THE MARKETING MIX (3.3)

(Chapter 18 - AS level 3.3)

Marketing mix refers to the different elements involved in the marketing of a good or service- the 4 P's- **Product**, **Price**, **Promotion** and **Place**.

Product

Product is the good or service being produced and sold in the market. This includes all the features of the product as well as its final packaging.

Types of products include: ***consumer goods*** (food, beverages, clothing), ***consumer services*** (catering, tourism, finance, entertainment), ***producer goods*** (machinery, tools, raw materials, seeds, manure), and ***producer services*** (advertising, management, engineering.)

What makes a successful product?

- It satisfies existing needs and wants of the customers
- It is able to stimulate new wants from the consumers
- Its design – performance, reliability, quality etc. should all be consistent with the product's brand image
- It is distinctive from its competitors and stands out
- It is not too expensive to produce, and the price will be able to cover the costs

Products have a combination of **tangible** and **intangible attributes**.

- **Tangible attributes** refer to the features of a product in its physical form. These would be the measurable features that can enable consumers to see, hear, touch, smell, or taste the product. These features allow for easier comparison to other products

- **Intangible attributes** refer to the subjective opinions of customers about a product that cannot be measured or compared easily, i.e style, quality, strength, beauty (can't touch)

Why is the packaging of a product important?

- It **protects the product**
- It **provides information** about the product (its ingredients, price, manufacturing and expiry dates etc.)
- To **help consumers recognize the product** (the brand name and logo on the packaging will help identify what product it is)
- It keeps the product **fresh**

Product differentiation and USP (unique selling point)

Product differentiation is the act of making a product distinctive so that it stands out from competitors in the eyes of consumers. This can be achieved by creating a ***unique selling point*** - a special feature of a product that sets it apart from other similar products.

Examples of unique selling points :

- ➔ **Better quality goods** - having your product made from superior materials etc.
- ➔ **More affordable prices** - consumers will often prefer cheaper products
- ➔ **Promotions and deals** - free shipping, buy one get one free, warranties etc.
- ➔ **Good slogans** - i.e M&Ms “The milk chocolate melts in your mouth, not in your hand.”

Benefits of unique selling points :

✔ Differentiate the product from rival competitors - a competitive advantage
✔ Encourage customers to buy product - increasing sales + potentially customer loyalty
✔ Help develop a *good brand image*

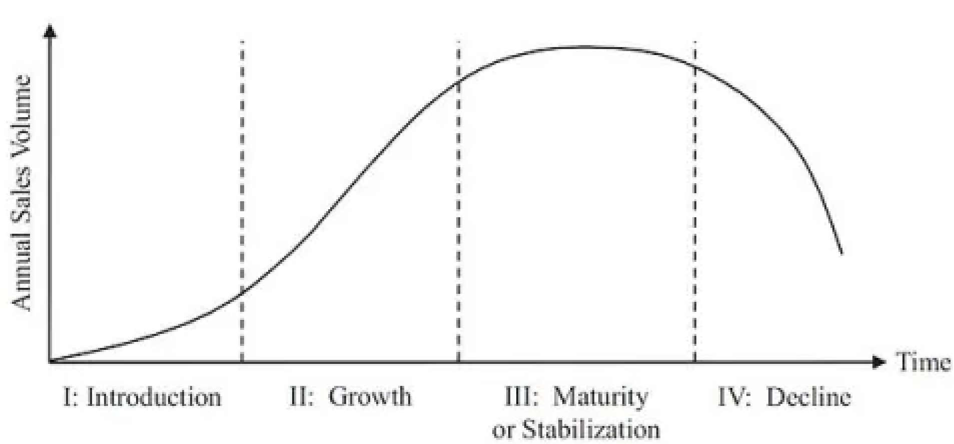
Why is brand image important?

Brand image is an identity given to a product that differentiates it from competitors’ products.
Brand loyalty is the tendency of customers to keep buying the same brand continuously instead of switching over to competitors’ products. The benefits of good brand image are :

- **Consumers recognize the firm’s product more easily** when looking at similar products- helps differentiate the company’s product from another.
- **Their product can be charged higher** than less well-known brands – a good brand image makes it easier to charge high prices because customers will buy it nonetheless.
- **Easier to launch new products** into the market if the brand image is already established. Apple is one such company- their brand image is so reputed that new products that they launch now become an immediate success.

