

MARKETING OF PAPER AND PAPER BOARDS**3.1 MARKET SEGMENTATION****3.2 MARKETING-MIX STRATEGY**

3.2.1 *Product-mix*

3.2.2 *Market Requirement Mix*

3.2.3 *Pricing*

3.2.3.1 *Pricing Objectives*

3.2.3.2 *Pricing Methods*

3.2.3.3 *Discount Policies*

3.2.3.4 *Credit Policies*

3.2.4 *Distribution Mix*

3.3 SUMMING-UP

MARKETING OF PAPER AND PAPER BOARDS

Marketing signifies making available the right goods and services to the right people at the right place and time for the right price. It refers to the social and managerial process by which individuals and groups obtain what they need and want in the process of creating and exchanging products and values with each other [1]. Stanton says, marketing is a total system of interacting business activities designed to plan, price, promote, and distribute want-satisfying products and services to present before the potential consumers [2].

After planning and developing of a product or a service with a price, its success in the market depends on personal selling acumen, advertising, publicity and sales promotion. The distribution of such products or services, are then brought within the purview of marketing management. Developing a marketing strategy derives from two distinct and yet interrelated steps: (i) selection of the target market - comprising the particular groups of customers to whom the company wishes to appeal, and (ii) development of a marketing-mix which refers to the choice of the elements which the company intends to combine in order to satisfy this target group.

Paper has always been looked upon as a shortage item affecting the most vulnerable sections of the consuming public, viz. the student community, printers and publishers of text

books for schools and colleges and other segments of the population which thrive on paper or printing. The corporate objective of each manufacturer of paper should be to ensure a rational and equitable distribution of paper at fair prices. To achieve this objective, the main thrust should be to make paper available to actual consumers at the right time and place, according to their needs. The manufacturer should also ensure that the right quality of paper is supplied to the user at an affordable price. With this backdrop, this chapter is an attempt to examine the various aspects of the marketing management practices being followed by the manufacturers with reference to segmentation, pricing, and distribution.

3.1 MARKET SEGMENTATION

In a market, buyers differ from each other according to the nature and character of their wants. Their resources, geographical location, buying attitudes, urgencies and priorities distinguish them from each other. Any of these variables can be used to segment a market. The whole market phenomenon has to be further subdivided in order to develop an understanding a market is referred to as market segmentation. From the managerial standpoint, market segmentation may be defined as sub-dividing the target market into sub-groups of consumer population with identifiable, distinct, and homogenous characteristics with a view to develop, and pursue distinct and differentiated marketing programmes for each sub-group in order to enhance consumer satisfaction and the profit position of business [3]. Market segmentation is, in fact, the technique of

dividing a heterogenous market into a number of relatively homogenous units. The technique is based on the recognition that any given market is made up of several consumer groups with varying needs and different buyer behaviours.

Customer groups within a given market can be distinguished by the segmentation technique which helps in identifying the target market. As a technique it enables the effective crystallisation of the needs of the selected market and gives a clear picture of the characteristics of consumers in each of the segments. Once the needs and characteristics of the various customer groups are identified then marketing offers to a particular customer group can be properly developed. Consequently, the required specialisation in the product-mix, the distribution-mix, the promotion-mix, and pricing policy to suit the customer groups can also be easily achieved.

There is no single market for any product. As for paper, it is impossible to imagine a situation when it is not required at all. Paper and paper boards especially, are not sold to 'one' market. They are widely used and sought after by several different types of buyers that include private and public sector printing, publishing and packaging industries, service organisations (like Railways, Air India, Posts and Telegraphs, Hotels etc.), foreign buyers; paper merchants, and individual consumers like students, writers and artists, etc. A careful study of any one of these market segments- 'private industries', 'public sector', 'service organisations', or 'foreign buyers' is a very useful way to understand the nature and behaviour of the

same segment. So far as market for paper is concerned, we can segment the market into six broad categories : Paper merchants, Private organisations, Public sector organisations, Service establishments, Foreign buyers, and Consumers.

