
UNIT 5 MARKET ASSESSMENT FOR SSE

Objectives

After reading this unit you should be able to:

- familiarise yourself with the concept of marketing orientation
- appreciate the importance of the need for market assessment
- outline the aspects involved in market assessment
- understand some broad issues involved in the analysis of market demand, competitive situation, and trade practices.

Structure

- 5.1 Introduction
- 5.2 Marketing Orientation
- 5.3 Need for Market Assessment
- 5.4 Market Demand Analysis
- 5.5 Analysing Competitive Situation
- 5.6 Understanding Trade Practices
- 5.7 Summary
- 5.8 Key Words
- 5.9 Self-assessment Questions
- 5.10 Further Readings

5.1 INTRODUCTION

A firm is not an isolated economic unit. It must interact with the external environment. When there is a shortage of raw materials the production suffers, development of a substitute product affects the demand for the existing product, and entry of a new unit manufacturing the same product increases competition. The external environment also imposes certain restrictions or constraints on it which may be in the form of legal obligations or social responsibilities. Legal obligations are put through government rules and regulations. Social responsibilities refer to things like fair trade practices, welfare of the employees, and protection of the environment. Several opportunities and threats are provided by the external environment which must be taken cognisance of to be able to survive.

Interaction with the market, however, is most pervasive and intense. The only successful product, by definition, is one that sells. In order to sell a product, a firm has to deal with a large number of customers. It has to constantly interact with selling agents like distributors and retailers. It has to make sure that the product remains fine tuned to the needs of the market - the actual customers, to be precise. It has to sharpen its market focus so as to be perceived, and appreciated, as consistently delivering some 'advantage' to its customers. It has to develop 'marketing orientation' in its outlook. All this requires a thorough and sound assessment of the market in which the owner of a small enterprise has to operate. Before we try to understand the process of market assessment, let us reflect upon what is meant by 'marketing orientation' referred to above.

5.2 MARKETING ORIENTATION

Since companies have to operate in dynamic exogenous conditions, they adapt their business philosophies to what seems to be appropriate at the time. Marketing theory has altered accordingly. The early orientation in marketing was production orientation. This orientation was held at a time when there was general scarcity of manufactured goods in the market. Under this orientation, the major task in marketing was to make the product widely available to the consumers at an affordable price.

Look at the following definition of marketing :

The performance of those business activities that direct the flow of goods from producers to consumer or user.

(American Marketing Association. 1960)



The next phase was of selling orientation. Under this orientation, the emphasis shifted to undertaking an aggressive selling and promotion effort to sell what a firm produced. There was little research into what the customers wanted: All selling efforts were directed towards achieving the firm's objectives of profitability, sales growth, or return on capital employed. Customers were considered to be no *more* than the means of achieving these objectives. Consider, for example, the following definition of marketing:

The performance of business activities that direct the flow of goods and services from producer to consumer in order to satisfy customers and accomplish the firm's *objectives*.

(Ed. McCarthy. *Peek Marketing*, 1964)

As the industrial activity intensified, the competition increased, and the customers became more discerning. They were no more ready to buy what was offered to them. This change increased the need to improve product features, distribution, and to use advertising and personal selling. A new, more scientific approach, called marketing orientation, emerged. The approach relies on first finding out what the customers want and then creating and developing products or services that satisfy their wants. The effort is to create a product that satisfies the wants of the customers rather than to change their wants to suit the *product*. The main issue is not to produce something but to produce according to what is wanted by the customers. Selling focuses on the needs of the seller; marketing on the needs of the buyer. When this is clear, one would *e able* to offer a product that is saleable through usual marketing efforts. Fig 5.1. illustrates the difference between the selling and the marketing orientation.

