Marketing Management

T. SUBBI REDDY

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Preface

This book analyses the problems of marketing and attempts a lucid exposition of the intricacies pecular to them. The basic purpose of this book is to assist the reader to develop a thorough understanding of the concepts and theories underlying marketing management in a systematic way. To accomplish this purpose, an attempt has been made to present the recent thinking in the area in most simple, lucid and precise manner.

It is the modern approach to marketing management which has been highlighted in the present book. The text material of Marketing Management is structured around the marketing decision-making process. The book discusses the concepts, assumptions and theories underlying the important marketing decisions.

The book is meant for students of commerce and management. It will also be useful for marketing executives who want to update the knowledge about the recent thinking in marketing management and wish to improve their ability in making marketing decisions.

A book shaped to serve as a convenient and suitable text will hardly contain original dissertations. Any merit possessed by the book from the standpoint of subject matter reflects the contributions of a large number of scholars. I sincerely offer my gratefulness to all sources cited in the book.

I take this opportunity of expressing my thanks to Sri L. Venugopal Reddy, Lecturer in Commerce, Post-Graduate Centre, Anantapur, Sri P.L.N.V.S.S.G.K. Murthy, my old student and now Research Assistant, Institute of Chartered Accountants, New Delhi and Mr. N. V. Narasimham my research scholar for their kind help and assistance. I am also thankful to my old students Mr. K. Gopal and Mr. Koteswara Rao who took pains in typing out the manuscript.

Lastly, I cannot fail to mention my wife who made her silent but as important a contribution as that of the others, by patiently bearing with me during the preparation of this book.

Anantapur
February, 1981.

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Contents

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CHAPTER I

Introduction

In the primitive stages of the economy everyone used to satisfy his wants through his own efforts. There was no need to produce for others and in consequence there was no trade or market. Due to progress in culture and habits, the demand for the products was increased. Accordingly, specialised persons started producing the goods to satisfy the wants of the people. Barter system further strengthened the idea of co-operation by mutually exchanging the goods from one individual to the other. At a later stage, the exchange system came into existence and solved very many problems of the people. This is the stage where the genesis of Marketing structure was talked of.

The word 'market' is a derivative of the Latin word 'Marcatus' meaning thereby merchandise, trade or a place where business is conducted. Broadly speaking, the idea of a market is not different from that of businessman's. It may be used to mean (1) a place or a building, public or private, where market is held; or (2) all the buyers of a product as one might speak of the market for automobiles meaning thereby all the potential buyers of motorcars and trucks in the whole or any part of the country; or (3) it may mean all the inhabitants of the country, for example the Indian market, an expression which refers to the total population of India and its purchasing power in the aggregate. An aggregate may compose of prospective purchasers and sellers that bring to focus the conditions and forces which determine prices.

Frequently, the term market may also be used to describe an organisation by which the exchange of one or more commodities is effected. Sometimes, the word market is also used to denote a phase or a course of commercial activity by means of which exchange of commodities is brought about, as one might speak of dull or a bright market for a particular commodity.

A few definitions of 'market' as given by economists are reproduced below :

Chapman views that "as economically interpreted, the term market refers not to a place but a commodity or commodities and buyers and sellers or the same who are in direct competition with one another".

Cornot says, "Economists understand by the market not any particular place in which things are bought and sold, but the whole of any region in which buyers and sellers are in such free intercourse with one another that the prices of the same goods tend to equality easily and quickly".

Jevons says, "Originally a market was a public place in a town where provisions and other objects were exposed for sale but word has been generalised so as to mean any body of persons who are in intimate business relations and carry on extensive transactions in any commodity. A great city may contain as many markets as there are important branches of trade and these markets may or may not be localised; the central point of a market is a public exchange or a mart or auction rooms where the traders agree to meet and transact business".

Market, according to the American Marketing Association, consists of the performance of business activities that direct the flow of goods and services from producer to consumer.

