July 24, 2012

GAMA

Retail Domain Academy Level 2
Marketing

20 Enterprise, 4th Floor, Aliso Viejo, CA 92656

www.ust-global.com

Marketing - Topics

Marketing – Basics

- Definitions
- Marketing Concept, Philosophy
- Elements of a Firm's Marketing Program

Marketing Mix

- Marketing Mix – 4Ps and 7Ps
- Alternative Marketing Mix – 4Cs

Marketing Mix – Product

- Product Mix/Assortment, Product Line
- Product Mix – Four Dimensions
- Product Life Cycle (PLC)

Marketing Mix – Price

- Pricing Process
- Pricing Objectives in the Marketing Mix
- Factors Affecting Pricing Decisions
- Pricing Methods - Cost-based Vs. Value-based Pricing
- Pricing Strategies - Geographical Pricing, Discount and Allowances, Promotional Pricing, Discriminatory Pricing, Product-Mix Pricing
- Break Even Analysis

Marketing – Topics (Contd.)

Marketing Mix – Promotion

- Promotion - Definitions
- Promotional Strategy
- Promotional Mix – Personal Selling, Advertising, Advertising Media, Sales Promotion,
- Promotions – Publicity & Public Relations
- Selecting a Promotional Mix – Guidelines
- Alternative Promotional Strategies – Pushing Strategy, Pulling Strategy
- Ethics in Promotion

Marketing Mix - Place

- Place – Channel Decisions
- Place – Distribution Methods & Strategies
- Place – Types of Channel Intermediaries
- Basic Channels of Distribution for Consumer Products – Examples
- Place – Retail Store Location
- Place – Retail Formats

Marketing Mix - Examples

Additional References

1

Marketing - Basics

Definition of Marketing

"Marketing is the management process responsible for identifying, anticipating and satisfying *customer requirements* profitably" - ***Chartered Institute of Marketing (CIM, UK)***

"Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have ***value for customers***, clients, partners, and society at large." - ***American Marketing Association (AMA, 2007)***

"Marketing is the social process by which individuals and organizations obtain what they need and want through creating and exchanging ***value*** with others." - **Kotler and Armstrong** (2010)

"The process by which companies create value for customers and build strong ***customer relationships*** in order to capture value from customers in return." - **Kotler and Armstrong** (2010)

The enigma of marketing is that it is one of man's oldest activities and yet it is regarded as the most recent of business disciplines. – **Baker** (1976)

Marketing Concept

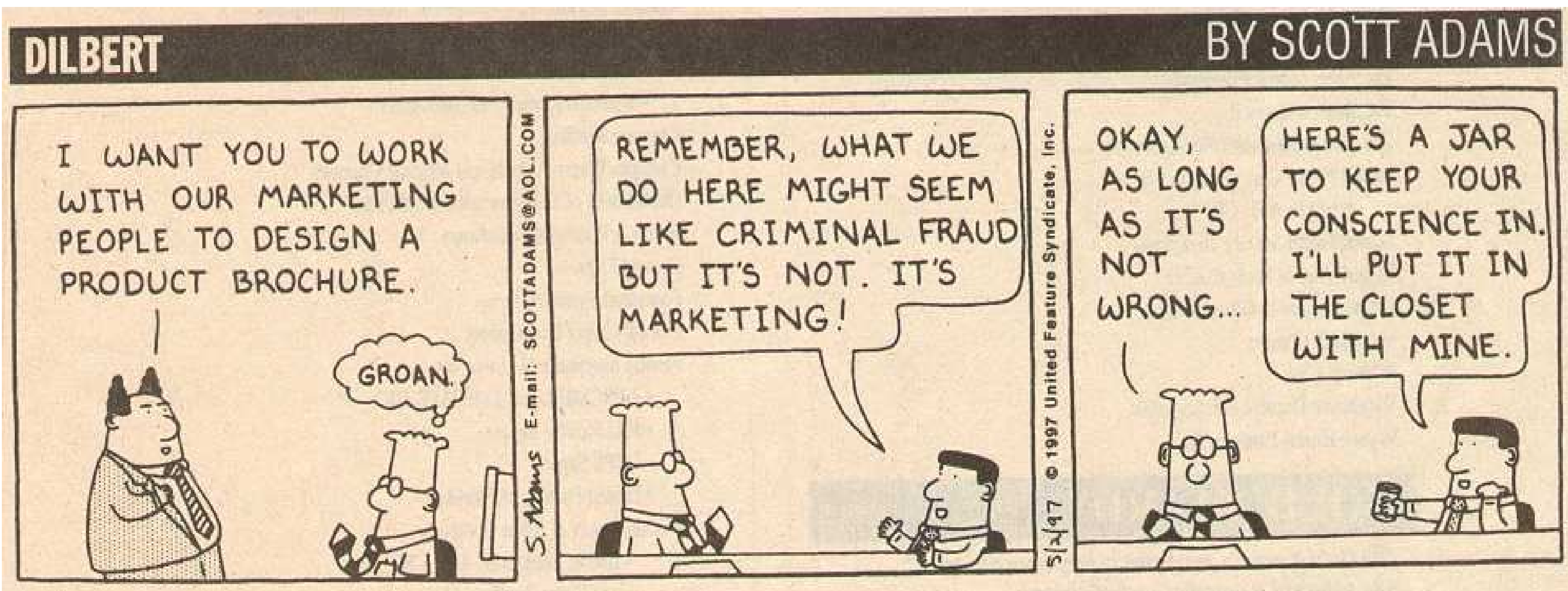
Marketing is getting the right product or service to the right people (target market), at the right time, at the right place, at the right price with the right communications and promotion.

The **Marketing Concept** is a philosophy. It makes the customer and the satisfaction of his or her needs the focal point of all business activities. It is driven by senior managers, who are passionate about delighting their customers. Marketing is not only ***much broader than selling***; it is not a specialized activity at all. It encompasses the entire business. It is the whole business seen from the point of view of the final result, that is, from the customer's point of view. Concern and responsibility for marketing must therefore permeate all areas of the enterprise. - ***(Peter F. Drucker)***

Marketing is a key management discipline that enables the producers of goods and services to interpret customer wants, needs and desires – and match or exceed them, in delivery to their target customers.

Philosophy of Marketing

What matters is the state of mind of the producer/seller - their philosophy of business. If this philosophy includes a concern for customers' needs and wants, an appreciation of the benefits and satisfactions which are looked for, a genuine effort to establish dialogue and build a long term relationship then this is a marketing philosophy irrespective of whether or not the organization possesses any personnel or function designated as 'marketing.' - **Baker** (2000)



It's all about Satisfaction and Creating Value

- Marketing means adopting a ***customer focus*** for the organization; keeping the customer's needs in mind all the time. It may not always mean making an immediate sale.
- The ultimate goal is ***customer satisfaction***, which leads to long-term profitability and success
- Whenever things of ***value*** are being ***exchanged***, marketing principles apply: consider exactly what is being exchanged (it's 'give' and 'get')
- Marketing today is applied to virtually all aspects of a company's operation that has the potential to influence customer satisfaction
- Marketing principles apply in all organizations
- Successful marketing involves **meeting or exceeding customer expectations**
- When expectations are exceeded, customer satisfaction or delight results
- Marketing is very much about **adding value** through a broadly-defined value proposition
- Value may be created by marketers in many different ways: value is not only about price

In Marketing, customer is Queen/King!!!

Marketing is used to identify the customer, satisfy the customer and keep the customer. Marketing is the wide range of activities involved in making sure that the firm is continuing to **meet the needs of their customers** and are getting appropriate value in return.

Experienced organizations have learned that it is not their opinion that matters most regarding whether their product is needed or not. The opinion that matters most is that of the customers.

The precious knowledge about the customers comes from ***inbound*** **marketing** -- through market research to clarify customers' needs and what they are willing to do to get those needs met. If the inbound marketing is done well, the ***outbound*** **marketing** is particularly easy -- and effective.

In plain and simple terms, marketing activities and strategies result in making products available that satisfy customers while making profits for the companies that offer those products.

Marketing philosophy is the acceptance of ***customer as Queen/King***.

Marketing - Inbound and Outbound

Inbound Marketing includes Market Research to find out:

- What specific groups of potential customers/clients (markets) might have which specific needs
- How those needs might be met for each group (or ***target market***), which suggests how a product might be designed to meet the need
- How each of the target markets might choose to access the product, etc. (its 'packaging')
- How much the customers/clients might be willing pay and how (*pricing analysis*)
- Who the competitors are (*competitor analysis*)
- How to design and describe the product such that customers/clients will buy from the organization, rather than from its competitors (its unique value proposition)
- How the product should be identified -- its personality -- to be most identifiable (its naming and branding)

Outbound Marketing includes:

- Advertising and promotions (focused on the product)
- Sales
- Public and media relations (focused on the entire organization)
- Customer service
- Customer satisfaction

"We produce an inferior line of goods. That's why we're looking for a real first class marketing man."

Marketing – Everywhere!!!

Marketing is everywhere. Formally or informally organizations engage in a vast number of activities that could be called marketing.

- New York Time square: a live demo of the many faces of marketing
- Super Bowl is called the Mecca of Marketing

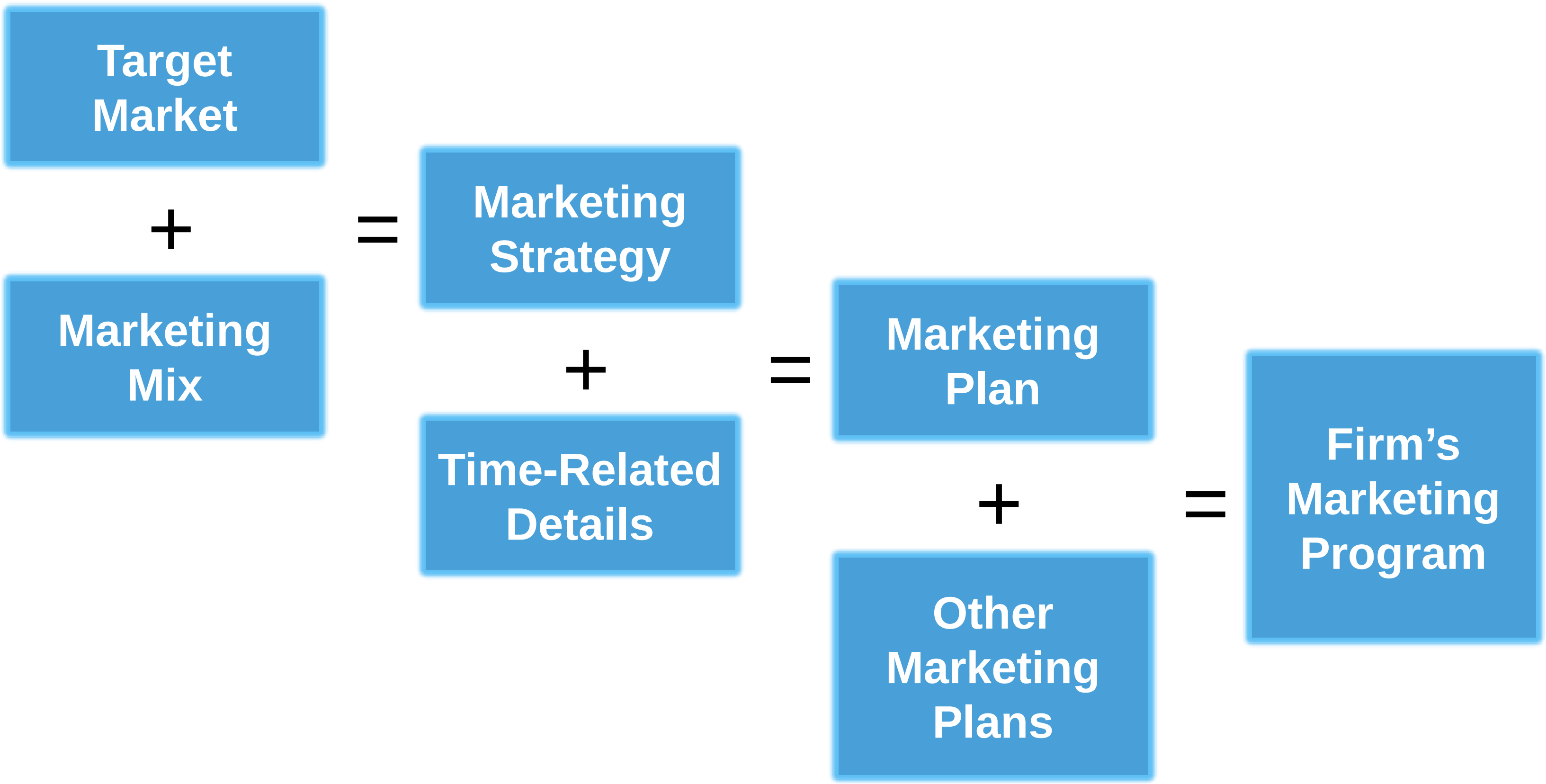
NY Times Square

Super Bowl 2012

Social Media Marketing

Internet Marketing

Elements of a Firm’s Marketing Program



2

Marketing Mix

Marketing Mix – 4Ps and 7Ps

The marketing mix is one of the most famous marketing terms.
Successful marketing depends upon addressing a number of key issues.
These include:

- what a company is going to produce
- how much it is going to charge
- how it is going to deliver its products or services to the customer
- and how it is going to tell its customers about it products and services

Traditionally, these considerations were known as **4Ps (Product marketing mix)** – **Product, Price, Promotion and Place**. As marketing became a more sophisticated discipline, a fifth 'P' was added – **People**. And recently, two further 'P's were added, mainly for service industries – **Process and Physical Evidence**. These considerations are now known as the **7Ps of Marketing**, also referred to as the **Marketing Mix**.

Each of the 'ingredients' of the marketing mix is a key to success. No one element can be considered in isolation. This process is called **Marketing Planning**. Planning an effective marketing strategy within the organization is intimately bound up with the total business planning process because it is linked to overall corporate strategy and requires endorsement from the top.

Marketing Mix – 4Ps and 7Ps (Contd.)

The **Marketing Mix** is the set of controllable tactical marketing tools--***Product, Price, Promotion and Place***--that the firm blends to produce the response it wants in the target market. - ***Kotler and Armstrong***, 2010

The marketing mix is the tactical or operational part of a marketing plan. The 4Ps marketing mix is mainly used in case of tangible goods.

Every company has the option of adding, subtracting, or modifying these elements in order to create a desired ***marketing strategy***.

Concept of Marketing mix is similar to a cake mix. All cakes contain eggs, milk, flour, and sugar. However, you can alter the final cake by altering the amounts of mix elements contained in it. So for a sweet cake add more sugar! It is the same with the marketing mix. The offer a company make to their customer can be altered by varying the mix elements. So for a high profile brand, increase the focus on promotion and desensitize the weight given to price.

Another way to think about the marketing mix is to use the image of an artist's palette. The marketer mixes the prime colors (mix elements) in different quantities to deliver a particular final color. Every hand painted picture is original in some way, as is every marketing mix.

Marketing Mix – 4Ps and 7Ps (Contd.)

1. **Product** means the ***goods-and-services*** combination the company offers to the target market. For many a product is simply the tangible, physical item that we buy or sell. You can also think of the product as intangible i.e. a service.
2. **Price** is the amount the consumer must exchange to receive the offering. The company's goal in terms of price is really to reduce costs through improving manufacturing and efficiency, and most importantly the marketer needs to increase the perceived value of the benefits of its products and services to the buyer or consumer.
3. **Promotion** includes all of the activities marketers undertake to inform consumers about their products and to encourage potential customers to buy these products. Promotion includes all of the tools available to the marketer for marketing communication. In marketing communications mix, there are many promotions elements that are often included such as sales, advertising, sales promotion, public relations, direct marketing, online communications and personal selling.
4. **Place** includes company activities that make the product available to target consumers. Place is also known as ***channel, distribution or intermediary***. It is the mechanism through which goods and/or services are moved from the manufacturer/ service provider to the user or consumer. Place is the most important element for international business entry.

Marketing Mix – 4Ps and 7Ps (Contd.)

5. **People**: All human actors who play a part in service delivery and thus influence the buyers' perceptions; namely, the firm's personnel, the customer, and other customers in the service environment. Staff should have the appropriate interpersonal skills, aptitude and service knowledge to provide the service that consumers are paying for.

6. ***Process*** refers to the way in which operations and marketing functions in an organization work in tandem to ensure the customer's expectations are met. Customers judge a service by its efficiency and effectiveness, where, by ***efficiency we mean doing things right*** and being ***effective means doing the right things***. If an organization is doing the right things wrong (therefore effective but not efficient) it can outperform organizations which are doing the wrong things right (therefore efficient but not effective).

7. **Physical Evidence** is the environment in which the service is delivered and where the firm and customer interact, and any tangible components that facilitate performance or communication of the service. Physical Evidence is the material part of a service. Strictly speaking there are no physical attributes to a service, so a consumer tends to rely on material cues. There are many examples of physical evidence including some of the following: buildings, equipment, signs and logos, annual accounts and business reports, brochures, company's website and even business cards.

Alternative Marketing Mix – 4Cs

The traditional Marketing mix is a 4Ps model and is business oriented. The 4Cs model of marketing on the other hand is more ***consumer oriented***. Because of its focus on consumers, the 4Cs model is ***mainly used for Niche Marketing***. However, just like the traditional marketing mix, it can also be used for mass markets.

The four variables in the 4Cs model are:

- **Consumer** – Unlike the traditional marketing mix where the primary focus is on Products, in the 4Cs model, the ***primary focus is on the customer***. Thus the companies which follow this model believe in making products which satisfy their customers. They are generally ready to offer customizable products and because they have a general set of target customers, this principle is only applicable for smaller market segments and not for mass markets.
- **Cost** – Cost is equivalent to Pricing in the traditional marketing mix. Cost is a very important consideration during consumer decision making and hence in the 4Cs principle, the cost variable is given special attention. The 4Cs model generally plans on the basis of customers and not products. And hence they have to plan the cost of the product on the basis of their customer.

Alternative Marketing Mix – 4Cs (Contd.)

- **Convenience** – Convenience is equivalent of distribution or placement of the traditional marketing mix. When the company has a niche customer base, the convenience of the customer in acquiring their product plays a critical role. Example: Products like air conditioner, TV etc. comes with delivery and installation, considering convenience of customer.
- **Communication** – The concept of communication remains same for both the traditional marketing mix as well as for the 4Cs of marketing. The marketing communications for a company following the 4Cs of marketing is completely different as it needs a completely different **segmentation, targeting and positioning (STP)****. The media vehicles used for marketing communications for a mass product and that for a niche product are different.

The traditional marketing mix model helps a company define its strategy more efficiently. However, the 4Cs model, although not much different, really helps a customer oriented firm.

****STP - Product Positioning can be broken down into:**

- **Segmentation**: grouping consumers by some criteria
- **Targeting**: choosing which group(s) to sell to
- **Positioning**: select the marketing mix most appropriate for the target segment(s)

7Ps of (Service) Marketing Mix

** Sellers' 4Ps correspond to customers' 4Cs

3

Marketing Mix - Product

Marketing Mix - Product

Product: *Product* is actually a complex, multidimensional concept. The *product, service, or program* includes both tangible and intangible elements.

Product is defined broadly enough to include *services, programs, and attitudes* and includes whatever the company is offering the target market in an effort to meet customers' needs. It involves all *tangible and intangible* aspects of the good or service a company offer to their target market. These are things which have value and are balanced against the value the company expect to receive from the target consumer.

The tangible are those things that the customer can see, touch, feel, taste, or smell. The intangible include such things as the image of the offering, which includes the image of the organization making the offering, the psychological aspects of pricing (high price to many customers is equated with high quality - and vice versa).

Product Mix/Assortment, Product Line

Product Mix/Product Offering: The set of all product lines and items that an organization offers its target market(s); also called the ***product assortment*** or ***merchandise mix***.

- **Product** - A standalone item for consumption, whether a manufactured good or a service. Each *product item* is a *product* or *service* as well as the *brand*, *package*, and *services* associated with it.
- **Product Mix/Assortment** - All the products a given company produces comprise the product mix, or product assortment
- **Product line** - A group of these products associated by function, by consumer group, by distribution channel or by price range

Excedrin's product line - Different types of Excedrin medicine, but they are all within the same product

Procter & Gamble's product mix - A collage of all their different types of products ranging from batteries to chips to detergent to toothpaste

Product Mix/Assortment, Product Line (Contd.)

A company could have one line or several lines, but all the products within this line or lines would be the mix. Product mix for example may consist of size and weight of the product, volume of output, product quality, product design, product range, brand name, package, product testing, warranties and after sales services and the like.

Product lining is the marketing strategy of offering several related products for sale as individual units. Unlike ***product bundling***, where several products are combined into one group, which is then offered for sale as a unit, product lining involves offering the products for sale separately. A line can comprise related products of various sizes, types, colors, qualities, or prices.

If a line of products is sold with the same brand name, this is referred to as **family branding**. When a company add a new product to a line, it is referred to as a **line extension**.

McDonald's Happy Meal is the quintessential version of great **product bundling**

Procter & Gamble's Leadership Brands

Product Mix – Four Dimensions

The four dimensions to a company's product mix include width, length, depth and consistency.

1. **Width:** The width of a company's product mix pertains to the ***number of product lines*** that a company sells. For example, if a company has two product lines, its product mix width is two. Small and upstart businesses start with some basic products and build market share. Later on, the company may diversify into other industries and build the width of the product mix.
2. **Length -** Product mix length pertains to ***the number of total products*** or items in a company's product mix. For example, a company may have two product lines and five brands within each product line. Thus, the company's product mix length would be 10. Companies that have multiple product lines will sometimes keep track of their ***average length per product line***. In this case, the average length of the company's product line is five.
3. **Depth -** Depth of a product mix pertains to the ***total number of variations for each product***. Variations can include size, flavor and any other distinguishing characteristic. For example, if a company sells three sizes and two flavors of toothpaste, that particular brand of toothpaste has a depth of six. Just like length, companies sometimes report the ***average depth*** of their product lines or the depth of a specific product line.

Product Mix – Four Dimensions (Contd.)

4. **Consistency -** Product mix consistency pertains to ***how closely related product lines are to one another*** - in terms of use, production and distribution. A company's product mix may be consistent in distribution but vastly different in use. For example, a small company may sell its health bars and health magazine in retail stores. However, one product is edible and the other is not. The production consistency of these products would vary as well.

