Control of Store Employees

Human Resource Management (HRM) in Retailing

In this chapter we examine the role that human resource management plays in retail firms. We show that to carry out a retail strategy successfully, it is necessary not only to have the proper number and mix of human resources, but also to have them empowered to serve the customer. Thus, retail managers must plan for human resources, they must acquire human resources, they must train and develop human resources, they must evaluate the employees' performances, and finally, they must compensate human resources. This chapter tries to list and explain the steps involved in planning human resources, describe the process involved in hiring employees, discuss how retailers manage existing employees, describe the various methods retailers can use in compensating their employees

Table 4.4 HRM Functions

Managerial Functions	Operative Functions
<ol style="list-style-type: none"> 1. Planning 2. Organizing 3. Directing 4. Coordinating 5. Controlling 6. Controlling 	<ol style="list-style-type: none"> 1. Employment <ol style="list-style-type: none"> a. Job analysis, Job Description b. HRP c. Recruitment d. Selection e. Placement f. Induction & Orientation 2. Compensation <ol style="list-style-type: none"> a. Job Evaluation b. Wage & salary admin. c. Incentives d. Bonus e. Fringed Benefits f. Social security measures

Managing Human Resources

Planning for Human Resources Human Resource Planning (HRP)

One of the most important retail resources is human resources.

A. Human resources, after all, represent the retailer to the customers. After all, the most profitable have already organized their operations around the customer and allow these customers to interact with the retailer (i.e., the employees) in whatever manner is most convenient.

Recruitment

1. High-performance retailers have "empowered" their employees to take care of the customer.

An empowered retail employee has the "power to make things right for the customer" by

- a. seeking to understand the customer's problem,
- b. desiring to develop a relationship with the customer,
- c. understanding the value of customer loyalty, and
- d. by being allowed and encouraged by management to solve the customer's problem.

2. The profit impact of increased salesforce productivity in retailing is dramatic. Retailers operate with a very low profit as a percentage sale. Therefore, even a small increase in salesforce productivity directly translates into an improvement in store profits.

B. Planning for human resources means deciding now what human resources will be needed later in order to achieve the firm's goals and objectives.

1. Task Analysis. The starting point for human resources planning in retailing is task analysis which is simply identifying all tasks the retailer needs to perform and breaking these tasks down into jobs. Four steps should be followed

- a. Identifying the marketing functions within the marketing system (buying, selling, storing, transporting, sorting, financing, information gathering, and risk taking) it will perform.
- b. Identifying the tasks or activities that need to be performed within each function.
- c. Mapping the tasks into jobs, that is, grouping the most homogeneous tasks together.
- d. Developing job descriptions and job specifications so that human resource managers know what the job applicant should be able to do, the skills required to do the job, and the kind of training that should be provided the employee.

2. Long Range and Short Range Analysis. Retailers generally use two different time frames in planning their human resource needs.

- a. Over the longrun (one to five years), the major factor will be the retailer's projected growth in sales volume and number of stores. In analyzing long range growth trends, retailers should pay attention to the speed and predictability of sales growth, the geographical dispersion of growth, and the amount of growth related to line of trade diversification.
- b. Shortrange analysis is also necessary; any shortrun swings in sales should be analyzed and human resource inputs adjusted appropriately. It is wise to analyze recurring seasonal trends as well as periodic and predictable increases in short run demand.

Hiring the right person for the job. Human resources are acquired in a competitive marketplace, that is, retailers must aggressively seek out and recruit good employees.

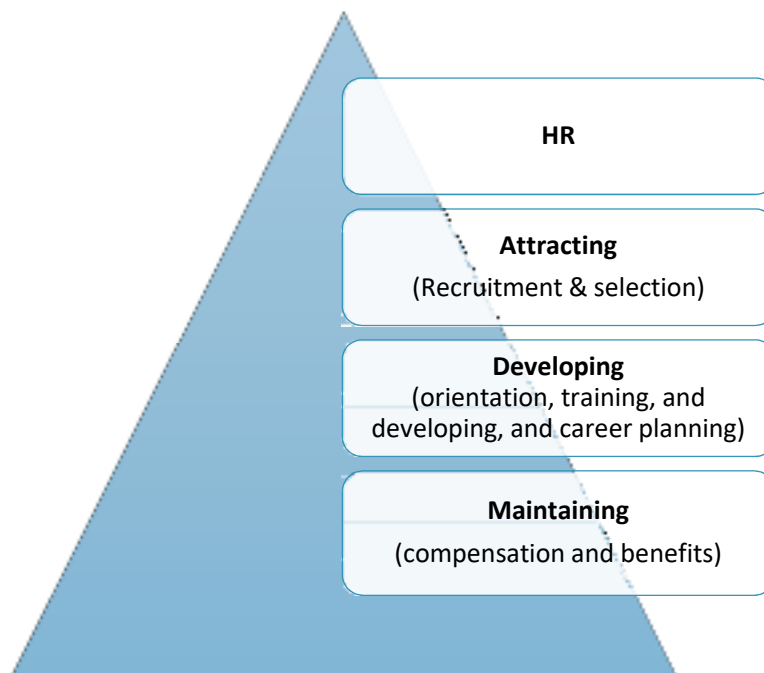


Figure 4.24 HRM Approach

A. Sources for Human Resources for Recruitment include

1. Competitors
2. Walkins
3. Employment agencies
4. Schools and colleges
5. Former employees
6. Advertisements
7. Recommendations of current employees and vendors.

B. Screening and Selection. All applicants should be subject to a formal screening process to sort out the potentially good from the potentially bad employees. There are four basic screens every applicant should be put through

1. Application blanks as a matter of procedure, all applicants should be asked to fill out an application blank. The application blank should capture conveniently and compactly the individual's identity, training, and work history that will relate to his or her performance of the job tasks.
2. Personal interview allows retailer to assess how qualified the applicant is for the job.
3. Testing sometimes formal tests are administered to those applicants who receive favorable ratings in personal interviews which test intelligence, interests, leadership potential, personality traits, honesty, or office skills.
4. References these should not be checked until the applicant has passed through the preceding stages since this stage is costly and time consuming.

Table 4.5 Difference between Recruitment & Selection in Retail

Basis	Recruitment	Selection
Meaning	It is an activity of establishing contact between employers and applicants.	It is a process of picking up more competent and suitable employees.
Objective	It encourages large number of Candidates for a job.	It attempts at rejecting unsuitable candidates.
Process	It is a simple process.	It is a complicated process.
Hurdles	The candidates have not to cross over many hurdles.	Many hurdles must be crossed.
Approach	It is a positive approach.	It is a negative approach.
Sequence	It proceeds selection.	It follows recruitment.
Economy	It is an economical method.	It is an expensive method.

Time Consuming	Less time is required.	More time is required.
----------------	------------------------	------------------------

Managing Existing Employees Once an employee is hired, the retailer must prepare programs for training the employee to meet both current and future job requirements, evaluating employees, and motivating them. This is a critical job in today's economy, since many employees will lack the skills needed to flourish in the high performance, totally empowered retail marketplace of the twenty first century.

A. Teamwork. Many high performance retailers have been reengineering their staff to stress the importance of overall department performance by working as a team versus as individuals. These retailers have taken the approach that teams don't need bosses to lead them. They feel that employees can work better leading themselves and managing their own time, functions, and responsibilities. Team members are compensated based partly on the overall team's performance, the individual's contribution to the team, and the individual's value based on his or her knowledge and skills to the team.

B. Training and Development Employees. Retailers who are serious about getting a good return on their investment should provide training and development for both new and existing employees.

C. Evaluating Employees. Performance appraisal and review is the formal, systematic assessment of how well employees are performing their jobs in relation to established standards, and the communication of that assessment to employees.

1. Retailers of all sizes should try to use objective criteria for the appraisal and review process wherever possible.
2. Some keys to performing equitable performance appraisals.
 - a. The process should be an ongoing affair. Regularly scheduled reviews should not, however, keep supervisors from coaching subordinates on an as needed basis
 - b. Review feedback to employees should be timely and relevant
 - c. The reviewer should know the job and the performance standards of the job under review.
 - d. Since different supervisors are likely to rate personnel with different degrees of leniency or severity, not only should the person making the review understand the performance standards, but at least two people should make the review.
 - e. Retailers have found success in various types of measures such as the rating scale, checklist, freeform essay, and rankings.

Motivating Employees

A successful retailer must constantly motivate the salesforce, as well as other employees, to strive for higher sales, to decrease expenses, to communicate company policies to the public, and to solve problems as they arise. This is achieved through the proper use of motivation. Theories on motivation, which is the drive within a person to excel, can be divided into two general types content theories and process theories.

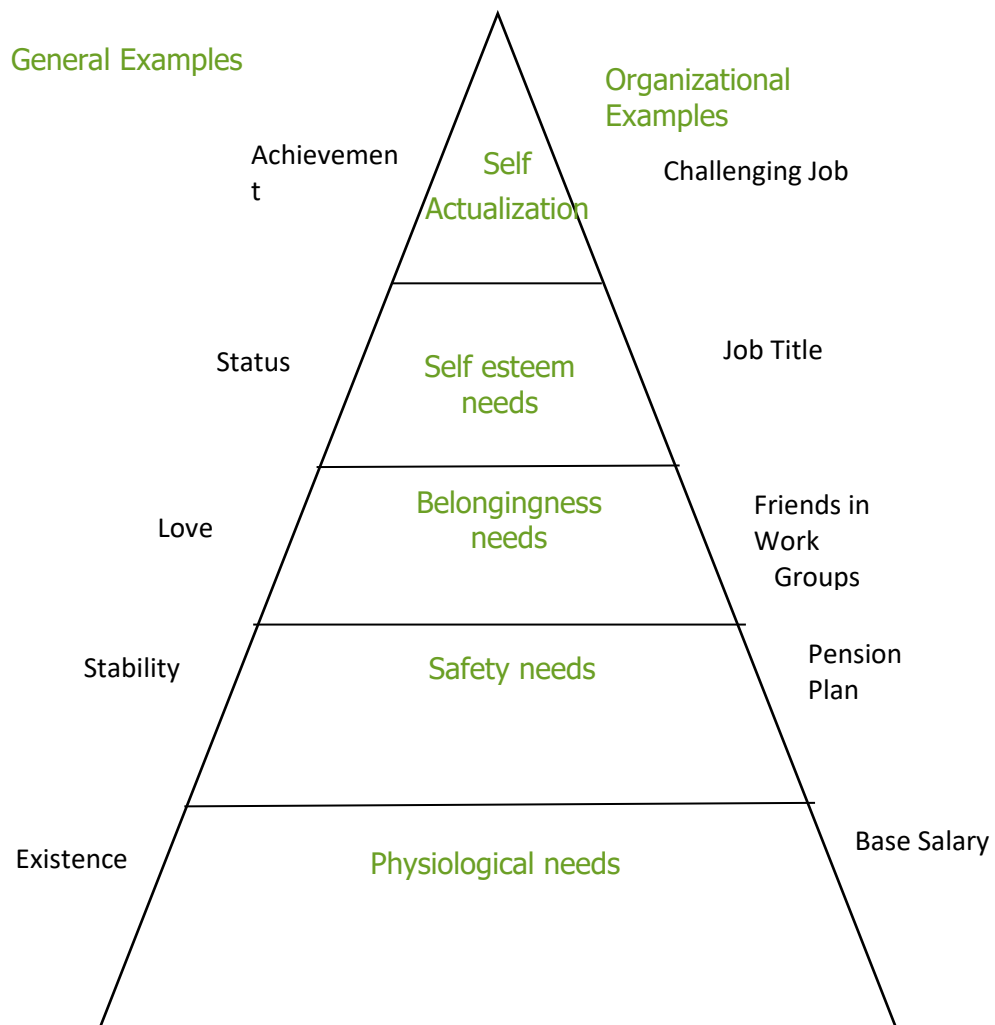


Figure 4.25 Maslow's Hierarchy Theory of Motivation

1. Content Theories These ask, "what motivates an individual to behave?"

- a. **Maslow's Hierarchy of Needs** suggests that people have different types of needs and that they satisfy lower level needs before moving to higher levels. This hierarchy provides retailers with ideas that can appeal to the basic needs of their employees.
- b. **Herzberg's Two Factor Theory** suggest that two factors operate as motivators hygiene factors, which are extrinsic to the individual and can be organizationally determined such as pay, verbal praise, and special name badges; and motivators, which are intrinsic to the individual and include the feeling of self accomplishment or the desire to excel.
- c. **Theory X**, which assumes that employees must be closely supervised and controlled and that economic inducements will provide the means of influencing employees to perform; and

Theory Y which assumes that employees are self-reliant and enjoy work and can be delegated authority and responsibility.

2. Process Theories These ask "how to motivate the individual."

- a. **Expectancy Theory** addresses the relationship between effort, performance, and organizational outcomes. It assumes that employees know this relationship and that this knowledge influences them to behave in one way or another.
- b. Goal Setting is a way to obtain the firm's objectives that depend on inducing a person to behave in the desired manner.

Human Resource Compensation

Compensation programs, which includes direct dollar payments (wages, commissions, and bonuses) and indirect payments (insurance, vacation time, retirement plans), are essential for attracting, motivating, and retaining a salesforce.

A. Compensation plans in retailing can have up to three basic components

1. a fixed component which typically is composed of some base wage per hour, week, month, or year.
2. a variable component which is composed of some bonus that is received if performance warrants it.
3. a fringe benefit package which may include such things as health insurance, disability benefits, life insurance, retirement plans, the use of automobiles, and financial counseling.

B. Common types of compensation programs for the salesforce

1. **Straight Salary** programs pay the salesperson a fixed salary per time period regardless of the level of sales generated or orders taken. This plan offers income security to employees but give little incentive for extra effort and performance.
2. **Salary Plus Commission** plans pay the salesperson a fixed salary per time period plus a percentage commission on all sales, or on all sales over an established quota. This plan offers a stable base income but also encourages and rewards superior efforts.
3. **Straight Commission Programs** pay salespeople a limited percentage (usually 2 to 10 percent) commission on each sale generated. This plan provides substantial incentive to generate sales, but in an overall poor business climate may not provide enough income to allow salespeople to meet their fixed payment obligations.

C. **Supplemental Benefits** Retail salespeople can also receive four types of supplementary benefits in addition to regular wages

1. employee discounts
2. insurance and retirement benefits
3. child care
4. push money, prize money, premium merchandising, PM, or spiffs.

D. **Compensation Plan Requirements** Regardless of what method a retailer uses to compensate its employees, the method should meet the following general requirements

1. **Fairness** The plan does not favor one group or division over any other group or division or enable such a group to gather disproportionate rewards in relation to their contributions. It must also keep wage costs under control so that they do not put the store at a competitive disadvantage.