The present researcher found that in a vast country like India with a large population and wide geographic, demographic and socio-economic differences, it becomes a formidable managerial task to sub-divide the market into smaller market segments for a closer examination of the consumer differences. Personal interviews with the marketing executives of a few responding mills reveal that the strength of market segmentation outweighs its limits, and offers considerable opportunities for market exploitation. Being able to match different market segments with different product variations and with distribution channels the manufacturer operated competitively to make profit in each segment.

Once the market segments have been identified, the marketing-mix and the marketing strategy for selling paper and paper products to each particular segment can be decided with great confidence and accuracy.

3.2 MARKETING MIX STRATEGY

The various elements of marketing strategy for paper and paper products are depicted in Figure 5.1.

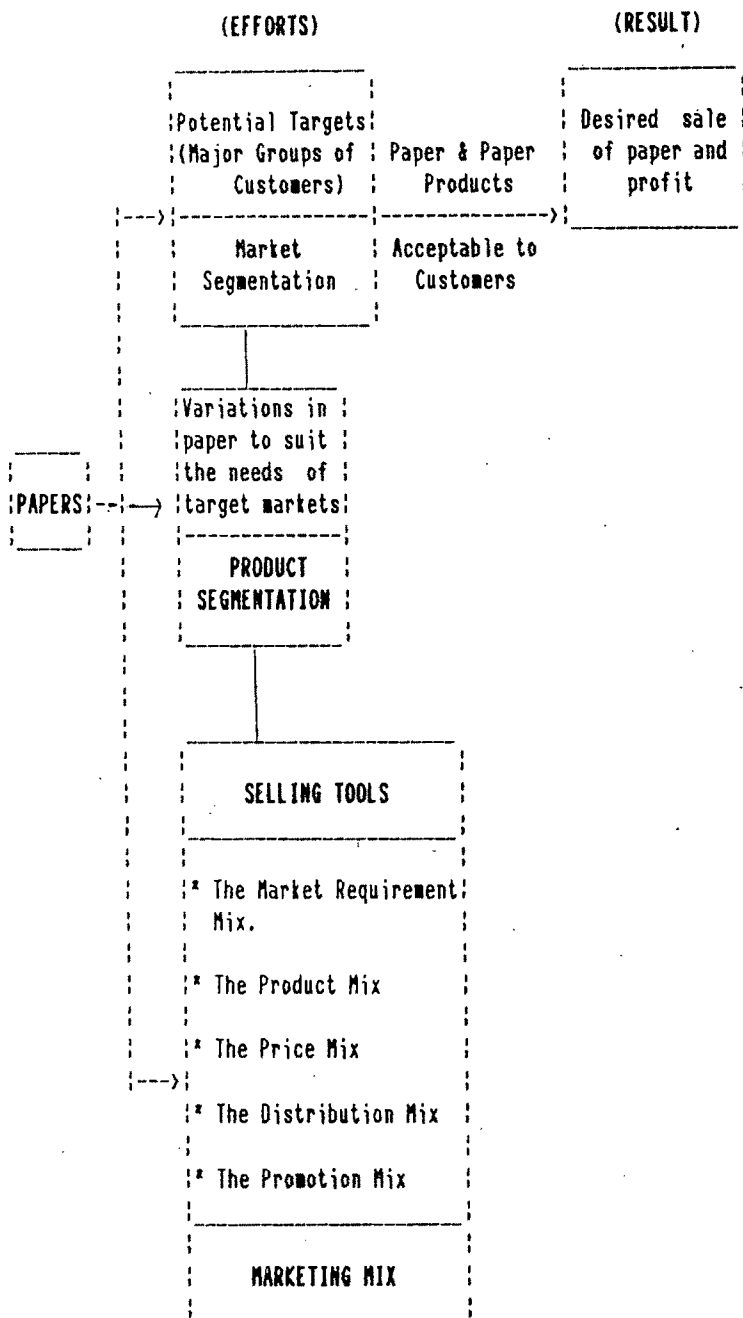


Fig. 3.1 Elements of Marketing Strategy

Marketing-Mix is the term used to describe all the marketing elements and resources which help the company achieve sales with the desired profit. It involves a blending or compounding of all the relevant marketing factors so that the different buying influences at play, in each market are best

satisfied.

