SECTION "A" – MANAGEMENT

Q. 2 (a)

Social obligation is a firm's engaging in social actions because of its obligation to meet certain economic and legal responsibilities. The organization does what it's obligated to do and nothing more. This idea reflects the classical view of social responsibility, which says that management's only social responsibility is to maximize profits. The most outspoken advocate of this approach is economist and Nobel laureate Milton Friedman. He argued that managers primary responsibility is to operate the business in the best interest of stock holders, whose primary concerns are financial. He also argued that when managers decide to spend the organization's resources for "social good," they add to the costs of doing business, which have to be passed on to consumers through higher prices or absorbed by stockholders through smaller dividends. You need to understand that Friedman doesn't say that organizations shouldn't be socially responsible. But his interpretation of social responsibility is to maximize profits for stockholders.

The other two concepts social responsiveness and social responsibility reflect the socioeconomic view, which says that managers' social responsibilities go beyond making profits to include protecting and improving society's welfare. This view is based on the belief that corporations are not independent entities responsible only to stockholders but have an obligation to the larger society. Organizations around the world have embraced this view, as shown by a recent survey of global executives in which 84 percent said that companies must balance obligations to shareholders with obligations to the public good. But how do these two concepts differ?

Social responsiveness means that a company engages in social actions in response to some popular social need. Managers in these companies are guided by social norms and values and make practical, market-oriented decisions about their actions. For instance, managers at American Express Company identified three themes community service, cultural heritage, and leaders for tomorrow to guide it in deciding which worldwide projects and organizations to support. By making these choices, managers "responded" to what they felt were important social needs.

A socially responsible organization views things differently. It goes beyond what it's obligated to do or chooses to do because of some popular social need and does what it can to help improve society because it's the right thing to do. We define social responsibility as a business's intention, beyond its legal and economic obligations, to do the right things and act in ways that are good for society.

For many businesses, their social actions are better viewed as being socially responsive than socially responsible. However, such actions are still good for society.

Q. 2 (b)

ELECTRONIC BUSINESS (E-BUSINESS):

E-business (electronic business) is a comprehensive term describing the way an organization does its work by using electronic (Internet-based) linkages with its key constituencies (employees, managers, customers, suppliers, and partners) in order to efficiently and effectively achieve its goals. It's more than e-commerce, although e-business can include e-commerce. E-commerce (electronic commerce) is any form of business exchange or transaction in which the parties interact electronically. Firms

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such as Dell (computers), Varsitybooks (textbooks), and PC Flowers and Gifts (flowers and other gifts) are engaged in e-commerce because they sell products over the Internet. Although – ecommerce applications will continue to grow in volume, they are only one part of an business.

Not every organization is or needs to be an e-business. Exhibit illustrates three categories of e-business involvement. The first type is what we're going to call an e-business enhanced organization, a traditional organization that sets up e-business capabilities, usually e-commerce, while maintaining its traditional structure. Many fortune 500 type organizations are evolving into e-business using this approach. They use the internet to enhance (not to replace) their traditional ways of doing business.

Another category of e-business involvement is an e-business enabled organization. In this type of e-business, an organization uses the Internet to perform its traditional business functions better but not to sell anything. In other words, the Internet enables organizational members to do their work more efficiently and effectively. There are numerous organizations using electronic linkages to communicate with employees, customers, or suppliers and to support them with information. For instance, Levi Strauss & Co. uses its Web site to interact with customers, providing them the latest information about the company and its products, but they can't buy Levis there. It also uses an intranet, an internal organizational communication system that uses Internet technology and is accessible only by organizational employees, to communicate with its global workforce. Other organizations are using enterprise-wide software solutions that link together all organizational areas and levels.

The last category of e-business involvement is when an organization becomes a total e-business. Many organizations such as Amazon.com, Yahoo, E Trade, and eBay started as total e-business organizations. Their whole existence is made possible by and revolves around the Internet. Other organizations, such as Charles Schwab & Company, have evolved into e-business organizations that seamlessly integrate traditional and e-business functions. When an organization becomes a total e-business, there's a complete transformation in the way it does its work.

SUGGESTED ANSWERS

Need for Innovation and Flexibility:

Innovation has been called the most precious capability that any organization in today's economy must have nurture. Without a constant flow of new ideas not only for new products and services, but also for new ways of doing things an organization is doomed to obsolescence or even worse, failure. In a survey about what makes an organization valuable, innovation showed up at the top of the list.