Product life cycle

The product life cycle refers to the stages a product goes through from its introduction to its retirement in terms of sales. At these different stages, the product will need different marketing decisions/strategies in terms of the 4Ps. (price, product, promotion, place.)



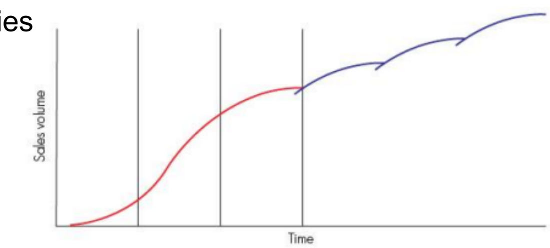
The 4 stages are :

- **Introduction :** This is when the product has just been launched after development and testing. Sales are often quite low to begin with unless the brand is popular (think - Apple)
- **Growth** : when sales are increasing at their fastest rate
- **Maturity** : sales are near their highest, but the rate of growth is slowing down
- **Decline** : final stage of the cycle, when sales begin to fall

Extension strategies are marketing techniques used to extend the maturity stage of a product (to keep the product in the market) Some examples of extension strategies would be :

★ Finding **new markets** for the product
★ Finding **new uses** for the product
★ **Redesigning** the product or the packaging to improve its appeal to consumers
★ **Increasing advertising** and other promotional activities

The effect on the product life cycle of a product of a successful extension strategy ➡
(where the blue lines are 'extending' the product's time in the market)



(How the stages of the product life cycle may impact the 4 p's.)

	Introduction	Growth	Maturity	Decline
Product	Only a basic model of the product is available	Changes might be made to the product as a result of feedback from consumers	Extension strategies might be used to maintain sales	The product and packaging is not altered
Price	Price skimming is unique new product; market penetration pricing otherwise	Pricing may be adjusted- lower prices to attract more sales or keep a high price to maintain brand image	Competitive pricing to maintain sales	The price might be reduced – promotional selling to maintain sales
Promotion	High advertising activity to boost customer awareness	Promotional activity still high to continue persuading customers	Promotional activities are aimed at reminding the customers that the products are still available	Advertise the products at a lower price
Place	The product may be offered for sale in specially selected outlets	The product is more widely available, which helps to increase sales	The product is available for purchase through a wide distribution network	The product is only available in profitable outlets

Bonus terms involved with 'product'

Product portfolio analysis - a product portfolio is the collection of all the products or services offered by a company. **PPA** is an examination of each of the products manufactured or distributed by the company to assess future marketing strategies (its future price, etc.)

Product positioning - the consumer perception of a product or service as compared to its competitors

Price

Price is the amount of money producers are willing to sell or consumers are willing to buy the product for.

Setting the price for a product is one of the most important of all marketing decisions, the reason for this importance is because :

- It has a **major influence on sales and profits** of the product
- Price has a **psychological impact** on consumers - i.e a high price can give consumers the idea that the product is luxurious or a low price can do the opposite
- Pricing needs to be **constantly reviewed** especially in fast changing/competitive markets

Different methods of pricing

There are several different pricing methods that can be used, the main ones being :

1. Competitive pricing
2. Market skimming pricing
3. Penetration pricing
4. Price discrimination
5. Cost plus/mark up pricing
6. Contribution pricing
7. Loss leader pricing/Promotional pricing
8. Psychological pricing

1. **Competitive pricing** : Setting a price similar to that of competitors' products which are already available in the market

Advantages of competitive pricing :

✔ Business can remain competitive - focusing on other matters such as service and quality
✔ A helpful pricing method for small firms with little market power

Disadvantages of competitive pricing :

✖ Costs may not be covered - competitors companies may have lower unit costs
✖ Still need to find a way to attract sales

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2. **Market skimming pricing** : Setting a high price for a new product that is unique or very different from other products on the market (I.e when entering a niche market.)

