CHUKA UNIVERSITY

DEPARTMENT OF BUSINESS ADMINISTRATION

DIBM 0113: PRINCIPLES OF MARKETING

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MARKETING MIX DECISIONS

PRODUCT DECISIONS

Definition of a Product.

According to chartered institute of marketing (CIM) "a product is something that satisfies a set of wants that customer have"

According to Kotler and Armstrong: Product is anything that can be offered to the market for attention, acquisition or purchase, use or consumption that might satisfy a want or need. It includes physical products, services, persons, a place, an organization and an idea.

Levels of a product

When companies are planning to develop a product to be offered to the market they think about it terms of three levels namely: core product, actual product, and augmented product

Core product consist of the problem solving or core benefit that consumer obtain when they buy a product. For instance a student pursuing commerce degree the benefit the product will provide to the consumers.

Actual product- is composed of various characteristic, which makes a product. They could be: quality level, feature, style, a brand name, packaging, and other attributes.

Augmented product- include additional consumer services and benefits build around the core and actual product such as: warranty, free lessons on how to operate a product, quick repair services, installation services, delivery, credit and other after sales service.

Unique characteristics of services

Through the term product include service, as we saw earlier it is important to note that services have unique characteristic from physical objects. They are (1) intangibility which means services cannot be touched or tasted, (2) inseparability that is service cannot be separated from the service provider, (3) heterogeneity means that the standard or quality of service will vary with each delivery, (4) perishability that is services cannot be store and, (5) lack of ownership meaning service purchase does not result in ownership of property.

product classification

Classification by durability and tangibility

Classification by durability and. A non –durable good is an item consumed in one or a few uses, such as food items or uses. A durable good is the one that usually last over extended period of usage such as appliances, automobiles etc.

User classification

According to the type of user classification products are categorized into consumer and industrial goods. Consumer goods are sold directly to the person who will ultimately use them. Industrial goods are used in the production of other products or to conduct business.

6.6.3 Consumer goods classification

Consumer goods are further classified into: convenience goods, shoping goods, specialty and unsought goods.

- **Convenience goods**: are items that the customer purchases frequently and unsought goods.
- **Shopping goods**: these are more durable items that customer buy. This type of purchase is usually made after a good deal of advance planning and shopping around. These type of purchases are also less frequent and before purchase customers compare the various brands on price, quality, style. Etc
- **Specialty goods**: these are consumer goods with unique characters or brand identification for which a group of buyers is willing to make a special purchase effort.
- **Unsought goods**: consumer goods that the consumer either does not know or know about but does not normally think of buyer. Customer in relation to unsought goods have little product awareness and knowledge or if aware, they have little or even negative interest.

Industrial goods classification

Industrial goods can be further classified into material and parts, capital items and supplies, and services.

- **Material and part** includes raw material and manufacture material and parts, consist of component materials (iron, element, wires) and component parts.
- **Capital item** include installation and accessories. They aid in production or operations. Installation includes building, factories, office, generators, etc. accessory equipment include office equipment such as fax machine, desk etc.
- **Supplies and services**: supplies include office stationary and cleaning materials. Business services include maintenance and repair services (legal, management consulting, advertising, etc)

Branding

A brand is a name, term, sign, symbol, or design, or a combination of these intended to identify the goods or services of one maker or seller and to differentiate them from those of competitors.

Branding has become so strong that today hardly anything goes unbranded even salt and sugar, which were traditionally not branded.

Benefits of Branding

- Brand names help consumers identify products that might benefit them.
- Branding differentiates products of different manufacturers
- Buyer who always buy the name same brand know that they will get the same features, benefit and quality each time they buy.
- Branding also communicates to the target market the quality of a specific brand; brand name becomes the basis on which a whole story can be built about a product special qualities.
- Brand name and trademark also provide legal protection for unique product feature that otherwise might be copied by the competitors.
- Branding helps the seller to segment the markets.
- A brand with strong brand equity is a very valuable asset to the organization.
- High brand awareness and loyalty
- Bargaining power of the company with the reseller because the consumers expects the stores to carry the brand.
- Because the brand name carries high credibility, the company can more easily launch product line and brand extensions.