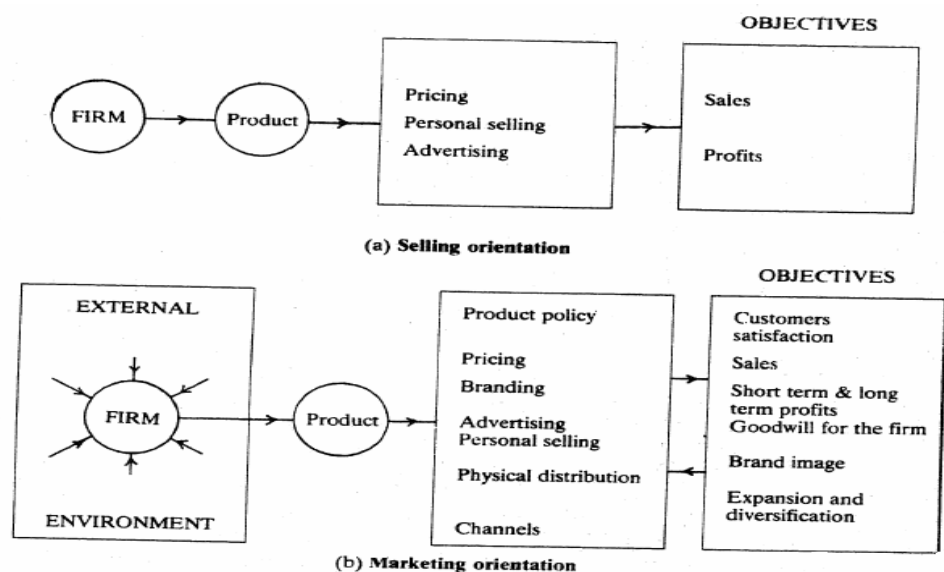


Fig 5.1: Difference between the selling and the marketing orientation

Under the marketing orientation, instead of being 'company centred' the definitions of marketing moved their focus on 'exchange' and 'value to the consumer'. Have a look at the, following widely accepted definition of marketing:

Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and values with others.

(Philip Kotler, *Marketing Management*, 1988)

Thus marketing lays emphasis on forming relationships with the customers, and on beneficial exchanges rather than one sided rip offs. In simple terms, at the conception stage itself of a new firm, the owner should think of the 'benefits' his product will offer to the customers. The benefits may be tangible or intangible: Tangible benefits are those which can easily be measured, assessed, or compared. These may be in the form of better product quality, durability, lower price, easy availability, good



after-sales service, instalment facility, or better packaging and presentation. Intangible benefits are those which are to be felt or perceived as a consequence to the use of a product or service. As an example, you may feel that the use of a particular product enhances your status in the society. Or, the use of a product may give you a feeling that you are being appreciated as a person with simple and sober tastes.

Activity 1

Try and spell out the tangible and intangible benefits that you look for while buying the following products or services:

	Tangible benefits	Intangible benefits
Toilet soap

Wedding suit/ saree

Hair dressing

Air travel

Whatever benefits that are offered should be of real value to the customers. It must be remembered that a product which lacks real appeal cannot be salvaged in the long run by any marketing inputs like heavy advertising. It is important, therefore, that the owner of a small firm finds out the wants of the customers and offers a product that is able to satisfy at least some of those wants. As shown in Fig.5.1, under the marketing approach, we achieve sales and profits through customer satisfaction. Many decisions at the time of launching of an enterprise like the scale of operations, the choice of technology, the level of product quality, and the price to be charged, will be influenced by the wants of the customers. When this kind of marketing orientation is present right from the beginning, one can be sure of the effectiveness of the marketing efforts.

The marketing orientation will force an entrepreneur to seek answers to many hard questions- relating to product quality, price, market segments, technology of manufacture, marketing inputs etc. - before setting up his venture. The exercise will enable him to move ahead with greater confidence and confront the problems that may arise during the later stages in a professional manner rather than getting caught unawares.

5.3 NEED FOR MARKET ASSESSMENT NT

To determine what the customers want is not an easy task.- The market is composed of a large variety of customers who differ in their education, employment, income, status, preferences, likes and dislikes, and opinions. Some may be located nearer you in your town or state, and the others in distant states or even in other countries. Depending upon several factors like the resources available, the scale of *operations*, and the impact on profitability, one has to decide which customer groups, called target segments, are of particular interest *to the firm*. The identification of the target segments helps in making a rough estimate of the *market* demand for the product.

Once an estimate of the market demand for the product is made, one has to look for the competitive situation prevailing in the market. A firm cannot just pursue its own policies without regard to what the competitors are doing. Competition may be from other small firms or even from large, well established companies. The nature and extent-of competition will put several constraints on the marketing policies of a firm.