3.2.1 Product Mix

In the past few years writing and printing papers comprised 52 per cent of the total production of paper and paper board. The production of wrapping and packaging papers (industrial) consisted of 32 per cent, paper board 14 per cent and other specialised papers 2 per cent. There was a time when cultural varieties of paper consisting of writing and printing paper formed nearly 60 per cent of the total production of paper. However, of late there has been a perceptible shift in the trend of product-mix towards higher production of packaging and wrapping paper for which, the demand has increased, and correspondingly the production of writing and printing paper has gone down to around 52 per cent of the total production.

By identifying the market segments, we decide on modifications to be made in the requirement of paper with regard to its type, quality, size, grade, weight, and pricing etc. These modifications are necessary to make the product especially attractive for the 'buyers' group' for which it is intended. This process in other words called 'product segmentation', is a means to make the product appeal directly to a specific market segment rather than to all segments of the market in general. The present researcher strongly feels that the marketing strategy for papers and paper conversion products can be developed after the market segments (and product variations) have been determined.

The product modification strategy may either be directed

toward quality improvement or have to do with feature improvement. A strategy of quality improvement aims at improving the functional performance of the product. A manufacturer may hope to overtake its competitor by launching a 'new and improved' variety of paper. This strategy effectively depends on the actual improvement in the quality of the product which, a sufficient number of buyers want for them.

A strategy of feature improvement aims at adding new features with regard to its size, weight, materials, additives, that expand the product's versatility, safety or convenience. Stewart [4] outlined five advantages of feature improvement.

- * new features build a company's image of progressiveness and leadership.
- * new features can be adapted quickly, dropped quickly, and often made optional at very little expense,
- * new features can bring the company free publicity,
- * new features can win the loyalty of certain market segments, and
- * new features generate sales force and distributors' enthusiasm.

3.2.2 Market Requirement Mix

The 'market requirements' consist of assured quality, finish, variety, composition, performance, and special features like strength, erasibility, durability, easy availability, steady supply and service, brand reputation, and timely delivery.

3.2.3 Pricing

Pricing is one of the most important decision areas of

marketing. The price level and the sales volume together decide the revenue of any business. The marketing process cannot be consummated without the mechanism of pricing the seller and buyer agreeing to sell/buy at a price acceptable to both. In this part of the chapter, let us discuss the pricing objectives, policies and strategies followed by the paper manufacturing units of India. The discounts and credits given by the mills also form part of the price-mix.

3.2.3.1 Pricing Objectives : Some of the objectives in the area of pricing are long-term while others are short-term. Some are primary objectives, while others are secondary. However, all pricing objectives emanate from the corporate and marketing objectives of the firm. All policies, strategies and procedures relating to pricing evolve from the above objectives. Of these various objectives the more important ones seek to earn a good rate of return, to remain a price leader, to maintain relative parity with competitor's price, to maintain the market share, and to keep out competition.

Any business needs capital and a businessman invests capital after taking into account the probable return on his investment. Similarly, firms want to secure a certain percentage of return on their investment on sales.

A good market share is an indication of better progress. By following low pricing policy, market share can be increased. The pricing objectives may also aim to meet the present competition. While fixing the price-line, the prices of

similar products produced by other firms, will have to be considered. The present study reveals that the principal pricing objective has been to earn a specific return on investment rather than maintain a relative parity with competitors' price. Two units in the sample have indicated preference 'to remain a price leader' as their principal objective. The details are presented in Table 3.1.