Macklin defines marketing as the creation of place, form, time and possession utilities while in actual practice it means the rendering of necessary services such as assembling, packing, processing, transporting, storing, financing, risk bearing, selling, etc.

TYPES OF MARKETS

Types of markets are determined by the nature of commodity, time and nature of business, and importance of products. There are several types of markets which are discussed in detail as under :

(a) Classification of markets on the basis of free intercourse

Markets have been classified as perfect and imperfect markets on the basis of free intercourse. A market is said to be perfect market when all the potential buyers and sellers are promptly aware of the prices at which transactions take place and all the offers made by other sellers and buyers and where any buyer can purchase from any seller and conversely. Under such conditions, the price of a commodity would tend to be the same all over the market. A market is 'imperfect' when some buyers or sellers or both are not aware of the offers being made by others.

Perfect competition in the market is found very rarely. Certain conditions are to be fulfilled for a perfect market so that one price may remain for one commodity. The following are the conditions of a perfect market :

1. Easy communication and transportation
2. Free and perfect competition
3. Wide extent.

Unless the buyers and sellers have thorough knowledge about the variation in prices they cannot enter into business transaction. Through effective transportation and easy communication, it is quite easy to know the price trends in the market. Effective transportation should be able to facilitate the safe, speedy and economical movements of the goods from one place to another. This in turn helps the movement of middlemen to act as potential buyers and sellers. Free competition is also an essential perquisite of a perfect market. It presupposes both sellers and buyers acting in their own individual interest and lack of combination to control prices.

(b) .Markets on the basis of time classification

On the basis of time, markets have been classified as under :

(a) **Very short period market :** For highly perishable articles like milk, vegetables and fruits, market period will be very short. As there is no time to increase or decrease the supply of commodities the price is, therefore, determined by the intensity of demand.

(b) **Short period market :** Here, some time is given to adjust the supply to meet the demand. As the time given is not enough, the influence of demand is greater than that of supply and such markets are called short period markets.

(c) **Long period markets :** In this case, sufficient time is available for the change in supply to adjust themselves to the changes in demand. Under these circumstances supply influences the demand factor and in the long run price covers the marginal cost of production.

(c) Classification on the basis of the position of sellers

Taking into consideration the position of sellers, the markets may be classified as under :

(a) **Primary markets :** In this market, all the farm products are sold to the wholesalers or to the agents in the village itself by the primary producers. These markets deal in sale of fruits, vegetables, goodgrains, etc., either for cash or for exchange in household requisites. Generally these markets are organised by local bodies, namely village panchayats.

(b) **Secondary markets** : In case of secondary markets, wholesalers supply their goods to the retailers for selling them to the consumers. These markets may be scattered or centralised in particular part of a town where the retail shops are centred.

(c) **Terminal markets** : In terminal markets, the goods are finally disposed of directly to consumers. Sometimes the goods may be assembled for shipment to foreign destinations or for re-distribution to surrounding areas.

Economic Markets

To constitute an economic market, physical presence of buyers and sellers is not necessary, but what is essential is competition between buyers and sellers for the purchase and sale of commodity. The essential idea of economic market is that the buyers and sellers, whatever the distance that separates them, should be brought into direct competition and business relation with one another and eventually, one price for the same commodity should rule in the market as a whole.

The contact between the buyer and sellers is intimate in the sense that it facilitates competition. Buyers bid against one another and sellers also do likewise. If prices are higher in one market than in others, this fact becomes known to the whole body of buyers and sellers. Sellers would begin to take advantage of higher prices and set about sending their goods to the market, while the buyers on the other hand would curtail or even abstain from placing their orders in the market when higher prices rule and would buy their requirement when prices are lower. This means that supply would increase in relation to the demand so that the prices would come to rule in the market as a whole. Thus it is clear that an economic market should possess the following three essential features :

1. There should be a group of buyers and sellers.

2. There should be free competition between both the parties.

3. One price for one standard commodity should prevail at one time. This principle of prevalence of one price for the same commodity in different markets is described as a law of differences.

