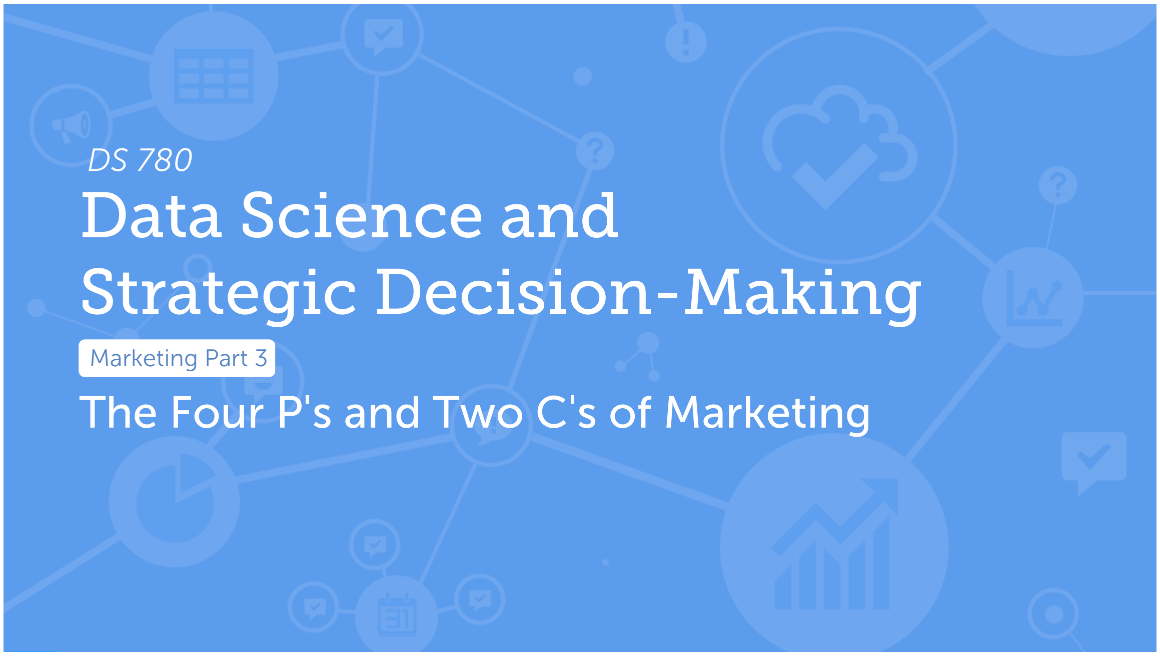


Well, welcome back. It's time for part three of the marketing series. And we're going to be talking about the four Ps and the two Cs in this session, going into some detail on each of them.

Four P's – Product

Product itself

- Packaging
- Brand name
- Company image
- Value
- Warranty
- After sales service

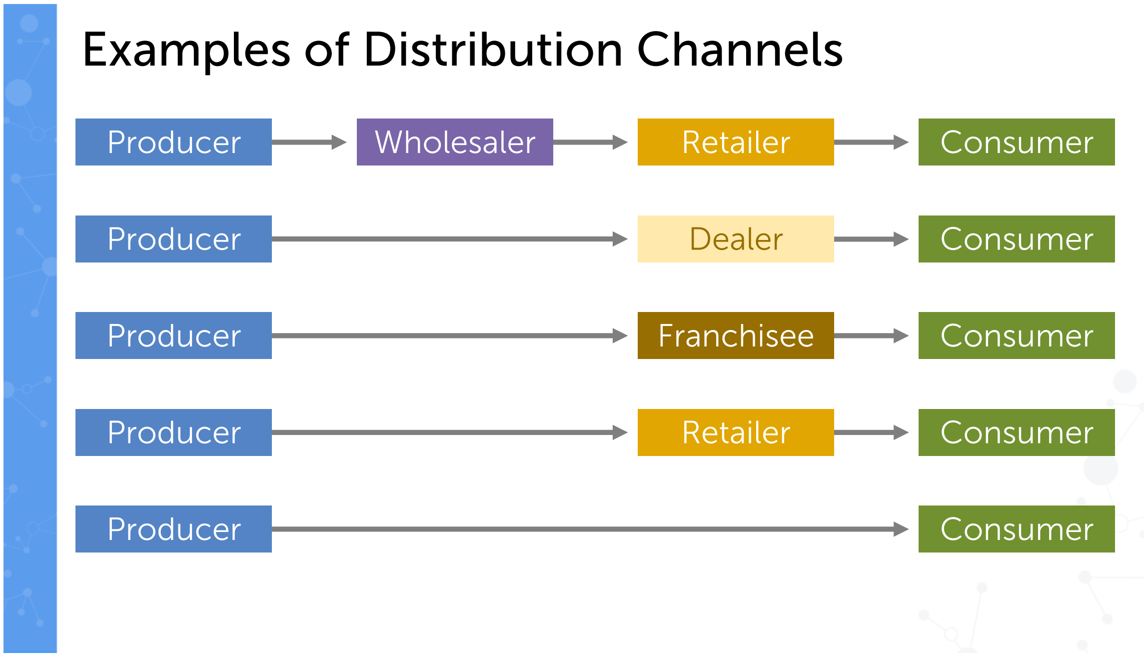
Product can be intangible (service) or an idea