For example, it may not be possible for it to charge a price that is higher than what the competition is charging, especially during the first one or two years. A detailed analysis of the competitive situation will also help in identifying the gaps and opportunities that may be available for exploitation.

One of the most disturbing thoughts that comes to an entrepreneur's mind during the conception and implementation stages of setting up a small enterprise is how he would reach the numerous prospective customers. They may be scattered in a wide geographical area. Many products are such that they require the help of marketing intermediaries - wholesalers, distributors, retailers etc. - to reach the ultimate consumers. Through their contacts, experience, and specialisation, these intermediaries make the product available and accessible to the target markets. Since intermediaries are independent organisations, they have their own ways of doing business. Their expectations and requirements regarding price, discount, credit, promotional support, and mode of delivery of the product may vary quite considerably. However, these usually conform to the trade practices that are prevalent in the market. Understanding the prevailing trade practices, - therefore, forms an essential part of market assessment exercise.

These three things - namely, analysis of the market demand, the competitive situation, and the trade practices - are important for sound market assessment. We shall now consider each one of them in some detail.

5.4 MARKET DEMAND ANALYSIS

One of the trickiest questions that haunts an entrepreneur is: Whether the product or service that he wishes to offer to the market will have sufficient demand or not? Proper demand analysis and forecasting helps in formulating effective marketing programmes. For example, the price to be charged for a product, the advertising budget to be allocated for its promotion, and the sales promotion tools to be employed, will all be based, at least to some extent, on the assessment of its demand. If a firm is able to make an accurate prediction about the level of demand for its products, many decisions pertaining to marketing, inventory control, purchasing, production, personnel, and finance become exceedingly simple.

The actual situation, however, is not so simple. The demand picture for most products and services is very complex and unstable. Even after much advancement in the field of marketing, demand forecasting remains a grey area. There are a large number of variables and assumptions involved in any exercise of demand estimation. Many factors that impinge upon the demand for a product are external to the firm and hence uncontrollable. These include behaviour of the customers and competitors, government policies, technological breakthroughs, and general economic conditions. Many assumptions are required to be made which may or may not come true. The process becomes more complex for products which are innovative and yet to be tried in the market.

Notwithstanding such complexities, potential investors will wish to see, and rightly so, some evidence that there is a reasonable prospect of marketing their project's output in a profitable manner. Rightly, because starting a new business is no time for self-deception and some hard questions asked in the beginning may save a lot of money and trouble later on. One must be able to provide satisfactory answers to questions like: 1) Who would buy the product? 2) Why would they buy it? and 3) How many would buy it? The exercise of market demand analysis will provide some insights into these questions.

Market Demand

According to one definition, demand refers to the willingness and ability of consumers to buy products and services. Thus, when the consumers have both willingness and ability to buy a product, we say that there is demand for it. This is a very broad definition and if we consider all the potential customers who have the willingness and ability to buy a product we arrive at what is termed as its '**total market**' or its '**potential market**'.

A firm has its own area of operations and is normally concerned with the demand for the product in that particular area or market. We, therefore, narrow down our

definition of demand by making certain qualifications and concentrate on what is termed as '**market demand**'. Consider the following definition given by Philip Kotler (1988):



Market demand for a **product** is the **total volume** that would be **bought** by a defined **customer group** in a defined **geographical area** in a defined **time period** in a defined **marketing environment** under a defined marketing **programme**.

As clear from the definition, there are eight elements or variables which must be understood in order to determine market demand.