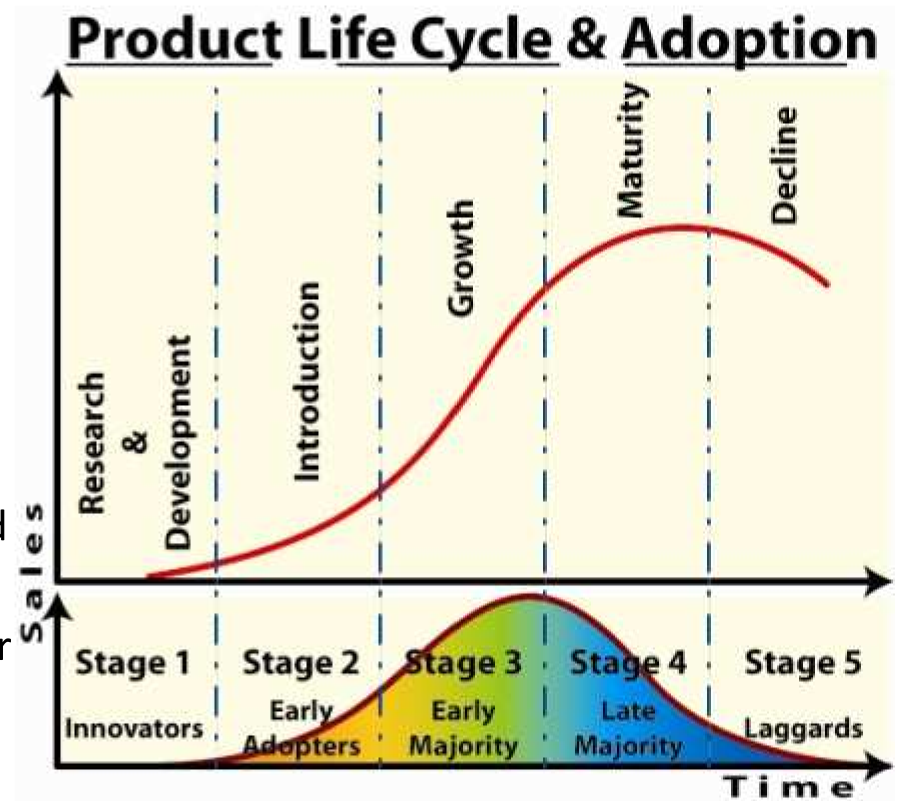
Product Market Mix Strategy

Small companies usually start out with a product mix limited in width, depth and length; and have a high level of consistency. However, over time, the company may want to differentiate products or acquire new ones to enter new markets. A company can also sell the existing products to new markets by coming up with new uses for their product.

Product Life Cycle (PLC)

Product life cycle describes the stages a product goes through from when it was first thought of until it finally is removed from the market. Not all products reach this final stage. Some continue to grow and others rise and fall. The main stages of the product life cycle are:

- **Research & Development** – The product/service is in **beta-testing** mode (**pre-launch**) – not released for general sales yet
- **Introduction** – researching, developing and then launching the product
- **Growth** – when sales are increasing at their fastest rate
- **Maturity** – sales are near their highest but the rate of growth is slowing down. E.g. new competitors in market or saturation
- **Decline** – final stage of the cycle, when sales begin to fall

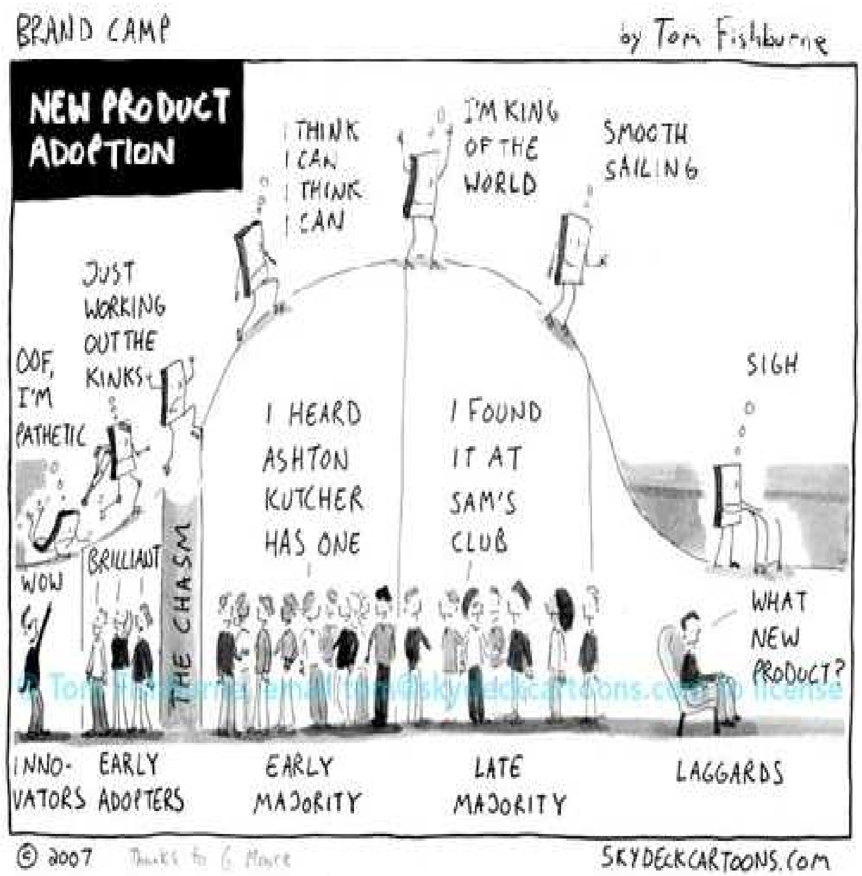


Product - (Customer) Adoption Curve and Product Life Cycle

Product Life Cycle (PLC) – Contd.

Types of Customers:

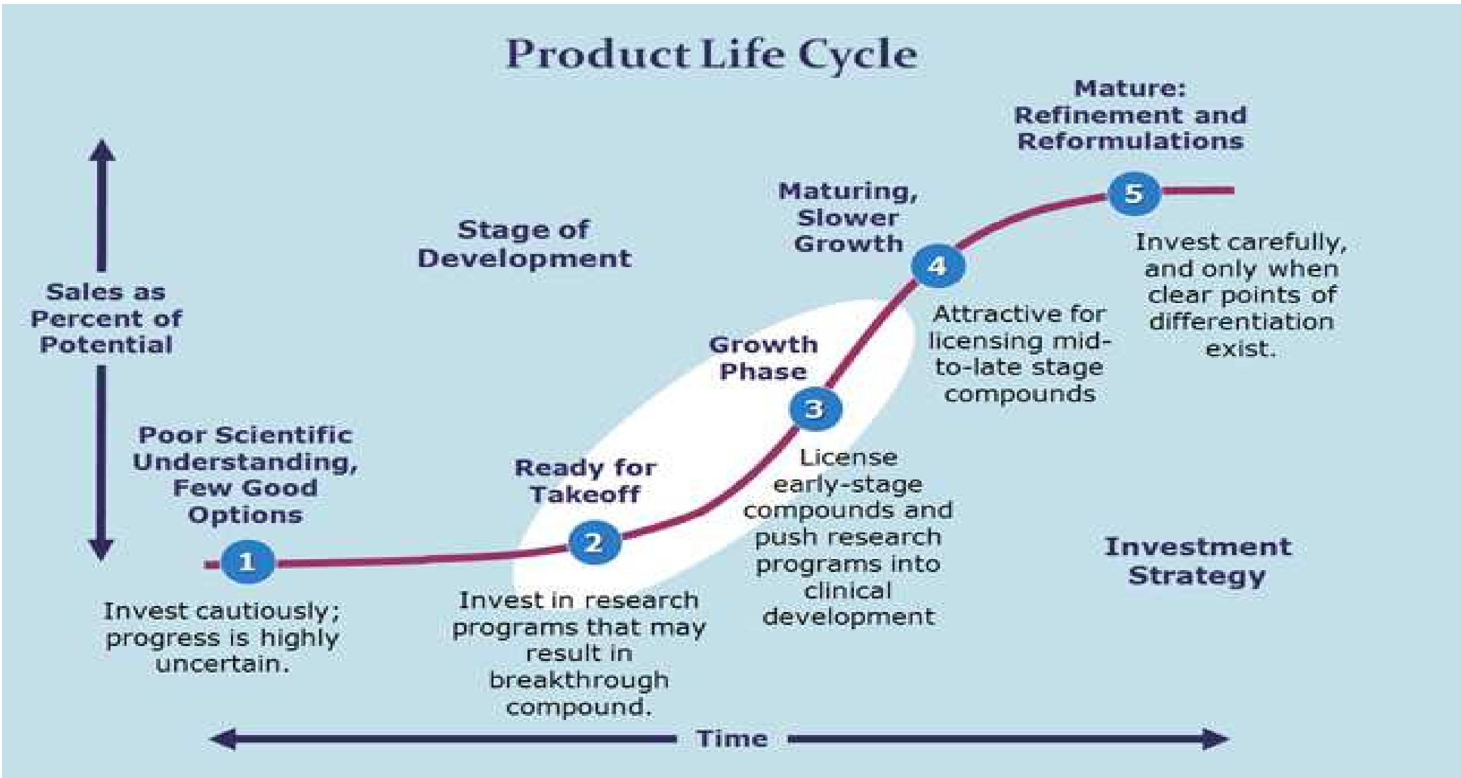
- **Innovators** - Typically very well informed, risk takers who will try a new product usually at a higher price. It's about being cool – a trendsetter. They love to tell people the new things they are doing. Critical to begin the company's product marketing team to bring them on board as leaders in their tribe. Pricing is not an issue with this group. Innovators represent the first 12.5% to adopt the product.
- **Early Adopters** – Based upon the 'buzz' and recommendation from the Innovator – they accept early on take some risk, tend to be more educated. They are definitely opinion leaders respected for what they do and how they do things. Early adopters represent about 13.5% of consumers.
- **Early Majority**- Careful consumers – avoid risk – purchase after it has been proven by early adopters. Do seek out and rely on recommendations from early adopters who have proven the product. They represent about 34% of consumers.
- **Late Majority** - Can be skeptical, pragmatic, acknowledge they require proof. Acquire after it has become commonplace. They represent about 34% of consumers.
- **Laggards** – Avoid change only adopt/purchase when there is no other alternative. They represent about 16% of consumers.



Product Life Cycle (PLC) – Contd.

A branded good can enjoy continuous growth, such as Microsoft, because the product is being constantly improved and advertised, and maintains a strong brand loyalty. **Extension strategies** extend the life of the product before it goes into decline. Again businesses use marketing techniques to improve sales.

Product Life Cycle - length of time at each stage varies, it can be few months in each stage or it can be years. It depends on the product. Generally speaking, due to the competitive environment & technological environment, PLC is getting shorter.



4

Marketing Mix – Price

Pricing Factors, Objectives, Strategies

Marketing Mix - Price

PRICE – The amount of money charged for a product or service, or the sum of the values that consumers exchange for the benefits of having or using the product or service. One can define price as that which people have to forego in order to acquire a product or service.

Buyers' concern about price is related to their expectations about the satisfaction or utility associated with a product. Different terms can be used to describe price for different forms of exchange (rent, premium, toll, retainer, fee, interest, etc.).

Historically, price has been the major factor affecting buyer choice. This is still true in poorer nations, among poorer groups and with commodity products. However, non-price factors have become more important in buyer-choice behavior in recent decades.

Price is also one of the most flexible elements of the marketing mix. Unlike product features and channel commitments, price can be changed very quickly. At the same time, pricing and price competition is the number-one problem facing many marketers. Companies need to set price when they have a new product, or when they enter a new market with an existing product. They need to decide what position they want their product to be in.

Price is the only element of marketing mix that generates revenue – everything else represents a cost.

Nine Price-Quality Strategies by Philip Kotler

Product Quality \ Price	High	Medium	Low
High	Premium Strategy	High Value Strategy	Super Value Strategy
Medium	Overcharging Strategy	Medium-Value Strategy	Good Value Strategy
Low	Rip-Off Strategy	False Economy Strategy	Economy Strategy

Pricing Process

"You don't sell through price.
You sell the price."

1. Selecting the pricing objective

2. Determining demand

- Measure the impact of price change on total revenue
- Predicts unit sales volume and total revenue for various price levels
- Different customers have different price sensitivities and needs

3. Estimating costs

4. Analyzing competitors' costs, prices and offers

5. Selecting a pricing method

Select pricing strategy appropriate to the political, social, legal and economical environment

6. Selecting final price

Pricing Objectives in the Marketing Mix

Choosing a pricing objective and associated strategy is an important function of the business owner and an integral part of the business plan or planning process.

