# **MGT 8803 MARKETING MODULE**

# **Week 13 TRANSCRIPTS**

## Place Development, Distribution & Channel Systems

>> Welcome to the lesson dedicated to place development within the four Ps of the marketing mix. Within this lesson, I'll focus on the following four objectives. Discuss place objectives, evaluate channel systems, discuss physical distribution and logistics, and evaluate retailer and wholesaler considerations. Place is the part of the marketing mix that deals with making goods and services available in the right quantities and locations when customers want them.

This entails channels of distribution, which is any series of firms or individuals participating in the flow of products from producer to final user or customer. Among the key strategy decision areas in distribution are, the organization must develop specific objectives for place. There must be a choice of the type of channels, such as direct to customer or indirect involving intermediaries.

If the chosen channel is indirect, the marketer must determine the degree of market exposure desired. In addition, the marketer must decide on the types of intermediaries needed, how many of them are needed, and how to manage them. The type of channel is also related to the level of customer service required by the target customer.

And finally, physical distribution activities must be developed and managed in order to achieve the distribution objectives. Customers may have different needs with respect to time, place, and possession as they make different purchases. Product classes inform place objectives. Different levels of customer urgency, convenience, and product information needs naturally suggest different place needs.

Product decisions have long run effects, and are usually harder to change than those made for the other components of the marketing mix. In part, this is because other firms in the channel of distribution may carry out much of the place strategy. Gaining access to desired retail space or outlets typically involves a great deal of time and then is bound by contractual arrangements.

The place system may also be very complex. More than one place arrangement may be appropriate or needed to reach different target markets effectively. Marketing channels can be direct or indirect. Direct contact with customers helps a company keep abreast of market changes. Often, this is preferred way of handling place decisions.

However, some products require the work of specialists to match producer output to user needs. There's some distinct reasons why a firm might want to use direct distribution. One reason is to get better control over the whole marketing job. They might be able to serve target customers at a lower cost.

Also, wholesalers and retailers with different objectives may not consistently meet the firm's needs. The Internet makes direct distribution easier for many firms. A firm having direct contact with customers is more aware of changes in customer attitudes. Making adjustments is often easier and faster because intermediaries are not involved.

And sometimes suitable intermediaries are not available or will not cooperate, so it may be a necessity. Many business products are sold direct to customer. For example, we see robotic solutions featured in this ad for Fanuc Robotics that are sold direct. In business markets, there are relatively fewer transactions, orders tend to be larger, and customers tend to be concentrated in geographic areas.

Once relationships are established, e-commerce systems can handle routine replenishment. Service firms also frequently use direct channels. However, some producers use intermediaries to provide post-sale services. Even in modern times, some industries are still figuring out ways to transition from indirect channels to direct channels. For example, I had a recent consulting experience with a company that provides supplies to agricultural customers.

A huge distribution network has been established over decades to support these customers. But the manufacturer knows they can provide better services and at a lower price if they are able to disintermediate the distributors that currently sell direct to the customer. The short-term challenge is not upsetting the existing distributor network, such that the manufacturing firm suffers losses as they transition to a direct channel model.

Even if a producer would like to handle the whole distribution job, sometimes it is simply not feasible. For example, as illustrated by this ad for Celestial Seasonings organic tea, consumers may be spread over a wide area and prefer to shop at a specific place. Some consumers see department or retail stores as the place to shop for consumer products, and they will buy only those brands carried by their favorite store.

Convenience and established buying behaviors are a major reason why so many consumer product producers rely on indirect channels. The assortment and quantity of products consumers desire may be different than the assortment and quantity of products offered by producers. Considerable distances may separate producers and consumers, and customers may not be adequately informed about product choices.

Channel specialists have evolved to deal with these market separations and discrepancies. Intermediaries may supply needed information to consumers and bring buyers together with sellers. Intermediaries can take advantage of their understanding of customers to predict consumer needs and develop accurate demand forecasts. This information can reduce channel costs, smooth out production runs, and permit easier access to international markets.

As I mentioned, intermediaries can help to rectify discrepancies of quantity and assortment. Discrepancy of quantity is the difference between the quantity of products that is economical for a producer to make and the quantity that consumers or users really want. Regrouping activities are activities that adjust discrepancies in quantity or assortment.

Channel specialists adjust quantity discrepancies by accumulating and bulk-breaking. Accumulating is collecting products from many small producers. And bulk-breaking is dividing larger quantities into smaller quantities. Several levels of the channel may be involved in this process. Wholesalers and retailers adjust assortment discrepancies by sorting and assorting. Sorting is separating products into the grades and qualities desired by consumers.

And assorting is putting together a variety of products to give a target market what it wants in a single experience. Even without a physical form, distribution remains an important marketing strategy decision for firms with digital products. it is important for marketers to watch for changes needed in assortments and quantities as consumer needs change or as the marketing environment shifts.

Ideal market exposure makes a product available widely enough to satisfy target customers' needs but not exceed them. Too much exposure increases marketing costs, and such inefficiency is detrimental to both the firm and the customers who ultimately pay more for products. There are three primary market exposure strategies. Intensive distribution entails selling the product through all responsible and suitable wholesalers and retailers who will stock and/or sell the product.

Intensive distribution means sell it where they buy it. This exposure is particularly appropriate for convenience products, because consumers do not want to spend a lot of effort to find them. Selective distribution is selling only through those intermediaries who will give the product special attention. Selective distribution means sell it where it sells best, this exposure is typically associated with shopping products.

Selective distribution can reduce costs and obtain better partners. It also usually receives special effort from channel members. Selective distribution often moves to intensive as market demand grows. Exclusive distribution means selling through only one intermediary in a particular geographic area. Exclusive distribution sometimes makes sense, especially when dealing with specialty products.

Here we consider some quick example of products that might be a good fit for these different types of channel system strategies. A highly recognized and sought out beer brand is likely to follow the intensive channel system to maximize availability for consumers. A high end oven and range manufacturer is likely a better fit for a selective channel system to ensure the supply chain aligns with demand based upon a demographic variable such as income.

As well as ensuring the distribution network is sufficiently trained to effectively sell a high end product. A luxury sports car manufacturer might use an exclusive channel system to maintain a super elite brand image, while also ensuring specialization in the sales process. Channels of distribution can involve a complex set of relationships among many organizations.

This exhibit shows an example of a channel arrangement for a publisher of computer related technology books. Books pass first to the wholesale level, either to general book wholesalers or wholesalers of computer accessories and supplies. The general book wholesaler resales to online retailers or to other independent bookstores. The computer supplies wholesaler distributes to electronic superstores or large bookstore chains.

There may also be some direct sales from the publisher's website to provide adequate coverage to the full market. Multichannel distribution occurs when a producer uses several competing channels to reach the same target market. Ethical decisions may also be relevant to deal fairly with all channel members across all channel modalities.

This concludes the first part of this lesson outlining what place is within the marketing mix as well as channel system considerations. In the next section I'll talk more about physical distribution and customer service, see you soon.

# **Physical Distribution and Customer Service**

>> Welcome to the section dedicated to physical distribution and customer service. There are many different combinations of logistics decisions. Each combination can result in a different level of distribution service and different costs. In this section, we begin by discussing the best way to provide the level of distribution service that customers want and are willing to pay for.

Next, the choice among different modes of transportation, each with its own costs and benefits is reviewed. And finally in this section, we will investigate decisions about inventory and the use of distribution centers. The physical distribution concept dictates that all transporting, storing and product handling activities of a business and the whole channel system should be coordinated as one system that seeks to minimize the cost of distribution for a given customer service level.