- 1) **Product:** The class of product has to be clearly defined. For example, a manufacturer of fans must decide whether its product is table fan, ceiling fan, pedestal fan, exhaust fan, cooler fan, industrial fan, or a combination thereof. Then there are various sizes and other features in each class. Opportunities available to the manufacturer differ according to the exact nature and specifications of the product.
- 2) **Total volume:** We have the question of how total volume is measured. It can be measured in terms of physical volume (i.e. in terms of units sold), in monetary terms, or both. It can also be measured in terms of per cent of total market, i.e., in relative terms. As an illustration, a demand analysis for shoes may reveal that in one particular region, the number of pairs of shoes sold is 1000, valued at Rs. 50,000. In another region, the number may be 750, valued at Rs. 150,000. It is evident that depending upon our requirement, the data on total volume must be in appropriate units.
- 3) **Bought:** The third element '**bought**' needs also to be understood. Do we have to assess the volume ordered or booked, despatched, paid for, received, or consumed? The figures may vary according to the basis used. In the case of foodgrains we normally refer to quantity consumed, and in the case of construction industry we refer to orders booked. The relevance of the correct understanding of the term 'bought' becomes clear when we look at the example of the scooter industry in India. Only a few years ago there was a huge order booking and a customer had to wait for several years before he could get the delivery. Many people had booked scooters in anticipation of the high premium that was prevailing in the market. As the supply position improved, the premium reduced considerably and many of them cancelled their bookings. Thus, the figure of order booking was portraying a distorted picture of the actual demand for scooters.
- 4) **Customer group:** Market demand for a product should be measured for the customer group that is of interest to the firm. Examples are a manufacturer of brief cases who estimates the volume to be bought by the high income group people, and an educational institution that estimates the demand for its courses from the already employed and the unemployed youth.
- 5) **Geographical area:** The geographical boundaries within which market demand is to be measured must be clear. This is particularly true for a small enterprise since its operations are usually confined to small areas. Service establishments also have to define their geographical boundaries while estimating market demand. A Yoga centre or health clinic enjoys considerable demand in a metropolitan city but the concept is yet to establish its utility and acceptance in smaller towns and rural areas.
- 6) **Time period:** Demand estimation must always be for specific time-period - for the next season, for the coming year, for the Plan period, and so on. When the time frame is an year or so, we call it short range forecasting, and when it is in terms of several years ahead, long range forecasting. As we increase the time frame, the forecast becomes more tenuous as the environmental factors may change beyond our present imagination. Thus, for products like computers and fashion goods it is almost futile to make any long range forecasts.
- 7) **Marketing environment:** Market demand is influenced by many external environmental factors. These include general economic conditions, technological breakthroughs and developments, government policies, political changes, changes in consumer behaviour and competitive situation, and even natural phenomena like rainfall and weather conditions. A cold drink manufacturer has to make certain assumptions about the length and severity of summer period in the region of his



interest; a film maker about the tastes of his audience; a helmet manufacturer about the new legislations that may be put into force for the scooter drivers; a TV manufacturer about the technological developments that may take place in the field of electronics in general and reception and transmission of audio and video signals in particular; and soon.

8) **Marketing programme:** Finally, there are controllable factors which the firms use to influence the demand for their products. These may be termed as marketing efforts or marketing programmes of the sellers. These include pricing strategies, advertising, sales promotion, and personal selling. The marketing efforts proposed or assumed should be specified in order to determine market demand.

The definition of market demand, although lengthy and complex, gives us an idea of all the factors and conditions on which the demand for a product depends. **Company demand** can be derived from the market demand. It is the company's share of the market demand.

It must have been abundantly clear by now that market demand analysis is a complex exercise. Very few products or services lend them to easy forecasting. For an accurate and reliable forecast, many factors have to be considered and consequently the cost becomes prohibitive. Fortunately, a small entrepreneur does not need to go for high sophistication and can manage within modest costs. At the project planning stage his primary concern is whether there is enough demand for the product or service that he wishes to produce. An experienced entrepreneur has to make the following comments on the process of demand analysis:

"If we are contemplating the manufacture of an item on a small scale, we should see that it has enough existing sales in the market we have chosen to cater to. If the total sales of the item in the chosen market is more than ten times our contemplated level of production, we do not have to worry too much about the demand for our product at the planning stage. Adding a small unit is not going to alter the production figure of the industry in a substantial manner, and, I am confident, with proper efforts and planning, one can snatch, over a period of two or three years, around ten per cent of the market share so as to achieve the targeted sales. In case the product is an innovative one, we should be satisfied if it has sales potential large enough to be tapped with the help of limited marketing inputs that we can afford to support."

Still, some efforts have to be made to arrive at the broad demand estimate. A firm can have both household as well as institutional demand for its product. The demand from the household customers is generally met through the dealers and, as such, a rough estimate of demand from such customers can be made by personally contacting the dealers selling the item. Similarly, contacting the relevant institutional customers should be able to give an idea of the demand from this quarter. Besides helping in the exercise of demand estimation, such contacts with the dealers or the institutional customers will help the entrepreneur in:

- a) assessing the customers' requirements in terms of price and quality;
- b) getting information on various aspects of buyer behaviour;
- c) getting an idea of the nature and extent of competition, and strengths and weaknesses of the competitors; and
- d) getting some knowledge of the prevailing trade practices.