Profitability Objectives

- Most common objective
- Maximize profits by reducing costs rather than raising costs
- Maintain price while reducing package size or amount of product

***Volume Objectives** (sales maximization, market share)*

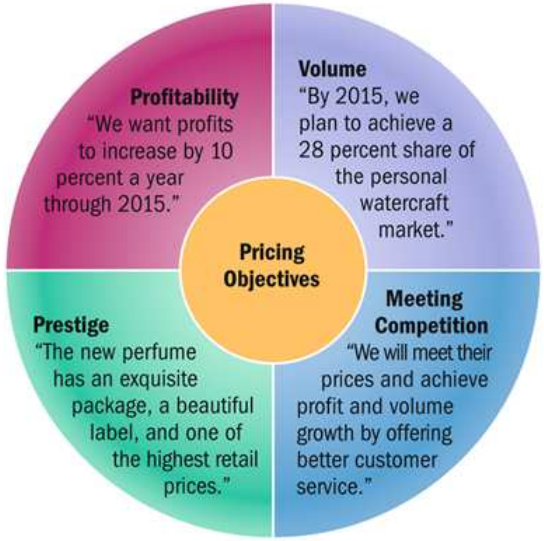
- Bases pricing decisions on market share goals

Pricing to Meet Competition

- Meeting competitors' price so price becomes a nonissue in the buying decision
- Competitors cannot legally work together to set prices
- Competition can result in a *price war*

Prestige Objectives

- Establishing a relatively high price to develop and maintain an image of quality and exclusiveness
- Recognition of the role of price in communicating an overall image for the firm and its products



Factors Affecting Pricing Decisions

Pricing is influenced by people in different areas of a company. Customers seek products that give them the best value in terms of benefits received for the price paid.

Internal Factors

- Marketing Objectives **
- Marketing Mix Strategy (Product Design, Non-price position, Distribution, Promotion)
- Costs
- Organizational considerations

Pricing Decisions

External Factors

- Nature of the market and demand
- Competitors' costs, prices & offers
- Other environmental factors (Economy, Reseller needs, Government actions, Social Concerns)

Internal Factor - Marketing Objectives **

- Survival – Low Prices to cover variable costs and some fixed costs to stay in business
- Current profit maximization - Choose the price that produces the maximum current profit etc.
- Market share leadership - Low as possible prices to become the market share leader
- Product quality leadership - High prices to cover higher performance quality and R&D

Factors Affecting Pricing Decisions (Contd.)

External Factor - Market and Demand Factors – **Pricing in different types of market****

- **Pure Competition** - Many buyers and sellers who have little effect on the price
- **Monopolistic Competition** - Many buyers and sellers who trade over a range of prices
- **Oligopolistic Competition** - Few sellers who are sensitive to each other's pricing/ marketing strategies
- **Pure Monopoly** - Single seller

Elasticity of Demand - measure of the sensitivity of demand to changes in prices. In normal cases, demand and price are inversely related: the higher the price, the lower the demand. In the case of prestige goods, the demand curve sometimes slopes upward.

- **Inelastic Demand** - not price sensitive, - no real change in demand. Products that are daily necessities and for which there are few alternatives tend to exhibit inelastic demand. For example, the demand for bar soap, salt, and milk is relatively inelastic.
- **Elastic Demand** - price sensitive, changes in demand. Example: demand for vacation travel, entertainment etc. tend to be elastic.

Major considerations in setting price:

- Competitor's prices and other internal and external factors
- Product costs
- Consumer perceptions of value
- Price Floor (No profits below this price)
- Price Ceiling (No demand above this price)

"They Said It"

"Price is what you pay. Value is what you get."
—Warren Buffett (b. 1930)
American investor

Pricing Methods - Cost-based Vs. Value-based Pricing

There are two basic methods of pricing of any products and services - cost-based and value-based pricing. The best choice depends on the company's type of business, what influences on customers to buy and the nature of the competition.

- **Cost-based pricing** is generally more suited to businesses that deal with large volumes or which operate in markets dominated by competition on price. Cost-based pricing ignores company's image and market positioning. And hidden costs are easily forgotten, so true profit per sale is often lower than companies realize.

- **Value-based pricing** focuses on the price that customers are willing to pay, based on the benefits. Value-based pricing depends on the strength of the benefits that a business can prove to offer to customers. While this approach can prove very profitable, it can alienate potential customers who are driven only by price and can also draw in new competitors.

Pricing Methods - Cost-based Vs. Value-based Pricing (Contd.)

Cost based Pricing	Value based Pricing
Product	Customer
↓	↓
Cost	Value
↓	↓
Price	Price
↓	↓
Value	Cost
↓	↓
Customer	Product

Pricing Strategies

Pricing decisions are among the most difficult that a business has to make. Pricing Strategy is concerned with setting prices for the first time, either for a new product or for an existing product in a new market.

Companies usually do not set a single price, but rather a pricing structure that reflects variations in geographical demand and costs, market-segment requirements, purchase timing, order levels, delivery frequency, guarantees, service contracts, and other factors. Companies adopt several price-adaptation strategies - **Geographical pricing, price discounts and allowances, promotional pricing, discriminatory pricing and product-mix pricing**.

- Geographical Pricing
- Discounts and Allowances
- Promotional Pricing
- Discriminatory Pricing
- Product-Mix Pricing

Pricing Strategies – Geographical Pricing

Geographical pricing involves the company in deciding how to price its products to different customers in different locations and countries. The company may charge higher prices to distant customers to cover the higher shipping costs or a lower price to win additional business. Another issue is how to get paid. This issue is critical when buyers lack sufficient hard currency to pay for their purchases. Many buyers want to offer other items in payment, a practice known as counter trade.

Counter trade may account for 15-25% of world trade and takes several forms:

- ***Barter*** - The direct exchange of goods, with no money and no third party involved.
- ***Compensation Deal*** - The seller receives some percentage of the payment in cash and the rest in products. A British aircraft manufacturer sold planes to Brazil for 70% cash and the rest in coffee.
- ***Buyback Arrangement*** - The seller sells a plant, equipment, or technology to another country and agrees to accept as partial payment products manufactured with the supplied equipment.
- ***Offset*** - The seller receives full payment in cash but agrees to spend a substantial amount of the money in that country within a stated time period. For example, PepsiCo sells its cola syrup to Russia for rubles and agrees to buy Russian vodka at a certain rate for sale in the US.

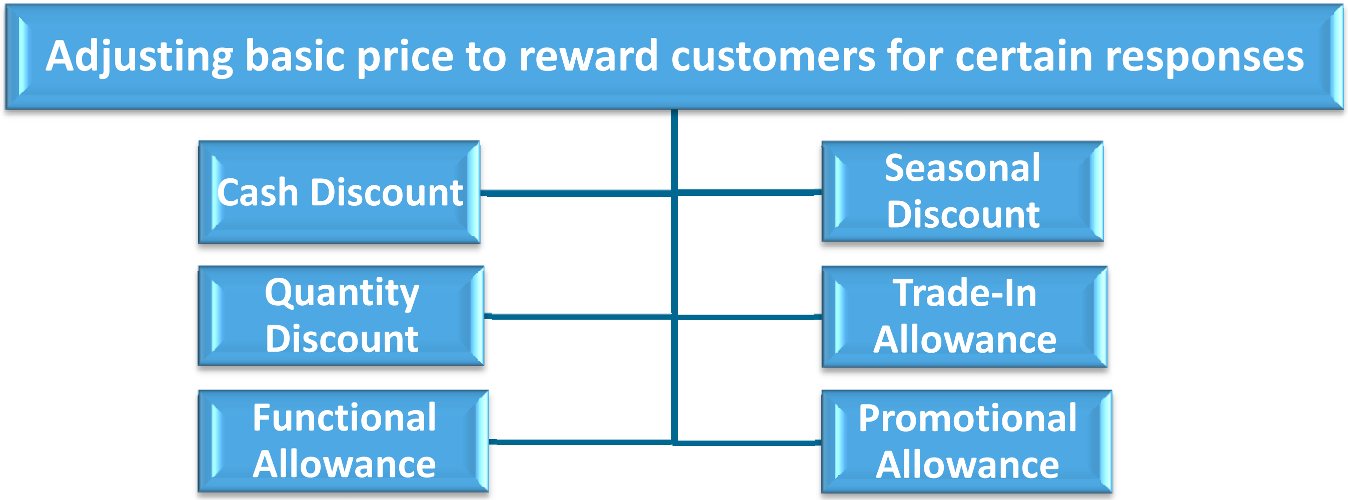
Pricing Strategies – Geographical Pricing (Contd.)

There are several **types of geographic pricing**:

- **FOB** ** **Origin** (Free on Board origin) - The shipping cost from the factory or warehouse is paid by the purchaser. Ownership of the goods is transferred to the buyer as soon as it leaves the point of origin. It can be either the buyer or seller that arranges for the transportation.
- **Uniform delivery pricing/Postage stamp pricing** - The same price is charged to all.
- **Zone Pricing** - Prices increase as shipping distances increase. This is sometimes done by drawing concentric circles on a map with the plant or warehouse at the center and each circle defining the boundary of a price zone. The term 'zone pricing' can also refer to the practice of setting prices that reflect local competitive conditions, i.e., the market forces of supply and demand, rather than actual cost of transportation.
- **Basing Point Pricing** - Certain cities are designated as basing points. All goods shipped from a given basis point are charged the same amount.
- **Freight-absorption Pricing** - The seller absorbs all or part of the cost of transportation. This amounts to a price discount and is used as a promotional tactic.

** **FOB** is a term which pertains to shipping of goods. Depending on specific usage, it may stand for **Free On Board** or **Freight On Board**. FOB specifies which party (buyer or seller) pays for which shipment and loading costs, and/or where responsibility for the goods is transferred.

Pricing Strategies – Discount and Allowances



Main types of discounts common today are:

- **Cash and settlement discounts** – These are intended to bring payments in faster. Incentive offered by a seller to a buyer for settling the invoice immediately on delivery or in a period substantially shorter than the conventional period in that industry or market and/or the payment is made by a specified means.
- **Quantity discounts** – An incentive offered to a buyer that results in a decreased cost per unit of goods or materials when purchased in greater numbers. A quantity discount is often offered by sellers to entice buyers to purchase in larger quantities. At the consumer level, a quantity discount can appear as a BOGO (Buy One, Get One discount) or other incentives such as buy two, get one free.
- **Promotional discounts** – These are the best kind of discounts because they enable the company to retain the power to be flexible. There may be times when the company want to give an extra boost to sales – to shift an old product before launching an updated one for example.

Pricing Strategies - Promotional Pricing

- Loss Leader Pricing
- Special Event Pricing
- Cash Rebates
- Low-Interest Financing
- Longer Warranties
- Free Merchandise
- Discounts

Temporarily pricing products below list price to increase short-term sales through

Promotional pricing strategies are often a zero-sum game. If they work, competitors copy them and they lose their effectiveness. If they do not work, companies waste money that could have been put into other marketing tools, such as building up product quality and service or strengthening product image through advertising.

Pricing Strategies - Promotional Pricing (Contd.)

- **Loss-leader pricing** - An aggressive cost setting strategy whereby a retail outlet deliberately sells particular desirable products below their cost to attract customers. The idea behind loss leader pricing is that the profits from additional purchases that customers will make while in the store will more than cover the store's loss on the heavily discounted product.
- **Special Event pricing -** The marketers establish special prices in certain seasons to draw more customers and sales. Example: Sales immediately after Christmas
- **Cash rebates** - Partial refund for a purchase that is paid in actual currency. Cash rebates may be instantaneous or require the purchasing party to request the rebate from the manufacturer. "Kate and John were okay with paying $1,299 for the refrigerator because it included a cash rebate of $299."