Advantages of market skimming :

✔ If successful, profit earned is very high - which will help cover research/development costs

Disadvantages of market skimming :

✖ It may backfire if competitors produce similar products at a lower price
✖ Successful high prices may attract competition into the market - reducing sales

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3. **Penetration pricing** : Setting a very low price to attract customers to buy a new product. The lower price helps a new product or service penetrate the market and attract customers away from competitors. Once the product is established the business will then raise the price.

Advantages of penetration pricing :

✔ Attracts customers more quickly - gaining recognition fast
✔ increase both market share and sales

Disadvantages of penetration pricing :

✖ The price may not cover unit costs - no profit is made
✖ Customers may no longer purchase the product once the price is raised

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4. **Price discrimination** : involves charging a different price to different groups of people for the same product. Example - cinemas charging different prices for adults, seniors, and children.

Advantages of price discrimination :

✔ it can motivate otherwise uninterested consumer groups to purchase products or services
✔ consumers may benefit from lower prices

Disadvantages of price discrimination :

✖ Some consumers may be displeased with paying higher prices than others - seen as unfair

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5. **Cost plus/mark up pricing** - Setting price by adding a fixed amount to the cost of making the product

Advantages of cost plus pricing :

✔ Makes sure that the price of the product covers the cost it took to make it
✔ Quick and easy to work out price (cost + profit they want to make from it)

Disadvantages of cost plus pricing :

✖ Price might be set higher than competitors or more than customers are willing to pay, which reduces sales and profits

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6. **Contribution pricing** : setting prices based on the *variable costs* of making a product in order to make a contribution towards fixed costs and profit

Advantages of contribution pricing :

✔ Covers the variable costs (raw materials, piece-rate labor, commissions, delivery costs etc.)

✔ Flexible – price can be adapted to suit market conditions or to accept special orders

Disadvantages of contribution pricing :

✖ Price may not cover fixed costs (rent costs, salaries, utility bills, insurance, loan repayments.)

✖ If prices vary too much – due to the flexibility – then regular customers might be annoyed

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7. **Promotional pricing/loss leader pricing** : Setting the price of a few products at below cost to attract customers into the shop in the hope that they will buy other products as well

Advantages of promotional pricing :

✔ Helps to sell off unwanted stock before it becomes out of date - same with declining goods

✔ A good way of increasing short term sales and market share

Disadvantages of promotional pricing :

✖ Revenue on each item is lower so profits may also be lower

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8. **Psychological pricing** : Basing the price off of what customers think it should be valued (also a good technique of psychological pricing is pricing something at $3.99 rather than $4, as customers will read the slightly lowered price and treat it lower than the price actually is)

Advantages of psychological pricing :

✔ Consumers don't feel like they are being charged 'too much' for the product

✔ Consumers don't feel the product appears 'too cheap'

Disadvantages of psychological pricing :

✖ Market research will be needed to discover customers perception - this adds to costs

✖ The psychological price may not cover costs to make it

Factors that influence the pricing of a product :

- Is it a **new or existing** product?
  If it's new, then price skimming or penetration pricing will be most suitable. If it's an existing product, competitive pricing or promotional pricing will be appropriate.

- Is the product **unique?**
  If yes, then price skimming will be beneficial, if not, competitive or promotional pricing.

- Is there a lot of **competition** in the market?
  If yes, competitive pricing will need to be used.

- Does the business have a **well-known brand image?**
  If yes, price skimming will be highly successful.

- What are the **costs** of producing and supplying the product?
  If there are high costs, costs plus pricing will be needed to cover the costs. If costs are low, market penetration and promotional pricing will be appropriate.

- What are the **marketing objectives** of the business?
  If the business objective is to quickly gain a market share and customer base, then penetration pricing could be used. If the objective is to simply maintain sales, competitive pricing will be

Price elasticity of demand (PED)

The PED of a product refers to the responsiveness of the quantity demanded for it to changes in its price. Basically, how much the demand for a product will change when its price is lowered or raised.

$$\text{PED Formula} = \frac{\text{\% Change in Quantity Demanded}}{\text{\% Change in Price}}$$

So for example : If demand increased by 10% and PED is said to be -2, what was the change in price?

$$\text{PED} = \frac{\text{\% change in quantity demanded}}{\text{\% Change in price}}$$

$-2 = 10 \div x$

$x = 10 \div -2$

$$\boxed{X = -5\%}$$

Price elastic is when a change in price (lower/higher) will very much affect the demand for the product.