Unfortunately too many firms still treat physical distribution activities as separate and unrelated. The first thing organizations must do in implementing the physical distribution concept is to decide what service level to offer. Marketing research can help to determine the appropriate service level. And it typically takes into account the various factors shown here.

Order processing, inventory management, shipping, storage, and returns are all key factors affecting the service level. Marketers must then find the lowest total cost for the right service level to be obtained. A total cost approach includes evaluating each possible physical distribution system and identifying the total cost of each alternative system.

We'll look at this further in just a moment. In physical distribution, there are always trade offs among costs, the customer service level and sales. Because physical distribution costs can be substantial for various levels of service, marketers must determine what level of services possible and appropriate for each target market.

For example, a retailer might reason that providing faster transportation than consumers demand will maximize customer service and reduce lost sales. This diagram illustrates the important trade off between customer service and cost. Providing additional levels of customer service such as more inventory to prevent stock outs or faster transportation eventually increases the total cost of physical distribution.

Notice that the curve of lost sales goes down as customer service increases, but only to a certain degree. At certain points, providing too much customer service can actually detract from the overall marketing effort because it can increase cost. And possibly price the product out of the reach of consumers in the target market.

This type of analysis certainly falls within the domain of data analytics, as it entails various data points to make smarter overall decisions. The transporting function must fit the whole marketing strategy. There really is no such thing as a single best transportation alternative that applies to every case. As shown in this exhibit, all of the transportation modes have advantages and disadvantages.

Therefore, the marketer must choose an appropriate mode, taking into account the product, other physical distribution decisions and the level of customer service required. In the US, railroads carry more freight over more miles than any other mode of transportation. Railroads can move large loads at low costs. Railcar shipping is slow and limited to where track is laid.

But is ideal for many bulk and non-perishable goods. Trucks are more expensive, but flexible and essential. Approximately 75% of US consumer products travel at least part of the way by truck. In countries with good road systems, trucks are also a fast transportation alternative. Each transportation mode offers some advantage.

The red rings highlight the best alternative for each transporting feature. This is an example of a comparison of alternative physical distribution systems for Good Earth Vegetable Company. The system on the left features high speed shipping by air, while the system on the right uses a combination of rail shipment and warehouse storage.

Note that even though the system on the left has higher transportation cost because air freight is typically more expensive than rail, the overall cost of the system is lower. In the system on the right, higher cost of inventory, packing and damage offset the cost advantages of rail shipment.

Thus, marketers and analytics team members need to sort through all of the potential implications for choosing a transport modality when making a decision. Lastly for this section, I wanna address the storing function. Storing is the marketing function of holding goods so they're available when they're needed. Inventory refers to the amount of goods being stored.

Storing is necessary when production does not evenly match consumption. And it can increase the value of goods by making them more available when customers want them. Thus storing can smooth out sales, increase profits and enhance customer satisfaction. Storing can also help balance supply and demand to keep prices from sudden rises or falls.

Storing allows producers to manufacture larger quantities of a product and to take advantage of economies of scale in production. Storing allows producers and intermediaries to keep stocks at convenient locations ready to meet customers' needs. Therefore, marketers have more ways to vary the firm's marketing mix to better meet consumer demand.

This concludes this section on physical distribution and customer service. In the next section I'll talk about retailer and wholesaler considerations for marketers. See you soon.

# **Retailer and Wholesaler Considerations**

>> Welcome to the final section of this module covering the implications of retailer and wholesaler decisions within the marketing process. This section also provides an overview of the decisions that retailers and wholesalers make in developing their own strategies. We'll discuss retailers and wholesalers in three primary areas, strategy planning for retailers, the nature of retailing, and strategy planning for different types of wholesalers.

Different consumers prefer different kinds of retailers. A retailers should carefully identify possible target markets and try to understand why these people want to buy where they do. That helps the retailer fine tune its marketing mix to the needs of specific target markets. Features of a retailer's offering that relate to economic needs include product selection, most customers want a choice of assortment brands and quality.

Place decisions which includes determining where stores will be located, online and or brick and mortar. The number of stores, as well as store layout and design, promotion, knowledgeable salespeople, displays, demonstrations and product information can be principal reasons for choosing a particular retailer. And prices, customers use price to weigh the value offered.

Price can be varied by the use of credit terms and special discounts. Features of a retailer's often that relate to social or emotional needs include social image. Some customers seek status, prestige, or a feeling of fitting in when choosing a shopping experience. The shopping atmosphere is also a consideration, so think about elements such as comfort, safety, excitement, relaxation, sounds and smells.

Retail strategy requires carefully set policies about all of these needs because each of them can be a source of competitive advantage. Consumer needs also relate to segmentation and positioning because different retailers emphasize different strategies. It is too simplistic to characterize retailers on the basis of a single dimension.

Developing and understanding of retail strategy begins with considering basic types of retailers and how they differ along a variety of dimensions. This exhibit displays several types of retailers. Single line or limited lines stores specialized by product area and offer a wide assortment in that area. Currently, most stores in the United States fall into this category.

However, single line and limited line stores have to stock some slow moving items in order to satisfy the stores target market by providing that wide array of assortment. Specialty shops are a type of conventional limited line store it is usually small and has a distinct personality or shopping environment.

Specialty shops usually sell shopping products and focus on a narrow target market with better service, knowledgeable salespeople and a unique assortment this combination generally supports higher prices for products. Department stores or larger stores that are organized into many separate departments and offer many product lines. Department stores combine many limited line stores and specialty shops into a single location.

In recent years the number of department stores their average sales per store and their share of total retail sales are all declining. Supermarkets are large stores specializing in groceries with self-service and wide assortments, survival is based on efficiency, meaning high volume and low costs. Discount houses started by offering wide assortment of name brand goods at 20 to 30% off the list price.

Discounters had lower costs, low rent, less convenient locations and less service and this upset some conventional retailers. Mass merchandisers are more than discounters. They are large, self-service stores with many departments that emphasize soft goods and staples with low prices and lower margins to obtain faster turnover. Mass merchandisers have also led the way in streamlining distribution with technology, they are now trying to be more convenient as well.

Some supermarkets and mass merchandisers have moved toward becoming supercenters or hypermarkets. They are very large stores that carry groceries and meet all routine needs for goods and services. Convenient stores carry limited assortment of fast moving items and are located conveniently near people's homes. Goods typically cost 10 to 20% more than at supermarkets.

Convenience stores must have the right assortment in order to succeed because they have such a limited amount of space. The items carried must move quickly enough to contribute to profitability. Automatic vending is selling and delivering products through vending machines. They are convenient and the business has grown but it's still only accounts for about 1.5% of all US retail sales.

Finally, a number of different online retailers will offer expanded assortment, reduce margins and more information to consumers. Internet retailing is still in the growth stage. E-commerce represented 14.3% of total US retail sales in 2018. Amazon alone accounts for 40% of US online retail. With no storefront and limited sales help online retailers usually have lower operating costs than brick and mortar stores.

Customers may not have to pay sales taxes either. Many legacy brick and mortar stores have added online capabilities. This multi-channel approach, physical store plus website, offers customers some of the best of both worlds. One recent push we observed is the ability for in store pickup of online orders.

A consumer can have an unlimited assortment on the Internet, however, the consumer is limited by other elements of the product such as shipping delays and shipping cost or the inability to touch the product in real-time. Consumers may go to a brick and mortar store inspect a product and then purchase it from an online retailer that has a lower price.