A power brand offers the company some defense against fierce price competition

Major branding decisions

Major branding decisions are brand name selection, brand sponsor and brand strategy.

Brand name selection

Desirable qualities of a good brand name

1. It should suggest something about the product benefit and its quality e.g star soft for softening cloths
2. It should be easy to pronounce, recognize and remember
3. The brand name should be distinctive.
4. The name should translate easily into foreign language.
5. It should be capable of registration and protection. A brand cannot be registered if it infringes on existing brand names.

Brand sponsor

In relation to brand sponsor decision a manufacture has five sponsorship decisions:

- To use manufacturer brand, that is the company brand its own products.

- Sell the product to the reseller who gives it a private brand/ store brand or distributor brand
- Use other companies licensed brands.
- Join with another company and co-brand a product.
- To use generic brand; adopt a no-brand name such as dog food, peanut butter, or green beans

Packaging

Packaging involves designing and producing the container or wrapper for a product. The package may include the product's primary container (e.g the tube holding Colgate toothpaste) a secondary package that is thrown away when the product to be used (the cardboard box containing the tube of Colgate); and the shipping packages necessary to store, and ship the product.

Functions of packaging

- To contain and protect the product
- To attract the attention of customer in retail store shelves eg supermarket
- To describe the product.
- To create instant product recognition of the company or brand
- To influence the buyers-package may be the sellers' last chance to influence buyers especially in a retail store.
- To give a company a competitive advantage over competitors through innovative packaging.

Labeling

Labeling is also a part of packaging. It is the printed information appearing on or with the package.

Labeling perform several functions

- The label identifies the product or brand
- The label describes several things about the brand or product
- The label also promote the product through attractive graphics

Product support service

Product support service are service that augment actual products. More and more companies are using product support services as a major tool of gaining competitive advantage. Examples of product support service are installation, repair services, delivery, warranty/ guarantee etc.

Product mix or assortment

The product mix or assortment can be described as all the product lines and that the company offers for sale to the target market.

Dimension of product mix

Product line: a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same type of outlets or fall within a given product range.

Product mix width refers to the number of different product lines that the company carries.

Product depth refers to the number of versions offered of each product in the line.

Product mix consistency refers to the closeness of items in the product mix in terms of marketing, production requirements, distribution channels, or some other ways.

Product mix decisions

The major mix decision that can be made by the company includes;

(i) Adding new product line which means widening it product mix
(ii) Company can also lengthen its existing product lines to be a more full line company
(iii) Alternatively it can add more versions of each product (also known as product line filling) and thus deepen its product mix.
(iv) Finally the company can pursue more product line consistency or less depending on whether it wants to have a strong reputation in a single field or in several fields.

Product Life Cycle

Product life cycle has an almost ‘biological’ basis. It asserts that products are born, grow to reach maturity and then enter old age and decline.

Introduction Stage

This is the stage when the new products are first distributed or launched and made available to the target market for purchase.

Characteristics

- A new product takes time to be accepted therefore sales are low;
- Only few firms sell the product therefore, few competitors;
- The cost of producing the product is high because of low output;
- The profits are negative due to low sales and preliminary expenses;
- Innovators buy the product during this stage

Marketing mix strategies

- The company offer a basic or one version of the product;
- The prices are usually high and are calculated using cost-plus method;

- The company or the marketer distribute the product selectively using few outlets;
- The company use advertising and sales promotions as major methods of promotion. Advertising is aimed at building product awareness among innovators, early adopters and dealers.

