BLOCK IV:
PRICING STRATEGIES

Unit 1 : Price Setting

Unit 2 : Marketing Channels

Unit 3 : Channel Design

Unit 4 : Channel Power

UNIT-1

PRICE SETTING

Unit Structure:

1.1 Introduction

Pricing is the core of marketing and pricing strategy overwhelmingly influences the marketing policy analysis. A company has to earn revenue to stay in business and the company earns revenues by charging price for its products or services. Thus, the existence of a business unit depends on its pricing strategy. Pricing is the most crucial element in marketing mix. Price is the weapon or the instrument through which the product or the service reaches its ultimate user or the ultimate beneficiary.

Arriving at a correct price enables the manufacturer to earn profit and to stay in the competition. Pricing has a psychological impact on the consumer. The task of fixing the price is very carefully handled keeping the consideration of cost condition and the interest of consumers, marketers and the society as well.

Along with pricing, distribution of products and delivery of services are becoming more and more integral to the process of modern day marketing to create and to win customers. The emergence of relationship marketing and for that matter one to one marketing accordedhighest priority to consumers and consolidated the integration of pricing and delivery. The entire unit deals on these crucial issues of marketing.

1.2 Objectives:

After going through this unit you will be able to:

- Understand the concept and importance of pricing.
- Discuss the objectives and factors affecting pricing decision.
- Explain the pricing strategies.
- Analyse the price adaptation

1.3 Meaning of Pricing

Price is the value charges for a given product or service. It is the amount of money received by a manufacturer for its products. It is the amount charged for a given service by the provider. Price is the monetary sacrifice made by a customer for a product obtained or service availed.

Conceptually, price can be formulated as under:

$$\text{PRICE} = \frac{\text{Quantity of money received by a seller}}{\text{Quantity of goods \& services received by the buyer}}$$

Price is related with value offered and value received and the problems of pricing is to measure the value offered and value received. Value is both relative and multidimensional. Product quality or service quality, firm's image, brand image are the common attributes of value. As such, customer's perception plays a significant role in pricing.

1.4 Significance of Pricing

Price is perhaps the most significant element in marketing mix and it is the only element that generates revenue and all other elements involving cost. In the words of Martin Bell: "Price is a dangerous and explosive marketing force. It must be used with caution. The damage done by improper pricing may completely destroy the effectiveness of the rest of a well-conceived marketing strategy. As a marketing weapon, pricing is the "big gun". It should be triggered exclusively by those thoroughly familiar with its possibilities and dangers…Therefore, all marketing planners should be equipped to make correct pricing decision."

Price and the volume of sales determine organization's profitability. Price has a direct bearing on demand and in turn reflects in profit. It may be expressed as under:

Profit= (Price*Quantity sold) - Total Cost.

Price is assuming greater role in product distinctiveness but technological advancement and universalisation of technology diminishes product differentiation. The products are more and more standardized. Resultantly, products are differentiated through price and firms are increasingly involved in price war.

In present day trend of competition and inter-firm rivalry, firms are to be very careful in pricing decision. Any attempt to win customers through irrational price-cut and higher spending on marketing may prove self-defeating.

Customer's value perception and the readiness of the customers to pay the price corresponding to the value perceived added further impetus to pricing. High value perception enables the firm to charge more and to augment revenue and at the sametime restrict the firm to charge higher price beyond value perceived to avoid marketing failure.

Pricing is of paramount importance in deciding the firm's policy on product, distribution and promotion. Price-profit relationship offer the leverage to work-out product policy, distribution strategy and promotion programmed. Successful pricing strategy allows the firm to release fund for other elements of marketing mix.

Pricing is a risky-decision. Any mistake in pricing decision may endanger firm's profitability, growth and future existence. Marketing managers realize the marketing objectives through proper pricing policies. Therefore, fixing correct price is a matter of judgment as well.

Looking beyond a firm's territory, pricing has assumed far greater role in controlling inflation, overcoming recession, directing government regulation, restricting unwanted & unhealthy consumption and many other issues of macro-economic environment.

1.5 Pricing Objectives

Pricing objectives are the goals of a firm wants to achieve through its pricing decision. The objectives are to be consistent with the overall mission and purposes of the organization. The following are the common pricing objectives:

a) Maximizing current profit and higher return on investment through stimulating demand and adopting pricing options.

b) Increasing market-share is another objective of pricing. Price is the instrument through which market is penetrated and a firm can make in-roads into other firm's territory.

c) Facing competition and exploiting competitive position is the most important objective of pricing. Competitive bidding or price cutting is a common strategy adapted while pricing. It is cautiously done not to invite losses. It is a long term strategy and referred as "Extinction pricing" to eliminate competition. Competition through price-route is customary marketing practice.

d) Appreciating the price-profit relationship, the price is fixed anticipating a given volume of turnover and a percentage thereof to fetch profit. Thus, earning a consideration of past performance and marketing experience is a leading objective of pricing.

e) Survival in a competitive market is also a pricing objective. Firms are found to be offering heavy discount on products entering the maturity stage to retain customers and to fight against substitute products.

f) In the context of a firm producing number of products at different stages of product life-cycle, the firm has to adapt a pricing strategy to achieve the objective of maximization of profit on product line or lines.

g) The importance of price and pricing strategy are so over whelming that image building, confidence building and overcoming the emerging challenges may also be considered as the objectives of pricing.

1.6 Factors Influencing Pricing Decision

Pricing decisions are neither arbitrary nor philosophical. It can't be a matter of trial and error. Pricing decisions are crucial to the existence and growth of the concerned firm. Factors that influence pricing decisions are economic and non-economic and maybe both qualitative and quantitative which can be categorized into internal and external factors.

External factors are:

- Market demand.
- Buyer's perception.
- Level and the intensity of competition.
- Price-elasticity of the product in question.
- Competitor's price.
- Government regulation on pricing.
- Bargaining power of the major customers.
- Bargaining power of the major suppliers.
- Overall economic condition.
- Understanding among competitors.
- Social perception.
- Hike in pay-structure and higher disposable income.
- Government policy initiative and programs undertaken.

Internal factors are:

- Cost of the product including overhead cost of distribution.
- Nature of the product and its durability.
- Distinctiveness of the product.
- The stage of the product in its life cycle.
- The use of the product.
- Corporate and marketing objectives of the firm.
- Pricing objectives of the firm.
- Public image sought by the firm.
- Overall marketing strategy of the firm.
- Competitive advantage of the firm.
- Privileges enjoyed by firm, if any
- Hidden intention and future strategy of the firm.
- Product combination, if any, while buying.