2. **Adequacy** The level of compensation should enable the employee to maintain a standard of living, commensurate with job position and capable of maintaining job satisfaction.
3. **Prompt and regular payments** should be made on time and in accordance with the agreement between employer and employee. In incentive plans, greater stimulation is provided when reward closely follows the accomplishment.
4. **Customer interest** The plan should not reward any actions by an employee that could result in customer ill will.
5. **Simplicity** The plan must be easy to understand to prevent any misunderstandings with the resultant ill will. This should also enable management to minimize the man hours needed to determine compensation levels.
6. **Balance** Pay, supplemental benefits, and other rewards must provide a reasonable total reward package.
7. **Security** The plan must fulfill the employee's security needs.
8. **Cost effective** The plan must not result in excessive payments, given the retailer's financial condition.

E. Job Enrichment A planned program for enhancing job characteristics for the purpose of increasing the employee's motivation, productivity, and satisfaction, and, at the same time, reducing costly employee turnover. There are 5 core job characteristics that should be increased. These are

1. **Skill variety** The degree to which an employee can use different skills and talents.
2. **Task identity** The degree to which a job requires the completion of a whole assignment that has a visible outcome.
3. **Task significance** The degree to which the job affects other employees.
4. **Autonomy** The degree to which the employee has freedom, independence and discretion in achieving the outcome.
5. **Job feedback** The degree to which the employee receives information about the effectiveness of his or her performance.

To Do Activity

Visit any retail store of your choice, ask informally to the employee working there about their salary, compensation & other benefits received. Find out their motivation level and performance.

Model Questions

1. Design and develop a retail promotion mix of rural pharmaceutical shop.
2. Why is it important to make the retail budget before launch of campaign?
3. Determine the elements of retail communication for maintaining customer loyalty of banking services of IDBI bank or rural areas.
4. Decide the advertising elements of automobile company for rural areas.
5. Outline a model for logistics of Nirma to the rural areas.
6. Evaluate the supply chain management model of online shopping company for rural areas of Amazon, Snapdeal, Flipkart. Which model is most pro to rural people?
7. Discuss the types of warehouses for keeping potato, tomato, sugarcane at districts of West Bengal.
8. Explain in detail the impact of maintaining high level of inventory for a sugarcane company.

9. Design a model of cosmetics shop. What factors plays the most important role while fixing the location.
10. What would be the layout design of newly opened 2wheeler dealer shop?
11. How the ambience of a mobile retail shop can attract potential customers? Discuss its display mode of items.
12. Simplify the process of space management of grocery shop.
13. Who is the target source of visual image for a retailer? How proper visual displays are done?
14. How creation of comfortable atmospherics may lead to increase in customer footfalls?
15. Discuss different design basics. Describe various elements of store design.
16. What is merchandise display? What functions does merchandise serves?
17. Show how performance of an employee is related to their individual ability & motivation level by applying this equation
 - a. $\text{Performance} = \text{Ability} \times \text{Motivation of employee}$
18. Discuss with the help of example how a selection of wrong person can affect the overall performance of the department & other employee's motivation in retail sector.
19. Devise a plan of control of store employee by the manager of the firm.
20. Explain how knowledge of local language can help a firm to handle customer more effectively in the area of human resource.
- 21.

References

1. <http://www.bms.co.in/whatisretailpromotion/>,12.02.201911.11
2. <http://www.yourarticlelibrary.com/retailing/retailpromotionmixanditscomponents/48385>, 14.02.201916.20
3. <https://www.open.edu/openlearn/moneymanagement/management/businessstudies/retailmarketing/contentsection3.4>, 11.02.2019 21.16
4. <https://www.scribd.com/doc/78774919/RetailPromotionStrategies>, 14.02.201917.50
5. Kotler, P (2009) Marketing Management, Analysis, Planning and Control, New Delhi, Prentice Hall of India.
6. Kotler, P (2009) Marketing Management, Analysis, Planning and Control, New Delhi, Prentice Hall of India.
7. <http://ictinnovations.com/bestopensourceinventorymanagementtools>,15.02.201916.33
8. <https://www.1edisource.com/industries/>, 15.02.201916.33
9. <https://www.creativedisplaysnow.com/typesretailstorelayouts/>,10.02.201922.09
10. <https://www.managementstudyguide.com/storedesignandlayout.htm>, 11.02.201920.00
11. <https://www.shopify.com/retail/theultimatetoretailstorelayouts>,11.02.2019 07.50
12. <https://www.smartsheet.com/storelayout>, 10.02.201923.02
13. <https://www.thebalancesmb.com/typesofstorelayouts2890503>, 09.02.201913.32
14. http://164.100.133.12981/econtent/Uploads/Retail_Strategy_Management.pdf, 10.02.201914.55
15. <http://bear.warrington.ufl.edu/oh/IRET/Slides/Module%204%20Retail%20Marketing%20Management.pdf>, 10.02.201918.05
16. http://shodhganga.inflibnet.ac.in/bitstream/10603/117771/8/08_chapter%201.pdf, 17.02.201910.48

17. <https://www.welingkaronline.org/autoptlibrary/librarynotices/retailmanagement.pdf>, 10.02.201915.00
18. DeCenzo, D.A.& Robbins (2009) Fundamentals of Human Resource Management, New York John Wiley & Sons.
19. http://shodhganga.inflibnet.ac.in/bitstream/10603/62613/10/11_chapter1.pdf, accessed on 08.02.201911.00
20. Rao, V.S.P (2006) Human Resource Management, Text and Cases, New Delhi. Excel Books

Video References

1. <https://www.youtube.com/watch?v=WXxxRRy3E>, accessed on 15.02.201910.20
2. https://www.youtube.com/watch?v=fKGSa3I_wUw, accessed on 15.02.201910.45
3. <https://www.youtube.com/watch?v=4QU7WiVxh8>, accessed on 17.02.2019 14.03
4. https://www.youtube.com/watch?v=Hf_ML38dSDM, accessed on 17.02.2019 14.30
5. <https://www.youtube.com/watch?v=AwemFfdD6VI>, accessed on 17.02.2019 14.50
6. <https://www.youtube.com/watch?v=yZC4neLax5o>, accessed on 17.02.2019 15.50
7. https://www.youtube.com/watch?v=FcV84RC_4K4, accessed on 17.02.2019 17.11
8. <https://www.youtube.com/watch?v=uUsghdIMuU>, accessed on 09.02.2019
9. <https://www.youtube.com/watch?v=N7Pnqr0GrA>, accessed on 09.02.2019
10. https://www.youtube.com/watch?v=TW_i4OBwuw, accessed on 09.02.2019
11. <https://www.youtube.com/watch?v=HmZrnmms5DQ>, accessed on 09.02.2019
12. <https://www.youtube.com/watch?v=em7dqAHhgRY>, accessed on 09.02.2019 11.00
13. <https://www.youtube.com/watch?v=tOjkQfzE0mY&t=173s>, accessed on 10.02.2019 15.30
14. <https://www.youtube.com/watch?v=oWIBJD5a0tA>, accessed on 09.02.2019 14.20
15. <https://www.youtube.com/watch?v=1NI4zETSrQs>, accessed on 09.02.2019 16.55
16. <https://www.youtube.com/watch?v=Xyjbm5Q9oc4>, accessed on 09.02.2019 19.27
17. <https://www.youtube.com/watch?v=w7dmpdBNqM>, accessed on 14.02.2019
18. https://www.youtube.com/watch?v=vwo_GwdtROY, accessed on 12.02.2019
19. <https://www.youtube.com/watch?v=H9LSopkLbpw>, accessed on 15.02.2019
20. https://www.youtube.com/watch?v=_GiuysFbiY, accessed on 14.02.2019

Reading Materials

1. <http://spots.gru.edu/dhoward/mktg3720/3720stu16e5.pdf>
2. <https://slideplayer.com/slide/6944287/>
3. <https://www.theretailingmanagement.com/?cat=8>
4. Kotler, P (2009) Marketing Management, Analysis, Planning and Control, New Delhi, Prentice Hall of India.
5. https://bacalagiblog.files.wordpress.com/2017/02/logistics_and_retail_management_4th_edition1.pdf
6. <https://epdf.tips/logisticsandretailmanagementemergingissuesandnewchallengesintheretail.html>
7. <https://www.1edisource.com/industries/>
8. <https://www.elkjournals.com/MasterAdmin/UploadFolder/6.%20RETAIL%20LOGISTICS%20CHANGES%20AND%20CHALLENGES/6.%20RETAIL%20LOGISTICS%20CHANGES%20AND%20CHALLENGES.pdf>
9. https://www.researchgate.net/publication/241410437_Retail_logistics_changes_and_challenges

10. Kotler, P (2009) Marketing Management, Analysis, Planning and Control, New Delhi, Prentice Hall of India.
11. http://newhorizonindia.edu/nhc_kasturinagar/wpcontent/uploads/2018/01/VISEMBBARetailMgt.notes.pdf
12. http://www.pondiuni.edu.in/storage/dde/downloads/markiii_rm.pdf
13. https://www.icsc.org/uploads/event_presentations/Retail_Store_Planning.pdf
14. <https://www.scribd.com/doc/77638102/RetailStoreLayout>
15. http://ebooks.lpude.in/management/bba/term_5/DMGT305_RETAIL_MANAGEMENT.pdf
16. <http://www.universityofcalicut.info/SDE/VI%20Sem.%20BBA%20%20Marketing%20Specialisation%20%20Retail%20Management.pdf>
17. <https://bok.cc/book/1226617/f4829d>
18. https://www.tutorialspoint.com/retail_management/retail_management_tutorial.pdf
19. Aswathappa, K (2002). Human Resource and Personnel Management, New Delhi. Tata McGraw Hill.
20. Gupta, C.B (2012), Human Resource Management, Delhi. Sultan & Chand Publishing.
21. <http://panmore.com/walmarthumanresourcemanagementrecruitmentsselectionemployeeretention>
22. <http://unpan1.un.org/intradoc/groups/public/documents/UN/UNPAN021814.pdf>

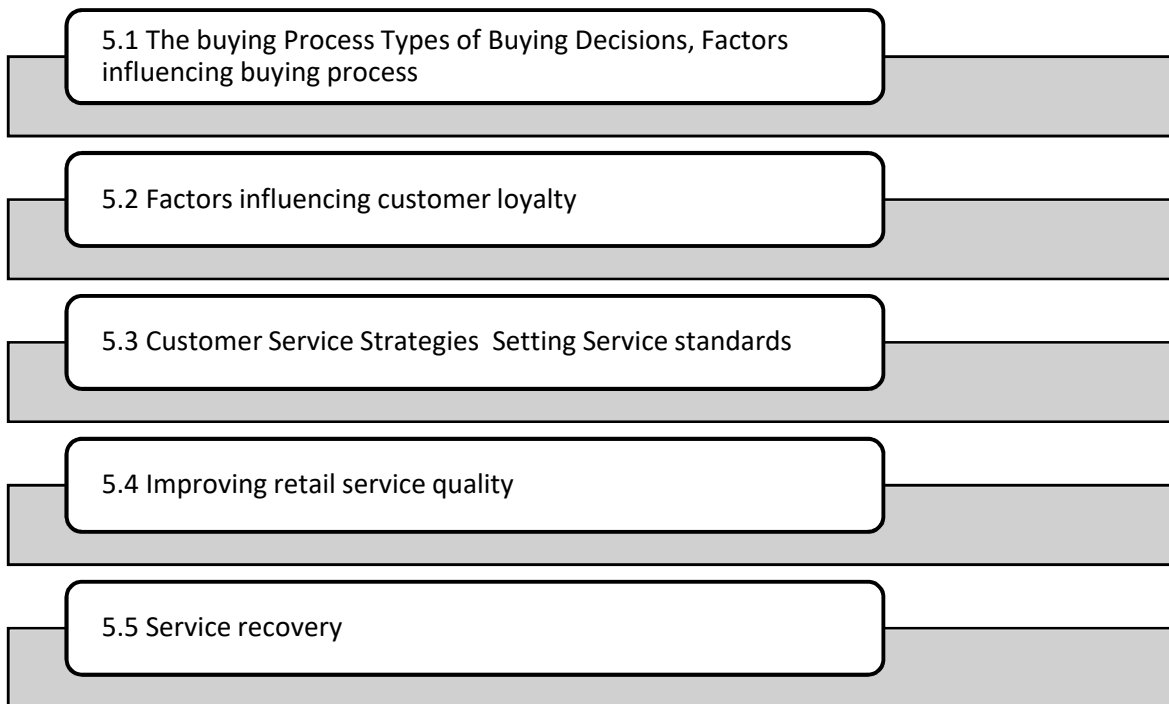
Chapter 5 Retail Customer Behavior and Customer Service

Objectives

After reading this lesson, you will be able to

- define and explain retail customer buying behavior;
- illustrate the types of buying decisions;
- analyze and assume factors influencing buying process;
- appraise customer loyalty, what make customer loyal towards products;
- create and develop service quality standards through SERVQUAL matrix
- recommend ways of improvement service quality
- propose model of service recovery for retail sector

Structure



5.1 The Buying Process Types of Buying Decisions, Factors Influencing Buying Process

Retailing is an activity involves selling merchandises and services to the final buyers for their personal, or their family's consumption

All consumers are potential customers to a retail business, however, what is more appropriate for retail managers is the identification of a group of consumers who are likely to become actual customers or purchasers within their own outlet.

General Characteristics of Consumers

Types of Buyers and Consumers

- **Consumer Market** Individuals and households that purchase “goods and services for personal consumption

- **Business Market** Organizational entities that purchase merchandises and services for the “usage in the manufacture of other merchandises and services or for the use of reselling or leasing others at a rate of profit.”

Characteristics

- More geographically concentrated and involves variety of traits.
- Affected by distinct variables of buyer characteristic features cultural, social, personal and psychological.
- Buyers in the consumer markets are distinctively different from those in organizational market, in terms of behavior.
- An organization can ensure their marketing strategy is appropriate by practicing target marketing or questioning center participants.