There is absolutely not doubt that innovation is crucial. How do managers encourage innovative thinking among all organizational members? That's an important question and one that all managers at all levels must resolve.

Now, everywhere you look, organizations (small to large, all types, global and domestic, and in all industries) are becoming e-business. Today's managers must manage in an e-business world.

Q. 3 (a)

DEFINING THE EXTERNAL ENVIRONMENT:

The term external environment refers to factors and forces outside the organization that affect the organization's performance.

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The Specific Environment:

The specific environment includes external forces that directly impact managers' decisions and actions and are directly relevant to the achievement of the organization's goals. An organization's specific environment is unique to it

- **Customers:**

  An organization exists to meet the needs of customers who use its output. Customers represent potential uncertainty to an organization because their tastes can change or they can become dissatisfied with the organization's products or service.

- **Suppliers:**

  Managers seek to ensure a steady flow of needed inputs (supplies) at the lowest price possible. An organization's supplies being limited or delayed in delivery can constrain managers' decisions and actions.

- **Competitors:**

  All organizations profit and not-for-profit have competitors. Managers cannot afford to ignore the competition.

- **Pressure Groups:**

  Managers must recognize special-interest groups that attempt to influence the actions of organizations.

The General Environment:

The general environment includes the broad economic, political/legal, sociocultural, demographic, and global conditions that affect an organization. Although these external factors don't affect organizations to the extent that changes in their specific environment do, managers must consider them as they plan, organize, lead, and control.

- **Economic Conditions:**

  Interest rates, inflation, changes in disposable income, stock market fluctuations, and the stage of the general business cycle are some economic factors that can affect management practices in an organization.

- **Political/Legal Conditions:**

  Federal, state, and local laws, as well as global and other country laws and regulations, influence what organizations can and cannot do. Some federal legislation has significant implications.

  Although organizations spend a great deal of time and money to meet governmental regulations, the effects go beyond time and money; they reduce managerial discretion by limiting available choices. Consider the decision to dismiss an employee. Historically, employees were free to leave an organization at any time, and employers had the right to fire an employee at any time, with or without cause. Laws and court decisions, however, have limited what employers can do. Employers are expected to deal with employees by following the principles of good faith and fair dealing.

  Other aspects of the political/legal sector are political conditions and stability of a country where an organization operates and the attitudes that elected governmental officials hold toward

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business. However, management is a global activity, and managers should be aware of political changes in countries in which they operate because these changes can affect decisions and actions.

- **Sociocultural Conditions:**

  Pepsi (and other food manufacturers) has responded to customers' changing attitudes about food by offering customers healthier versions of their favourite snacks. Managers must adapt their practices to the changing expectations of the society in which they operate. As these values, customs and tastes change, managers must also change. Sociocultural trends may pose a potential constraint to managers' decisions and actions.

- **Demographic Conditions:**

  Demographic conditions encompass trends in population characteristics such as gender, age, level of education, geographic location, income, and family composition. Changes in these characteristics may constrain how managers plan, organize, lead, and control.

- **Technological Conditions:**

  In terms of the general environment, the most rapid changes have occurred in technology. For instance, the human genetic code has been cracked. Just think of the implications of such knowledge; Information gadgets are shrinking yet becoming more powerful. We have automated officers, electronic meetings, robotic manufacturing, lasers, integrated circuits, faster and more powerful microprocessors, synthetic fuels, and entirely new models of doing business in a electronic age.

- **Global Conditions:**

  By the end of this decade, Nigeria will have a larger population than Russia, Ethiopia will have more people than Germany, and Morocco will more populous than Canada. Do these facts surprise you? They shouldn't. They simply reflect that globalization is one of the major factors affecting managers and organizations. Managers are challenged by an increasing number of global competitors and markets as part of the external environment.

SUGGESTED ANSWERS

Q. 3 (b)

MANAGERS AND ETHICAL BEHAVIOUR:

Ethics refers to the principles, values, and beliefs that define right and wrong decisions and behaviour. The factors that affect ethical and unethical behaviour include an individual's level of moral development (preconventional, conventional, or principled); individual characteristics (value and personality variables ego strength and locus control); structural variables (structural design, use of goals, performance appraisal systems, and reward allocation procedures); organizational culture (shared values and cultural strength); and issue intensity (greatness of harm, consensus of wrong, probability of harm, immediacy of consequences, proximity to victims, and concentration of effect).

We can define as the principles, values, and beliefs that define right and wrong decisions and behaviour. Many decisions that managers make require to consider both the process and who's affected by the result. To better understand the ethical issues involved in such decisions, let's look at the factors that determine whether a manager acts ethically or unethically.