1.7 Price Sensitivity

The demand varies along price line of a given product at a point of time in a given market. This variation is not uniform and there are factors on which sensitivity to price changes. Thomas T Nagle in his book, 'The Strategy and tactics of pricing' has identified nine such factors of price sensitivity as stated below:

a) **Unique-Value Effect**: Buyers are less price-sensitive when the product is more unique.

b) **Substitute-Awareness Effect**: Buyers are less price-sensitive when they are less aware of substitutes.

c) **Difficult-Comparison Effect**: Buyers are less price-sensitive when they cannot easily compare the quality of substitutes.

d) **Total-Expenditure Effect**: Buyers are less price-sensitive the lower the expenditure is to their income.

e) **End-Benefit Effect**: Buyers are less price-sensitive the less the expenditure is to the total cost of the end product.

f) **Shared-Cost Effect**: Buyers are less price-sensitive when part of the total cost is borne by another party.

g) **Sunk-Investment Effect**: Buyers are less price-sensitive when the product is used in conjunction with assets previously bought.

h) **Price-Quality Effect**: Buyers are less price-sensitive when the product is assumed to have more quality, prestige or exclusiveness.

i) **Inventory Effect**: Buyers are less price-sensitive when they can't store the product.

1.8 Pricing Methods

Cost, demand and competition are the three primary considerations that influence the method of pricing to be adapted by a manufacturing organization. The broad categories of pricing methods are:

- Cost based pricing;
- Demand based pricing;
- Competition-oriented pricing;
- Product line pricing;
- Tender pricing;
- Affordability pricing;
- Differential pricing;

1.8.1 Cost Based Pricing

Under cost based pricing methods, pricing may be termed as Cost plus pricing, full cost pricing, target pricing and marginal cost pricing. Under cost plus pricing, the selling price of the product is fixed by adding a fixed margin or mark-up to its cost. Hence, it is also known as mark-up pricing. This method is over simplified. It does not take into consideration the demand condition and the intensity of competition.

Under full cost pricing, variable and fixed cost per unit and a profit margin is added to the cost. It is called full cost for adding all costs from each unit sold. It estimates a given volume of production and sales to fix the cost per unit. There is a process of absorption in the form of overhead to include all costs and hence, it is also known as absorption cost pricing.

Under target price, price is fixed to fetch a given volume of return. A target amount of return is added to the cost on per unit basis. The target amount is fixed keeping in mind a reasonable return on investment.

As the name implies, price is fixed taking into account all the direct variable costs under marginal cost pricing. A portion of fixed cost may be added to the cost while fixing price depending upon the market trend. Thus, marginal cost pricing is flexible and address the demand factor as well. The element of flexibility enables the firm to recover the fixed cost against chosen products on selected customers and can vary the price to suit the demand condition at a given point of time.

1.8.2 Demand-based Pricing

Demand based pricing methods include skimming price, penetration price and what the traffic can bear price. Here, price is fixed by adjusting it to the demand condition. A high price is charged when the intensity of demand is high and the low price is charged when the intensity of demand is low.

Skimming price refers to a strategy of skimming the market through high price as long as the opportunity exists and subsequently settles down for a lower price. High price is charged in the introductory stage of a product. This strategy works where the price quality perception is high and the customers feel proud in having such a product usually considered as 'High Technology Product'. The firm following or adopting this strategy reaches break-even point easily and earn maximum profit so long skimming continues.

Penetration price is opposed to skimming price and low prices are charged to overcome competition (through price route)in order to attain market share or market penetration. Penetration strategy works in a large competitive market where customer's loyalty towards existing product is more a matter of habit or convenience rather than any specific preference to the product. Penetration strategy is mostly pursued as an entry strategy in an intensive competitive market and where price-quality perception is low.

What the traffic car bear is a pricing strategy where the seller fixes the maximum price that the customers are willing to pay for a given product at a given market under the given circumstances. It is a method known for its frequency of adjustments with a possibility of error in judgment and often been opposed by the buyers until the price is lowered to the level what the traffic car really bear.

1.8.3 Competition Oriented Pricing

Market is always fierce and competitive and shows no money on price and quality. As such competitor's price is the reference, price around which the price is fixed and the firm avails the option of premium pricing, discount pricing or going rate pricing.

Premium price is the price fixed above the competitor's price to avail the benefit of product distinctiveness, if any, and temporary market advantages. Discount price is the price fixed below the competitor's price to snatch customers from competitor's basket to increase market share. Going rate price is the parity that prevails in the market or the price stabilized in the competitive market. It is also known as 'Follow the Crowd'. In oligopoly market, there is no price bar within the industry. Leader's price prevails in the market. It is based on the presumption that all the firms are operating at the same level of efficiency.

There is another form of competition oriented pricing is the 'Sealed Bid pricing' which is discussed under tender pricing.

1.8.4 Product Line Pricing

When a firm produces group of products related to suitable product lines, product line pricing is followed. In reference to a single line product, price of each related product is not optimally fixed instead optimal price for the product line is fixed. There are number of product line pricing strategies that are mentioned here under with appropriate illustrations.

In a restaurant individual items are differently charged but if ordered together in a pack a lower rate is charged for a **buffet meal** (Thali). Similarly, season ticket for a music or theatre festival is charged less compared to price charged for each day programmes added together. This price is known as price-bundling. We can experience the same while buying a packet of assorted biscuits or chocolates. This method evens out (equalize) the demand for individual product of a related product line and maximizes the profit.

When a firm produces variety of products substitutable one for the other with different features, a **premium price** is charged for the product positioned at the top being the premium model meant for higher income group of customers. Firms producing ceiling fans or color television charge premium prices for their premium brands. Private educational institutions have also started charging higher fees for their respective flagship programmes.

Where the consumers perceive quality from the price variation of the competing product/brand or model, the firm charges different prices for the different brands of the same product line and it is known as **image pricing** usually followed in clothes, personal-care products.

In the era of relationship marketing, a special price is offered to regular customers buying one of the products of a firm to retain them and to build their loyalty to the products and the firm and this price is known as '**Captive Price'**.

Demand generation is the critical task of marketing and for that matter a firm may change a price much lower than the normal price to induce potential customers and once induced customers would buy other products as well to recover the loss and to earn surplus. It is called '**Loss Leader Price'**. Charging a lesser price for a cup of coffee or ice-cream in a retail outlet illustrates the impact of loss tender price.

Waiving processing fee while offering bank loan or offering complementary break-fast while booking hotel-room, sharing insurance fee while buying a car are the common examples of **complementary pricing strategy** followed to generate demand that is why product line pricing is also called product line promotion pricing.

1.8.5 Tender Pricing

As already referred tender price is a competition oriented pricing and also known as **'Sealed-Bid Pricing'**. It is followed in a specific job contract or purchase of products or services purchased by government agencies or business houses narrating the details as specifically sought in the quotation. The price is offered in a sealed envelope. The party that offers the least price is usually accepted and the contract is awarded with the conditions laid–down. It is an age old practice in government organizations and the reliability of the party in question is a major consideration besides minimum price.