New Age Characteristics of Consumers

- Young demographics
- Aspirational consumer
- Value consciousness
- Networked consumer
- Socially conscious
- Brand switchers
- Thinking beyond categories

Reasons Customers Buy from Retail Stores Despite Online Shopping



Figure 5.1 Reasons of Customer Purchase from Offline Stores

Rural Buying Behavior

4 types of Rural Retail Buying Behavior

- Complex buying behavior mobile phones, electrical appliances, motor cycles
- Habitual buying behavior salt, necessary goods
- Variety seeking buying behavior biscuits, snacks, dress
- Dissonance reducing buying behavior house paints, kitchen utensils, toiletries

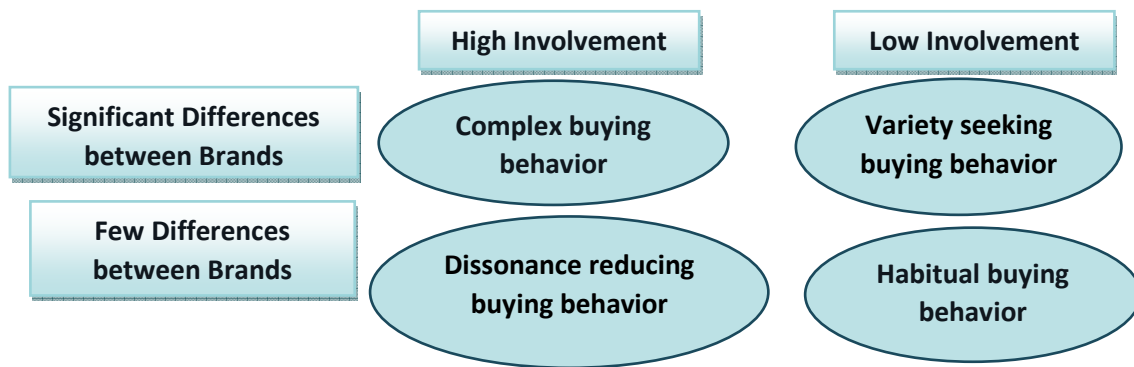


Figure 5.2 Retail Buying Behavior
Source Kotler, P Marketing Management

The rural consumerism is bit complex and conventional as compared with the urban ones. The process of retail purchase is not based on a single factor. But it depends on multiple factors. Each family members plays a distinct and different role leading for the final purchase for the retail merchandise shown below

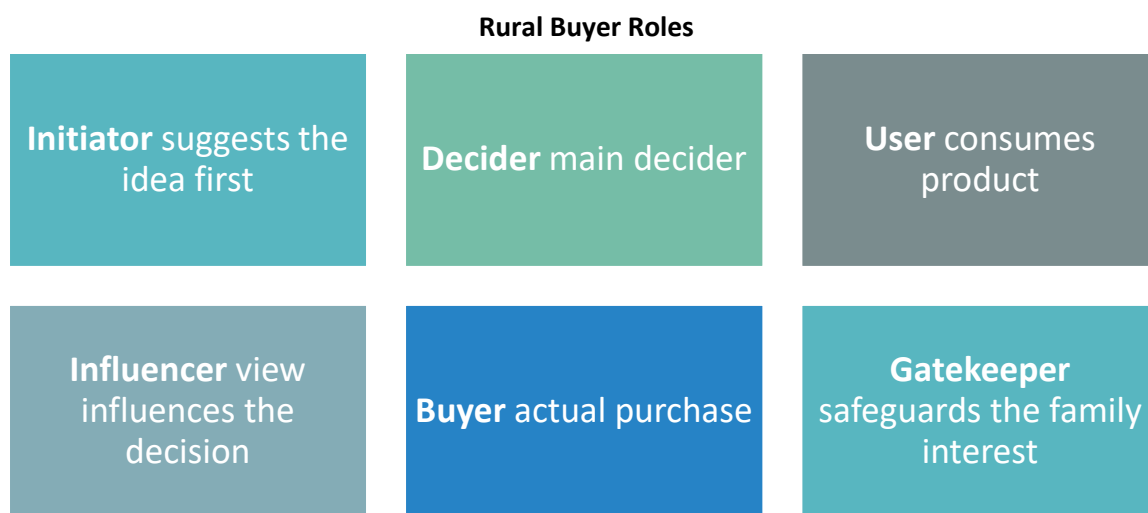


Figure 5.3 Roles of Rural Buyer
Source Kotler, P Marketing Management

To Do Activity

Ask yourself what kind of buying behavior you involve mostly while purchasing merchandises from the retail shop?

The buying process of rural consumer is not much different from those of urban consumer. Both follow the process and have the respective need, requirement and expectations which they fulfill after the final purchase of product. The rural retail buying process starts with need recognition where the customers have problem and they seek to solve it. In order to solve the need or problem the customer seeks relevant information pertaining to the solution of the problem. The next stage is the evaluation of different, available, related alternatives which the consumer will seek before going

for the actual purchase. After evaluation of different alternatives, the consumer selects the best one as per the requirement. Finally, the consumer buys the product by paying the requisite price for it. Based on the purchase decision made by the consumer they reflect post purchase behavior in 2 form as shown below

- Satisfied with the purchase or product
- Dissatisfied with the purchase or product

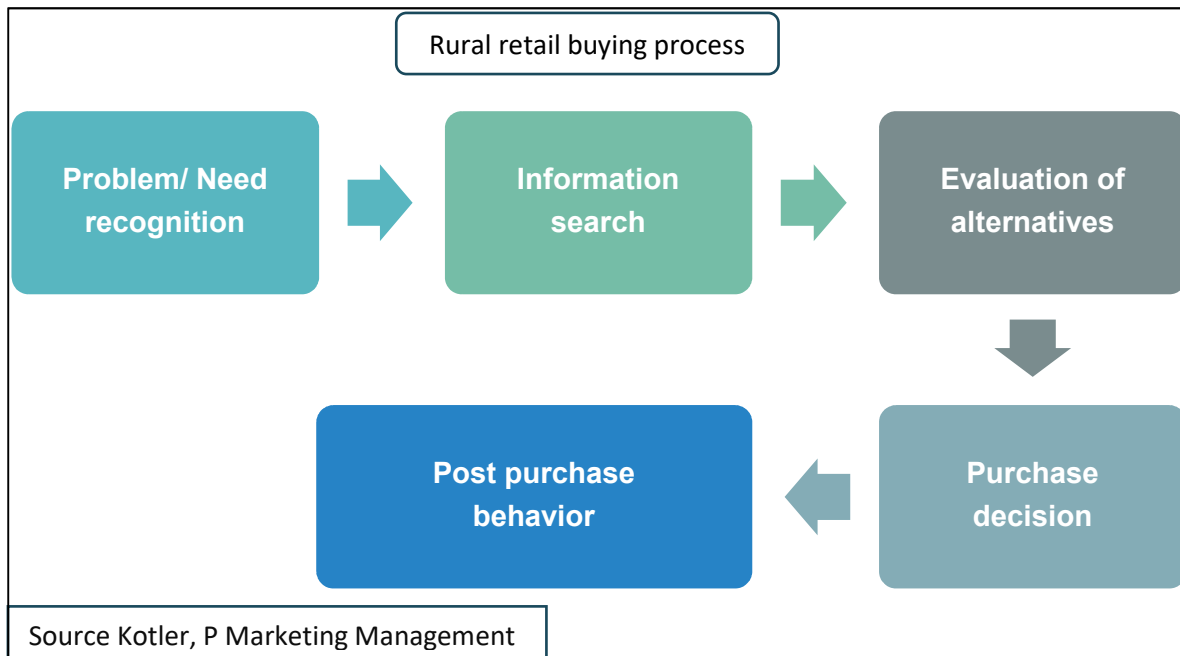


Figure 5.4 Rural Retail Buying Process

There are multitude of factors that affects retail consumer buying process. Each factor has its own weightage and impact on the buying decision. However, the nature of impact of these factors on purchase decisions depends on the intensity and frequency of the purchase made by the customer. Following are the factors that affects the rural retail consumer buying process

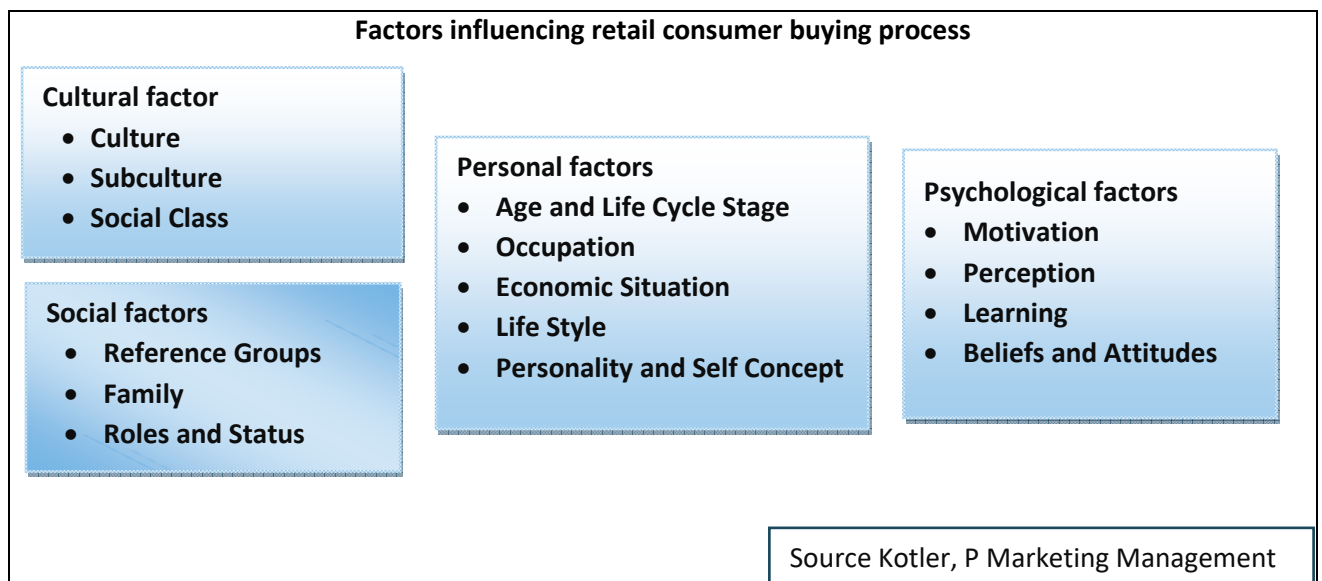


Figure 5.5 Factors Affecting Retail Consumer Buying Process

5.2 Factors Influencing Customer Loyalty

Consumer loyalty relates to the recurrence and repetition of business caused by present potential customers. These customers tend to reflect positive perceptions and attitudes towards certain definite companies because of their connected and products or services usage over a time period. Customer loyalty is achieved by offering consistently and continuously good range of products and services. These customers prefer and expects high quality customer service and deliveries and effective strategies towards problem resolution. The company must offer rewards, discounts and other benefits for loyalty.

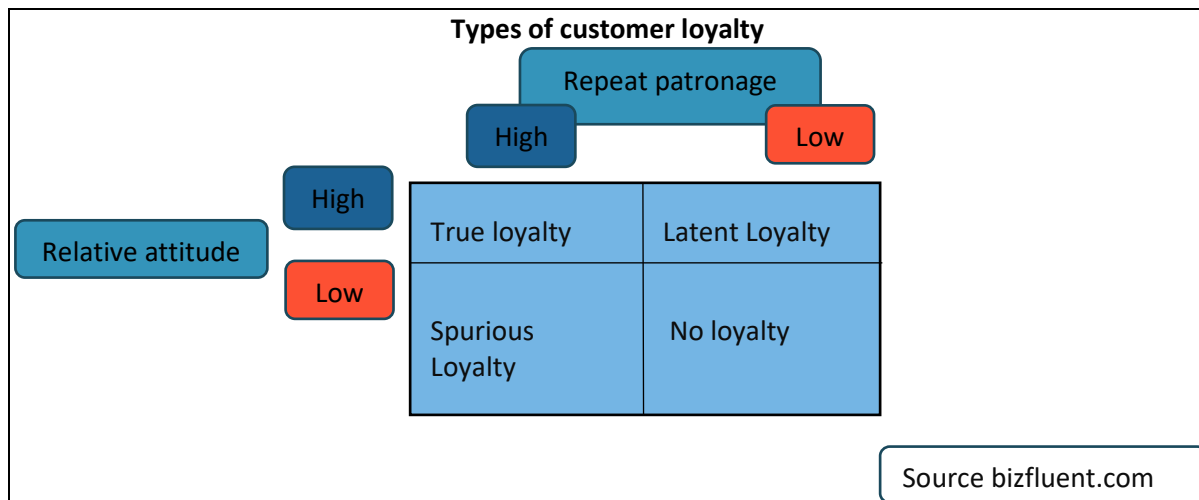


Figure 5.6 Types of Customer Loyalty

The rural customers for different markets tend to behave differently. Customers in rural markets reflects strikingly different reasons for buying and using the products. It can be evident below the diagram regarding products usage and final decision for keeping or dispose of the products. The loyal customers keep the product with them for

- Either personal consumption
- Use as other product substitute
- Stock it for further use

Another category of customer tries to

- Get rid of temporarily
- OR Get rid of permanently
as shown below

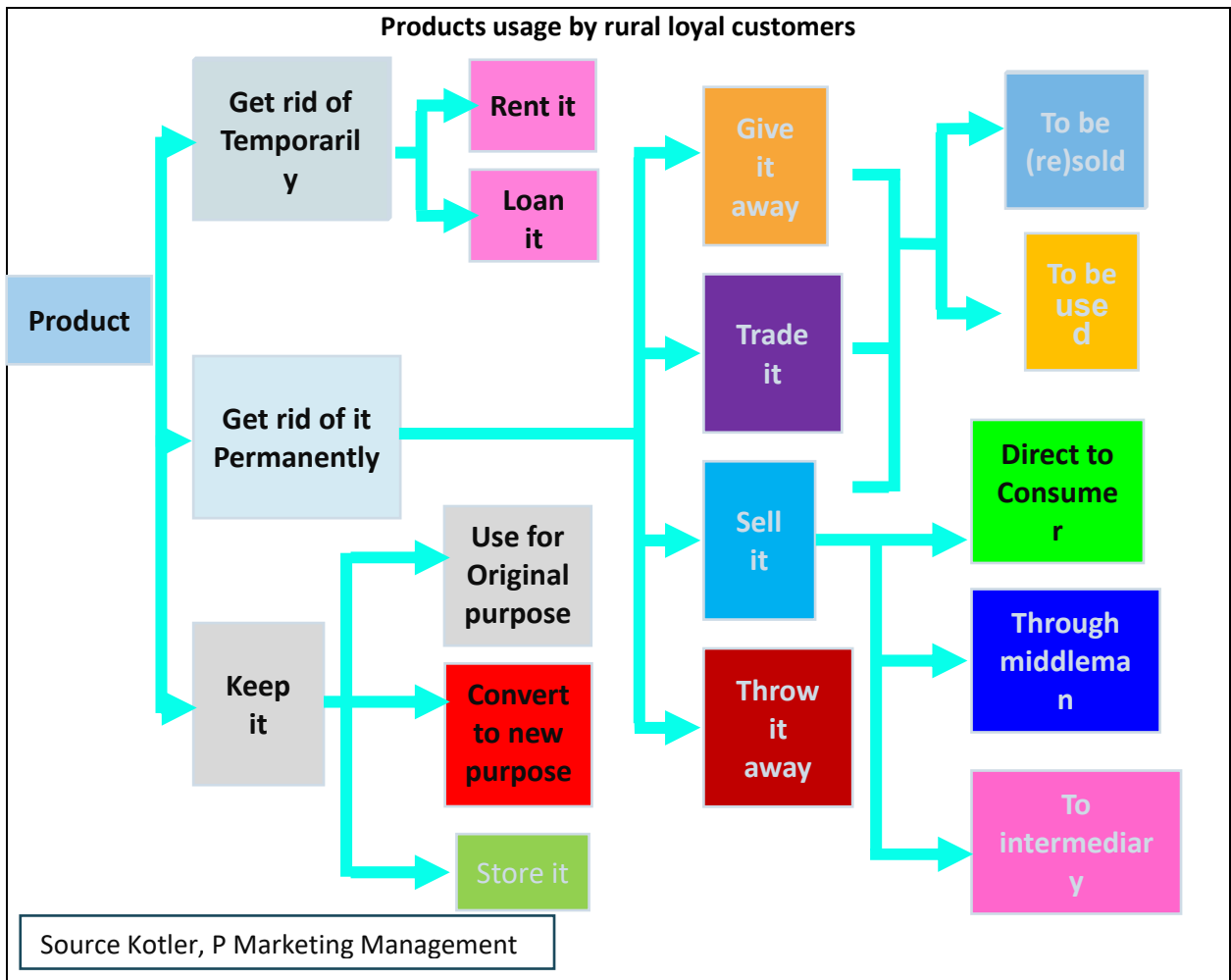


Figure 5.7 Products Usage by Rural Customers

To Do Activity

Try to find out the percentage of discounts offered by rural retailers

Conversion of rural prospective into loyal customer requires a well-crafted planning and strategy. As the retailers are not only engage customers via different mediums instead, providing a regular satisfying overall experience. In order not to only acquiring but retention of a loyalty customer base is what much sought after engaged with the customer.