Loss Leader Pricing - Sony and Microsoft have sold Playstation 3 and Xbox 360, respectively, at a loss and made up for it through game software and accessory profits

Special Event Pricing – After Christmas Sales at Lord & Taylor

Pricing Strategies - Promotional Pricing (Contd.)

- **Low-interest financing -** The incentive interest rate you may be able to receive from a manufacturer, at a below-market interest rate. Example: Automakers have even announced no-interest financing to attract customers.
- **Longer payment terms** - Sellers, especially mortgage banks and auto companies, stretch loans over longer periods and thus lower the monthly payments. Consumers often worry less about the cost (i.e. the interest rate) of a loan and more about whether they can afford the monthly payment.
- **Warranties & service contracts** - Companies can promote sales by adding a free or low-cost warranty or service contract.
  - **Warranty** is a guarantee given to the purchaser by a company stating that a product is reliable and free from known defects and that the seller will, without charge, repair or replace defective parts within a given time limit and under certain conditions.
  - **Service Contract** is an agreement whereby a contractor supplies time, effort, and/or expertise instead of a good (tangible product). Example: A contract which agrees to provide mechanical maintenance of a machine for a fixed period of time at a stated charge.
- **Psychological discounting** - Strategy of comparing a price to particular price points to give the impression of a discount. It is not the same as a discount because the price is never actually reduced. An example is comparing the price to a manufacturer's suggested retail price or a competitor's price. Example: "was $49.95, now only $35.00“.

Pricing Strategies – Discriminatory Pricing

Companies often adjust their basic price to accommodate differences in customers, products, locations and so on. Price discrimination occurs when a company sells a product or service at two or more prices that do not reflect a proportional difference in costs. In ***first-degree*** *price discrimination*, the seller charges a separate price to each customer depending on the intensity of his or her demand. In ***second-degree*** *price discrimination*, the seller charges less to buyers who buy a larger volume. In ***third-degree*** *price discrimination*, the seller charges different amounts to different classes of buyers, as in the following cases:

- **Customer Segment Pricing** - Different customer groups are charged different prices for the same product or service. For example, museums often charge a lower admission fee to students and senior citizens.
- **Product-form Pricing** - Different versions of the product are priced differently but not proportionately to their respective costs.
- **Image pricing/Prestige Pricing** - Marketing strategy where prices are set higher than normal because lower prices will hurt instead of helping sales, such as for high-end perfumes, jewelry, clothing, cars, etc.

Customer Segment Pricing

Pricing Strategies – Discriminatory Pricing (Contd.)

- **Channel Pricing** - Method in which the price depends on the means of delivery of a good or service. Example: Price on internet is lower than in stores, Coca-Cola carries a different price depending on whether it is purchased in a fine restaurant, a fast-food restaurant, or a vending machine.
- **Location Pricing** - The same product is priced differently at different locations even though the cost of offering at each location is the same. A theater varies its seat prices according to audience preferences for different locations.
- **Time Pricing** - Prices are varied by season, day, or hour. Restaurants charge less to 'early bird' customers. Hotels and airlines use **yield pricing**, by which they offer lower rates on unsold inventory just before it expires.

As a result of deregulation in several industries, competitors have increased their use of discriminatory pricing. Airlines charge different fares to passengers on the same flight, depending on the seating class, the time of day, the day of the week, the season, the person's company, past business, status (youth, military, senior citizen) and so on. Airlines are using yield pricing to capture as much revenue as possible.

Computer technology is making it easier for sellers to practice discriminatory pricing. For instance, they can use software that monitors customers' movements over the web and allows them to customize offers and prices. New software applications, how-ever, are also allowing buyers to discriminate between sellers by comparing prices instantaneously.

Pricing Strategies Product-Mix Pricing

Captive Product Pricing – Razor & Blades

- **Product Line Pricing** - Involves setting price steps between various products in a product line based on:
  - Cost differences between products
  - Customer evaluations of different features and
  - Competitors' prices

  When pricing products in different lines, must take cross-elasticities of demand across the set of products into consideration. The idea is to maximize the profits of the entire organization rather than that of a single product or a single line
- ***Optional-feature pricing*** – Many companies offer optional products, features, and services along with their main product. The automobile buyer can order electric window controls, defoggers, light dimmers and an extended warranty.
- **Captive-Product Pricing** - Some products requires the use of ancillary or captive products. Manufacturers of razors and cameras often price them low and set high markups on razor blades and film, respectively. A cellular service operator may give a cellular phone free if the person commits to buying two years of phone service.
- ***Two-part pricing*** – Service firms often engage in two-part pricing, consisting of a fixed fee plus a variable usage fee. Telephone users pay a minimum monthly fee plus charges for calls beyond the minimum number. The fixed fee should be low enough to induce purchase of the service, the profit can then be made on the usage fees.

Pricing Strategies Product-Mix Pricing (Contd.)

- ***By-product pricing*** – The production of certain goods like meats, petroleum products, and other chemicals often results in by-products. If the by-products have value to a customer group, they should be priced on their value. Any income earned on the by-products will make it easier for the company to charge a lower price on its main product if competition forces it to do so.
- ***Product-Bundling pricing*** – Combining several products & features and offering the bundle at a reduced price. Pure bundling occurs when a firm only offers its products as a bundle. In mixed bundling, the seller offers goods both individually and in bundles. When offering a mixed bundle, the seller normally charges less for the bundle than if the items were purchased separately. An auto manufacturer might offer an option package at less than the cost of buying all the options separately. A theater company will price a season subscription at less than the cost of buying all the performances separately. Because customers may not have planned to buy all the components, the savings on the price bundle must be substantial enough to induce them to buy the bundle.

Product Bundling Pricing
Xbox 360 Super Elite 250GB Bundle

Addendum: Pricing Strategies - Cost-based Pricing

- Certainty about costs
- Pricing is simplified
- Price competition is minimized
- Much fairer to buyers & sellers

Cost-Plus pricing is an approach that adds a standard markup to the cost of the product

- Simplest pricing method
- Ignores current & demand competition

Cost-based pricing - Adding a percentage (markup) to the base cost of a product to cover overhead costs and generate profits. Actual markup used varies by such factors as brand image and type of store.

Example: Typical clothing markup by retailers is double the wholesaler price.

<u>Types of costs:</u>

- Fixed Costs (Overhead) - Costs that don't vary with sales or production levels. Ex: Executive Salaries, rent
- Variable Costs - Costs that do vary directly with the level of production. Ex: Raw materials
- Total Costs = Sum of the Fixed and Variable Costs for a given level of production

Addendum: Pricing Strategies - Cost-based Pricing (Contd.)

- **Full Cost Pricing** - Selling price arrived at by adding overheads and profit margin to the direct cost per unit of a product. In a manufacturer's overheads computation, less than full capacity utilization of the plant is factored in to allow for fluctuations in the output. The profit margin is computed as a fixed percentage of the average total cost of the product.

- **Markup Pricing** - The practice of adding a constant percentage to the cost price of an item to arrive at its selling price.

- **Break Even Pricing** - A pricing strategy which yields no profit. The sales price equals the expenses that are allocatable for a product. Often this strategy is used to sell slow-moving inventory.

- **Target rate of return pricing** is a pricing method used almost exclusively by market leaders or monopolists. The company start with a rate of return objective, like 5% of invested capital, or 10% of sales revenue. Then the company arrange their price structure so as to achieve these target rates of return.

Addendum: Pricing Strategies – For New Products

Market Skimming

- Setting an intentionally high price for a new product relative to the prices of competitive products, to "skim" maximum revenues from the target market (Example: Apple iPhone)
- Results in fewer, but more profitable sales
- Helps a firm recover its product development costs before competitors enter the field
- Use under these conditions:
  - Product's quality and image must support its higher price
  - Costs can't be so high that they cancel the advantage of charging more
  - Competitors shouldn't be able to enter market easily and undercut the high price

Market Penetration

- Setting a low price for a new product in order to "penetrate" the market quickly and deeply
- Attract a large number of buyers and win a larger market share
- Use under these conditions:
  - Market must be highly price-sensitive so a low price produces more market growth
  - Production/Distribution costs must fall as sales volume increases
  - Must keep out competition & maintain its low price position or benefits may only be temporary

Intermediate Pricing - Pricing somewhere in between the skimming strategy and the penetration strategy

Addendum: Pricing Strategies for Existing Products

Three strategic alternatives:

- Price **at or near** market prices - Maintain the price if the company is the leader**
- Pricing **below** market prices ➔ price wars

Example: Airlines, store brand vs. manufacturer's brand

Dumping - A kind of predatory pricing, especially in the context of international trade. It is the act of charging a lower price for a good in a foreign market than one charges for the same good in a domestic market. This is often referred to as *selling at less than 'fair value'*.

- Pricing **above** prevailing market prices for similar products - Increase the price during inflation, or if demand is expected to increase or if the company wish to harvest

Example: Sony -> higher price = higher quality

** ***Price leader*** is a business whose pricing decisions heavily influence the pricing decisions of its competitors. It is a business that offers the best price in a given market. Example: Walmart is a grocery price leader in many of the markets in which it operates. Also called *low-price leader*.

Pricing – Break Even Analysis

Breakeven Analysis - Pricing technique used to determine the minimum sales volume a product must generate at a certain price level to cover all costs.

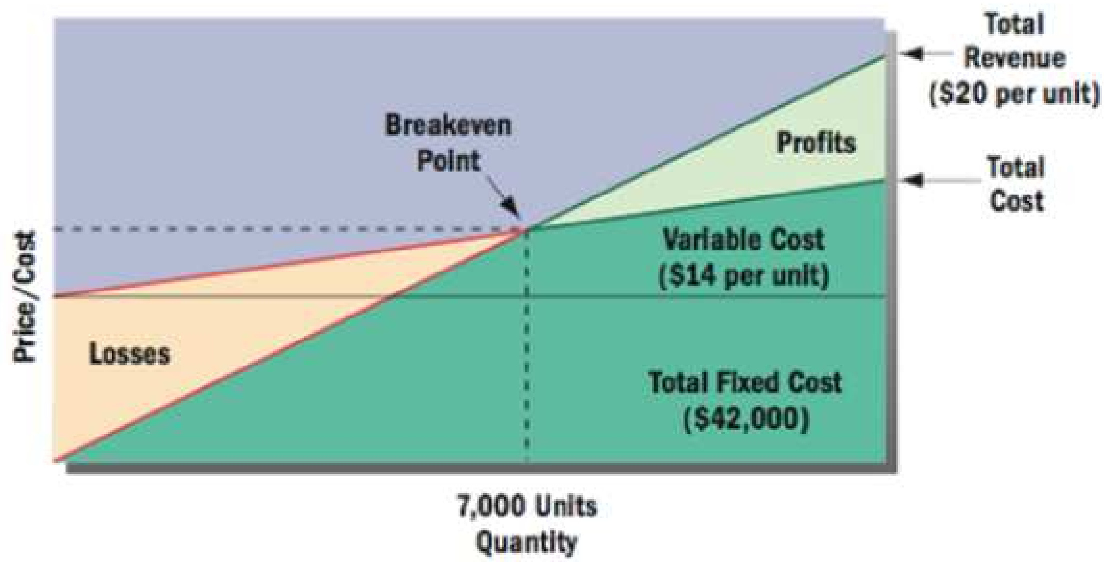
Finding the Breakeven Point

$$\text{Breakeven point (in units)} = \frac{\text{Total Fixed}}{\text{Contribution to Fixed Costs per Unit}}$$

$$\text{Breakeven point (in units)} = \frac{\$42{,}000}{\$20 - \$14} = \frac{\$42{,}000}{\$6} = 7{,}000 \text{ units}$$

$$\text{Breakeven point (in dollars)} = \frac{\text{Total Fixed Costs}}{1 - \text{Variable Cost per Unit/Price}}$$

$$\text{Breakeven point (in dollars)} = \frac{\$42{,}000}{1 - \$14/\$20} = \frac{\$42{,}000}{1 - 0.7} = \frac{\$42{,}000}{0.3} = \$140{,}000$$



5

Marketing Mix – Promotion

Definition, Strategy, Mix

Promotion - Definitions

Promotion is the marketing term used to describe all marketing communications activities and includes personal selling, sales promotion, public relations, direct marketing, trade fairs and exhibitions, advertising and sponsorship.