Such personalised contacts can be gainfully made only when the customers are concentrated in particular areas. In case the customers are scattered in wide areas, published data regarding domestic production, installed capacity, exports and imports, raw materials availability, number of units producing the item, their geographical dispersion, and general health of the existing units may be of relevance in assessing the demand potential for a product at the firm's level. One has to find out the right sources of such data. One serious limitation of published data is that it is usually available after considerable time lag. The data should be analysed in light of the firm's typical requirements.

In some cases, it might be useful to conduct a sample survey; maybe, by sending a questionnaire through mail to a small but representative number of potential customers. It is advisable to take the help of an expert in the designing of the



questionnaire, selecting the sample, and analysing the data for arriving at the demand figure. While designing a survey plan for a small enterprise, one must bear in mind the cost aspect and try to strike a reasonable balance between the cost and the refinement of demand estimate. A broad but reliable estimate of demand achieved through cost-effective and simple methods should be sufficient to serve the purpose.

Some institutional customers like Directorate General of Supplies & Disposal (DGS&D), and State Directorates of Industries' enter into rate contracts with the manufacturing units for meeting the bulk requirements of government offices. To be able to enter into rate contract with these agencies, a firm must have enough financial resources, and production capacity to execute bulk orders that may be placed on it. It may be difficult for a new firm to capture this market in the initial stage and as such this point must be kept in mind while estimating the demand.

Activity 2

An entrepreneur who plans to manufacture shoes opines: "Since the population is increasing every year, the demand for shoes is bound to increase with time. I, therefore, don't see any problem for my firm from the demand side." What are your comments?

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5.5 ANALYSING COMPETITIVE SITUATION

For any business, the understanding of the competitive situation is extremely important. In fact, it may be a matter of business life and death.

A typical small enterprise may face competition from other small firms, and from large companies having established and well known brand names. The exercise of demand analysis would have already given the entrepreneur a fairly good idea of the nature and extent of competition prevailing in the market. He would have got a rough assessment of the market share being enjoyed by each competitor. However, the true nature and extent of competition can hardly be judged from the market share being enjoyed by each competitor. In a vast country like India, the nature of competition may vary drastically from market to market. We have highly price-sensitive markets as well as price-insensitive, quality-sensitive markets. It is, therefore, important for the entrepreneur to study the competitive situation with reference to the chosen market segments. In case of many products, the household and the institutional markets may have altogether different types of competition. In order to assess and understand the competitive situation, an entrepreneur should try to answer the following questions:

- 1) How many firms are in competition with him?
- 2) What are their market shares?
- 3) What are the strengths and weaknesses of their products?
- 4) What kind of consumer image does each product enjoy?
- 5) What trade practices do the competitors employ?
- 6) Who are the major customers of each brand?

A study of this kind can be systematised by using a chart shown in Fig. 5.2. The exercise of preparing the chart may be quite tedious but the help it will provide in understanding-the competitive situation would justify the work involved.



Competitive Products	Market share	Pride	Product features	Product image	Discount to dealers	Credit terms	Major customers
BRAND 'A'							
BRAND 'B'							
BRAND 'C'							

Fig. 5.2: A framework for understanding the competition

This kind of rigorous analysis will bring to light where the entrepreneur can score over the competition, where the competition has an edge over him, and what are the areas of opportunities and threats. The analysis will help him tune his marketing efforts to the requirements of the customers and the trade. Correct understanding of the nature and extent of competition is essential as the whole process of marketing planning revolves around this understanding.

Activity 3

Take any product of your choice and try to fill up the chart shown in Fig. 5.2. Mention below what you think needs to be done to get the information that you do not possess?