Below are the few strategies for customer engagement and retention

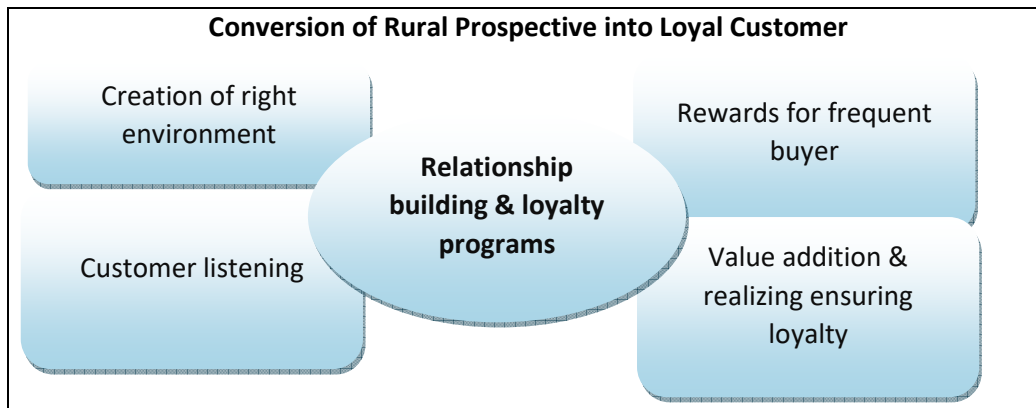


Figure 5.8 Conversion of Rural Prospective into Loyal Customer

Factors Influencing Rural Customer Loyalty

- Competitive product
- Value for money
- Peace of mind
- Product availability
- Product awareness promotion
- Communication
- Affordability of product price factor
- Convenience
- Meeting customer expectations
- Customer service after sales service
- Maintaining customer relationship
- Loyalty rewards loyalty card program
- Prestige and reputation at marketplace
- Community outreach
- Basic product offer
- Usage satisfaction delighted
- Demography
- Lacking personal attention
- Faulty website
- Inefficient communication

Variables of Rural Retail Customer Loyalty

- Service quality
- Perceived product value
- Trust maintenance
- Habit or frequency of buying
- Reputation of brand

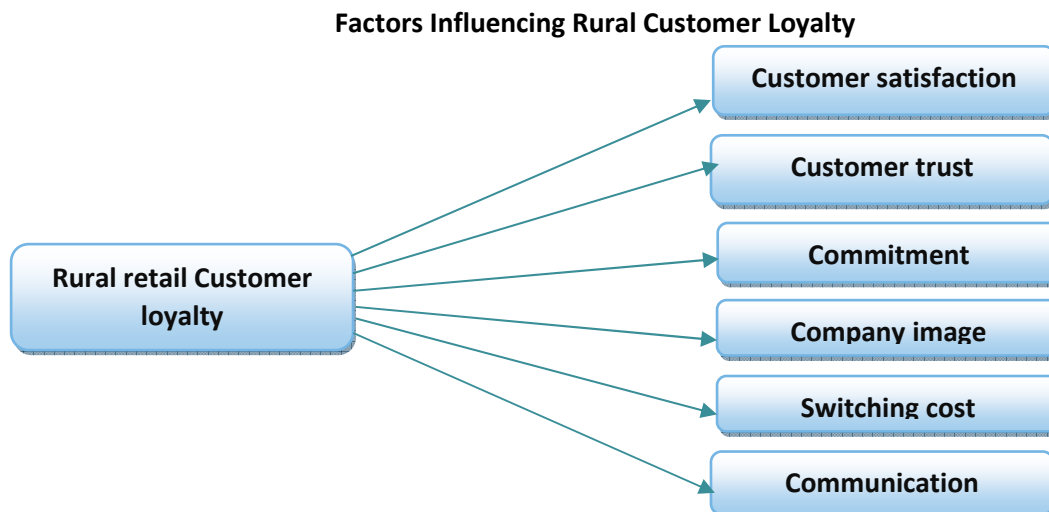


Figure 5.9 Factors Influencing Rural Customer Loyalty

Factors Deciding Customer Loyalty

- Comfortable shopping experience
- Easy purchasing process
- Positive experience in shopping
- Discounts and incentives received
- Options of returning merchandise

Ways to Increase Rural Customer Loyalty

- Grievance redressal
- Digital marketing social media presence via groups, forums, twitter
- Online customer service
- Loyalty points and coupons redeeming online
- Customer reviews comfort in handling negative reviews
- User friendly, multiple, easy payment methods and options
- Wow feeling positive spread of wordofmouth

Rural Retail Customer Loyalty and Acquisition Cycle

In order to acquire and retain a customer, it is important to formulate policies and develop a customer relationship management program (CRM). The commitment for companywide implementation of the developed policy plays equal role for the same. As customer may anticipate the expected level of customer service on company behalf. Therefore, the company must adopt a pro consumer policy which not only attract the customer but went extra mile and offer extra help for retaining the customer base.

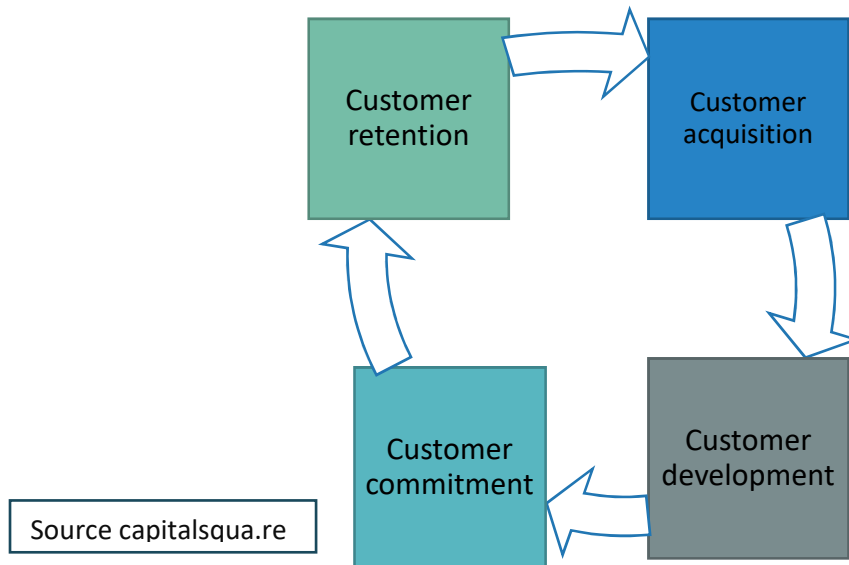


Figure 5.10 Customer Loyalty and Retention Cycle

To Do Activity

Experiment how merchandise on credit plays important role in converting a customer to loyal despite not so good experience with the retailer.

5.3 Customer Service Strategies Setting Service Standards

Strategic Advantages through Customer Service

- Achieving maximum customer satisfaction is the key to success for a good retailer.
- Loyalty to the customer plays a major role in bonding and cementing the relationship of the retailer and the customer.
- The complete retail business is aligned around the customer.

Customer Service Strategy

There must be a unique balance between delivery of a service, the cost of the delivery and customer expectations.

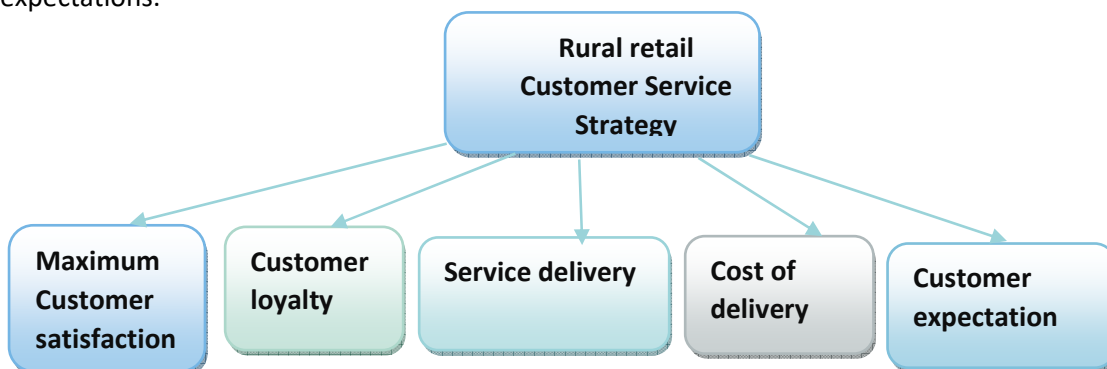


Figure 5.11 Retail Customer Service Strategy

Customer service is a reactive process and customer experience is a proactive process. Both are interrelated and results in customer expectation as shown below. The company should think about ways to WOW the customer throughout the customer lifecycle, not only focusing on service based issues.

Ways and means to deliver a great customer experience by

- Relevance (customized and meaningful) offering the customer what is their want and when they need it
- Reliability means to keep consistently the brand promise
- Responsiveness (to listen, to understand and to act.) listening not with the interest to respond but in order to understand. Also understanding with the assessment to promptly act.
- Convenience (is about choice, consistency and timeliness) be omnipresent where the customer needs you.

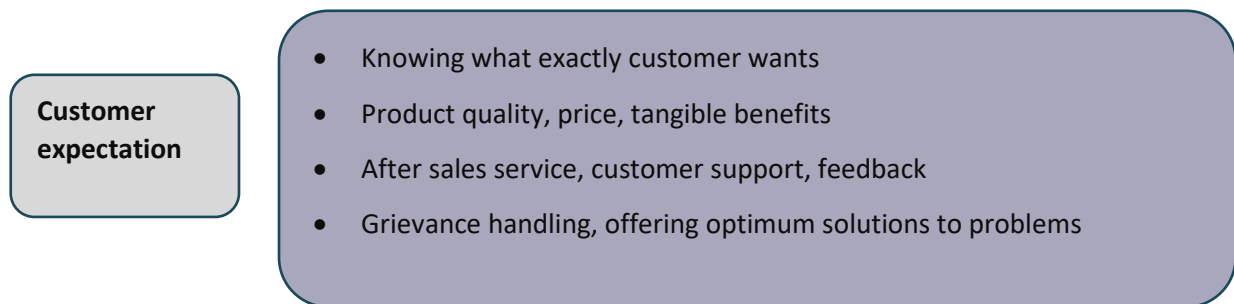


Figure 5.12Expectation of Customer

Customer delight materializes when company surprise the customer by surpassing the expectations. In other words, when customer expectations met, we have customer satisfaction. Unlike, anguished happens when the customers fall short with the expectations. Expectations not met results customer dissatisfaction as shown below

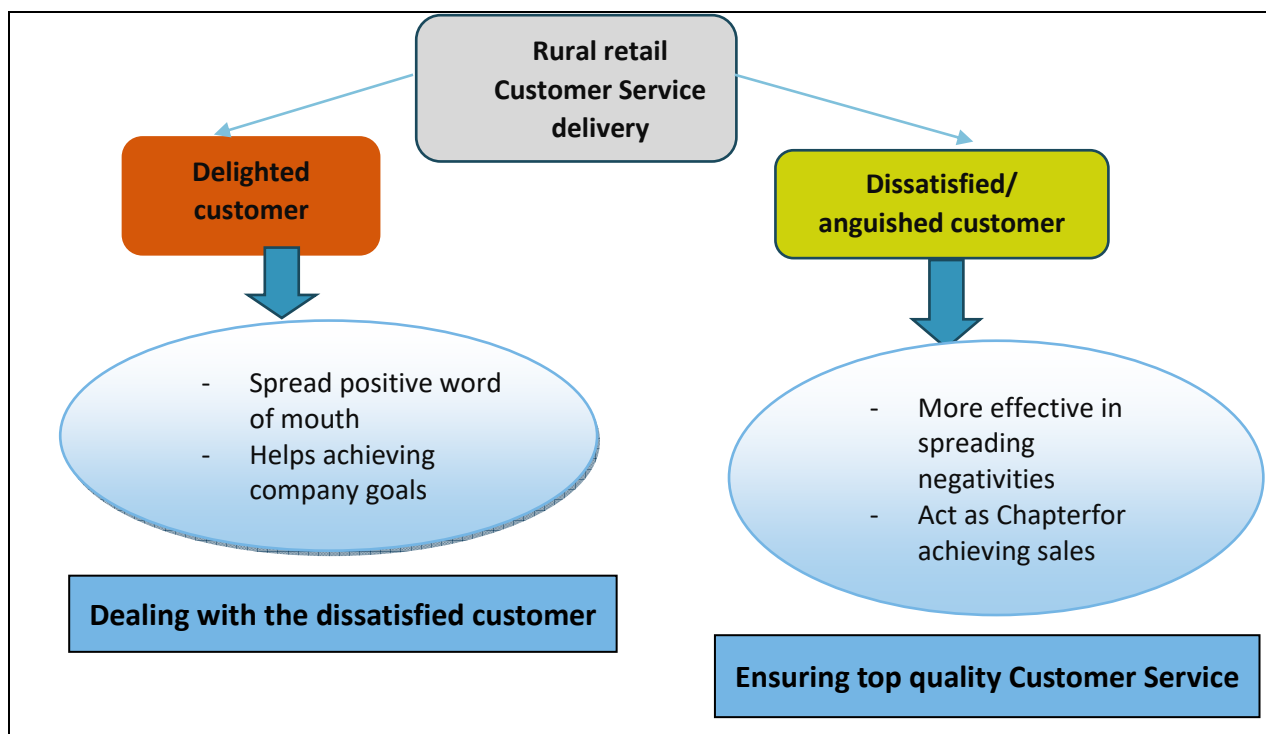


Figure 5.13 Customer Service Delivery

- Be calm and don't forget that it's not personal
- Empathies with the customers

- Actively seek solutions to their problems
- Followup
- Learn from these experiences
- Determine what is 'special' about your customer service
- Make a list of all customer service ideas
- Try some good customer service ideas from your list
- Be upbeat and keep on looking for more customer service ideas

To Do Activity

Compare the cost of delivery of Whirlpool & Godrej refrigerator across the rural areas of West Bengal. What differences did you find?