Promotion is the coordination of all promotional activities—media advertising, direct mail, personal selling, sales promotion, and public relations—to produce a unified customer-focused message - *Integrated marketing communications (IMC)*

Promotion is the coordination of all seller-initiated efforts to set-up channels of information and persuasion to sell goods and services or to promote an idea - *Belch and Belch*

The **promotions mix** (the marketing communications mix) is the specific blend of promotion tools that the company uses to persuasively communicate customer value and build customer relationships - *Kotler et al* (2010).

Promotional Mix includes advertising, sales promotion, public relation/ publicity, personal selling, plus direct marketing and Internet/interactive media. Direct marketing is direct mail, mail order catalogs, database marketing, direct selling, telemarketing, and direct response ads through direct mail, the Internet, and various media. - *Belch and Belch*

Promotional Strategy

The aim of the promotion element of the marketing mix is to grow the business and increase market share. Businesses develop a promotional strategy in order to encourage customers to purchase their products. Many base their approach on **AIDA principles**. AIDA is an acronym that is shorthand for the stages in a sales process.

- **Awareness – Capture the customer's attention**
- **I then simulate *interest***
- **D this creates a *desire* for the product**
- **A *action* occurs when the customer purchases the product**

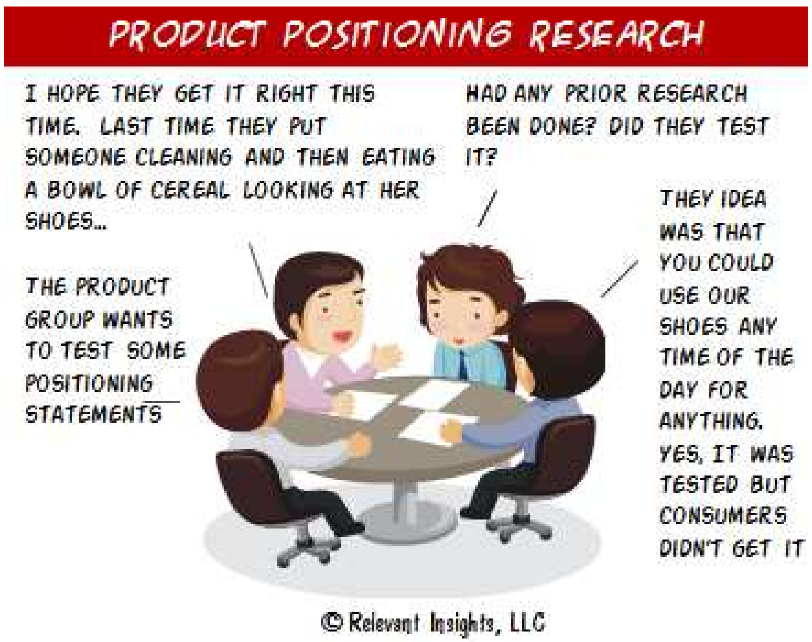
Promotional strategy: The function of informing, persuading, and influencing consumer decision.

Promotional strategy objectives vary among organizations. Some use promotion to expand their markets, others to hold their current positions, still others to present a corporate viewpoint on a public issue. Promotional strategies can also be used to reach selected markets. Most sources identify the specific promotional objectives or goals of providing information, *differentiating the product, increasing sales, stabilizing sales, and accentuating the product's value*.

Promotional Strategy

An organization can have multiple promotional objectives.

- ***Positioning*** **-** Promotional strategy used to *differentiate a good or service* from those of competitors in the mind of a prospective buyer. Positioning communicate to consumers meaningful distinctions about the attributes, price, quality, or usage of a good or service. **(Product Positioning Motto: 'Stand out from the crowd')**
- *Stabilizing Sales* - Sales contests offering prizes are often held during slack periods
- *Accentuating the Product's Value* - Some promotional strategies are based on factors, such as warranty programs and repair services, that add to the product's value.



Amul (largest food brand in India) works on pack designs, product positioning, promotions to woo youth

Promotional Mix

Promotional mix: Firm's combination of personal and non-personal selling techniques designed to achieve promotional objectives.

- **Personal selling**: Interpersonal promotional process involving a seller's face-to-face presentation to a prospective buyer.
- **Non-personal selling**: Sales Promotion, Public Relations, Direct Mail, Trade Fairs and Exhibitions, Advertising, Sponsorship and also online promotions

Table 14.1 Comparing the Components of the Promotional Mix

Component	Advantages	Disadvantages
Advertising	Reaches large consumer audience at low cost per contact Allows strong control of the message Message can be modified to match different audiences	Difficult to measure effectiveness Limited value for closing sales
Personal selling	Message can be tailored for each customer Produces immediate buyer response Effectiveness is easily measured	High cost per contact High expense and difficulty of attracting and retaining effective salespeople
Sales promotion	Attracts attention and creates awareness Effectiveness is easily measured Produces short-term sales increases	Difficult to differentiate from similar programs of competitors Nonpersonal appeal
Public relations	Enhances product or firm credibility Creates a positive attitude about the product or company	Difficult to measure effectiveness Often devoted to nonmarketing activities
Sponsorships	Viewed positively by consumers Enhances brand awareness	Difficult to control message

"They Said It"

"Doing business without advertising is like winking at a girl in the dark. You know what you are doing, but nobody else does."

—Steuart Henderson Britt (1907–1979) American educator

Promotional Mix - Personal Selling

For many companies, **personal selling**—a promotional presentation made on a person-to-person basis to a potential buyer—is the key to marketing effectiveness. Sales tasks includes three basic tasks:

- **Order processing** - Sales task of receiving and handling an order. Needs are identified and pointed out to the customer, and the order is processed. The handling of orders is especially important in satisfying customer needs.
- **Creative selling** - Persuasive type of promotional presentation used when the benefits of a good or service are not readily apparent and/or when the purchase is based on a careful analysis of alternatives. Ex: New product sales
- **Missionary selling** - Indirect form of selling in which the sales representative markets the goodwill of a company and/or provides technical or operational assistance. Ex: IBM providing consultation work for their products

Telemarketing - Promotional presentation involving the use of the telephone.

Telemarketer

Door to door salesman

Car Salesman

Promotional Mix - Advertising

For many firms, advertising is the most effective type of non-personal promotion. **Advertising** is a paid, non-personal sales communication usually directed at a large number of potential buyers.

Types of Advertising:

1. **Product advertising** – Non-personal selling of a good or service.
2. **Institutional advertising** – Promotion of a concept, idea, philosophy, or the goodwill of an industry, company, organization, or a government entity. Example: Kerala promoting tourism using tagline "God's Own Country".

Institutional advertising by profit-seeking firms is called ***corporate advertising***.

A form of institutional advertising that is growing in importance, **advocacy advertising (cause advertising)** supports a specific viewpoint on a public issue and is designed to influence public opinion and/or the legislative process. Advocacy advertising is used by many nonprofit organizations.

Advocacy ad to support American Cancer Society

Product Ad for Coca Cola

Promotional Mix – Advertising and product life cycle

Product and institutional advertising can be subdivided by its purposes: to inform, persuade, or remind.

➢**Informative advertising** - Advertising approach intended to build initial demand for a good or service in the introductory phase of the product life cycle.

➢**Persuasive advertising** - Advertising approach used in the growth stage of the product life cycle to improve the competitive status of a good, service, institution, or concept.

➢**Comparative advertising** - Persuasive advertising approach in which direct comparisons are made with competing goods or services. *Ex: 'Pepsi Challenge' comparing taste of Pepsi with Coca Cola*

➢**Reminder-oriented advertising** - Advertising approach used during the late maturity and decline stages of the product life cycle that seeks to reinforce previous promotional activity by keeping the name of the good or service in front of the public.

Persuasive Ad - Heinz Ketchup

Comparative Ad - Pepsi Challenge

Promotional Mix – Advertising Media

Media	Advantages	Disadvantages
Newspapers - Largest of the advertising media, 26% of total advertising volume. Can be classified as local advertising	➢ High coverage - Newspapers reach nearly everyone in the community ➢ Readers can refer back to them ➢ Can be coordinated with other advertising & merchandising efforts ➢ Timely ➢ Short lead time for placing ads	➢ Relatively short life span ➢ Clutter ➢ Low attention getting ➢ Poor reproduction quality ➢ Selective reader exposure
Television - Second largest advertising media with 22% of all advertising volume, but it is a leader in national advertising	➢ Significant impact on potential customers ➢ Mass coverage, attention getting, repetition, flexibility and prestige ➢ Low cost per exposure	➢ High absolute cost & prod cost ➢ Temporary nature of the message, some public distrust, and lack of selectivity in the ability to reach specific target market segments without considerable wasted coverage
Direct Mail - Third-leading advertising medium, with about 17% of total advertising expenditures	➢ High selectivity, intense coverage, speed, flexibility, complete information and personalization	➢ Extremely costly ➢ Dependent on effective mailing lists ➢ Sometimes meets with consumer resistance
Radio - Accounts for 7% of total advertising volume. Can be classified as network, spot, and local advertising	➢ Immediacy, low cost, targeted audience selection, flexibility, and mobility	➢ Short life span ➢ Audio only message ➢ Highly fragmented audience

Promotional Mix – Advertising Media (Contd.)

Media	Advantages	Disadvantages
Magazines - Account for about 5% of advertising volume	➢ Selectivity, quality reproduction, long life, high information content and prestige	➢ Long lead time for Ad placement ➢ Lack the flexibility ➢ Visual only
Outdoor Advertising - 1% of total advertising expenditures are on outdoor advertising such as billboards	➢ Communicating simple ideas quickly ➢ Repetition and the ability to promote goods and services available for sale nearby	➢ The message must be brief, and there are aesthetic considerations ➢ Short exposure time ➢ Local restrictions
Internet – Fastest growing ad segment with growth of 14.4% year on year (YOY), ad revenue of $31B in 2011	➢ User selects product information ➢ User attention and involvement ➢ Interactive relationship ➢ Direct selling potential ➢ Flexible message platform	➢ Limited Creative Capabilities ➢ Websnarl (Crowded Access) ➢ Technology Limitations ➢ Few Valid Measurement Techniques ➢ Limited reach

"Half the money I spend on advertising is wasted; the trouble is I don't know which half"

"10% of advertising is online and less than 10% of it is wasted"

What John Wanamaker *1838 – 1922* ('father of modern advertising') said

*** **Speculation** on what he would have said now*

Promotional Mix – Advertising Media (Contd.)

Cost is an important consideration for selecting advertising media, but it is equally important to choose the media best suited for the job.

Other media options include advertising in movie theaters, on airline movie screens, on trucks, transit advertising, hot-air balloon etc. These alternative media can be employed separately or in conjunction with advertising campaigns using more traditional media.

BMW Billboard

Re-Max realtors
using hot-air balloon ad

Famous Coca-Cola Christmas
truck touring London city

Promotional Mix – Sales Promotion

Sales Promotion - Form of promotion designed to increase sales through one-time selling efforts such as displays, trade shows, special events, and other methods.