1.8.6 Affordability Pricing

Selection of target customers or target beneficiaries in respect to certain products or services to meet their basic needs is also a consideration while fixing price. It is a price dependent on the affordability of the target beneficiary and independent of costs. It is possible because of government support in the form of subsidy or otherwise under declared policy. This method of pricing is also known as social welfare pricing. Goods falling under public distribution system are priced under this method.

1.8.7 Differential Pricing

Depending upon class of customers, market territory, scale of purchase, retail outlet and different prices are charged for the same product and hence called differential pricing.

1.8.8 Undefined Pricing Method

Under the prevailing circumstances we are experiencing pricing methods which can't be defined under the methods already discussed. We see cost to cost pricing or substantially discounted pricing or special offer pricing or unique opportunity pricing for selected products for a brief or given period at specific outlet besides off season or pre-festive pricing. Liquidity needs of the firm, stock clearance, withdrawal of the products from the market, change in customer's preferences, pre-empting the arrival of new brands or new technology products are the common arguments forwarded to justify such pricing.

Though prohibited under the Competition Act 2002, treating it as an abuse of dominant position, under the recent surge of online marketing predatory pricing in disguise nomenclature is going on in full swing.

Predatory pricing under the Act means the sale of goods or provision of services at a price which is below the cost, as may be determined by regulations of production of the goods or provision of services with a view to reduce competition or eliminate the competitors.

We also come across the inflection price point or magic price to reach new customer segment and new pricing techniques such as sachets, EMI and pay as you use to capture value.

1.9 Adapting The Price

Business being dynamic, business policies and strategies are also flexible. There can't be rigid perception and practices in business. Marketing and for that matter pricing is no exception. There are endless variations in price other than the pricing strategies already stated. This variation in price is called price adaptation.

Philosophically speaking, business and business organizations require moving along with people, time, situation and overall business development. Accordingly, the price of a product or service charged differently depending upon a variety of considerations. Charging prices differently to generate demand, to create customers, to build customer loyalty, to retain customers or to attract new customers in the adaptation process.

The practice of adaptation process is to vary prices and can be illustrated as under:

- The variation of price from market to market.
- The variation of price from market to sub-market
- The variation of price from sub-market to sub-market
- The variation of price from customer to customer
- The variation of price from time to time
- The variation of price from season to season
- The variation of price on volume of purchase
- The variation of price on stages of product life-cycle
- The variation of price on trade classification
- The variation of price on hidden intent

The above price adaptation process is neither exhaustive nor complete. There is early–bird price, special price, supportive price, promotional price, one–time price, maiden-order price and many more adaptation prices may emerge.

1.9.1 Price Adaptation Strategies

The price-adaptation process is generalized and has assumed the following strategies as mentioned below:

- Promotional pricing
- Geographical pricing
- Discounted pricing
- Discriminating pricing
- Product-mix pricing

Promotional Price: Promotional price is the price charged at the time of introducing a product or launching a service. It is the price-affecting while commencing a new business or while entering into a virgin market. It is also the concessional price offered to a maiden customer or first–time customer.

Geographical Price: Geographical pricing a deliberate pricing strategy to floor price differential in geographically isolated market or country. It may be premium price in one market, discounted price in another market and penetration price in a third territory. Company any prefer geographical pricing to utilize production capacity and to derive the benefit of economics of sale and at the same time it may open up at the gate to explore business opportunities in a new horizon.

Discounted Price: As the name implies, discounted price is the price discounted at variable price to secure cash payment, early payment, given or hire volume of trade and which may also vary from customer to customer, product to product, market to market and season to season as well.

Discriminatory Price: It is the different price charged for the same product or service at a given point of time. It is done to accommodate different customer segments (students, children, well to do, etc). In addition to that; customization process, marketing location, preferred time, better ambience and business revelation enable or empower the management to enable the management to discriminate prices.

Product-mix price: It is the price of a product, where the product is part of a product-mix. Being adapted strategically to accommodate a variety of considerations that are differently termed in the name of price bundling, premium pricing, image pricing, loss-leader pricing, captive pricing ,etc. as already discussed under **4.1.8.4.**

The launching of jio 4G with one year of free subscription price differentials in Border States, pricing in combo pack, deep discount in pricing, buy one get one free, price deception and various forms of product-mix pricing are the leading examples of price adaptation.

The fundamental issue in pricing is cost revenue equation and in the course of price adaptation, this equation alters and the profit per unit changes and at times may be negative due to strategic considerations. Decision making in price making is very critical and the key personnel in the company assumes the responsibility of taking such decision keeping in mind the long term sustainable interest of the concerned organization.

1.10 Responding To Price Change

Manufacturer or service provider varies prices of their products following variation in input cost ,overall cost structure, introduction of new technology, innovation, market constraints, competitor's role, change in public policy, revised pricing policy of the concerned organization and as a matter of price adaptation process as well.

In an era of open and free competition and constantly changing market dynamics, pricing strategy has been assuming more and more strategic significance. Companies are initiating either price cuts or raising prices. Price cut is purely a strategic decision. The decision to go for price cut is based on the premise of economies of scale. Increased production to the extent of capacity utilization will lower the cost and fetch higher revenue, provided the volume of business increases accordingly to the optimum level of production.

Companies may also go for price cut to add competitive advantage and thereby to win over competitors. Deciding market share in the face of tough completion also influence the company to resort to price cut. However this aggressive pricing adaptation in all likelihood may invite price wars. Deeper understanding of market mobility, ability to foresee the future and the capacity to sustain pressure are the key considerations to adapt such a high risk policy. Another reason to go for price cut is the desire to dominate the market through lower cost. However, it will only be possible for those companies that can produce at lower costs than their competitors on the strength of technological edge and larger volume of production. All in all, a company going for price cut has to be aware of price quality perception, shift in customer's loyalty and cash reserve. If the price-quality perception is high, lower price cannot influence the market. Similarly, where customer's loyalty is strong, price reduction cannot attract customers and finally if the competitors also start cutting their prices, the company will not be able to sustain the pressure unless cash reserve is strong enough to stay long.

While price cut is selective, restricted and very carefully resorted, price rise on the contrary is more regular and undertaken at an interval of time. Price rise is considered natural and the arguments that vouch for price rise are the following:

1. Cost Inflation
2. Anticipatory cost

3. Cost escalation
4. Product Innovation and the causes emerged from company manifestation.

There are tacit ways of raising prices depending upon increasing demand and favorable macroeconomic parameters in tune with economic growth and expected revenue generation through delayed declaration of price at the time of delivery only or withdrawal of free offer, related products and services or discontinuation of additional discount.