EVOLUTION OF MARKETS

In the primitive societies where self-sufficient village economy was in existence, marketing remained a simple endeavour of those engaged in production and consumption of goods. Practically no emphasis was laid on the process of marketing as man passed through various *economic stages; each stage pushed him forward* in the material progress of the world. With the division of labour and specialisation in particular branch there arose a need for some organisation to make some provision for the exchange or disposal of the goods to those who need them. In this organisation, some businessmen with their specialised knowledge in the marketing of goods acted as intermediaries between the producers and consumers. With the complex large factory production there arose better methods to market the machine-made large quantity of goods. The evolution or growth of markets may be studied under two categories, namely :

1. Regional or geographical development, and
2. The Functional development.

1. Regional or geographical development

Geographically, the development of markets can be studied through the following stages :

(a) **The family market :** In the stage of self-sufficient village economy, the exchanges were only confined among the members of the family or families living in the village.

(b) **Local market :** In the case of local markets, the marketing activities are confined to a small area and the buyers and the sellers are drawn from a particular locality.

(c) **National markets :** The market for a commodity is said to be national, when buyers and sellers of that commodity are scattered throughout the whole length and breadth of the country.

(d) **World market :** In case of world markets, the demand for a product is world-wide. Example : stapled commodities like cotton and jute are in demand all over the world and buyers and sellers of such commodities come from all the corners of the world.

2. Functional Development

Functional developments of markets have passed through the following stages :

(a) **The general market :** In this market different types of goods are bought and sold and buyers and sellers meet together to do business; prices are generally settled by bargaining based on one's own judgment in regard to supply and demand.

(b) **The specialised market :** The development in the technique of trade and industry and the means of transportation neces-

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sitated specialised markets, e.g., stock exchanges, produce exchanges, money markets, cotton markets, etc.

(c) **Marketing by sample :** Marketing by sample is the latest technique which gained prominence in recent years. As the variety and volume of goods increase with an increase in the area of demand, it is not possible to buy or sell goods by their physical exhibition. Goods are standardised so as to facilitate purchase or sale on the basis of samples. Sale by samples proved to be more useful in the case of bulky raw materials which are homogeneous and standardised.

(d) **Marketing by grades :** It makes a further development of the system of sale by samples. In this system, goods are graded according to quality, the quantities are exactly defined and specifically named so that by mere description of the grades to which a particular commodity belongs, it may be bought or sold.

METHODS OF MARKETING

In a primitive society, both the producer and the consumer used to come into contact with each other, one for the sale of his commodity and the other to buy his requirement. Due to rapid development of industry and trade, a host of intermediaries have undertaken the burden of distributing the goods. Thus, in the modern business world, we find different methods of marketing which are analysed as under :

(a) **Regular or indirect method :** Under this method, the process of marketing is split into many parts, each of which is carried out separately by different individuals without any direct contact with each other. This leads to inefficiency, heavy cost and uncertainty.

(b) **The direct method :** In this method the services of middlemen are eliminated. The producer and the consumer will be in direct contact with each other. This method is suitable in case of perishable articles. This is possible in case where every manufacturer maintains his own retail shops or door to door selling method or mail order business. But a producer selling a few commodities in this way is not in a position to supply a variety of goods which a consumer demands.

(c) **Integrated method :** Unlike the case of regular method, the different component parts of the marketing will be owned and controlled by a single individual or few individuals in the integrated method.

(d) **The co-operative method :** As the co-operative method is only to undertake service and not for profit, the surplus earnings are distributed among patrons in proportion to the contribution they make to earn these surpluses. The main advantages of this method are lower cost for consumers, better price for producers, improvement in quality, cheap finance, mutual interest, better bargaining power, etc.