This is known as showrooming and has been a huge problem for some companies. Online retailers have access to extensive consumer behavior data. Cookies and other data tracking techniques allow online retailers to track behavior at other sites and even glean information from social sites such as Facebook. This exhibit positions different types of retailers in terms of three consumer-oriented dimensions the width of assortment desired, the depth of assortment desired and a price service combination.

Price and service combine to form one dimension because they are often related, more service usually means higher prices and vice versa. This exhibit helps explain why some retailers exist. For example, vending machines appeal to consumers who care little about depth or width of assortment and place a higher emphasis on convenience than they do on price.

However, people who do business with specialty shops place a greater emphasis on service and assortment depth than on assortment width. In order to understand the differences among types of wholesalers in terms of their number, their sales, and their costs it's essential to develop a clear picture of what wholesalers do.

It's useful to start by determining whether the wholesaler takes ownership of products it handles and how many wholesaling functions the wholesaler performs. Independent wholesalers are classified first based on whether or not they own the products they resell if they do, they are merchant wholesalers. There are many types of merchant wholesalers.

Service merchant wholesalers provide all of the wholesaling functions whereas a limited-function merchant wholesalers provide only some wholesaling functions. Merchant wholesalers are the most numerous type of wholesale establishments. And also if the wholesaler does not own the products it sells, it is an agent wholesaler. I won't dive deeper into each of these wholesaler types at this time but I'm happy to do so via office hours or by email.

At this stage I simply want for you to be aware that a lot of specialization also occurs in the realm of wholesaling. This wraps up the module dedicated to place development, channel systems, and retailer and wholesaler considerations. In the next lesson we will look more closely at the pricing component of the marketing mix.

See you soon.

# **Pricing: Objectives & Policies**

>> Welcome to the lesson on pricing within a marketing mix. We'll begin by talking about pricing objectives and policies, and then move into price setting. Within this lesson, I'll focus on the following four objectives. Discuss price dimensions, evaluate pricing objectives and policies, evaluate price setting models, and discuss demand estimation.

This section will help you better understand pricing objectives and policies that influence how firms make pricing decisions. Price is one of the four major variables and marketing manager controls. Price is what a customer must give up to receive the benefits offered by the rest of the firm's marketing mix.

So it plays a direct role in shaping customer value. Price level decisions are especially important because they affect both the number of sales that firm makes, as well as how much revenue it earns. This lesson will discuss price in the following categories, pricing objectives and pricing policies and price setting.

Guided by the company's business goals, marketing managers must develop a set of pricing objectives and policies. The pricing objectives and policies should specify several things including how flexible prices will be for the products and services offered by the organization, at what level prices will be set over the product life cycle, to whom and when discounts and allowances will be given, and how transportation costs will be handled.

Prices reflect many dimensions, which in turn impact customer value and buyer behavior. I'll discuss these dimensions in more detail throughout this module. Company level and marketing objectives provide the guidance for setting pricing objectives. Pricing objectives should be explicitly stated because of their effect on the pricing policies adopted by the company.

These policies also affect other aspects of the marketing mix, as marketing managers use strategy planning to support the information, communicate it to consumers through the product's price. A common pricing objective perceived by organizations is a profit-oriented approach. Two types of profit-oriented objectives are typical. A target return objective sets specific guidelines for a level of profit.

Prices may be linked to a percentage of sales or return on investment. Some companies just want satisfactory profits that ensure the firm's survival and provide adequate returns to shareholders. Companies that are industry leaders as well as public service companies often pursue satisfactory profits because of the public scrutiny they receive.

A profit maximization objective occurs when the firm sets prices to realize as much profit as possible. This objective may be used to recoup high investment cost or it may be simply a matter of company policy. Profit maximization can be socially responsible as it does not always lead to high prices.

Prices that are initially high during market introduction can go down in the later stages of the product life cycle that's expanding sales and profits. With sales-oriented objectives, pricing supports the objective of increasing sales without high regard to their effects on profit. One approach to sales-oriented objective is to focus on overall dollar revenue or unit sales growth within a product or service category.

Another approach for a sales-oriented pricing objective is to focus on growth in market share. Oftentimes, the choice between these two approaches is made based upon ease of measurement. As I'm sure you're thinking, the two areas of focus are not mutually exclusive. An increase in unit sales growth that outpaces market growth will translate to greater market share.

Keep in mind sales growth doesn't necessarily translate to big profits, because of potential changes from competitors or marketers may incur significant costs associated with delivering those sales. Coupled with the long run view of the overall market growth rate and attention to cost, this approach can lead to long term competitive advantages in the form of greater market share and/or increase lifetime value from customers.

For firms content with the way things are, two status quo objectives are often used. They might be termed don't rock the pricing boat objectives. With nonprice competition, aggressive action is taken in the other three areas of the four Ps. Staying clear of price is a competitive battle ground.

Many specialty goods compete using nonprice competition aimed at the consumer who is seeking advantages other than price, such as a prestige image or high quality. Meeting competition stabilizes market prices because no firm benefits from raising or lowering prices. This objective is often use when the total market for a product is not growing.

A key decision when establishing pricing policies relates to price flexibility. A one price policy is simply the same price for everyone. It is common with frequently purchased inexpensive items. It can be more convenient, entail lower transaction costs, and maintain goodwill with customers. A flexible price policy provides the opportunity to offer different prices for different customers.

When appropriate to use this approach, having pricing databases makes flexible pricing easier, less costly, and less time-consuming, because they contain information about different customers. Salespeople can also adjust prices to take into account the competition, the firm's relationship with the customer and the customers bargaining ability. However, too much price cutting may erode profits.

A flexible price policy may prompt resentment by customers who do not get the lowest price. And channel conflict may also result or an unauthorized gray channel may evolve if customers buying large quantities, say to get a price break, and then resell what they don't need. Two of the major price level policies are price skimming and price penetration.

A skimming price policy feels out demand at a high price before aiming at more price sensitive customers over time. Skimming may maximize profits in market introduction if there are a few substitutes or if customers are not price sensitive. Skimming has critics, however, who charge that this policy should not be used for products such as prescription drugs that have important social consequences.

On the other hand, the profit generated from this strategy can provide a firm with an incentive to pursue other breakthrough opportunities such as investing in research and development. When well executed, price moves down the demand curve when each price link segment is nearly exhausted. The new price and new features should attract a new target market and help maximize profits over the course of the product's lifecycle.

A penetration pricing policy tries to maximize volume at a specific price. A penetration policy typically aims at setting a price low enough to discourage competition. If successful, large volume may help producers lower cost further leading to still lower prices Pricing often starts with a basic list price, which is the price final consumers or users are normally asked to pay for products.

Discounts are reductions from list price given to a buyer, typically in exchange for specific buyer actions or to manage inventory. Quantity discounts encourage volume buying, so the customer pays less per unit. Seasonal discounts are typically used to encourage buyers to buy sooner. Manufacturers also use this policy to help shift the storing function down the channel and to stabilize demand.

Cash discounts are reductions in the net. Which is the face value of the invoice due, to encourage buyers to pay quickly. An example would be 2/10 net 30. So 2% off the price if the invoice is paid in 10 days, with the net due within 30 days. And an additional interest charge after 30 days.

