VIDYAPITH ACADEMY

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BUSINESS MANGEMENT

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QUANTITATIVETECHNIQUES

MeaningandDefinition:

Quantitative techniques may be defined as those techniques which provide the decision makes a systematic and powerful means of analysis, based on quantitative data. It is a scientificmethodemployedforproblem solvinganddecisionmakingbythemanagement. With the help of quantitative techniques, the decision maker is able to explore policies for attaining the predetermined objectives. In short, quantitative techniques are inevitable in decision-making process.

ClassificationofQuantitativeTechniques:

Therearedifferenttypesofquantitativetechniques.Wecanclassifythemintothreecategories. They are:

1. MathematicalQuantitativeTechniques
2. StatisticalQuantitativeTechniques
3. ProgrammingQuantitativeTechniques

MathematicalQuantitativeTechniques:

Atechniqueinwhichquantitativedataareusedalongwiththeprinciplesofmathematicsis known as mathematical quantitative techniques. Mathematical quantitative techniques involve:

1. PermutationsandCombinations:

Permutation means arrangement of objects in a definite order. The number of Arrangements depends upon the total number of objects and the number of objects taken at a time
for arrangement. The number of permutations or arrangements is calculated by using the following formula:-

=n!

nr!

Combinationmeansselectionorgroupingobjectswithoutconsideringtheirorder.The number of combinations is calculated by using the following formula:-

=n!nr!

2. SetTheory:-

Settheoryisamodernmathematicaldevicewhichsolvesvarioustypesofcriticalproblems.

3.

MatrixAlgebra:

Matrixisan orderlyarrangementof certain given numbersorsymbolsin rowsand columns. It is a mathematical device of finding out the results of different types of algebraic operations on the basis of the relevant matrices.

4. **Determinants**:

Itisapowerfuldevicedevelopedoverthematrixalgebra.Thisdeviceisusedforfindingout values of different variables connected with a number of simultaneous equations.

5. **Differentiation**:

Itisamathematicalprocessoffindingoutchangesinthedependentvariablewithreference to a small change in the independent variable.

6. **Integration**:

Integrationisthereverseprocessofdifferentiation.

7. **DifferentialEquation**:

It is a mathematical equation which involves the differential coefficients of the dependent variables.

StatisticalQuantitativeTechniques:

Statisticaltechniquesarethosetechniqueswhichareusedinconductingthestatistical enquiry concerning to certain Phenomenon. They include all the statistical methods beginning from the collection of data till interpretation of those collected data.

Statisticaltechniquesinvolve:

1. **Collectionofdata:**

One of the important statistical methods is collection of data. There are different methods for collecting primary and secondary data.

2. **Measures of Central tendency, dispersion, skewness and Kurtosis**
   MeasuresofCentraltendencyisa method usedforfindinghe average of a serieswhile measures of dispersion used for finding out the variability in a series. Measures of Skewness measures asymmetry of a distribution while measures of Kurtosis measures the flatness of peakedness in a distribution.
3. **CorrelationandRegressionAnalysis**:

Correlation isusedto studythedegreeof relationshipamongtwo ormorevariables.On the other hand, regression technique is used to estimate the value of one variable for a given value of another.

4. **IndexNumbers**:

Index numbers measure the fluctuations in various Phenomena like price, production etc over a period of time, They are described as economic barometers.

5. **TimeseriesAnalysis**:

Analysisoftimeserieshelpsustoknowtheeffectoffactorswhichareresponsiblefor Changes:

6. **InterpolationandExtrapolation**:

Interpolation is the statistical technique of estimating under certain assumptions, the missingfigureswhichmayfallwithintherangeof givenfigures.Extrapolationprovides estimated figures outside the range of given data.

7. **StatisticalQualityControl**

Statistical quality control is used for ensuring the quality of items manufactured. The variationsin qualitybecauseof assignable causesand chance causescanbeknown with the help of this tool. Different control charts are used in controlling the quality of products.

8. **RatioAnalysis**:

Ratioanalysisisusedforanalyzingfinancialstatementsofanybusinessorindustrial concerns which help to take appropriate decisions.

9. **ProbabilityTheory**:

Theoryofprobabilityprovidesnumericalvaluesofthelikelyhoodoftheoccurrenceof events.

10. **TestingofHypothesis**

Testing of hypothesis is an important statistical tool to judge the reliability of inferences drawn on the basis of sample studies. **Programming Techniques**:

Programmingtechniquesarealsocalledoperationsresearchtechniques.Programming techniques are model building techniques used by decision makers in modern times. Programmingtechniquesinvolve:

1. **Linear Programming**:

Linearprogramming technique is used in finding a solution foroptimizing a given objective under certain constraints.

2. **Queuing Theory**:

Queuingtheorydealswithmathematicalstudyofqueues.Itaimsatminimizingcostofboth servicing and waiting.

3. **GameTheory**:

Gametheoryisusedto determine theoptimum strategyin acompetitive situation.

4. **DecisionTheory**:

Thisisconcernedwithmakingsounddecisionsunderconditionsof certainty,riskand uncertainty. 5. **Inventory Theory**:

Inventorytheoryhelpsforoptimizingtheinventorylevels.Itfocusesonminimizingcost associated with holding of inventories.

6. **Networkprogramming**:

Itisatechniqueofplanning,scheduling,controlling,monitoringandco-ordinatinglarge and complex projects comprising of a number of activities and events. It serves as an instrument
in resourceallocationandadjustmentof timeandcostupto theoptimum level.It includes CPM, PERTetc.

7. **Simulation**:
Itisa techniqueoftestingamodelwhichresemblesareallifesituations8.
ReplacementTheory:
It is concerned with the problems of replacement of machines, etc due to their deterioratingefficiencyorbreakdown.Ithelpstodeterminethemosteconomic replacement policy.

9. NonLinear Programming:
It is a programming technique which involves finding an optimum solution to a problem in which some or all variables are non-linear.

10. Sequencing:
Sequencingtoolisusedtodetermineasequenceinwhichgivenjobsshouldbeperformed by minimizing the total efforts.

11. Quadratic Programming:
Quadraticprogrammingtechniqueisdesignedtosolvecertainproblems,theobjective function of which takes the form of a quadratic equation.

12. Branch and Bound Technique
Itisa recentlydevelopedtechnique.Thisisdesigned tosolvethe combinational problemsofdecisionmakingwheretherearelargenumberoffeasiblesolutions.Problems of plant location, problems of determining minimum cost of production etc. are examplesof combinational problems.

FunctionsofQuantitativeTechniques:
Thefollowingaretheimportantfunctionsof quantitativetechniques:
1. Tofacilitatethedecision-makingprocess
2. Toprovidetoolsforscientificresearch
3. Tohelpinchoosinganoptimal strategy
4. Toenable in properdeploymentofresources
5. Tohelpinminimizingcosts
6. Tohelpinminimizingthetotalprocessingtimerequiredforperforminga setofjobs

USESOFQUANTITATETECHNIQUESBusiness and Industry
Quantitativetechniquesrendervaluableservicesinthefieldofbusinessandindustry. Today, all decisions in business and industry are made with the help of quantitative techniques. Some important uses of quantitative techniques in the field of business and industry aregiven below:
1. Quantitative techniques of linear programming is used for optimal allocation of scarce resources in the problem of determining product mix
2. Inventorycontrol techniques are useful individingwhen andhowmuch itemsare tobe purchasesoastomaintainabalancebetweenthecostofholdingandcostoforderingthe inventory

3. Quantitative techniques of CPM, and PERT helps in determining the earliest and the latesttimesfortheeventsandactivitiesofaproject.Thishelpsthemanagementinproper deployment of resources.
4. Decisiontreeanalysisandsimulationtechniquehelpthemanagementintakingthebest possible course of action under the conditions of risks and uncertainty.
5. Queuing theory is used to minimize the cost of waiting and servicing of the customers in queues.
6. Replacement theory helps the management in determining the most economic replacement policy regarding replacement of an equipment.

LimitationsofQuantitativeTechniques:

Even though the quantitative techniques are inevitable in decision-making process, they arenotfreefrom shortcomings.Thefollowing aretheimportantlimitationsof quantitative techniques:

CORRELEATIONANALYSISIntroduction:

In practice,wemaycomeacrosswithlotofsituationswhichneedstatisticalanalysisof either one or more variables. The data concerned with one variable only is called univariate data. ForExample:Price,income,demand,production,weight,heightmarksetcareconcerned with one variable only. The analysis of such data is called univariate analysis. Thedataconcernedwithtwovariablesarecalledbivariatedata.Forexample:rainfall and agriculture; income and consumption; price and demand; height and weight etc. The analysis of these two sets of data is called bivariate analysis.

The date concerned with three or more variables are called multivariate date. For example:agriculturalproductionisinfluencedbyrainfall,qualityofsoil,fertilizeretc.The statistical technique which can be used to study the relationship between two or more variables is called correlation analysis. **Definition**:

Two or more variables are said to be correlated if the change in one variable results in acorresponding change in the other variable.

AccordingtoSimpsonandKafka, “Correlation analysisdealswith the association between two or more variables”.

Lunchoudefines,“Correlation analysisattemptstodeterminethedegreeofrelationship between variables”.

Boddington states that “Whenever some definite connection exists between two or moregroups or classes of series of data, there is said to be correlation.”

Innutshell,correlationanalysisisananalysiswhichhelpstodeterminethedegreeof relationship exists between two or more variables.

CorrelationCoefficient:

Correlation analysisisactuallyanattempttofindanumericalvalue toexpresstheextent of relationship exists between two or more variables. The numerical measurement showing the degree of correlation between two or more variables is called correlation coefficient. Correlation coefficient ranges between -1 and +1.

SIGNIFICANCEOFCORRELATIONANALYSIS

Correlation analysisisof immenseuseinpracticallife becauseofthefollowingreasons:1. Correlation analysis helps us to find a single figure to measure the degree of relationship exists between the variables.

2. Correlationanalysishelpstounderstandtheeconomicbehavior.

3. Correlation analysis enables the business executives to estimate cost, price and other variables.
4. Correlation analysis can be used as a basis for the study of regression. Once we know that two variables are closely related, we can estimate the value of one variable if the value of other is known.
5. Correlation analysis helps to reduce the range of uncertainty associated with decision making. The prediction based on correlation analysis is always near to reality.
6. Ithelpstoknowwhetherthecorrelationissignificantornot.Thisispossiblebycomparing thecorrelationco-efficientwith6PE.It'r'ismorethan6PE,thecorrelationissignificant.

ClassificationofCorrelation

Correlationcanbeclassifiedindifferentways.Thefollowingarethemostimportantclassifications

1. PositiveandNegativecorrelation
2. Simple,partialandmultiplecorrelation
3. Linear and Non-linear correlation

PositiveandNegativeCorrelation

Positive Correlation

When the variables are varying in the same direction, it is called positive correlation. In otherwords,ifanincreaseinthevalue ofonevariableisaccompaniedbyanincreasein the value of othervariable orif adecrease in the valueof one variable isaccompaniedbya decree se in the value of other variable, it is called positive correlation.

E.g.:1) A:10 2030 4050
B:80100150170200
2)X:78 60 5246 38 Y:
2018 1410 5

NegativeCorrelation:

When the variables are moving in opposite direction, it is called negative correlation. In otherwords, if an increase inthevalue of onevariable isaccompanied byadecrease in the value
of othervariable orif adecrease in the valueof one variable isaccompaniedbyan increase in the value of other variable, it is called negative correlation.

E.g.:1)A:510 152025B:
16108 62

2)X:40 3225 2010
Y:235 812

Simple,PartialandMultiplecorrelation

Simple Correlation

Ina correlationanalysis,ifonlytwovariablesarestudied itiscalledsimplecorrelation.

E.g. thestudyof therelationshipbetween price & demand,of aproduct orpriceand supply of a product is a problem of simple correlation.

Multiple correlation

In a correlation analysis, if three or more variables are studied simultaneously, it is called multiplecorrelation.Forexample,whenwestudytherelationshipbetweentheyieldof rice with both rainfall and fertilizer together, it is a problem of multiple correlation.

Partial correlation

In a correlation analysis, we recognize more than two variable, but consider one dependentvariableandoneindependentvariableandkeepingtheotherIndependent variables as constant.
For example yield of rice is influenced b the amount of rainfall and the amount of fertilizer used.
Butif westudythecorrelationbetweenyieldof riceandtheamountof rainfallbykeeping the amount of fertilizers used as constant, it is a problem of partial correlation.

LinearandNon-linearcorrelation

Linear Correlation

In a correlation analysis, if the ratio of change between the two sets of variables is same, then it is called linear correlation.
For example when 10% increase in one variable is accompanied by 10% increase in the other variable, it is the problem of linear correlation.
X:10153060
Y: 50 75150 300
HeretheratioofchangebetweenXandYisthesame. Whenweplotthedataingraph paper, all the plotted points would fall on a straight line.
Non-linearcorrelation
In a correlation analysis if the amount of change in onevariable does not bring the same ratio of change in the other variable, it is called non linear correlation.
X:246 10 15
Y: 810182226
HerethechangeinthevalueofXdoesnot beingthesameproportionatechangeinthe value of Y.

This is the problem of non-linear correlation, when we plot the data on a graph paper, the plotted points would not fall on a straight line.
Degreesofcorrelation:
Correlationexistsinvariousdegrees
1. Perfectpositivecorrelation
If anincrease in the value of one variable isfollowed bythe sameproportionof increasein other related variable or if a decrease in the value of one variable is followed by the same proportion of decreasein other related variable, it is perfectpositivecorrelation.eg: if 10% rise in price of a commodity results in 10% rise in its supply, the correlation is perfectly positive. Similarly, if 5% full in price results in 5% fall in supply, the correlation is perfectly positive.
2. PerfectNegativecorrelation
If anincrease in the value of one variable isfollowed bythe sameproportionof decrease in other related variable or if a decrease in the value of one variable is followed by the same proportionofincreaseinotherrelatedvariablyitisPerfectNegativeCorrelation.For example if 10% rise in price results in 10% fall in its demand the correlation is perfectly negative. Similarly if 5% fall in price results in 5% increase in demand, the correlation is perfectly negative.
3. LimitedDegreeofPositivecorrelation:
Whenanincreaseinthevalue ofonevariableisfollowedbya non-proportionalincreasein other related variable, or when a decrease in the value of one variable is followed by a no

proportionaldecrease in otherrelated variable, it iscalledlimited degree of positive correlation.Forexample,if 10%riseinpriceofacommodityresultsin5%riseinits supply, it is limited degree of positive correlation. Similarly if 10% fall in price of a commodity results in
5%
fallinitssupply,itislimiteddegreeofpositivecorrelation.

4. LimiteddegreeofNegative correlation

Whenanincreaseinthevalue ofonevariableisfollowedbya non-proportionaldecrease in other related variable, or when a decreasein the value of one variable is followed by a no proportional increase in other related variable, it is called limited degree of negative correlation.

For example, if 10% rise in price results in 5% fall in its demand, it is limited degree of negativecorrelation.Similarly,if 5%fallinpriceresults in10%increaseindemand,itis limited degree of negative correlation.

5. ZeroCorrelation (ZeroDegree correlation)

If there is no correlation between variables it is called zero correlation. In other words, if the values of one variable cannot be associated with the values of the other variable, it is zero correlation.

Methodsofmeasuringcorrelation

Correlation between2variablescanbemeasuredbygraphicmethodsandalgebraic methods. I Graphic Methods

1) ScatterDiagram
2) Correlationgraph

II Algebraicmethods(MathematicalmethodsorstatisticalmethodsorCo-efficientof correlation methods):

1) KarlPearson’sCo-efficientof correlation
2) SpearmansRankcorrelationmethod
3) Concurrentdeviationmethod

Scatter Diagram

Thisisthesimplestmethodforascertainingthecorrelationbetweenvariables.Underthis method all the values of the two variable are plotted in a chart in the form of dots.
Therefore,itis
also known as dotchart. Byobservingthe scatter of the various dots,we canform an idea that whether the variables are related or not.

Ascatterdiagramindicatesthedirectionof correlation andtellsushowcloselythetwo variables under study are related. The greater the scatter of the dots, the lower is the relationship Y
x
x
x
x
x
x
x
x
0 X
PerfectPositiveCorrelation
Y
x
x
x
x
x
x
x
x

MeritsofScatterDiagrammethod

1. Itisasimplemethodof studyingcorrelationbetween variables.
2. Itisanon-mathematicalmethodofstudyingcorrelationbetweenthevariables.Itdoesnot require any mathematical calculations.

3. It isveryeasyto understand. It givesan ideaabout the correlationbetween variables even to a layman.
4. It isnot influenced bythesize of extreme items.
5. Makinga scatterdiagram is,usually,thefirststepininvestigatingtherelationship between two variables.

DemeritsofScatterdiagrammethod

1. Itgivesonlya rough ideaaboutthe correlationbetween variables.
2. Thenumericalmeasurementofcorrelationco-efficientcannotbecalculatedunderthis method.
3. Itisnotpossibletoestablishtheexactdegreeof relationshipbetweenthe variables.

Correlation graphMethod

Undercorrelationgraphmethodtheindividualvaluesof thetwovariablesareplottedona graph paper. Then dots relating to these variables are joined separately so as to get two curves. By examining the direction and closeness of the two curves, we can infer whether the variables arerelated ornot.If both the curvesaremovingin the same direction(either upward or downward) correlation is said to be positive. If the curves are moving in the opposite directions, correlation is said to be negative.

Merits of CorrelationGraphMethod

1. Thisisasimplemethodofstudyingrelationshipbetweenthevariable
2. Thisdoesnotrequiremathematicalcalculations.3.Thismethodis very easy to understand **Demerits of correlation graph method**:
1. Anumericalvalueof correlationcannotbe calculated.
2. Itisonlyapictorialpresentationof therelationshipbetween variables.
3. Itisnotpossibletoestablishtheexactdegreeof relationshipbetweenthe variables.

KarlPearson'sCo-efficientofCorrelation

Karl Pearson's Coefficient ofCorrelation is the most popular method among the algebraicmethods for measuring correlation. This method was developed by Prof. Karl Pearson in 1896.Itisalsocalledproductmomentcorrelation coefficient.

Pearson'scoefficientof correlationisdefinedastheratioof thecovariancebetweenXand Y to the product of their standard deviations. This is denoted by 'r' or r_{xy} r =CovarianceofXandY
(SD of X) x (SD of Y)

InterpretationofCo-efficientof Correlation

Pearson's Co-efficientof correlationalways lies between+1and -1.Thefollowinggeneral rules will help to interpret the Co-efficient of correlation:

1. Whenr -+1, Itmeansthereis perfectpositiverelationship between variables.
2. Whenr=-1, itmeansthereis perfectnegative relationshipbetween variables.
3. Whenr= 0, itmeansthere is norelationshipbetweenthe variables.
4. When'r'iscloserto+1,itmeansthereishighdegreeofpositivecorrelationbetween variables.
5. When'r'iscloserto–1,itmeansthereishighdegreeofnegativecorrelationbetween variables.6.When'r'iscloserto'O',itmeansthereislessrelationshipbetweenvariables.

PropertiesofPearson'sCo-efficientof Correlation

1. Ifthereiscorrelationbetweenvariables,theCo-efficientofcorrelationliesbetween+1and -1.

2. Ifthereisnocorrelation,thecoefficientofcorrelationisdenotedbyzero(ier=0)
3. Itmeasuresthe degreeanddirectionof change
4. Ifsimplymeasuresthecorrelationanddoesnot help topredict cansation.
5. Itisthegeometricmean oftworegression co-efficients.

i.e. r =·

ComputationofPearson'sCo-efficientofcorrelation:

Pearson'scorrelationco-efficientcanbecomputedindifferentways.Theyare: a Arithmetic mean method b Assumed mean method c Direct method **Arithmetic mean method**:-

Underarithmeticmeanmethod,co-efficientofcorrelationiscalculatedbytakingactualmean.

r =
orr
=

whereasx-x-and y=y-

CalculatePearson'sco-efficientof correlationbetweenageandplayinghabitsof students: Age: 20 21 22 23 24 25

No.ofstudents500400300240200160

Regularplayers400300180966024

LetX= AgeandY= Percentageofregular players

Percentage of regularplayers canbe calculatedasfollows:- 400 x 100 = 80; 300 x 100 = 75; 180 x 100 = 60; 96 x 100 = 40 ,
500400300240

100 =30;and
100 15

Pearson'sCoefficient of Correlation(r)=
Σ.Σ.

ComputationofPearson'sCoefficientof correlation

Agex
% of Regular Playery

(x-22.5)

(y-50)
)

2080 -2.530 -75.0 6.25900
2175 -1.525 -37.5 2.25625
2260-0.5 10-5.0 0.25100
2340 0.5-10-5.0 0.25100
24301.5-20 -30.0 2.25400
25152.5-35 -87.5 6.251225
135300-24017.503350

==

=22.5

=

==

50r=

√.=

√, = √. = -0.9912

Assumedmeanmethod:

Underassumedmeanmethod,correlationcoefficientiscalculatedbytakingassumean only. r =

Where dx =deviations ofX fromitsassumedmean;dy=deviationsofy fromitsassumed mean

Findoutcoefficientofcorrelationbetweensizeanddefectinqualityof shoes: Size :
15-16 16-17 17-18 18-19 19-20 20-21
No. ofshoes
Produced:200270340360400300
No.ofdefectives:150162170180180114 Let x
= size (ie mid-values) y
=percentageofdefectives
xvaluesare15.5,16.5, 17.5,18.5,19.5 and20.5
yvalues are 75,60,50, 50,45 and38 Take
assumed mean: x = 17.5 and y = 50

ComputationofPearson'sCoefficientof Correlation

xydxdydxdydx2dy215.575-225-50 4625
16.560-110-101 100
17.5 50000 00
18.5 50100 10
19.5452-5-10 425
20.5383-12-369 144
3
18
106

19

894

r

=

√r=

=

=

=

. = -0.9485 Direct
Method:
Underdirectmethod,coefficientofcorrelationiscalculatedwithouttakingactualmeanor assumed mean r =

Fromthefollowingdata,computePearson'scorrelationcoefficient:
Price : 10 12 14 15 19
Demand(Qty)4041486050
Letus takeprice= xanddemand= y

ComputationofPearson'sCoefficientofCorrelation

Price
(x)
Demand
(y) xy$x^2$$y^2$
10404001001600
12414921441681
14 486721962304
15 609002253600
19509503612500
=70=239xy3414x1026y11685

School of Distance Education
QuantitativeTechniquesforBusiness22 r
=

r=

r=
,,
√√=. =+0.621

ProbableErrorandCoefficientofCorrelation

Probableerror(PE)oftheCo-efficientof correlationisa statisticaldevicewhichmeasures the reliability and dependability of the value of co-efficient of correlation. Probable Error =

standarderror
=0.6745xstandarderror
Standard Error (SE) =

√
PE =0.674512
√

If the value of coefficient of correlation (r) is less than the PE, then there is no evidence ofcorrelation.
If the value of ‘r’ismore than6 timesof PE, the correlation iscertain and significant.By adding and submitting PE from coefficient of correlation, we can find out the upper and lowerlimits withinwhichthepopulationcoefficientofcorrelationmaybeexpectedtolie. **Uses of PE**:

1) PE is used to determine the limits within which the population coefficient of correlation may be expected to lie.
2) Itcanbeusedtotestwhetherthevalueofcorrelationcoefficientofasampleis significant with that ofthe population

If r=0.6andN=64,findoutthePEandSEof thecorrelationcoefficient.Alsodeterminethe limits of population correlation coefficient.
Sol:r=0.6 N=64

PE = 0.6745SE
SE=

√
=.
√.
=.=0.08
P.E =0.67450.08
=0.05396
LimitsofpopulationCorrelationcoefficient=rPE
=0.60.05396
=0.54604to0.6540
Qn. 2rand PEhave values0.9and0.04fortwo series. Find n. Sol: PE
= 0.04
0.6745
√0.04
.
√=.
.
.
√=0.0593.
√=0.0593
0.0593√= 0.19
√..
√3.2
N=3.2=10.266
N=10

Coefficient of Determination

One veryconvenient and useful wayof interpreting the value of coefficient of correlation is theuseof thesquareof coefficientof correlation.Thesquareof coefficientofcorrelationis called coefficient of determination.

Coefficientofdetermination= r^2

Coefficient ofdeterminationis theratioof theexplained varianceto thetotal variance.For example, suppose the value of r = 0.9, then r^2 = 0.81=81%

Thismeansthat 81%of thevariation in thedependentvariable has beenexplainedby (determined by) the independent variable. Here 19% of the variation in the dependent variable

hasnotbeenexplainedbytheindependentvariable.Therefore,this19%iscalled coefficient of non-determination.

Coefficient of non-determination (K^2) = 1 – r^2

K^2=1-coefficientofdetermination

Qn:Calculatecoefficientofdeterminationandnon-determinationifcoefficientof correlation is 0.8 Sol:- r =0.8

Coefficientofdetermination=

=0.8^2=0.64=64%

Coefficientofnon-determination=1-

=1-0.64

=0.36

=36%

MeritsofPearson’sCoefficientof Correlation:-

1. Thisisthemostwidelyusedalgebraicmethodtomeasurecoefficientof correlation.
2. Itgivesanumericalvalue toexpresstherelationshipbetweenvariables
3. Itgivesbothdirectionanddegreeof relationshipbetweenvariables
4. Itcanbeusedforfurtheralgebraictreatmentsuchascoefficientofdeterminationcoefficient of non-determination etc.
5. Itgivesa singlefiguretoexplaintheaccuratedegreeofcorrelationbetweentwovariables

DemeritsofPearson’sCoefficientofcorrelation

1. Itisverydifficult tocomputethe valueofcoefficientofcorrelation.
2. It is very difficult to understand

3. Itrequirescomplicatedmathematicalcalculations
4. Ittakesmoretime
5. Itisundulyaffected byextremeitems
6. It assumes a linear relationship between the variables. But in real life situation, it may not be so.

Spearman’sRankCorrelationMethod

Pearson’scoefficientof correlationmethodisapplicablewhenvariablesaremeasuredin quantitative form. But there were many cases where measurement is not possible because of the Qualitative nature of the variable. For example, we cannot measure the beauty, morality, intelligence, honesty etc in quantitative terms. However it is possible to rank these qualitative characteristics in some order.

Thecorrelationcoefficientobtainedfromranksof thevariablesinsteadoftheirquantitative measurement is called rank correlation. This was developed by Charles Edward Spearman in 1904.

Spearman’scoefficientcorrelation(R)= 1-

WhereD=differenceof ranksbetweenthetwo variables N =
number of pairs
Qn: Findthe rankcorrelationcoefficientbetweenpovertyand overcrowdingfromthe information given below: Town: A B C D E F G H I J
Poverty: 17131516611149712
Overcrowing: 36 4635241218272228
Sol:Hereranksarenot given. Hence wehave toassign ranks
R=1-
N=10

ComputationofrankcorrelationCo-efficient
TownPovertyOvercrowdingR_1R_2 DD_2
A17361 211
B13465 1416
C15353 3 00
D16242 5 39
E612 10824
F11187 700
G142744 00
H922 8624
I7291011
J1286939
44
R =1-

=1-
=1-0.2667
=
+0.7333
Qn:- Followingweretheranksgivenbythreejudgesinabeautycontext.Determinewhich pair of judges has the nearest approach to Common tastes in beauty.
JudgeI: 165 10 32497 8
JudgeI: 358 47 10 216 9
JudgeI:64 981 23 105 7
R=1=

N=10

ComputationofSpearman’sRankCorrelationCoefficient Judge I
(R_1)
JudgeII
(R_2)
JudgeIII
(R_3)

R_1-
$R_2(D_1)$
R_2-
$R_3(D_2)$
R_1-$R_3(D_3)$

1362354 925
6541121 14
5893149 116
10 4 8 64 236164
37146216 364
2102 88 064640
4232114 11
9 1 1089 164811
7 65112114
8 97121141
20021460
R =1-

RankcorrelationcoefficientbetweenI&II=

=1-
=1-1.2121
=-0.2121
RankcorrelationCoefficientbetweenII&IIIjudges=1-

=1-

=-0.297
RankcorrelationcoefficientbetweenI&IIjudges=1-

=1

=1-0.364
=+0.636

The rankcorrelation coefficientin case of I &III judgesisgreaterthan the othertwo pairs. Therefore, judgesI &III have highestsimilarityof thoughtand have the nearestapproach to common taste in beauty.

Qn:The Co-efficientof rankcorrelationof themarksobtainedby10students instatistics& English was 0.2. It was later discovered that the difference in ranks of one of the students was wrongly takes as 7 instead of 9 Find the correct result. R = 0.2

R=1-62

=0.2
.=

10310.
=

6Σ=900.8=792
CorrectΣ=
=132-7+9
=164
CorrectR1=

=1-
=1-

=1-0.9939
=0.0061
Qn:The coefficient of rankcorrelationbetween marksin English andmathsobtainedbya group students is 0.8. If the sum of the squares of the difference in ranks is given to be 33, find the number of students in the group.
Sol:R=1-

= 0.8ie, 1-
=0.8
1-08=
0.2(-N)=198

N^3 - N =
.990
N=10

ComputationofRank CorrelationCoefficientwhen Ranksare Equal

There maybe chancesof obtainingsame rank for two or more items. In such a situation, it is required to give average rank for all. Such items. For example, if two observations got 4th rank, each of those observations should be given the rank 4.5 (i.e
4.5)
Suppose4 observationsgot 6thrank,herewe havetoassign the rank, 7.5 (ie.

toeachofthe 4observations.
Whenthereisequalranks, we have toapplythefollowingformula tocompute rank correlation coefficient:- R= 1-

....

WhereD-Differenceofrankinthetwoseries N -
Total number of pairs
m- Numberoftimeseachrank repeats
Qn:- Obtainrankcorrelation co-efficientfor thedata:- X
: 686475506480754055664
Y: 625868458160684850070
Here, ranksarenot given we have toassign ranksFurther,thisisthe caseof equalranks. R= 1-
6Σ2 1
123..............
3
R=1-

....

Computationofrankcorrelationcoefficientx y

R1 R2 D(R1-R2) D2					
68	624 5 11				
64	586 7 11				
75	682.5 3.511				
50	459 1011				
54	816 1 525				
80	601 6 525				
75	682.5 3.511				
40	48 10911				
55	508 8 00				
64	706 2 416				

Σ72R=1-

=1-

=1-

=1-

=1-

=1-0.4545
=0.5455

MeritsofRank Correlationmethod

1. Rank correlation coefficient is only an approximate measure as the actual values are not used for calculations
2. It isverysimple tounderstandthe method.
3. It canbeapplied toanytype ofdata, iequantitative and qualitative
4. It is the onlywayof studying correlation between qualitative data such as honesty, beauty etc.
5. Asthesumofrankdifferencesofthetwoqualitativedataisalwaysequaltozero,this method facilitates a cross check on the calculation.

Demerits ofRankCorrelationmethod

1. Rankcorrelationcoefficientisonlyanapproximate measure as the actual values are not used for calculations.
2. Itisnotconvenientwhennumberofpairs(ie.N)islarge
3. Furtheralgebraictreatmentisnotpossible.
4. Combinedcorrelationcoefficientofdifferentseriescannotbeobtainedasinthecase of mean and standard deviation. In case of mean and standard deviation, it is possible to compute combine arithmetic mean and combined standard deviation.