Recall that the four Ps are product, price, promotion, and place. And they make up the marketing mix. And we'll start by taking a look at what this product thing is all about.

So the product, if we're talking a physical product now, is whatever the product itself is-- whatever's inside the can, the bottle, the box, however it's packaged; the packaging itself; the brand name of the company-- brand name of the product, the company name; the kind of value it represents in consumers' minds. Does it have a warranty? What kind of after sale service policy do you have? And do customers know about it?

All of that makes up this thing we call the product. So it's not just the package or just what's in the package. It's all the stuff that comes with it. And companies can have a pretty big impact on those sorts of things.

Then we've got, in the case of services, where the product is actually produced the same time it's delivered. So if you walk up to a hotel check-in desk, that service that you receive there is being "manufactured," quote unquote, by the front desk person as it is delivered to you. So it's a little bit different. The distribution is different. But it's still, in almost all other ways, a product, or can be discussed as a product.



Now, another of the four Ps is place. And if you recall, this really means distribution, is what it's all about. So let's take a look at some examples of distribution channels. So these are just five fairly common examples. There are many other combinations, other ways it can be done. But you notice it's all about moving the product from the producer to the consumer.

So the most traditional way probably is the producer, manufacturer, the factory, sells it to a wholesaler. And that wholesaler in turn sells it to a bunch of retailers, who in turn sell it to a bunch of customers. And of course, at each stage, you're talking about less product changing hands in each transaction. So the producer, when they ship it to the wholesale, it might be a whole truckload. It might be pallets and pallets and pallets of whatever it is.

When the wholesaler ships it to the retailer, maybe with a large retailer, it might be a pallet. But quite often, it's going to be a case or a number of cases of the product. And of course, when it gets to the consumer, the retailer will have opened those cases and taken individual packages that are sold one at a time out and put it on the shelf. And that's how the consumer buys it.

Sometimes that can be handled slightly differently. So you should take a look at the next two. It goes from producer, one to a dealer, the other to a franchisee. They're really-- parallel the what a dealer is, versus what a franchisee is, is the main difference. But in both cases, the producer has a say in who these people are. They grant them the right to be the dealer, or they sell them the right to a franchise. And then that producer provides at least some of the product and maybe all of the product, in some cases, that those businesses are then turning around and selling to consumers. So that's another example of a channel.

Then the fourth one down goes producer straight to retailer. It cuts the wholesaler out. So Target, Walmart, large companies, they don't really need a wholesaler in between to break those truckloads down for them into cases for one of their retail stores. They can do it themselves. The producer may be shipping direct to some retailers' stores. More often, it's going to a distribution center operated by the retailer, who then farms it out to their stores.

The last case, you've got producer going straight to consumer. So that would obviously be the case of something like a manufacturer who sells directly to consumers. So somebody like an LL Bean or a Lands' End come to mind. But also somebody like a Sleep Number beds. They do operate stores, but they also have the ability to be able to sell direct to consumers outside of the store environment. So there's lots of different ways. These are not the only. There's a bunch of others.