Trade discounts or reductions in list price given to channel members that perform one or more marketing functions for the producer. This might include signage, sales promotions, sorting and regrouping activities, performing storing functions, etc. Sale prices reduce list prices temporarily to encourage immediate buying. They can however condition buyers and sellers to shop for sales and may erode brand loyalty.

There are additional aspects of pricing that the marketer must consider, such as legal requirements and price discrimination. But I consider these elements to be beyond the scope of this course. I mentioned them simply to acknowledge the price element of the marketing mix can be highly complex. In the next section and second half of this lesson, I'll talk more about price setting.

See you soon.

# **Pricing: Price Setting**

>> Welcome to the lesson on price setting. The previous lesson focused on how pricing objectives and policies should guide pricing decisions. This lesson focuses on how the list prices is set in the first place. There are two basic approaches to setting list prices. Cost oriented, which is the most common approach, and demand oriented, which takes into account consumer demand and making pricing decisions.

The lesson concludes by discussing other price setting issues such as bid pricing and negotiated pricing. A markup is a dollar amount added to the cost of products to reach the selling price. Markups guide pricing by intermediaries, they're necessary to cover the cost of distribution and allow intermediaries to make a profit.

Markup percent is the percentage of the selling price that is added to the cost to get the selling price. A point of clarification regarding markup through an example, a $0.50 addition to a $1 item, leading to a $1.50 price is a 33.3% markup. 0.50 is a third of 150 even though it's 50% of the price paid by the intermediary.

So be aware of how markets work. Many intermediaries use a standard markup percentage. Percentages often are the same within an industry, thus encouraging all players to increase efficiency and cut costs. Markups are often related to the company's desired or expected gross margin just net sales minus cost of goods sold.

It's important to remember that high markups don't always translate into high overall profits. A high markup may reduce demand for the product to a point where the seller actually loses money because too few items are sold. Lower markups can speed turnover and the stock turn rate, which is the number of times the average inventory is sold in a year.

Low stock turn rates increase inventory carrying costs and tie up capital. Bic, featured in the ad here, is an example of a product that relies on intensive distribution and sells in larger volumes, offering retailers smaller markups. Mass merchandisers running fast company, they recognize the importance of stock turn rates and adjust their markups accordingly.

Faster moving items have lower markups while slower moving items tend to have higher ones. Where does the market chain start? The firm that brands the product is usually the one that sets its basic list price. It is most often the producer but could be another channel member as well.

Some producers start with a cost figure and add a standard markup. Or use a formula such as selling price equals average production cost per unit times three. A producer using this approach might develop rules and markups related to its own costs and objectives. Average cost pricing means adding a markup to the average cost of a product.

A manager usually finds the average cost per unit by dividing the total cost for the year by all the units produced and sold in that period. This exhibit gives an example of how average cost pricing works. In this example, the cost for the year include 30,000, and fixed overhead expenses and 32,000 and labor and materials.

If the company produced and sold 40,000 units, the total cost of 62,000 is divided by the 40,000 units to yield a cost of $1.55 per unit. At a plan profit target of $18,000, 18,000 divided by 40,000 units yields a mark up of $0.45 per unit. To get the selling price per unit, the company simply adds the $0.45 of markup to the cost of $1.55.

So the price is $2 per unit. Suppose the firm maintains a price of $2 that only produces and sells 20,000 units. This change decreases the labor and materials cost, but fixed overhead expenses remain the same. The total cost is $46,000. However, revenue from sales is only 40,000. So the firm loses $6,000 in this example.

Average cost pricing is simple, but it's easy to lose money with average cost pricing if demand forecasting is not highly accurate. Because it does not make allowances for cost variations as output changes. Average cost tends to go down as output increases due to economies of scale. But average cost pricing doesn't consider this change.

In light of the problem with average cost pricing, it is important to understand six types of costs because they each change in a different way as output changes. This is most certainly a refresher for you, but important to consider when establishing pricing policies and actual product and service prices.

There are three kinds of total costs. Total fixed cost is a sum of those costs that are fixed expenses, regardless of how much of something is produced, things such as rent, manager salaries, and insurance can remain constant whether production goes up or down. Total variable cost is the sum of expenses that change with the level of output.

Variable costs include things like hourly wages, the cost of materials, packaging, shipping and sales commissions. Total cost is the sum of total fixed and total variable costs. And there are three kinds of average cost. Average unit cost per unit is obtained by dividing total costs by the related quantity.

Average fixed cost per unit is obtained by dividing total fixed costs by the related quantity. An average variable cost per unit is obtained by dividing total variable costs by the related quantity. So let's look at how these types of costs can inform the marketing team. A good way to get a feel for the types of costs is to consider an example that shows cost relations.

On the left-hand side of the diagram, note that in the first column the costs correspond to increasing output quantities, from 0 units produced to 100,000 units produced. In the third column, average fixed costs declined steadily with increasing output, as the fixed costs are spread over larger and larger numbers of units.

In the fourth column, average variable cost per unit remain constant. But in the fifth and sixth columns, total variable costs increase, thus increasing total cost. In the last column, average cost decreases but by progressively smaller amounts. In stable situations, average cost pricing may your profits but not necessarily maximizing profits.

As such, cost base prices may be higher than a price that would be more profitable for the firm. Ignoring demand is the major weakness of average cost pricing. It's even riskier when demand conditions are changing. Moreover, marketers should not ignore competitors costs because the lower cost provider may offer lower prices and still be able to make a profit.

Break-even analysis evaluates whether the firm will be able to cover all its costs at a particular price level. Break-even charts help find the break-even point also known simply as BEP, which is the point where the total revenue from the quantity sold just equals the firm's total costs. To compute the break-even point, the first thing to determine is the fixed costs contribution per unit, which is the assumed selling price per unit minus the variable cost per unit.

To find the BEP in units, divide the total fixed costs by the contribution per unit. The BEP can be stated in dollars, as well. Multiplying the BEP in units times the selling price per unit yields the BEP in dollars. Each possible price has its own breakeven point. Thus, break-even analysis allows the marketing manager to compare the ramifications of different prices on the BEP.

A target profit can also be included in computing the BEP, the desired profit is simply added to the total fixed costs. Break-even analysis shows the effect of cutting costs in relation to increasing profits. It is helpful but not a pricing solution. Break-even analysis is a cost oriented tool.

Not a demand oriented one. Managers usually face downward sloping demand curves and breakeven analysis does not factor in the effect of price on demand. As shown that this example, BEP occurs at a point of 75,000 units of production, which equates to $90,000 in revenue. Marginal analysis focuses on the changes in total revenue and cost from selling one more unit.

Marginal analysis helps find the right price that maximizes profit. It is especially important when demand curves slow down, which they typically do. Demand estimates involved if then thinking, managers must estimate the quantity that will be sold at several different prices. The demand curve is the graph of all the price quantity combinations.

The price multiply by the quantity sold is the total revenue generated at each price quantity combination, as shown in the first three columns from the left in this exhibit. Let's look at the quantity column. For each price level, managers estimate the quantity they will sell. In this exhibit, we can see that as the price falls, management estimates greater sales.

The next column reveals total revenue, which is simply each rose quantity sold, multiplied by the price. After we have determined the revenue, we need to move next to calculating costs which will vary by each quantity. So in this example, the variable costs are $60 per unit. Consequently, the variable costs increase as we sell more.

Fixed costs do not change over this range of sales, remaining at $200 in this example. Total costs are then calculated for each quantity sold, adding the total variable costs in column four, and the fixed costs in column five. Finally, profit can be determined by subtracting the total cost and column six from the total revenue shown in column three.