Growth stage

A product moves to growth stage if it gains market acceptance during introduction stage. The following are characteristics of the growth stage:

- The sales start rising rapidly
- The product or company start making profits
- The unit cost of production falls with rise in production and customers
- The early adopters continue buying the product
- The competitors start increasing or growing in number

Marketing mix strategies

- The company or the marketer offers product extensions or service warranty during this stage.
- The prices tend to remain static or are reduced slightly for a time and they are aimed at penetrating the market.
- The marketer start using or building intensive distribution- that is distributing products through many outlets or increasing the number of distribution outlets
- The promotion is geared toward building awareness and interest in the mass market
- Due to increasing number of competition, manufacturers spend a lot of money on product improvement, promotion and distribution to obtain a dominant or strong position in the market e.g. market leader.

6.9.3 Maturity Stage

This is the stage in the product life cycle in which sales growth slows or levels off. Maturity stage is characterized by the following:

- The rate of sales growth slows down and the product reaches a period of maturity.
- The maturity stage is the longest period of PLC
- The profits are high but not rising
- The competition is severe and weak competitors leave the market.
- The early majority and late majority buy the product during this stage
- The cost of production is lower compared to the growth stage due to mass production or economy of scale.
- The company is faced with severe competition, stabilizing or declining sales.

Marketing mix strategies

- The marketer or the company diversifies the brand and models
- The products are priced to match or beat competitors
- More intensive are priced to match or beat competitors

- More intensive distribution is built
- Promotion is aimed at differentiating the brands and emphasizing on benefits. Sales promotion is used to encourage brand switching

6.9.4 Decline Stage

The following characteristics are typical of decline stage:-

- Declining sales
- Cost of production is still low due to mass production
- The profits start declining
- Laggards buy the product when it reaches this stage
- The competitors decline in number due to falling profits and sales

Marketing Objective

The company-marketing objective is to reduce the expenses and milk the brand.

Marketing mix strategies

- The weak product items are phased out from the market.
- The prices are reduced or cut down.
- The unprofitable distribution outlets are phased out and the company goes back to selective distribution.
- The promotion is reduced to the level that will retain hard-core brand loyal.

New Products and New Products Development Process

What is a New Product?

There are numerous connotations of ‘new product’ but we will focus our attention on three distinct categories of new products:

- Products are innovative and truly unique. Any new product in this category satisfies a real deal need that is not being satisfied at the time it is introduced.
- Replacements that are significantly different from existing products in terms of form, function and most important benefit provided.
- Initiative products that are new to a particular company but not new to the market.

New product development process consists of idea generation, idea screening, business analysis, product development, test marketing and commercialization.

Idea Generation

It is a systematic search for new product ideas. The purpose of this stage is to generate many ideas as possible in order to find a few good ones. Major sources of new product ideas include internal sources, customers, competitors, distributors, suppliers and others.

Good new product ideas also come from watching and listening to customers. The company can use any of the following approaches to get ideas from customers:

- Analyze customer questions and complaints
- Conduct customer surveys to learn about customer needs and wants
- Allow salespeople to meet and work alongside customers to get suggestions and ideas
- Finding new product that consumers create on their own and putting them on the market.
- Competitors are another good source of new product ideas. Companies gather new product ideas by watching competitors' adverts and other forms of marketing communications to get clues about their new products.
- Buying competing new products taking them apart to see how they work, analyzing their sales and deciding whether they should bring out a new product.

Idea Screening

The purpose of this stage is to reduce the number of ideas into practicable few. This is done after a thorough idea evaluation process. Ideas should be evaluated before being dropped on the basis of the following factors:

- The extent of existing or potential demand for the new product if developed
- Marketing compatibility or the effect to which the proposed product harmonizes with existing marketing mix variables
- The expected life cycle pattern of the product
- The degree to which the proposed product is in harmony with current production facilities
- The long term expected sales growth of the proposed product

Business Analysis

Typically, only a few ideas survive the screening stage or idea evaluation process. These few ideas are subjected to a more rigorous analysis to see whether they make business sense. Specifically the company wants to find out whether the pursuing the ideas will be profitable and which idea will be most profitable.

Product Development

If business analysis predicts that the product will be profitable, the company moves on to develop the product concept. Developing the product concept involves developing product specifications which spell out in details what the product will consist of.