Standardization of service by retailers is one of the criteria analyzed by customer which keep them unique, separate and distinct as compared with nearby competitors. Through standardization, the retailers will keep them abreast of recent changes in the trends of

- Market
- Customers preferences
- Changes in customer taste, values
- Changes in technology
- Changes in life style etc.

All the variables of service standards lead to the maximum satisfaction to the customer by using a product or services. Below diagram deals with the variables resulting customer satisfaction which in turn makes the customer to be with the brand reflecting loyalty.

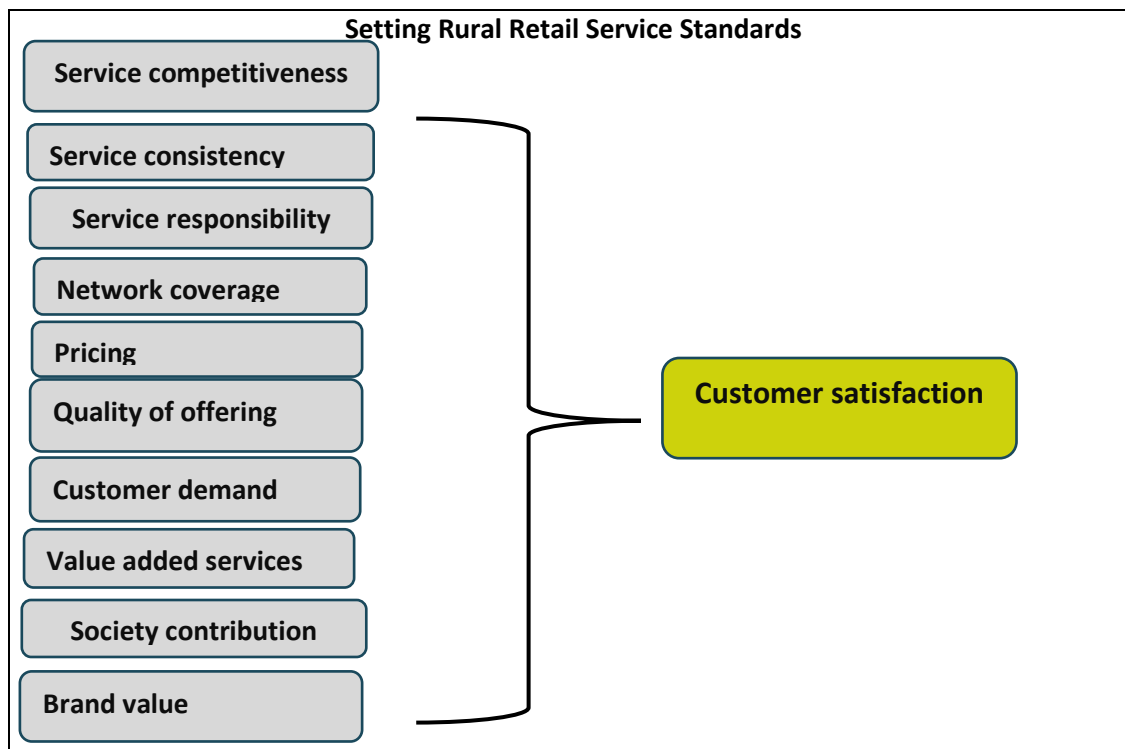


Figure 5.14 Setting Rural Retail Service Standards

The holistic approach of retailer providing customer satisfaction includes both internal as well as external factors in to consideration. Company should focus on internal service quality parameters which in turn lead to employee satisfaction. A satisfied employee of a firm shows increased in performance level and reflect better understanding and experience over the service period. This leads to overall increment in service quality which when delivered to the customer provides maximum customer satisfaction which in turn make the customer loyal to the retailer firm. All the factors should combine together to focus on the customer service thereby providing maximum satisfaction. And a satisfied customer always proves to be loyal to the company.

Holistic approach of retailer service towards customer loyalty

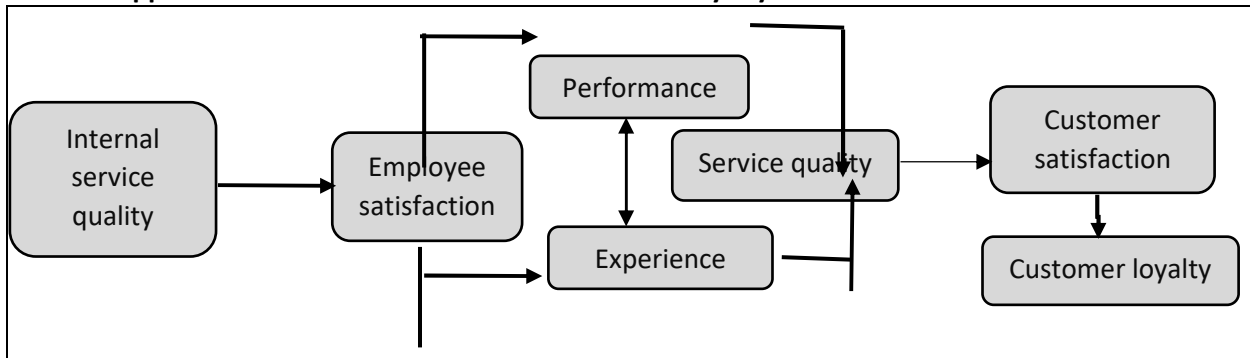


Figure 5.15 Holistic Approach of Retailer Service Towards Customer Loyalty

5.4 Improving Retail Service Quality

The quality of retail service can be improved by focusing on certain parameters pertaining to customer expectation and actual product delivery. So, this is basically meeting customer's expectation without compromising the product quality. Since 1990s various researched has been conducted in service quality area. One of the widely accepted and applied models is the SERVQUAL model. However, this model is based on scale. It can be applied to retail stores environment. This scale laid the base for developing another model called as retail service quality scale (RSQS). RSQS is a multi-item-based scale that measures five different dimensions of retail service quality

- physical aspects
- reliability
- personal interaction with customers
- problem solving approach
- company policy

RSQS includes 28 itemized rating scales. Out of 28, 17 has been adopted came from the existing SERVQUAL rating scale. The rest 11 from the respective researchers work.

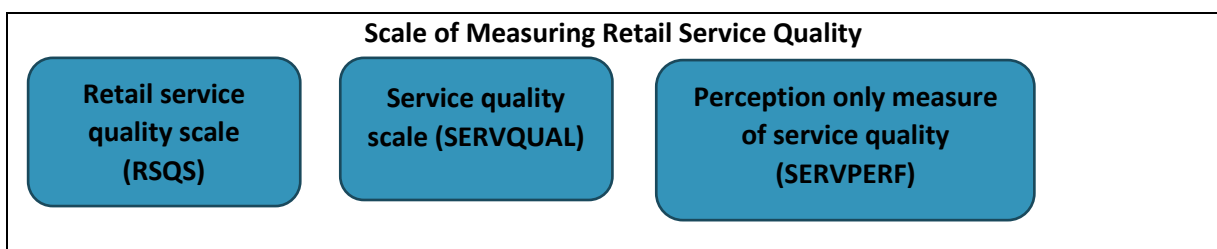


Figure 5.16 Different Scales of Service Quality Measurement

These items can be grouped into following five dimensions of retail service quality scale RSQS

- **physical Aspect** the appearance of store and store layout convenience;
- **reliability** retailer retains promises made and does the things right at the right time;
- **personal Interaction** the associates ought to be courteous, generous, empathetic, helpful and should inspire confidence and trust;
- **Customer Problem Solving** employees must be trained to handle potential and probable problems;
- **Company Policy** regarding operating hours, payment options equal pay for equal work, tangible and intangible benefits and many others.

Customer Evaluation of Service Quality

Service Quality

- The difference between customer expectations of service and perceived service. If expectations are greater than performance, then perceived quality is less than satisfactory and hence customer dissatisfaction occurs
- **Service Quality** measurement allows for comparison before and after changes, for the location of quality related problems and for the establishment of clear standards for service deliver.

The customer gap is the gap arises between the customer and company because of deviation and slippage in the level of expected service to that of perceived service. The expected service is the expectation of customer from the product and service for satisfying the need and requirement. However, the perceived service is the actual service received from the retailer behalf.

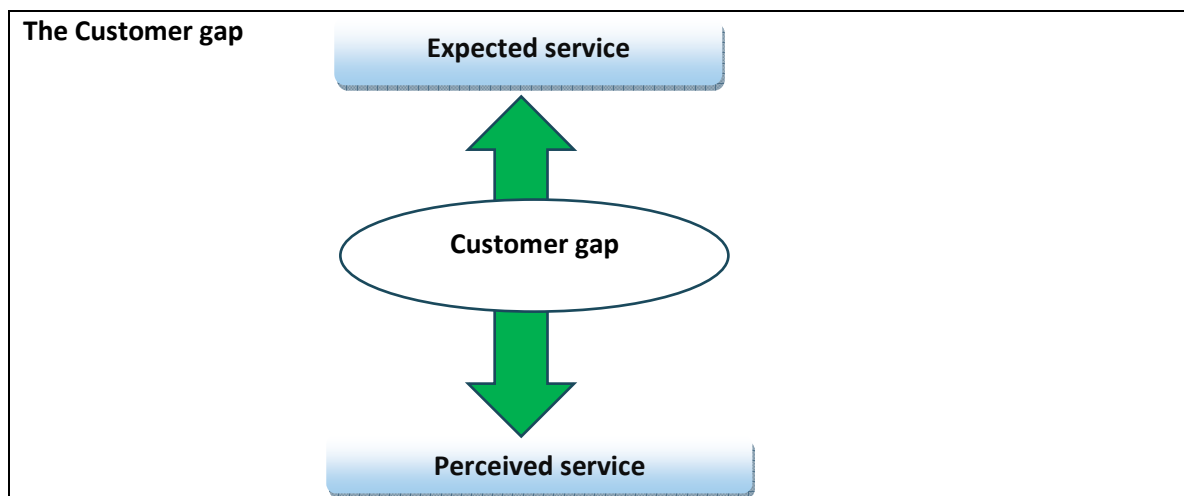


Figure 5.17 The Customer Gap

Mind the Gap or Abridge the Gap

Adoption of empathy based customer programme is vital to close the gaps identified and implementing the steps to ensure the performance is greater than customer expectation. Moreover, data visualisations may also help to focus the areas that need urgent attention and to fill and bridge the gaps. It is important to note that customer experience must be designed for and measured by what is actually customer's experience.

As previously explained, dimensions of customer gap includes different associated variables resulting in delivering the service quality to the customer. Perceptions are shaped by the actual service provided. Five customer service characteristics used by customers to evaluate quality. Following are the dimensions of customer gap

- **Reliability** customer should be confident enough to depend and rely on the company offerings
- **Responsiveness** the company should mark their presence in the need of the hour of customer and a prompt response is what is required at this level.
- **Empathy** company should put themselves into the customers shoes. How would the company feel if they were at customers place?
- **Assurance (trust)** Customer wants to listen 'yes it would be done for you'
- **Tangibles** probable conversion of intangibility into tangible aspect as far as possible meeting customers expectations

To Do Activity

How can organizations ensure they are meeting and delivering as per customers need and expectations?

Dimensions of customer gap

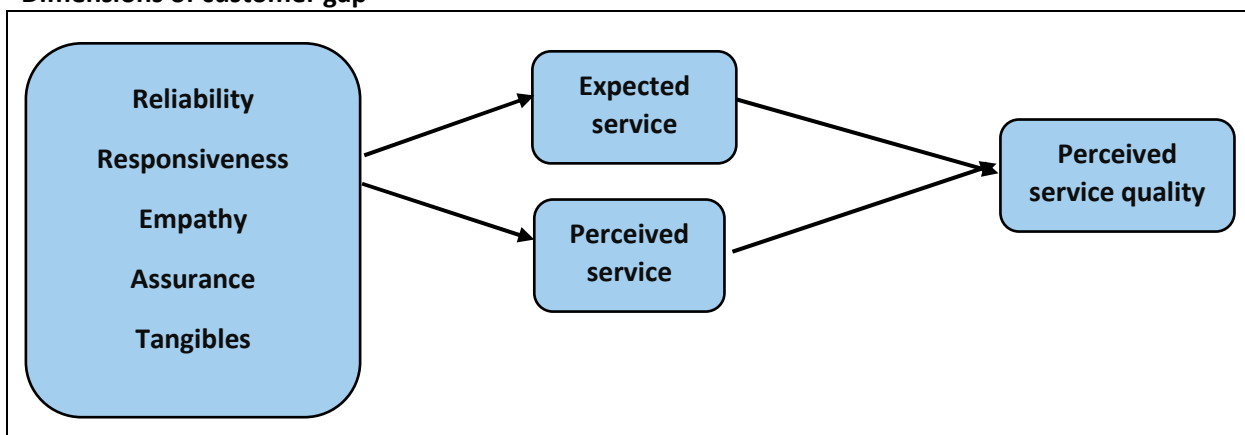


Figure 5.18 Dimensions of Customer Gap

To Do Activity

Associate the expectation of a rural customer to that of the urban regarding tangible & intangible benefits associated with a product.

Customer evaluation of service quality

Customers generally compare their perception of the service they receive with their expectations

Perception

Often, customers evaluate quality based on the way service is provided, not just the outcome.

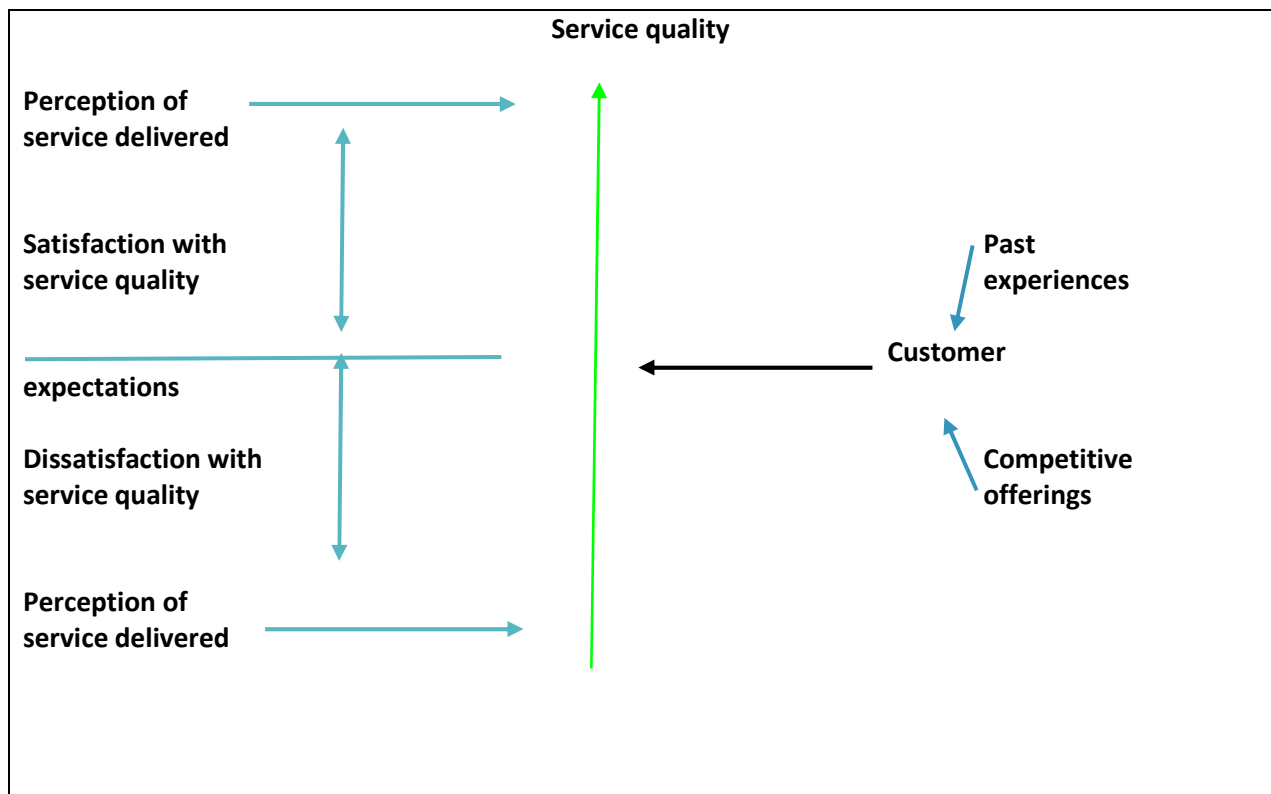


Figure 5.19 Service Quality

Gaps Model for Improving Retail Customer Service

The gaps model was proposed and published by Parasuraman, Valarie Zeithaml and LL Berry through a research paper in the year 1985 in the Journal of marketing.