Factors that Determine Ethical and Unethical Behaviour:

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Whether someone behaves ethically or unethically when faced with an ethical dilemma is influenced by several things: his or her stage of moral development and other moderating variables, including individual characteristics, the organization's structural design, the organization's culture, and the intensity of the ethical issue. People who lack a strong moral sense are much less likely to do the wrong things if they're constrained by rules, policies, job descriptions, or strong cultural norms that disapprove of such behaviours. Conversely, intensely moral individuals can be corrupted by an organizational structure and culture that permits or encourages unethical practices. Let's look more closely at these factors.

Stage of Moral Development:

Research confirms there are three levels of moral development. Each having two stages. At each successive stage, and individual's moral judgment becomes less dependent on outside influences and more internalized.

At the first level, the preconventional level, a person's choice between right and wrong is based on personal consequences from outside sources, such as physical punishment, reward, or exchange of favours. At the second level, the conventional level, ethical decisions rely on maintaining expected standards and living up to the expectations of others. At the principled level, individuals moral values apart from the authority of the groups to which they belong or society in general.

Individual Characteristics:

Two individual characteristics values and personality play a role in determining whether a person behaves ethically. Each person comes to an organization with a relatively entrenched set of personal values, which represent basic convictions about what is right and wrong. Our values develop from a young age, based on what we see and hear from parents, teachers, friends, and others. Thus, employees in the same organization often possess very different values.

Two personality variables have been found to influence an individual's actions according to his or her beliefs about what is right or wrong: ego strength and locus of control. Ego strength measures the strength of a person's convictions. People with high ego strength are likely to resist impulses to act unethically and instead follow their convictions. That is, individuals high in ego strength are more likely to do what they think is right and be more consistent in their moral judgments and actions than those with low ego strength.

Locus of Control:

Locus of control is the degree to which people believe they control their own fate. People with an internal locus of control believe they control their own destinies. They're more likely to take responsibility for consequences and rely on their own internal standards of right and wrong to guide their behaviour. They're also more likely to be consistent in their moral judgments and actions.

Structural Variables:

An organization's structural design can influence whether employees behave ethically. Those structures that minimize ambiguity and uncertainty with formal rules and regulations and those that continuously remind employees of what is ethical are more likely to encourage ethical behaviour.

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Other structural variables that influence ethical choices include goals, performance appraisal systems, and reward allocation procedures.

Although many organizations use goals to guide and motivate employees, those goals can create some unexpected problems.

An organization's performance's performance appraisal system can also influence ethical behaviour.

Closely related to the organization's appraisal system is how rewards are allocated. The more that rewards or punishment depend on specific goal outcomes, the more employees are pressured to do whatever they must to reach those goals, perhaps to the point of compromising their ethical standards.

Organization's Culture:

The strength of an organization's culture influence ethical behaviour. An organization's culture consists of the shared organizational values. These values reflect what the organization stands for and what it believes in, and they create an environment that influences employee behaviour ethically or unethically. When it comes to ethical behaviour, a culture most likely to encourage high ethical standards is one that's high in risk tolerance, control, and conflict tolerance. Employees in such a culture are encouraged to be aggressive and innovative, are aware that unethical practices will be discovered, and feel free to openly challenge expectations they consider to be unrealistic or personally undesirable.

Thus, an organization's managers do play an important role in ethics. They're responsible for creating an environment that encourages employees to embrace the culture and the desired values as they do their jobs. In fact, research shows that the behaviour of managers is the single most important influence on an individual's decision to act ethically or unethically. People look to see what those in authority are doing and use that as a benchmark for acceptable practices and expectations.

SUGGESTED ANSWERS

Issue Intensity:

A student who would never consider breaking into an instructor's office to steal an accounting exam may not think twice about asking a friend who took the same course from the same instructor last semester what questions were on an exam. Similarly, a manager might think nothing about taking home a few office supplies yet be highly concerned about the possible embezzlement of company funds. These examples illustrate the final factor that influences ethical behaviour: the intensity of the ethical issue itself.

SECTION "B" MARKETING

Q. 4 (a)

MARKETING MANAGEMENT ORIENTATIONS:

There are five alternative concepts under which organizations design and carry out their marketing strategies: the production, product, selling, marketing, and societal marketing concepts.

The Production Concept:

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The production concept holds that consumers will favour products that are available and highly affordable. Therefore, management should focus on improving production and distribution efficiency. This concept is one of the oldest orientations that guides sellers.