ConcurrentDeviationMethod:

Concurrentdeviationmethodisa verysimplemethodofmeasuringcorrelation.Underthis method, we consider only the directions of deviations. The magnitudes of the values are completely ignored. Therefore, this method is useful when we are interested in studying correlation between two variables in a casual manner and not interested in degree (or precision). Under this method, the nature of correlation is known from the direction of deviation in the valuesof variables.If deviationsof 2 variables areconcurrent,then theymove in the same direction, otherwise in the opposite direction.

Theformulaforcomputing thecoefficientofconcurrentdeviationis:- r =

WhereN=No.ofpairs ofsymbol

C=No.ofconcurrentdeviations(ie, No.of +signsin 'dxdy'column) **Steps:**

1. Everyvalue of 'X'series iscompared withitsproceeding value.Increase isshown by '+' symbol and decrease is shown by '-'
2. The abovestep is repeatedfor'Y' seriesandweget 'dy'
3. Multiply'dx'by'dy'andtheproductisshowninthenextcolumn.Thecolumnheading is 'dxdy'.
4. Take the totalnumberof '+'signsin 'dxdy'column. '+'signsin 'dxdy' column denotes the concurrent deviations, and it is indicated by 'C'.
5. Applytheformula:r =

If2c, 2, .

Qn:-Calculatecoefficient ifcorrelationbyconcurrentdeviationmethod:-Year :200320042005200620072008200920102011

Supply:160164172182166170178192186

Price:292280260234266254230190200

Sol:ComputationofcoefficientofconcurrentDeviation

Supply(x)Price(y)dxdydxdy 160
292 + - -
164280+- -
172260+- -
182234+- -
166266- + -
170254+- -
178230+- -
192190+- -
186200-+-C=
0**r**=

=

=

==
=-1

Itisveryeasyto calculatecoefficientofcorrelation
2. It isverysimpleunderstandthe method
3. Whenthenumberofitemsisverylarge,thismethodmaybeusedtoformquickideaabout the degree of relationship
4. This method is more suitable, when we want to know the type of correlation (ie, whether positive or negative).

Demeritsofconcurrentdeviationmethod:

1. Thismethodignoresthemagnitudeofchanges.Ie.Equalweightisgiveforsmallandbig changes.
2. The result obtained by this method is only a rough indicator of the presence or absence of correlation
3. Furtheralgebraictreatmentisnot possible
4. Combinedcoefficientof concurrentdeviationof differentseriescannotbefoundasinthe case of arithmetic mean and standard deviation.

MANAGEMENTINFORMATIONSYSTEM

A **management information system** (**MIS**) provides information that organizations require to manage themselves efficiently and effectively. Management informationsystems are typicallycomputersystemsusedformanaging. Thefive primarycomponents:1.)Hardware,

2.) Software,

3.) Data(informationfordecisionmaking),

4.) Procedures(design,developmentanddocumentation),and

5.) People(individuals,groups,ororganizations).

Management information systems are distinct from other information systems because they are used to analyze and facilitate strategic and operationalactivities.Academically, the term iscommonlyusedtorefertothestudyofhowindividuals,groups,andorganizationsevaluate, design,implement,manage,andutilizesystemstogenerateinformationtoimproveefficiency and effectiveness of decision making, including systems termed decisionsupport systems,expert systems, and executive information systems

Most business schools (or colleges of business administration within universities) have an MISdepartment,alongsidedepartmentsofaccounting,finance,management,marketing,and sometimes others, and grant degrees (at undergrad,masters, and PhD levels) in MIS.

A MIS gives business managers the information they need to make decisions and solve problems, while facilitating data from different aspects of a project.[3]Early business computerswereusedforsimpleoperationssuchastrackinginventory,billing,sales,orpayroll data, with little detail or structure[4](see EDP).

Over time, these computer applications became more complex and previously isolatedapplications, such as card systems and magnetic storage, became connected in the 1980s andallowedawaytonetworktheinformationtogether.Withgreatercomputingcapabilityand the networks to link the necessary information, MIS became a standard among many companies.[5]

Originally,MISdescribedapplicationsprovidingmanagerswithinformationaboutsales, inventories, and other data that would help in managing the enterprise.

Over time, the term broadened to include: decision support systems,resourcemanagement and human resource management,enterprise resource planning,enterpriseperformancemanagement,supply chain management,customer relationship management,projectmanagement and database retrieval applications.

Managementinformationsystemsencompassabroadandcomplextopic.

To make this topic more manageable, boundaries will be defined. First, because of the vast numberofactivitiesrelatingtomanagementinformationsystems,atotalreviewisnotpossible. Those discussed here is only a partial sampling of activities, reflecting the author's viewpoint of the more common and interesting developments.

Likewise where there were multiple effects in a similar area of development, only selected ones will be used to illustrate concepts. Thisis not to implyone effort ismore important than another.

Also,themainfocusofthispaperwillbeoninformationsystemsforuseatthefarmleveland to some lesser extent systems used to support researchers addressing farm level problems (e.g.,simulationoroptimizationmodels,geographicinformationsystems,etc.)andthose used to support agribusiness firms that supply goods and services to agricultural producers and the supply chain beyond the production phase.

Secondly,thereareseveralframeworksthatcanbeusedtodefineanddescribemanagement information systems. More than one will be used to discuss important concepts. Because more than one is used, it indicates the difficult of capturing the key concepts of what is a management information system. Indeed, what is viewed as an effective and useful management information system is one environment may not be of use or value in another.

Lastly,thehistoricalperspectiveofmanagementinformationsystemscannotbeignored.This perspectivegivesasenseofhowthesesystemshaveevolved,beenrefinedandadaptedas new technologies have emerged, and how changing economic conditions and other factors have influenced the use of information systems.

Before discussing management information systems, some time-tested concepts should be reviewed. Davis offers a commonly used concept in his distinction between data and information. Davis defines data as raw facts, figures, objects, etc.

Information is used to make decisions. To transform data into information, processing is neededanditmustbedonewhileconsideringthecontextofadecision.Weareoftenawash indatabutlackinggoodinformation.However,thesuccessachievedinsupplyinginformation to decision makers is highly variable.

Barabba, expands this concept by also adding inference, knowledge and wisdom in his modificationof Haechel'shierarchywhichplaceswisdom atthehighestlevelanddataatthe lowest. As one moves up the hierarchy, the value is increased and volume decreased.

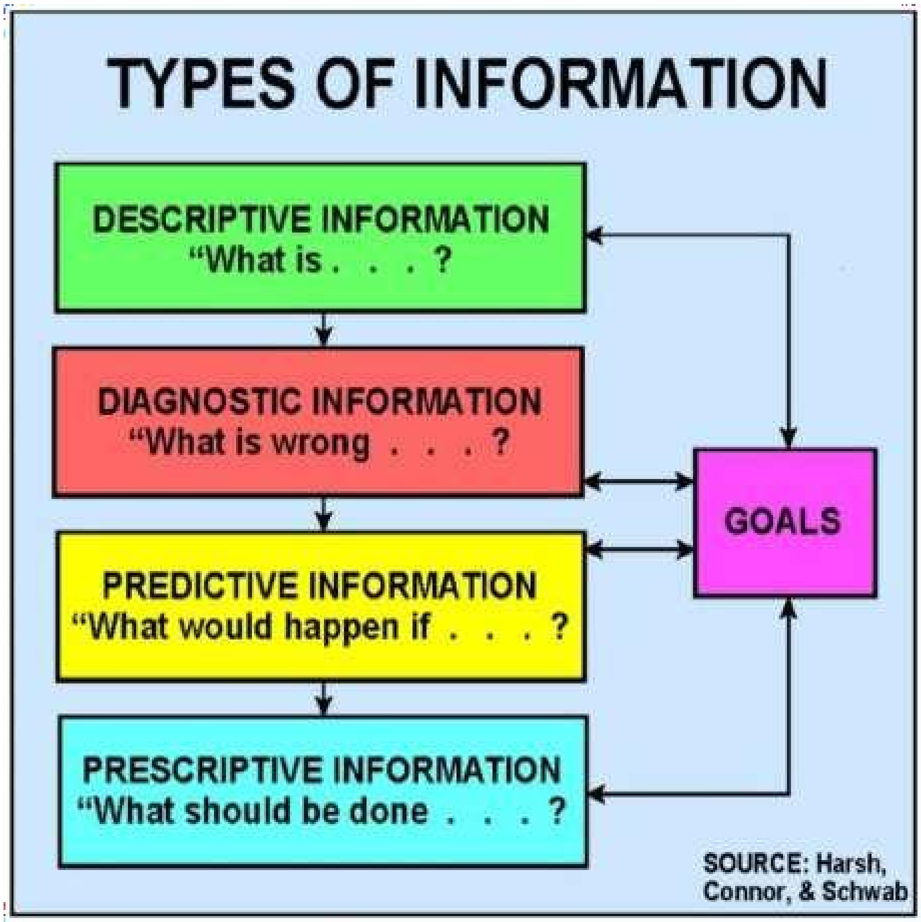
Thus, as one acquires knowledge and wisdom the decision making process is refined. ManagementinformationsystemsattempttoaddressalllevelsofHaechel'shierarchyaswell as converting data into information for the decision maker.

AsbothBarabbaandHaechelargue,however,justsupplyingmoredataandinformationmay actually be making the decision making process more difficult. Emphasis should be placed on increasing the value of information by moving up Haechel's hierarchy.

Another important concept from Davis and Olsen is the value if information. They note that “in general, the value of information is the value of the change in decision behavior caused by the information, less the cost of the information.”

This statement implies that information is normally not a free good. Furthermore, if it does not change decisions to the better, it may have no value. Many assume that investing in a “better” management information system is a sound economic decision.

Sinceitispossiblethatthebettersystemmaynotchangedecisionsorthecostof implementing the better system is high to the actual realized benefits, it could be a bad



investment. Also, since before theinvestmentismade,itishard to predict the benefits and costs of the better system, the investment should be viewed as one with risk associated with it.

Another approach for describing information systems is that proposed by Harsh and colleagues. They define information as one of four types and allthese types areimportant component of a management informationsystem.Furthermore, the various types build upon and interact with each other. A common starting level is Descriptive information. Informationportraysthe"whatis" condition of a business, and it describes the state of the business at a specified point in time.

Descriptive information is very importanttothebusinessmanager,becausewithoutit,manyproblemswouldnotbeidentified.

Descriptive information includes a variety of types of information including financial results, production records, test results, product marketing, and maintenance records.

Descriptive information can also be used as inputs to secure other needed types of information.Forexample,"whatis"informationisneededforsupplyingrestraintsinanalyzing farm adjustment alternatives.

It can also be used to identify problems other than the "what is" condition. Descriptive information is necessary but not completely sufficient in identifying and addressing farm management problems.
Thesecondtypeofinformationisdiagnosticinformation,Thisinformationportraysthis "what is wrong" condition, where "what is wrong" is measured as the disparity between "what is" and "what ought to be."

This assessment of how things are versus how they should be (a fact-value conflict) is probably our most common management problem. Diagnostic information has two major uses. It can first be used to define problems that develop in the business.

Are production levels too low? Is the rate earned on investment too low? These types of question cannot be answered with descriptive information alone (such as with financial and production records).

A manager may often be well supplied with facts about his business, yet be unable to recognize this type of problem. The manager must provide norms or standards which, when compared with the facts for a particular business, will reveal an area of concern.

Onceaproblemhasbeenidentified,amanagermaychooseanappropriatecourseofaction fordealingwiththeproblem(includingdoingnothing).Correctivemeasuresmaybetakenso as to better achieve the manager's goals.

Several pitfalls are involved for managers in obtaining diagnostic information. Adequate, reliable,descriptiveinformationmustbeavailablealongwithappropriatenormsorstandards for particular business situations. Information is inadequate for problem solving if it does not fully describe both "what is" and "what ought to be."

As description is concerned with "what is" and diagnostics with "what is wrong," prediction is concerned with "what if…?" Predictive information is generated from an analysis of possible future events and is exceedingly valuable with "desirable" outcomes. With predictive information, one either defines problems or avoids problems in advance. Prediction also assists in analysis.

When a problem is recognized, a manager will analyze the situation and specify at least one alternative (including doing nothing) to deal with it.

Predictive information is needed by managers to reduce the risk and uncertainty concerning technology,prices,climate,institutions,andhumanrelationshipsaffectingthebusiness.Such information is vital in formulating production plans and examining related financial impacts.

Predictive information takes many forms. What are the expected prices next year? What yields are anticipated? How much capital will be required to upgrade production technologies?Whatwouldbethedifferenceinexpectedreturnsinswitchingfromalivestock farm to a cropping farm? Management has long used various budgeting techniques, simulation models, and other tools to evaluate expected changes in the business.

Withoutdetractingfromtheimportanceofproblemidentificationandanalysisinmanagement, thecruxofmanagementtasksisdecisionmaking.Foreveryproblemamanagerfaces,there is a "right" course of action.
However,therightnessofadecisioncanseldom,ifever,bemeasuredinabsoluteterms.The choiceisconditionallyright,dependinguponafarmmanager'sknowledge,assumptions,and conditions he wishes to impose on the decision.

Prescriptive information is directed toward answering the "what should be done" question. Provision of this information requires the utilization of the predictive information.

Predictive information by itself is not adequate for decision making. An evaluation of the predicted outcomes together with the goals and values of the manger provides that basisfor making a decision.

For example, suppose that a manager is considering a new changing marketing alternative. Thenewalternativebeingconsideredhashigher"predicted"returnsbutalsohashigherrisks and requires more management monitoring.

The decision as to whether to change plans depends upon the managers evaluation of the worth of additional income versus the commitment of additional time and higher risk. Thus, the goals and values of a farm manager will ultimately enter into any decision

HISTORICALPERSPECTIVE

The importance of management information systems to improve decision making has longbeen understood by farm management economists.

Financialandproductionrecordshavelongbeenusedbytheseeconomistsasaninstrument to measure and evaluate the success of a farm business.

However, when computer technology became more widely available in the late 1950s and early 1960s, there was an increased enthusiasm for information systems to enhance management decision processes.

At an IBM hosted conference, Ackerman, a respected farm management economist, stated that:

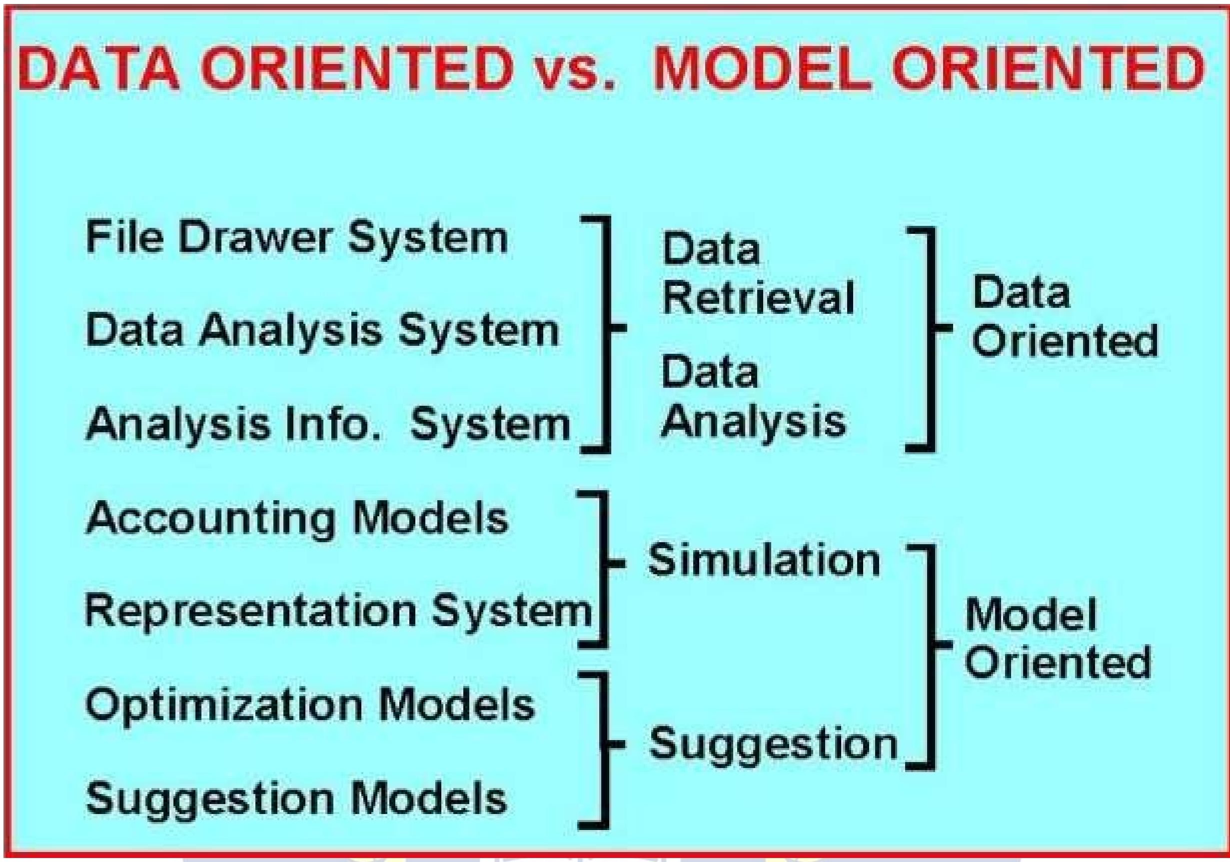
“Theadvancesthathavetakenplaceincalculatingequipmentandmethodsmakeitpossible todeterminetherelationshipbetweenultimateyields,timeofharvestandclimaticconditions during the growing season.

Relationship between the perspective and actual yields and changing prices can be established. With such information at hand the farmer should be in a position to make a decision on his prediction with a high degree of certainty at mid-season regarding his yield and income at harvest time.”

Thisstatement,madein1963,reflectstheoptimismthatprevailedwithrespecttoinformation systems. Even though there was much enthusiasm related to these early systems they basically concentrated on accounting activities and production records.

ExamplesincludetheTelFarmelectronicaccountingsystematMichiganStateUniversityand DHIAfordairyoperations.These earlysystems relieved on largemainframe computers with the data being sent to a central processing center and the reports send back to the cooperating businesses.

To put these early efforts into a management information system framework, the one proposed by Alder (House,ed.) is useful. They would be defined as data oriented systems with



limited data analysis capabilities beyond calculating typical ratios (e.g., return on assets, milk per cow, etc.).

By the mid 1960s it became clear that the accounting systems were fairly effective in supplying descriptive and diagnostic information but they lacked the capacity to provide predictive and prescriptive information.

Thus,a new approach was needed –a method of doing forward planning or a management information system that was more model oriented. Simulation models for improving management skills and testing system interaction were developed.

Asanexample,Kuhlmann,GiessenUniversity,developedaveryrobustandcomprehensive wholefarmsimulationmodel(SIMPLAN)thatexecutedonamainframecomputer.Thismodel wasbased on systemsmodelingmethodsthat couldbe used to analyze different production strategies of the farm business.

To be used by managers, however, they often demanded that the model developer work closely with them in using the model.

Another important activity during this period was the “Top-Farmer Workshops” developed by Purdue University. They used a workshop setting to run large linear-programming models on mainframe computers (optimization models) to help crop producers find more efficient and effective ways to operate their business.

Asmainframetimesharecomputersemergedinthemid-1960's,Ibecamepossibletoremotely access the computer with a terminal and execute software.

Systems such TelPlan developed by Michigan State University made it possible for agricultural producers to run a farm related computer decision aids. Since this machine was shared by many users, the cost for executing an

griculturallyrelateddecisionaidwasrelativelyinexpensiveandcosteffective.Thesedecision aids included optimization models (e.g., least cost animal rations) budgeting and simulation models, and other types of decision aids.

These decision aids could be accessed by agricultural advisor with remote computer terminals (e.g., Teletype machine or a touch-tone telephone). These advisors used these computer models at the farm or at their own office to provide advice to farm producers.

Thesewere excitingtimeswith manypeoplebecominginvolved in thedevelopment,testing, refining, and implementation of information systems for agriculture. Computer technology continued to advance at a rapid pace, new communication systems were evolving and the application of this technology to agriculture was very encouraging.

Because of the rapid changes occurring, there were international conferences held where much of the knowledge learned in developing these systems was shared. One of the first of these was held in Germany in the mid-1980s.

It was also clear from these early efforts that the data oriented systems where not closely linked to themodeloriented systems.Informationforthe dataoriented systemsoftendidnot match the data needed for the model oriented systems.

For example, a cash-flow projection model was not able to directly use financial data contained in the accounting system. In most cases, the data had to be manually extracted from the accounting system and re-entered into the planning model. This was both a time consuming and error prone process.

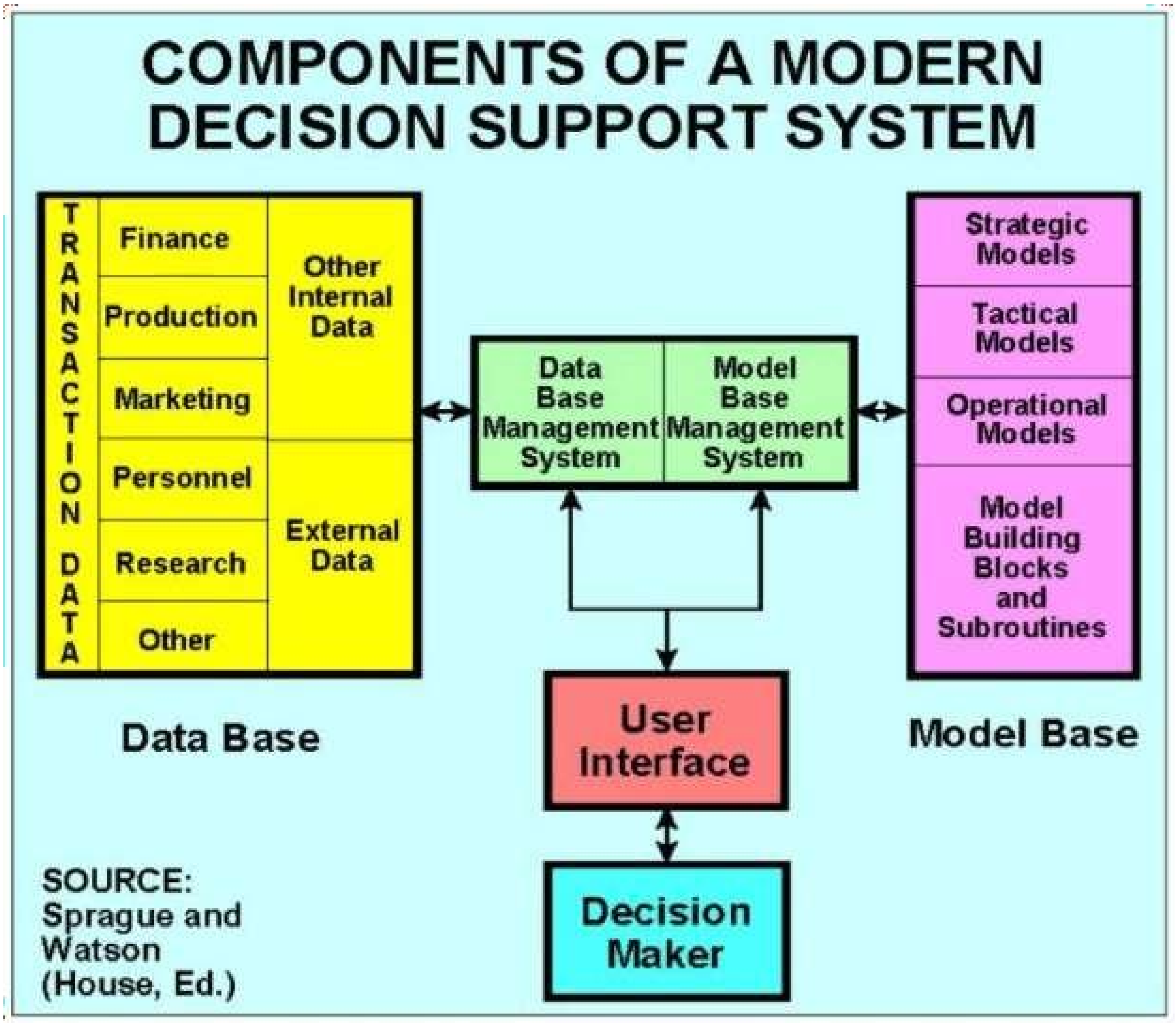
Because of the lack of integration capabilities of various systems, they were devoid of many ofthedesirablecharacteristicsofanevolvingconceptdescribesasdecisionsupportsystems (DSS). These systems are also known as Executive Support Systems, and Management Support System, and Process Oriented Information Systems .

ThedecisionsupportsystemproposedbySpragueandWatson(House,ed.)Hasasitsmajor components a database, a modelbase, a database/modelbase management system and a user interface .

The database has information related to financial transactions, production information, marketing records, the resource base, research data, weather data and so forth. It includes data internally generated by the business (e.g., financial transactions and production data) and external data (e.g., market prices). These data are stored in a common structure such that it is easily accessible by other database packages as well as the modelbase.
The modelbase component of the system has decision models that relate to operational, tactical and strategic decisions. In addition, the modelbase is able to link models together in order to solve larger and more complex problems, particularly semi-structured problems.

The database/modelbase management system is the bridge between database and modelbasecomponents.Ithastheabilitytoextractdatafromthedatabaseandpassittothe modelbase and vice versa.

The user interface, one of the more critical features of the system, is used to assist the decision maker in making more efficient and effective use of the system. Lastly, for these systems to be effective in supporting management decision, the decision maker must have the



skills and knowledge on how to correctly use these systems to address the unique problem situation at hand.

Several follow-up international conferences were held to reflect these new advances in managementinformationsystems.Thefirstoftheseconferencesfocusedondecisionsupport systems was held in Germany.

This conference discussed the virtues of these systems and the approach used to support decisions. Several prototype systems being developed for agriculture were presented.

Fromthesepresentations,itwasclearthatthedecisionsupportsystemsapproachhadmany advantages but the implementation in agriculture was going to be somewhat involved and complexbecauseofthediversityofagriculturalproductionsystems.Nevertheless,therewas much optimism for the development of such systems.

Acoupleofyearslater,anotherconferencewasheldinGermanythatfocusedonknowledge- based systems with a major emphasis on expert systems and to a lesser extent optimum control methods and simulation models. Using Alter's scheme to describe informationsystems,forthe

mostpart these wouldbe describedas suggestion models. It was interestingto note thatthe prototypeknowledge-basedsystemsforthemostpartdidnotutilizetheconceptsofdecisions support systems which was the focus of the earlier conference. Perhaps this was related to the fact that many of the applications were prototypes.

The international conference that followed in France focused on the low adaption rate of management information systems. This was a topic of much discussion but there were few conclusions reached except the systems with the highest adaption rate were mainly dataoriented ones (e.g., accounting systems, field record systems, anaimal production and health records, etc.) which provide mainly descriptive and diagnostic information.

Theinternationalconferencesthatfollowedhadvaryingthemes.Oneofthemajorthemeswas precision agriculture with several conferences held.

These conferences extolled the use of geographic information systems (GIS)in conjunction with geographic positioning systems (GPS) to record and display data regarding cropping operations (e.g., yields obtained) and to control production inputs (e.g., fertilizer levels).

Otherconferenceaddressedtheuseofinformationsystemstomoretightlycontrolagriculture production such as those developed for greenhouse businesses.

Tobrieflysummarizethehistoricaldevelopments,therehavebeensignificanteffortsdevoted toimprovingthemanagementinformationsystemsfromtheearlycomputerizedactivitiesforty years earlier.

The decision aids available have grown in number and they are more sophisticated. There has been some movement toward integration of the data oriented systems and the model oriented systems.

An examination of our current usage of management information systems, however, suggests that we have not nearly harnessed the potential of the design concepts contained modern management information systems.

CURRENTSTATUSOFINTERNALINFORMATION SYSTEMS

Thecurrentstatusofmanagementinformationsystemsisremainsdynamic.Severaladoption surveysandpersonalexperiencesleadtosomeinterestingobservations.Theseobservations will be reviewed in the context of a decision support system as defined by Spraque and Watson.

On-FarmInformationSystems--Computer Hardware

The percentageof farmsowninga computercontinuesto grow. Most commercialfarmsnow ownacomputerandhaveaccesstotheInternet,manywithhighspeedconnections.Mostof the computers are of recent vintage with large data storage and memory capacity. It is safe to state that the hardware is not the bottleneck with respect to management information systems.

On-FarmDatabaseandModelbase Applications

The decision support system literature stressed that the database and modelbase remain separateentities.Theyshouldbebridgedbythedatabase/modelbasemanagementsystem. In examining much of the software developed for on-farm usage, it appears that most of it does not currently employ this design concept.

Indeed most of the software is a stand-alone product with the database an integral part of themodelbase.However,somepackageshavetheabilitytoexportandimportdata,allowing for the sharing of data across the various packages, but these data sharing features are usually rather narrow in scope and flexibility.

The most common software packages used by agricultural producers are data oriented with the most common being one designed for financial accounting.

Accounting packages explicitly designed for agricultural businesses and general business accounting packages are used for keeping the financial records.

Because of their rather low cost relative to the agricultural specific packages, the general purposepackagesaregrowinginmarketshare.Thesefinancialaccountingsystemsareused beyond completing tax documents. They are also important for providing information to creditors and for planning and control.

Productionmanagementalsoaccountsforasignificantproportionof computerusage.There are many software packages available that address livestock problems. Some are database programs to keep track of animal related data and/or feed inventories.

There are models to address operational and tactical decisions such as ration balancing, culling decisions, alternative replacements options, etc.

However,manylivestockproducersalsouseoff-farmproductionrecordsprocessingsuchas using the DHIA service bureau for processing dairy records. These service bureaus provide a downloading feature so the data can be moved to the on-farm computer.

For cropping operations, there are similarities in software availability. Database systems are available for keeping track of information on fields and sub-fields, particularly fertilizers and pesticides applied, varieties planted and yields achieved.

Though there is increasing interest in geographic information systems by agricultural producers, the main usage is for yield monitoring and mapping.
This approach is used to evaluate the effectiveness of alternative management practices employed in the production of the crop (e.g., comparison of varieties, seeding rates, pest control measures, tillage systems, etc.) and to identify field problems (e.g., soil compaction, drainage problems, etc.).

This yield monitoring approach is finding the greatest acceptance and this may be in part because the yield monitoring and mapping systems are common option on grain harvesting equipment.

Oneoftherealconcernswithusingyieldmonitoringandmappingsystemsrelatestotheissue of arriving at the correct inference of what causes the variation in yields noted.The potential layersofdata(e.g.,pH,preciouscropsgrown,soilstructure,plantingdate,nutrientsapplied, variety grown, pesticides used, rainfall, etc.)has been suggested to exceed 100. To be able to handle the large number of

9 data layers in an effective manner would suggest a full-feature geographic information system (GIS) might be needed.

However,fewagriculturalproducershaveaccesstoafull-featureGISand/ortrainingtoutilize these systems, and there are substantial costs related to capturing and storing various data layers. Nevertheless, the more obvious observations originating from these systems (e.g., suchaspoordrainageandsoilcompaction)haveresultedinsoundinvestmentsbeingmade in corrective measures.