- Service Gap = Customer Expectation Perception of Service Quality
- Variables of service gap
 - Knowledge gap knowing what the customer wants
 - Standards gap setting service goals
 - Delivery gaps meeting and exceeding service goals
 - Communications gap communicating the service promise

How to Reduce Service Gap

- Understand the level of service customers expect
- Set standards for providing customer service
- Implement programs for delivering service that meets the standards
- Undertake communication programs to accurately inform customers about service offered

The Knowledge Gap

- Lack of accurate information on customers' needs and expectations
- Can result in poor decisions leading to dissatisfaction
- Reducing the Knowledge Gap
- Customer research
 - Comprehensive studies, Assessing satisfaction with individual transactions, Customer panels and interviews, Review of customer complaints
- More interactions between managers and customers
 - Observations and informal interactions with customers
- Better communications between managers and service providers
 - Feedback from store employees

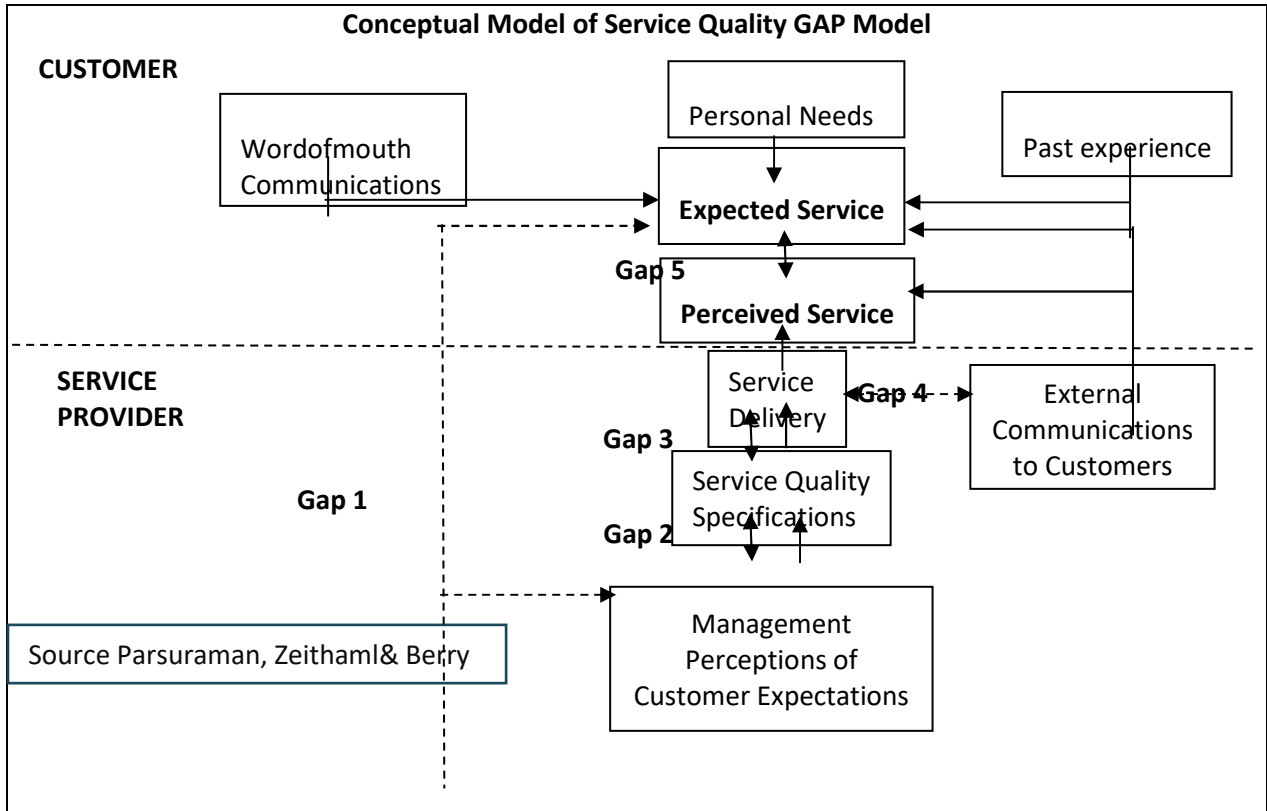


Figure 5.20 The Gap Model

Gap Model

Table 5.1 The Gap Model Features

Gap 1	Gap between customers' expectations and management perceptions
Gap 2	Gap between management perceptions and service specifications
Gap 3	Gap between service specifications and service delivery
Gap 4	Gap between service delivery and external communication It occurs as a result of inadequate horizontal communications and propensity to overpromise.
Gap 5	Gap between customer expectations and their perceptions of the service delivered
Gap 6	Gap between customer expectations and employees' perceptions.
Gap 7	Gap between employee's perceptions and management perceptions

- An insight into Gap Model**
1. Knowledge Gap It means not knowing what customers expect.
 2. Standards Gap It means not selecting the right service standards.
 3. Delivery Gap It means not delivering to service standards.
 4. Communication Gap It means not matching performance to promises.

Figure 5.21 An Insight into Gap Model

Servqual Methodology

“It is apparent that there is little consensus of opinion and much disagreement about how to measure service quality”. **Robinson (1999)**

Five generic dimensions or factors of SERVQUAL methodology

1. Tangibles
2. Reliability
3. Responsiveness
4. Assurance
5. Empathy

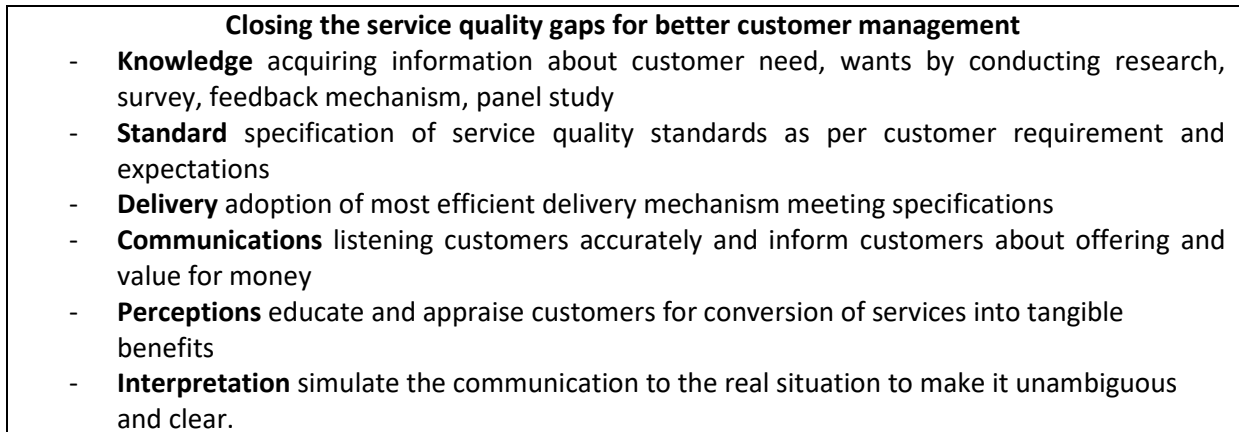


Figure 5.22 Closing the Service Quality Gaps

After analysis of gap model, the company should adopt and implement policies related to implementation of regulations and observe the impact of improved customer service.

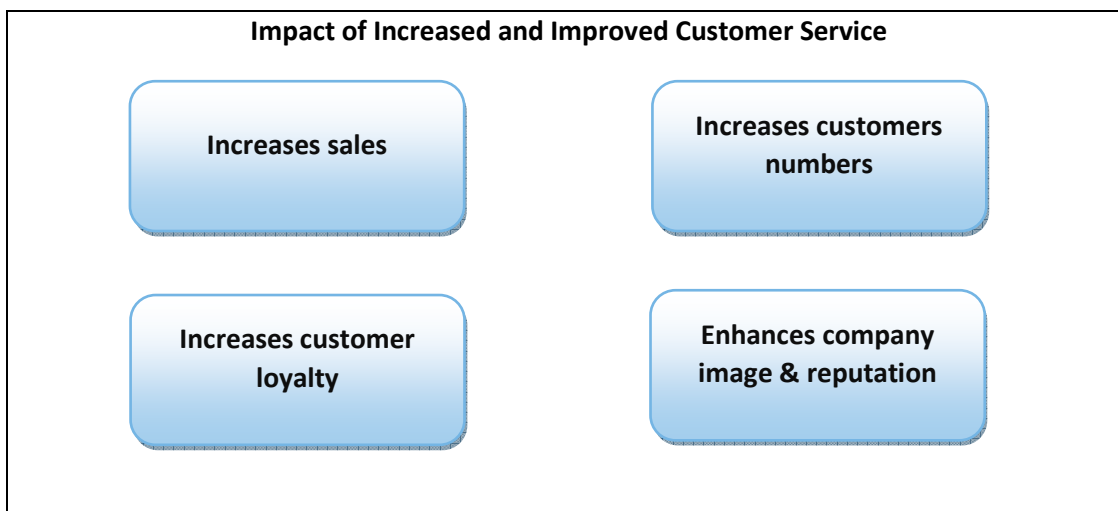


Figure 5.23 Results of Increased and Improved Customer Service

5.5 Service Recovery

Complete evasion of service failure in any type of organization is unavoidable. Service failures happen when the organization falls short to deliver as per promises made to customer's expectations. It can result in the loss of profitability, sales and the customer itself forever. Any servicebased organization should put maximum effort for attracting and retaining loyal and regular customers to improve customer satisfaction. However, the method of attracting a new customer is 5

times costlier than retaining the present and old loyal customers. Service failure may raise the feelings of mistrust, sense of insecurity for purchase in customer's perception about the service delivery.

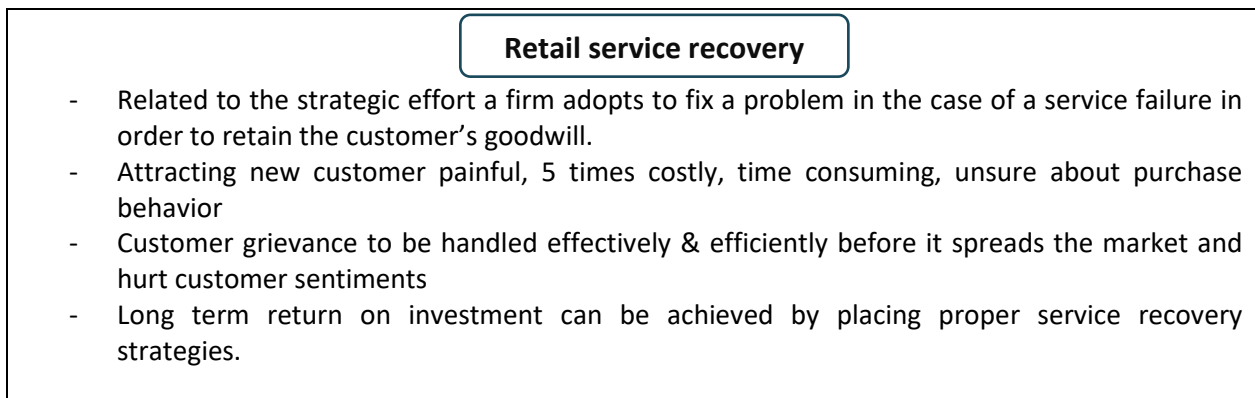


Figure 5.24 Concept of Service Recovery

Service recovery is the phenomenon for solving the failures in order to maintain quality of the products in the customers mind.

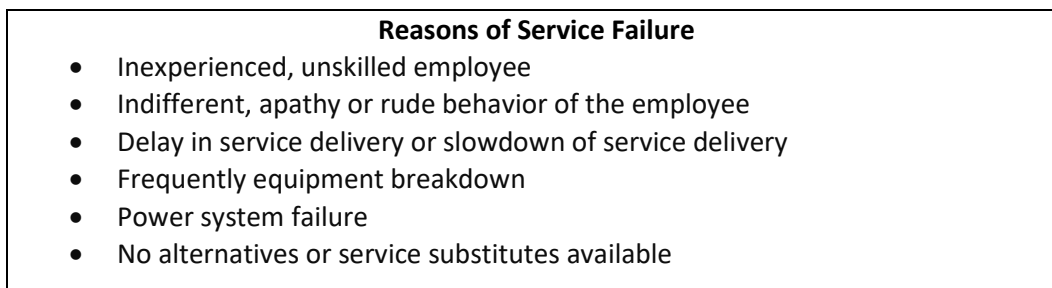


Figure 5.25 Service Failure Reasons

System of effective complaint handling may help the firm in improving customer loyalty as shown below in Figure 5.25. The service organizations required to conduct regular investigations, research, surveys or interviews to know the exact and valid reasons of customers lost.