The production concept is still a useful philosophy in some situations. For example, computer maker Lenovo dominates the highly competitive, price-sensitive Chinese PC market through low labour costs, high production efficiency, and mass distribution. However, although useful in some situations, the production concept can lead to marketing myopia.

The Product Concept:

The product concept holds that consumers will favour products that offer the most in quality, performance, and innovative features. Under this concept, marketing strategy focuses on making continuous product improvements.

Product quality and improvement are important parts of most marketing strategies. However, focusing only on the company's products can also lead to marketing myopia.

The Selling Concept:

Many companies follow the selling concept, which holds that consumers will not buy enough of the firm's products unless it undertakes a large-scale selling and promotion effort. The selling concept is typically practiced with unsought goods those that buyers do not normally think of buying, such as insurance or blood donations. These industries must be good at tracking down prospects and selling them on product benefits.

The Marketing Concept:

The marketing concept holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do. Under the marketing concept, customer focus and value are the paths to sales and profits. Instead of a product-centered "make and sell" philosophy, the marketing concept is a customer-centered "sense and respond" philosophy. The job is not to find the right customers for your product but to find the right products for your customers.

Implementing the marketing concept often means more than simply responding to customers' stated desires and obvious needs. Customer-driven companies research current customers deeply to learn about their desires, gather new product and service ideas, and test proposed product improvements. Such customer-driven marketing usually works well when a clear need exists and when customers know what they want.

The Societal Marketing Concept:

The societal marketing concept questions whether the pure marketing concept overlooks possible conflicts between consumer short-run wants and consumer long-run welfare. Is a firm that satisfies the immediate needs and wants of target markets always doing what's best for consumers in the long run? The societal marketing concept holds that marketing strategy should deliver value to customers in a way that maintains or improves both the consumer's and society's well being.

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Q. 4 (b)

DISCUSS THE NEED TO UNDERSTAND COMPETITORS AS WELL AS CUSTOMERS THROUGH COMPETITOR ANALYSIS:

In order to prepare an effective marketing strategy, a company must consider its competitors as well as its customers. Building profitable customer relationships requires satisfying target consumer needs better than competitors do. A company must continuously analyze competitors and develop competitive marketing strategies that position it effectively against competitors and give it the strongest possible competitive advantage.

Competitor analysis first involves identifying the company's major competitors, using both an industry-based and a market-based analysis. The company then gathers information on competitors' objectives, strategies strengths and weaknesses, and reaction patterns. With this information in hand, it can select competitors to attack or avoid. Competitive intelligence must be collected, interpreted, and distributed continuously. Company marketing managers should be able to obtain full and reliable information about any competitor affecting their decisions.

Companies can identify their competitors from the industry point of view. They might see themselves as being in the oil industry, the pharmaceutical industry, or the beverage industry. A company must understand the competitive patterns in its industry if it hopes to be an effective "player" in that industry. Companies can also identify competitors from a market point of view.

- **Assessing Competitors:**

  Having identified the main competitors, marketing management now asks: What are competitors' objectives what does each seek in the marketplace? What is each competitor's strategy? What are various competitor's strengths and weaknesses, and how will each react to actions the company might take?

- **Determining Competitors' Objectives:**

  Each competitor has a mix of objectives. The company wants to know the relative importance that a competitor places on current profitability, market share growth, cash flow, technological leadership, service leadership, and other goals. Knowing a competitor's mix of objectives reveals whether the competitor is satisfied with its current situation and how it might react to different competitive actions. For example, a company that pursues low-cost leadership will react much more strongly to a competitor's cost-reducing manufacturing break through than to the same competitor's advertising increase.

  A company also must monitor its competitors' objectives for various segments. If the company finds that a competitor has discovered a new segment, this might be an opportunity. If it finds that competitors plan new moves into segments now served by the company, it will be forewarned and, hopefully, forearmed.

- **Identifying Competitors Strategies:**

  The more that one firm's strategy resembles another firm's strategy, the more the two firms compete. In most industries, the competitors can be sorted into groups that pursue different strategies. A strategic group is a group of firms in an industry following the same or a similar strategy in a given target market.

SUGGESTED ANSWERS

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The company needs to look at all of the dimensions that identify strategic groups within the industry. It must understand how each competitor delivers value to its customers. It needs to know each competitor's product quality, features, and mix; customer services, pricing policy; distribution coverage; sales force strategy; and advertising and sales promotion programs. And it must study the details of each competitor's R&D, manufacturing, purchasing, financial, and other strategies.