To a limited extent, some agricultural producers are starting to make use of remote sensing data to identify problems related to the growing crop such as an outbreak of a disease.

Those usingremote sensingfeeltheyareable tomorequicklyidentifytheproblemsand take corrective action, minimizing the damage done.

Precisionagricultureappliedtotheanimalindustriesisonadifferentscale.

Information systems are playing a major role on the integrated mega-farms. When using information systems to carefully track genetic performance, balance rations, monitor

health problems, facilities scheduling, control the housing environment and so forth, it is generally acknowledged that it is possible to achieve a fairly significant reduction in cost per unit of output (10-15%) over that of more traditional, smaller farming operations. These are proprietary information systems and the information from these systems are used to gain a strategic competitive advantage.

Lastly, the general purpose spreadsheet is the most common software used for planning purposes.Someoftheseapplicationsareverysophisticatedandaddresscomplexproblems.

UserInterface

Theuserinterfacehasimprovedingreatlyinquality.Mostagriculturalsoftwarenowusesthe windowing environment. This environment makes it easier for the user to use and access dataandinformation,andtomovedatafromoneapplicationtoanotherortolinkapplications. However, this still remains a user-initiated task and in some cases can be complex.

Also most of the data contained in the software package is unique to that package and not easily shared with other software packages. Thus, from a DSS viewpoint there are still significant shortcomings.

TheDecision Maker

An often overlooked component of a decision support system is the decision maker. Prior surveys suggest that the primary user of the on-farm computer system is the farm operator. Operatorsthatareyoungerandcollege educatedweremuchmorelikelyto routinelyusethe computer.

Also large farms were more likely to utilize a computer in their farming operation. It is also observed that there is a fair amount of "learning cost" related to use of on-farm information systems.Thesecostcanbelargeenoughtohindertheadoptionofmanagementinformation systems.

CURRENTSTATUSOFEXTERNALINFORMATION SYSTEMS

There is increased interest and excitement about the role external information systems available to agricultural producers, particularly Internet and satellite data transmission systems.

Each of these technologies is a vast resource of data which can be used to enhance the variouslevels(e.g.,information,intelligence,knowledge,wisdom)ofHaechel'sHierarchyfor an individual or organization.

Anotherinformationsourceis theoutsideadvisor.Asthecomplexityandbreadth ofthefarm leveldecisionprocesshasincreased,theuseofconsultantsandadvisorshasgrown.Thisis particularly true of the larger farming operations.

Internet

The growth in Internetis phenomenal.The growth in its use by agricultural producers isalso phenomenal. Email is a common communication tool used by agricultural business. The same is true for the world-wide-web (WWW).

Theymadeextensiveuseofthewebtofindinformationthatfittheiruniquerequirement.Even though they find it a major source of information for their operation, it takes good skills to locate the information desired.

Oneofthecommoncomplaintsistheamountoftimeittakestoutilizethelnterneteffectively and the lack of depth of information. One of the critical questions relates to how effective Internet is in addressing the higher levels of Haechel's hierarchy.

Other Internet resources available to agriculture include sites for downloading agricultural software. Much of the economic data compiled by the government is now available on-line. Lastly, in some cases it is being used as a marketing tool for products produced by the business.

SatelliteDataTransmissionSystems

The satellite data transmission systems are widely used by producers. These systems are passive data acquisition systems from the user's viewpoint. Data is continuously broadcast to the leased data terminal from a satellite.

The data is automatically stored in the data terminal and can be accessed by a mending process. These systems provide current data/information on a number of topics. Amounts and types of data/information received depends upon the options purchased.

The basic subsystem provides for the latest market prices and news, weather maps (e.g., rainfall, jet streams, severe weather, crop soil moisture index, soil temperature, air temperature,etc.),governmentreportsonmarketdevelopments,long-andshort-term weatherforecasts,politicaldevelopmentsthatpertaintoagriculture,andproductinformation. Premium service options add even more features.

OutsideAdvisors

Several recent studies suggest that use of outside advisory services by farmers to enhance and supplement their on-farm information systems was fairly prevalent. The tax preparer is the

advisory most commonly used. Other important sources of information include the local Extension agents, veterinary consultants, accountants, crop/pest management consultants, and livestock management advisors (e.g., a nutritionist).

The outside advisors utilize many different software packages to help provide advice to producers. FINPAK developed by the University of Minnesota is an example of a software package widely used by outside advisors with farmers.

This financial analysis and related projection package helps evaluate the financial process beingmadebythefarmandcomparesalternativefuturebusinessoptions.Thispackage(an accounting type model) is widely used in the U.S.

THEFUTURE

Predicting the future is not an exact science. But with the structural changes occurring in agriculture today, the management problems are significantly different from the problems of yesterday. Earlier emphasis in information systems was on improving production management decisions.

Today, major issues that are commonly faced in management relate to financial, human resource, and marketing management. These management areas and their importance are identified in the strategic management workshops I have conducted with agricultural producers.

Thus, managers will have less time to address production issues because more time and effort are being focused in the other management areas. This will have an impact on information systems to address production management.

AddressingStructuredDecisions

In the future information systems to address production management will likely be of five general types:

1) Softwareforsystemsanalysis,

2) Theorytesting,softwareforteachingpurposes,

3) Softwareforadvisors,

4) Softwarefor usebyproducers, and

5) Softwareto controland monitorthesupplychain.

Softwareforsystemsanalysisandtheorytestingwillbedevelopedwiththeprimaryobjective of defining the structure and studying the dynamics and interaction of the various system components.

Its main use is in research. These models are fairly complex and often have robust data requirements. Their utilization often depends upon availability of the developers to run the model or assist in the use of the model.

This software is very useful in testing various hypotheses regarding system dynamics (e.g., would supplemental irrigation in the early growth stages greatly affect yields?)

Thesemodelsplayavitalroleingeneratingabetterunderstandingoftheoverallsystemand can give valuable insight on how to manage the system. They are also useful in identifying areas for further research.

Theresultsfromthesemodelsarecommunicatedinvariousways(e.g.,journalarticles,trade journals, and advisory service publications and conferences) and these

communicated results are often used by producers to adjust production practices. However, direct use by producers to evaluate their own unique situations is not common with these models.

There are several reasons for this limited use including a poor user interface or lacking the data to drive the model. Also, it is generally unlikely that transformation of a model of this nature into one that is to be used by the producers will be successful.

Software developed for teaching purposes is likely to continue. Sometimes these software packages are referred to as simulation games. Because these models teach concepts and principles, they are often a simplification of reality.

They tend to use the case analysis approach, making it difficult to use the model to analyze various options and alternatives utilizing actual businessdata. The models are often used in an interactive mode (e.g., in a classroom or workshop environment) where knowledge is gained by testing “what if” questions, then observing the results.

These models can be very powerful teaching tools, but are rarely used to analyze actual business situations. Producers often lose interest in using this software because it is too simplistic, takes too much time and effort to extract knowledge for better decision-making, or it does not adequately reflect the reality of the business.

Software for advisors is a class of software that is used by agricultural advisors (e.g., Extensionstaff,consultants,andagribusinessfirms)toassistproducersinmakingdecisions.

The advisor is a necessary intermediary, because the software could demand a thorough understanding of a difficult set of concepts (e.g., long range planning) or it may be rather demanding of the user’s time and effort (e.g., a large amount of data has to be collected, entered and analyzed), or the time and effort to become proficient in the use of the model is considered excessive.

This type of software will grow in importance as the use of outside consultants and advisory services by agricultural businesses grows. These outside advisors and consulting services willincreasinglyusemanydifferentsoftwarepackagestohelpprovideadvicetotheproducer.

Thepackagetheyusedependsupontheirareaofspecialization.Forinstance,thosethatare offering production advise may use one of several production decision aid models.

Advisorsalsoserveasanintermediarytoextractinginformationfromlnternet(externaldata). They often subscribe to threaded discussion groups. They use these groups for posting problemsandreceivingbacksuggestedsolutions.Theyalsolearnfromtheexchangeofideas between others using the system.

Also, advisorsmorereadily see themerit of usinga softwareprogram designedforsystems analysis for enhancing their personal knowledge and skills and solving problems for their clients. This is particularly true if the software has a good user interface.

Softwareforusebyproducersisandwillcontinuetobesomeofthemostdemandingsoftware to develop. As indicated earlier, a large amount of software has been written, but much of it has fallen short of expected usage rate.

One reason is the decision makers have found the software fails to address their problems. Thesoftwaremustbefairlyeasytoutilize,andtheproducerexpectsittoprovideinformation that has a perceived value greater than the cost of attaining that information.

Software being used by producers can be grouped into two subcategories. The first subcategory is used to process transaction data and meet regulatory requirements. These are the software applications most used by the actual businesses.

They must keep accounting, personnel and crop production records (e.g., pesticides used) becauseofgovernmentregulation.Theyalsousesoftwaretoreducethetime,effortandcost of processing the transaction records.

This is why payroll packages, and shipping and billing systems are commonly employed on these operations. This usage will continue to grow in importance. Theothersubcategoryofsoftwareisusedformanagementpurposes.Thiscurrentlyaccounts for a lesser portion of the computer usage. A large growth in this usage of this software is unlikely.

Thetimeandefforttomasterthissoftwareismajorcommitment.Sincemanagementtime is beingdivertedtoareasotherthan productionmanagement,theywill have lessand lesstime to become proficient in the use of this software.

Thus, very thorough and sophisticated systems (e.g., the SAP software system) currently beingemployedbylargecompaniesarenotlikelytobecommononfarmbusinessesbecause of their complexity and cost.

Software for process control is used to control and automate many of the structuredoperationaldecisionsofthebusinessenterprises,suchascontrollingtemperature, light, irrigation and fertility in greenhouses.

These models are generally of a closed-loop optimal control design. The process control modelsaregenerallyknowledgebasedsystemsandhavebeendevelopedusingknowledge from many sources including the systems analysis models discussed earlier.

Theuseofprocesscontrolsystemswillgrowinimportanceandacceptance.Thisacceptance impliesthatthemanagershaveconfidenceinthemodelsandthattheyimprovetheefficiency and effectiveness of the business. These models also free them to concentrate on more complex decisions.

Software to control and monitor the supply chain will greatly grow in importance. The will be manyfactorsdrivingthisgrowincludingconcernsaboutfoodsafely,countryoforiginlabeling, organic foods, foods to meet special dietary requirements, and concerns about product liability suits.

In will likely become commonplace that afood item purchased by the consumer at the retail level will have attached its entire history, including identity preservation and traceability, included with the purchase.

The new advances in RFID chips and the requirements by certain major retailers to label all products with these chips will impact agricultural businesses including those engaged in producing farm products. The system imposed upon the entire supply chain will likely be designed by the retailers and the entire chain will need to adjust to the defined information structure.

To adapt to the defined information structure may mean a major restructuring of the information system currently being used by the business with substantial costs associated with the conversion.

AddressingIll-StructuredandUnstructured Decisions

To address the management areas related to human resources, finances, and marketing, suggestinformationsystemsthatcanaddressill-structuredorunstructuredproblems.Some would state that we are in the process of moving from the “old economy” to “new economy.” With this paradigm shift, among the changes is a movement from resource based to idea based wealth creation, from a stable comparative advantage to a dynamic one, from investmentinphysicalassetstoinvestmentinhumancapital,fromprotectedtoopenmarkets, from subsidies to encouragement to adapt, from hierarchal organizations to strategies alliances and partnerships.

In addition agriculture will move from commodity markets to product markets and it will become more environmentally friendly, concerned with food safety, and quality and supply coordination.

Ifthistransitionfromthe“oldeconomy”tothe“neweconomy”occursforagriculture,thenthe informationsystemsofthepastwillnotbeadequatefor thefuture.Theywillneedtobemuch broader and more comprehensive than the current systems. The future systems must:

address the larger scope of financial management rather than financial record keeping, tax reporting,andanalysis;helpdefinemarketingstrategiesandalliances;helpidentifypotential niche marketsratherthansupplyingdata on currentcommodity markettrends;support the creationofnewideas;nurturethegrowthofknowledgesincethiswillbecomeamajorsource of wealth creation;deal with the many dimensions and complexity of human resource management;

signal needed production changes in an overall system of supply chain management;assist innegotiatingcontractualarrangements;helptheproduceradopttoaneconomicclimatethat has more risk and uncertainty because of less government intervention in markets;provide the capacity to track the identify of a product from its genetics to the consumer;assist in producing a product that meets customer desires rather than the production of a commodity.

Developing farm-level information systems to fulfill these needs will be a major challenge. It will take a major rethinking with regard to the role of management information systems.

It will involve more than enhancing hardware, communications infrastructure, and software components of the information system. An equally important consideration will be the analytical skills, knowledge, wisdom, and interests of the agricultural decision maker.

The information system of the future will need to concentrate more on the upper levels of Haechel'shierarchy--knowledgeandwisdom.AsHonakaandHirotakaobserve,knowledge has two forms, tacit (subjective) and explicit (objective).

Tacit knowledge is gained from experiences and practice, whereas explicit knowledge is based more on theory and rationality. As decision makers address problems, they convert knowledge between the two forms.

Aninformationsystemthatfocusesonlyononeformwillhaveshortcomings.Theinformation system of the future must have both forms of knowledge, and encourage the conversion of knowledge between the forms as a continuous process. Only by this process will the manager's knowledge base grow in size and function. Informationsystemsofthepasthavetendedtoconcentrateonexplicitknowledge(e.g.,linear programmingtobalancearation)and,tolesserextenttacitknowledge.Manyoftheproblems of the future will involve tacit knowledge.

The challenge will be designing information systems that will allow for an easier and more effective means of sharing tacit knowledge. The Internet will no doubt play a key role in meetingthischallenge.Perhapsasystemfordocumentingexperiences(e.g.,structuredcase studies) can be used to enhance the sharing of tacit knowledge.

BUSINESSLAW

INTRODUCTIONTO LAW

Law is essential to any society in that it provides the rules by which people and businesses interact. Law affects almost everyfunction and area of business. The authors of one business law text go so far as to say that "the difference between winning and losing in the business world often depends upon the ability to make good choices from a legal perspective."[1] This is because almost every business decision has legal repercussions, including deciding whether to incorporate a business, obtaining financing, protecting proprietary knowledge used to develop products/services, entering into contractstopurchaserawmaterials,ensuring that productsmeet safetystandards,disposing of plant wastes, promoting and pricing products/services, entering into contracts to sell products/services, and providing product warranties and after-sales service.

At all stages of business, running afoul of the law can hurt a business, while playing within the boundaries of the law can help the business to succeed. For this reason, accountants, who play a key role in almost every aspect of operations, must have a solid working knowledge of the law.

With these definitions in mind, business law could be defined as rules that govern business relationships.DuPlessisandO'Byrnesuggestthatbusinesslawperformsmanyfunctions,including:

- Defininggeneralrulesofcommerce;

- Protectingbusinessideasandbusinessassets;

- Providingmechanismsthatallowbusinesspeopletodeterminehowtheywillparticipateinbusiness ventures and how much risk they will bear;

- Ensuringthatlossesarebornebythoseresponsibleforcausingthem;and

- Facilitatingplanningbyensuringthatcommitmentsarehonoured.

While staying within the confines of an increasing array of business laws is necessary forsuccess in business, it is not sufficient. Businesses must also recognize additional limitationsand expectations placed upon them by business ethics, those principles and values that definewhat is rightandwrong.Whileethicalprinciplesnormallystartwithwhatislegal,theyoftenimposeahigher standard that recognizes a multitude of stakeholders beyond just suppliers,customers, and employees.While the focus of this document is on what the law requires of business, ethical standards willalso be discussed.

SOURCESOFCANADIANLAWANDTHELEGALSYSTEM

We begin this section with an overview of the Canadian legal environment to set the stage for subsequent sections, where specific types of law pertaining to businesses, such as tort law and contract law, will be examined.

CategoriesofLaw

The law can be categorized in several ways. First, there is the distinction between substantive law andprocedurallaw.**Substantivelaw**consistsoftherightsanddutiesthateachpersonhasinsociety, e.g., the right to own property orto make contracts and the duty to avoid injuring others and to obey various laws. **Procedural law** deals with the protection and enforcement ofthe rights and duties of substantivelaw;itprovidesthemachinerybywhichtheserightsanddutiesarerealizedandenforced. To put it briefly, substantive law relates to what the law is, whereas procedural law relates to how it is enforced.

Substantivelawisdividedintotwofields

1. **Public law** is concerned with the conduct of government and with the relationship between government and private individuals. Public law is divided into categories such as constitutional, criminal, and administrative law.

2. **Private law** consists of the rulesgoverning relations between private individuals or groups of persons.Privatelaw—whichcanbedividedintocategoriessuchastorts,contracts,businessentities, business relationships, and property rights—forms the substance of business law and is the main focus of this document.

Whilethepredominantconcerninabusinesslawcourseissubstantivelaw, wewillfirstconsiderthe basics of procedural law, theform or organizationof thelegalsystem and its methods of conducting trials.

SystemsofLaw:CivilLawandCommonLaw

Around the world, two basic legal systems exist, civil law and common law. In brief, civil law emphasizes legislation, while common law emphasizes decisions handed down by the courts.

Civil law is the system of law derived from Roman law. Its focus is on the development of a comprehensivelegislatedcode.CivillawdevelopedincontinentalEuropeandwasgreatlyinfluenced bytheCodeofNapoleonin1804.MostoftheprivatelawinQuebeciscivillaw,buttherestofCanada falls under common law (to be described next). Civil law applies to only a few southern states in the United States(e.g., Louisiana), as well as to Mexico, continental Europe,most of Scotland, muchof Africa, and all of South and Central America.

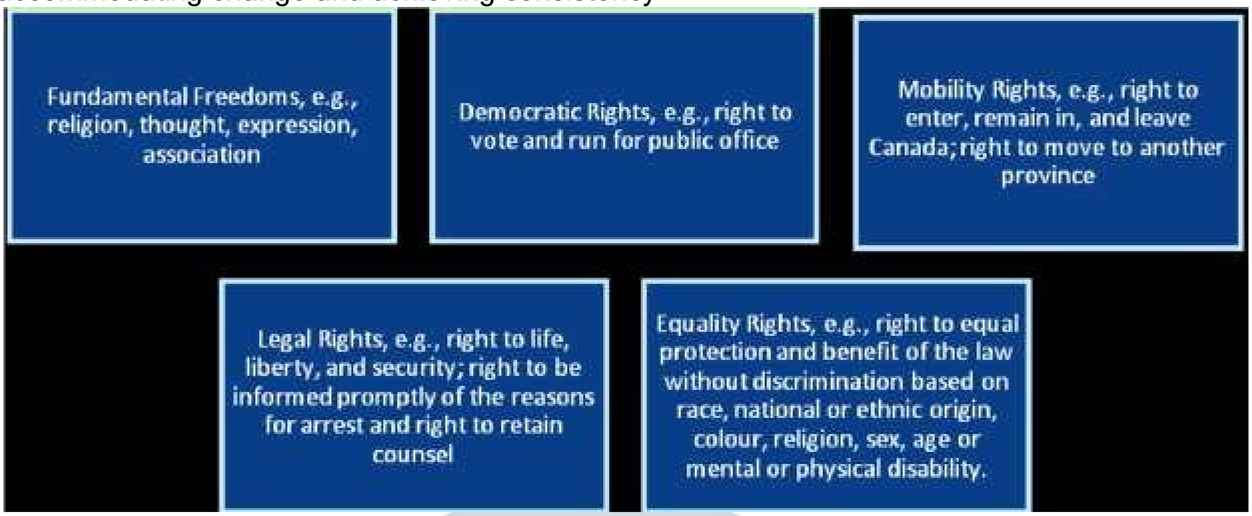
Common law is the system of law in most of the English-speaking world and many non-EnglishspeakingcountriesthatwereoncepartoftheBritishEmpire,suchasIndia,Pakistan,andthe Caribbean. Within Canada, all provinces and territories except Quebec have adopted common law. Common law is based on **precedent**, the recorded reasons given by judges for their decisions and adopted by judges in later cases.

Commonlawisdesignedtofacilitatetwoimportantaspectsofjustice:

1. Consistency,sothatthereisequaltreatmentinlikesituations;

2. Predictability, so that people can find out ahead of time where they stand and act with reasonable certainty in making decisions about whether to sue or to defend themselves.

The system of determining lawby following already-decided cases, or precedent, is known as **stare decisis**, a Latin phrase meaning "to stand by a previous decision." On the one hand, we want the law to be stable and certain enough that it can be consulted confidently to predict the legal consequences of our conduct. On the other hand, we want the law to be flexible enough to relate to changing conditions and social attitudes—we do not want to be judged by out-of-date standards. Stare decisis implies a preference for the objective of certainty ("let the decision stand"), but the courtshavereservedforthemselvesaconsiderableamountofflexibilitywhilestillformallyaccepting the authority of their earlier decisions. Thus, there is an attempt to strike a balance between accommodating change and achieving consistency.



Stare decisis means that a lower court is bound by a decision of a superior court in the same jurisdictionwhenthesuperiorcourthasdecidedthesameissue.Adecisioninoneprovincewillhave persuasive value in other provinces but will not be binding. Sometimes, acourt of appeal in another province will come to a contrary decision, leaving the law in an uncertain state that can be resolved only by a decision of the Supreme Court of Canada, which is binding on all other courts in Canada. However, lower courts are constrained only to the extent that the facts of a case before them substantially coincide with, i.e., are not "distinguishably different" from, the facts of the earlier Supreme Court decision.

Therefore, lower courts still have considerable scope to **distinguish**theearlier case onthe basis of its facts. When a losing party believes a lower court has incorrectly distinguished the facts, it may appealtoahighercourtonthesegrounds.Whilethedecisionofalowercourtisnotabindingauthority onothercourts,thefactsofthecasemaystillbeofwidegeneralinterestandthereasonsforjudgment so easily understood that the decision may have considerable influence and even be "followed" in other later cases unless and until the Supreme Court of Canada rules on the matter and comes toa contrarydecision.The decisions of respectedEnglishandAmericanjudges aswellasthe decisions ofjudgesfromothercommonlawcountriesmaysimilarlyinfluencethedecisionsofCanadiancourts.

SourcesofLaw:TheConstitution,Legislation,andtheCourts

There are three sources of law: the Constitution, legislation, and the courts. The Constitution is the foundationlawfromwhichallotherlawsdrawtheirpower.Inturn,legislationispassedbyParliament andbyprovinciallegislaturesincompliancewiththeConstitution.Suchstatutesmaycodifycaselaw thatdevelopedinthecourts,oritmaychangecaselaw.Lastly,thecourtshanddownjudgmentsthat also develop and shape legal principles.[9] Each of these sources of law will be discussed in more detail in the sections to follow.

TheConstitution

The Constitution provides the basic skeleton or framework for Canada’s legal system. It creates the basicrulesforCanadiansocietyanditslegalandpoliticalsystem.TheConstitutionisalsothehighest source of law. Section 52(1) of the Constitution states: “The Constitution of Canada is the supreme lawofCanada,andanylawthatisinconsistentwiththeprovisionsoftheConstitutionis,totheextent of the inconsistency, of no force or effect.”[10] The Constitution is also very difficult to change—the normalamendingformularequirestheconsentofParliamentaswellastheconsentofthelegislatures of at least two-thirds of the provinces, which represent at least 50% of Canada’s population.

The Constitution implements the federal system of Canada by setting out the **division of powers** between the federal and provincial/territorial jurisdictions, that is, by setting out the areas for which each level can create laws. For instance, the federal government is responsible for criminal law, taxation, unemployment insurance, banking and money, bankruptcy and insolvency, trade and commerce,shipping,andcopyright,whiletheprovincialgovernmentshavejurisdictionoverproperty and civil rights (e.g., contracts and torts), corporations with provincial objects, and the creation of municipalities. The federal government also has **residual power**—power over anything that is not otherwise mentioned, which gives it jurisdiction over areas that did not exist when the Constitution was written in 1867, including telecommunications and air travel. As well, if federal and provincial statutes are ever in conflict, the **doctrine of federal paramountcy** determines that The Charter of Rights and Freedoms

In 1982, the Charter of Rights and Freedoms became part of the Constitution. The Charter places limitsonmanyaspectsofgovernmentactionsandprotectshuman(versusproperty)rights.Figure1-1highlights some of the rights and freedoms protected by the Charter.

It is important to note that the Charter does not describe **propertyrights** (the right to own and enjoy assets) or **economic rights** (the right to carry on business activities).

TheCharterisalsosubjecttoanumberofotherimportantrestrictions

1. The Charter's rights and freedoms are fully applicable only when a person complains about government behaviour. Thus, the Charter does not directly apply to disputes involving private parties;however,theSupremeCourtofCanadahasruledthatprivatelawshouldbedevelopedin a way that is consistent with Charter values.

2. TheCharteralsogenerallydoesnotapplyinfavour oforagainstprivatecorporations.

3. Section 1 of the Charter states that its rights and freedoms are subject to "such reasonable limits prescribed by law as can be demonstrably justified in a free and democratic society." It is for this reason that limitations may be placed on selling violent pornography or advertising to children.

4. Section 33 of the Charter may allow Parliament or a legislature to create and enforce a law "notwithstanding" thefact that it violates the Charter. However, this section has only been used once in the common law provinces and territories.

When the Charter is violated, the court may award whatever remedy it considers "appropriate and just in the circumstances." For instance, the court may simply issue a **declaration** that the Charter has been violated and leave it to the legislature to solve the problem. The court may impose an **injunction**thatrequiresthegovernmenttoresolvetheprobleminaspecificway.Goingevenfurther, the court may **strikedown** a statute that violates the Charter, leaving the legislature to enact a new lawthatadherestotheCharter.Thecourtmayalsosaveastatutebyre-writingpartofit—by**severing** outtheoffendinglaw,**readingdown**astatutethatisappliedtoobroadly,or**readingin**astatutethat is written too narrowly. The court may also award damages to people who suffer a Charter violation

Statutes:LawmadebyParliament,ProvincialLegislatures,andMunicipalGovernments

Legislation may be passed by either Parliament or provincial legislatures. The most important kinds of legislation are **statutes** or **acts**. For example, every jurisdiction in Canada has an act that allows corporations to be created.

In most cases, a **bill** is introduced into the House of Commons by a Member of Parliament. If the bill receives majority support at the First Reading, it goes to the Second Reading, where it is debated. If itreceivesmajoritysupport,itissenttoalegislativecommitteefordetailedstudy.AttheThirdReading, ifitreceivesmajoritysupport,thebillpassesandissenttotheSenate,wheretheprocessisrepeated. The final step, a mere formality, is Royal Assent, where the bill is approved by the Attorney General, as the representative of the Queen.

There are two main classes of legislation—passive and active. **Passive legislation** either prohibits an activity that was formerly permitted or permits an activity that was formerly prohibited. Passive legislation provides a framework within which people legally go about their business and puts the onus on either an injured party or a law-enforcement official to complain about any activity that violates the legislation. In contrast, **active legislation** gives government the right to carry on a program such as levying taxes, providing revenues, and supervising economic activities. Every government department, agency, and tribunal is established by the legislature in a statute. In exercising its regulatory powers, an administrative agency creates new law (**subordinate legislation**), such as the criteria for obtaining business licences.[15]

One of the most important types of subordinate legislation involves municipal by-laws. The Constitution is concerned with only two levels of government (federal and provincial) but it gives provinces the power to create municipalities and, in turn, it gives municipalities the power to pass rules and laws that govern the city or town.

CommonLaw:LawMadebyJudges

In the context of a discussion of legal systems, the term **common law** refers to a legal system that canbetracedtoEngland,andtheterm**civillaw**referstoasystemthatcanbetracedtoFrance.The term **common law** has a second meaning—it refers to the source of a law. When used in this connection, **commonlaw**referstolawsthat arecreatedbyjudgesratherthanby.WhentheCharter is violated, the court may award whatever remedy it considers "appropriate and just in the circumstances." For instance, the court may simply issue a **declaration** that the Charter has been violatedandleaveittothelegislaturetosolvetheproblem.Thecourtmayimposean**injunction**that requires thegovernment to resolve the problem in a specific way. Going even further, the court may **strikedown**astatutethatviolatestheCharter,leavingthelegislaturetoenactanewlawthatadheres to the Charter. The court may also save a statute by re-writing part of it—by **severing** out the offending law, **reading down** a statute that is applied too broadly, or **reading in** a statute that is written too narrowly. The court may also award damages to people who suffer a Charter violation..

The early courts of common law could offer only monetary damages to the injured parties. Thus, another set of courts came into existence—the **courts of chancery** or **courts of equity** where petitions were heard bytheking andhis chancellor andvice-chancellors.Therulesof lawthat these courtsadministeredbecameknownas**equity.Equitycourts**couldoffer**equitableremedies.**Ifthey sawfit,they could order **specificperformance**—the carrying out of a binding obligation. Defendants who refused were jailed for **contempt of court** until they agreed to carry out the court's order. As equity law developed, its principles—such as trust, loyalty, and consideration of the relative position of the parties—became accepted as common law principles. In 1865, the British Parliament passed legislation to merge the two systems of court into the common law system we have today; the Canadian provinces passed similar legislation shortly thereafter

RelationshipBetweenStatutesandCommonLaw

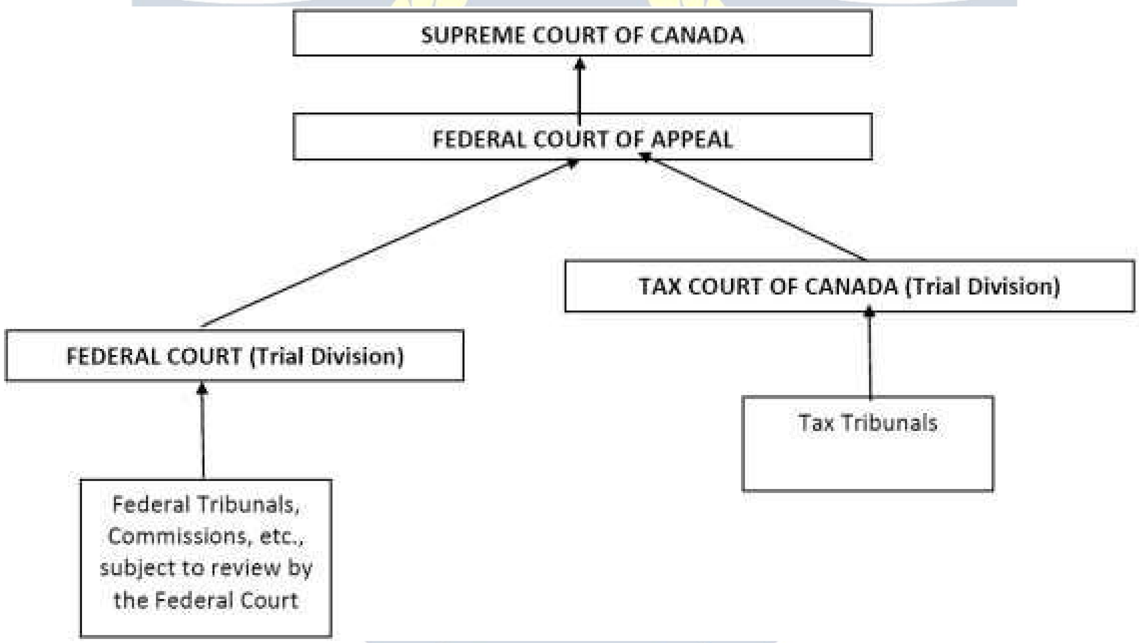
A **statute** overrides all the common law dealing with the same point. Legislatures may change common law or simply **codify**the law, i.e., summarize in a statute the common law rules governing a particular area of activity. The courts are often called upon to interpret astatute to decide whether it appliestothefactsof acaseand, if so,todecide ontheconsequencesof breaking thelaw. These decisions then form part of judge-made law.