Table 3.1 Ranking of Pricing Objectives

Sl. No.	Objectives	R a n k				
		1st	2nd	3rd	4th	5th
1	2	3	4	5	6	7
1.	To earn specific rate of return on investment.	6	3	3	1	-
2.	To remain a price leader.	2	1	1	-	-
3.	To maintain relative parity with the competitors' price.	4	6	3	-	-
4.	To maintain market share.	1	4	6	-	-
5.	To keep out competition	1	-	-	-	-

3.2.3.2 Pricing Methods : A company has several methods of price determination available to it. The important factors which determine the price are cost-based, demand-based and competition-based.

In the cost-based method of price determination the actual cost of manufacturing a product serves as the base for price fixation. However, in order to cover an anticipated profit

on the product being sold, management usually adds to its cost some amount referred to as mark-up. It is for this reason that this method is called cost-plus or target pricing method.

In case of demand-based method, management does not consider cost but allows demand to determine price. The demand is reflected in the sales volume/revenue which a product may generate at a given price.

The cost-demand method of determining basic price entails consideration of both the cost and demand factors in relation to the product being priced. It overcomes the deficiencies of both cost-based and demand-based pricing and determines the price realistically.

A company also has the option to determine its price on the basis of what its competitors are charging for the similar products. Competition-based pricing may, therefore, be described as a method of pricing in which a company attempts to maintain its price more or less at par with its competitors irrespective of its individual cost and demand situations [5].

Out of the 14 paper mills three units representing 21 per cent are of the opinion that they follow a judicious mixture of all the above pricing methods taking into account the prevailing market conditions. It is further revealed that all the units follow their own pricing policy. One responding unit held that in some cases it fixed the prices below the cost in some items. Data relating to the pricing methods followed by the responding units are presented in Table 3.2.

Table 3.2 Distribution of Sample Units by Pricing Methods Followed

S1. No.	Pricing Method	No. of Units followed	%
1	2	3	4
1.	Cost-Oriented	4	25.0
2.	Competition-oriented	5	31.2
3.	Demand-oriented	4*	-
4.	Cost & Demand Oriented	2	12.5
5.	Competition & Demand Oriented	1	6.3
6.	Cost-Demand-Competition Oriented	4	25.0

* This is already included under S1. No. 4, 5 & 6. Hence the total exceeds 14.

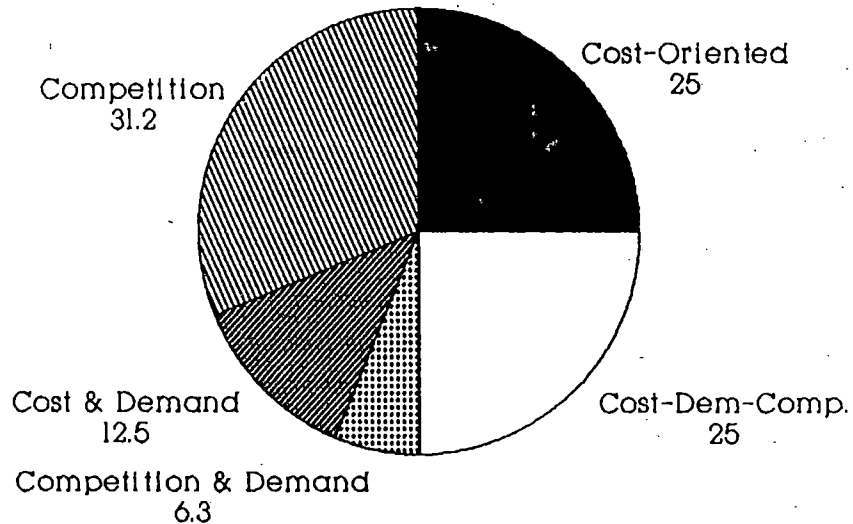


Fig. 3.2 Pricing Methods Followed

During interviews with the senior executives of some of the responding units, it transpired that they follow cost-oriented pricing since it is simple, socially fair and safe. They also hold the view that there is greater competitive harmony and less price war when the units base their prices more or less as similar cost, and add uniform mark-up. On the other hand, the units not following this argue that cost-oriented pricing ignores demand, and healthy competition. They further reveal that such a pricing policy does not penalise inefficiency when costs shoot up due to eventualities like work stoppages, material wastages, etc.