- **Assessing Competitors' Strengths and Weaknesses:**

Marketers need to assess each competitor's strengths and weaknesses carefully in order to answer a critical question: What can our competitors do? As a first step, companies can gather data on each competitor's goals, strategies, and performance over the past few years. Admittedly, some of this information will be hard to obtain. For example, business-to business marketers find it hard to estimate competitors' market shares because they do not have the same syndicated data services that are available to consumer packaged goods companies.

Companies normally learn about their competitors' strengths and weaknesses through secondary data, personal experience, and word of mouth. They can also conduct primary marketing research with customers, suppliers, and dealers. Or they can benchmark themselves against other firms, comparing the company's products and processes to those of competitors or leading firms in other industries to identify "best practices" and find ways to improve quality and performance. Benchmarking has become a powerful tool for increasing a company's competitiveness.

- **Estimating Competitors' Reactions:**

Next, the company wants to know: What will our competitors do? A competitor's objectives, strategies, and strengths and weaknesses go a way toward explaining its likely actions. They also suggest its likely reactions to company moves such as price cuts, promotion increases, or new-product introductions. In additions, each competitor has a certain philosophy of doing business, a certain internal culture and guiding beliefs. Marketing managers need a deep understanding of a given competitor's mentality it they want to anticipate how the competitor will act or react.

Each competitor reacts differently. Some do not react quickly or strongly to a competitor's move. They may feel their customers are loyal, they may be slow in noticing the move, or they may lack the funds to react. Some competitors react only to certain types of moves and not to others. Other competitors react swiftly and strongly to any action.

- **"Good" or "Bad" Competitors:**

A company really needs and benefits from competitors. The existence of competitors results in several strategic benefits. Competitors may share the cost of market and product development and help to legitimize new technologies. They may serve less-attractive segments or lead to more product differentiation. Finally, competitors may help increase total demand. For example, take the case of mobile phones in the subcontinent. You might think that new operators entering the industry must have created major trouble for incumbents. But that was not necessarily the case.

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Q. 5 (a)

CHARACTERISTICS AFFECTING CONSUMER BEHAVIOUR:

Consumer purchases are influenced strongly by cultural, social, personal, and psychological characteristics.

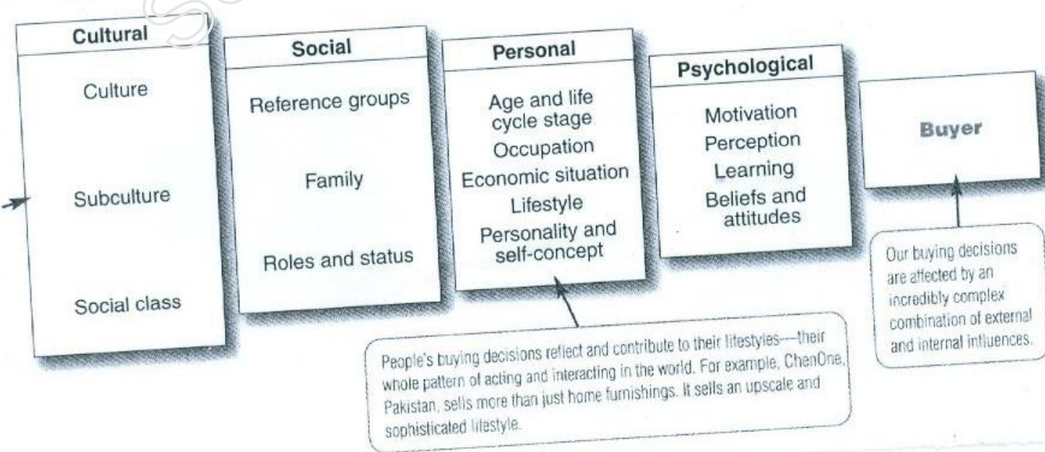
CULTURAL FACTORS:

Cultural factors exert a broad and deep influence on consumer behaviour. The marketer needs to understand the role played by the buyer's culture, subculture, and social class.

Culture:

Culture is the most basic cause of a person's wants and behaviour. Human behaviour is largely learned. Growing up in a society, a child learns basic values, perceptions, want, and behaviours from the family and other important institutions. A child normally learns or is exposed to the following values: achievement and success, activity and involvement, efficiency and practicality, progress, hard work, material comfort, respect for elders, conformity, humanitarianism, youthfulness, and fitness and health. Every group or society has a culture, and cultural influences on buying behaviour may vary greatly from country. Failure to adjust to these differences can result in ineffective marketing or embarrassing mistakes.