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5.6 UNDERSTANDING TRADE PRACTICES

Once a product or service comes into existence, it has to reach the ultimate customers. An entrepreneur may either do it on his own, or take the help of middlemen, called intermediaries, like distributors and retailers. In case of many products, due to the nature of the product, the dispersion of the customers in large geographical areas, or their buying habits, it may not be feasible for a firm to reach the ultimate customers directly. For example, if it is almost customary for the customers to buy detergent powder from the retailers, it is neither easy nor fruitful to approach them directly through own salesmen or through mail. There are many products like woollen garments, plastic toys, crockery, stationery items, and utensils, which are sold only after the customer examines and evaluates the various options available to him. It, therefore, becomes almost a necessity to employ middlemen to sell such goods. Even those companies making high-value products like computers and machine tools are today taking the help of middlemen in order to expand their markets. The study of trade practices in this light becomes important.

There are many types of intermediaries like distributors, wholesalers, retailers, commission agents, brokers, super-bazars, and export houses. Each one of these performs particular functions for the manufacturer. The kinds of services they offer are different. Some invest money in stocks before selling them for a profit. Some just provide the service of consummating a sale for a nominal payment or charge. Depending upon the kind of service provided, each has its own terms and conditions of business.

An entrepreneur must try to understand the trade practices that are relevant to his product. If middlemen are to be employed, the chain of distribution, the selling load



to be taken by each member, the discounts to be offered to them, and the general credit terms, have to be studied. It is important to know where the distributors and retailers are to be appointed and what are the available modes of transportation to reach them. The prevailing sales tax and other legal implications in selling to the middlemen situated in different locations should also be studied.

In many cases, it is seen that the price of the product, especially when it is manufactured by a new, small enterprise, is determined by what the middlemen are ready to pay. They also dictate other terms of business like the length of the credit period to be allowed to them. Bigger among the trade members may even ask for their own-brand name to be put on the product. A study of the trade practices in the beginning will provide some insight into how the product shall ultimately reach its customers, what are the costs involved, what infrastructural facilities are to be provided for, what kind of product features the trade members are looking for, and at what price they are willing to buy it. A realistic assessment of this kind will help in ultimately bringing out a product that is saleable through normal marketing efforts, and in formulating policies that are in tune with the market requirements.

5.7 SUMMARY

A small enterprise has to constantly interact with the external environment, especially the market in which it has to operate. Its marketing efforts must stay fine tuned to suit the requirements of the market in general, and the needs and wants of the customers in particular. To be successful, it has to develop marketing orientation in its outlook. At the planning stage itself, the owner must think of the benefits - both tangible and intangible - that his product will offer to the customers.

In order to understand the external environment pertaining to the market, and to determine the needs and wants of the customers, an entrepreneur needs to undertake the exercise of market assessment. This exercise will provide answers to many questions such as: Who is likely to buy my product or service? Why would they buy it? How many would buy it? What kind of competitors do I have? What are their strengths and weaknesses? and What are the trade practices in respect of my product?

Three aspects need to be delved into in order to complete the exercise: 1) Market demand analysis, 2) Analysing competitive situation, and 3) Understanding trade practices. Once this exercise is completed, the owner would be able to move ahead with much greater confidence and sagacity.

5.8 KEY WORDS

Marketing orientation: A marketing approach that relies on first finding out what the customers want and then creating and developing products or services that satisfy their wants.

Target segment: A fairly homogeneous group of customers (market segment) to whom a company wishes to target its marketing efforts.

Demand: The willingness and ability of the consumers to buy a product.

Market demand: Market demand for a product is the total volume that would be bought by a defined customer group in a defined geographical area in a defined time period in a defined marketing environment under a defined marketing programme.

Company demand: It is the company's share of market demand.

Sample survey: A marketing research method in which a representative sample is drawn out of the population and a survey is then carried out to obtain the relevant information.

Intermediaries: Marketing middlemen - like wholesalers, retailers, commission agents - who perform a variety of functions in reaching a product from the producer to the final consumer.



5.9 SELF-ASSESSMENT QUESTIONS

- 1) What are the implications of 'marketing orientation' on the process of product selection?
- 2) Think of the 'benefits' that an entrepreneur trying to establish a typing school can offer to its customers.
- 3) Analyse the competitive situation with respect to the scooter market in India. Does it face any competition from the moped and the motorcycle markets?
- 4) What kinds of intermediaries are involved in selling a) pressure cookers, b) cigarettes, and c) life insurance?

5.10 FURTHER READINGS

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