Those who follow cost-demand based pricing, argue that this method of price determination is more realistic and useful particularly when both cost and demand are relatively stable. They also undertake break-even analysis to cope with variations in demand and cost structure. They honestly admit that at times this policy poses problems when there are fluctuations in cost and demand estimates are unreliable. When the product-mix varies considerably, this method is hard to follow.

Hence, to overcome the weaknesses of pricing method which takes into account only one variable viz. cost, demand, competition, as many as 6 units representing 43% of the sample a judicious mixture.

On being asked about the pricing strategy i.e. strategy of charging higher price to start with (skim-the-cream pricing) and charging lower price to start with (rapid-penetration pricing), it was revealed that while 2 units under sample survey

followed the first strategy, 7 followed the second, and 5 modified their strategy depending on the nature of the product, competition, and the supply and demand position.

3.2.3.3 Discount Policies : Discount is an attractive element in the price-mix. Discounts comprise price differentials which entail reductions from the quoted price. These are allowed to buyers in consideration of some marketing services rendered by them to the company or for having met some managerial expectations. Discounts may be broadly classified into trade discount, quantity discount and cash discount. The present study revealed that the responding paper units allowed two types of discount : first a deduction from the quoted price allowed to a specific class(es) of buyers, on account of the specific position occupied by them in the distribution channel, and secondly a discount granted in consideration of some specific marketing functions performed by any group of buyers. The purpose of this discount is to compensate different classes of intermediaries operating in the company's distribution channel for the services rendered by them. It is allowed as a certain per cent of the quoted price and its rate varies among different classes of intermediaries.

Cash discount is a deduction from the invoice price allowed to all those buyers who pay their bills within a stipulated time period. It is a reward for prompt payment and is usually intended to encourage cash inflow.

Out of the 14 units covered in the present study one

unit allowed a cash discount at the rate of Rs. 600 per tonne, while another offered Rs. 100 per tonne. In yet another case it varies between Rs. 300 to Rs. 450 per tonne. The details of the breakup of the units allowing trade discount are given in Table 3.3.

Table 3.3 Breakup of the Units Allowing Trade Discount

Range of Trade Discount Granted	Number of * Units
1	2
Upto 5 per cent	5
6 - 9 per cent	7
10 per cent and above	1
Total	13

* In case of 1 unit the rate of discount is according to quantity and have not been included.

Only two paper mills allow cash discount which varies between 1 to 2 per cent.

3.2.3.4 Credit Policies : As regards credit facilities, it was observed that in all units under survey, barring three, allowed deferred payment. In one case credit was possible during the off-season only. In another unit, credit is offered for a specific period of time without discount. In yet another case credit is extended for a period 60 days with an interest. On the whole, the period of credit varies between 15 days and 60 days. In most cases, the period of credit is 45 days.

The present researcher observes that the actual price, paper and paper products should be related to demand, utility and the relative price of other similar products which are

complementary in their use. Paper mills should carry out demand analysis of their various users region-wise and product-wise. Pricing policy should thus be linked with the item's demand. Market survey should be carried out to determine the ideal market price acceptable to both - the company and its customers. The price-mix should concern itself with the prices offered, trade terms and discounts, and timely credits given to major customers.

3.2.4 Distribution-Mix

It is impossible to achieve success in marketing without proper distribution, which forms a major factor among the four Ps of marketing. A mill might have an ideal product with an attractive price and an effective promotion campaign, but if availability of the product through right channels is absent, then it would ruin business prospects. A company must aim at making paper available at the right place and time. The speed of delivery after the receipt of an order (which refers to timely dispatch) can be a very important factor that influences the relations between producer, paper merchants and customer.