However, in a keenly competitive market where customers are highly price sensitive, the company may adopt the following measures keeping the price constant to retain customers:

- Reducing the quantity of the product
- Removing orreducing post sale services
- Lowering the quality of packaging materials
- Using less expensive ingredients
- And introducing new economy model

Finally, understanding customers and the competitor's reaction is very crucial to decide any change in price whether upward or downward. If the customers view price-cut as a quality deterioration of faulty product, no company will assume the risk. On the other hand, when the customers view price-rise as quality up-gradation of product of higher value it would be worth assuming the risk of price-rise. Anticipating competitor's reaction is very difficult unless the company is privy of inside information. If the product is homogenous and the numbers of competitors are small, an increase in price would be a huge challenge and would require integrated marketing communications and effective marketing plan.

Stop To Consider

Price is the value charged for a given product and the most significant element in marketing mix. Price is the instrument to earn revenue and pricing is a risky decision. Revenue generation and to win in the battle of competition are the two most important objectives of pricing. There are external factors like demand, perception, competition, bargaining power of customers and suppliers and internal factors like cost, nature, distinctiveness of product influence pricing decision. Though demand varies along price lines, price is less sensitive in nine specific situations (Price sensitivity 4.1.7). Pricing methods are based on cost, demand, competition, product line and affordability. Price is also adapted from market to market, customer to customer and from time to time to suit market dynamics through promotional, geographical, discounted, discriminatory and product-mix pricing. There are occasions to both price-cut and price-rise.

Check Your Progress

1. State the meaning and significance of pricing
2. What are the objectives of pricing? Mention the factors that influence pricing decision.
3. State the various methods of pricing.
4. How are price adapted? Outline the process of such adaptation.
5. Discuss critically price cuts and price rise and the issues associated with such changes in price.
6. Why pricing is a risking decision?
7. How price and profit are related?
8. Why pricing decisions are not arbitrary?
9. When price is offered in sealed envelope?
10. Which pricing is also known as social welfare pricing?

1.11 Summing Up

- Pricing is the core of marketing strategy. It influences marketing mix in all dimensions. A firm or a manufacturer reaches its customers essentially through pricing. Delivery being the prime consideration of a modern business organization, pricing is studied together with distribution and delivery of services.
- Price is the value charged for a given product or service. It is the only element that generates revenue and thereby influences profitability of the firm. Pricing perception and price distinctiveness of the product are assuming greater significance in today's competitive market.

- It is through pricing a firm pursues its overall mission. Higher return, increasing market share, overcoming competition, customer relation, image building etc are the broad objectives of pricing.
- Pricing decision is taken after detail consideration of both external and internal factors. Market trend, competition demand and supply condition, government policy are the major external factors that influence pricing decision. Cost condition, pricing objectives, the stage of product life cycle, image building intention are the internal consideration while pricing.
- Demand is always sensitive to price and therefore understanding price sensitivity ease pricing decision. It is good to know how uniqueness, awareness, quality, level of expenditure and the level of cost burden influence price sensitivity.
- Pricing is a very critical task. How a manufacturer fixes the price of its products is not uniform in method and practices. As such, there are various methods of pricing and their applicability differs from product to product, market to market and the destiny pursued.
- There are cost-based pricing where costs and a fixed margin of return are added together. However, understanding fixed and variable cost is necessary to follow this pricing strategy.
- Demand based pricing and competition oriented pricing explored different pricing method where price varies depending upon market condition, buyer's behavior, intensity of competition and the availability of substitutes besides price-quality perception.
- The strategy of selling group of products together to maximize overall profit and to generate demand and thereby to create and retain customers various product line pricing methods are evolved.
- Society is always plural and Inequality inevitable. As such, pricing strategies have been devised to accommodate under privileged customers through affordable pricing and on the contrary differential pricing is a strategy which enable the firm to entertain n large scale buyers and at the same time affluent customers.
- Price fixed varies from market to market, customer to customer and from time suited to market realities is termed as price adaptation.
- Promotional, geographical, discounted, discriminatory and product-mix pricing are the strategies of price adaptation.

- In response to price adaptation, company may revisit its own pricing policy and resort to either price cut or price rise. Price cut is initiated to increase market share, to dominate the market and thereby to add competitive advantage to win over competitors.
- Price rise is inevitable, and resorted at an interval of time due to cost inflation, anticipatory cost, cost escalation and product innovation.

1.12 Key Terms

- **Skimming price –** High priced charged during the introductory stage of a product is called skimming price.
- **Penetration price –** Low priced charged to overcome competition and to attain market share is called penetration price.
- **Sealed Bid price –** Competitive price offered for a specific job or against job quotation in sealed envelope is called sealed bid price.
- **Price bundling –** Price charged for a set of related products in a pack is called price bundling.
- **Captive price –** Special price offered to regular customers of a firm to retain them and to build their loyalty is called captive price.
- **Loss leader price –** Lesser price charged to induce potential buyers to enter the retail outlet is called loss leader price.
- **Predatory price –** Price charged below the cost to eliminate competitors by the dominant firm is called predatory price.
- **Magic price –** Price substantially lowered to embrace new customer segment is called magic price and also known as 'Inflection price point'.
- **Extinction price-** Price that aims to extinguish competition is extinction price and it is long term customary marketing strategy.
- **Follow the crowd price-** In an oligopoly market leader's price prevails and others follow the same and as such known as follow the crowd price.

1.13 Model Questions

1) What do you mean by pricing? State the significance of pricing.
2) State the key objectives of pricing.

3) What are the key factors which influences the pricing decision?

4) What is price sensitivity? State the key factors of price sensitivity.

5) Briefly explain the different pricing methods.

6) What is the procedure of price adaptation? Briefly explain the various price adaptation strategies.

1.14 References and Suggested Readings

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UNIT-2

MARKETING CHANNELS

Unit Structure:

2.1 Introduction

Marketing channel is traditionally viewed as a network of flows which include physical flow, title flow, payment flow, information flow and promotion flow. But it also requires to view marketing channel as value flow as well as value is transferred and added from supplier of inputs to customers. Producers rely considerably on marketing channels to generate and to satisfy customers. Marketing channels may create product differentiation and no more be called as 'Dark Continent' in marketing.Marketing channels are how manufacturers reach customers. There are three types of marketing channels: communication, distribution and service channels. Communication channels deliver marketing messages to potential customers. Distribution channels are the delivery method for products. Service channels aid companies in carrying out business transactions. Functions of marketing channels are becoming more and more challenging. Exploring internet and mobile communication technologies, customers are increasingly aware, informed and demand pull range of services at a competitive price. As such channels are to function very efficiently and must include complementary services to drive home cost-advantage and profit maxim.

2.2 Objectives

After going through this unit you will be able to-

- understand the meaning and definition of Marketing Channel,
- understand the channel structure and its types,
- explain channel level and channel selection,
- discuss the function of marketing channels.

2.3 Meaning and Definition of Marketing Channel

Goods produced are to reach customers or end users. Producers and users are isolated and there is a gap. Producers are concentrated in few centers and customers are scattered. Production is carried on continuously but purchases are made by the customers at an interval. There is also a time gap between production and final disposal. Therefore, we need institutional arrangement to bridge the gap and there should be value addition during the process of journey from producers to customers. This process has necessitated the need and the emergence of the marketing channel.