Courtsregularlyuseprecedent eventhoughthefactsintheoriginalcasemaybequitedifferentfrom the case at issue. However, they adhere to **strict interpretation** of statutes: the courts apply the provisions of a statute only where the facts of the case are specifically covered by that statute. Nevertheless,CanadiancourtsareencouragedbythefederalInterpretationActtotakea“fair,liberal, and large” interpretation of statutes.[19] Such a **liberal approach** to the interpretation of statutes considers the context, the custom and trade usage of the language, and the intent or purpose of the statute when it was passed.

USINGTHECOURTS-An OVERVIEW OFCIVIL PROCEDURE

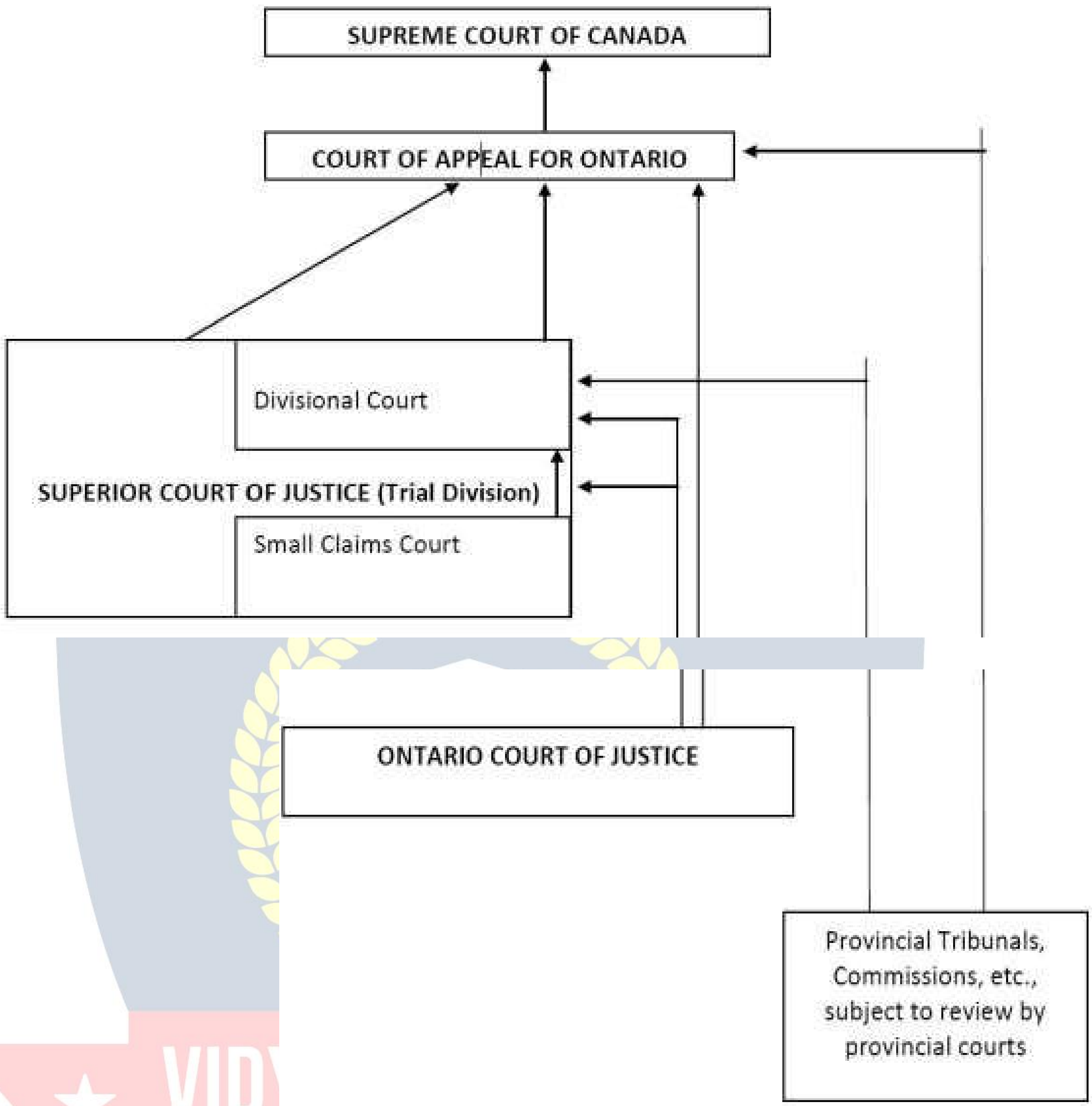
TheCourtSystem

Canada has a three-tier system similar to that of England, with courts of first instance (trial courts), intermediate courts of appeal, and the Supreme Court of Canada. Figure 1-2 illustrates the federal court system and Figure 1-3 illustrates the Ontario provincial court system. **The Federal Court System**



The Federal Court (Trial Division) has jurisdiction over claims against the federal government, litigation in areas of federal jurisdiction under the Constitution, and appeals from federal tribunals. The Tax Court of Canada has jurisdiction over goods and services tax, income tax, employment insurance, and appeals from tribunals in these areas The Federal Court of Appeal hears appeals from the Tax Court and the Federal Court (Trial Division).The Supreme Court of Canada is the highest court in the country. It is necessary to have **leave**, or permission, to appeal to the Supreme Court. The Court generally agrees to hear only cases that raise an issue of national importance. Appeals are almost always heard by five, seven, or nine **justices** (as the judges are called).

Figure1-3:TheOntarioCourt System



TheOntarioCourt of Justice(TrialCourt)uses provinciallyappointed judgesforfamily-law(custody, support, and adoption) cases andfor less-serious criminal offences. Justices of the Peace are used for provincial offences (traffic tickets), search warrants, and bail hearings.

The Superior Court of Justice (Trial Court) uses federally appointed judges. It handles all civil litigation, family litigation (custody, support, and divorce), and more-serious criminal offences. For civillitigation,OntariohasaSmallClaimsDivisionthathandlesclaimsupto$25,000.Claimsbetween $25,001and$100,000areresolvedoutoftheSuperiorCourtusingaspecialsetofsimplifiedrules.[21]Claimsin excessof$100,000aredealtwithbytheSuperiorCourtofJusticeundertheregularRules of Civil Procedure.[22] The Divisional Court of the Superior Court has appellate jurisdiction for review ofgovernmentaction,appealsfromthedecisionsofgovernmenttribunals,andappealsofcivilcases up to $50,000.

TheCourtofAppealforOntario(AppellateCourt)decidescasesinpanelsofthreejudgesormore.It hearsappealsfromtheSuperiorCourt.Inmostother provinces,theSmallClaims Courtis adivision of the Provincial Court. Ontario’s “provincial court” is the Ontario Court of Justice. Finally, the Supreme Court of Canada has jurisdiction over all appeals from provincial appeal courts.

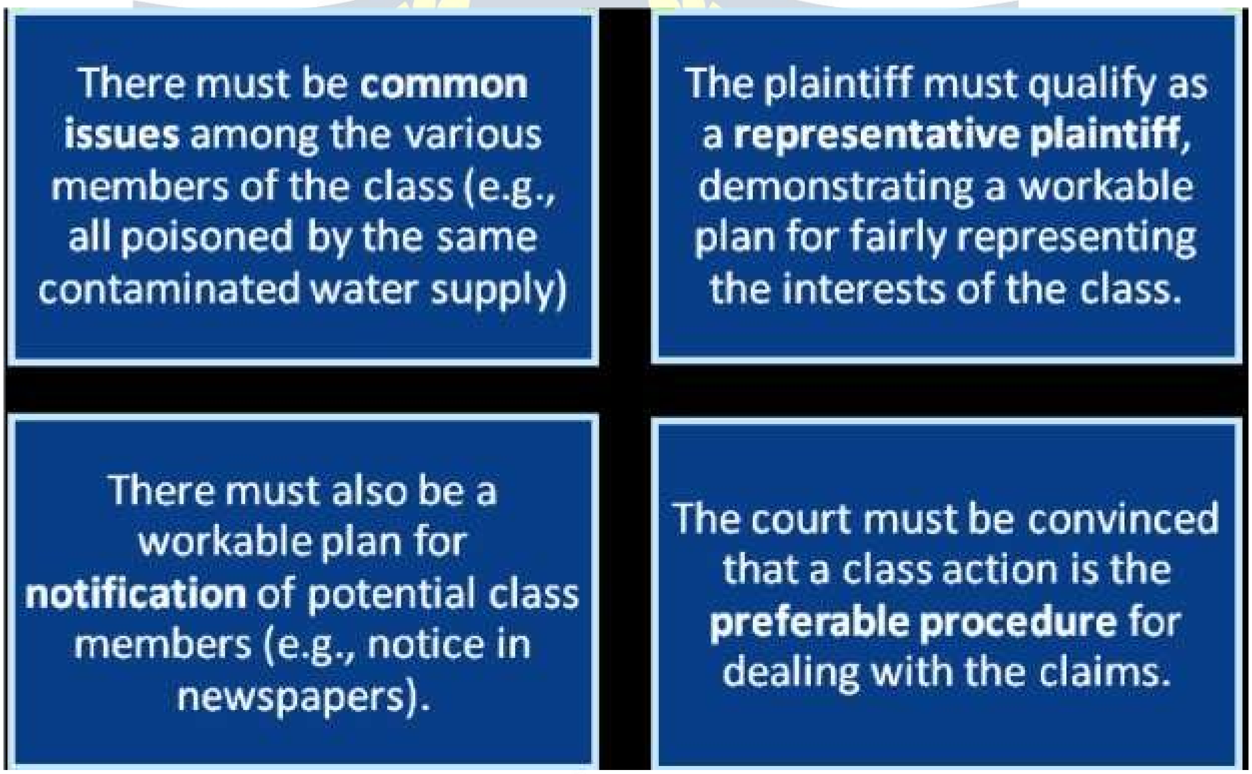
TheLitigationProcess

Litigationisthesystemofresolvingdisputesincourt.Asageneralrule,alladultsarefreetousethe Canadiancourts,whetherornottheyareCanadiancitizens.Minorsoradultswithamentaldisability can be sued or sue only through a court-appointed representative. Corporations are legal persons and therefore can sue or be sued. Unincorporated associations, with the exception of trade unions, cannotsueorbesued,buttheirindividualmemberscan.Thegeneralruleisthatthe“kingcandono wrong,” which means governments cannot be sued unless a statutory authority permits it.

Classactionsuitsarealsoallowed,whereasinglepersonorasmallgroupofpeoplesuesonbehalf ofalargergroupofclaimants.Classactionclaimsarebecomingincreasinglyprevalentinareaslike product liability, mass torts (e.g., contaminated water supply), gender discrimination in the workplace,banking(e.g.,improperservicecharges),businesslaw(e.g.,pricefixing),andsecurities law (e.g., insider trading).

Figuresetsoutthebasicrequirementsthatmustbemetbeforeaclassaction receives **certification**bythecourttoallowthevariousclaimstobejoinedtogetherina classaction.[23]

ClassActionSuits



Legal Representation

If you sue or have been sued, you need to choose who will be your legal representative. Although youcanrepresentyourself,anoldexpressionstatesthat,ifyoudo,youhave“afoolforalawyerand a fool for a client.” Therefore, most litigants are represented by either a lawyer or a paralegal.

ProceduresBeforea Trial

The legal action begins with the filing of a **statement of claim,** in which the **plaintiff** (the person bringing forward the dispute) sets out the facts that allegedly have given rise to the cause of action and the plaintiff’s damages.

The **defendant** (the person being complained about) responds by filing a **statement of defence**, in which the defendant outlines his or her version of the facts complained about by the plaintiff. The defendant may also file a **counterclaim**, a document that outlines any complaint the defendant wishes to counter against the complaint of the plaintiff.

The plaintiff then files a **reply**, which outlines the plaintiff's response to the version of the facts set out by the defendant in his or her Statement of Defense. If a Counterclaim was made, the plaintiff also files a **defenses to counterclaim**, in which the plaintiff outlines his or her version of the facts complained about by the defendant in the Counterclaim.

These documents form the **pleadings**, the documents that provide the information each party intends to prove in court. If, after receiving the basic pleadings, the parties are still not sure what the other side has in mind, a **demand for particulars** may be used to require the other side to provide additional information.

There are also **examinations for discovery**, in which parties examine each other to further narrow the issues and decide whether to proceed with a trial. During discoveries, information is gathered under oath outside of the court, with the parties and their representatives meeting before a licensed legal reporter. Each party must also produce a list of witnesses and relevant documents. Since many of the documents are in electronic form, production of these documents may be referred to as **e-discovery**. Each party learns about the strength of the other party's case, which enables the parties to make an informed decision about whether to settle or press forward.

A **settlement** occurs when the parties agree to resolve their dispute out of court. The vast majority of claims—more than 95%—are settled out of court.[24] The legal system is designed to encourage settlements because of the cost and time involved in using the court system. After the examinations for discovery, the judge may meet with the parties at a **pre-trial conference** to summarize the case and narrow down and/or resolve the issues between the two parties. The judge may also indicate which party is likely to win if the case goes to trial, thus encouraging the likely loser to settle. Depending on the jurisdiction, a pre-trial conference may be required, or it may be initiated either by the parties or the judge. Since 1999, Ontario has had a **mandatory mediation program (MMP)**, which applies to most claims brought in large urban centres. Under the MMP, the parties must meet with a **mediator** (a neutral third party) within 90 days after the defence has been filed. Even when this process does not produce a settlement, it is likely to speed up the litigation process.

The Trial

A **trial** is an oral hearing of the issues by a judge alone, or by a judge and jury, to render a judgment on the matter. If a jury is used, the judge determines the law, while the jury is responsible for finding the facts and applying the law.

The plaintiff is the first to present his or her evidence to the judge. This involves the plaintiff and the plaintiff's witnesses taking the stand and answering questions from the plaintiff's lawyer under oath. The plaintiff and the plaintiff's witnesses are then **cross-examined** by the defendant's lawyer. Following the plaintiff, the defendant has an opportunity to present his or her version of the facts to the judge and call witnesses. Once the defendant and the defendant's witnesses have been questioned by the defendant's lawyer, they are cross-examined by the plaintiff's lawyer.

Rules of evidence apply to determine the **admissible evidence** that may be provided in support of an argument. Ordinary witnesses may testify only about the facts they know first-hand, while expert witnesses may provide information and opinions based on the evidence. The courts also do not normally listen to **hearsay evidence** (information that a witness heard from another person). As well, if a party attempts to introduce surprise evidence, the court may refuse to hear it or may delay proceedings to give the other side an opportunity to reply and, in addition, may penalize the party with loss of costs.

The**burdenofproof**inanon-criminalactionisontheplaintiff.Towin,theplaintiffmustestablishthe factsthatprovetheplaintiff'scaseandthenprovethecaseinlaw.Theplaintiffmustprovehisorher complaint on a **balance of probabilities**. This means that the "defendant will be held liable only if thescalesaretippedintheplaintiff'sfavour."[25](Thisisincontrasttocriminalcases,wherethehigher standard of **beyond a reasonable doubt** is imposed. In complex cases, the judge will **reserve judgment** and postpone giving a decision until after the court hearing ends and the judge has had time to review the evidence.

Incivillitigation,avarietyofremediesareavailable,asillustratedinFigure

Remedies in Civil Litigation

Remedy	Purpose
Compensatory damages	Financially compensate for a loss.
Punitive damages	Punish the party for acting very badly.
Nominal damages	Symbolically recognize that the party acted wrongfully even though the other party did not suffer any loss/harm.
Specific performance	Require the party to fulfill its obligation or promise.
Injunction	Require the party to act or not act in a particular way.
Rescission	Terminate a contract.

The winning party is also normally awarded **costs**, the expenses incurred by it during the litigation. However, the costs are usually **partial indemnity costs**, which only partially indemnify (usually around 40 to 50%) the winner for fees and disbursements paid to his or her lawyer. In exceptional cases, if the action is deemed to be frivolous or vexatious, or if a reasonable settlement offer is rejected, **substantial indemnity costs** may be awarded (usually around 65 to 75% of the winner's actual costs). Neither of these costs in any way compensates the winner for the time, energy, and emotionaltollthatacourtcasecantake.Thus,intheend,itmaybequestionablewhetherthewinner really won at all.

Appeals

An appeal must be requested within a certain time limit, usually within 30 days after the trial court rendersitsdecision.Thepersonwhochallengesthedecisionofthelowercourtisthe**appellant**,and thepersonwhodefendstheoriginaldecisionisthe**respondent**.The**appellatecourt(appealcourt)** decideswhetheramistakewasmadeinthetrialcourt.Normally,appealsareheardbyatleastthree judges. The judges hear and read arguments from the parties or their lawyers, but do not hear witnesses or receive evidence. Generally speaking, appeal courts accept the findings of fact of the trial judge and reconsider only the application of the law. However, sometimes an appeal may be launched on the basis that the judge made procedural errors such as excluding important evidence or admitting improper evidence or, more rarely, on the basis that the evidence does not support the judge's finding of fact.

AlternativeDisputeResolution

Alternate dispute resolution (ADR) refers to private procedures to resolve disputes without going to court. The advantages of ADR include speed, reduced cost, choice of mediator or adjudicator, confidentiality(notgeneratingbadpublicityordivulgingconfidentialinformation),andthepreservation of ongoing relations between the two parties.[27] ADR may be preferable because the outcome of a trial is unpredictable, given the number of factors that go into a trial. Furthermore, sometimes no amount of money awarded in damages by a judge will make the situation right, and ADR may allow for an alternative outcome, such as an explanation and an apology.[28] Finally, ADR may allow for a win-win resolution.[29]

Therearethreemajortypesof ADR:

1. **Negotiation** does not involve a third party, nor is there any guarantee of binding resolution. It is the most common type of ADR since business people routinely settle their differences through discussion.

Mediationisaprocessbywhichaneutralthirdpartywhoisacceptabletobothsidesassiststhemin reachingasettlementbyclarifyingissues,outliningthestrengthsandweaknessesofbothsides,and suggesting possible solutions. The mediator does not render a decision. Mediation is usually voluntary but may be required by contract or, as is sometimes the case in Ontario, by law.

3. **Arbitration** is a process where the parties agree to be bound by the decision of a neutral third partywhoadjudicatesthematter,althoughtheremaybearighttoappealtothecourts.Thearbitrator, who is chosen by the parties for his or her expertise in an area, hears witnesses and reviews evidence. Again, arbitration may be required by contract or law. For example, pursuant to the Canadian Motor Vehicle Arbitration Plan (CAMVAP), contracts between customers and dealers require disputes to be arbitrated before that body rather than through litigation.

Increasingly, mediation and arbitration are combined into Med-Arb, a two-step process that first attemptsmediationbut,ifthatdoesnotwork,empowersthemediatortoimposeabindingsolution.[30]

AdministrativeTribunals

An **administrative tribunal** is a body that resolves disputes arising in administrative law. It is sometimessaidtoexercisea“quasi-judicial”function. Itcanmakebindingdecisionsthat affectlegal rightsbutgenerallyoperatesmoreinformallythancourtsinthat,forinstance,strictrulesofevidence typically don’t apply. Thus, it is “somewhere between a government and a court.”[31] The members of a tribunal are usually selected by the parties or by a statutory process, and are appointed on the basis of special knowledge or extensive experience in an area. Tribunal decisions are highly respected and not easily overturned. If a party is dissatisfied with a tribunal decision, the party can sometimes ask a court for judicial review.
Acourtwillapplyoneoftwostandardsduringajudicialreview.Ifitusesa**reasonablenessstandard**, the court will defer to the tribunal’s expertise and will overturn only those tribunal decisions that are unreasonable.Ontheother hand, a **correctnessstandard**does notrequirejudicial deference, and the court is free to impose the “correct” judgment. The latter standard is used for general issues of law that are not within the tribunal’s area of special knowledge.

The government often inserts a **privative clause** into legislation that creates and empowers a tribunal. Such a clause attempts to prevent a court from exercising judicial review over a tribunal decision. If the clause is properly drafted, the tribunal's jurisdiction is "finaland conclusive" and not usually subject to judicial review.

THELAWOFTORTS

INTRODUCTIONTOTORTLAW

Whatisa Tort?

The word **tort** derives from the French word tort, meaning "wrong." DuPlessis and O'Byrne define a tort as "any harm or injury caused by one person to another–other than through breach of contract–andforwhichthelawprovides aremedy."[32]McInneset al. define atortas "afailuretofulfillaprivate obligation that was imposed by law."[33] Smyth et al. conclude that "there is no entirely satisfactory definition of "tort" but define it as a wrongful act done to the person or property of another."[34]Willes and Willes also emphasize that the area of tort law is "so broad that to determine its limits with any degreeofprecisionwouldbeanimpossibletask"butthattortlawhascharacterizedatortasa"wrong committed against another, or against the person's property or reputation, either intentionally or unintentionally."[35]

The basic premise of tort lawis as follows: An obligationin tort lawis owed to a person(e.g., there is an obligation to provide a client with sound accounting and business advice). If that obligation is broken, the accountant is a **tortfeasor** (one who has committed a tort), and the client would be entitledtosuetheaccountantforanyinjuryor lossessuffered.If theclientwinsthelawsuit, thecourt will hold the accountant liable and will probably order the accountant to pay damages to the client.

Althoughatortandacrimemayarisefromthesamesetoffacts(e.g., hittingsomeoneinvolvesboth the tort of battery and the crime of assault; taking someone's golf clubs is both a tort of conversion and a crime of theft), it is important to distinguish between the two.

Figure2-6drawsfourkey comparisons.

According to the Supreme Court of Canada, "A primary object of the law of tort is to provide compensation to persons who are injured as a result of the actions of others."[36] A second reason why tort law exists is to deter individuals from failing to fulfil private obligations.

Figure 2-6: Tort vs. Crime[37]

	Relevant law	Obligation	Parties involved if obligation is broken	Usual Remedy
Tort	Private law	Defendant owes an obligation to plaintiff	Plaintiff sues defendant	Compensatory damages (usually money)
Crime	Public law	Accused owes an obligation to society	Government prosecutes accused	Punishment (e.g., fine, probation, imprisonment)

Since bothtorts andcontractsinvolveprivate obligations, itis alsonecessarytodistinguishbetween torts and contracts. Both torts and contracts involve **primary obligations** that tell people how they ought to act and **secondary obligations** that tell people how they must act after breaking their primary obligations. Figure identifies four important differences between torts and contracts.

Tortvs. Contract

	Source of Obligation	Enforceability	Compensatory Damages	Risk Management
Tort	Imposed by law	Enforceable even if the parties have no agreement	Place plaintiff in same position as if tort had not occurred	May take a person by surprise and require more than person is able to bear
Contract	Voluntarily created by parties	Enforceable only by or against a party to the contract	Place plaintiff in same position as if contract had been performed	Obligations are known in advance and can be limited to promises that can be fulfilled

Contractsareenforceableonlybypartiestoacontractunderthe**doctrineofprivity**.Morewillbesaid about this in the next section on contracts.

Tort damages are backward looking, placing the plaintiff in theposition heor shewould have been inhadthetortnotoccurred,whereasincontracts,damagesareforwardlooking,placingtheplaintiff in the position he or she would have been in had the contract not been breached. Managers are expected to anticipate the torts that are likely to occur in the course of operating their businesses and to make provisions for any liability that might arise as a result of those torts, either through insurance or self-funding.

Contracts are enforceable only by parties to a contract under the **doctrine of private**. More will be said about this in the next section on contracts.

Tort damages are backward looking, placing the plaintiff in theposition heor shewould have been inhadthetortnotoccurred,whereasincontracts,damagesareforwardlooking,placingtheplaintiff in the position he or she would have been in had the contract not been breached. Managers are expected to anticipate the torts that are likely to occur in the course of operating their businesses and to make provisions for any liability that might arise as a result of those torts, either through insurance or self-funding.
fault schemes also respond to complaints about the cost and inefficiency of the adversarial tort law system. “Studies suggest that less than one-third of all the money involved in the tort system is actually used for compensating injuries.

On the other extreme, responding to the pressure of social needs has resulted in the principle of **vicariousliability**, to bediscussed inmore detailshortly, where en employer may be held liablefor torts committed by employees in the course of their employment.

MainTypesofTorts

There are three main categories of torts as shown in Figure 2-8. Each of these will be discussed in more detail later on.

FigureMainCategoriesof Torts

Figure 2-8: Main Categories of Torts

Type	Necessary to prove:	Examples
Intentional torts occur when a person intentionally acts in some ways.	Generally that the person intended to do the specific act; in certain intentional torts, that the person intended the harm that resulted.	Assault, trespass to land, interference with contractual relations, deceit.
Negligence torts occur when a person acts carelessly.	That a reasonable person would not have acted that way.	Negligence, professional negligence, and product liability.
Strict liability torts occur when a person does something wrong without intending to do so and without acting carelessly.	That the act occurred.	Extremely dangerous activities like storing hazardous goods or keeping wild animals.

GENERALPRINCIPLESOFTORTLAW

Severalgeneralprinciplesorconceptsapplythroughouttortlaw:burdenofproof,liability,defenses, and remedies. Therefore, these concepts will be discussed before exploring specific torts.

Burdenof Proof

Since torts are civil actions rather than criminal actions, the plaintiff must prove his or her case on a **balanceofprobabilities**.Innumericalterms,thismeansthatthereisabetterthan50%chancethat the plaintiff was harmed by the defendant.[45]

In certain circumstances, because it can be difficult for a plaintiff to know all ofthe particulars about a tort committed against him or her, the plaintiff may initially meet this burden of proof using circumstantialevidence.Theburdenofproofthenshiftstothedefendanttoprove—alsoonabalance of probabilities—that he or she was not at fault.[46]

Liability

Tort law recognizes both **primary liability**, which arises from one’s own personal wrongdoing, and **vicarious liability,** which arises because of a relationship with the person who actually committed a wrong. It alsorecognizes that morethan oneperson mayberesponsiblefor atort (**jointtortfeasors**) andthatthedefendantmaybeatleastpartiallytoblamefortheharmthathashappened(**contributory negligence**).Finally,italsorecognizestheroleof**insurance**inmanagingrisksassociatedwithtorts.

VicariousLiability

Under the doctrine of **vicarious liability,** an employer is liable for a tort that was committed by an employeeprovidedthatthetortwascommittedduringthecourseoftheemployee’semployment.An employerisnotliablefortortscommittedbyindependentcontractors.Thecourtsareinclinedtoview a person as an employee rather than an independent contractor, regardless of what the person is called by the employer, if:

1. Theemployergenerallycontrolswhatisdone,howitisdone,whenitisdone,andwhereitisdone.

2. Theworkerusestheemployer’sequipmentandpremises.

3. Theworkerispaidaregularwageorsalaryinstead of alumpsum attheendof eachproject.

4. Theworkerisintegratedinto theemployer’sbusinessandisnotinhisor her own business.[47]

Under the doctrine of vicarious liability, tort victims may sue both the employer and the employee and may recover all or some of their damages from either defendant. If the employer pays, it can claim that amount from the employee. This is seldom done due to the employee’s

inability to pay and the poor impact it would have on productivity if employees were fearful of being held liable for actions done in the course of their jobs.

Vicarious liability serves tort law’s compensatory function by allowing collection from an employer whoismorelikelytobeabletopayortohaveinsurance.Itservesasadeterrentsinceitencourages employerstoavoidveryhazardousactivitiesandtohirequalifiedpeopleand engageintraining.It is alsoviewedasfairtorequireabusinesstobearresponsibilityforthelossesitsactivitiescreate,even if those losses were due to the misdeeds of employees.[48]

LiabilityandJointTortfeasors

Whentwoormorepeopleareheldtobejointlyresponsibleforthevictim’sloss,theplaintiff“cansue any or all of them, with recovery apportioned between the joint tortfeasors according totheir level of responsibility.”Nevertheless,theplaintiffcanactuallyrecover100%ofthejudgmentfromanyoneof those defendants, thus making it possible for the plaintiff to collect from those in the best position to pay the damages.[49]

ContributoryNegligence

Theplaintiffmaybeheldbythecourttobepartiallyresponsiblefortheharmorlossthatwasincurred. Ifthedefendant’sdefenceofcontributorynegligenceissuccessful,theamountofdamagesawarded to the plaintiff will be reduced by the proportion for which the plaintiff is responsible. For example, if damages are $25,000, and the plaintiff is held to be 20% responsible, the damages paid would actually be $20,000.

LiabilityInsurance

In keeping with good risk management by businesses, it is considered prudent to purchase **liability insurance**.Thisisa“contractinwhichaninsurancecompanyagrees,inexchangeforaprice,topay damages on behalf of a person who incurs liability.”[50] Liability insurance also includes a **duty to defend**, whereby the insurance company pays the expenses related to lawsuits against the insured party.

While liability insurance contributes to the **compensatory function** of torts, which aims to fully compensatethosewho are wrongfullyinjured, it can alsoundermine the **deterrencefunction**when people know that their insurance companies will pick up thetab if something goes wrong. However, theremaystillbeadeterrentsinceexcessiveclaimswilltranslateintohigherinsurancepremiumsor difficultyobtaininginsurance.Insurancecontractsmayalsocontainexclusionsthatshiftsomeliability to the insurer.

Defences

Morewillbesaidaboutspecificdefenseswhenindividualtortsarediscussedsincethedefencevaries depending on the tort. However, there are a few common defenses:

• Contributorynegligence–Thiswasdiscussedearlier.

• Consent–Thedefendanteitherconsentedtotheactionorvoluntarilyassumedtheriskinherentin the eventthatgaverisetotheloss.

LimitstoDamagesinTorts

Intortlaw,therearevariouslegallimitstocompensationforlossessufferedasnoteveryconceivable loss of a plaintiff can be compensated. These include:

• **Lackof causation** -Thedefendant'sactiondidnotcausetheplaintiff'sdamages.

• **Too remote** -The relationship between the defendant's action and the plaintiff's loss is too remote, i.e.,thedefendantcouldnothavereasonablyforeseenthetypeofdamagethatoccurred.

• **Failure to mitigate** –Where the plaintiff fails to take reasonable steps to minimize losses, the damages awarded will be capped at what the court deems they would have been had the plaintiff mitigated his or her damages.

RemediesunderTortLaw

Figureidentifiesthevariouscategoriesofremediesavailableundertortlawandtheirpurposes

Figure:TortLaw RemediesandtheirPurposes

CompensatoryDamages

Compensatorydamagesrequirethedefendanttopayforthelossestheplaintiffsufferedasaresult ofthetort.Asnotedearlierwhencomparingtortsandcontracts,thegoalistoputtheplaintiffbackto the position the plaintiff enjoyed before the tort occurred. There are two types: special and general.

Special damagescompensate the victim for out-of-pocket expenses that are fairly easytoquantify, e.g., medical bills, the cost of repairing a car, or actual lost wages. **General damages** include more speculative items like future loss of earnings due to disability and non-pecuniary (non-monetary) losses such as awards for pain and suffering, loss of enjoyment of life, and loss of life expectancy.