After product specifications are spelt out, a prototype is built and tested. The prototype must have acquired functional features and also convey the intended psychological characteristics.

Test Marketing

During test marketing, the company offers the product for sale in a limited area and measures the response. Based on the results of test marketing, the company determines how the products and other marketing mix should be adjusted before a full scale launch. The procedure for test marketing entails:

- Determine the number of towns or markets to be used for test
- Selecting the towns or target markets

- Deciding on the length or duration of the test
- Determining the type of information to be collected
- Deciding on the action(s) to be taken depending on the test result

Commercialization

Means introducing the product to the whole market and is synonymous to introduction stage of product life cycle. The company launching a new product must make a decision on introduction timing, where to launch the new product, where in a single location, a region, the national market or the international market. They prefer a planned market rollout over time.

DISTRIBUTION DECISIONS

Meaning of Channel of Distribution

Distribution is physical flow of products through distribution channels. A channel of distribution is defined as a chain of market intermediaries or middlemen used by a producer or marketer to make products and services available when and where consumers or users want them. Intermediaries are individuals or businesses that assists the producers in the performance of distribution tasks such physical distribution among others.

Types of Channel Distribution

- Producer- Customer or Direct marketing
  This is the shortest channel and entails selling directly to the final customer or user of a product. In this case the producers open up their own retailing outlets where consumers buy the products. This type of channel is commonly used in the agricultural sector.
- Producer- Retailer- Consumer
  This channel incorporates one intermediary or middlemen. A retailer is an intermediary who buys from the producer and in turn sells to the final consumer at a profit. This type of channel is common in the marketing of agricultural commodities.
- Producer-wholesaler-Retailer-Consumer
  This channel has two middlemen and is therefore more complicated. Most consumer products in Kenya including beer, cigarettes, edibles fats and toothpaste are distributed in the same manner.
- Producer-Agent-Retailer-Consumer
  In this channel, the agent is used instead of a wholesaler. The difference between a wholesaler and an agent is while the former owns the merchandise, which the latter does not. An agent only transacts on behalf of his producer and is paid a commission for the services. It's common in international trade and insurance or travel industry
- Producer-Agent-Wholesaler-Retailer-Consumer
  This channel comprises three middlemen and although it is occasionally used in distributing locally produced and consumed products; it tends to be dominant in international transactions. It is the most indirect channel of distribution

Factors to be considered when selecting channels

- The Target Market Characteristics

To select an effective channel, producers must look at the size, density and purchase frequency and quantity purchased by the consumers. Market size refers to the number of customers in the target market; the more the customers, the more likely the firm is to use a long channel of distribution. When a market is closely concentrated, the producers should go for a direct channel but when customers are widely scattered the firm should adopt a long channel of distribution.

- Nature of the Product
  Product characteristics are an important to the choice of channel of distribution include product size and weight, perishability, level of product control and input required.
- Cost Efficiencies
  Cost factor is very important in channel selection just as in every marketing decision. The goal of the producer should be to find the most cost effective channel, which balances the cost and accomplishes the necessary channel objectives.
- Company characteristics
  In addition to evaluating customer and product characteristics, the channel analyst must consider company characteristics. The relevant characteristics are the company objectives, financial status, product mix, past channel experiences and the desired degree of channel control.
- Middlemen Characteristics
  The characteristics should also be considered in deciding the channel to be used in distributing the producer's product(s). The major factors here are the market the middlemen serve, their financial requirements, the services that they provide and their availability.
- Competitive Characteristics
  The channels used by competitors tend to be regarded as representing the collective wisdom of the industry. It is also argued that the producer should make his products meet with those of competitor's head on.
- Environment Characteristics
  Economic, political, legal, social and cultural factors also influence channel decisions. It is often argued that where economic conditions are depressed, marketers should move their products to the markets via the route that is least expensive for ultimate consumers.