According to Philip Kotler, "marketing channels are set of interdependent organization involved in the process of making product or service available for use or consumption." Therefore N. Beckman and William Davidson described marketing channel as "group of intermediaries from first owner to the last owner who take title to a product during the marketing process."

Marketing channel is traditionally viewed as a network of flows which include physical flow, title flow, payment flow, information flow and promotion flow. But it also requires to view marketing channel as value flow as well as value is transferred and added from supplier of inputs to customers. Producers rely considerably on marketing channels to generate and to satisfy customers. Marketing channels may create product differentiation and no more be called as 'Dark Continent' in marketing.

Stop to Consider

Goods produced are to reach customers. Customers being scattered, the need of marketing channels arises to bridge the gap. Marketing channel is viewed as a network to flow goods, title, information, promotion, and value as well. There are multiple marketing intermediaries operating between manufactures and customers. They are performing series of functions including marketing stability, risk diffusion, financing and innovation. Functions of marketing channels are becoming more challenging and the task of distribution is assuming greater importance.

Check Your Progress

1. What is Marketing Channel?
2. What constitutes marketing channel network?

2.3.1 Channel Structure and Types

Marketing channels are how manufacturers reach customers. There are *three types of marketing channels:* communication, distribution and service channels. Communication channels deliver marketing messages to potential customers. Distribution channels are the delivery method for products. Service channels aid companies in carrying out business transactions.

Customers are more informed today and wish to be informed as much as possible to build perception. Accordingly, communication channel needs to be well articulated to generate more and more responses and actions thereof. Delivery of goods needs to be safe, speedy, economic and handy as well. Therefore, delivery channels are to be designed very carefully. Customers in general while choosing the product are also equally concerned about delivery mechanism these days. Emergence and the growing popularity of digital marketing is also adding new impetus for delivery channel. Delivery of goods is no more a follow up action. Product manufacturing and delivery of the same are now integrated to yield desired market response. Service channels helps in completing the transaction. It has to be fast, swift and hassle free to attract and to create customers. Thus, service channel is assuming vital importance in adding customer base and the competitive advantage. Quick disposal and early settlement of issues associated with delivery demand high priority on service channel to build brand value.

In the context of physical distribution of goods or products, we are more concerned with distribution channels. It includes the following marketing intermediaries:

- Sole-Selling Agents

- Distribution Partners
- Carrying and Forwarding Agents
- Wholesaler
- Stockist/Distributor
- Retailer
- Broker
- Resident Buyer
- Franchisee
- Commission agent
- Facilitating Agencies
- Consumer Co-operative.

In today's context during the era of relationship marketing intermediaries are listless and it must include customer's point of purchase as well.

As a matter of channel, distribution channels are shortlisted as under:

- Manufacturer to Consumer
- Manufacturer to Retailer to Consumer
- Manufacturer to Wholesaler to Consumer
- Manufacturer to Wholesaler to Retailer to Consumer
- Manufacturer to Agent to Wholesaler to Retailer to Consumer

In case of Industrial goods, it is a journey from manufacturer to Industrial Customers.

2.3.2 Channel Level and Channel Selection

Given the intermediaries and the distribution channel shortlisted above, the decisions are to be taken on channel levels and the selection of distribution channel. **Channel levels** refer to channel members and their specific role to discharge. Channel level varies from zero to one, two, three or more levels engaged in distribution. Channel level is zero when the manufacturer reaches the customers directly. It is mostly found in industrial product, capital equipment and project marketing. Channel level is one where the manufacturer or service provider avails the service of single intermediary to reach customers as in the case of entertainment or service industry. Likewise, channel level becomes two or three where the manufacturer engages the service of two or three intermediaries respectively. In case of durable products, the channel level may be two where manufacturers reach customers through dealers and retailers. In case of fast moving consumer goods, manufacturers reach customers through distributor, wholesaler and retailers and thereby channel level becomes three and the process may continue depending upon the channel network designed by the concerned manufacturer.

The factors determining the length of the channel are as follows

- **Market Size:** Larger the size of the market, longer would be the length of the channel. The manufacturer can economise the cost serving the market indirectly through large number of channels and conversely if the market size is small, smaller would be the length of the channel.
- **Quantum of order lot:** The channel length is longer where the average quantum of order lot size is small. If the quantum of order lot is large, the manufacturer prefers direct delivery.
- **Service Intensity and frequency:** Products demand high intensity of service and also require the same at regular frequency, it is better to have a single channel.
- **Product Range**: Manufacturers producing large number of products and the customers are also buying in combination of number of products, all products are to be made available in all outlets through longer channels.

  Selection of distribution channel is also a very crucial consideration and the manufacturers are to take appropriate decision. Success and failure of a company is dependent on channel selection to a large extent in the context of present day demanding and ever changing buying behavior. While selecting the appropriate channel, the following factors are considered.

- **Nature of Market:** Nature of market or market characteristics include number of buyers and their location, size and the frequency of buying, buying habits, shopping behavior, level of service demanded by the customers, customers attitude, expectation level and the comfortable marketing environment. All these factors together primarily influence distribution channel decision.

- **Product Feature**: Product feature or distinctiveness influences distribution decision. It includes size of the products, durability or perishability of the product, style and shape of the product, standardization or customization of the product, technical nature and the age of the product, perceived value and the unit value of the product, perceived risk and the need of protection of the product and the desire for brand value and image of the product.
- **Ability of the Company**: Financial resources, manufacturing capacity, managerial ability, control over the market, market standing are the key considerations that influence distribution channel decision. Company's philosophy, desired missions and objectives, consideration of both short term and long term goals also play a role in determining distribution channel decision.
- **Level of Competition**: If the level of competition is too high, no company will assume the risk to deviate from the existing channel. An intensive distribution strategy is usually preferred to reach all the customers in a highly competitive environment. In case of a new product or high technology product, the company may adopt exclusive distribution strategy to buy the complete attention of the intermediary.
- **Middlemen's Ability**: The availability and the service rendering capacity of the middleman influence distribution decision. Service aptitude, financial capacity, credit standing, promotional ability, negotiation skill, storage capacity and the ability to influence people in the market are the basic considerations that influence distribution channel decision.