Compensationwillbeawardedonlyifthedefendant'swrongdoingcausedtheplaintifftosufferaloss and if the connection between the tort and that loss is not too remote. A loss is **too remote** if a reasonable person in the position of the wrongdoer could not have reasonably anticipated the harm thatflowedfromtheact.Aswell,itisintheplaintiff'sbestinteresttotakereasonablestepsto**mitigate** thelossbecausetheplaintiff willonlybe compensatedforthoselossesthatcouldnotreasonablybe avoided.

PunitiveDamages

Punitive damages are rare. They are awarded to punish a defendant who has acted in a "harsh, vindictive, reprehensible and malicious" manner.[51] The Supreme Court also requires that punitive damages be proportional to the tort and "no more than necessary to punish the defendant, deter wrongdoers, or convey denunciation of the defendant's conduct."[52]

NominalDamages

Nominaldamagesarenominalmonetaryamountsawardedtorecognizethatatortwascommittedbut that no damages occurred. They are restricted to intentional torts and strict liability torts.

Injunctions

Injunctions are court orders that require the offending party to do something or to refrain from doing something.Theyareusedwhencompensatorydamagesareinadequatetoreplacewhattheplaintiff has lost. For instance, an injunction may restrain the defendant from trespassing on the plaintiff's property; or in the case of **conversion of property** (wrongful exercise of control Over another's property), the court may order **restitution**, the restoring of the property to its rightful owner.

SECTION2-3:INTENTIONALTORTS

Intentionaltorts"involveintentional,ratherthanmerelycareless,conduct."Intentiondoesnotalways meanthatthedefendantintendedtocauseharmbutmaysimplymeanthatthedefendant"knewthat aparticularactwouldhaveparticularconsequences."Figure2-10describescommonintentionaltorts that are relevant to businesses.[53 54]

FigureIntentionalTorts

Tort	Description of Harmful Act	Defences
Assault	Reasonable belief that threat of offensive bodily contact (see battery) is imminent.	**For both assault and battery:** Informed and complete consent Necessity: act was justified by emergency.
Battery	Offensive bodily contact: touching plaintiff or plaintiff's clothing with fist, knife, bullet, etc.; applies to businesses that control crowds or rude customers and to medical doctors who perform procedures against a patient's wishes.	Self-defence; the force used must be reasonable Provocation: words and actions that would cause a reasonable person to lose self-control; this is a partial defence that would only reduce damages.
False Imprisonment	Complete physical restraint or psychological submission without authority, e.g., a security guard demands that a customer accompany him back inside store.	No actual confinement. Authority to arrest because crime had been committed.
Defamation	A published false and derogatory statement in spoken (**slander**) or written (**libel**) form.	Justification: statement was true Absolute privilege: statement was made in Parliament or court. Qualified privilege: statement was made in the course of duty, in the belief that it was true, and communicated only to those who needed to know (e.g., reference letter). Fair comment: statement expressed an opinion on matter of public interest.

Some of the torts in Figure (e.g., assault and battery, defamation) also give rise to criminal prosecution, but the Crown is concerned only with the criminal aspect. The victim must pursue an action in civil court to obtain compensation for any losses.

Regardingthetortofdefamation,useoftheInternettomakeanddisseminatedefamatorystatements can makeitdifficulttoidentifyandlocatethemaker ofthestatements, butthefullrangeof remedies is available once defamation is proven. Compared to the traditional tort of defamation, the harm associated with **Internet defamation** is not limited to a particular geographic area, and damages awarded may reflect this. In a 2008 case, Griffin v. Sullivan, the B.C. Supreme Court "awarded the injured plaintiff not only substantial general damages, damages for breach of privacy, special damages, and aggravated damages, but an injunction as well."

Surprisingly,untilveryrecentlyCanadahadnotyetrecognizedageneraltortof**invasionofprivacy**. The courts have been reluctant to recognize such a tort because they want to support freedom of expression and freedom of information. They also want to balance the interests of both parties. However, privacy has been indirectly related to several torts. A photographer who sneaks onto someone's land to take unauthorized pictures commits the tort of trespass. Employees who publish embarrassing information about their employer's private life may be guilty of breach of confidence. English courts have also recognized a tort of abuse of information. Unauthorized use of celebrity images to sell products may be misappropriation of personality.

In a unanimous decision, in January 2012, theOntario Court of Appealrecognized a tort of invasion of privacy. Part of the rationale was that "The internet and digital technology have brought an enormous change in the way we communicate and in our capacity to capture, store, knew that loss or harm was reasonably foreseeable. Some of these business torts may also give rise to an action forbreachofcontract.Whilethevictimmaysuethedefendantforbothatortandabreachofcontract, the plaintiff cannot recover full damages under both actions. This will be discussed in more detail in the section on contract law.

Figure2.11:BusinessTorts

Tort	Description	Elements of Proof
Conspiracy	Two or more people agree to act together to cause the plaintiff financial loss.	If act is otherwise lawful: primary purpose was to hurt plaintiff. If act is otherwise unlawful: defendants should know the act might hurt plaintiff.
Intimidation	Threat to commit an unlawful act directed against plaintiff (two-party intimidation) or a third party (three-party intimidation).	Threatened party gives in to threat. Plaintiff suffers a loss because of threat.
Interference with contractual relations (inducement to breach of contract)[60]	Disruption of a contract between plaintiff and a third party by persuading a third party to break its contract with plaintiff; e.g., hire a third party for a job that will make it impossible for that person to work for plaintiff.	Defendant knows about contract. Defendant intends to cause third party to breach contract. Defendant actually causes third party to breach contract. Plaintiff suffers a loss because of breach.

Unlawful interference with economic relations	Unlawful act committed for the purpose of causing plaintiff to incur an economic loss; this is a more general tort than the previous three.	There is intent to injure plaintiff. There is an unlawful or illegal act or, more generally, something that a person is not entitled to do. Plaintiff suffers an economic loss.
Deceit	Making a false statement—includes telling a half-truth and failing to update information; under the general rule of **caveat emptor** (buyer beware), a seller is usually not obligated to volunteer information.	Defendant knows statement is false or acted recklessly and without regard to the truth. Defendant intends to mislead plaintiff Plaintiff suffers a loss as a result of reasonable reliance on statement.
Passing Off	Represent another's goods or services as one's own, either expressly or by implication.	Goodwill exists in terms of look or distinctiveness of plaintiff's product. The public is deceived by this misrepresentation. Plaintiff suffers actual or potential loss.
Injurious falsehood (slander of quality; product defamation)	Falsely discredit another person's products or services, causing potential customers to take business elsewhere (e.g., negative advertising).	False statement was made with malice or improper motive; a reckless disregard for the truth or falsity of the statement is sufficient. Defendant's statement caused plaintiff to suffer a loss.
Occupier's Liability	Failure by occupier of premises to take adequate precautions to protect visitors.	Varies by jurisdiction and may depend on whether the visitor is a trespasser, licensee/invitee, or contractual entrant.

In Ontario, Alberta, British Columbia, Manitoba, Nova Scotia, and Prince Edward Island, occupiers' liability is now covered by legislation. The basic principles of such legislation are that it covers both activitiesthatoccuronthepremisesaswellastheconditionofthepremises(onlythelatteriscovered under common law). The same standard of reasonable care applies to all visitors, but the standard imposed depends on the potential danger to the visitor, the occupier's cost of removing the danger, thepurposeofthevisit,andthenatureofthepremises.Forexample,inOntario,anexemptionwithin the statute requires only that the occupier refrain from intentionally hurting certain types of trespassers. Occupiers can normally avoid liability by issuing a warning, such as the warning signs posted at a ski resort or parking garage.

NEGLIGENCE

Negligence is a careless act that causes harm to another person. As with other torts, the victim is entitled to take legal action to be compensated for that loss or injury. In adjudicating tort cases, the goal is to find the right balance that appropriately compensates victims of negligence yet does not discouragelegitimateactivityormakethelegalstandardsforbusinessestooonerous.Whiletheterm "professional negligence" is often used, there is no separate tort by that name; it merely refers to negligence committed by a professional person like an accountant or lawyer.

Burdenof Proof

Tosucceedinanegligenceaction,theplaintiffmustprovethatthedefendant:1)owedadutyof care; 2) breached the standard of care; and 3) caused harm to the plaintiff. Each of these elements will be discussed in more detail in the following pages.

Step1:WasaDutyof CareOwed?

According to the **neighbour principle**, "a defendant owes a duty of care to anyone who might be reasonablyaffectedbythe defendant'sconduct."[62]Basedon Donoghuev.Stevenson,theCanadian courts have developed a unique test for whether a duty of care is owed. In the first place, the judge will ascertain whether or not the duty of care question has already been answered for the particular typeofcasebeinglitigated.Forexample,adutyofcareisowedbyabeveragebottlertoaconsumer. Ifthereisnoexistingprecedent,adutyofcarewillbeestablishedonlyif1)itisreasonablyforeseeable that the plaintiff could be injured by the defendant's carelessness, 2) there was a relationship of sufficient proximity, and 3) there are no public policy grounds for denying the duty of care.[63]

ReasonableForeseeability

This is an objective test of whether a reasonable person in the defendant's position would have recognized the possibility that his activities might injure the plaintiff. The theory is that the plaintiff should not be denied compensation simply because the defendant was not paying attention; on the other hand, it would be impossible for any defendant to foresee all possible dangers.

ProximityorCausation

Put simply, "there must somehow be a close and direct connection between the parties." Therefore, depending on the facts of the situation, a relationship of proximity may arise from:

• Physicalproximity;

• Asocialrelationship(e.g.,parentandchild);

• Acommercialrelationship(e.g.,storeandpatron);

• Adirectcausalconnectionbetweenthedefendant'scarelessnessandtheplaintiff'sinjury;and/or

• Theplaintiff'srelianceonthefactthatthedefendantrepresentedthatitwouldactinacertainway.

In establishing proximity, the law treats careless statements differently from careless actions. This is because the risks associated with statements are often far less apparent than the risk associated with actions. As well, the impact of a careless statement can be almost limitless whereas the risks associated with physical actions are limited in time and space. Finally,

Step2:WastheStandard ofCareBreached?

The **standard ofcare**indicates howa defendant should act; it is **breached** when thedefendant acts less carefully.
Thestandardof careis basedon themythical **reasonableperson**, someone of "normalintelligence whomakesprudenceaguidetohisconduct."Figure2-12.[67]Inotherwords,itis"someoneofaverage intelligencewhowillprudentlyexercisereasonablecare,consideringallofthecircumstances."Some of the relevant factors pertaining to the reasonable persontest are shown in Thetest is an objective test. It does not make allowances for a defendant's personal characteristics, including, to a certain extent,mentalorphysicaldisability.Forinstance,thelawwouldnot expectablindpersontoseebut

it would expect the person not to drive a car. Children are expected to act like a reasonable child of a similar age, intelligence, and experience.

Thestandardrelatestohowareasonablepersonwouldactinsimilarcircumstances.

Areasonablepersontakesprecautionsagainstreasonablyforeseeablerisksevenif theyareunlikely to occur.

Areasonablepersontakesgreatercarethemorelikelyharmistooccurandthemoreseveretheharm might be.

- Areasonablepersontakesaffordableprecautions.

MARKETINGMANAGEMENT

Basicprinciplesofmarketingandmanagement

DefinitionandCoreConcept,MarketingTools,P's-Product,Price,Placeand Promotion

INTRODUCTION

'Marketingis sobasic that it cannot beconsideredas separatefunction.Itisthewholebusiness seen from the point of view of its final result, that is, from the customer's point of view'. - Peter Drucker.

Marketingisindeedanancientart;ithasbeenpracticedinoneform ortheother,sincethedays ofAdamandEve.Today,ithasbecomethemostvitalfunctionintheworldofbusiness.Marketing is the business function that identifies unfulfilled needs and wants, define and measures their magnitude,determineswhichtargetmarkettheorganizationcanbestserve,decideson appropriateproducts,servicesandprogrammestoservethesemarkets,andcallsuponeveryone in the organization to think and serve the customer.

Marketingistheforcethatharnessesanation's industrialcapacitytomeetthesociety'smaterial wants. It uplifts the standard of living of people in society. Marketing must not be seen narrowly asthetaskoffindingcleverwaystosellthecompany'sproducts.Manypeopleconfusemarketing withsomeof itssubfunctions,suchasadvertisingandselling.Authenticmarketingisnottheart of selling what you make but knowing what to make.

It is the art of identifying and understanding customer needs and creating solutions that deliver satisfaction to the customers, profit to the producers, and benefits for the stakeholders. Market leadership is gained by creating customer satisfaction through product innovation, product quality,andcustomerservice.Ifthesearеabsent,noamount ofadvertising,salespromotion,or salesmanship can compensate.

William Davidow observed: 'While great devices are invented in the laboratory, great products areinventedinthemarketingdepartment'.Toomanywonderfullaboratoryproductsaregreeted with yawns or laughs. The job of marketers is to 'think customer' and to guide companies to developoffersthataremeaningfulandattractivetotargetcustomers.Alreadyseachangeshave been taking place in the global economy.

Old business road maps cannot be trusted. Companies are learning that it is hard to build a reputationandeasytoloseit.Thecompaniesthatbestsatisfytheircustomerswillbethewinners.

It is the special responsibility of marketers to understand the needs and wants of the market place and to help their companies to translate them into solutions that win customers approval. Today's smart companies are not merely looking for sales; they are investing in long term, mutually satisfyingcustomerrelationshipsbasedondeliveringquality,serviceandvalue.

1.3Definitionsandterminology

There are as many definitions of marketing as many scholars or writers in this field. It has been definedinvariouswaysbydifferentwriters.Therearevaryingperceptionsandviewpointsonthe meaning and content of marketing. Some important definitions are:

- Marketingisasocialandmanagerialprocessbywhichindividualsandgroupsobtainwhat they need and want through creating, offering and exchanging products of value with others.
- Marketing is the process by which an organization relates creatively, productively and profitably to the market place
- Marketingis theart of creatingandsatisfyingcustomers ataprofit.
- Marketing is getting the right goods and services to the right people at the right places at the right time at the right price with the right communication and promotion.
- Muchofmarketingisconcernedwiththeproblemofprofitablydisposingwhatisproduced.
- Marketingisthephenomenonbroughtaboutbythepressuresofmassproductionand increased spending power.
- Marketingistheperformanceofbusinessactivitiesthatdirecttheflowofgoodsand services from the producer to the customer.
- Marketingistheeconomicprocessbywhichgoodsandservicesareexchangedbetween the maker and the user and their values determined in terms of money prices.

- Marketing is designed to bring about desired exchanges with target audiences for the purpose of mutual gain.
- Marketing activities are concerned with the demand stimulating and demand fulfilling efforts of the enterprise.
- Marketing is the function that adjusts an organization's offering to the changing needs of the market place.
- Marketing is a total system of interacting business activities designed to plan, promote, and distribute need satisfying products and services to existing and potential customers.
- Marketing origination with the recognition of a need on the part of a consumer and terminationwiththesatisfactionofthatneedbythedeliveryofausableproductattheright time, at the right place, and at an acceptable price. The consumer is found both at the beginning and at the end of the marketing process.
- Marketingisaviewpoint,whichlooksattheentirebusinessprocessasahighlyintegrated effort to discovery, arouse and satisfy consumer needs.

It is obvious from the above definitions of marketing that marketing has been viewed from different perspective. Now it is imperative to discuss the important terms on which definition of marketingrests:needs,wants,anddemands;products;value,cost,andsatisfaction; exchange, transactionsandrelationships;markets;andmarketers.Thesetermsarealsoknownasthecore concepts in marketing.

Needs,wantsand demands

Marketing starts with the human needs and wants. People need food, air, water, clothing and shelter to survive. They also have a strong desire for recreation, health, education, and other services. They have strong performances for particular versions and brands of basic goods and services.

A human need is a state of felt deprivation of some basic satisfaction. People require food, clothing,shelter, safety,belonging,esteem andafewotherthingsforsurvival.Theseneedsare not created by their society or by marketers; they exist in the very texture of human biology and the human condition. Wants are desires for specific satisfiers of these deeper needs.

For example, one needs food and wants a pizza, needs clothing and wants a Raymond shirt. Theseneedsaresatisfiedindifferentmannersindifferentsocieties.Whilepeopleneedsarefew, their wants are unlimited. Human wants are continually shaped and reshaped by social forces and institutions. Demands are wants for specific products that are backed up by an ability and willingness to buy them. For example, many people want to buy a luxury car but they lack in purchasing power.

Companies must therefore measure not only how many people want their products, but, how many would actually be willing to buy and finally able to buy it. Marketers do not create need, theysimplyinfluencewants.Theysuggesttoconsumersthataparticularproductorbrandwould satisfy a person's need for social status. They do not create the need for social status but try to pointoutthataparticularproductwouldsatisfythatneed.Theytrytoinfluencedemandbymaking the product attractive, affordable, and easily available.

Products

Peoplesatisfytheirneedsandwantswithproducts.Productcanbedefinedasanythingthatcan be offered to someone to satisfy a need or want. The word product brings to mind a physical object,suchasT.V.,Car,andCameraetc.Theexpressionproductsandservicesareused distinguish between physical objects and intangible ones. The importance of physical products does not lie in owning them rather using them to satisfy our wants. People do not buy beautiful cars to look at,

but because it supply transportation service. Thus, physical products are really vehicles that deliverservicestopeople.Servicesarealsosuppliedbyothervehiclessuchaspersons,places, activities, organizations and ideas. If people are bored, they can go to a musical concert (persons)forentertainment,traveltobeautifuldestinationlikeShimla(place),engageinphysical exercise (activity) in health clubs, join a laughing club (organization) or adopt a different philosophy about life (idea).

Servicescanbedeliveredthroughphysicalobjectsandothervehicles.Thetermproductcovers physicalproducts,serviceproducts,andothervehiclesthatarecapableofdeliveringsatisfaction of a need or want. The other terms also used for products are offers, satisfiers, or resources. Manufacturers pay more attention to their physical products than to the services produced by these products.

Theylovetheirproductsbutforgetthatcustomersbuythem tosatisfytheirneed.Peopledonot buyphysicalobjectfortheirownsake.Atubeoflipstickisboughttosupplyaservice:helpingthe persontolookbetter.Adrillisboughttosupplyaservice:producingholes.Themarketer’sjobis tosellthebenefitsorservicesbuiltintophysicalproductsratherthanjustdescribetheir physical features. **Value, cost, and satisfaction**

How do consumers choose among the various products that may satisfya given need is very interestingphenomenon.Ifastudentneedstotravelfivekilometerstohiscollegeeveryday,he maychooseanumberofproductsthat willsatisfythisneed:abicycle,amotorcycle,automobile and a bus. These alternatives constitute product choice set. Assume that the student wants to satisfy different needs in traveling to his college, namely speed, safety, ease and economy.

These are called the need set. Each product has a different capacity to satisfy different needs. Forexample,bicyclewillbeslower,lesssafeandmoreeffortfulthananautomobile,butitwould be more economical. Now, the student has to decide on which product delivers the most satisfaction. Here comes the concept of value.

The student will form an estimate of the value of each product in satisfying his needs. He might rank the products from the most need satisfying to the least need satisfying. Value is the consumer’sestimateoftheproduct’soverallcapacitytosatisfyhisorherneeds.Thestudentcan imaginethecharacteristicsofanidealproductthatwouldtakehimtohiscollegeinasplitsecond with absolute safety, no effort and zero cost.

Thevalueofeachactualproductwoulddependonhowcloseitcametothisidealproduct.Assume the student is primarily interested in the speed and case of

gettingtocollege.Ifthestudentwasofferedanyoftheabovementionedproductsatnocost,one can predict that he would choose an automobile.

Here comes the concept of cost. Since each product involves a cost, the student will not necessarilybuyautomobile.Theautomobilecostssubstantiallymorethanbicycleormotorcycle. Therefore, he will consider the product’s value and price before making a choice.

He will choose the product that will produce the most value per rupee. Today’s consumer behavior theorists have gone beyond narrow economic assumptions of how consumers form value in this mind and make product choices. These modern theories on consumer behaviour are important to marketers because the whole marketing plan rests on assumptions about how customersmakechoices.Thereforetheconceptof value,costandsatisfactionarecrucialto the discipline of marketing.

Exchange,transactionsandrelationships

The fact that people have needs and wants and can place value on products does not fully explain the concept of marketing. Marketing emerges when people decide to satisfy needs and wants through

exchange.Exchangeisoneofthefourwayspeoplecanobtainproductstheywant.Thefirstway is self production. People can relieve hunger through hunting, fishing, or fruit gathering. In this casethereisnomarketormarketing.Thesecondwayiscoercion.Hungrypeoplecanstealfood from others.

The third way is begging. Hungry people can approach others and beg for food. They have nothing tangible to offer except gratitude. The fourth way is exchange. Hungry people can approachothersandoffersomeresourceinexchange,suchasmoney,anotherfood,orservice.
Marketing arises from this last approach to acquire products. Exchange is the act of obtaining a desired product from someone byoffering something in return. For exchange to take place, five conditions must be satisfied:

- Thereareat leasttwoparties.
- Eachpartyhassomethingthatmightbeofvalue tothe otherparty.
- Eachpartyiscapableofcommunicationand delivery.
- Eachpartyisfree to acceptorrejectthe offer.
- Eachpartybelievesitisappropriateor desirabletodealwiththeother party.

Iftheaboveconditionsexist,thereisapotentialforexchange.Exchangeisdescribedasavalue creating process and normally leaves both the parties better off than before the exchange. Two parties are said to be engaged in exchange if they are negotiating and moving towards an agreement.

Theprocessoftryingtoarriveatnaturallyagreeabletermsiscallednegotiation. Ifanagreement is reached, we say that a transaction takes place. Transactions are the basic unit of exchange.

A transaction consists of a trade of values between two parties. A transaction involves several dimensions; at least two things of value, agreed upon conditions, a time of agreement, and a placeofagreement.Usuallyalegalsystemarisestosupportandenforcecomplianceonthepart of the transaction.

A transaction differs from a transfer. In a transfer A gives X to B but does not receive anything tangible in return. When A gives B a gift, a subsidy, or a charitable contribution, we call this a transfer. Transaction marketing is a part of longer idea, that of relationship marketing. Smart marketers try to build up long term, trusting, 'win-win' relationships with customers, distributors, dealers and suppliers.

Thisisaccomplishedbypromisinganddeliveringhighquality,goodserviceandfairpricestothe other party over time. It is accomplished by strengthening the economic, technical, and social ties between members of the two organizations.

The two parties grow more trusting, more knowledgeable, and more interested in helping each other.Relationshipmarketingcutsdownontransactioncostsandtime.Theultimateoutcomeof relationship marketing is the building of a unique company asset called a marketing network.

A marketing network consists of the company and the firms with which it has built solid, dependable business relationships.

Markets

The concept of exchange leads to the concept of market. A market consists of all the potential customerssharingaparticularneedorwantwhomightbewillingandabletoengageinexchange to satisfy that need or want.
The size of market depends upon the numberof persons who exhibit the need, have resources that interest others, and are willing to offer these resources in exchange for what they want. Originally the term market stood for the place where buyers and sellers gathered to exchange their goods, such as a village square.

Economists use theterm market torefer to acollection of buyers and sellers who transact over a particular product or product class; i.e. the housing market, the grain market, and so on. Marketers, however, see the sellers as constituting the industry and the buyers as constituting the market. Business people use the term markets colloquially to cover various groupings of customers.

They talk need markets (such as diet-seeking market); product markets (such as the shoe market);demographicmarkets(suchastheyouthmarket);andgeographicmarkets(suchasthe Indianmarket).Theconceptisextendedtocovernon-customergroupingsaswell,suchasvoter markets, labour markets, and donor markets.

Marketing,marketers,andmarketingmanagement

Theconceptofmarketsbringthefullcircletotheconceptofmarketing.Marketingmeanshuman activitiestaking placein relation tomarkets.Marketingmeans working withmarketstoactualize potential exchanges for the purpose of satisfying human needs and wants.

If one party is more actively seeking an exchange than the other party, we call the first party a marketer and the second party a prospect. A marketer is someone seeking a resource from someone else and willing to offer

somethingof value in exchange. Themarketer is seekingaresponse from theother party, either to sell something or to buy something. Marketer can be a seller or a buyer.

Supposeseveralpersons wanttobuyanattractivehousethathasjustbecameavailable.Each wouldbebuyerwilltrytomarkethimselforherselftobetheonethesellerselects.Thesebuyers are doing the marketing. In the event that both parties actively seek an exchange, we say that both of them are marketers and call the

situationoneofreciprocalmarketing.Inthenormalsituation,themarketerisacompanyserving amarketofendusersinthefaceofcompetitors.Thecompanyandthecompetitorssendtheir respective products and messages directly and/or through marketing intermediaries i.e. middlemen and facilitators to the end users.

Marketing management takes place when at least one party to a potential exchange gives thought to objectives and means of achieving desired responses from other parties. According to American Marketing Association, 'Marketing Management is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives'.

Thisdefinitionrecognizesthatmarketingmanagementisaprocessinvolvinganalysis,planning, implementation, and control; that it covers ideas, goods and services; that it rests on the notion of exchange; and that the goal is to produce satisfaction for the parties involved.

Marketingconcepts

Firms vary in their perceptions about business, and their orientations to the market place. This has led to the emergence of many different concepts of marketing. Marketing activities should be carried out under some well-thought out philosophy of efficient, effective, and responsible marketing.Therearesixcompetingconceptsunderwhichorganizationsconducttheirmarketing activity.

1. **Exchange concept** The exchange concept of marketing, as the very name indicates, holds that the exchange of a product between the seller and the buyer is the central idea of marketing. While exchange does form a significant part of marketing,toviewmarketingasmoreexchangewillresultinmissingouttheessence of marketing.
   Marketingismuchbroaderthanexchange.Exchange,atbest,coversthedistribution aspect andthepricemechanism.Theother important aspects of marketing, suchas, concern for the customer, generation of value satisfactions, creative selling and integrated action for serving customer, are completely overshadowed in exchange concept.
2. **Production concept** It is one of the oldest concepts guiding sellers. The production concept holds that customers will favor those products that are widely availableandlowincost.Managersofproduction-orientedorganizationsconcentrate on achieving high production efficiency and wide distribution coverage.The assumption that consumers are primarily interested in product availability and low price holds in at least two types of situations. The first is where the demand for a productexceedssupply.Hereconsumersaremoreinterestedinobtainingtheproduct than in its fine points. The suppliers will concentrate on finding ways to increase production. The second situation is where the product's cost is high and has to be brought down through increased productivity to expand the market.
3. **Theproductconcept**Theproductconceptholdsthatconsumerswillfavourthose products that offer quality or performance. Managers in these productoriented organizations focus their energy on making good products and improving them over time.
   These managers assume that buyers admire well-made product and can appraise product qualityand performance. Thesemanagers are caught up in a love affair with their product and fail to appreciate that the market may be less "turned on" and may even be moving in different direction. The product concept leads to "marketing myopia", an undue concentration on the product rather than the need.

Railroadmanagementthoughtthatuserswantedtrainsratherthantransportationand overlooked the growing challenge of the airlines, buses, trucks, and automobiles. Slide-rule manufacturers thought that engineers wanted slide rules rather than the calculating capacity and overlooked the challenge of pocket calculators.

4. **The selling concept** The selling concept holds that consumers, if left alone, will ordinarily not buy enough of the organization's products. The organization must therefore an aggressive selling and promotion effort.
   The concept assumes that consumers typically show buying inertia or resistance and havetobecoaxedintobuyingmore,andthatthecompanyhasavailableawhole battery of effective selling and promotion tools to stimulate more buying. The selling concept is practiced most aggressively with "sought goods", those goods that buyers normally do not think of buying, such as insurance, encyclopedias, and funeral plots.
   Theseindustrieshaveperfectedvarioussalestechniquestolocateprospectsand hard-sell themon the benefits of their product. Hard selling also occurs with soughtgoods, such as automobiles. Most firms practice the selling concept when they have overcapacity. Their aim is tosell what theymakerather thanmake what theycansell.
   Thusselling,tobeeffective,mustbeprecededbyseveralmarketingactivitiessuchas needs assessment, marketing research, product development, pricing, and distribution.
   If the marketer does a good job of identifying consumer needs, developing appropriate products, and pricing, distributing, and promoting them effectively, these products will sell very easily.
   WhenAtaridesigneditsfirstvideogame,andwhenMazdaintroduceditsRX-7sports car, thesemanufacturers were swamped with orders because theyhad designed the "right" product based on careful marketing homework. Indeed, marketing based on hard selling carries high risks.
   It assumes that customers who are coaxed into buying the product will like it; and if they don't, they won't bad-mouth it tofriends or complain to consumer organizations. And they will possibly forget their disappointment and buy it again. These are indefensibleassumptionstomakeaboutbuyers.Onestudyshowedthatdisappointed customersbad-mouththeproducttoelevenacquaintances,whilesatisfiedcustomers may good-mouth the product to only three.

5. **The marketing concept** The marketing concept holds that the key to achieving organizational goals consists in determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors. Theodore Levitt drew a perceptive contrast between the selling and marketing concepts.
   Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the productandthewholeclusterofthingsassociatedwithcreating,deliveringandfinally consuming it.
   a. **Market focus:** No company can operate in every market and satisfy every need.Norcanitevendoagoodjobwithinonebroadmarket:EvenmightyIBM cannot offer the best customer solution for every computer need. Companies do best when they define their target markets carefully. They do best when they prepare a tailored marketing program for each target market.

b. **Customerorientation:**Acompanycandefineitsmarketcarefullyandstillfail at customer-oriented thinking. Customer-oriented thinking requires the company to define customer needs from the customer point of view, not from its own point of view. Every product involves tradeoffs, and management cannot know what these are without talking to and researching customers. Thus a car buyer would like a high-performance car that never breaks down, thatissafe,attractivelystyled,andcheap.Sinceallof thesevirtuescannotbe combined in one car, the car designers must make hard choices not on what pleasesthembutratheronwhatcustomerspreferorexpect.Theaim,afterall, is to make a sale through meeting the customer's needs. Why is it supremely important to satisfythecustomer? Basicallybecause a company's sales each period come from two groups: customers and repeat customers.
Italwayscostsmoretoattractnewcustomersthantoretaincurrentcustomers.
Therefore customer retention is more critical than customer attraction.

c. **Coordinated marketing:** Unfortunately, not all the employees in a company are trained or motivated to pull together for the customer. Coordinated marketingmeanstwothings.First,thevariousmarketingfunctions-salesforce, advertising, product management, marketing research, and so on- must be coordinated among themselves.
Too often the sales-force ismad at the productmanagersfor setting "too high a price" or "too high a volume target", or the advertising director and a brand managercannotagree onthebestadvertising campaignforthebrand. These marketing functions must be coordinated from the customer point of view.
Second, marketing must be well coordinated with the other departments. Marketingdoesnotworkwhenitismerelyadepartment;itonlyworkswhenall employees appreciate the effect they have on customer satisfaction.

d. **Profitability:** The purpose of the marketing concept is to help organizations achieve their goals. In the case of private firms, the major goal is profit; in the caseofnon-profitandpublicorganizations,itissurvivingandattractingenough funds to perform their work.
Nowthekeyisnottoaimforprofitsassuchbuttoachievethemasabyproduct of doing the job well. This is not to say that marketers are unconcerned with profits.
Quite the contrary, they are highly involved in analyzing the profit potential of different marketing opportunities. Whereas salespeople focus on achieving sales-volume goals, marketing people focus on identifying profitmaking opportunities.