Distribution system varies according to the variation in the market clientele. Selection of a distribution channel is not independent of the nature of product. Paper, basically, is a commodity - an intermediate product. The general distribution pattern for paper is exhibited in Fig. 3.3.

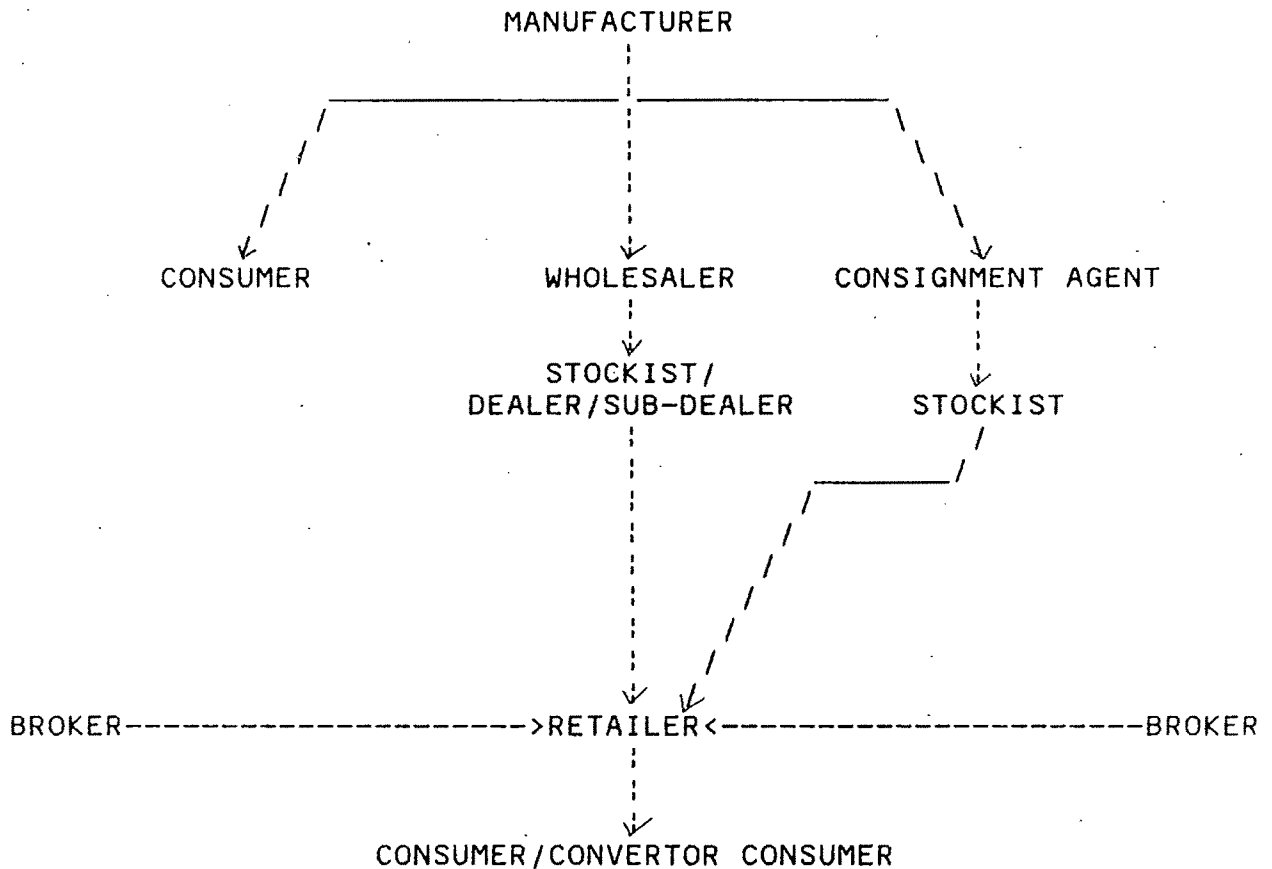


Fig. 3.3 Distribution Pattern for Paper.