Functions Performed by Market Intermediaries or Middlemen

- **Contacting Function**
  One reason why middlemen are used is that they reduce the number of sale contacts or sale calls needed to reach all the customers.
- **Function of sorting**
  A second reason for the existence of middlemen is that they perform the sorting function. This function has two dimensions: bulk breaking and bulk building. Bulk breaking involves buying large units and breaking the units down into smaller units suitable for resale. The sub- function bulk building is that the middlemen buy from different producers and combines the items to make suitable units for resale.
- **Physical Distribution Function**
  Another important function performed by middlemen is the transportation and storage of products as they move from the producer to the final consumer. Transportation sub-function creates utility of place by ensuring that goods are available where desired. The

sub- function of warehousing or storage on the other hand, creates the utility of time by ensuring that the products are available when desired.

- **Function of Demand Stimulation**
  The fourth function is that of stimulating demand. Middlemen like producers are in business to make a profit. They, therefore stimulate demand in the same way as producers do. Thus they engage in personal selling, advertising, sale promotion, product planning or merchandising and formulating pricing policies.
- **Function of Market Information**
  To make effective product, promotion, price and distribution decisions marketers must have the appropriate information. Middlemen are important sources of information about the market place; particularly the retailers are closer to and interact with the final consumers more than the manufacturers.

Intensity of Distribution Decision

Once the producer has decided on the general channels that to use, ne must then determine the number of intermediaries that he will use at each level. This is referred to as the intensity of distribution. The producer has three major alternatives

- **Intensive Distribution**
  If the producer opts for intensive distribution then as many outlets will carry his product as possible. That is middleman who wants to distribute the product will be allowed to do so.
- **Selective Distribution**
  Those who advocate for use of selective distribution argue that not every retail outlet that wishes to carry a given product should be allowed to do so. It is argued that if some outlets are allowed to carry a brand, the prestige of that brand may be lowered.
- **Exclusive Distribution**
  The policy of exclusive distribution entails getting into an agreement with a particular middleman whereby the manufacturer gives the middleman exclusive right to market the product in a given market.

PROMOTION DECISIONS

Meaning of Promotion

Promotion also referred to as marketing communications is the element in an organization's marketing mix that serves to inform, persuade and remind the market of a product and or the organization selling the product with the hope of influencing the target audience/ recipients' feelings, beliefs or behaviour

8.4 Promotion Methods

There are various methods of promotion: personal selling, advertising, sales promotion, public relations and publicity.

Personal Selling

It is direct or personal presentation of a product to a prospective customer by a representative of the organization selling it, designed to influence a person's or group purchase decision. Personal selling takes place on face to face basis or over the phone and may be directed to middleman (retailers, wholesalers or agents) or final consumer.

Advertising

Advertising is any paid form of non- personal communication about an organization, good, service or idea by an identified sponsor. The paid aspects of this definition is important because the space for the advertising messages normally must be bought by the sponsor (organization advertising its products)

Sales Promotion

It consists of short-term incentives offered to final consumers and middlemen to encourage them to purchase the company's products e.g price reduction, free samples are examples of short-term incentives.

Public Relations

Encompasses a wide variety of communication efforts made by the organization, aimed at building good relations with the company's various publics by obtaining favorable publicity, building up a good corporate image and handling unfavorable rumors, stories and events.

Publicity

It is a special form of public relations that involves new stories about an organization or its products. Unlike advertising, it involves an impersonal message that reaches a mass audience through the media.

Purposes of Promotion

Promotion in general serves three essential roles. It informs, persuades and reminds prospective customers about a company and its products.

Informing Customers

A producer must inform middlemen as well as the ultimate consumers or business user about the product; reason being that the most useful product or brand will be a failure if no one knows it is available. A major purpose of promotion is therefore to disseminate information or to let potential customers know about a product's existence, availability, price, benefits

Persuading Customers

Another purpose is persuasion or persuading customers. Persuasion has become so necessary today that every a product designed to satisfy a basic physiological need requires strong persuasive promotion.

Reminding Customers

Customers also must be reminded about a product's availability and its potential to satisfy their needs. Given the intense competition for consumers' attention, even an established firm must constantly remind people about its brand to retain a place in their minds.