Check Your Progress

1. What are the different types of Marketing Channels?
2. What are the various intermediaries of Marketing Channel?
3. What do you mean by channel level? Discuss the factors that influence channel level decision
4. Name the distribution channels and explain how such channels are selected

2.3.3 Marketing Channel Functions

Marketing channel serves many functions, including creating utility and facilitating exchange efficiencies. Functions performed are:

1. Providing information about the market to the manufacturer.
2. Maintaining price stability in the market.
3. Promoting the products in market territories.
4. Financing manufacturers operation by providing advances for goods and services.
5. Assuming title to the goods diffuses risk.
6. Help in production function leaving the manufacturer from marketing problem.
7. Matching demand and supply.
8. Contributing in pricing the product through suggestions being close to the ultimate users.
9. Standardizing transaction in terms of price, quantity, method of payment etc.
10. Matching buyers and sellers needs.
11. Assisting in merchandising, promotion and pre and after sale service.
12. Assisting in innovation and diffusion of new products.
13. Providing feedback and developing sales plan.

Functions of marketing channels are becoming more and more challenging. Exploring internet and mobile communication technologies, customers are increasingly aware, informed and demand full range of services at a competitive price. As such channels are to function very efficiently and must include complementary services to drive home cost-advantage and profit maxim.

Distribution is becoming a bigger challenge today. The reasons for such an increasing challenge can be outlined as under:

- Ever increasing demand in volume intensity and frequency of distribution
- Growing demand for customization and product distinctiveness which require the manufacturer to avail the services of as many experts and intermediaries

- Performing the necessity of last mile delivery and the need to build a winning approach to create a win-win situation for all
- Nonexistence of marketing myth and the overwhelming need for the best quality product and services.
- The desire to create loyalty and brand value along with the expansion of customer base and market extension

Global market, global product, global product liability, global option, global competitiveness and all in all the desire to derive global competitive advantage have mandated the manufacturer to give as much importance on distribution. Distribution is no more a corollary or ancillary job. Effective distribution can penetrate customers, create market, multiply the uses and reduce the cost through volume expansion and thereby add to company's revenue and profit. Effective distribution is equally impactful in offering a relaxed and comfortable marketing or buying environment to the satisfaction of both the manufacturers and the customers.

Check Your Progress

1 What are the functions of marketing channel?

2. Why is distribution assuming more and more importance in the field of marketing?

2.4 Key Terms

- **Communication channels**: Communication channels deliver marketing messages to potential customers
- **Distribution channels**: Distribution channels are the delivery method for products
- **Service channels**: Service channels aid companies in carrying out business transactions
- **Marketing channel**: The intuitional arrangement to bridge the gap between the production and final disposal of the product and also to create value addition in the process of journey from producers to customers is known as Marketing Channel

- **Channel Level**: Channel level refers to the number of channel members and their specific role to discharge
- **Channel Length**: Channel length is the number of channel intermediaries being placed in vertical order
- **Channel width**: Channel width is the number of specific intermediary or intermediaries being placed in horizontal order

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2.5 Summing Up

- Marketing channels are the set of intermediaries playing a major role in making goods and services available at customers door step and ensuring value addition by proving related services and information network
- Marketing channels comprised of communication channel, distribution channel and service channel. In the context of physical distribution, we are more concerned with distribution channel. Wholesalers, distributors, retailers are the leading intermediaries and it is a journey from manufacturer to final consumers
- There is a long list of marketing intermediaries like sole-selling agents, wholesalers, retailers, stockists, distributors, commission agents etc engaged in the distribution of goods
- Selection of intermediaries and specifying their role is the decision of channel level. Market size, quantum of order lot, service intensity and product range are the determining factors of channel length
- Selection of distribution channel depends on the nature of market, product feature, ability of the company, the level of competition, the cost of distribution, availability of middlemen, service rendering capacity of the middlemen and legal considerations, if any

2.6 Model Questions

1) State the meaning and definition of marketing channel.
2) State the marketing channel structure and its various types.
3) Briefly explain the key factors which determine the length of the marketing channel.

4) State the factors which are to be considered while selecting an appropriate marketing channel.

5) Highlight the various functions of marketing channel.

6) Why is 'Dark Continent' in marketing said to non-existent nowadays?

7) Why are functions of marketing channels becoming more challenging?

8) How is customization adding more responsibility in the field of distribution?

2.6 References and Suggested Readings

Philip Kotler, Marketing Management, Prentice Hall of India Pvt. Ltd., New Delhi

V.S.Ramaswamy&S.Namakumari, Marketing Management, McGraw Hill Education (India) Pvt. Ltd., New Delhi

Arun Kumar &N.Namakumari, Marketing Management, Vikas Publishing House Pvt. Ltd., New Delhi

RajanSaxena,Marketing Management, Tata McGraw Hill Publishing Company Ltd., New Delhi

Dr. C.B.Gupta& Dr. N. Rajan Nair, Marketing Management, Sultan Chand & Sons, New Delhi

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UNIT-3
CHANNEL DESIGN

Unit Structure:

3.1 Introduction

Channel design is the way out to reach customers. There are different ways to do so and it is done with the help of number of intermediaries. Therefore, the selection of channel or channels and laying the method to reach customers is termed as channel design. Knowing the customers and their expectations and locations and the product characteristics determine the channel design. Delivering maximum value to the customer is the ultimate aim of channel design.

3.2 Objectives

After going through this unit, you will be able to:

- understand the concept of channel design,
- discuss the steps in channel design,
- discuss the process of channel implementation.

3.3 Channel Design

Channel design is the strategic process that commercial organizations use to balance resources across direct and indirect channels or routes to market. Direct channel typically include field sellers and ecommerce platforms, while indirect channels can include a mix of partners, distributors and market places

Channel design decisions are critical because they determine a product's market presence and buyer's accessibility to the product. Channel decisions have additional strategic significance because they entail long term commitments. It is usually easier to change prices or promotions than to change marketing channels.

Channel design decisions involving either the development of new marketing channels where none had previously existed or the modification of existing channels. The important considerations in channel design are:

- A decision made by the marketer
- The creation or modification of channels
- The active allocation of distribution tasks in an attempt to develop an efficient structure
- The selection of channel members
- A strategic tool for gaining a differential advantage

Anne T. Coughlan and Louis W. Stern suggest that firms would do well to keep in view the following three realities deciding the channel pattern:

1. Firms today face an increasingly demanding consumer.
2. There is the need to go for and manage multiple channels (including electronic ones) to reach the multiple market segments.
3. A strong measure of globalization has taken place in retailing, wholesaling and manufacturing and the firms may have to flow along this reality.

Louis W Stern and Frederick D Sturdivant suggested eight steps in designing market (customer) driven distribution strategy.

Step 1 Know what customers want

Step 2 Decide on the outlet

Step 3 Determine the costs

Step 4 Bind the ideal

Step 5 Compare the alternatives

Step 6 Review assumptions in the light of research

Step 7 Confront the gap between the ideal and the actual distribution system

Step 8 Implement changes in the system if required.

Thus, channel design can be formulated as under:

- Identification of customers and their need.
- Identification of customer locations
- Roadmap to reach customers
- Selection of channel intermediaries
- Defining the role of all intermediaries selected
- Providing necessary training to all the intermediaries selected
- Laying down the path of channel coordination

Company in terms of cost and resources, intermediaries in terms of ability and reach and the customers in terms of expectations and value received are coordinated and matched together through an ideal channel design.