When seeking profit maximization in this example, a price of $115 creates the highest profit level of $130. Here are the total revenue, total cost and profit curves from the previous slide. This graph provides a picture of the previous wedge. Total cost rises as the quantity increases, but as the price falls, revenue rises and then falls.

Profits also rise before falling, we can see the optimal profit where the profit line peaks, at six units and a price of $115. In order to estimate demand, marketers need to know how to evaluate a customer's price sensitivity. Market research is critical for doing so. Asking a series of questions help inform the marketer.

Are there substitute ways for meeting a need? If there are, the consumer is more price sensitive. Is it easy to compare prices? If so, the ease of comparison tends to increase price sensitivity. Who pays the bill? People are less price sensitive if someone else pays or if they share the cost with someone else.

How great is the total expenditure? If it is large, markers may try to break the expenditure into smaller pieces. How significant is the end benefit? Consumers will be less price sensitive if they perceive the end benefit from purchasing the product to be substantial. And finally, how great are the switching costs?

This question is especially important for business customers. The greater the initial investment, the less price sensitive customers tend to be. To wrap up this lesson, I wanna make a couple of comments related to bid pricing and negotiated pricing. Bid pricing means offering a specific new price for every job rather than setting a price for all customers.

This can be as simple as setting the lowest acceptable selling price, as is the case in a reverse auction online, or it may be much more complicated as when a contractor bids on many different projects. Cost estimation is the biggest challenge in bid pricing. In spite of this challenge, sellers must be equipped to respond quickly to invitations to bid.

Usually these bids are based on the buyer specifications for the product or service. There are potential ethical issues and cost plus bid pricing such as over inflation of cost figures by sellers. Given that there will likely be other competitors for any given bid, sellers need to give considerable thought to the overhead and profit figures they add to the cost of the project, because they may have a significant impact on how bids compared to each other.

So demand must be considered as well as costs and submitting bids. Sometimes bids are negotiated. Sellers whose initial bids are attractive may move to additional rounds of negotiation to arrive at a final price. Other times, the lowest bid is accepted. The negotiated price is the price resulting from bargaining between the buyer and seller and focuses on what a specific customer will pay all the marketing mixed variables may be negotiated, not just the price.

These two pricing approaches are more common in business-to-business situations. This concludes the lesson on pricing. In the next lesson, we'll focus on the fourth and final component of the marketing mix, promotion. See you soon.

# **Promotion**

>> Welcome to the lesson on promotion, the last of the four Ps in the final component of the marketing mix. We'll begin by looking at the fundamentals of promotion. Within this lesson I'll focus on the following four objectives. Discuss promotion methods and goals, assess the adoption process's impact on promotion, discuss how customer selling and customer service affect promotion, and evaluate opportunities for advertising, publicity and sales promotion.

There are many decisions that a marketing manager must make concerning promotion, and it is an important part of marketing strategy planning. Marketing managers usually blend a variety of different promotion methods to achieve promotion objectives, because each method has its own strengths and limitations. In this section, I'll introduce major promotion options and how to integrate them into an effective whole.

The discussion will consist of four main sections, promotion methods, managing promotion, promotion planning, and promotion budgeting. Promotion is concerned with communicating information between a seller and a potential buyer, or others in the channel, to influence attitudes and behavior. A key part of modern marketing is the use of several promotion tools to work together to achieve a company's overall promotion goals.

Personal selling involves direct spoken communication between sellers and potential customers. This process allows sales people to obtain quick feedback, and help adapt the four Ps quickly. Of course, a sales force can be very expensive to build and maintain. Mass selling is communicating with large numbers of potential customers at the same time, useful when the target market is large and geographically dispersed.

Advertising is any paid form of nonpersonal presentation of ideas, goods, or services by an identified sponsor. Media include television, radio, magazines, billboards, direct mail, and the Internet or digital channels. Publicity is any unpaid form of nonpersonal presentation of ideas, goods, or services. Publicity professionals try to get stories about their company's products placed in mass media vehicles without having to pay media costs, this is also known as generating earned media.

Sales promotion refers to promotion activities, other than advertising, that stimulate interest, trial, or purchase by final customers or others in the channel. I'll talk more about sales promotion in just a bit. A marketing manager usually has to set priorities for the promotion objectives. Informing is about creating awareness, promotion helps customers learn about products.

Informing is especially important for products that are new. Persuading usually becomes necessary in order to convince the market to buy the firm's products instead of some other firm's products. It's also used to help reinforce the benefits of a product or service. A reminding objective might be suitable if target customers already know about, and have positive attitudes, about a firm's offerings.

The basic promotion objectives of informing, persuading, and reminding are related to other common marketing response models. The adoption process is the process consumers go through in adopting a new product or idea. Informing and persuading are related to the adoption process, in that these objectives may be needed to affect the potential customer's knowledge and attitudes about a product, and then bring about adoption.

Follow on promotion can remind the customer about the favorable experience, and confirm the adoption decision. The AIDA model is a practical approach for looking at what promotion tries to accomplish. Its four promotion jobs include attention, which is promotion first seeks to break through the clutter of information in the marketplace, and get the attention of a person in the target market.

Interest, promotion seeks to arouse curiosity and stimulate greater interest in the product. Desire, promotion then seeks to get an emotional response, or a buy in, whereby the customer has a strong desire for the product. And then finally, the last a, action, promotion helps the customer take action or to buy now.

As referenced earlier, sales promotion refers to promotion activities that stimulate interest, trial, or purchase by final customers or others in the channel. Sales promotion may be aimed at consumers, at intermediaries, or even at a firm's own employees. Examples of sales promotion aimed at final customers include contests, coupons, aisle displays, samples, trade show displays, point-of-purchase materials, banners and streamers, frequent buyer programs, and sponsored special events.

When targeting wholesalers or retailers, marketers must consider a different set of needs and interest compared to end consumers. Examples of sales promotion aimed at wholesalers or retailers include price deals, promotional allowances, sales contest, calendars, gifts, trade show displays, meeting sponsorships, catalogs, videos, and other merchandising aids. It's also relevant to consider internal stakeholders in the organization through the needs of the sales force.

Examples of sales promotion aimed at the company's own sales force include contests, bonuses, meeting sponsorships, customized portfolios, displays, sales aids, and training materials. There's no one right promotion blend for all situations, accordingly, marketing managers must constantly examine each situation and adapt promotion tools to best address the needs of target customers in each particular situation.

When a channel of distribution involves intermediaries, their cooperation can be critically important to the overall success of the marketing strategy. Pushing a product through a distribution channel means using normal promotion efforts, personal selling, advertising, and sales promotion to help sell the whole marketing mix to possible channel members.

This helps build channel commitment and cooperation, and can take several forms. A producer can get a push in the channel with promotion to intermediaries, this form of promotion typically emphasizes personal selling. The direct contact of this approach helps emphasize the importance of the promotion to the company. The challenge for the producer's sales rep is to show wholesalers and retailers that there is sufficient demand for the product, and that it will be profitable.

In addition to ads, sales promotions targeted at intermediaries usually focus on short term arrangements that will improve the intermediary's profits. These promotions might include free cases of merchandise, contests, or premium offers. Pulling means getting customers to ask for the product, it involves promotion activities directed at final consumers or business customers.

Pulling typically involves use of mass selling tools to stimulate demand for a particular brand. Customers who are aware of, and interested in, the product look for it at retail stores. Ads may even encourage customers to ask the retailer to carry the product if the store doesn't have it in stock.