Determining and Managing the Promotion Mix

Designing and managing promotion mix involves making the following decisions, influencing, setting objectives for communications, analyzing factors influencing the choice of the right promotion mix, budgeting, evaluation and control.

Factors Influencing the Choice of the Promotion Mix

Target Market

The decision on promotion mix selection is largely influenced by the audience or target market. Key target market variables that affect the choice of a promotion method for a particular market is; geographic scope of the market, type of customer and concentration of the market.

Nature of the Product

Several product attributes influence the choice of promotion mix. The most important ones are: product unit value and degree of customization.

Presale and Post sale Service

Products that must be demonstrated to consumers or that require frequent servicing to keep them in good working conditions should be promoted using personal selling. Typical examples include electronic products (television, radio, refrigerators) and personal computers.

Stages of the product life cycle

All products have a product life cycle and the composition of the promotional mix change over four life cycles stages. The stages are introduction stage, growth stage, maturity and decline stages.

Advertising, Personal Selling, Sales Promotion Public Relations and Publicity

Advertising

It is defined as any paid form of non-personal communication about an organization, product, service or an idea by an identified sponsor.

- **Advantages of Advertising**
  - Since the company pays for the advertising space, it can control what it wants to say, when it want to say it to whom the message is sent

- It is cost-effective method of communicating with large audiences and cost per contact through advertising is often quite low.
- Advertising can be used to create images and symbolic appeals for products and services, a capability that is very important to companies selling products and services that are difficult to differentiate.
- Its ability to strike a positive response that is influencing to make a purchase.

- **Disadvantages of Advertising**
  - The cost of producing and placing advertising on the media can be very high.
  - Lack of direct feedback of most advertisements makes it difficult for the advertiser to determine how the message was received and whether it was effective.
  - It is often treated with skepticism by customers because they perceive it to be very biased.
  - Numerous commercials on television, radio, magazines, newspapers, billboards makes it difficult for advertisers to get their message noticed and attended to by consumers.

Personal Selling

This is a person-to-person communication in which a seller attempts to assist and persuade prospective buyers to purchase the company's product or service or to act on an idea.

- **Advantages**
  - The personal, individualized communication that occurs through personal selling allows the seller to tailor the message to the specific needs or situation of the customer.
  - It involves more immediate and precise feedback because the impact of the sales presentation can be assessed by the reactions of the customer.
  - In case of unfavourable feedback the salesperson can modify the message.
  - Can be directed to specific markets and customer types who are the best prospects for the company's product or service.
- **Disadvantages**
  - A major problem with personal selling lies in high cost per contact. It is expensive to reach large audiences through this means
  - Different sales people may not deliver the same message, making it difficult to deliver a consistent and uniform message to all customers.

Sales Promotion

It is defined as those marketing activities that provide extra value or incentives to sale force, distributors or the ultimate consumer and can stimulate immediate sales. It is the most effective market technique e.g. free samples, contests where consumers compete for price and bonus packs- extra products at the same price.

- **Advantages of Sale Promotions**
  - Trade-oriented sales promotions provide marketing intermediaries with financial incentives to stock and promote a company's products.
  - Consumer-oriented sales promotion stimulates short-term sales.

    - Sales promotion also provides marketers with a way of responding to price-sensitive consumers who prefer purchasing products offered at a discount.
- **Disadvantages**
    - Sales gains resulting from these programs are often temporary and same term sales goals are often achieved at the expense of long term brand equity.
    - The rapid growth of sales promotion has also created promotional confusion, as consumer are bombarded with too many sales promotional offer

PRICING DECISION

Meaning of Price

Price is the amount of money charged for a product or service. In broad terms price is the sum of all values that consumers exchange for the benefits of having or using the product or service.

Price goes by many names, you pay rent for your apartment, tuition for your education, fees for medical services from the doctor or dentist, fare for transportation services, interest for money borrowed from the bank, premium charged by insurance companies etc.