6. **The societal marketing concept** In recent years, some people have questionedwhetherthemarketingconceptisappropriateorganizationalphilosophyin an age of environmental deterioration, resource shortages, explosive population growth, world hunger and poverty, and neglected social services.
The question is whether companies that do an excellent job of sensing, serving, and satisfying individual consumer wants are necessarily acting in then best long-run interests of consumers and society.
The societal marketing concept holds that the organization's task is to determine the needs, wants, and interests of target markets and to deliver the desired satisfactions more effectivelyand efficientlythan competitorsin a waythat preserves or enhances the consumer's and the society's well-being.
Thesocietalmarketingconceptcallsuponmarketerstobalancethreeconsiderations insettingtheirmarketingpolicies,namely,companyprofits,consumerwant

satisfaction, and public interest. Originally, companies based their marketing decisions largely on immediate company profit calculations.

Thentheybegantorecognizethelong-runimportanceofsatisfyingconsumerwants, and this introduced the marketing concept. Now they are beginning to factor in society's interests in their decision-making.

Thesocietalmarketingconceptcallsforbalancingallthreeconsiderations.Anumber of companies have achieved notable sales and profit gains through adopting and practicing the societal marketing concept.

MarketingMix

The marketers delivers value to the customer basically through his market offer. He takes care toseethattheofferfulfilstheneedsofthecustomer.Healsoensuresthatthecustomerperceives the terms and conditions of the offer as more attractive vis-à-vis other competing offers.

MarketingMixisthesetofmarketingtoolsthatthefirm usestopursueitsmarketingobjectivesin the target market. It is the sole vehicle for creating and delivering customer value.

It was James Culliton, a noted marketing expert, who coined the expression marketing mix and described the marketing manager as a mixer of ingredients. To quote him, "The marketing man isa decider and an artist –a mixer of ingredients, who sometimes followa recipe developed by others and sometimes prepares his own recipe.

And,sometimesheadaptshisrecipetotheingredientsthatarereadilyavailableandsometimes inventssomenewingredients,or,experimentswithingredientsasnooneelsehastriedbefore'. The dynamics of the marketing process and the versatility of the marketing process and the versatility of the marketing mix tool cannot be described any better.

Subsequently Niel H. Borden, another noted marketing expert, popularized the concept of marketing mix. It was Jerome McCarthy, the well known American Professor of marketing, who first described the marketing mix in terms of the four Ps. The classified the marketing mix variables under four heads, each beginning with the alphabet 'p'.

- Product
- Price
- Place(referringtodistribution)
- Promotion

McCarthy has provided an easy to remember description of the marketing mix variables. Over the years, the terms-Marketing mix and four Ps of marketing-have come to be used synonymously.

- **Product:** The most basic marketing mix tool is product, which stands for the firm's tangible offer to the market including the product quality, design, variety features, branding, packaging, services, warranties etc.
- **Price:**Acriticalmarketingmixtoolisprice,namely,theamountofmoneythatcustomers havetopayfortheproduct.Itincludesdecidingonwholesaleandretailprices,discounts, allowances,andcreditterms.Priceshouldbecommensuratewiththeperceivedvalueof the offer, or else buyer will turn to competitors in choosing their products.
- **Place:** This marketing mix tool refers to distribution. It stands for various activities the companyundertakestomaketheproducteasilyavailableandaccessibletotarget

customers. It includes deciding on identify, recruit, and link various middlemen and marketing facilitators so that products are efficiently supplied to the target market.

- **Promotion:** The fourth marketing mix tool, stands for the various activities the company undertakestocommunicateitsproducts'meritsandtopersuadetarget customerstobuy them.Itincludesdecidingonhire,train,andmotivatesalespeopletopromoteitsproducts tomiddlemenandotherbuyers.Italsoincludessettingupcommunicationandpromotion programsconsistingof advertising, personalselling, salespromotion, andpublicrelations. Marketing mix or 4 Ps of marketing is the combination of a product, its price, distribution and promotion. It must be designed by marketers in such a manner that these four elements together must satisfy the needs of theorganization'starget market,andatthesametime,achieveitsmarketing objectives.

Marketsegmentation,targetingandpositioningandanalyzingthemarketingenvironment

Introduction

Amarketconsistsofpeopleororganizationswithwants,moneytospend,andthewillingnessto spend it. However, most markets the buyers' needs are not identical. Therefore, a single marketingprogramfortheentiremarketisunlikelytobesuccessful.Asoundmarketingprogram starts with identifying the differences that exist within a market, a process called, market segmentation, and deciding which segments will be treated as target markets. Market segmentation is customer oriented

and consistent with the marketing concept. It enables a company to make more efficient use of itsmarketingresources.Afterevaluatingthesizeandpotentialofeachoftheidentifiedsegments, ittargetsthemwithauniquemarketingmix.Themarketermustsomehowpersuadethemembers of each segment that its product will satisfy their needs better than competitive products.

Todoso,marketersattempttodevelopaspecialimagefortheirproductsintheconsumer'smind relative to competitive products: that is, it positions its product as filling a special niche in the marketplace.Themarketingenvironmentisthesetofconditionswithinwhichthecompanymust start its search for opportunities and possible threats.

Itconsistsof alltheactorsandforcesthataffectthecompany'sabilitytotransacteffectivelywith its target market. The company's micro-environment consists of the actors in the company's immediateenvironmentthataffectitsabilitytoserveitsmarkets;specifically,thecompanyitself, suppliers, market intermediaries, customers, competitors, and publics. The company's macro-environment consists of six major forces: demographic, economic, natural, political, technological, and cultural.

Segmentation

Market segmentation is defined as "the process of taking the total, heterogeneous market for a product and dividing it into several submarkets or segments, each of which tends to be homogeneous in all significance.

Themarketscouldbesegmentedindifferentways.Forinstance,insteadof mentioninga single market for 'shoes', it may be segmented into several sub-markets, e.g., shoes for executives, doctors college students etc. Geographical segmentation on the very similar lines

isalsopossibleforcertainproducts.

1. **Requirements formarketssegmentation** For market segmentation to become effective and result oriented, the following principles are to be observed:
    a. Measurabilityofsegments,
    b. Accessibilityof thesegments, and
    c. Representabilityofthesegments.

The main purpose of market segmentation is to measure the changing behaviour patterns of consumers. It should also be remembered that variation in consumer behavior are both numerous and complex. Therefore, the segments should be capable of giving accurate measurements.

But this is often a difficult task and the segments are to be under constant review. The second condition, accessibility, is comparatively easier because of distribution, advertising media, salesmen, etc. Newspaper and magazines also offer some help in this direction. For examples, there are magazines

meant exclusively for the youth, for the professional people, etc. The third condition in the represent ability of each segment. The segments should be large and profitable enough to be considered as separate markets. Such segments must have individuality of their own. The segment is usually small in case of industrial markets and comparatively larger in respect of consumer products.

2. **Benefitsofsegmentation**
    - The manufacturer is in a better position to find out and compare the marketing potentialitiesofhisproducts.Heisabletojudgeproductacceptanceortoassessthe resistance to his product.
    - Theresultobtainedfrommarketsegmentationisanindicatortoadjusttheproduction, using man, materials and other resources in the most profitable manner. In other words, the organization
    - canallocateandappropriateits effortsinamostusefulmanner.
    - Change requiredmaybe studied and implemented without losing markets. Assuch, as product line could be diversified or even discontinued.
    - It helps in determining the kinds of promotional devices that are more effective and also their results.
    - Appropriatetimingfortheintroductionofnew products,advertisingetc.,couldbe easily determined.
3. **Aggregation and segmentation** Market aggregation is just the opposite of segmentation. Aggregation implies the policy of lumping together into one mass all the markets for the products.
    Production oriented firms usually adopt the method of aggregation instead of segmentation. Under this concept, management having only one product considers the entire buyers as one group.
    Market aggregation enables an organization to maximize its economies of scale of production,pricing,physicaldistributionandpromotion.However,theapplicabilityof this concept in consumer oriented market is doubtful.
    The‘totalmarket’concept as envisagedbymarket aggregationmaynot be realistic inthe present-day marketing when consumers fall under heterogeneous groups.

4. **Basisforsegmentingmarkets**Asexplainedabove,marketsegmentationconsists in identifying a sufficient number of common buyer characteristics to permit sub division of the total demand for a product into economically viable segments.
These segments fall between two extremes of total homogeneity and total heterogeneity. The various segments that are in vogue are as follows:

   a. **Geographic segmentation:** Chronologically this kind of segmentation appeared first, for planning and administrative purposes. The marketer often find it convenient to sub-divide the country into areas in a systematic way.The great advantagesofadoptingthisschemearethatstandardregions are widelyusedby Government and it facilitates collection of statistics. Most of the national manufacturers split up their sales areas into sales territories either state-wise or district-wise.
   b. **Demographic segmentation:** Under this method, the consumers are grouped into homogeneous groups in terms of demographic similarities such as age, sex, education, income level, etc.
   This is considered to be more purposeful since the emphasis ultimately rests on customers. The variables are easy to recognize and measure than in the case of the first type, as persons of the same group may exhibit more or less similar characteristics.
   Forexample,inthecaseofshoes,theneedsandpreferencesofeachgroupcould be measured with maximum accuracy.
      i. **Age groups:** Usually age groups are considered by manufacturers of certain special products. For example, toys. Even in the purchases made byparents,childrenexertaprofoundinfluence.Themarketsegmentedon the basis of the age groups is as follows:
         1. children,
         2. teenagers,
         3. Adults,
         4. grown-ups.
      ii. **Family life-cycle:** This is yet another method falling under demographic segmentation. The concept of a family life cycle refers to the important stages in the life of an ordinary family. These stages are called 'decisionmaking units' (Dumps). A widely accepted system distinguishes the following eight stages:
         1. Young,single
         2. Young,married,no children,
         3. Young,married,youngestchildundersix,
         4. Young,married,youngestchildoversix,
         5. Older,marriedwithchildren,
         6. Older,married,nochildrenunder eighteen,
         7. Older single,
         8. Others.Althoughthedistinctionbetweentheyoungandtheold is not explicit the concept provides a useful basisfor breaking down the totalpopulationintosub-groupforamoredetailedanalysis.iii.**Sex:**Sex influencesbuyingmotivesinconsumermarket,e.g.inthecaseofmany products women demand special styles. Bicycle is an example.

   This kind of segmentation is useful in many respects. The recent studies, however,showthattraditionaldifferencesare beingfastbrokendownand this kind of segmentation doesn't hold much water. One reason for this is that women are going in for jobs.

This isa blessing in disguise as a numberof newproducts are nowbeing demanded, e.g. frozen food, household appliances, etc. Successful attempts to remove barriers of discrimination against women have generated many market opportunities. Interestingly enough, however, it has not been so easy to get males to accept products traditionally considered feminine.

Adecadeagedrivingmotorvehiclesbywomenwasseldomseenbuttoday it has become a common sight. The distinction in dress traditionally maintained by girls and boys has also been considerably reduced. These changes have tremendous marketing implications.

c. **Socio-psychological segmentation:** The segmentation here is done on the basis of social class, viz., working class, middle income groups, etc. Since marketing potentially is intimately connected with the "ability to buy", this segmentation is meaningful in deciding buying patterns of a particular class.

d. **Productsegmentation:**Whenthe segmentation ofmarketsisdone on the basis of product characteristics that are capable of satisfying certain special needs of customers, such a method is known as product segmentation. The products, on this basis, are classified into:
   i. Prestigeproducts,e.g.automobiles,clothing.
   ii. Maturityproducts,e.g.cigarettes, blades.
   iii. Status products, e.g. most luxuries. iv. Anxiety products, e.g. medicines, soaps.
   v. Functional products, e.g. fruits, vegetables. The argument in favor of this type of product segmentation is that it is directed towards differences amongtheproductswhichcomprisemarkets.Wheretheproductsinvolved show great differences, this method is called a rational approach.

e. **Benefit segmentation:** Russell Hilly introduced the concept of benefit segmentation. Under this method, the buyers form the basis of segmentation but not on the demographic principles mentioned above.
   Hereconsumers areinterviewedtolearntheimportanceof different benefits they maybeexpectingfromaproduct.Thesebenefitsorutilitiesmaybeclassifiedinto generic or primary utilities and secondary or evolved utilities. The followingtable would explain this aspect.
   Butchoosingthebenefitasemphasizedisnotanyeasyjob,forthevariousutilities may shift from time to time.

Product category	Generic or primary utilities	Secondary or evolved utilities
Tooth-paste	Cleaning	Good taste, breath freshening, brightness
Shampoo	Cleaning	Shiny hair, thickening hair
Aspirin	Pain control	Speed of action, taste
Automobiles type	Convenience	Economy seeking, status, quality, i.e., speed

f. **Volumesegmentation:**Another wayof segmentingthemarketisonthebasisof volume of purchases. Under this method the buyers are purchasers, and single unit purchasers. This analysis is also capable of showing the buying behavior of different groups.

g. **Marketing-factor segmentation:** The responsiveness of buyers to different marketingactivitiesisthebasisforthesetypesofsegmentation.Theprice,quality, advertising, promotional devices, etc., are some of the activities involved under this method.

This is explained by R.S. Frank as follows: "If a manufacturer knew that one identifiablegroupofhiscustomerswasmoreresponsivetochangesinadvertising expendituresthanothers,hemightfinditadvantageoustoincreasetheamountof advertising aimed at them.
Thesamesortoftailoringwouldalsobeappropriateifitwasfoundthatcustomers reacted differently to changes in pricing, packaging, product, quality etc. It is pertinent here to ask how these consideration influence marketing.
The answer is simple as the present day marketing is consumer-oriented and consumers' psychology, their social and economic characteristic form the corner stoneofmarketingdecisions.Itisthisrecognitionaccordedtoconsumersthathas given rise to the concept of market segmentation.

5. **Marketsonthebasisofsegmentation**It isnowcertain that anymarketcould be segmented to a considerable extent because buyers' characteristics are never similar. This,however,doesnotmeanthatmanufacturersmayalwaystrytosegmenttheir market.Onthebasisoftheintensityofsegmentation,marketingstrategiestobeadopted may be classified into:

a. **Undifferentiated marketing:**When the economies of organization do not permit thedivisionofmarketintosegments,theyconceiveofthetotalmarketconcept.In the case of fully standardized products and where substitutes are not available, differentiationneednotbeundertaken.Undersuchcircumstancesfirmsmayadopt mass advertising and other mass methods in marketing, e.g., Coca Cola.
b. **Differentiatedmarketing:**Afirmmaydecidetooperateinseveralorallsegments ofthemarketanddeviseseparateproduct-marketingprogrammes.Thisalsohelps in developing intimacy between the producer and the consumer.In recent years most firms have preferred a strategy of differentiated marketing, mainly because

consumer demand is quite diversified. For example, cigarettes are now manufactured in a variety of lengths and filter types.

Thisprovidesthecustomeranopportunitytoselecthisorherchoicefromfiltered, unfiltered,longorshortcigarettes.Eachkindoffersabasisforsegmentationalso.

Though the differentiated marketing is sales-oriented, it should also be borne in mind that it is a costly affair for the organization.

c. **Concentratedmarketing:**Boththeconceptsexplainedaboveimplytheapproach oftotalmarketeitherwithsegmentationorwithoutit.Yetanotheroptionistohave concentrated efforts in a few markets capable of affording opportunities.

 Put in another way, 'instead of spreading itself thin in many parts of the market, it concentrates its forces to gain a good market position in a few areas. Then new products are introduced and test marketing is conducted, and this method is adopted.

 For a consumer product 'Boost' produced by the manufacturers of Hotlinks, this method was adopted. The principle involved here is 'specialization' in markets whichhaverealpotential.Anothernotablefeatureofthismethodistheadvantage of one segment is never offset by the other. But in the case of the first two types, good and poor segments are averaged.

TARGETING

Marketsegmentationrevealsthemarket-segmentopportunitiesfacingthefirm.Thefirmnowhas to evaluate the various segments and decide how many and which ones to serve.

1. **Evaluatingthemarketsegments**Inevaluationdifferentmarketsegments,thefirm must look at three factors, namely segment size and growth, segment structural attractiveness and company objectives and resources.

   a. **Segment size and growth:** The first question that a company should ask is whether a potential segment has the right size and growth characteristics. Large companiesrefersegmentswithlargesalesvolumesandoverlooksmallsegments. Small companies in turn avoid large segments because they would require too many resources. Segment growth is a desirable characteristic since companies generally want growing sales and profits.

   b. **Segment structural attractiveness:** A segment might have desirable size and growth and still not be attractive from a profitability point of view. The five threats that a company might face are:

      i. Threat from industry competitors: A segment is unattractive if it already contains numerous and aggressive competitors. This condition may lead to frequent price wars.
      ii. Threatsfrompotentialentrants:i.e.fromnewcompetitorswho,ifenterthe segmentatalaterstage,bringinnewcapacity,substantialresourcesand would soon steal a part of the market share.

iii. Threat of substitute products: A segment is unattractive If there exists too many substitutive products because it wouldresult in brand switching, price wars, low profits etc.
iv. Threatofgrowingbargainingpowerofbuyers:Asegmentisunattractiveif the buyers possess strong bargaining power. Buyers will tryto force price down, demand more quality or services, all at the expense of the seller's profitability.
v. Threatofgrowingbargainingpowerofsuppliers:Asegmentisunattractive if the company's suppliers of raw materials, equipment, finance etc., are able to raise prices or reduce the quality or quantity of ordered goods.

c. **Company objectives and resources:** Even if a segment has positive size and growth and is structurally attractive, the company needs to consider its own objectives and resources in relation to that segment. Some attractive segments could be dismissed because they do not match with the company's long-run objectives.Evenifthesegmentfitsthecompany'sobjectives,thecompanyhasto considerwhetheritpossessestherequisiteskillsandresourcestosucceedinthat segment. The segment should be dismissed if the company lacks one or more necessary competences needed to develop superior competitive advantages.

2. **Selecting the market segments** As a result of evaluating different segments, the companyhopestofindoneormoremarketsegmentsworthentering.Thecompanymust decide which and how many segments to serve. This is the problem of target market selection. A target market consists of a set of buyers sharing common needs or characteristics that the company decides to serve. The company can consider five patterns of target market selection.

a. **Single segment concentration:** In the simplest case, the company selects a single segment. This company may have limited funds and may want to operate only in one segment, it might be a segment with no competitor, and it might be a segment that is logical launching pad for further segment expansion.
b. **Selective specialization:** Here a firm selects a number of segments, each of which is attractive and matchesthefirm's objectives and resources. This strategy of 'multi-segment coverage' has the advantage over 'single-segment coverage' in termsofdiversifyingthefirm’sriski.e.evenifonesegmentbecomesunattractive, the firm can continue to earn money in other segments.
c. **Product specialization:** Here the firm concentrates on marketing a certain product that it sells to several segments. Through this strategy, the firm builds a strong reputation in the specific product area.
d. M**arket specialization:** Here the firm concentrates on serving many needs of a particular customer group. The firm gains a strong reputation for specializing in serving this customer group and becomes a channel agent for all new products that this customer group could feasibly use.
e. **Full market coverage:** Here the firm attempts to serve all customer groups with alltheproductsthattheymightneed.Onlylargefirmscan undertakeafullmarket coveragestrategy.e.g.Philips(Electronics),HLL(Consumernondurables).Large firms going in for whole market can do so in two broad ways– through undifferentiated marketing or differentiated marketing.

Positioning

Suppose a company has researched and selected its target market. If it is the only company serving the target market, it will have no problem in selling the product at a price that will yield reasonable profit. However, if several firms pursue this target market and their products are undifferentiated,mostbuyers willbuyfrom thelowestpricedbrand.Either,allthefirmswillhave to lower their price or the onlyalternative is to differentiate itsproduct or service from that of the competitors, thereby securing a competitive advantage and better price and profit.

The company must carefully select the ways in which it will distinguish itself from competitors. Suppose a scooter manufacturer, say Bajaj, gets worried that scooter buyers see most scooter brands as similar and, therefore, choose their brand mainly on the basis of price. Realizing this, Bajaj may decide to differentiate their scooters physical characteristics.

"Differentiationistheactofdesigningasetofmeaningfuldifferencestodistinguishthecompany's offerfromcompetitors'offers.MaybeBajajclaimsitsscootertobedifferentfromothersbecause of its highest fuel efficiency and economy, LML claims-maximum durability and added physical features, whereas Vijay Super may have claimed highest mileage.

Thus, all scooters appeal differently to different buyers. If it wishes, any scooter manufacturer can showthis comparison chart to potential buyers. Not all buyers will notice or be interested in all the ways one brand differs from another.

Such firm will want to promote those few differences that will appeal most strongly to its target market. Positioning is the act of designing the company's offer sothat is occupies a distinct and valued place in the target customer's minds. Positioning calls for the company to decide how many differences and which differences to promote to the target customers.

Howmanydifferencestopromote: Manymarketersadvocateaggressivelypromotingonlyone benefittothetargetmarket.RosserReeves,e.g.saidacompanyshoulddevelopauniqueselling proposition (USP) for each brand and stick to it.

Thus,Godrej refrigeratorsclaim,automaticdefrost, whileRinclaimstohavedirt-blasters. Each brand should pick an attribute and claim itself to be "number one" on it. What are some of the "number one" positions to promote? The major ones are "best quality", "best service", "best value", “most advanced technology” etc.

If a company hammers at any one of these positioning points and delivers it properly, it will probably be best known and recalled for this strength. Besides single benefit positioning, the company can try for double benefit

positioning- e.g. Forhans toothpaste claims that it cleans teeth and protects the enamel. There are even cases of successful triple benefit positioning e.g. Videocon Washing machines claims that the machine "washes, rinses and even dries the clothes". Many people want all three benefits, and the challenge is to convince them that the brand delivers all three.

Whatdifferencestopromote: Acompanyshouldpromoteitsmajorstrengthsprovidedthatthe target market values these strengths. The company should also recognize that differentiation is acontinuousprocess.Itwouldseemthatthecompanyshouldgoaftercostorservicetoimprove its market appeal relative to competitors. However, many other considerations arise.

1. Howimportantareimprovementsineachof theseattributestothetargetcustomers?
2. Canthecompanyaffordtomaketheimprovements,andhowfastcanitcomplete them?
3. Would the competitors also be able to improve service if the company started to doso, and in that case, how would the company react?

This type of reasoning can help the company choose or add genuine competitive advantages.
Communicating the Company's positioning: TheCompany mustnotonly developaclear positioning strategy, it must also communicate it effectively. Suppose a company chooses the "best in quality" positioning strategy. It must then make sure that it can communicate this claim convincingly.

Quality is communicated by choosing those physical signs and cuts that people normally use to judge quality. Quality is often communicated through other marketing elements. A high price usuallysignalsapremium-qualityproducttobuyers.Theproduct'squalityimageisalsoaffected by the packaging, distribution, advertising and promotion.

The manufacturer’s reputation also contributes to the perception of quality. To make a quality claim credible,thesurestwayistooffer"satisfactionoryourmoneyback". Smartcompaniestry to communicate their quality to buyers and guarantee that this quality will be delivered or their money will be refunded.

Marketingenvironment

Acompany'smarketingenvironmentconsistsofthefactorsandforcesthataffectthecompany's ability to develop and maintain successful transactions and relationships with its target customers. Every business enterprise is confronted with a set of internal factors and a set of external factor.

The internal factors are generally regarded as controllable factors because the company has a fair amount of control over these factors, it can alter or modify such factors as its personnel, physical facilities, marketing-mix etc. to suit the environment. The external factors are by and large, beyond the control of a company.

The external environmental factors such as the economic factors, sociocultural factors, government and legal factors, demographic factors, geophysical factors etc. As the environmental factors are beyond the control of a firm, its success will depend to a very large extent on its adaptability to the environment, i.e. its ability to properly design and adjust internal variables to take advantages of the opportunities and to combat the threats in the environment.

1. **The micro environment** The micro environment consists of the actors in the company's immediate environment that affects the ability of the marketers to serve their customers.Theseinclude the suppliers,marketing intermediaries, competitors, customers and publics.
    a. **Suppliers:** Suppliers are those who supply the inputs like raw materials and components etc. to the company. Uncertainty regarding the supply or other supply constraints often compels companies to maintain high inventories causing cost increases.
    IthasbeenpointedoutthatfactoriesinIndiamaintainindigenousstocksof3- 4 months and imported stocks of 9 months as against on average of a few hourstotwoweeksinJapan.Itisveryriskytodependonasinglesupplier

because a strike, lock out or any other production problem with that supplier may seriously affect the company. Hence, multiple sources of supply often help reduce such risks.

b. **Customers:**Themajortaskofabusinessistocreateandsustaincustomers. A business exists only because of its customers and hence monitoring the customer sensitivity is a prerequisite for the business to succeed.

A company may have different categories of consumers like individuals, households, industries, commercial establishments, governmental and other institutions etc. Depending on a single customer is often too risky because it mayplacethecompanyinapoorbargainingposition.Thus,thechoiceofthe customer segments should be made by considering a number of factors like relativeprofitability,dependability,growthprospects,demandstability,degree of competition etc.

c. **Competitors:** A firm's competitors include not only the other firms which market the same or similar products but also all those who compete for the discretionary income of the consumers. For example, the competition for a companymakingtelevisionsmaycomenotonlyfromotherTVmanufacturers but also from refrigerators, stereo sets, two-wheelers, etc.This competition amongtheseproductsmaybedescribedasdesirecompetitionastheprimary task here is to influence the basic desire of the consumer.

Iftheconsumerdecidestospendhisdisposableincomeonrecreation,hewill still be confronted with a number of alternatives to choose from like T.V., stereo,radio,C.D.playeretc.thecompetitionamongsuchalternativeswhich satisfy a particular category of desire is called generic competition. If the consumer decides togoinfor aT.V. thenext questionis whichform of T.V. - black and white, color, with remote or without etc. this is called 'product form competition'. Finally, the consumer encounters brand competition, i.e. competition between different brands like Philips, B.P.L., Onida, Videocon, Coldstar etc. An implication of thse different brands is that amarketershould strive to create primary and selective demand for his products.

d. **Marketing intermediaries:** The immediate environment of acompany may consist of a number of marketing intermediaries which are "firms that aid the company in promoting, selling and distributing its goods to final buyers.

The marketing intermediaries include middlemen such as agents and merchants, who help the company find customers or close sales with them; physical distribution firms which assist the company in stocking and moving goods from their origin to their destination such as warehouses and transportation firms;

marketing service agencies which assist the company in targeting and promoting its products to the right markets such as advertising agencies; consulting firms, and finally financial intermediaries which finance marketing activities and insure business risks.

Marketing intermediaries are vital link between the company and final consumers. A dislocation or disturbance of this link, or a wrong choice of the link, may cost the company very heavily.

e. P**ublic:** A company may encounter certain publics in its environment. "A public is any group that has actual or potential interest in or impact on an organisation's ability to achieve its interests". Media, citizens, action publics andlocalpublicsaresomeexamples.Somecompaniesareseriouslyaffected by such publics, e.g. one of the leading daily that was allegedly bent on bringing down the share price of the company by tarnishing its image.

Many companies are also affected by local publics. Environmental pollution isanissueoftentakenupbyanumberoflocalpublics.Actionbylocalpublics onthisissuehascausedsomecompaniestosuspendoperationsand/ortake pollution control measures. However, it is wrong to think that all publics are threats to business.

Some publics are opportunity for business. Some businessmen e.g. regard consumerism as an opportunity for their business. The media public may be used to disseminate useful information. Similarly, fruitful symbiotic cooperationbetweenacompanyandthelocalpublicsmaybeestablishedfor the benefit of the company and the local community.

2. **Macroenvironment**Acompanyand theforces initsmicro environment operate in larger macro environment of forces that shape opportunities and pose threatsto the company. The macro forces are, generally, more uncontrollable than the micro forces. The macro environmental forces are given below:

   a. **Economic environment:** Economic conditions, economic policies and the economic system are the important external factors that constitute the economic environment of a business.

      The economic conditions of a country e.g., the nature of the economy, the stage of development of the economy, economic resources, the level of income, the distribution of income and assets etc.

      are among the very important determinants of business strategies. In a developing economy, the low income may be the reason for the very low demandforaproduct.Incountrieswhereinvestmentandincomearesteadily and rapidly rising, business prospects are generally bright, and further investments are encouraged.

      The economic policy of the government, needless to say, has a very strong impact on business. Some types of businesses are favorably affected by government policy, some adversely affected, while it is neutral in respect of others, e.g. in case of India, the prioritysector and the small-scale sector get a number of incentives and positive support from the government, whereas those industries which are regarded as inessentialmayfind the oddsagainst them.

      Themonetaryandfiscalpoliciesbywayof incentivesand disincentivesthey offer and by their neutrality, also affect the business in different ways. The scopeofprivatebusinessdepends,toalargeextent,ontheeconomicsystem. Atoneend,therearethefreemarketeconomies,orcapitalisteconomies,and attheotherarethecentrallyplannedeconomiesorcommunisteconomies.In between these two extremes are the mixed economies.

      A completely free economy is an abstract rather than a real system because some amount of government regulations always exist. Countries like the United States, Japan, Canada, Australia etc. are regarded as free market economies.Thecommunistcountrieshave,byandlarge,acentrallyplanned economic system.

      The State, under this system, owns all the means of production, determines the goals of production and controls the economy. China, Hungary, Poland etc. had centrally planned economies. However, recently, several of these countries have discarded communist system and have moved towards the market economy.

Inamixedeconomy,bothpublicandprivatesectorsco-exist,asinIndia.The extent of state participation varies widely across different mixed economies. However, in many mixed economies, the strategic and other nationally very importantindustriesarefullyownedordominatedbythestate.Theeconomic system, thus, is a very important determinant of the scope of business.

b. **Political and Government environment:** Political and government environmenthasacloserelationshipwiththeeconomicsystemandeconomic policy.Inmostcountries,thereareanumberoflawsthatregulatetheconduct of the business.

   Theselawscoversuchmattersasstandardsofproduct,packaging,promotion etc. In many countries, with a view to protecting consumer interests, regulations have become stronger. Regulations to protect the purity of the environment and preserve the ecological balance have assumed great importance in many countries.

   Inmostnations,promotionalactivitiesaresubjecttovarioustypesofcontrols. Media advertising is not permitted in Libya. In India too, till recently advertisementsofliquor,cigarettes,gold,silveretc.wereprohibited.Thereis a host of statutory control on business in India.

   MRTP commission, industrial licensing, FEMA regulations etc. kept a strict checkontheexpansionof privateenterprisestillrecently.Recentchangesin the statutes and policies have had a profound and positive impact on business. Thus, marketing policies are definitely influenced by government policies and controls throughout the world.

c. **Socio-cultural environment:** The socio-cultural environment includes the customs, traditions, taboos, tastes, preferences etc. of the members of the society, which cannot be ignored at any cost by any business unit.For a business to be successful, its strategy should be the one that is appropriate in the socio-cultural environment. The marketing-mix will have to be so designed as to suit the environmental characteristics of themarket. Nestle, a Swissmultinationalcompany,todaybrewsmorethanfortyvarietiesofinstant coffee to satisfy different national tastes.