Resulting sales of the product encourage the intermediaries to order more and give the product more attention. A manager may use either pushing or pulling exclusively, but a combination of the methods is much more common. For example, A producer may plan to send consumers coupons for discounts on a new product that is introduced using online display ads.

Sales reps, in turn, visit buyers for retail stores to tell them about the consumer promotion, and then offer special trade promotions and encourage buyers to carry the product. This ad for Smucker's is aimed at final consumers, and thus it might be interpreted that the company is stressing a pulling strategy.

However, some pushing would likely go hand and hand with this ad. Smucker's would probably let intermediaries know of this sales promotion, and encourage them to increase their stock in anticipation of increased demand. Sales promotions, such as the coupons included in the ad, can build consumer interest in short-term sales.

The adoption curves shows when different groups accept ideas, marketers have long observed that the rate of adoption for a new product idea varies across these different groups. As such, promotion must vary for different adopter groups. Innovators are the first to buy, and don't mind taking some risks. Innovators search out product information and rely on impersonal and scientific sources, or other innovators, when making decisions.

Early Adopters are typically well respected by their peers, and also often serve as opinion leaders for others. Of all groups, this one has the most contact with sales people. High satisfaction among early adopters can aid word of mouth information about a product, which it becomes highly credible. The early majority group wants to avoid risk, and waits to consider a new idea until many new early adopters have tried a product and like it.

This is a group of deliberate decision makers, they have extensive contact with sales people, mass media, and early adopter opinion leaders. Whereas the early majority group is deliberate in decision making, the late majority is downright cautious. People in this group are often, but not always, older than the early majority group, and are more set in their ways.

This group makes little use of marketing resources of information. Laggards or non-adopters hang on to tradition and are very suspicious of new ideas, they tend to be older and less well educated than the other groups. Laggards tend to listen most to other laggards, making them very difficult to reach.

As I mentioned, depending on the stage of the product in its life cycle, promotion may have to change. In market introduction, the basic promotion objective is informing. For really new product concepts, promotion focuses on building primary demand, which is the demand for the general product idea. Promotion and market introduction says, this product idea is good.

Appeals to final consumers tend to focus on personal selling, while both personal selling and sales promotion are useful in business markets. In the market growth stage, the message changes to one of, our brand is best. Promotion builds selective demand, which is demand for the company's own brand. Mass selling becomes more feasible in this stage, especially among final consumers, but personal selling and sales promotion are still important in business markets.

In market maturity persuasive promotion takes priority, the main message is, our brand is better, really. Mass selling and sales promotion may dominate the promotion mix for consumer products. Business products may benefit from more aggressive personal selling. Firms that have strong brands can use reminder type promotion at this stage, other communications and sales promotion may strengthen relationships with consumers as well.

And finally in sales decline the message is, let's tell those who still want our product. In setting the promotion budget, marketing managers should consider first, what promotion objectives they want to accomplish. An analysis of resources available should indicate whether these objectives are feasible, total costs and per person costs should be considered for each alternative promotion tool.

The most common method of budgeting for promotion expenditures is to compute a percentage of past or anticipated future sales. This method is very straightforward, but it is also mechanical and does not consider situational variables or other market forces. The task method, sometimes called zero-based budgeting, links the promotion budget to a careful determination of what must be done to reach the promotion and sales objectives.

This method most embodies the marketing concept, and is customer oriented. This concludes the lesson related to the fundamentals of promotion. In the next lesson we will look closer at personal selling and customer service.

# **Promotion: Personal Selling and Customer Service**

>> Welcome to the lesson on personal selling and customer service in the context of marketing promotion. In this lesson, we take a closer look at the important promotion strategy decisions that marketing and sales managers make, in personal selling and customer service. The discussion will include a number of frameworks, and how to approaches that guide strategy decisions.

The structure of the lesson is divided into four broad personal selling and customer service issues, the importance of personal selling, personal selling tasks, strategy decisions, and the personal selling process. In serving a particular target market, one of the key elements of the promotion mix is personal selling. Salespeople are communicators who build relationships.

Salespeople must be able to meet customer needs and align with company expectations. In addition, salespeople and sales managers need to decide what specific personal selling techniques will be used, in dealing with the organization's customers and prospects. Helping customers make good buying decisions is smart selling. In meeting customer needs, salespeople build lasting relationships with their customers.

Salespeople represent the whole company and customers as well. How the salesperson behaves, is all many customers will ever know about the company. The sales force aids in the marketing information function, providing feedback to the company on what customers think, feel, and want. In fact, smart marketers stay very close to their sales organizations, realizing that they provide invaluable feedback.

Salespeople can be strategy planners, making decisions every day about how to manipulate promotional mix elements to fit the needs of their customers. Supporting salespeople help the order oriented salespeople, but they don't try to actually get the orders themselves. Their activities, such as providing specialized services and information, are aimed at enhancing the relationship with the customer and getting sales in the long run.

Missionary salespeople are supporting sales people who work for producers by calling on their intermediaries and customers. Missionary salespeople can increase sales by creating goodwill, providing training, and performing other activities. This position is often used as a training ground for new salespeople. Technical specialists provide technical know-how in support of order oriented salespeople.

Technical specialists are experts who know product applications, and they often have science or engineering backgrounds. They are more concerned with providing technical details about products than in persuading customers to place orders. Customer service reps work with customers to resolve problems that arise after a purchase. Every marketing oriented company needs good people to handle customer service.

The sales manager must organize the sales force, so that all necessary tests are performed well. Different target markets need different selling tasks. Managers often have different sales forces for different target markets, who have different support or information needs. For example, big accounts often get special treatment from a major account sales force.

Some salespeople specialize in telephone selling. Telemarketing is quick and inexpensive, and can provide a way to serve customers who would otherwise be too expensive to support. Telemarketing is more common in some markets than others. Sales tasks are often performed based upon sales territories. A sales territory is a geographic area that is the responsibility of one salesperson or several working together.

Managers must consider distance, number of customers, the complexity of account service, and the potential profitability of setting up sales territories. The size of the sales force often depends on workload per salesperson. Assessing the workload evaluates the time required for sales tasks, as well as the number of customers and other important market factors.

If different people handle different sales tasks, firms often rely on team selling, which is when different people work together on a specific account. Marketing and sales managers in many firms, are finding that some tasks that have traditionally been handled by a salesperson, can now be handled effectively and at lower cost, by information technology and e-commerce systems.

In situations requiring a significant need to create and build relationships, and a low degree of information standardization, a salesperson is likely to be required. The salesperson can offer creative problem-solving, persuasion, and coordination of sales activities. In situations requiring a significant need to exchange standardized information, but not a great need for relationship building, marketers can use e-commerce methods to exchange information about inventory, orders, and delivery status.

Websites can contain product specifications and prices as well. In situations requiring a significant need to exchange standardized information and a great need for relationship building, technology may provide standardized information. While a sales rep fills the gap by spending time on value added communication with the customer. And finally, in situations requiring neither a significant need to create and build relationships or the exchange of standardized information, e-commerce sometimes substitutes for personal selling for digital self-service.

Electronic banking, ATMs, and virtual shopping cards are examples. Each step in the personal selling process involves its own set of skills. But it's also important to think of the process as a whole. Prospecting is assessing all of the leads in the target market, to identify potential customers, and narrow down to the right target market.