Marketers are always trying to spot cultural shifts in order to discover new products that might be wanted. For example, the cultural shift toward greater concern about health and fitness, especially among young urban women, has created a huge industry for health-and-fitness services, exercise equipment and clothing, organic foods and a variety of diets. The shift toward informality has resulted in more demand for casual clothing and simpler home furnishings.



Subculture:

Each culture contains smaller subcultures, or groups of people with shared value systems based on common life experiences and situations. Subcultures include nationalities, religions, racial groups,

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and geographic regions. Many subcultures make up important market segments, and marketers often design products and marketing programs tailored to their needs.

Social Class:

Almost every society has some form of social class structure. Social classes are society's relatively permanent and ordered divisions whose members share similar values, interests, and behaviours.

Social class is not determined by a single factor, such as income, but is measured as a combination of occupation, income, education, wealth, and other variables. Marketers in the Indian subcontinent have developed a socioeconomic classification system (SEC) to segment urban households on the basis of the level of education and occupation of the chief wage earner of the household.

Marketers are interested in socioeconomic classes because people within a given socioeconomic class tend to exhibit similar buying behaviour. Social classes show distinct product and brand preferences in areas such as clothing, home furnishings, leisure activity, and auto mobiles. Even product penetration rates vary among households of different SEC.

SOCIAL FACTORS:

A consumer's behaviour also is influenced by social factors, such as the consumer's small groups, family, and social roles and status.

PERSONAL FACTORS:

A buyer's decisions also are influenced by personal characteristics such as the buyer's age and life cycle stage, occupation, economic situation, lifestyle, and personality and self-concept.

Age and Life-Cycle Stage:

People change the goods and services they buy over their lifetimes. Tastes in food, clothes, furniture, and recreation are often age related. Buying is also shaped by the stage of the family life cycle the stages through which families might pass as they mature over time. Marketers often define their target markets in terms of life-cycle stage and develop appropriate products and marketing plans for each stage.

Occupation:

A person's occupation affects the goods and services bought. Blue-collar workers tend to buy more rugged work clothes, whereas executives buy more business suits. Marketers try to identify the occupational groups that have an above-average interest in their products and services. A company can even specialize in making products needed by a given occupational group. For example, companies in Sialkot, Pakistan, supply surgical instruments to surgeons all over the world.

Economic Situation:

A person's economic situation will affect product choice, Marketers of income-sensitive goods watch trends in personal income, savings, and interest rates. If economic indicators point to a recession,

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marketers can take steps to redesign, reposition, and reprice their products closely. Some Marketers target consumers who have lots of money and resources, charging prices to match.

Lifestyle:

People coming from the same subculture, social class, and occupation may have quite different lifestyles. Lifestyle is a person's pattern of living as expressed in his or her psychographics. It involves measuring consumers' major AIO dimensions activities (work, hobbies, shopping, sports, social events), interest (food, fashion, family, recreation), and opinions (about themselves, social issues, business, products). Lifestyle captures something more than the person's social class or personality. It profiles a person's whole pattern of acting and interacting in the world.

Personality and Self-Concept:

Each person's distinct personality influences his or her buying behaviour. Personality refers to the unique psychological characteristics that lead to relatively consistent and lasting responses to one's own environment. Personality is usually described in terms of traits such as self-confidence, dominance, sociability, autonomy, defensiveness, adaptability, and aggressiveness. Personality can be useful in analyzing consumer behaviour for certain product or brand choices.

The idea is that brands also have personalities, and that consumers are likely to choose brands with personalities that match their own. A brand personality is the specific mix of human traits that may be attributed to a particular brand. One researcher identified five brand personality traits.

PSYCHOLOGICAL FACTORS:

A person's buying choices are further influenced by four major psychological factors: motivation, perception, learning, and beliefs and attitudes.

Motivation:

A person has many needs at any given time. Some are biological, arising from states of tension such as hunger, thirst, or discomfort. Others are psychological, arising from the need for recognition, esteem, or belonging. A need becomes a motive when it is aroused to a sufficient level of intensity. A motive (or drive) is a need that is sufficiently pressing to direct the person to seek satisfaction. Psychologists have developed theories of human motivation. Two of the most popular the theories of Sigmund Freud and Abraham Maslow have quite different meanings for consumer analysis and marketing.