The manufacturer perceives the distributor an extension, an emissary/ambassador of the company. A distributor is required to be totally committed to the company's philosophy, policy and strategy. Keeping this in mind he is supposed to have sincere loyalty to promote the interests of the manufacturer and maintain a certain secrecy/confidentiality. The distributor needs to ensure maximum customer satisfaction through excellent customer service such as timely deliveries, product education, handling of complaints, compensation claims, etc.

Thus in a competitive market, distributors have to be alert and innovative to make sure that the products they promote

reach the consumers. Paper industry faces some competition from alternatives to paper and paper boards, their biggest threat coming from plastics. Of course, there is likely to be a ban on the use of plastics in the developed countries like the USA and Italy as it is not bio-degradable and therefore a pollution hazard [6]. More and more paper bags are used in place of polythene disposal bags and flexible laminated are no more used at super stores which prefer cartons as a better promotional tool at the point of sale. The proliferation of computers and telex has not in any way reduced consumption of paper. The demand for harder copies has increased and this explains to some extent the higher growth rate of writing and printing paper in the west. Newer applications will further increase the demand for paper and paper boards and there will be a great need for an effective distribution system for the paper industry.

3.3 SUMMING UP

Marketing plays a key role in the present day competitive business world. Planning and development of a product, its pricing, promotion and distribution are basic aspects of marketing management. The market for paper and paper boards is made up of several customer groups with varying requirements and different patterns of buyer behaviour. The market for paper is segmented usually into groups like paper merchants, private organisations, public sector organisations, service establishments, foreign buyers and consumers. The paper manufacturing units have come to realise the benefits of market segmentation for a full exploitation of the available

opportunities.

The marketing strategy involves a blending of product-mix, price-mix, distribution-mix and promotion-mix. There has been a perceptible shift in the trend of product-mix towards higher production of packaging and wrapping paper. The demand for this has increased substantially. It is observed that during the past few years writing and printing papers comprised 52 per cent. Product modification is also taking place to make the paper attractive to the buyers. This also intended to make the product appeal directly to a specific market segment. The product modification strategy may either be a strategy of quality improvement or a strategy of feature improvement.

Pricing is perhaps the most important decision in the area of marketing. Discounts and credit given by the mills form part of the price-mix. It is observed that the principal pricing objectives of paper mills has been to earn a specific return on investment. This is followed by the objective to maintain relative parity with competitors' price. 44 per cent of the responding mills have followed a judicious mixture of various pricing methods such as cost-based, demand-based and competition-based methods. While all the mills in the sample followed their own pricing policy, some mills emphasized the cost-demand-based pricing as more realistic and useful. A break-even analysis is also done to cope with the variations in cost structure and demand.

As regards discounts it is found that the mills allow

two types of discount viz. trade and cash discount. They usually allow discounts at varying ranges. Only two responding mills in the sample have allowed cash discount.

As regards credit, companies adopt various practices. All paper manufacturers except three allow credit sale. In some cases credit is given during off-season and in some other cases it is allowed for a specific period of time in a year. The discount period has varied between 15 to 60 days. It is further felt that the actual price of paper products should be related to demand, utility and the relative price of other similar products.

Distribution system for paper products varies for different markets. The paper industry faces a big challenge from plastics. However, newer application is expected to push the demand for paper and paper products. Hence, the necessity for an efficient and effective distribution system. The manufacturers should not be complacent to feel that whatever they are manufacturing at present are sold with least marketing efforts.

One may conclude that, companies cannot survive by simply manufacturing a product like paper just because it is in high demand. They must do an excellent job, if they are to succeed in markets characterized by slow growth and fierce competition. The corporate objective of each manufacturer of paper should be to ensure a rational and equitable distribution of paper at fair prices.

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