Stop to Consider

Deciding the channel intermediaries to meet customers' expectation at their locations is the channel design. It is done in a step by step method. Company, customers and intermediary are brought in unison to coordinate and match together while deciding channel design. Selection, engagement, training of intermediaries and laying the operational network are the essence o channel implementation. Market requirement, nature of product, ability of the farm, distribution option and customers' expectations are the major considerations of channel selection.

Check Your Progress

1. What is Channel Design?
2. What are the general steps to formulate Channel Design?

3.4 Channel Implementation

Channel implementation process can be referred as under:

- Recognize the need for channel design decision
- Set and coordinate distribution objectives
- Specify distribution tasks

- Develop alternative channel structure
- Evaluate relevant variables
- Choose the best channel structure
- Select channel members

Channel implementation is the process of completing distribution of goods and services through channel intermediaries. It involves:

- Finalizing channel design
- Appointing channel intermediaries
- Resolving and fixing terms and conditions of intermediaries' appointment
- Preparing working model
- Plugging the nitty-gritty of coordinated operation
- Beginning the process of distribution

Distribution is not merely the physical movement of product or service. Delivering value to the customers and value addition in the process are the ultimate goal of channel implementation.

There are three major distribution alternatives, namely intensive, selective and exclusive. Intensive distribution involves all the possible outlets that can be used to distribute the product. Selective distribution is the middle path approach to distribution. Under this alternative, some outlets are selected by the firm to distribute its products. In exclusive distribution, the firms distribute its products through one or two major outlets.

Selection of channel is influenced by the following consideration:

- The requirement of the market in terms of numbers, location of buyers, size and frequency of purchases, buying habits and preferences, seasonal variations and the distinction between consumer and industrial market.
- Nature of product in terms of size, weight, unit value, perishability, standardization, style, newness and age of the product and technicalities of the product.
- Ability of the firm in terms of market share, financial capacity, volume of output, managerial competence, control over the market.

- Distribution option in terms of availability, attitude, services, scope, sales potential, cost and legal compulsions.
- Customers' expectations, location and concentration of customers, willingness of the channel intermediaries, profit margins expected by the intermediaries and the competition influence channel distribution.

While adapting and implementing channel decision, the firm must carry out the evaluation on the basis of efficiency, control and adaptive criterion. Efficiency criterion is applied to balance cost and risk along with efficiency. Control criterion demands the extent to which the firm can influence the functioning of the channel. Adaptive criterion refers to continuity and change in the channel selected with provisions for improvement and adaption with changing time and market requirement.

Check Your Progress

1. What is Channel Implementation?
2. What are the steps involved in Channel Implementation?
3. When is channel design considered as an ideal one?
4. How is channel design evaluated?
5. Why is selection of channel the key consideration in channel design implementation?

3.5 Key Terms

- **Channel Design**: The selection of channel or channels and laying the method to reach customers is termed as channel design
- **Channel implementation**: Channel implementation is the process of completing distribution of goods and services through channel intermediaries.

3.6 Summing Up

- While designing channel, all the eight steps be followed and all three options namely intensive, selective and exclusive distribution feasibility be worked out before making the strategic choice.
- Nature of the market, nature of the product, ability of the firm and nature of distribution are the major consideration that influence channel selection

- Channel implementation begins with finalizing channel design and ends with the beginning of the process of distribution

3.7 Model Questions

1. What is channel design?
2. What are the important considerations for channel design?
3. What is channel implementation?
4. What are the process involved in channel implementation?
5. What are the factors that influence channel selection?

3.8 References and Suggested Readings

Philip Kotler, Marketing Management, Prentice Hall of India Pvt. Ltd., New Delhi

V.S.Ramaswamy & S.Namakumari, Marketing Management, McGraw Hill Education (India) Pvt. Ltd., New Delhi

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RajanSaxena, Marketing Management, Tata McGraw Hill Publishing Company Ltd., New Delhi

Dr. C.B.Gupta & Dr. N. Rajan Nair, Marketing Management, Sultan Chand & Sons, New Delhi

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UNIT-4

CHANNEL POWER

Unit Structure:

4.1 Introduction

Desire to control or to influence other and to attain higher position or superiority is a biological urge of every human being. It is true in the case of an institution, society, nation and the civilization at large. In the course of economic activity and the formation of business organization, there is unending effort to grow and prosper. The process of growth and prosperity necessitated the need of agents to extend the horizon of business in all directions. The constant endeavor of diversification of business resulted in the emergence of middlemen. In the constant of marketing, these middlemen are termed as channel partners to perform or to render specific services in association with the manufacturers. While being together, there arises the question of channel power being differently placed.

4.2 Objectives

After growing through this unit, you will be able to-

- understand the meaning of Channel Power,
- understand the meaning of Channel Conflict,
- discuss the cause of Channel Conflict,
- analyse the steps taken for Channel Cooperation and competition.

4.3 Channel Power

Channel power refers to the ability of any one channel member to alter or modify the behavior of other members in the distribution channel due to its relatively strong position in the market. Generally, the manufacturers are seen dominating the behavior of other channel partners and influencing their actions according to requirements.

Channel powers are:

- Reward power
- Legitimate power
- Expert power
- Referent power
- Coercive power

Reward Power involves a channel member being able to positively reinforce another's performance. Leading manufacturers often offer additional benefits or reward on fulfilling a target level of performance. It may be in the form of monetary reward, additional discount, foreign tour etc.

Legitimate Power stems from internalized norms in the channel members which dictate that another channel member has a legitimate right to influence him and that he has the obligation to accept that influence.

Expert Power is the power of knowledge and experience of a channel member enabling to influence other members in terms of first-hand experience of field or market condition, computer programming, code language, business ideas and leadership. Expert power comes from perception and belief of the subordinates that expert possesses superior skills.

Referent Power is likely to exist when a channel member perceives his goal to be closely allied with or congruent with that of another channel member. They may see each other as both being on the same side. Referent power is rooted in trust, respect and admiration.

Coercive Power is a formal power source where influencing agents use threat or force to gain compliance. The manufacturer threatens to terminate the relationship with other channel partners or withdraw the resources deployed with them is a prime example of coercive power. With this power, the manufacturer can dominate the others and keep them under his control.

Thus, reward power refers to several additional benefits the manufacturer provides to the channel intermediaries. Legitimate power is the obligation to carry out the activities in accordance with the terms of contract agreed and entered into at the time of becoming channel partner. Expert power is the expertise the manufacturer transfers to the channel partner. Referent power is the power of image and glory of being associated with the particular manufacturer. Coercive power is the power to terminate the relationship and to withdraw the resources deployed with channel partner whereby the manufacturer dominate and control them.