If the product is found to have an **elastic demand**, the producer can *lower* prices to increase profitability. The law of demand states that a fall in price increases the demand. And since it is an elastic product (change in demand is higher than change in price), the demand of the product will increase highly. The producers get more profit.

Price inelastic is when a change in price (lower/higher) doesn't really affect the demand for the product.

If the product is found to have an **inelastic demand**, the producer can *raise* prices to increase profitability. Since quantity demanded wouldn't fall much as it is inelastic, the high prices will make way for higher revenue and thus higher profits.

The price elasticity of a product may vary from **(minus) infinity to zero**. *The closer to infinity, the more elastic is demand; and the closer to zero, the more inelastic the demand*.

- When the PED is >1, that is there is a higher % change in demand in response to a change in price, the PED is said to be elastic
- When the PED is <1, that is there is a lower % change in demand in response to a change in price, the PED is said to be inelastic.

Factors that determine the price elasticity of demand :

- **How necessary the product is -** the more necessary the product is, the less likely it's price change will affect demand. I.e gas prices, people will pay regardless because it's needed
- **How many similar competing products -** if the price rises of a product that is similar to other products then it's demand will fall as its easy to find substitutes
- **The level of consumer loyalty -** loyal consumers will repurchase regardless of price change (apple products)

(Chapter 19 - still AS level 3.3)

Promotion

Promotion refers to the marketing activities used to communicate with customers and potential customers to inform and persuade them to buy a business's products. It can be expensive, so it is important that a business is wise in their promotional decision making as not to waste money.

Effective decisions about promotion, such as how much money to spend and which methods to use, require a business to establish clear promotional objectives and aims. Some aims of promotion may include :

- **Inform customers** about a new product
- **Persuade** potential and existing customers to buy the product
- Create a **distinctive brand image** that will set them apart from competitors
- **Increase sales** and market share

How can a business check to see if these aims have been achieved?

★ **Consumer feedback -** website reviews, customer service responses etc.

★ **Sales before and after** the promotional/advertisement campaigns

★ How many times the website of the business has been visited (engagement)

Above the line promotion : promotion (such as advertising) that is paid for directly by the business that aims to inform and persuade - like tv or cinema advertising

Below the line promotion : the use of promotional methods that can be controlled by the company selling the goods or service, such as in-store offers and direct selling

Methods of promoting :

- **Advertising:** Paid-for communication with consumers which uses printed and visual media like television, radio, newspapers, magazines, billboards, flyers, cinema etc. This can be informative (create product awareness) or persuasive (persuade consumers to buy the product). The process of advertising is :

- **Sales Promotion**: using techniques such as 'buy one get one free', occasional price reductions, free after-sales services, gifts, competitions, point-of–sale displays (a special display stand for a product in a shop), free samples etc. to encourage sales.
- **Below-the-line promotion:** promotion that is not paid for communication but uses incentives to encourage consumers to buy. Incentives include money-off coupons or vouchers, loyalty reward schemes, competitions and games with cash or other prizes.
- **Personal selling:** sales staff communicate directly with consumers to achieve a sale and form a long-term relationship between the firm and consumer. (phone call sellers)
- **Direct mail:** also known as mailshots, printed materials like flyers, newsletters and brochures which are sent directly to the addresses of customers.
- **Sponsorship:** payment by a business to have its name or products associated with a particular event. For example Emirates is Spanish football club Real Madrid's jersey sponsor- Emirates pays the club to be its sponsor and gains a high customer awareness and brand image in return.