Sigmund Freud assumed that people are largely unconscious about the real psychological forces shaping their behaviour. He saw the person as growing up and repressing many urges. These urges are never eliminated or under perfect control; they emerge in dreams, in slips of the tongue, in neurotic and obsessive behaviour, or ultimately in psychoses.

Freud's theory suggests that a person's buying decisions are affected by subconscious motives that even the buyer may not fully understand.

Abraham Maslow sought to explain why people are driven by particular needs at particular times.

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A person tries to satisfy the most important need first. When that need is satisfied, it will stop being a motivator and the person will then try to satisfy the next most important need.

Perception:

A motivated person is ready to act. How the person acts is influenced by his or her own perception of the situation. All of us learn by the flow of information through our five senses; sight, hearing, smell, touch, and taste. However, each of us receives, organizes, and interprets this sensory information in an individual way. Perception is the process by which people select, organize, and interpret information to form a meaningful picture of the world.

Learning:

When people act, they learn. Learning describes changes in an individual's behaviour arising from experience. Learning theorists say that most human behaviour is learned. Learning occurs through the interplay of drives, stimuli, cues, responses, and reinforcement.

Beliefs and Attitudes:

Through doing and learning, people acquire beliefs and attitudes. These, in turn, influence their buying behaviour. A belief is a descriptive thought that a person has about something. Beliefs may be based on real knowledge, opinion, or faith and may or may not carry an emotional charge. Marketers are interested in the beliefs that people formulate about specific products and services, because these beliefs make up product and brand images that affect buying behaviour. If some of the beliefs are wrong and prevent purchase, the marketers will want to launch a campaign to correct them.

People have attitudes regarding religion, politics, clothes, music, food, and almost everything else. Attitude describes a person's relatively consistent evaluations, feelings, and tendencies toward an object or idea. Attitudes put people into a frame of mind of liking or disliking things, of moving toward or away from them.

Attitudes are difficult to change. A person's attitudes fit into a pattern, and to change one attitude may require difficult adjustments in many others. Thus, a company should usually try to fit its products into existing attitudes rather than attempt to change attitudes.

SUGGESTED ANSWERS

Q. 5 (b)

IDENTIFY AND DEFINE THE OTHER IMPORTANT EXTERNAL AND INTERNAL FACTORS AFFECTING A FIRM'S PRICING DECISIONS:

Price is the amount of money charged for a product or service. More broadly, price is the sum of all the value that customers give up in order to gain the benefits of having or using a product or service. Historically, price has been the major factor affecting buyer choice. In recent decades, nonprice factors have gained increasing importance. However, price still remains one of the most important elements determining a firm's market share and profitability.

Price is the only element in the marketing mix that produces revenue; all other elements represent costs. Price is also one of the most flexible marketing mix elements. Unlike product features and channel commitments, prices can be changed quickly.

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The price the company charges will fall somewhere between one that is too high to produce any demand and one that is too low to produce a profit. Customer perceptions of the product's value set the ceiling for prices. If customers perceive that the price is greater than the product's value, they will not buy the product. Product costs set the floor for prices. If the company prices the product below its costs, company profits will suffer.

OTHER INTERNAL AND EXTERNAL CONSIDERATIONS AFFECTING PRICE DECISIONS:

Customer perceptions of value set the upper limit for prices and costs set the lower limit. However, in setting prices within these limits, the company must consider a number of other internal and external factors. Internal factors affecting pricing include the company's overall marketing strategy, objectives, and marketing mix, as well as other organizational considerations. External factors include the nature of the market and demand, competitors' strategies and prices, and other environmental factors.

- **Overall Marketing Strategy, Objectives, and Mix:**

  Price is only on element of the company's broader marketing strategy. Thus, before setting price, the company must decide on its overall marketing strategy for the product or service. If the company has selected its target market and positioning carefully, then its marketing mix strategy, including price, will be fairly straightforward.

  Pricing may play an important role in helping to accomplish company objectives at many levels. A firm can set prices to attract new customers or to profitably retain existing ones. It can set prices low to prevent competition from entering the market or set prices at competitors' levels to stabilize the market. It can price to keep the loyalty and support of resellers or to avoid government intervention. Prices can be reduced temporarily to create excitement for a brand. Or one product may be priced to help the sales of other products in the company's line.

  Price is only one of the marketing mix tools that a company uses to achieve its marketing objectives. Price decisions must be coordinated with product design, distribution, and promotion decisions to form a consistent and effective integrated marketing program. Decisions made for other marketing mix variables may affect pricing decisions.