   Evenwhenpeopleofdifferentculturesusethesamebasicproduct,themode of consumption, conditions of use, purpose of use or the perceptions of the productattributesmayvarysomuchsothattheproductattributes,methodof presentation, or promotion etc.

   may have to be varied to suit the characteristics of different markets. The differences in language sometimes pose a serious challenge and even necessitate a change in the brand name.

   Thevaluesandbeliefsassociatedwithcolorvarysignificantlyacrossdifferent culturese.g. whiteisacolor whichindicatesdeathandmourningincountries like China, Korea and India but in many countries it is a color expressing happiness and often used as a wedding dress color.

   Whiledealingwiththesocialenvironment,itisimportanttorememberthatthe social environment of business also encompasses its social responsibility, alertness or vigilance of the consumers and the society's interests and well-being at large.

d. **Demographicenvironment:**Demographicfactorslikethesize,growthrate, agecomposition, sexcomposition, familysize, economicstratificationof the population, educational levels, language, caste, religion etc. are all factors relevant to business.

All these demographic variables affect the demand for goods and services. Markets with growing population and income are growth markets. But the decline in birth rates in countries like United States, etc. has affected the demand for baby products.

Johnson and Johnson had to overcome this problem by repositioning their productslikebabyshampooandbabysoaps,andpromotingthemtotheadult segment particularly females.

Arapidly increasing population indicates a growing demand for many products.Highpopulationgrowthratesalsoindicateanenormousincreasein labor supply. Cheap labor and a growing market have encouraged many multinational corporations to invest in developing countries like India.

e. **Natural environment:** Geographical and ecological factors such as natural resources endowments, weather and climate conditions, topographical factors, location aspects in the global context, port facilities etc.

are all relevant to business. Geographical and ecological factors also influence the location of certain industries, e.g. industries with high material indextend to be located near the rawmaterial sources. Climate and weather conditions affect the location of certain industries like the cotton textile industry.

Topographical factors may affect the demand pattern, e.g. in hilly areas with adifficultterrain,jeepsmaybeingreaterdemandthancars.Ecologicalfactors have recently assumed greater importance. The depletion of natural resources, environmental pollution and the disturbance of the ecological balance has caused great concern.

Government policies aimed at the preservation of environmental purity and ecological balance, conservation of non-replenish able resources etc. have resultedinadditionalresponsibilitiesandproblemsforbusiness,andsomeof these have the effect of increasing the cost of production and marketing.

f. **Physical facilities and technological environment:** Business prospects depend on the availability of certain physical facilities. The sale of television sets e.g. is limited by the extent of coverage of telecasting. Similarly, the demand for refrigerators and other electrical appliances is affected by the extent of electrification and the reliability of power supply.Technological factors sometimes pose problems.

Afirmwhichisunabletocopewiththetechnologicalchangesmaynotsurvive.

Further, the different technological environment of different markets or countries may call for product modifications, e.g. many appliances and instruments in the U.S.A. are designed for 110 volts but this needs to be converted into 240 volts in countries which have that power system.

g. **Internationalenvironment:**Theinternationalenvironmentisveryimportant from the point of view of certain categories of business. It is particularly important for industries directly depending on exports or imports. E.g. a recessioninforeignmarketsortheadoptionofprotectionistpoliciesmayhelp the export-oriented industries.

Similarly, liberalization of imports may help some industries which use imported items, but may adversely affect import-competing industries. Similarly,internationalbodieslikeWTO,IMF,WHO,ILOetc.havehadamajor impact on influencing the policies and trade of many countries, especially India.

CONSUMERSTUDY

Introduction

Behaviorisamirrorinwhicheveryonedisplayshisownimage.Thetermconsumerbehaviorcan be defined as the behavior that consumers display in searching for, purchasing, using, evaluating, and disposing of products and services that they expect will satisfy their needs.

The study of consumer behavior is the study of how individuals make decision to spend their availableresources(money,time,andeffort)onconsumption-relateditems.Itincludesthestudy of what they buy, why they buy it, how they buy it, when they buy it, where they buy it, and how often they buy it.

The termConsumer is often used to describe two different kinds of consuming entities: the personal consumer and organizational consumer. The personal consumer buys goods and services for his or her own use (e.g. shaving cream or lipstick), for the use of the household, or as a gift for a friend. In all of these contexts, the goods are bought for final use by individuals, who are referred to as 'end users' or 'ultimate consumers'.

The second category of consumer, the organizational consumer, encompasses profit and nonprofit making businesses, government agencies, and institutions, all of which must buy products,equipments,andservicesinordertoruntheirorganizations.Manufacturingcompanies must buy the raw materials and other components to manufacture and sell their own products; service

companies must buy the equipments necessary to render the services they sell; government agenciesmustbuytheofficeproductsneededtooperateagencies;andinstitutionsmustbuythe materials they need to maintain themselves and their population. The person who purchases a product is not always the user, or the only user, of the product in question. Nor is the purchaser necessarily the person who makes the product decision.

A mother may buy toys for her children (who are the users); she may buy food for dinner (and be one of the users); she may buy a handbag (and be the only user). She may buy a magazine thatoneof herteenagersrequested,orrentavideothather husbandrequested,orsheandher husbandtogethermaybuyacarthattheybothselected.Clearly,buyersarenotalwaystheusers or the only users, of the products they buy, nor are they necessarily the persons who make the product selection decisions.

Marketersmustdecideatwhomtodirecttheirmarketingefforts:thebuyerortheuser.Theymust identifythepersonwhoismostlikelytoinfluencethepurchasedecision.Somemarketersbelieve that the buyer of the product is the best prospect, others believe it is the users of the product, which still others play it safe by directing all their marketing efforts to both buyers and users.

The study of consumer behavior holds great interest for us as consumers, as students, and as marketers.Asconsumers, we benefitfrom insights into ourown consumption-related decisions: whatwebuy,whywebuy,andhowwebuy.Thestudyofconsumerbehaviormakesusawareof the subtle influences that persuade us to make the product or service choices we do.

As students of human behavior, it is important for us to understand the internal and external influencesthatimpelindividualstoactincertainconsumptionrelated ways.Consumerbehavior issimplyasubsetofthelargerfieldofhumanbehavior.Asmarketersorfuturemarketers,itis importantforustorecognizewhyandhowindividualsmaketheirconsumptionrelateddecisions so that we can make better strategic marketing decisions.

Without doubt, marketers who understand consumer behavior have a great competitive advantage in the market place. There are a number of reasons why the study of consumer behaviordevelopedasaseparatemarketingdiscipline.Marketingscientistshadlongnotedthat consumers did not always act or react as economic theory would suggest. The size of the consumer market was vast and constantly expanding. Consumer preferences were changing and becoming highly diversified.

Evenimindustrialmarkets,whereneedsforgoodsandserviceswerealwaysmorehomogeneous than in consumer markets, buyers were exhibiting diversified preferences and less predictable purchase behavior.

The technological explosion that started after World War II resulted in the rapid introduction of new products at an ever-increasing rate. Many of these products– some experts estimate over 80 per cent –proved to be marketing disasters.

To counter this problem marketers have made a determined effort to learn more about consumers (their needs, preferences, changing life styles) to guide the development of new products to fulfill unsatisfied needs.

In addition to the fast pace of new product introduction, other factors that contributed to the developmentof consumerbehavioras amarketingdiscipline includeshorterproductlifecycles, environmental concerns, increasedinterest in consumer protection, the growth of service marketing, the growth of international markets, and the development of computers and sophisticated methods of statistical analysis.

Consumerbehaviorisinterdisciplinary;thatis,itisbasedonconceptsandtheoriesaboutpeople that have been developed by social scientists in such diverse disciplines as psychology, sociology, social psychology, cultural anthropology, and economics.

Consumer needs and motivation Every individual has needs; some are innate, others are acquired. Innate needs are physiological (i.e., biogenic); they include the needs for food, for water, for air, for clothing, for shelter, and for sex. Because they are needed to sustain biological life, the biogenic needs are considered primary needs or motives.

Acquired needs are needs that we learn in response to our culture or environment. These may include needs for esteem, for prestige, for affection, for power, and for learning. Because acquired needs are generally psychological (i.e., psychogenic), they are considered secondary needs or motives. They result from the individual's subjective psychological state and from relationships with others.

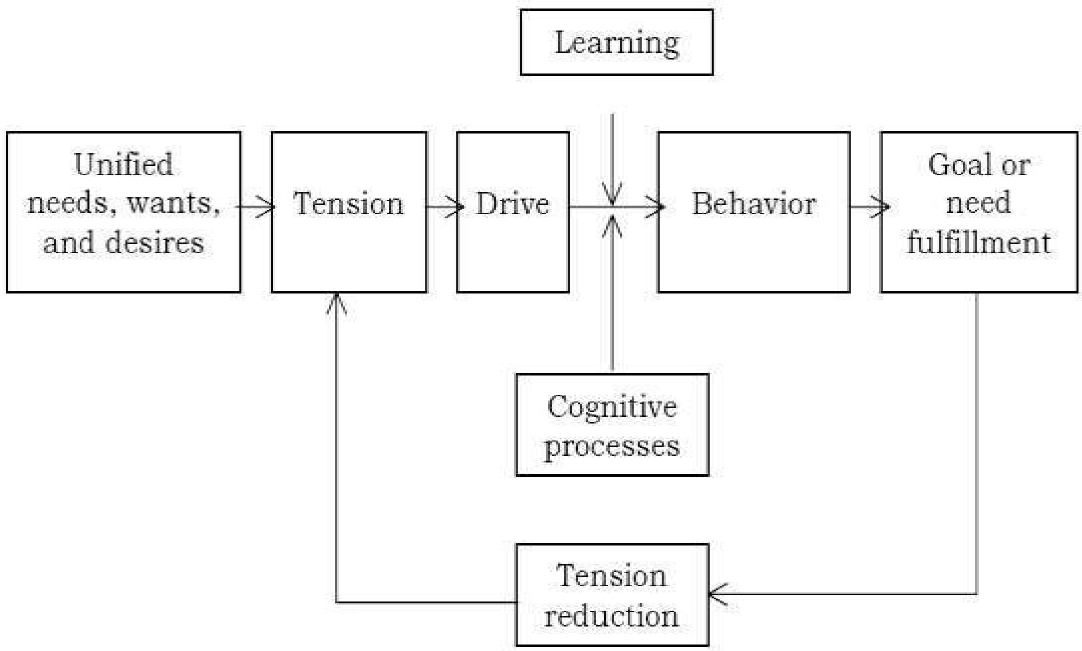
Forexample,allindividualsneedshelterfromtheelements;thus,findingaplacetolivefulfillsan important primary need for a newly transferred executive. However, the kind of house she buys may be the result of secondary needs. She may seek a house in which she can entertain large groupsof people(andfulfillhersocialneeds);shemayalsowanttobuyahouseinanexclusive community in order to impress her friends and family (and fulfill her ego needs). The house an individual ultimately purchases thus may serve to fulfill both primary and secondary needs.

Motivation can be described as the driving force within individuals that impels them to action. Thisdrivingforceisproducedbyastateoftension, whichexistsastheresultofanunfilledneed.

Individuals strive— both consciously and subconsciously— to reduce this tension through behavior that they anticipate will fulfill their needs and thus relieve them of the stress they feel.

The specific goals they select and the patterns of action they undertake to achieve their goals aretheresultsofindividualthinkingandlearning.Figure3.1presentsamodelofthemotivational process. It portrays motivation as a state of need-induced tension, which exerts "push" on the individualtoengageinbehaviorthatheorsheexpectswillgratifyneedsandthusreducetension.

Thespecificcourseofactionthatconsumerspursueandtheirspecificgoalsareselectedonthe basis of their thinking processes (i.e., cognition) andprevious learning. For that reason, marketers who understand motivational theory attempt to influence the consumer's cognitive processes.



Modelofthemotivational process

Positiveandnegativemotivation—Motivationcanbepositiveornegativeindirection.Wemay feeladrivingforcetowardsomeobjector condition, or adrivingforceawayfrom someobject or condition.

For example, a person may be impelled toward a restaurant to fulfill a hunger need and away frommotorcycletransportationtofulfillasafetyneed.Somepsychologistsrefertopositivedrives as needs, wants, or Unified needs, wants, and desires Tension Drive Behavior Goal or need fulfillment Learning Cognitive processes Tension reduction desires, and to negative drives as fears or aversions.

However, though negative and positive motivational forces seem to differ dramatically in terms of physical (and sometimes emotional) activity, they are basically similar in that both serve to initiate and sustain human behavior. For this reason, researchers often refer to both kinds of drives or motives as needs, wants, and desires.

Rational versus emotional motives— Some consumer behaviorists distinguish between socalledrationalmotivesandemotional(ornonrational)motives.Theyusethetermrationalityin the traditional economic sense, which assumes that consumers behave rationally when they carefully consider all alternatives and choose those that give them the greatest utility (i.e., satisfaction). In a marketing context, the term rationality implies that consumers select goals based on totally objective

criteria,suchassize, weight,price,ormilespergallon.Emotionalmotivesimplytheselectionof goals according to personal or subjective criteria (e.g., the desire for individuality, pride, fear, affection, status). The assumption underlying this distinction is that subjective or emotional criteria do not maximize utility or satisfaction. However, it is reasonable to assume that consumers always attempt to select alternatives that, in their view, serve to maximize satisfaction. Obviously,

the assessment of satisfaction is a very personal process, based on the individual's own need structure as well as on past behavioral, and social or learned experiences. What may appear irrational to an outside observer may be perfectly rational in the context of the consumer's own psychological field.

For example, a product purchased to enhance self image (such as a fragrance) is a perfectly rational form of consumer a behavior.

ConsumerPerception

Perception can be described as "how we see the world around us". Two individuals may be subjecttothesamestimuliunderapparentlythesameconditions,buthowtheyrecognizethem, select them, organize them, and interpret them is a highly individual process based on each person's own needs, values, expectations, and the like. Perception is defined asthe process by which an individual selects,

organizes, and interprets stimuli into ameaningful and coherent picture of the world. A stimulus is any unit of input to any of the senses. Examples of stimuli (i.e., sensory inputs) include products,packages,brandnames,advertisements,andcommercials.Sensoryreceptorsarethe human organs (the eyes, ears, mouth, and skin) that receive sensory inputs.

Thesesensoryfunctions aretosee, hear, smell, taste,andfeel. Allof thesefunctions arecalled intoplay—eithersinglyorincombination—intheevaluationanduseofmostconsumerproducts. The study of perception is largely the study of what we subconsciously add to or subtract from raw sensory inputs to produce a private picture of the world.

a. **Sensation—** Sensation is the immediate and direct response of the sensory organs to simple stimuli (an advertisement, a package, abrand name). Human sensitivity refers to theexperience of sensation.Sensitivitytostimuli varies withthe qualityof anindividual's sensoryreceptors (e.g., eyesight or hearing) and the amount of intensityof the stimuli to which he or she is exposed.

   For example, a blind person may have a more highly developed sense of hearing than the average sighted person and may be able to hear sounds that the average person cannot. Sensation itself depends on energy change or differentiation of input.

   A perfectly bland or unchanging environment- regardless of the strength of the sensory input-provideslittleornosensationatall.Thus,apersonwholivesonabusystreetin midtown Manhattan would probably receive little or no sensation from the inputs of such noisy stimuli as horns honking, tires screeching, and fire engines clanging, since such sounds are so common in New York City.

One honking horn more or less would never be noticed. In situations where there is a great deal of sensory input, the senses do not detect small intensities or differences in input. As sensory input decreases, however, our ability to detect changes in input or intensity increases, to the point that we attain maximum sensitivity under conditions of minimal stimulation.
Thisaccountsforthestatement,"ItwassoquietIcouldhearapindrop".Italsoaccounts for the increased attention given to a commercial that appears alone during a program break, or to a black-and-white advertisement in a magazine full of four-color advertisements.

This ability of the human organism to accommodate itself to varying levels of sensitivity as external conditions varynot onlyprovidesmore sensitivity when it isneeded, but also servestoprotectusfromdamaging,disruptive,orirrelevantbombardmentwhentheinput level is high.

b. **Perceptual Selection** Consumers subconsciously exercise a great deal of selectivity as to which aspects of the environment—which stimuli—they perceive. An individual maylookatsomethings,ignoreothers,andturnawayfromstillothers.Intotal,peopleactually receive- or perceive-only a small fraction of the stimuli to which they are exposed. Consider, for example, a woman in a super-market.

Sheisexposedtoliterallythousandsofproductsofdifferentcolors,sizes,andshapes;to perhapsahundredpeople(looking,walking,searching,talking);tosmells(fromfruit,from meat, from disinfectant, from people); to sounds within the store (cash registers ringing, shoppingcartsrolling,airconditionershumming,andclerkssweeping,stockingshelves); and to sounds from outside the store (planes passing, cars honking, tires screeching, children shouting, car doors slamming).

Yet she manages on a regular basis to visit her local supermarket, select the items she needs,payforthem,andleaves,allwithinarelativelybrieftime,withoutlosinghersanity or her personal orientation to the world around her. This is because she exercises selectivity in perception.

Which stimuli get selected depends on two major factors in addition to the nature of the stimuliitself:theconsumer'spreviousexperienceasitaffectsherexpectations(whatshe is prepared, or "set", to see) and her motives at the time (her needs, desires, interests, and so on).

Eachof thesefactorscanservetoincreaseordecreasetheprobabilitythatthestimulus willbeperceived,andeachcanaffecttheconsumer'sselectiveexposuretoandselective awareness of the stimulus itself.

c. **Nature of the Stimulus—** Marketing stimuli include an enormous number of variables that affect the consumer's perception, such as the nature of the product, its physical attributes, the package design, the brand name, the advertisements and commercials (includingcopyclaims,choiceandsexofmodel,positioningofmodel,sizeofad,and typography), the position of the ad or time of the commercial, and the editorial environment.

d. **Expectations—**Peopleusuallyseewhattheyexpecttosee,andwhattheyexpecttosee is usually based on familiarity, previous experience, or preconditioned" set". In a marketing context, people tend to perceive products and product attributes according to theirownexpectations.AmanwhohasbeentoldbyhisfriendsthatanewbrandofScotch has a bitter taste will probably perceive the taste to be bitter; a teenager who attends a horror movie that has been billed as terrifying will probably find it so.

e. **Motives—** People tend to perceive things they need or want; the stronger the need, the greater the tendency to ignore unrelated stimuli in the environment. A businessman concerned with fitness and health is more likely to notice and to read carefully an ad fora health club than one who is without such concerns. In general, there is a heightened awareness of stimuli that are relevant to one's needs and interests, and a decreased awareness of stimuli that are irrelevant to those needs.

f. **Related Concepts—**As the preceding discussion illustrates, the consumer's "selection" of stimuli from the environment is based on the interaction of expectations and motives with the stimulus itself. These factors give rise to a number of important concepts concerning perception.

SelectiveExposure—Consumersactivelyseekoutmessagestheyfindpleasantorwith which they are sympathetic, and actively avoid painful or threatening ones. Thus, heavy smokers avoid articles that link cigarette smoking to cancer and note (and quote) the relatively few that deny the relationship. Consumers also selectively expose themselves to advertisements that reassure them of the wisdom of their purchase decisions.

g. **SelectiveAttention—**Consumershaveaheightenedawarenessofthestimulithatmeet theirneedsorinterestsandalesserawareness of stimuliirrelevanttotheirneeds.Thus, theyarelikelytonoteadsforproductsthatmeettheirneedsorforstores withwhichthey arefamiliaranddisregardthoseinwhichtheyhavenointerest.Peoplealsovaryinterms of the kind of information in which they are interested and the form of message and type of medium they prefer. Some people are more interested in price, some in appearance, and some in social acceptability. Some people like complex, sophisticated messages; others like simple graphics. Consumers therefore exercise a great deal of selectivity in terms of the attention they give to commercial stimuli.

h. **PerceptualDefense—**Consumerssubconsciouslyscreen out stimulithat are important forthem nottosee,eventhoughexposurehas alreadytakenplace.Thus,threateningor otherwise damaging stimuli are less likely to be perceived than are neutral stimuli at the same level of exposure. Furthermore, individuals may distort information that is not consistent with their needs, values, and beliefs.

i. **Perceptual Blocking—** Consumers protect themselves from being bombarded with stimuli by simply "tuning out"– blocking such stimuli from conscious awareness. Research shows that enormous amountsof advertising are screened out byconsumers; this may be more common for television than for print.

To explain why television advertising recall scores are falling, various hypotheses have been offered, such as the greater amount of time allotted for commercials, the use of shorter commercials (and thus more advertising messages within the same period of time), the number of commercials that are strung together back to back, the increased number of advertisers, and the greater number of products being advertised.

j. **Perceptual Organization** People do not experience the numerous stimuli they select from the environment as separate and discrete sensations; rather, they tend to organize them into groups and perceive them as unified wholes.

Thus,theperceivedcharacteristicsofeventhesimpleststimulusareviewedasafunction of the whole to which the stimulus appears to belong. This method of organization simplifieslifeconsiderablyfortheindividual.Thespecificprinciplesunderlyingperceptual organization are often referred to by the name given the school of psychology that first developed and stressed it- Gestalt psychology.

(Gestalt in German means "Pattern" or "Configuration")). Three of the most basic principlesofperceptualorganizationcenteronfigureandgroundrelationships,grouping, and closure.

k. **FigureandGround—**Stimulimustcontrastwiththeirenvironmentinordertobenoticed. Asoundmustbelouderorsofter,acolorbrighterorpaler.Thesimplestvisualillustration consistsof afigureonaground(i.e.,background).Thefigureisusuallyperceivedclearly because,incontrasttoitsground,itappearstobewelldefined,solid,andintheforefront.

l. **Grouping—** Individuals tend to group stimuli automatically so that they form a unified picture or impression. The perception of stimuli as groups or "chunks" of information, rather than as discrete bits of information, facilitates their memory and recall.

Grouping can be used advantageously by marketers to imply certain desired meanings in connection with their products. For example, an advertisement for tea may show a youngmanandwomansippingteainbeautifullyappointedroombeforeablazinghearth. The grouping of stimuli by proximity leads the consumer to associate the drinking of tea with romance, fine living, and winter warmth. Most of us can remember and repeat our social security numbersbecause we automatically group them into three chunks rather than nine separate numbers.

When the telephone company introduced the idea of all-digit telephone numbers, consumers objected strenuously on the grounds that they would not be able to recall or repeat so many numbers.

However,because we automaticallygrouptelephonenumbersintotwochunks(orthree, with the area code), the problems that were anticipated never occurred.

m. **Closure—**Individualshaveaneedforclosure.Theyexpressthisneedbyorganizingtheir perceptionssothattheyformacompletepicture.Ifthepatternofstimulitowhichtheyare exposed is incomplete, they tend to perceive it nevertheless as complete; that is, they consciously or subconsciously fill in the missing pieces.

Thus,acirclewithasectionofitsperipherymissingwillinvariablybeperceivedasacircle and not as an arc. The need for closure is also seen in the tension and individual experiences when a task is incomplete, and the satisfaction and relief that come with its completion.

n. **PerceptualInterpretation**The preceding discussion has emphasized that perception is a personal phenomenon. People exercise selectivity as to which stimuli they perceive, and organize these stimuli on the basis of certain psychological principles.The interpretation of stimuli is also uniquely individual, since it is based on what individuals expecttoseeinlightoftheirpreviousexperience,onthenumberofplausibleexplanations theycanenvision,andontheirmotivesandinterestsatthetimeofperception.Stimuliare oftenhighlyambiguous.Somestimuliareweakbecauseofsuchfactorsaspoorvisibility, brief exposure, high noise level, and constant fluctuation.Even stimuli that are strong tend to fluctuate dramatically because of such factors as different angles of viewing, varying distances, and changing levels of illumination. Consumers usually attribute the sensoryinputtheyreceivetosourcestheyconsidermostlikelytohavecausedthespecific pattern of stimuli.

Pastexperienceandsocialinteractionsmayhelptoformcertainexpectationsthatprovide categories or alternatives that individuals use in interpreting stimuli. The narrower the individual's experience, the more limited the access to alternative categories.

Whenstimuliarehighlyambiguous,anindividualwillusuallyinterprettheminsuchaway that they serve to fulfill personal needs, wishes, interests, and so on. How a person describes a vague illustration, what meaning the individual ascribes to an inkblot, is a reflection not of the stimulus itself, but of the subject's own needs, wants, and desires.

Through the interpretation of ambiguous stimuli, respondents reveal a great deal about themselves. How close a person's interpretations are to reality, then, depends on the clarity of the stimulus, the past experiences of the perceiver, and his or her motives and interests at the time of perception.

GroupDynamics

A group may be defined as two or more people who interact to accomplish either individual or mutual goals. The broad scope of this definition includes an intimate "group" of two neighbors whoshoptogetherand alarger,moreformalgroup,suchasaneighborhood watchassociation, whose members are mutually concerned with reducing crime in their neighborhood.

Included in this definition, too, are more remote, one-sided, social relationships where an individual consumer looks to others for direction as to which products or services to buy, even though these others are largely unaware that they are serving as consumption related models.

Typesof Groups

There are many ways to classify groups, such as by regularity of contact, by structure and hierarchy,bymembership,evenbysize.Forexample,itisoftendesirabletodistinguishbetween groups in terms of their size or complexity. However, it is difficult to offer a precise point as to when a group is considered large or small.

A large group might be thought of as one in which a single member is not likely to know more than a fewof the group's members personally or be fully aware of the specific roles or activities of more than a limited number of other group members. In contrast, members of a small group are likely to know each member personally and to be aware of every member's specific role or activities in the group.
For example, each staffmember of a college newspaper is likely to knowall the other members and be aware of their duties and interests within the group. In the realm of consumer behavior, weareprincipallyconcernedwiththestudyofsmallgroups,sincesuchgroupsaremorelikelyto influence the consumption behavior of group members.

- **PrimaryversusSecondaryGroups—**Ifapersoninteractsonaregularbasiswithother individuals (with members of his or her family, with neighbors, or with co-workers whose opinions are valued), then these individuals can be considered a primary group for that person.
  On the other hand, if a person interacts only occasionally with such others, or does not consider their opinions to be particularly important, then these others constitute a secondary group for that person. From this definition, it can be seen that the critical distinctions between primary and secondary groups are the perceived importance of the groups to the individual and the frequency or consistency with which the individual interacts with them.

- **Formal versus Informal Groups—** Another useful way to classify groups is by their formality; that is, the extent to which the group structure, the members' roles, and the group'spurposeareclearlydefined.Ifagrouphasahighlydefinedstructure(forexample, a formal membership list), specific roles and authority levels (a president, treasurer, and secretary), and specific goals (to support a political candidate, assist the homeless, increase the knowledge or skills of members), then it would be classified as a formal group.

  The local chapter of the American Red Cross, with elected officers and members who meet regularly to discuss topics of civic interest, would be classified as a formal group. On the other hand, if a group is more loosely defined- if it consists, say, of four women who were in the same college sorority and who meet for dinner once a month, or three co-workers who, with their spouses, see each other frequently then it is considered an informal group.

  From the standpoint of consumer behavior, informal social or friendship groups are generally more important to the marketer, since their less clearly defined structures provide a more conducive environment for the exchange of information and influence about consumption-related topics.
- **Consumer-Relevant Groups** To more fully comprehend the kind of impact that specific groups have on individuals, we will examine six basic consumer-relevant groups: the family, friendship groups, formal social groups, shopping groups, consumer action groups, and work groups.

- **The Family—** An individual's family is often in the best position to influence his or her consumer decisions. The family's importance in this regard is based upon the frequency of contact that the individual has with other family members and the extent of influence that family has on the establishment of a wide range of values, attitudes, and behavior.
- **Friendship Groups—** Friendship groups are typically classified as informal groups because they are usually unstructured and lack specific authority levels. In terms of relativeinfluence,afteranindividual'sfamily,hisorherfriendsaremostlikelytoinfluence the individual's purchase decisions.

- **FormalSocialGroups—**Incontrastto the relative intimacyoffriendship groups, formal social groups are more remote and serve a different function for the individual. A person joins a formal social group to fulfill such specific goals as making new friends, meeting "important" people (e.g., for career advancement), broadening perspectives, pursuing a special interest, or promoting a specific cause.

  Becausemembersofaformalsocialgroupoftenconsumecertainproductstogether,such groupsareof interesttomarketers.Membershipinaformalsocialgroupmayinfluencea consumer's behavior in several ways. For example, members of such groups have frequent opportunity to informally discuss products, services, or stores. Some members may copy the consumption behavior of other members whom they admire.
- **Shopping Groups—** Two or more people who shop together- whether for food, for clothing,orsimplytopasthetime-canbecalledashoppinggroup.Suchgroupsareoften offshootsoffamilyorfriendshipgroups.Peopleliketoshopwithotherswhoarepleasant company or who they feel have more experience with, or knowledge about, a desired product or service.

  Shopping with others also provides an element of social fun. In addition, it reduces the risk that a purchase decision will be socially unacceptable. In instances where none of themembershaveknowledgeabouttheproductunderconsideration,ashoppinggroup may form for defensive reasons; members may feel more confident with a collective decision.

- **Consumer Action Groups—** A particular kind of consumer group- a consumer action group-hasemergedinresponsetotheconsumeristmovement.Consumeractiongroups can be divided into two broad categories: those that organize to correct a specific consumer abuse and then disband, and those that organize to address broader, more pervasive, problem areas and operate over an extended or indefinite period of time.a group of tenants who band together to dramatize their dissatisfaction with the service provided by their landlord, or a group of irate neighbors who unite to block the establishmentofadrugtreatmentclinicinamiddle-classneighborhood,areexamplesof temporary, cause specific consumer action groups.
- **Work Groups—** The sheer amount of time that people spend at their jobs– frequently more than thirty-five hours per week–provides ample opportunity for work groups to serve as a major influence on the consumption behavior of members. Both the formal work group and the informal friendship/work group have the potential for influencing consumer behavior.

  The formal work group consists of those individuals who work together as a team. Their direct and sustained work relationship offers substantial opportunity for one or more members to influence the consumption-related attitudes and activities of other team members.

  Informalfriendship/workgroupsconsistofpeoplewhohavebecomefriendsasaresultof working for the same firm, whether or not they work together as a team. Members of informal work groups may influence the consumption behavior of other members during coffee or lunch breaks or after-hours meetings.

SocialSurroundings

While social classcan be thought of asacontinuum- arange of social positions- on which each member of society can be placed, researchers have preferred to divide the continuum into a small number of specific social classes, or strata. Within this framework, the concept of social class is used to assign individuals or families to a social class category.
Consistent with this practice, social class is defined as the division of members of a society into a hierarchy of distinct status classes, so that members of each class have relatively the same status and members of all other classes have either more or less status.

Toappreciatemorefullythecomplexityofsocialclass,wewillbrieflyconsiderseveralunderlying concepts pertinent to our definition.

Social Class and Social Status-Researchers often measure social class in terms of social status; that is, they define each social class by the amount of status the members of that class have in comparison with members of other social classes.

Inthebehavioralsciences,statusisfrequentlyconceptualizedastherelativerankingsofmembers of each social class in terms of specific status factors.

Forexample,relativewealth(amountofeconomicassets),power(thedegreeofpersonalchoice orinfluenceoverothers),andprestige(thedegreeofrecognitionreceivedfromothers)arethree popular factors frequently employed in the estimation of social class.