Channel intermediary by virtue of its entity, past performance, market building capacity, control over the market, trade information, trade reputation, knowledge base, ability to tackle issues and through variation of channel profit can yield considerable power.

Stop to Consider

Manufacturer and channel partners are not equally placed in view of their differing position and power. Power is the ability to influence and alter the behavior of other channel members. Powers are classified as reward power, legitimate power, expert power, referent power and coercive power. Conflict among channel members cannot be avoided due to goal incompatibility, role ambiguity ad differences is in perception of the market. The channel conflict can be resolved through communication, arbitration, mediation, frequent interaction, training and motivation.

4.4 Channel Conflict

According to Philip Kotler "No matter how well channels are designed and managed there will be some conflict, if for no other reason than the interests of independent business entities doesn't always coincide."

Channel conflict is a situation in which channel partners have to compete against one another or the vendor's internal sales department. Channel conflict can cost a company and its partner's money as partners try to undercut one another.

Channel conflict arises when the channel partners such as manufacturer, wholesaler, distributor, retailer etc compete against each other for the common sale with the same brand.

Channel conflict is classified as Vertical Channel Conflict, Horizontal Channel Conflict, and Multi Channel-level Conflict. Vertical Channel Conflict arises between the different levels in the same channel. The conflict between the manufacturer and the wholesaler regarding price, quantity, marketing activities are the examples of vertical channel conflict.

Horizontal Channel Conflict arises between the same levels in the same channel. The conflict between two retailers of the same manufacturer faces disparity in terms of sales target, area coverage; promotional schemes are the examples of horizontal channel conflict.

Multichannel Conflict arises between the different market channels participating in the common sale for the same brand. When a firm opts for multiple channels to sell its products in the same market, conflict may arise because of intervention or variation of treatment in terms of price or otherwise.

Check Your Progress

1. What is Channel Power?
2. What are the different channel powers?
3. What is Reward Power?
4. What is Expert Power?
5. What is channel conflict?
6. What are the different types of Channel Conflict?

4.5 Causes of Channel Conflict

Channel Conflict occurs largely due to financial and non-financial reasons. This in turn may be traced to the following causes:

- **Goal Incompatibility -** A major factor causing conflict between manufacturers and wholesalers is the perceived goal incompatibility between them. While the manufacturer perceives his goals to be market share and profit maximization, wholesalers perceive their goal to be sales maximization and thereby profit maximization.
- **Role Ambiguity -** Many a time conflicts occur because of role ambiguity. This is a common multichannel conflict. The role of manufacturer's sales force and the role of dealers in selling products

to major or institutional customers are often unclear on terms of sell or otherwise.

- **Differences in perception of the market -** Different perceptions of the market or economy may also create a conflict between the manufacturer and middlemen. A manufacturer may perceive a booming Indian middle class market and may go all out in introducing new products and appointing dealers but the existing dealers may not perceive in the same way.

  There are many other micro-reasons causing channel conflict. Network or the coverage of the dealer's territory, reconciliation of dealer's interest and company or manufacturer's interest, price-variation on quantum-sale, differences in treatment from dealer to dealer by the manufacturer, cross-functional conflict of multiple dealers etc also result into channel conflict. Performance gap is also a major cause of channel-conflict.

4.6 Channel Cooperation and Competition

Conflict is inevitable in view of multiplicity of channels and their modus operandi. What can be done to avoid or minimize the conflict and to ensure co-operation among channel members is the essence of channel cooperation and competition. The manufacturer may take the following steps for channel cooperation and competition.

- **Communication** – An effective way to minimize channel conflict and to ensure cooperation is to have regular communication between the manufacturers and the channel members.
- **Dealer Councils** – Another way to ensure cooperation is through formation of dealer councils. Such councils can resolve issues in horizontal level conflicts and even vertical conflicts.
- **Super ordinate Goals -—** A way to resolve channel conflict is to evolve super ordinate goals like customer satisfaction which in turn would lead to profit maximization for all concerned.
- **Arbitration and Mediation** – Conflict among channel members may be resolved for effective cooperation through arbitration and mediation.
- **Frequent Interaction** – There should be frequent interaction to develop mutual understanding and co-operation. Manufacturer may

extend financial and other support to channel members to ease their problems.

- **Training to personnel** – Manufacturer may train people to handle dispute and to negotiate successfully conflicting situations.
- **Motivation** – Manufacturersensure channel cooperation by motivating the channel members to achieve improved or higher performance target to avail alluring offers like foreign tour and complementary arrangements for high esteem entertainment event.

Since conflict or competition is both obvious and natural, undoing the same will always be an overstatement. Measures suggested above are going to reconcile the interest of the channel members. The healthy competition to enhance the role and to improve the performance will continue to strengthen the product or service delivery system to add value and satisfaction to all.

Check Your Progress

1. What are the causes of Channel Conflict?
2. What are the various steps to be taken for channel co-operation?
3. How manufacturers dominate and control channel partners?
4. Why channel conflict is obvious and natural?
5. What is the way out to resolve horizontal and vertical level channel conflict?

4.7 Key Terms:

Channel Power: Channel power refers to the ability of any one channel member to alter or modify the behavior of other members in the distribution channel due to its relatively strong position in the market.

Coercive Power: Coercive power is the power to terminate the relationship and to withdraw the resources deployed with channel partner whereby the manufacturer dominate and control them.

Channel Conflict: Channel conflict is a situation in which channel partners have to compete against one another or the vendor's internal sales department. Channel conflict can cost a company and its partner's money as partners try to undercut one another.

Legitimate Power: Legitimate power is the obligation to carry out the activities in accordance with the terms of contract agreed and entered into at the time of becoming channel partner.

4.8 Summing Up

- Channel partners are not placed equally and as such one may influence the other and this influence modify the behavior of other members give birth to channel power
- Channel powers are categorized as reward power, legitimate power, expert power, referent power and coercive power
- In view of multiplicity of channels and the conflict of interest, channel partners are not equally placed. Channel power and channel conflict are the two major issues need to be addressed for uninterrupted flow of distribution
- Goal incompatibility , role ambiguity, differences in perception are the major causes of channel conflict
- Territorial conflict, price variation, treatment variation, performance gap and lack of reconciliation of interest are the micro causes of channel conflict
- Communication, dealer councils, super ordinate goals, arbitration, mediation, frequent interaction, performance reward are the ways to resolve conflict and to ensure co–operation

4.9 Model Questions

1. Explain the different types of Channel Powers
2. What is Channel Conflict and what are the major causes of channel conflict?
3. Discuss the way out to resolve channel conflict and to ensure healthy co-operation .

4.10 References and Sugessted Reading

1. Philip Kotler, Marketing Management, Prentice Hall of India Pvt. Ltd., New Delhi
2. V.S.Ramaswamy&S.Namakumari, Marketing Management, McGraw Hill Education (India) Pvt. Ltd., New Delhi
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