Importance of Price

- Profit maximizing market share
- Return on investment
- Prevent competition
- Price stability
- Resource mobilization
- Speed up cash collection
- Survival and growth sustainability
- Prestige and goodwill enhancement

Selecting a pricing strategy

Price determination must include consideration of market characteristics and the firm's current marketing strategy price strategies that reflect these considerations include penetration pricing, skimming pricing, follow the header pricing, variable pricing, price lining and what the marketer will bear.

General pricing approaches/policies

1) Cost- oriented pricing policy/ cost-plus pricing
   Price covers the full costs incurred
   Used by retail, traders and manufacturers
2) Break – even analysis(determine the level of output equals the revenue)
3) Demand oriented pricing-price fixed by adjusting to market conditions
4) Competition-oriented pricing policy- consider the competitive price structure
5) Value based pricing; considers the value/ quality of the product

Factors to Consider in Price Determination

- Marketing mix variables

- Cost of production and distribution
- Consumer perceptions of price
- Market and demand
- Competition
- Buyer expectations
- Government regulation
- Reseller expectation
- Economic consideration
- Ethical consideration

Psychological Pricing

This is a pricing approach that considers the psychology of prices and not simply the economics price say something about the product. Psychological pricing can take several forms:-

Reference Prices

These are prices that buyers carry in their minds and refer to when looking at a given product. It might be formed by noting current prices remembering, past prices or assessing the buying situation sellers can influence or use these consumers' reference price when setting price.

Odd-Even Pricing

Odd pricing set prices at uneven or odd amounts such as Kshs. 99.90, Kshs.199, 289 etc rather than even amounts. The rationale for odd pricing is that it suggests lower prices and as a result yields greater sales than even pricing

Promotional Pricing

It involves temporarily pricing products below the list price and sometimes even below cost to increase short-run-sales; it is commonly used by retailers. Promotional pricing takes several forms:-

- Pricing a few products as loss leaders to attract customers to the store in the hope that they will buy other items at normal markups.
- Special event pricing is another form of promotional pricing, sellers reduces prices in January to attract Christmas shoppers back into the stores.
- Cash rebates are sometimes offered by manufacturers to consumers who buy the product from dealers within a specified period of time.
- Low interest financing. Instead of reducing or cutting prices the organization can offer customers low interest financing for example automobile companies sometimes announces no interest financing to attract customers longer payment terms.
- Longer warranties and free services some companies offer longer warranties and free maintenance service to reduce consumer price. This helps to increase sales and reduce inventories.

9Weaknesses of Promotional Pricing

i. If used to frequently and copied by competitors can create customers who wait until brands are on sale before buying them.
ii. Constantly reduced prices can erode a brand’s value in the eyes of the customers.
iii. Marketers sometimes use price promotions as quick fix instead of sweating through the difficult process of developing effective long term strategies for building their brands
iv. The frequent use of promotional pricing can also led to industry price wars.

Price Discrimination/Segmented Pricing

Price discrimination occurs when an organization sells its products at two or more prices even though the difference in prices is not based on differences in costs. Price discrimination can take several forms:-

i. Customer –segment pricing
In this case different customers pay different prices for the same product/ service

ii. Product-form pricing
Different versions of products are priced differently but not according to differences in their costs.

iii. Location Pricing
A company charges different prices for different locations, even if the price for offering each location is the same.

iv. Time Pricing
An organization vary its prices by season, month, the day and even hour for example telephone services, transportation services, hotel services and supermarkets.

v. Image Pricing
This happens when a company price the same product at two different prices based on image differences.

vi. Channel Pricing
Companies charge different prices depending on the channel carrying the product. For example, coca-cola products are priced differently depending on whether it is sold in a fine restaurant, a fast food restaurant or a vending machine.

Many factors determine the price that a company can charge in different countries. This factors include:

- Cost which play an important role
- Economic conditions
- Competitive situations
- Law and regulations
- Development of the whole selling and retailing system
- Consumers perceptions and preferences may vary from country to country requiring different prices
- The company may have different marketing objectives in various world markets which require changes in pricing strategy.