IMPORTANCE OF MARKETING

The producer, consumer and the middlemen look upon the marketing process from their own individual view point, i.e., each is individualistic and concerned with his private profit. The producer is interested in selling his products at such remunerative price as would enable him to continue to produce or stay in his business. He must take into consideration the total profit which he has made on his business as a whole. Large-scale production certainly results in reduction of the cost per unit, but it requires skill to sell the increased volume of production. To sell them successfully, greater amount of expenditure on advertisement, sales promotion has to be incurred by the producer. The producer can afford to spend more as long as it is economical to him. A consumer looks at the market from the point of view of goods and the prices at which they are offered. "As a voter we should understand it so that we can form intelligent judgement and opinions of legislation relating to marketing."

If the consumer changes his mind regarding the choice of his selection at a given price and time, the manufacturers and the middlemen who could not anticipate such changes would have to sell their goods at loss as there won't be demand for them. However, the consumer can remain indifferent about the losses and mistakes. There has been a rise in the price of commodities which he has to buy. Thus, the individual beneficiary of the marketing process is concerned with making profit but marketing has a greater significance to the community as a whole.

The ultimate goal of successful marketing must be the cheapening of goods to the ultimate consumer without adversely affecting the interests of the producers. Any increase in the efficiency of the marketing process which results in lower cost of distribution and lower prices to the consumers really brings about an increase in the national income. A reduction in the cost of marketing is a direct benefit to the society as a whole and improvements in the process of marketing deserve serious study from this point of view. The techniques of marketing have been improved in recent years, and have helped in bringing varieties of quality goods cheaply to the consumer. Market research has been responsible for the improvement in the technique of marketing. For an agricultural country like India, if marketing makes up half of the cost of goods, it would be clear that it requires as much study and attention as production of goods. This subject will, therefore, be studied in detail.

ANALYSING MARKETING PROBLEMS

The difference between an orderly closet in which one can find what is desired with a minimum of effort and a disorderly one in which nothing can be easily found can often be traced to an adequate system of hooks, hangers, and shelves. The study of a complex marketing problem can be as frustrating as looking for a special item in the disorderly closet unless a system of hooks and shelves is devised on which we can organize our thought and ideas. It is to these organisational devices that we now give our attention.

Major Marketing Processes

All marketing activities can be classified into three major processes. These are the processes of concentration, equalisation, and dispersion.

The process of concentration is essentially one of assembly and procurement. The raw materials produced on the nation's farms are assembled by local agencies and sent forward to our great wholesale centres near the consumption areas. Food processors may secure large amounts of the desired product from these concentration points.

The equalisation process consists of those activities which match the flow of production with the rate of consumption. Many products are produced seasonally but consumed year round. Processor wholesalers and retailers must acquire inventory stocks at the right place so that they always can be ready to meet the demands of their customers. Such holding operations are part of the process of equalization.

Dispersion in a sense is the counterpart of concentration. Where concentration was the process of assembling goods into large units at central points, dispersion is the process of breaking down these large units and distributing them to the various consumers. Products must be channeled out through the many wholesalers and retailers into the hands of consumers. These activities make up the process of dispersion.

Perhaps the nature of these processess will be clearer if we follow a commodity from its initial production to its final consumption. For example, let us examine those processes as they occur in the marketing of wheat. Wheat is produced in amounts ranging from a few bushels to thousands of bushels on thousands of farms scattered throughout the country. Farmers sell their wheat to country elevators. The elevators usually wait until they have accumulated considerable volume and then forward by the carload to larger terminal elevators which are capable of holding hundreds and thousands of bushels, located in our larger milling centres. This has been the concentration process. Wheat has gradually been assembled from widely scattered production points into large holdings centrally located.

It will remain in storage unit until it is needed by millers. Or even after milling, the flour may be stored for a short time. These activities are part of the equalization process. Then the flour may be shipped in varying quantities to the bakeries. Here, after baking the bread will be sold to retailers. These retailers will then sell the bread, loaf by loaf, to consumers. This gradual breaking down into smaller and smaller units is dispersion. However, during this dispersion process, equalization also was continuing as some flour was probably held in stock by bakers and to a limited extent so was some bread.