When it comes to consumer behavior and marketing research, status is most often defined in termsofoneormoreofthefollowingconvenientdemographic(socioeconomic)variables:family income, occupational status, and educational attainment.

Thesesocioeconomicvariables,asexpressionsofstatus,areusedbymarketingpractitionerson a daily basis to measure social class.

SocialClassisHierarchical—Social-classcategoriesareusuallyrankedinahierarchyranging from low to high status. Thus members of aspecific social class perceive members of other social classes as having either more or less status than they do.

Toomanypeople,therefore,social-classcategoriessuggestthatothersareeitherequaltothem (about the same social class), superior to them (higher social class), or inferior to them (lower social class).

This hierarchical aspect of social class is important to marketers. Consumers may purchase certainproductsbecausetheyarefavoredbymembersoftheirownorahighersocialclassand they may avoid other products because they perceive them to be “lower-class” products.

Social Class and Market Segmentation— The various social classstrata provide a natural basis for market segmentation for many products and services. In many instances, consumer researchers have been able to relate product usage to social-class membership.

Thus marketers can effectively tailor products or services, channels of distribution, and promotional messages to the needs and the interests of a specific social stratum.

Social Class and Behavioral Factors— The classification of society’s members into a small number of social classes has enabled researchers to note the existence of shared values, attitudes,andbehavioralpatternsamongmemberswithineachsocialclass,anddifferingvalues, attitudes, and behavior between social classes.

Consumer researchers have been able to relate social-class standing to consumer attitudes concerningspecificproducts, andtoexaminesocial-classinfluencesontheactualconsumption of products.

Social Class as a Frame of Reference— Social-class membership serves consumers as a frame of reference (i.e., a reference group) for the development of their attitudes and behavior. In the context of reference groups, we might expect members of a specific social class to turn most often to other members of the same class for cues (or clues) as to appropriate behavior.

Social-class Categories— There is little agreement among sociologists on how many distinct class divisions are necessary to describe adequately the class structure of the United States.

Most early studies divided the social-class organizations of specific communities into five class or six-class social structures. However, other researchers have found nine-class, fourclass, three-class, and even two-class schemes to be suitable for their purposes.

Thechoiceof howmanyseparateclasses tousedependontheamount of detailtheresearcher believes is necessary to explain adequately the attitudes or behavior under study.

Marketersareinterestedinthesocial-classstructuresofcommunitiesthatofferpotentialmarkets for their products, and in the specific social class level of their potential customers.

thenumberanddiversityofsocial-classschemes,andshowsthedistributionoftheUnitedStates population in terms of several different sub-divisions (five category, six category and seven category subdivisions).

NumberandDiversityofSocial-classSchemes

Two-categorysocial-classschemes
Blue-collar,white-collar
Lower,upper
Lower,middle
Three-categorysocial-classschemes
Blue-collar,gray-collar,white-collar
Lower,middle, upper
Four-categorysocial-classscheme
Lower,lower-middle,upper-middle,upper
Five-categorysocial-classschemes
Lower,working-class,lower-middle,upper-middle,upper
Lower,lower-middle,middle,upper-middle,upper
Six-categorysocial-classscheme
Lower-lower,upper-lower,lower-middle,upper-middle,lower-upper,
upper-upper
Seven-categorysocial-classscheme
Reallower-lower,alower groupofpeoplebut notthelowest,working
class,middleclass,upper-middle,lower-upper,upper-upper
Nine-categorysocial-classscheme
Lower-lower,middle-lower,upper-lower,lower-middle,middle-middle,
upper-middle,lower-upper,middle-upper,upper-upper.

InIndiancontext, sixcategorysocial-class schemes areusedmorefrequently.

PromotionMix:Directselling,Advertising,SalesPromotionandPublic Relations

Introduction

Broadlyspeaking,promotionmeanstopushforwardortoadvanceanideatogainitsacceptance and approval. Promotion is any communicative activity whose main object is to move forward a product, service or idea in a chain of distribution. It is an effort by a marketer to inform and persuadebuyerstoaccept,use,recommend,andrepurchasetheidea,goodorservicewhichis being promoted. Thus, promotion is a form of communication with an additional element of persuasion.

The promotional activities always attempt to affect knowledge, attitudes, preferences, and behavior of recipients i.e. buyers. In any exchange activity, communication is absolutely necessary. The company may have the best product, package etc. but still people may not buy theproductiftheyhaven'theardofit.Themarketermustcommunicatetohisprospectivebuyers and provide them with adequate information in a persuasive language. People must know that the right product is available at the right place and at the right price. This is thejob of promotion in marketing.

Thuspromotionistheprocessofmarketingcommunicationinvolvinginformation,persuasionand influence. Promotion has three specific purposes.

1. Itcommunicatesmarketinginformationtoconsumers,users,and prospects.

2. Besidesjustcommunication,promotionpersuadesandconvincesthebuyers.

3. Promotionalefforts actas powerfultools ofcommunication.

Providingthecuttingedgetoitsentiremarketingprogrammed.Thuspromotionisaform ofnon-pricecompetition.Promotionisthusresponsibleforawakeningandstimulatingdemand,capture demandfrom rivals andmaintaining demandfor products evenagainst keencompetition. Every company can choose from the following tools of promotion, popularly known as the promotion-mix variables:

1. Advertising,

2. SalesPromotion,

3. PersonalSelling,

4. Public Relations 1. **Advertising -** Advertising is perhaps the most important tool of promotion that companies use to direct persuasive communications to target buyers and publics. Advertising is defined by the American Management Association as "any paid form of non-personalpresentationandpromotionofideas,goodsorservicesbyanidentifiedsponsor".

   Advertisingthroughvariousmedialikemagazines,newspapers,radio,television,outdoor displaysetc.,hasmanypurposes:"long-termbuild-uptheorganization'scorporateimage (institutional advertising), or long-term build-up of a particular brand (brand advertising), information dissemination about a sale, service or event (classified advertising), announcement of a special sale (sale or promotional advertising) and advocacy of a particularcause(advocacyadvertising".Organizationsobtaintheiradvertisingindifferent ways.

   In small companies, advertising is handled by someone in the sales or marketing department who works with an advertising agency. Large companies on the other hand, set up their own advertising departments, whose job is to develop the total budget, approve advertising agency ads and campaigns, dealer displays etc.

   In developing an advertising programmed, marketing managers must always start with the identification of the target market and buyer motives then proceed to make the five major decisions in developing advertising programmed, known as the five Ms:

   1. Whataretheadvertisingobjectives (Mission)
   2. Howmuchcanbespent(Money)

3. Whatmessageshouldbe sent (Message)
4. Whatmedia should be used(Media)
5. Howshouldtheresults be evaluated(Measurement)

1. **Setting the advertising objectives** The first step in developing an advertising programme is to set the advertising objectives. These objectives must flow from prior decisions on the target market, market positioning and marketing mix.

   Theobjectives canbeclassifiedonthebasisoftheaimwhichcanbeeither to

   (a) inform the target about the product features, performance, service available, a price change or newuses etc. (called informative advertising)(b) topersuadetheprospecttomayberemainbrandloyal,orswitchbrands,orto purchase now etc. (called persuasive advertising) or (c)toremindthebuyerortheprospectabouttheproductoritsfeatures,price where to buy it from etc. (called reminder advertising).

The choice of the advertising objectives should be based on a thorough analysisofthecurrentmarketingsituation,e.g.iftheproducthasreachedits maturitystageinitsproduct-lifecycle,andthecompanyisthemarketleader, and if the brand usage is low, the proper objective should be to stimulate more brand usage (as in the case of colgate toothpaste or surf).

On the other hand, if the product is new and at the introduction stage of the PLC and the company is not amarket leader, but its brand is superior to the leader,(asinthecaseofcaptaincooksalt)thentheproperobjectivemaybe to convince the prospects about the brands superiority.

2. **Decidingontheadvertisingbudget**Afterdeterminingtheobjectives, thecompanycanproceedtoestablishitsadvertisingbudgetforeachproduct. Everycompanywouldliketospendtheamountrequiredtoachievethesales goal. But howshouldit decidehowmuchtospendonadvertising. Thereare several methods from which a company can choose from while deciding on how much to spend:

   a. **What-all-you-can-afford method:** Many companies set the promotion budget at what they think the company can afford. However, thismethodcompletelyignorestheroleof promotionasan investment and the immediate impact of promotion on sales volume. It leads to an uncertain annual promotion budget.

   b. **Percentage of sales method:** Many companies set their promotion expenditure at a specified percentage of sales (either current or anticipated). Anumberof advantages are claimedforthe percentage of sales method.

      First,itmeansthat promotion expenditures would vary with what the companycan“afford”.Second,itencouragesmanagementtothinkin terms of the relationship between promotion cost, selling price and profit per unit. Third, itencourages competitive stability to the extent that competing firms spend approximately the same percentage of their sales on promotion.

   c. **Competitive parity method:** Some companies set their promotionbudget to achieve parity with their competitors. Two argumentshave been advanced for this method. One is that the competitors’ expenditures represents the collective wisdom of the industry and second is that maintaining a competitive parity helps prevent promotion wars.

   d. **Objective-task method:** This method calls upon marketers to develop their promotion budgets by defining their specific communication objectives, determining the tasks that must be performed to achieve these objectives, and estimating the costs of performing these tasks.

      The sum of these costs is the proposed promotion budget. This methodhastheadvantageofrequiringmanagementtospelloutits assumptions about the relationship between the amount spent, exposure levels, trial rates and regular usage.

3. **Deciding on the massage** Many studies on 'sales effect of advertising expenditures' neglects the message creativity. One study found that the effectofthecreativityfactorinacampaignismoreimportantthantheamount of money spent.

   Only after gaining attention can a commercial help to increase the brand's sales. Advertisers go through the following steps to develop a creative strategy message generation, message evaluation and selection and messageexecution.

   - **Message Generation:** In principle, the product's message (theme, appeal) should be decided as part of developing the product concept; it expresses the major benefit that the brand offers. Creative people use several methods to generate possible advertising appeals.

     Many creative people proceed inductively by talking to consumers, dealers, experts and competitors. Consumers are the major source of goodideas.Theirfeelingsaboutthestrengthandshortcomingsofexisting brands provide important clues to creative strategy.

     How many alternative ad themes should the advertiser create before making a choice? The more the advertisements created, the higher the probability that the agency will develop a first-rate appeal. Yet, the more time it spends on creating ads, the higher the costs. Thus, theremust be someoptimalnumberofalternativeadsthatanagencyshouldcreateand test for the client.
   - **Message Evaluation and Selection:** The advertiser needs to evaluate the alternative messages. A good ad normally focuses on one central selling proposition without trying to give too much product information, which dilutes the ad's impact.

     Messages should be rated on desirability, exclusiveness and believability. The message must first say something desirable or interesting about the product. The message must also say something exclusive or distinctive that does not apply to every brand in the product category. Finally, the message must be believable.
   - **MessageExecution:**Theimpactofthemessage'dependsnotonlyupon 'whatissaid'butalsoon'howitissaid'.Someadsaimforrational positioning(designedtoappealtotherationalmind)e.g.Surf-washes clotheswhitest,whereasotheradvertisementsaimforemotionalpositioning, which appeal to the emotions of love, tenderness, care etc. The choice of headlines, copy and so on, can make a difference to thead's impact. The advertiser usually prepares a copy strategy statement describingtheobjective,content,supportandtoneofthedesiredad Creative people must find a style, tone, words, and format for executing the message.

     Alloftheseelementsmustdeliveracohesiveimageandmessage.Since fewpeoplereadthebodycopy,thepictureandheadlinemustsummarize the selling proposition. A number of researchers of print advertisements report that the picture, headline, and copy are important in this order.

     The reader first notices the picture and hence it must be strong enough to draw attention. Then the headline must be effective in propelling the person to read the copy which itself must be well composed.

Even then, a really outstanding ad will be noted by less than 50% of the exposed audience, about 30% of the exposed audience might recall the headline'smainpoint,about25%mightremembertheadvertiser'sname and less than 10% will have read most of the body copy.

4. **Decidingonthe media** The advertiser's next task is to choose advertising media to carry the advertising message. The steps are deciding on desired reach, frequency

andimpact,choosingamongmajormediatypes,selectingspecificmediavehicles, and deciding on media timing.

(a) **Deciding on reach frequency and impact:** Media selection is the problemoffindingthemostcost-effectivemediatodeliverthedesired number of exposures to the target audience. But what do we mean by the desired number of exposures? Presumably, the advertiser is seeking a certain response from the target audience. g. a certain level of product trial. The impact of exposures on audience awarenessdependsontheexposure'sreach,frequencyandimpact.

a. **Reach (R):** The number of different person or households exposedtoaparticularmediascheduleatleastonceduringa specified time period.
b. **Frequency (F):** The number of times within the specific time periodthatanaveragepersonorhouseholdisexposedtothe message.
c. **Impact (I):** The qualitative value of an exposure through a given medium e.g. a woman's product in Femina would have a higher impact than in the Dalal Street).

(b) **Choosing among Major Media Types:** The media planner has to know the capacity of the major media types to deliver, reach, frequency and impact.

The major media types are newspapers, television, direct mail radio, magazines, and outdoor. Media planners make their choice among these media categories by considering several variables, the most important ones being the following:

- **Target-AudienceMediaHabits:**e.g.televisionandradioare the most effective media for reaching teenagers.
- **Product:** Women's dressers are best shown in colored magazines.
- **Massage:**Amessageannouncingamajorsaletomorrowwill require radio or newspapers.
- **Cost:** Television is very expensive, whereas newspaper advertising is comparatively much cheaper. What counts are the cost per thousand exposures and not the total cost?

(c) **Selecting specific media vehicles:** Now the media planner searches for the most cost-effective media vehicle. There are hundredsofmagazinesandnewspapersspeciallytargetedatspecial audience which a planner chooses from. Similarly on the television media, there are several channels and programmes from which a choice can be made.

However, every media vehicle entails a certain cost and has certain customer coverage. How to select the most cost-effective media is done using the “Cost-Per-Thousand Criterion” e.g.

if a full page, four color advertisement in India Today costs Rs. 80,000/- and has a readership of 20 lac people, the cost of reaching each one thousand persons is approximately Rs. 40/- The same advertisementinBusinessTodaymaycostRs.25,000butreachonly 50,000people,thecostperthousandpeoplewouldbeapproximately Rs.500/.Similarly,themediaplannerwouldrankreachmagazineby cost per thousand and favor those magazines with the lowest cost perthousandforreachingthetargetconsumers.Mediaplannersare increasingly using more sophisticated measures of media effectiveness and employing them in mathematical models for arriving at the best media-mix. Many advertising agencies use computer programmes to select the initial media and then make furtherimprovementsbasedonsubjectivefactorscitedinthemodel.

(d) **Deciding on media timing:** The advertiser faces a macro scheduling problem and a micro scheduling problem

i. **Macro-scheduling Problem:** The advertiser has to decide how to schedule the advertising in relation to seasonal&businesscyclictrends. Suppose70%of a product’ssalesoccurbetweenJune&September,the firm has three options-either it could follow the seasonalpattern,toopposetheseasonalpatternorto be constant throughout the year.

ii. **Micro-scheduling Problem:** The micro scheduling problem calls for allocating advertising expenditures within a short period to obtain the maximum impact.

5. **Evaluating advertising effectiveness**Good planning and control of advertising depends critically on measures of advertising effectiveness. Most advertisers trytomeasure the communication effect of an adthat isitspotential effect on awareness, knowledge or preference. They would like to measure the sales-effect but often find it is too difficult to measure. Yet both can be researched.

Communication-Effect Research: Communication-effect research seekstodeterminewhetheranadhasbeenabletocommunicateeffectivelyi.e. copy testing. It can be done before an ad is put intomedia and after it is printed or broadcast. There are three major methods of advertising pre-testing:

1. **Direct-rating method:** Which asks consumers to rate alternative ads?
2. **Portfolio tests:** entail a group of consumes to view and/or listen to a portfolio of advertisements and then they are asked to recall all the ads and their content, aided/unaided by the interviews.
3. **Laboratory tests:** use equipment to measure consumer’sphysiologicalreactions-heartbeat,blood

pressure,pupildilationetc.whichmeasuresthead’s attention-getting power.

Sales Effect Research: Communication-effect advertising research helps advertisers assess advertising’s communication effects but reveals little about its sales impact. Advertising’s sales effect is generally harder to measure than communication effect. Sales are influenced by many factors besides advertising, such as the product’s features, price, availability & competitors’ actions. Researchers try to measure sales impact through analyzing either historical or experimental data.

Thehistoricalapproachinvolvescorrelatingpastsalestopastadvertising expenditures on a current basis using advanced statistical techniques. Other researchersuseexperimentaldesigntomeasurethesalesimpactofadvertising. Insteadofspendingthenormalpercentageofadvertisingtosalesinallterritories, thecompanyspendsmoreinsometerritoriesandlessinothers.Thesearecalled high-spending and low-spending tests.

Ifthehigh-spendingtestsproducesubstantialsalesincreases,itappears that the company has been under spending. If they fail to produce more sales andif low-spendingtestsdonotleadtosalesdecreases,thenthecompanyhas been overspending. These tests, of course, must be accompanied by good experimental controls.

6. **AdvertisingagenciesandprofileofadvertisinginIndia**Today,the advertisingjobhasbecomesocomplexandlarge,thatnormallynobusinessfirm chooses to handle the function directly.
Theyemploytheservicesofadvertisingagencies.Theseagenciescarryforward the task of planning, execution and evaluation of the promotional campaigns of companies. Stanton has defined an advertising agency as “an independent company rendering specialized services in advertising in particular and marketing in general.”
They are independent concerns working as a specialist, an agent or consultant of the advertiser. They perform all activities right from preparation and development of advertising copy to the evaluation of the effectiveness of the advertising programmed. Advertising agencies render a lot of services to advertisers like

- Copywriting,
- Photographing,
- Mediaplanning,
- Buyingofspace,
- Marketingresearch,
- Publicrelations,
- Merchandising,
- Salespromotion,
- Forwardingtheadvertisingmaterial etc.

Allthesespecializedserviceshelptheadvertisersinraisingtheeffectivenessof advertising.

AdvertisingintheIndianperspective

In a country like India, where we find diverse languages, low-income levels, large-scale illiteracy, the growth in advertising has also been slow as a natural consequence.

An experienced marketing man in India feels that the greatest difficulty in India istofindacommonlinkofcommunicationfortheentirecountry.Theadvertising campaigns are usually not conceived in Indian languages and are often translationsoftheoriginaladvertisementinEnglish.Theadvertisingthemeslack Indian images, associations and expressions. India being a country of villages, the ultimate task before the advertising men is to make the advertising appeal simple.

Nodoubttoreachandinfluencetheruralmarketisachallenge.However,inthe yester decades, we find multifaceted changes in our socio-economic set-up, an increase in the pace of industrialization & an increase in the level of income of the general masses. We also find satisfactory developments in the field of education and all these

Developmentshavepavedwideravenuesforadvertisements.Thetechnological sophistication in the field of mass communication has also been instrumental in makingtheadvertisingcomeofage.Indianadvertisingpracticesareundergoing a see-saw change and the credibility would probably be to the rising tempo of industrialization in all the sectors of the Indian economy. Of late, the Indian businessmen have learnt to appreciate and visualize the social responsibility of business.

Hence, it is pertinent that advertising is given new orientation. With these developments, advertising has become a communication device as well as an indispensable weapon in the armory of today's business. Even the area of advertising research needs special attention. Advertising thus is a sensitive tool of promotion-mix with a very wide coverage and now that the level of consumerism and competition is

reaching its peak in India too, business houses have understood that theyneed the effective tool of advertising to promote the special selling proposition of product to their prospects.

SalesPromotion

"SalesPromotionisadirectandimmediateinducementthataddsanextravalue to the product so that it prompts the dealers, distributors or the ultimate consumers to buy the product." According to the American Marketing Association,"Salespromotionmeanstogiveshorttermincentivestoencourage purchase or sale of a product or service. Sales promotion includes those activitiesthatsupplementbothpersonalsellingandadvertising,andco-ordinate them and help to make them effective, such as display, shows and expositions, demonstrations and other non-recurrent selling efforts not in the ordinary routine".

Sales promotion helps in solving the short-term problems of the marketing manager,theimpactofthesemethodsisnotverylastingordurableandthe results of these efforts are not as lasting as those of advertising and personal selling. Sales promotion is more of a catalyst and a supporting communication effort to advertising and personal selling.

1. **Objectivesofsalespromotion**Salespromotions,asatoolof communication and promotion, fulfils the following objectives:

a. Salespromotionhelpsinintroducingnewproducts.
b. Italsohelpsinovercominganyuniquecompetitivesituation.
c. It is usefulfor unloading the accumulated inventoryor stock of the goods in the market.
d. It can beusedfor overcoming theseasonal slumpsinsales.
e. Salespromotionhelpsingettingnewaccountsi.e.clientsorcustomers.
f. Ithelpsinretrievingthelostaccounts.
g. It actsas a supportandsupplementtotheadvertising effort.
h. It also acts asasupportand supplementtothe salesmen'sefforts.
i. Itaimsatpersuadingsalesmentosellthefulllineof theproductsandnot just concentrate on a few products.
j. It helpsinpersuading thedealertobuymore stockfromthecompany i.e.toincreasethesizeoftheorder.
k. Itsobjectiveistocreateastrongerandquickerresponsefromtheconsumers.
l. It alsohelps toboostdroppingsales ofanyproduct of thecompany.

2. **Sales promotion techniques**The sales promotion techniques or tools have three distinctive features:

(a) **Communication-**Salespromotionattractstheattentionoftheconsumer and gives him such information that he is led to the product or service.

(b) **Incentive:**theygivesomeincentive,concession,inducementorcontribution that gives added value to the consumer.

(c) **Invitation:** They give a distinct invitation to the consumer to enter into a transaction with the dealer or the company.

Thevarioustoolsortechniquesofsalespromotioncanbedescribedbelow:

1. Sales promotional letters: Several companies utilize the medium of letters for sales promotion. These letters serve different purposes. Some times they are used to give information about the company's products, at other times; they are used as reminders for the customers to continue to buy a particular brand. Some letters seek information from the customers regarding various aspects of their purchases.

2. Point of purchase (POP) displays: This is the most widely used sales promotional tool. Various kinds of display materials like posters, danglers, stickers,mobilewobblersandstreamersareusedattheretailer'soutlettoinduce customers to purchases. POP displays are generally useful in the case of products like liquors for

which advertising is prohibited. At times, to enhance the display effect, manufacturersusedifferentapproachessuchasilluminateddesignsandmotion displays etc. companies use the technique of mass display within the limited space available in the retail store. The stocks are artistically arranged to gain maximum attention. Displays of various types such as window displays, wall display,counterdisplaysorfloordisplaysarealsoused.Theretailer'sroleisvery important from the point of view of displays.

3. **Customer service programmes:** At times, the company organizes and conducts customer service programmes or camps with the aim of providing service to the customers at different points of purchase.

4. **Demonstrations:** Companies do product demonstrations for sales promotion, especially when they are introducing a new product in the market. Demonstrationsareusuallyusedforlowunitpriceproductslikewashingpowder orhighunitpriceproductslikewashingmachinesandvacuumcleaners. Demonstrationsmaybe

organizedattheretailstoresbythecompanysalesmenforthebenefitofretailers as well as consumers. Door to door demonstrations and institutional demonstrations are also considered to be highly specialized form of sales promotion. Sometimesdemonstrationsareorganizedforinfluentialpeoplesuch as journalists, media men, opinion leaders, etc, who are invited to see the demonstration of the product. Demonstration is a good sales promotion technique which involves the cooperation of the sales representatives and the prospective customers.

5. **Free samples:** Free samples of the product are offered to persuade the consumerstotrythemout.Byofferingfreesamplestoalargesectionofthenew market, a company seeks to gain an entry into that market. For using this tool, theproductshouldbeoflowcostandsubjecttofrequentpurchases.e.g.,soaps, detergents, toothpastes, tea, etc.

6. **Contests:** Contests of various kinds are also commonly used as sales promotion tool. There are dealer contests which are exclusively for the dealers ofthecompanyandconsumercontestsforthegeneralpublic.Companiesspend a large amount of money on these contests because they have to be publicized widely and the expenditure on the attractive prizes is also to be covered.

Consumercontestsmaybeintheformofquizcontests,beautycontests,scooter and car rallies, lucky draws, suggesting a brand name, writing a slogan, suggesting a logo, etc. The consumer has

to be induced to get interested in the contest and purchase the product associated with it.

7. **Premiumsandfreeoffers,price-offschemesandinstallmentoffers:** In the Indian markets today, these tools are being used extensively by different companies. A premium offer is given for a particular product and along with it is a free offer of another product to be given free to anybody buying the product, fore.g.,anArialbarfreewithapackofArialwashingpowder.Price-offschemes are also introduced by different companies from time to time.

e.g. Kelvinator and Alwen refrigerators, Hawkins pressure cooker, etc. Other companies give the installment offer to the consumer for buying their product which is usually high priced and give the consumers the facility of paying a certain amount of money as down payment and pay the balance amount in a specifiednumberofequalinstallments.Thissalespromotionmeasurehasbeen found to be very effective.

8. **Coupons:** These are certificates which promise price reduction to consumer on specified items. Coupons generally perform specific functions for thecompany.Firstly,theyencouragetheconsumerstomakeuseofthebargain offeredandsecondlytheyalsoserveasaninducementtothechannelmembers for stocking the items of that company.

Coupons may be distributed through newspaper and magazine advertisements or by direct mail or along with the package consisting the product. Coupons are generallyusedwhileintroducinganewproductorforstrengtheningtheimageof the product.

9. **Catalogues:** Catalogues carry essential information on the products offeredbythecompany.Awell-designedcataloguecarriescompleteinformation relatingtotheproducts,theirpictures,sizespecifications,colours,packing,uses and prices. The products are listed and indexed properly in order to facilitate order booking and processing.

10. **Tradefairsandexhibitions:**Thesetoolsarebasedonthepremisethat 'seeingisbelieving'andareextensivelyused.Thesefairsandexhibitionsprovide the companies with the opportunity of introducing and displaying their products.

This brings the company's products and consumers in direct contact with each other.Tradefairsandexhibitionsareveryeffectiveininternationalmarketingand alot of trade orders and enquiries are generated at the international level also.

11. **Gifts:** Companies also distribute gifts to people like customers, dealers and other influential people. These gifts may include pens, pencils, calendars, diaries, decoration pieces, etc.

Thegiftsgenerallycarrythecompany'snameandlogo.Thesegiftsareintended to create goodwill amongst the various people towards the company and indirectly help in furthering the sales of thecompany.

12. **Sponsoring major national and international events:** Companies associate themselves with the major national and international events such as sports like cricket, hockey, tennis, golf, etc. The business houses generally sponsor the event as a

whole or may associate themselves with specific aspects of the events. e.g., companies of soft drinks, cigarette manufacturers, etc. The purpose behind sponsoringistoremainapart of thenewsand gotthebestofsalespromotional efforts in the form of benefits.

Personalselling

It is essential to communicate, persuade and motivate the target customers in order to make the product and price known and acceptable to the target consumers. For this, personal selling is adopted as an effective tool.

Thecompany'ssalespersonswhomaybereferredtoasthesalesmenorsales representatives or sales executives, who are on its payroll, communicate with the target consumers, so as to make an order of sale and motivate them to positively respond to it and finally to clinch the deal. According to the American MarketingAssociation,“Personalsellingcanbedefinedasanoralpresentation, in conversation with one or more prospective purchasers, for the purpose of making sales”.

According to F.E. Webster, Jr. "Personal selling is a highly distinctive form of promotion. Like other forms of promotion, personal selling is basicallyamethod of communication, but unlike others it is a two-way, rather than unidirectional communication. It involves not only the individual but social behaviour.

Each of the persons in face-to-face contact, salesman and prospect influences the other. The outcome of each sales situation depends heavily upon the success that both the parties experience in communicating with each other and reaching a common understanding of needs and goals.

The main task involved in personal selling is to match specific products with specific consumers so as to secure transfer of ownership". According to K.B. Hass- "Personal selling basically consists of the interpretation of product and service features in terms of benefits and advantages to the buyer and of persuading the buyers to buy the right kind and quantity of the product."

Objectivesofpersonalselling

Personalsellinghelpsinthefollowingmajorareas:

1. Toimprovethesalesvolumeofthecompany's differentproducts.

2. Toensuretheproper mixofproductsinthetotalsales volume.

3. Toincrease themarketshare ofthe company.

4. Toincrease theprofitsofthecompany.

5. Toreducetheoverallselling expenses.

6. Togainnewaccounts andimprovebusiness growth.

7. Ithelpsintheappointmentofdealersandexpansionofthedistribution channel.

8. Tosecurechannelmembersco-operationinstockingaswellassellingthe products of the company.

9. Toachievethedesiredproportionofcashandcreditsales.

10. Toprovidepre-saleandafter-sale services.

11. Totrainthedealers andcustomers.

12. Toassistandsupport otherpromotionalmeasures.

13. Tohelpincollectingtheamounts duefromthemarket.

14. Tohelpingatheringandreportingmarketingintelligence.

Publicrelations

Public relations is a very important and resourceful tool of the promotion mix. AccordingtoKotler,“Publicrelationsinducesavarietyof programmesdesigned toimprove,maintainorprotectacompanyof productimage.e.g.,throughpress conferences,seminars,speeches,annualreports,charitabledonations,etc.” Themajortoolsinpublicrelationsare

(i) publications: annual reports, brochures, articles, company magazines and news letters.

(ii) events: special events like news conference, anniversary celebration of the company, sponsoring sports and cultural events.

(iii) News:thecompaniesfindandcreatefavorablenews

(iv) speeches:bycompanyexecutivesattradeassociations,salesmeetings, etc.

(v) identity media: companies also use such devices as company logos, stationery,businesscards,uniforms,etc.,whichhelpinidentifyingthecompany. Public relations (PR) is another important marketing tool, which until recently, wastreatedasamarketingstep-child.ThePRdepartmentistypicallylocatedat corporate headquarters; and its staff is so busy dealing with various publics- stockholders, employees, legislators, community leaders- that PR support for product marketing objective tends to be neglected.

Objectivesofpublicrelations

1. Social awareness can be created through the PR promotion plan, regarding a product, service, person, organizer, etc.

2. Ithelpstobuildcredibilitybycommunicatingthemessageforexample,in editorials of newspapers, etc.

3. It assistsin thelaunch ofnewproducts.

4. Itassistsinrepositioningofa product.
5. Ithelpsinbuildingupconsumer interestinaparticularproductcategory.

6. Italsohelpsininfluencingthespecifictargetgroups.

7. Publicrelationshelptodefineproductsthathavefacedproblemsor complaints from the public.

8. Ithelpstobuildthecorporateimageinsuchawaythatitprojectsfavorably on its products. PR department perform following activities:

- **Press relations-** The aim of press relations is to place newsworthy nformation into the news media to attract attention to a person, product or service.
- **Corporate communication-** This activity covers internal and external communications and promotes understanding of the organization.
- **Lobbying-**Itinvolvesdealingwithlegislatorsandgovernmentofficialsto promote or defeat legislation and regulation.
- C**ounseling-**Counselinginvolvesadvisingmanagementaboutpublicissuesand company position and image.