In business markets, a salesperson may have to work hard to find the real purchase decision makers because of multiple buying influence. The salesperson needs to assess the needs of established customers, and set priorities because all customers are not equal. Selecting target customers involves identifying factors for success. So what the customer needs, what the company offers, and how well the salesperson can find a good match.

A company often develops a way to rank potential customers based upon likelihood of purchase. The personal selling process continues with the sales presentation, which is the salesperson's effort to make a sale, or address a customer's problem. Before making the presentation, the salesperson should learn as much about the client as possible.

Such as who makes the purchase decisions, and the key criteria they use for making a decision. Better information allows the salesperson to custom design the presentation to match specific customer needs. Presentation should end with a close. Here the salesperson asks for the customer's business. The best salespeople learn how to close effectively, and never overlook the fact that they have to explicitly ask for the sale.

After a sales presentation, the salesperson may follow up with the hope of acquiring a new customer. Or if the customer purchases, the salesperson will follow up to maintain and enhance the relationship. The process includes a feedback loop. Sometimes the salesperson may have to go back and start at an earlier stage in the process.

So this concludes the lesson on personal selling and customer service. In the next and final lesson, we will discuss advertising, publicity, and sales promotion.

# **Promotion: Advertising, Publicity and Sales Promotion**

>> Welcome to the lesson on advertising, publicity and sales promotion. This final lesson is dedicated to the various ways and considerations for reaching target customers. Advertising and sales promotion play a central role in the promotion blend for many firms, especially in consumer markets. Marketing managers must make specific advertising strategy decisions, to guide the work done by the firm and or its advertising agency.

Similarly, sales promotion objectives must be clear. This lesson starts by considering advertising spending and advertising strategy decisions. And then the focus turns to the challenges of managing different types of sales promotions. As you know the marketing manager should be very specific about the target audience the company is trying to reach.

Advertising campaigns can appeal to very specific groups of people through careful selection of words, images and symbols as well as the specific channels used to reach them. Marketers must provide advertisers with accurate target market information to both efficient and effective. This lesson details advertising and sales promotion in five main discussion areas.

Advertising spending, advertising strategy decisions, channel analysis, publicity and communication tactics, and sales promotion decisions. To begin let's look at some high level data related to media advertising spending in the United States. As you can see both the historical trend and future expectations are increasing. Also take note these figures are in billions of dollars.

Total spending on advertising seems large, but advertising only accounts for small percentage of what people pay for goods and services, advertising in the United States accounts for about 35% of worldwide ad spending. However, as highlighted in this exhibit, the percentage spent on advertising by producers varies across product categories.

This exhibit shows advertising expenditures as a percentage of sales for different types of retailers. Some types of retailers spend more on advertising as a percentage of sales, then do other types. I don't expect you to remember this type of information, but simply rather to take note of the variance and be aware that the retailer category plays a significant role.

Advertising objectives should be specific, they should be related to the overall marketing strategy and to the promotion jobs assigned to advertising. The marketing manager sets the overall direction for the advertising campaign, and it may incorporate one or more of the following types of objectives. To position brands. Advertising can communicate product benefits, to position the brand relative to others in the mind of the consumer.

Introduce new products. Advertising can make target markets aware of new products and their benefits. Marketing managers can specify the percentage of the target market that should be aware of the product after a certain period of time and use that as a guiding objective. Obtain outlets. Advertising tells customers where they can buy the product and may help encourage merchants to carry it.

Provide ongoing contact. Advertising can be a virtual salesperson, reminding customers about the product and keeping in touch with them. Preparing the way for sales people. Advertising may serve to prime the pump in advance of a sales call. Sales people can then reference the ad in their presentations. Get immediate action.

Advertising can be a good way to announce time dated deals discounts or other availability requiring immediate customer action, And maintaining relationships. Advertising can help maintain relationships with satisfied customers and confirm their original purchase decision. The more specific the advertising objective is, the more guidance it provides in getting specific results in the marketplace.

In other words, if you want half the market state it explicitly, often, marketing managers want to move customers along towards a purchase decision. Advertising objectives may be based on where target customers are in the adoption process. Objectives also guide implementation of an advertising plan. Shown in this exhibit the type of advertising that works for one stage of the adoption process may not work as well for other stages.

To generate awareness, pioneering ads and advertising jingles or slogans are among popular methods used. Creating interests may result from the use of image based ads, celebrity endorsements or product demonstrations, among other methods. Competitive ads featuring persuasive content, or comparative ads are among the methods used to stimulate evaluation and trial among consumers.

In order to motivate consumers to make a purchase decision, direct response ads, point of purchase ads and advertising containing price deals are all helpful. Finally, after consumer makes a decision to purchase a product or service, reminder ads and informative ads help consumers to confirm and justify their purchases and reduce post purchase dissonance.

Advertising objectives largely determine which of two basic types of advertising they use, product or institutional. Institutional advertising tries to promote the organization's image, reputation or ideas. It supports the overall objective of developing goodwill, or improving an organization's relations with various important groups. Product advertising tries to sell a product and can be targeted to channel members or final consumers.

Product ads are designed to get consumers to know, and remember in organizations products or services Key types of product advertising include pioneering, competitive, and reminder advertising. Each of these will be discussed in turn. Pioneering advertising tries to develop primary demand for a product category rather than demand for a specific product.

It is appropriate for the early stages in a product's life cycle when consumers still need to understand what the product category is all about. Competitive advertising tries to develop selective demand for a specific brand. There are three types of competitive advertising. The direct type aims for immediate buying action.

The indirect type points out product advantages to affect future buying decisions. And finally, comparative advertising makes specific brand comparisons using actual product names. And finally here, reminder advertising keeps the company's name before the public and the products and services top of mind for the consumer. As I just mentioned, reminder advertising tries to keep the product's name top of mind.

It is useful for supporting successful products well into the market maturity and sales decline stages of the product life cycle. M&M's Is a well known brand with a 70 plus year history. Most of their advertising history is not spent on creating product awareness, but rather on product retention and they do so by providing reminder advertising There's no simple answer to the question, which is the best advertising medium?

Choosing an advertising medium depends on a few things, including the organization's promotion objectives, the characteristics of the target market, the funds available for advertising, and the nature of the media. So who is reached, with what frequency, with what impact, and with what cost? Before choosing the medium, the marketer must have specific promotion objectives.

I keep reiterating this, but it's critical to have these outlined and documented. Some media are better than others at delivering a specific objective. The marketer must match the market with the media, thus specify the characteristics of the target market in order to select the media that they will hear, read, or see.

Most major media outlets do research to develop audience profiles, which certainly helps the marketer in terms of selecting the right type of media to reach their target audiences. Of course, marketers should do their best to select media that attract a high percentage of the desired target market. Keep in mind, advertisers pay for the whole audience the media delivers.

Ad exposure to non-targeted consumers is wasteful. Some media help zero in on specific target markets. This is where digital marketing has become highly appealing for advertising purposes. And I'll talk about digital in just a little while. Dovetailing off my previous comment, we can see some recent data and trends expected for various media channels across both traditional and digital forms of media.

Digital has been expanding rapidly over the past decade, in part due to consumer behaviors for where time is spent, but also because of the measurability and potential attribution that is available when advertising digitally. This exhibit compares the characteristics of several common types of traditional media channels. There are several other channels as well, such as magazines, out of home, advertising, billboards, etc.

But this list captures the larger ones. Television provides a way to demonstrate products, and is a good medium for getting attention. Television also offers a wide reach, and cable can be selective. Disadvantages include the expense associated with TV advertising, challenges with effective targeting, and competitive pressures from other advertisers within the channel.