- **Point-of-purchase advertising (POP) -** Type of sales promotion that displays and demonstrates an item where the actual purchase decision is made. Example: Video ad on supermarket shopping carts
- **Specialty advertising -** Type of sales promotion that consists of giving away useful items imprinted with the donor's name, logo, or message. Originally designed to identify and create goodwill for advertisers, specialty advertising is now used to generate sales leads and develop traffic for stores and trade show exhibitors.
- **Trade Show** - Type of sales promotion that uses exhibitions designed to promote goods or services to retailers, wholesalers, international buyers, and other resellers in the distribution channel. Such shows are very important in the toy, furniture, and fashion industries.

POP Sales Promotion

Specialty Ad products

Promotional Mix – Sales Promotion (Contd.)

Other Sales Promotion methods include samples, coupons, premiums, contests, and trading stamps. Most of these methods are used to introduce new products or encourage consumers to try a new brand.

- **Sample** is a free gift of a product distributed by mail, door to door, in a demonstration, or inside packages containing other products. Samples are particularly useful in promoting new products.
- **Coupon** is an advertising clipping or package inclusion redeemable by the customer. Offering what amounts to a small price discount, it can help get a customer to try a new or different product.
- **Premium** is an item given free or at a reduced cost with the purchase of another product. Premiums are most effective when they relate in some way to the purchased item. McDonalds and Burger King promote theatrical releases through their 'Kids Meals'.
- **Trading stamps** are similar to premiums in that they are redeemable for additional merchandise. Historically, they have been used to build loyalty to a certain retailer or supplier.
- **Contests, sweepstakes and games** offer cash or merchandise as prizes to participating winners.

Promotions – Publicity & Public Relations

Publicity is the deliberate attempt to manage the public's perception of a subject. From a marketing perspective, *publicity is one component of promotion* which is one component of marketing.

The advantages of publicity are low cost, and credibility (particularly if the publicity is aired in between news stories like on evening TV news casts). The disadvantages are lack of control over how your releases will be used, and frustration over the low percentage of releases that are taken up by the media.

Public Relations (PR) is the practice of managing the flow of information between an individual or an organization and the public. Public relations is the deliberate, planned, and sustained effort to establish and maintain a preferred point of view.

The aim of public relations by a company often is to persuade the public, investors, partners, employees, and other stakeholders to maintain a certain point of view about it, its leadership, products or of political decisions. Public relations is often used to supplement advertising and personal selling efforts. Common activities include speaking at conferences, winning industry awards, working with the press, and employee communication.

If ***branding*** is about creating an identity for a product, service, or entity (company or individual), public relations' contribution to branding is *about making that identity friendly and likable for the public*--specifically, the public for which the message is intended.

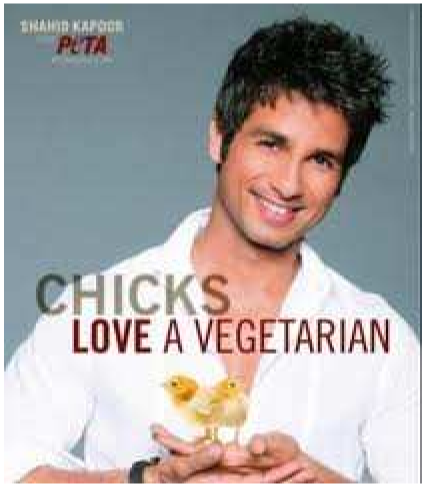
Promotions – Publicity & Public Relations (Contd.)

Edward Louis Bernays, often described as the *father of public relations*, in the early 1900s defined public relations as "a management function which tabulates public attitudes, defines the policies, procedures, and interests of an organization... followed by executing a program of action to earn public understanding and acceptance.“

“Public relations is a strategic communication process that builds mutually beneficial relationships between organizations and their publics” - ***Public Relations Society of America (PRSA)***

Building and managing relationships with those who influence an organization or individual’s important audiences has a central role in doing public relations.

PR is about message and their delivery



PR Campaigns from PETA
(People for Ethical Treatment of Animals)

Selecting a Promotional Mix - Guidelines

General guidelines for selecting appropriate promotional mix can be stated as a series of four rules.

1) The decision **whether to spend promotional monies on advertising or personal selling**. Once this decision is made, the marketer needs to determine the level of sales promotion and public relations efforts.
2) A second consideration is the **market served** by the good or service. For instance, a drill press is sold to the industrial market, so the manufacturer's strategy must emphasize the sales force. By contrast, California Raisins are sold to consumers; an effective advertising campaign is important to consumer products like raisins.
3) The third rule deals with the **value of the product**. Most companies cannot afford to emphasize personal selling in marketing a low-priced item and instead choose advertising for the promotional strategy of goods like toothpaste, cosmetics, soft drinks, and candy. Higher-priced items in both industrial and consumer markets rely more on personal selling. Examples include time-share vacation condominiums and Boeing aircraft.
4) Finally, the marketer needs to consider the **time frame involved**. Advertising is usually used to precondition a person for a sales presentation. An effective and consistent advertising theme may favorably influence individuals when they are approached by a salesclerk in a store. But except for self-service situations, a salesperson is typically involved in completing the actual transaction. Advertising is often used again after the sale to assure consumers of the correctness of their selection and to precondition them for repeat purchases.

Alternative Promotional Strategies

The selection of a promotional mix is directly related to the promotional strategy the firm will employ. The marketer has two alternative strategies available to meet these goals: pushing strategy or pulling strategy. The primary difference between push and pull marketing lies in how consumers are approached. In either case, the ultimate goal is to give the end customer the best value.

1) Pushing strategy - Sales-oriented promotional strategy designed to motivate marketing intermediaries to push the good or service to their customers. The marketing intermediaries are usually offered special discounts, promotional materials, and *cooperative advertising*** allowances. All these strategies are designed to motivate wholesalers and retailers to 'push' the product or service to their customers. ***Examples**: Fragrance lines at department stores, showroom sales by car dealers, representative doling out free samples of a new food product in a supermarket etc. Product placement (high visibility on shelves or placement of products near check-out counters) is another push technique.*

***** Cooperative advertising*** - Sharing of local advertising costs between the manufacturer and the marketing intermediary.

Department stores use push promotional tactics by giving away samples of new products

Alternative Promotional Strategies (Contd.)

2) **Pulling strategy** - Promotional strategy utilizing advertising and sales promotion appeals to generate consumer demand for a good or service. The marketer hopes that strong consumer demand will 'pull' the product or service through the marketing channel by forcing marketing intermediaries to carry it. Common sales tactics used for pull marketing include mass media promotions, word-of-mouth referrals and advertised sales promotions. Small start-up companies may even use flyers, placed on car windshields or attached to walls and telephone poles, to attract new customers in a relatively small geographic area.

***Example**: Marketing of children's toys*

Children's toys are often marketed using a strong pull promotional strategy

Ad employing a very targeted pull strategy - It speaks directly to athletic individuals who like to bike, reminding them that the iPod Shuffle is a great device to exercise with.

Alternative Promotional Strategies (Contd.)

Pulling Strategy (Contd.)

- **High advertising spending -** Advertisers using a pull marketing strategy must invest money on advertising and consumer promotion.

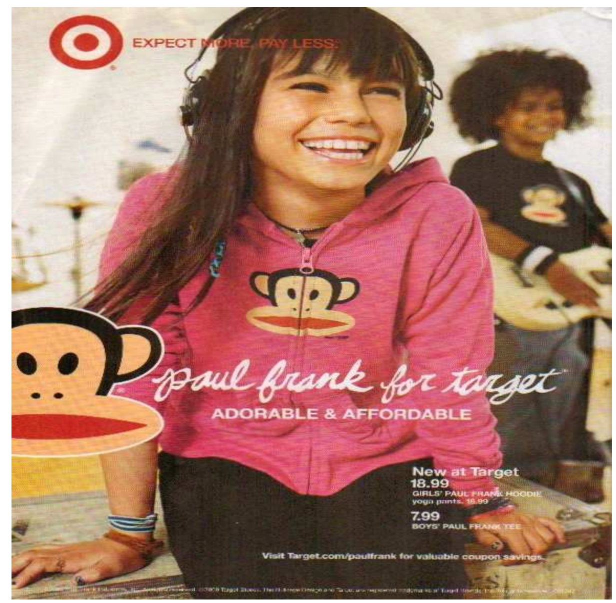
- **From consumer to wholesaler to producer -** A pull marketing strategy generates demand among consumers, who then demand the product from retailers, who in turn make demands from wholesalers, who then attain the products from the producers. A good example of this is the toy industry, which creates high demand during the holidays by advertising certain products that consumers then request from local retailers. Demand is created through advertising designed to use high-impact media, such as television, with creative, costly techniques to ensure that the message is delivered.
- **Enticing consumers -** The creation of effective and compelling advertising messages in critical for organizations using a pull marketing strategy to sell their products.
- **New products -** New products in particular can benefit from a pull marketing strategy.
- **Social media -** In addition to traditional advertising methods used with a pull marketing strategy, social media is becoming a popular and very cost-effective method to raise awareness and contribute to demand, quickly and inexpensively. An effective social-networking campaign can reach hundreds of thousands of potential consumers.

Alternative Promotional Strategies (Contd.)

Most marketing situations require the use of both strategies, although the emphasis can vary. From a business perspective, ***pull marketing attempts to create brand loyalty and keep customers coming back, whereas push marketing is more concerned with short-term sales***. Consumer products are often heavily dependent on a pulling strategy, while most industrial products are sold through a pushing strategy.

Push promotional strategies work well for lower cost items, or items where customers may make a decision on the spot. New businesses use push strategies to develop retail markets for their products and to generate exposure. Once a product is already in stores, a pull strategy creates additional demand for the product. Pull strategies work well with highly visible brands, or where there is good brand awareness. This is usually developed through advertising.

Retailers and manufacturers sometimes cooperate in ***joint advertising campaigns***, utilizing both push and pull strategies. A manufacturer may push a new product, for example, along with a retailer by both agreeing to pay for TV and print ads promoting the new product as "available at Retailer X now."



Joint advertising - Kids brand Paul Frank @ Target store

Ethics in promotion

Ethics are **moral guidelines** which govern good behavior. So behaving ethically is doing what is morally right. Behaving ethically in business is widely regarded as **good business practice**. An important distinction to remember is that behaving ethically is not quite the same thing as behaving lawfully:

- Ethics are about what is right and what is wrong
- Law is about what is lawful and what is unlawful

An ethical decision is one that is both legal and meets the shared ethical standards of the community.

Here are some ***examples of potential ethical issues in marketing***:

- ***Market research -*** Invasion of privacy (e.g. obtaining research data without permission), Stereotyping – drawing unfair or inappropriate conclusions
- ***Target customers and market -*** Targeting the vulnerable (e.g. children, the elderly), Excluding potential customers from the market (e.g. discouraging demand from undesirable market sectors or simply refusing to sell to certain customers)
- **Pricing -** Price fixing, Price wars, Price collusion (agreeing with other competitors to set prices in a market to the detriment of competition and consumers)
- ***Advertising and promotion -*** Issues over truth and honesty, issues with violence, sex and profanity, negative advertising etc.

Advertising (promotion) is another marketing activity that is regulated in order to deter unethical practice. Regulating agencies ensure that ads are legal, decent, honest and truthful by applying the advertising codes.

6

Marketing Mix – Place

(Location, Distribution, Channel)

Marketing Mix - Place

Place: The *place* is where the target market customer receives the product, service or program. The place of delivery, including all of its resources, is part of what the consumer buys. A place that meets his or her needs better may be worth more. In setting its strategy, the organization must determine how much the target market is willing to pay for atmosphere and physical resources of place.

- ***Place, distribution, location, channel or accessibility*** - where the transaction takes place
- Place decisions also involve making products available when customers want them
- Place – all aspects of getting products to the consumer in the ***right location at the right time***

Frank Winfield Woolworth, founder of F.W. Woolworth Company (now **Foot Locker**), an operator of discount stores that priced merchandise at five and ten cents

"I am the world's worst salesman, therefore I must make it easy for people to buy"

Marketing Mix – Place (Contd.)