- **Organizational Considerations:**

  Management must decide who within the organization should set prices. Companies handle pricing in a variety of way. In small companies, prices are often set by top management rather than by the marketing or sales departments. In large companies, pricing is typically handled by divisional or product line managers. In industrial markets, salespeople may be allowed to negotiate with customers within certain price range. Even so, top management sets the pricing objectives and policies, and it often approves the prices proposed by lower-level management or salespeople.

  In industries in which pricing is a key factor (airlines, aerospace, steel, railroads, oil companies), companies often have pricing departments to set the best prices or to help others in setting them. These departments report to the marketing department or top management. Others who have an influence on pricing include sales managers, production managers, production managers, finance managers, and accountants.

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- **The Market Demand:**

  Good pricing starts with an understanding of how customers' perceptions of value affect the prices they are willing to pay. Both consumer and industrial buyers balance the price of a product or service against the benefits of owning it. Thus, before setting prices, the marketer must understand the relationship between price and demand for the company's product. In this section, we take a deeper look at the price-demand relationship and how it varies for different types of markets. We than discuss methods for analyzing the price-demand relationship.

- **Pricing in Different Types of Markets:**

  The seller's pricing freedom varies with different types of markets. Economists recognize four types of markets, each presenting a different pricing challenge.

  Under pure competition, the market consists of many buyer and sellers trading in a uniform commodity such as wheat, copper, or financial securities. No single buyer or seller has much effect on the going market price. A seller cannot charge more than the going price, because buyers can obtain as much as they need at that price. Nor would sellers charge less than the market price, because they can sell all they want at this price. If price and profits rise, new sellers can easily enter the market. In a purely competitive market, marketing research, product development, pricing, advertising , and sales promotion play little or no role. Thus, sellers in these markets do not spend much time on marketing strategy.

  Under monopolistic competition, the market consists of many buyers and sellers who trade over a range of prices rather than a single market price. A range of prices occurs because sellers can differentiate their offers to buyers.

  Under oligopolistic competition, the market consists of a few sellers who are highly sensitive to each other's pricing and marketing strategies. The product can be uniform (steel, aluminium) or nonuniform (care, computers). There are few sellers because it is difficult for new sellers to enter the market. Each seller is alert to competitors' strategies and moves. If a steel company slashes its price by 10 percent, buyers will quickly switch to this supplier. The other steelmakers must respond by lowering their prices or increasing their services.

- **Competitors' Strategies and Prices:**

  In setting its prices, the company must also consider competitors' costs, prices, and market offerings. Consumers will base their judgments of a product's value on the prices that competitors charge for similar products. A consumer who is thinking about buying a Canon digital camera will evaluate Canon's customer value and price against the value and prices of comparable products made by Kodak, Nikon, Sony, and others.

  In addition, the company's pricing strategy may affect the nature of the competition if faces. If Canon follows a high-price, high-margin strategy, it may attract competition. A low-price, low-margin strategy, however, may stop competitors or drive them out of the market. Canon needs to benchmark it costs and value against competitors' costs and value. It can then use these benchmarks as a starting point for its own pricing.

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Next, how strong are current competitors and what are their current pricing strategies? If the company faces a host of smaller competitors charging high prices relative to the value they deliver, it might charge lower prices to drive weaker competitors out of the market. If the market is dominated by larger, low-price competitors, the company may decide to target unserved market niches with value-added products at higher prices.

Finally, the company should ask, how does the competitive landscape influence customer price sensitivity? For example, customers will be more price sensitive if they see few differences between competing products. They will buy whichever product costs the least. The more information customers have about competing products and prices before buying, the more price sensitive they will be. Easy product comparisons help customers to assess the value of different options and to decide what prices they are willing to pay. Finally, customers will be more price sensitive if they can switch easily from one product alternative to another.

- **Other External Factors:**

When setting prices, the company also must consider a number of other factors in its external environment. Economic conditions can have a strong impact on the firm's pricing strategies. Economic factors such as boom or recession, inflation, and interest rates affect pricing decisions because they affect both consumer perceptions of the product's price and value and the costs of producing a product

The company must also consider what impact its prices will have on other parties in its environment. How will resellers react to various prices? The company should sett prices that give resellers a fair profit, encourage their support, and help the to sell the product effectively. The government is another important external influence on pricing decisions. Finally, social concerns may need to be taken into account. In setting prices, a company's short-term sales, market share, and profit goals may need to be tempered by broader societal considerations.

THE END

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