Factors influencing promotion decisions :

- **Stage of product on the PLC:** different stages of the PLC will require different promotional strategies. I.e a declining product may be advertised less
- **The nature of the product**: If it's a consumer good, a firm could use persuasive advertising and use billboards and TV commercials. Producer goods would have bulk-buy-discounts to encourage more sales. The kind of product it is can affect the type of advertising, the media of advertising and the method of sales promotion. Also, is it a new product or an existing product? Does the advertising need to be informative?
- **The nature of the target market**: a local market would only need small amounts of advertising while national markets will need TV and billboard advertising. If the product is sold to a mass market, extensive advertising would be needed. But niche market products such as water skis would only need advertising in special sports and lifestyle magazines. Young consumers or old consumers? Who's more likely online?
- **Cost-effectiveness:** the amount of money put into promotion (out of the total marketing budget) should be not too much that it fails to bring in the sales revenue enough to cover those costs at least. Promotional activities are highly dependent on the budget.
- **Packaging** : needed to protect physical products but also a way of promoting the brand image of the product (like fancy ass boxes for expensive perfumes.) Also, the packaging of the product can be used to inform consumers of essential information regarding the product - such as instructions of how to use, expiry dates, hazards etc.

- **Branding** - Successful advertising will help make a memorable, lasting impression on consumers. This will help build a strong brand image

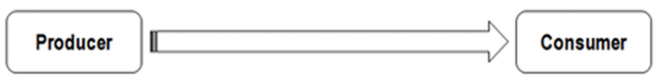
Place

Place in the marketing mix does not refer to a physical location, instead, it refers to how the product is distributed from the producer to the final consumer. These are called **channels of distribution**.

Channels of distribution

The chain of intermediaries a product passes through from producer to final consumer. There are 3 main channels of distribution for you to remember. (INTM = intermediary.)

1. **Manufacturer to consumer (0 INTM)** : also known as direct selling, where the product is sold to the consumer straight from the manufacturer. Such as a farmers market where produce is sold directly to consumers, or airline tickets/hotel stays that are booked directly online.



Advantages :

✔ All of the profit is earned by the producer - no intermediaries needed to be paid
✔ Producer has full control over the process - how it's sold, marketed etc
✔ Quickest method of getting the product to the consumer (helpful for produce that expire fast)
✔ Direct contact with consumers - helpful for getting feedback or developing customer relations

Disadvantages :

✖ All storage, transport and advertising costs must be paid for by the producer
✖ No retail outlets limits the chances for consumers to see and try before they buy
✖ May not be convenient for consumer - as opposed to stores which are convenient

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2. **Manufacturer to Retailer to Consumer (1 INTM)** : The manufacturer will sell its products to a retailer (who will have stocks of products from other manufacturers as well) who will then sell them to customers who visit the shop. For example, brands like Sony, Canon and Panasonic sell their products to various retailers like supermarkets etc.

Advantages :

✔ The cost of holding inventories of the product is paid by the retailer (storing and stocking)
✔ The retailer will pay for advertising and other promotional activities
✔ Retailers are more conveniently located for consumers (supermarkets, convenience stores..)

Disadvantages :

✖ The retailer takes some of the profit away from the producer
✖ The producer loses some control - over the marketing of the product, for example
✖ Retailers also sell products of competitors - providing customers with more choice

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3. **Manufacturer to Wholesaler to Retailer to Consumer (2 INTM)** : The manufacturer will sell large volumes of its products to a wholesaler (wholesalers will have stocks from different manufacturers). Retailers will buy small quantities of the product from the wholesaler and sell it to the consumers. One good example is the distribution of medicinal drugs.

Producer → **Wholesaler** → **Retailer** → **Consumer**

Advantages :

✔ Wholesalers will advertise and promote the product to retailers
✔ Wholesalers pay for transport and storage costs
✔ Whole-saler buys in bulk (higher sales volume)

Disadvantages :

✖ Another middleman is added so more profit is taken away from the producer
✖ Producer loses further control
✖ Slows down the distribution chain - not suitable for products that need to be delivered quickly

Additional info :

An **agent** is sometimes also used in a distribution channel where the manufacturer will sell their products to an agent who has specialized information about the market and will know the best wholesalers to sell them to.