Direct mail is very flexible, can be personalized, and is very selective. Disadvantages, however, can include expense per contact, if conversion rates are low, junk mail as an image in consumers' minds, and difficulty retaining attention. Newspapers offer flexibility, timely placement, and good local market coverage. Some disadvantages are its expense in some markets, it typically has a short life, and little to no pass along readership.

Radio also offers the potential for wide reach, relatively low cost, and it appeals to a highly segmented audiences if placed in the right channels within radio. Disadvantages, however, include weak attention, short exposure, and varying cost rates. I teach a course specific to digital marketing, but I'd like to highlight some of the core benefits and channels associated with digital marketing.

One of the most attractive aspects of digital marketers is directly related to the ability to capture data and better segment and target audiences. Digital provides the ability to leverage behavioral targeting and geo targeting far better than traditional forms of advertising. As such, most marketers find these digital channels to be more effective and more efficient.

One of the more common channels within digital is search engine marketing, which is comprised of organic and paid search. Organic search, known more commonly as search engine optimization, or its acronym, SEO, is focused on optimizing web pages and information, such that it displays highly on a search engine results page.

Paid search allows marketers to bid on placement of ads within a search engine's results page. Google, Bing and other search platforms provide this functionality as an option to marketers, thus they have the opportunity to look at both organic and paid mechanisms to use online search. Display advertising is one of the oldest forms of digital marketing.

Unless you're using a browser that blocks ads or you're using an ad blocker, you probably see these regularly across websites and social media sites, such as Facebook and Instagram. Typically these ads are static, but marketers can also create dynamic ads that have embedded video and audio as well.

Additionally, display ads can be re-targeted to consumers that have visited a company's website previously as a form of reminder advertising. Social media and influencer marketing have become big business in the advertising arena based upon high levels of consumer time spent on social media sites. Based on changes to the algorithms that power the larger social site, it's incredibly difficult to reach a large audience consistently on social unless paid media dollars are being used.

That said, it can still be a highly efficient way to reach potential customers for both large and small brands alike. It seems everyone has at least one mobile device these days in any first world country, and the adoption rate continues to expand aggressively in less developed countries as well.

Advances and cost efficiencies in mobile phones have made them a staple for many people, and tablet adoption continues to rise as well. As such, the growth in mobile application usage, text and mobile search, have all become attractive channels for advertising. Video content consumption on YouTube alone is at all time highs, and marketers are uncovering clever ways to target customers through both third party advertising, as well as through their own brand generated content.

As an example, Apple computer has nearly 9 million subscribers on YouTube. Last and not least is the ever pervasive channel of email marketing. A recent study I saw indicates the average white collar worker in the US receives roughly 120 email messages each day. I keep hearing on the fringes how email usage and open rates are on the decline, but the data is still very strong for supporting this channel.

One primary reason is cost per reach, which is incredibly low compared with other channels. The ability to segment, personalize, day part, and ease of A, B testing within this channel are additional reasons why it's so attractive to marketers. I made reference to data analytics within digital earlier, and I'd like to comment on it a bit further.

Analytics data can be collected to assess performance metrics and user behaviors such as the steps or paths users have taken through a website visit, which is shown as an example here. This information empowers marketers to serve the right content and offers at the right time in the buyer journey.

Analytics data is not just limited to website related activities. We can also collect an array of data from AD serving platforms, social media sites, email platforms and so forth. In fact, one of the challenges with having access to so much data for digital platforms is figuring out what to do with all of it.

Measuring advertising effectiveness is often difficult. It's important to remember that the different types of advertising do not always work toward the same goal. Also, advertising effectiveness needs to be considered in relation to it's specific objective. For example, an ad campaign that is designed to increase awareness should not be judged a failure because it does not increase desire for a product as shown through actual product purchases.

A key element to effective measurement is to quantify and specify the objective of the ad. Success depends on the total marketing mix, not just advertising. The effectiveness of advertising is hard to separate from the effects of the other elements of the mix. For example, a great advertisement can not be faulted for failing to sell a terrible product.

Research and testing can improve the odds. Marketing managers should try variations on their overall advertising message to see which combination of message variables is the most effective. So this includes changes to things such as imagery, copy, and calls to action. Hindsight may lead to foresight. What consumers tell marketers about ads and what they remember, both good and bad, should be used as input into the refinement of subsequent advertisements.

Thus, it's important for marketers to regularly collect market research and feedback from customers to better optimize their marketing efforts. I'd like to talk briefly about the role of publicity within the promotion portion of the marketing mix. This exhibit suggests which types of publicity might work best with some common promotion objectives.

Publicity works in combination with other promotion tools as part of an integrated marketing communications program that also should have specific objectives. When developing publicity, marketing managers should also look at copy. This could be websites, videos, online communities and other publicity tools all that utilize words and images that communicate with a target market.

Publicity tools are evolving quickly, in modern times marketers are required to keep up with an ever-changing landscape of technologies that are designed to help manage publicity and the overall promotion process. This has resulted in marketers working more closely with data scientists, and IT team members to choose and implement the best options for their organization.

I'd like to wrap up with a few comments about sales promotion. Sales promotion includes activities other than advertising publicity, and personal selling, that are desired to stimulate interest, trial or purchase by final customers or others in the channel. Sales promotion typically seeks an immediate response. Sales promotions can be launched quickly and lead to immediate results.

However, the sales promotion objectives in the particular situation should influence the decision about which type of promotion to use. This exhibit shows three ways that a short term sales promotion might affect sales. In the first sales pattern, a firm issues coupons to help clear excess inventory. Some consumers might buy to stockpile to take advantage of the coupon, but unless they use more of the product, their next purchase will be delayed.

In the second pattern, consumption increases during a limited time promotion, but when the promotion ends, sales go back to normal. And in the third pattern, shown on the far right, free samples of a product pull in new customers who like the product, and then keep coming back. This pattern is the kind of long term result that is the aim of effective sales promotion.

The challenge and opportunity for marketers is to determine what mixture of sales promotion activities best serve the organization, while simultaneously delighting their customers. In spite of the positive impact that sales promotions may have, there are potential problems in managing sales promotion. Does sales promotion erode brand loyalty? In mature markets, customers and intermediaries may cherry pick between competing brands to catch the best sales promotion discount at a particular time.

Brands in a highly competitive situation may have fewer choices and thus struggle to realize brand loyalty. They are alternatives, however. Procter & Gamble for example has decreased it's reliance on sales promotions to intermediaries and moved toward an everyday low price model. Sales promotion can be hard to manage.

It may be difficult to transfer lessons learned from one promotion to the next. And sales promotion activities can stimulate demand among people outside the target market. Of course, this may be great for short-term sales, but also requires the marketing organization to manage a more complex environment. Sales promotion is not a sideline for amateurs.

Sales promotion specialists have evolved to handle the various tasks, but their efforts need to be coordinated with the overall promotion strategy. This activity should not be overlooked is simply offering discounts and incentives versus finding ways to best utilize sales promotion as a strategic tool in the marketer's arsenal.

This concludes the lesson on promotion as part of the marketing mix. As I've said from the beginning, the purpose of these lessons has been to provide you with a high level overview of marketing related concerns and functions. By having a baseline understanding of the marketing discipline, practitioners such as data scientists and data analysts can better understand how to empower the marketing team to realize more efficient and effective results.

I wish you all the best of success and look forward to meeting some of you in my digital marketing course. Take care.