Approaches of Marketing Problems

There are three major approaches in the analysis of marketing problems. These are the functional approach, the institutional approach, and the commodity approach. All the three are merely ways of breaking down a complex marketing problem into its parts so that it can be better understood.

The Functional Approach

One method of classifying the activities which occur in the marketing processes is to break the processes down into functions. A marketing function may be defined as a major specialized activity performed in accomplishing the marketing processes of concentration, equalization and dispersion.

Any listing of functions must be recognised as an arbitrary one. Authors list from a few as eight to as many as three or four times of that number. Each composer of a list, of course, believes that his list is the best. Others disagree and propose a list of their own. The exact terminology of the list is not of great importance as long as the scope of the individual functions is understood. We shall follow a fairly and widely accepted classification of functions as follows ;

A. **Exchange Functions**
   1. Buying (Assembling)
   2. Selling

B. **Physical Functions**
   3. Storage
   4. Transportation

C. **Facilitating Functions**
   5. Standardization
   6. Financing
   7. Risk-bearing
   8. Market information

The exchange functions are those activities which are involved in the transfer of title to goods. They represent the point at which the study of price determination enters into the study of marketing. These functions are never performed in our economy without a judgement of value, usually expressed at least partially as a price, being placed on the goods. Both the buying and selling functions have, as their primary objective, the negotiation of favourable terms of exchange.

The buying function is largely one of seeking out the source of supply, assembling of products, and the activities which are associated with purchases. This can either be the assembling of the raw products from the production areas or the assembling of finished products into the hands of other middlemen in order to meet the demands of the ultimate consumer.

The selling function must be broadly interpreted. It is more than merely passively accepting the price offered. In this function can be grouped all of the various activities which sometimes are called merchandising. Most of the physical arrangements of display of goods are grouped here. Advertising and other promotional devices to influence or create demand are also part of the selling function. The decision as to the proper unit of sale, the proper packages, the best marketing channel, the proper time and place to approach potential buyers can be included in the selling function. Here also might fall the market research activities which are undertaken primarily to ascertain where an article can be sold and how much will be taken.

The physical functions are those activities which involve handling and movement of the actual commodity itself. They are involved in solving the problems of when and where in marketing.

The storage function is primarily concerned with making goods available at the desired time. It may be the activity of elevators in holding large quantities of raw-materials until they are needed for further processing. It may be the holding of supplies of finished goods as the inventories of processor wholesalers and retailers.

The transportation function is primarily concerned with making goods available at the proper place. Adequate performance of this function requires the weighing of alternative routes and types of transportation as they might affect transportation costs. It also includes the activities involved in preparation for shipment such as costing and loading.

The facilitating functions are those which make possible the smooth performance of the exchange and physical functions. These activities are not directly involved in either the exchange of title or in the physical handling of products. However, without them, the modern marketing system would not be possible. They might aptly be called the grease that makes the wheels of the marketing machine to go round.

The standarization function is the establishment and maintenance of uniform measurements. These may be the measurements of both quality and quantity. This function simplifies buying and selling, since it makes the sales by sample and description possible. It, therefore, is one of the activities which makes possible mass selling, which is so important to a complex economy. Effective standardization is basic to an efficient pricing process, A consumer directed system assumes that the consumer will make his wants known largely through price differentials. Those differentials must then be passed back through the marketnig channel so that marketing agencies and producers can know what is wanted. Only if a commodity is traded in well defined units of quality and quantity can a price quotation do this job effectively. Standardization also simplifies the concentration process, since it permits the grouping of similar lots of commodities early in movement from the producing points. Besides their establishment, the use of standards must be made known to public. Such activities as quality control in processing plants and inspections to maintain the standards in the marketing channel can be considered part of this function.

The financing function is the advancing of money to carry on the various aspects of marketing. To the extent that there is a delay between the time of the first sale of raw products and the sale of finished goods to the ultimate consumer, capital is tied up in the operation. Anywhere that storage or delay takes place, someone must finance the holding of goods. The period may be

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