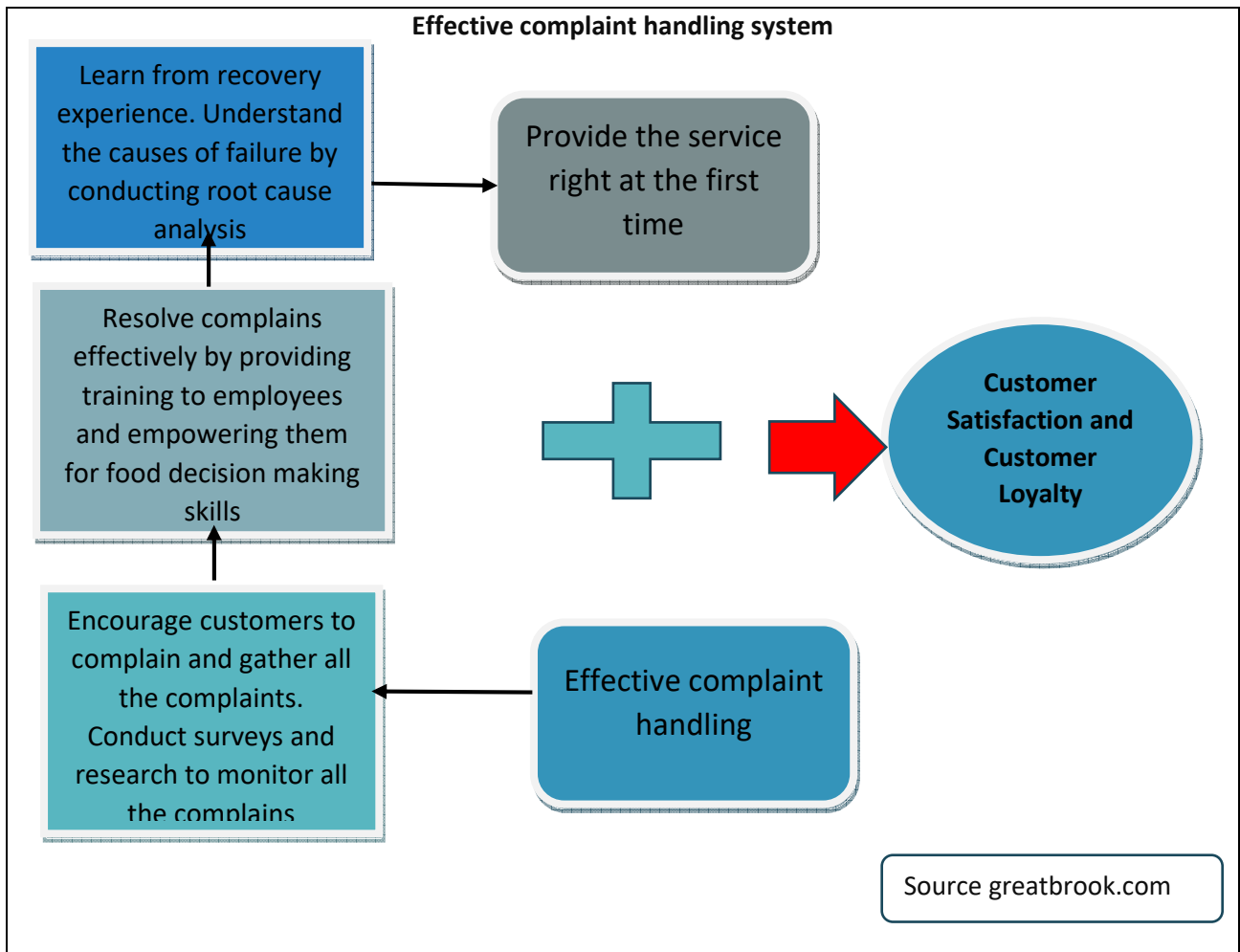


Figure 5.26 Customer Complaint Handling System

Effective Retail Service Recovery

- Enables customer to focus again on maximum satisfaction received from delivery process of services
- Dealing promptly with the problem customer faced will pacify the situation and hence make the customer more loyal
- Faster initiation of action within short time span
- Being honest and open regarding accepting the mistake incurred
- Being empathetic to understand the customer perspective and situation he is being through
- Maintenance of dual relationship and an open communication
- Informing and appraising the customer the mode of action taken to resolve the problem
- Ensuring that customer fully understands the remedial steps in order to solve the issue and it won't be repeated in future.

Importance of Retail service Recovery

- Pivotal mechanism of achievement of customer satisfaction and in turn loyalty
- Provides a direction and position of firm's orientation towards customer satisfaction and product quality
- Affects loyalty of customer and future profitability
- Grievance handling must not be treated as incurring cost but as a longterm profit center.

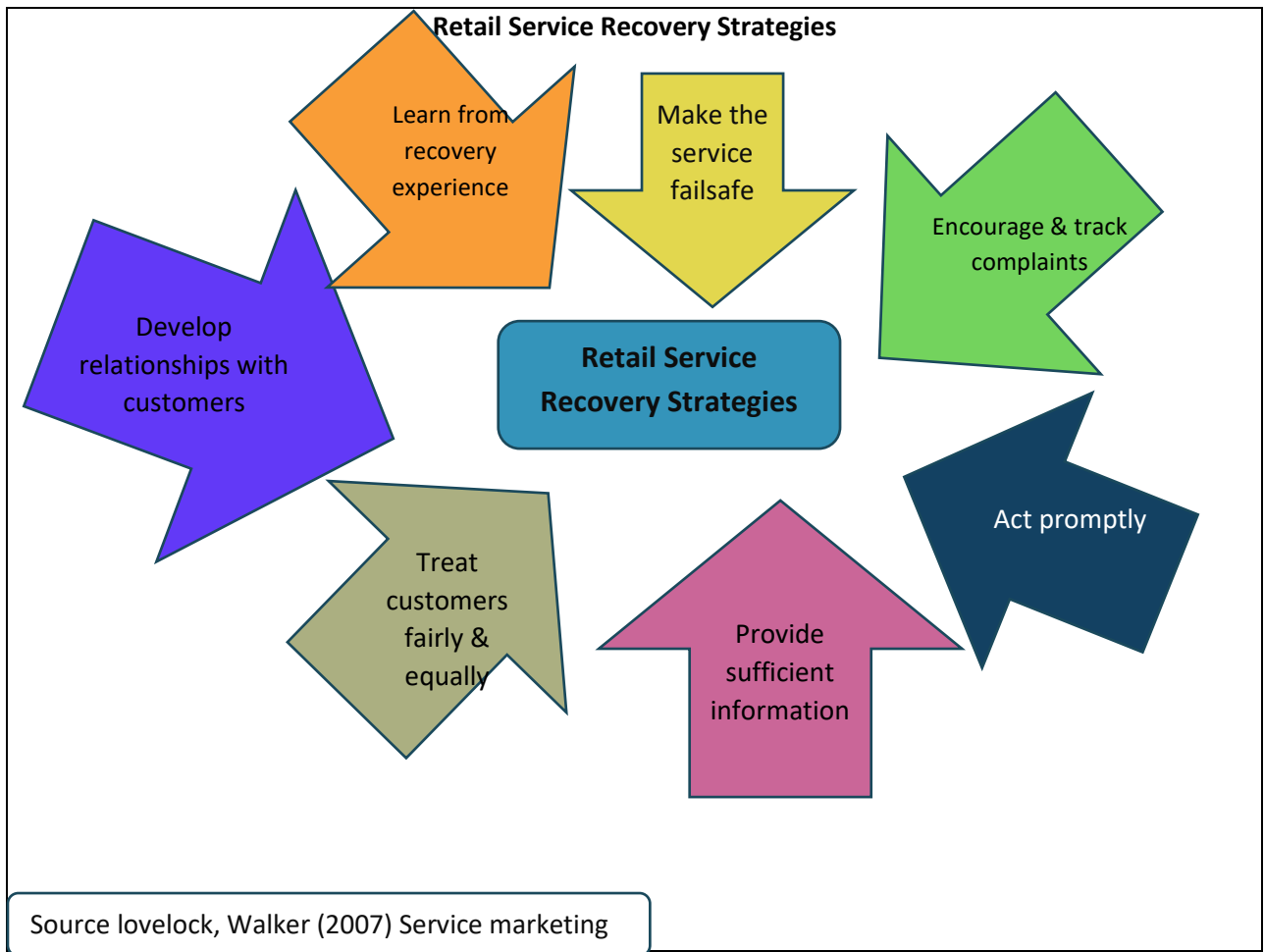


Figure 5.27 Service Recovery Strategies

Proper recovery action and appropriate ways should be adopted to handle the failure situation as shown below in Figure 5.27. The related service personnel can empathize, apologize, support or assist the customer in correcting the problem and try to compensate the unhappy customer. The compensation may be as per company norms in the form of discount, credit, EMI option, coupon, validity extension, refund, free of cost service.

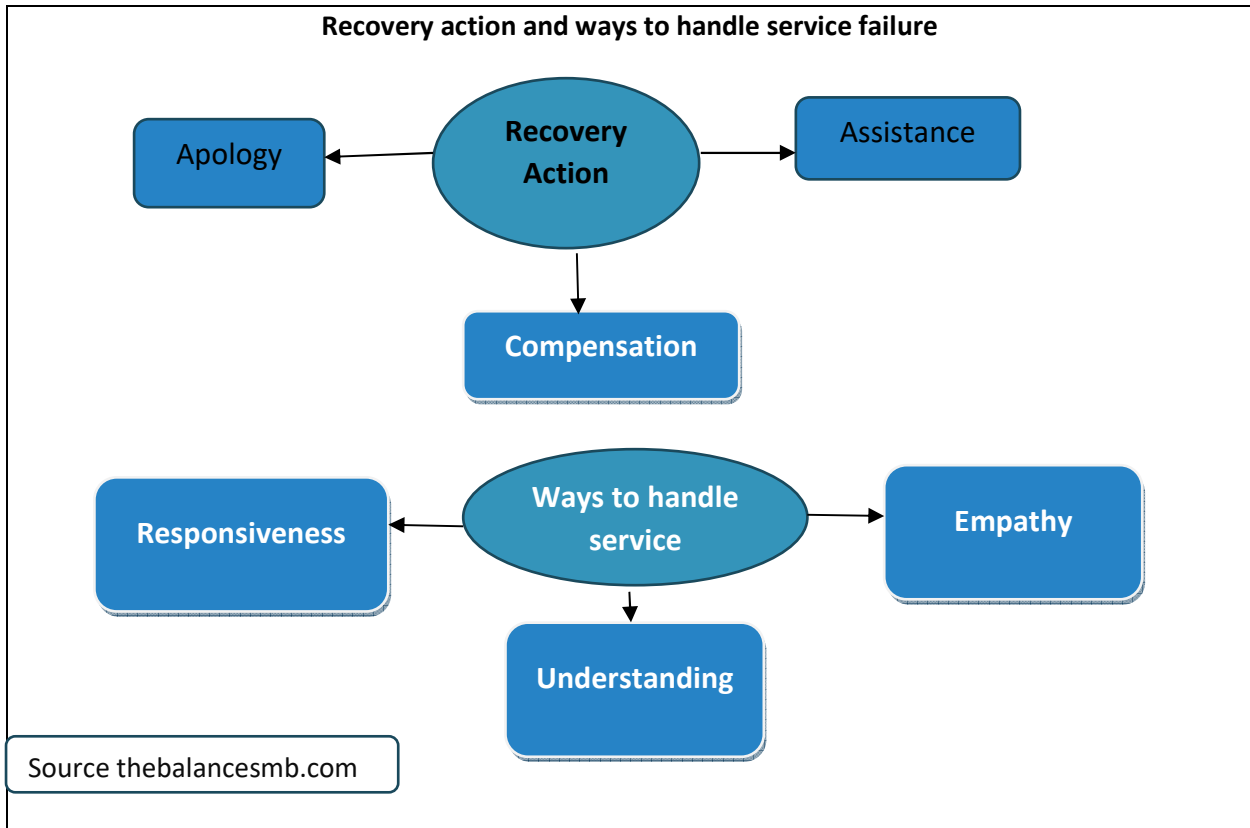


Figure 5.28 Ways to Handle Service Failure

To Do Activity

Try to find out the following from a rural service provider of Cable TV a) Why do customers complain? b) What proportion of dissatisfied customers complain? c) Who is most likely to complain? D) Where do customers complain?

Maturity Stages of Service Recovery Strategies

The Service Recovery in a firm passes through a series of interconnected maturity stages as shown in the form of pyramid diagram

Stage 1 Moribund There is no response to complaint made by customers. The customers irritated but are ignored at this stage.

Example BSNL

Stage 2 Reactive The customer complaints are attended and heard, also response is made. But ineffective and undefined goals make the situation bad. The stage is unplanned and unorganized with improper communication

Stage 3 Active Listening the customer response to the issues raised by c them is structured and concerned people took the responsibility. The employee responds to the complaints made but the mode is still reactive.

Stage 4 Solicitous In this stage, the complaint made by the customers are proactively solicited and are involve with a motive to resolve it. But this stage is vulnerable with respect to losing the customer. As the customer don't bother to complain any more, but rather prefer to switch the company or the brand.

Stage 5 Infused Amalgamation and Adoption of Different programs to dig out and identify the root is what is the feature of infusion stage. The business owners implement the processes involving structural change line service redesigning, BPR (business process reengineering), reverse engineering, AI (artificial intelligence) to rescue and save the customers.

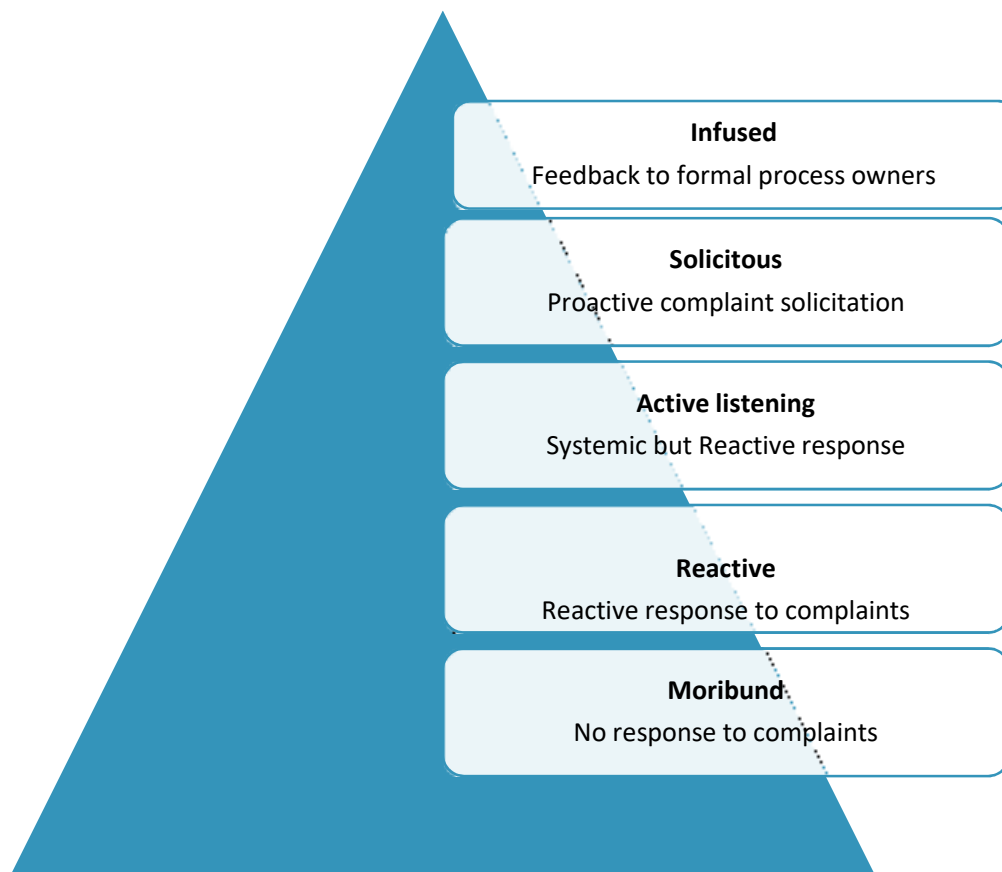


Figure 5.29 Maturity Stages of Service Recovery Strategies

Model Questions

1. Outline the rural buying process of farm equipment's like tractors in rural parts of Punjab.
2. Explain the importance of factors influences buying process for rural consumers.
3. Experiment with the typical process of rural purchase. Which step plays the most significant role making the final purchase?
4. Inspect the stages of products usage by loyal customers. At what stage the customer retains the product and for how long?
5. What are the different ways of dealing with customer complaints?
6. Imagine a loyal customer dissatisfied with the recent purchase and decided to switch to another brand. What measures needs to be taken by the company to retain the customer back
7. Infer the percentage of service sector in Indian economy with that of agricultural sector. Outline the differences and why?
8. What service standard plays the most crucial role for satisfying the customer demand?