Place refers to the means by which the customer acquires a product. This includes the actual place it is purchased (the shop, the telephone, the web page, the warehouse) as well as the ***actual route of distribution***.

A ***channel of distribution*** comprises a set of institutions which perform all of the activities utilized to move a product and its title from production to consumption

- Bucklin - Theory of Distribution Channel Structure (1966)

It refers to the series of firms or persons between the producer of the product and the final user or consumer.

Place also includes ***logistics***. Logistics historically were largely about the physical distribution of goods from manufacturer to consumer by road and rail, sea and air.

Distribution has a huge affect on the profitability of a product. Consider a *FMCG*** company which has national distribution for its product. An increase in gasoline rates by $10 will in fact bring about drastic changes in the profitability of the company. Thus supply chain and logistics decisions are considered as very important costing decisions of the firm. The firm needs to have a full proof *logistics and supply chain plan* for its distribution.

*****FMCG – Fast Moving Consumer Goods*** are products that are sold quickly and at relatively low cost. Examples: Non-durable goods such as soft drinks, toiletries, and grocery items.

Place – Channel Decisions

There are six basic 'channel' decisions:

1. Does the firm use ***direct or indirect channels***? (e.g. 'direct' to a consumer, 'indirect' via a wholesaler)
2. Single or multiple channels
3. Cumulative length of the multiple channels
4. Types of intermediary
5. Number of intermediaries at each level (e.g. How many retailers in southern US?)
6. Which companies as intermediaries to avoid 'intrachannel conflict' (i.e. infighting between local distributors)

Selection Consideration - how do firms decide upon a distributor?

- Market segment - the distributor must be familiar with the firm's target consumer and segment
- Changes during the Product Life Cycle - different channels can be exploited at different points in the PLC e.g. Foldaway scooters are now available everywhere. Once they were sold via a few specific stores
- Producer/distributor fit - Is there a match between their polices, strategies, image, and the firms'? Look for 'synergy'
- Qualification assessment - establish the experience and track record of the firm's intermediary
- How much training and support will the firm's distributor require?

Place – Distribution Methods & Strategies

Two types of channel of distribution methods are available:

- **Direct distribution** involves distributing direct from a manufacturer to the consumer For example Dell Computers providing directly to its target customers. The advantage of direct distribution is that it gives a manufacturer complete control over their product.
- **Indirect distribution** involves distributing the company's product by the use of an intermediary for example a manufacturer selling to a wholesaler and then on to the retailer.

Distribution Strategies - Depending on the type of product being distributed there are three common distribution strategies available:

- ***Intensive distribution***: Used commonly to distribute low priced or impulse purchase products. Example: chocolates, soft drinks.
- ***Exclusive distribution:*** Involves limiting distribution to a single outlet. The product is usually highly priced, and requires the intermediary to place much detail in its sell. An example of would be the sale of vehicles through exclusive dealers.
- ***Selective Distribution:*** A small number of retail outlets are chosen to distribute the product. Selective distribution is common with products such as computers, televisions household appliances, where consumers are willing to shop around and where manufacturers want a large geographical spread.

If a manufacturer decides to adopt an exclusive or selective strategy they should select a intermediary which has experience of handling similar products, credible and is known by the target audience.

Place – Types of Channel Intermediaries

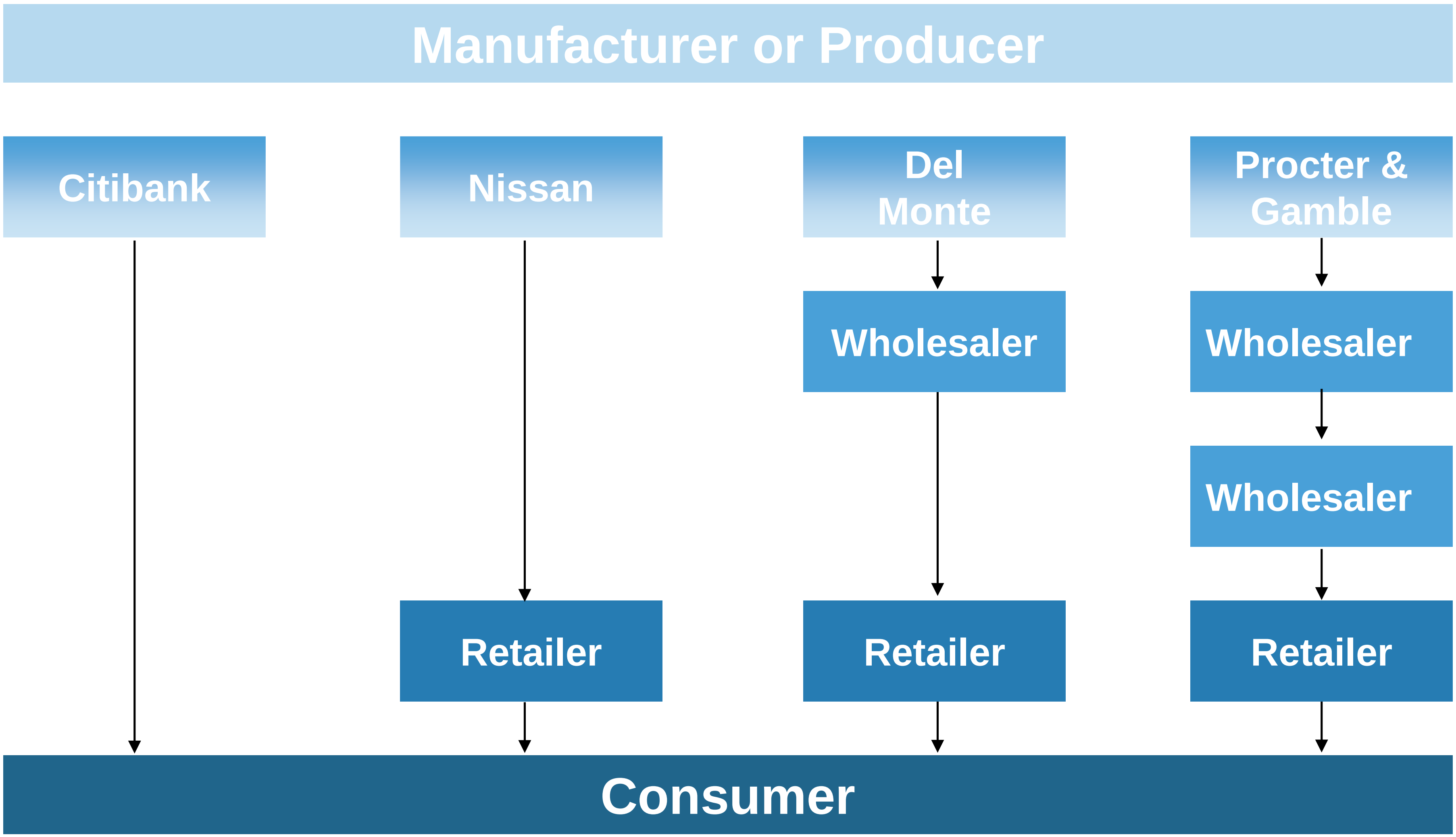
- **Wholesalers –** Wholesalers break down 'bulk' into smaller packages for resale by a retailer. They buy from producers and resell to retailers. They provide storage facilities. A wholesaler will often take on some of the marketing responsibilities.
- **Agents -** Agents are mainly used in international markets. An agent will typically secure an order for a producer and will take a commission. They do not tend to take title to the goods. This means that capital is not tied up in goods. However, a '***stockist agent***' will hold consignment stock (i.e. will store the stock, but the title will remain with the producer. This approach is used where goods need to get into a market soon after the order is placed e.g. foodstuffs).
- **Retailers -** Retailers will have a much stronger personal relationship with the consumer. The retailer will hold several other brands and products. Products and services are promoted and merchandised by the retailer. The retailer will give the final selling price to the product. Retailers often have a strong 'brand' themselves e.g. Ross and Walmart in the USA.
- **Internet -** The internet offers a new ‘place’ to many business sectors. It has enabled many middlemen to be bypassed resulting in a price advantage to be offered to the customer followed by the inevitable increase in volume for the seller. The Internet has a geographically dispersed market. The main benefit of the Internet is that niche products reach a wider audience. There are low barriers to entry as set up costs are relatively small.

Place – Types of Channel Intermediaries (Contd.)

- **Licensing and franchising** – Some businesses are hothouses of ideas and innovation but they may lack expertise in terms of business and finance. In these situations licensing or franchising are an ideal option.
  - **Licensing** is essentially a contract which allows another business to manufacture or provide a service which conforms to the company's license. Licensing is useful if the business wishes to quickly move into foreign countries, if manufacturing in a local market is too expensive then manufacturing could be undertaken overseas under license, if shipping costs are too expensive or perhaps a market overseas would prefer a locally branded item. In return the licensee will get fees, will be able to penetrate a wide range of overseas markets, generally can control quality and production levels, and ultimately will be able to introduce new models as they arise.
  - **Franchising** is similar to licensing but tends to be used where there is a brand name or a particular format that a company owns. There are lots of familiar examples of franchising including KFC and many familiar high street and mall names - marketing everything from hamburgers to jewelry.

KFC Franchise at Kathmandu

Basic Channels of Distribution for Consumer Products - Examples



Place – Retail Store Location

Selecting a Retail Location

Identify the most attractive markets in which to operate

↓

Identify the most attractive sites that are available within each market

↓

Select the best site(s) available

Store/Non-Store Based Retailers

- **Store based Retailers**

  Fixed store location that requires customers to ***travel*** to the store to view and select merchandise or service.

- **Non-store based Retailers**

  Intercept customers at home, at work or at a place other than a store where they might be susceptible to purchasing.

Macy's Store at a Shopping Mall

LANDS' END (Clothing) Catalog

Place – Retail Formats

- **Retail Formats**
  - **Store Based**
    - Free Standing
    - Business District
    - Non Traditional
    - Shopping Centers/Mall
  - **Non-Store Based**
    - Direct Selling
    - Street Peddling
    - Interactive TV
    - Mail-Order
    - Internet
    - Automated Merchandising Systems

7

Marketing Mix - Examples

Marketing Mix (4P) – Tropicana *Light 'n Healthy*

Marketing Mix & Strategy – Starbucks

*An independent view of Starbucks'** Marketing Mix:*

The brand **Starbucks'** marketing mix is evaluated with very good outcome. The consistency of the product goes well with it's price for very good products, the place (location) are known as being very relaxing for customers regardless if the freeway is next door. The atmosphere is so calming for customers. The price, product, place and promotion show consistency in their reputation of being a clean and up scale coffee shop.

It does a very good in serving the needs of its customers. The audiences consist of children (at times), students, adult, and seniors.

A change to the product line is maybe adding test trials of new flavors or upcoming new flavors to see the sale reaction from customers. New pastries or cookies are a great way to accommodate children while in line trying to order.

Market Strategy: Some of the methods Starbucks has used to expand and maintain Starbucks' dominant market position, including buying out competitors' leases, intentionally operating at a loss, and clustering several locations in a small geographical area (i.e., saturating the market).

Starbucks Marketing Mix

**** Starbucks Corp. is an international coffee company and coffeehouse chain based in Seattle, Washington. It is the largest coffee company in the world.**

8

Additional References

Additional References

- Marketing Acronyms and Terms
  http://www.johnmossmarketing.com/marketing-terms.html
- Marketing and the 7Ps – A brief summary of Marketing and how it works
  http://www.cim.co.uk/filestore/resources/10minguides/7ps.pdf
- Engaging consumers through word of mouth marketing - A Red Bull case study http://businesscasestudies.co.uk/red-bull/engaging-consumers-through-word-of-mouth-marketing/

Thank You

UST Global®