This is common when firms are exporting their products to a foreign country, as it helps to have a knowledgeable agent to take care of the products' distribution in unfamiliar territory. This of course will add another middleman though, which means additional less profit for the producer.

Factors affecting the choice of distribution channel :

- **Importance of product freshness** - fruits and vegetables being distributed should be go through as little intermediaries as possible to ensure they stay fresh

- **How often the product is purchased**: if the product is bought on a daily basis, it should be sold through retail stores that customers can easily access.

- **The price of the product**: if the products is an expensive, luxury good, it would only be sold through a few specialist, high-end outlets For example, luxury watches and jewelry

- **The technicality of the product**: as lots of technical information needs to be passed to the customer, direct selling is usually preferred. (so face-to-face explanations possible)
- **Where competitors sell their product**: in order to directly compete with competitors, the products need to be sold where competitors are selling too.
- **Wanting to keep costs low -** using many intermediaries means less profit for producer

The role of the customer (and the 4 Cs)

Customer relationship marketing is the use of marketing activities to establish successful consumer relations to improve customer loyalty and keep existing customers repurchasing.

The emphasis on customer loyalty has been reinforced due to the belief that it often **costs a lot more to attract new customers** (through advertising, promotions etc.) than it does to keep an existing customer (by say, offering very good after-sales service like repairs.)

The 4 P's main focus is on attracting new customers, while **CRM and the 4 Cs** focus on keeping customers.

Ways to improve customer relationships:

- **Good customer service and support** – essential to building customer loyalty, taking in consumer complaints and resolving issues help build trust and confidence
- **Providing as much information to customers as possible** – about product materials quality, features and service
- **Using social media -** Able to market and promote their products easily towards targeted consumers based on perhaps their past searches or recently purchased products

The 4 C's

The **'4Cs'** has been proposed as another view of what makes marketing successful. It puts emphasis on putting the customer first when making marketing decisions, this is a key part of customer relationship marketing. The 4 Cs are :

■ **Customer solution** – what the firm needs to provide to meet the customer's needs/wants

■ **Cost to customer** – the total cost of the product including extended guarantees, delivery charges and financing costs.

■ **Communication with customers** – providing up-to-date and easily accessible two-way communication links with customers to both promote the product and gain back important consumer market research information.

■ **Convenience to customers** – providing easily accessible pre-sales information, demonstrations and convenient locations for buying the product.

(how the 4Cs relate to the 4Ps)

4Ps	**Marketing Mix**	**4Cs**
Product		Customer Value
Price		Cost
Placc		Convcniencc
Promotion		Communication

The effect of the internet on marketing

The internet / e-commerce is now widely used to distribute products, leading to the rapid growth of internet marketing - marketing activities such as sponsors, pop-ups, email newsletters etc

E-Commerce is the use of the internet and other technologies used by businesses to market and sell goods and services to customers. Examples of e-commerce include online shopping, internet banking, online ticket-booking, online hotel reservations etc.

Online selling is favored by producers because it is **cheaper in the long-run** and they can sell products to **a larger customer base/ market**. However there will be **increased competition** from lots of producers.

Consumers prefer online shopping because there are **wider choices** of detailed products that are also **cheaper** and they can buy things at their own **convenience** 24×7. However, there is no personal communication with the producer and **online security issues** may occur.

Advantages of internet marketing and e-commerce:

✔ Helps reach target customers - through use of consumer data (search history etc.)
✔ Relatively cheap to make online ads (opposed to tv ads) and helps the firm respond to market changes quicker (since online ads can be easily altered/updated rather than billboards and TV ads).
✔ Can sell globally online using websites like amazon - reducing the need for any intermediaries

✔ More convenient for customers - business is able to reach a wider audience through online ads

<u>Disadvantages of internet marketing and e-commerce :</u>

✖ Highly competitive, there are millions of websites, sellers on amazon etc., may have to charge lower prices to be able to compete

✖ Consumers unable to try on, taste, touch products, may be reluctant to purchase

✖ Worries about Internet security – e.g. consumers may wonder who will use information about them or their credit card details

Viral marketing : the use of social media sites or text messages to increase brand awareness or sell products. This can be very good for business, or equally as bad for the business.