9. Conduct an opinion survey in any rural area regarding spreading of negative word of mouth of Maggi and Patanjali Maida in recent times. What damage and gap it creates in customers mind?
10. Discover the reasons behind customer loyalty towards usage of tobacco based containing products in rural areas especially 'khaini' across India despite its lethal effects.
11. Develop the gap model for FMCG service provider for rural area of Gujarat.
12. Evaluate and analyze the customer satisfaction before and after the implementation of gap model in the rural automobile company like Hero.
13. Examine the consumer gap. Did you feel anytime being a consumer the same thing? If yes, what was your move?
14. What are the main reasons for failure of services?
15. How can you define service failures and recovery?
16. Plan and propose a model for recovery of Panchayati Raj program and 5 years planning system of any rural area in the state of Orissa.

References

1. <https://managementation.com/5stagesofconsumerbuyingdecisionprocess/>,12.02.2019 14.30
2. <https://www.b2bmarketing.net/engb/resources/blog/5stepsunderstandingyourcustomersbuyingprocess>,12.02.2019 16.30
3. Kotler, P (2009) Marketing Management, Analysis, Planning and Control, New Delhi, Prentice Hall of India.
4. Pradhan, S (2009) Retail Marketing Management, New Delhi Tata McGraw Hills.
5. <https://bizfluent.com/info8208520typesconsumerloyalty.html>, 10.02.201922.10
6. <https://consumerbrandbuilders.com/7factoreffectcustomerloyalty/> 10.02.201920.05
7. <https://www.arrkgroup.com/thoughtleadership/whatfactorsinfluencecustomerloyalty/> 10.02.201920.20
8. <https://www.customer.com/blog/retailmarketing/factorsinfluencingcustomerloyalty/> 10.02.201922.05
9. <https://www.livemint.com/Consumer/NUSa0LZGIXsgfrUSuKNFQK/Whatruralconsumerswant.html>, 13.02.201916.32
10. Kotler, P (2009) Marketing Management, Analysis, Planning and Control, New Delhi, Prentice Hall of India.
11. <https://fitsmallbusiness.com/customerservicestrategies/>, 10.02.201915.30
12. <https://www.livehelpnow.net/blog/7customerservicestrategiestohelpyoubeatthecompetition/>, 11.02.201911.20
13. <https://www.socialmediatoday.com/news/4strategiestohelpimproveyourcustomerservicestandards/529799/>,10.02.201916.30
14. Kotler, P (2009) Marketing Management, Analysis, Planning and Control, New Delhi, Prentice Hall of India.
15. Gilbert D (2012), Retail Marketing Management, Edition II New Delhi, Pearson India
16. Levy, Weitz and Pandit (2008) Retailing Management, New Delhi Tata McGraw Hills.
17. Parasuraman, A., Zeithaml, V.A. & Berry, L.L. (1993). "Research note more on improving service quality measurement," Journal of Retailing, 69(1), 140-147.
18. Pondicherry University Retail Management University press
19. Zeithaml, Valarie A.; Berry, Leonard L.; Parasuraman, A. (1990) Delivering Quality Service Balancing Customer Perceptions and Expectations, New York, NY, U.S.A. The Free Press
20. <https://greatbrook.com/servicerecoverystrategiescustomerretention/>, 15.02.201913.10
21. <https://www.thebalancesmb.com/failure-recovery-strategies-importance-2892355>, 14.02.201911.10
22. Lovelock, CH, Patterson, PG & Walker RH (2007) Services Marketing AnAsiaPacific and Australian perspective, New York, Pearson

23. Tax, S and Brown, SW (2000) Handbook of Services Marketing and Management, New Delhi. Sage Publication Inc.
24. Zeithaml, VA, Bitner, MJ & Gremler, DD (2009) Services Marketing. 5th ed (New York) McGraw Hill.
25. <https://www.youtube.com/watch?v=s7UUf5c0Oqk>, accessed on 06/02/2019 11.21
26. <https://www.youtube.com/watch?v=iGj15S0tpYI>, accessed on 06/02/2019 12.19
27. <https://www.youtube.com/watch?v=LttqvkHziI04>, accessed on 07/02/2019 16.28

Video References

1. <https://www.youtube.com/watch?v=ToOkHDUGa6E> accessed on 05/02/2019 16.11
2. <https://www.youtube.com/watch?v=a3aV3KSsMI> accessed on 10/02/2019 11.56
3. <https://www.youtube.com/watch?v=h5LpwwQJ6M> accessed on 05/02/2019 16.11
4. https://www.youtube.com/watch?v=bL_Dqyva0c accessed on 05/02/2019 16.11
5. <https://www.youtube.com/watch?v=MARqCvmdHg> accessed on 05/02/2019 19.41
6. https://www.youtube.com/watch?v=2O_30zbyYv4, accessed on 14.02.2019 16.46
7. <https://www.youtube.com/watch?v=fsIkV5OnbWA>, accessed on 14.02.2019 16.58

Reading Material

1. Gandhi, J.C. (2000) Marketing A Managerial Introduction, New Delhi, Tata McGraw Hill
2. Levy, Weitz and Pandit (2008) Retailing Management, New Delhi Tata McGraw Hills.
3. Gandhi, J.C. (2000) Marketing A Managerial Introduction, New Delhi, Tata McGraw Hill
4. Levy, Weitz and Pandit (2008) Retailing Management, New Delhi Tata McGraw Hills.
5. Gandhi, J.C. (2000) Marketing A Managerial Introduction, New Delhi, Tata McGraw Hill
6. Valarie A. Zeithaml, Mary Jo Bitner, et al (2017) Services Marketing Integrating Customer Focus Across the Firm, New Delhi, McGrawHill Education
7. Madan, KVS (2009) Fundamentals of Retailing, New Delhi Tata McGraw Hill
8. Sinha, P, K (2007) Managing Retailing, New Delhi Oxford University.
9. Valarie A. Zeithaml, Mary Jo Bitner, et al (2017) Services Marketing Integrating Customer Focus Across the Firm, New Delhi, McGrawHill Education
10. Kotler, P (2009) Marketing Management, Analysis, Planning and Control, New Delhi, Prentice Hall of India.
11. Valarie A. Zeithaml, Mary Jo Bitner, et al (2017) Services Marketing Integrating Customer Focus Across the Firm, New Delhi, McGrawHill Education

Editors' Profile

Dr W G Prasanna Kumar

Dr. W. G. Prasanna Kumar, PhD in Education with basic degree in Social Work and Master's Degrees in Sociology, Public Administration and Political Science has professional education in Environmental Economics, Public Relations, Communication and Training and Development. Presently Chairman, Mahatma Gandhi National Council of Rural Education (MGNCRE) under the Ministry of Human Resource Development, in Government of India strives to promote resilient rural India through Higher Education interventions. The national initiative of reviving Mahatma Gandhi's ideas of Nai Talim, spearheaded by Dr. W G Prasanna Kumar, has met unprecedented success at both national and state levels. The primary objective of this initiative is to promote Gandhiji's ideas on Experiential Learning, Nai Talim, Work Education and Community Engagement, and mainstreaming them in School Education and Teacher Education Curriculum & Pedagogy. As Professor and Head Centre for Climate Education and Disaster Management in Dr MCR HRD Institute, conducted several capacity building and action research programmes in climate education, disaster management and crowd management. He has handled many regional, national and international environmental education programmes and events including UN CoP11 to Convention on Biological Diversity and Media Information Management on Environmental Issues.

He was Director in National Green Corps in the State Government for over 11 years and Senior Social Scientist in State Pollution Control Board for 6 years. Conducted various curriculum and non-curriculum related training programmes in environmental education. He was a Resource Person for AP Judicial Academy, AP Police Academy, AP Forest Academy, EPTRI, Commissionserate of Higher Education and Intermediate Education, State Council for Educational Research and Training and National Council for Educational Research and Training New Delhi, CCRT, Bharathiya Vidyapeet University Pune, CPR Environmental Education Centre Chennai and Centre for Environment Education Ahmedabad. Dr W G Prasanna Kumar was trained in Community Consultation for Developmental Projects in EPA Victoria Australia in 1997 trained as State Chief Information Officer by IIM Ahmedabad and MCRHRDI Government of Andhra Pradesh in 2004 and trained in Environmental Education and Waste Management Technique by JICA, Japan in 2011.

He was awarded Best State Nodal Officer of National Green Corps Award from Centre for Science and Environment, New Delhi, 2008, Jal Mithra Award from Earthwatch Institute of India and Water Aid New Delhi, 2014 and Certificate of Commendation for the services in UN Conference of Parties to Convention for Biodiversity conducted at Hyderabad from 1-20 October 2012 by the Government of Andhra Pradesh 2012.

Dr K N Rekha

Dr K N Rekha, is a PhD Graduate from IIT Madras. She has 13 years of experience in training and education Industry. She works at Mahatma Gandhi National Council of Rural Education (MGNCRE), Hdyerabad as Senior Faculty. She is involved in curriculum development on Rural Management and Waste Management. Prior to this, she worked as a researcher at Indian School of Business, Hyderabad, a short stint at Centre for Organisaition Development (COD), Hyderabad. She has Co-authored a book on "Introduction to Mentoring", book chapters, Peer reviewed research papers, book reviews, Casestudy, and caselets in the area of HR/OB. She also presented papers in various national and international conferences. Her research areas include Mentoring, Leadership, Change Management, and Coaching. She was also invited as a guest speaker at proiminent institutions like IIT Hyderabad.

Author's Profile

Dr B Poongodi

Dr. B. Poongodi, a Professor in Marketing and an avid researcher in Consumer Behaviour, Rural Marketing, agribusiness and agriculture marketing has 17 years of total experience. She holds a Bachelor's degree in Agriculture from Tamilnadu Agriculture University and a first class Masters in Business Administration from Bharathiar University. She was conferred Ph.D. in 2013. Subsequently, she completed an International Diploma in Agribusiness Management from Galilee Institute, Israel. She started her career as a Project Manager with Villgro, Chennai (erstwhile GIAN South) and was serving the industry for 3 years. She has been working as an Assistant Professor in Management since 2004. She has successfully accomplished a Government of India - DST – SEED sponsored project for the handloom weavers as a Co – Principal Investigator. Presently she has taken up the consultancy assignment for the Tamilnadu State Department of Handlooms and Textiles as Principal Coordinator. She is also a visiting Faculty at the Agriculture and Rural Management Department, TNAU. She has acted as resource person and coordinated various training programmes, workshops and consultancy assignments. She has presented papers in conferences, published articles in international, national, impact factor and Anna University Annexure journals. She has published two books viz., Business Statistics using MS Excel (Lakshmi Publications, Trinity Press) and Managerial Skills for Agri-Entrepreneurs (NIPA Publishers, New Delhi). She reviews articles for Journal of Management Research and Analysis by Innovative Publications and for Kisan World Journal published by Sakthi Sugars. She is a recipient of best societal research award from KCT and Best Researcher – Rural Marketing. Apart from academic activities she is a mentor to the KCT-Natural Fibre Research Center and also guides the YeoCroft Club – An organic farm initiative at KCT.

Dr Shahaida P

Dr. Shahaida P is a Professor and the Area Chairperson-Marketing in the Centre for Management Studies since December 2011. She holds a Ph. D. in the Services Marketing Area from University of Mysore. She has an M. Phil degree in Management from Alagappa University. She is a Master in Business Administration (Marketing) from Kuvempu University. She holds a Graduate degree in Pharmacy, Government College of Pharmacy, Bangalore University. She has 19 years of industry, teaching, training, research and consulting experience. She has served as a faculty in reputed management institutes in Bangalore and Hyderabad. Her core areas in teaching are brand management, services marketing, marketing research, sales management, strategic marketing, tourism marketing and corporate social responsibility. She has worked in the industry with multinational companies in the areas of sales, sales training and product management. She has published research papers and case studies in many national and international journals in the areas of services marketing, branding, retail etc including South Asian Journal of Management, International Journal of Commerce and Management and International Journal of Mobile Marketing.

Dr Neetha Mahadev

Neetha Mahadev is a Psychology graduate with MBA in marketing and PhD in Conflict Management and Women Entrepreneurs. She has a collective experience of 20 years in Corporate, Third Sector and Academics and has gained good reputation all across. She is currently working for BNMIT as a Professor in the Department of MBA. Has published in reputed international journals with good impact factor and h-index and is serving on the editorial board of reputed journals. She has experience of working with research projects funded by government, private and non-profit organizations.

Dr Monirul Islam

Dr Monirul Islam is an Assistant Professor of Marketing in Xavier's Business School, St Xavier's University Kolkata. Prior to this, Dr. Monirul Islam has worked as an Assistant Professor in the Department of Management Studies at Aligarh Muslim University, Murshidabad Centre for 3 years. Also, worked with Aligarh University, Kolkata for 2 years and NB St Xavier's College, Rajganj for 1 year as a faculty. A Ph.D in the domain of Rural Marketing reflects his inclination towards rural area approaches. He received his Master's in Medical Science from Jamia Hamdard University, New Delhi. He had finished his MBA from MDU and PGPBM from NIILM School of Business, New Delhi. His work has been published in peer reviewed journals of national and international repute. He is keen, inclined & passionate towards delivering lecture & conducting sessions on communication skills, presentation skills, personal grooming, oratory & public speaking, soft skills, ITes training etc. He is a soft skills trainer from IBM.



सत्यमेव जयते

Mahatma Gandhi National Council of Rural Education (MGNCRE)

Department of Higher Education
Ministry of Human Resource Development, Government of India



040 - 2321 2120



admin@mgncre.in
www.mgncre.in



#5-10-174, Shakkar Bhavan, Fateh Maidan Lane,
Band Colony, Basheer Bagh,
Hyderabad-500004