Channel Intermediaries

Retailers – Buy and resell to end users

- Best Buy, CVS, Kroger, Target, Wal-Mart, etc.

Wholesalers – Buy and resell to retailers

- SuperValu, ACE Hardware, etc.

Agents and Brokers – Facilitate sales

- Produce sold to grocery wholesalers
- Insurance agents/brokers

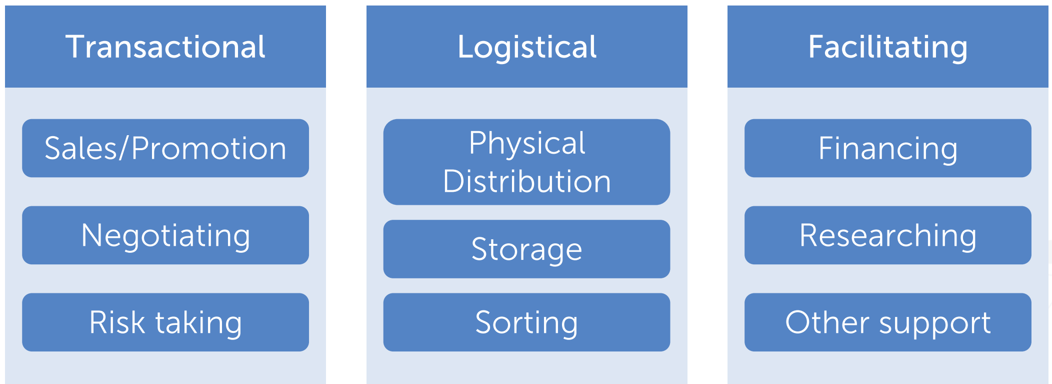
But let's take a look at the channel intermediaries, the folks that are actually in those boxes in that previous example. So the retailers are people like Best Buy or CVS or Kroger-- the country's largest grocery chain, Target, Walmart. All these folks are retailers, as is your corner grocery store or some little butcher shop or bakery. They're all retailers.

Wholesalers buy and sell to retailers. So they buy from the producers and sell to the retailers. And they perform some services, some things we'll talk about here in just a minute, like breaking down that truckload into smaller pieces for a small retailer. In the grocery business, SuperValu is a good example here in the Upper Midwest, although actually, they've got operations around the country. Ace Hardware or True Value Hardware is similar, operates in a similar sort of way, where there's a distribution center that the chain operates on behalf of the individual stores, the individually owned stores.

Now, one thing we didn't talk about in the channels is agents and brokers. And in this case, they don't actually take title to the goods like a wholesaler does, like a retailer does. So an agent is somebody who facilitates sales. So if you buy produce in the grocery store, quite often that doesn't come through the regular channel of distribution that you'd see for cake mixes or canned green beans or things like that in other parts of the store. That produce is most likely delivered to the store through the efforts of a broker, somebody who plays matchmaker between a grower's cooperative or the grower themselves and a store or a store chain.

And the broker doesn't actually take title of the goods. They never physically have the goods. They're simply providing a service matching the seller with the buyer, in this case. And you see the same thing happen, say, in the insurance market, in a non-tangible product. And there are exceptions. There are some companies that sell direct, and there's some companies that employ their agents. But a lot use independent agents who don't take title to your insurance policy when you buy it, obviously. But what they do is play matchmaker between you and an insurance company they feel has the best product for you.

Channel Functions



The channel functions-- and so why do we have channels? What's the point of them? And it falls into three categories-- transactional, logistical, facilitating. You can see each of the examples of each of them there. But the whole point is these functions make it a lot easier and a lot more cost-effective and efficient to operate the distribution of goods and services, goods and services. Because that wholesaler's warehouse that's taking delivery of those truckloads from all the factories, that's a lot more efficient for the factories than shipping stuff via UPS or having a truck drop off a few boxes here and a few boxes there at all these retailers.

And then think about, on the retailer end, they'd be receiving deliveries from every manufacturer of everything they would sell, instead of getting one or two truck loads a week from their warehouse, or whatever warehouse they use to unload. So it makes things much, much more efficient. And that's what channel functions are really all about.

Alternative Channel Arrangements

Multiple Channels

- Multiple or dual distribution.

Nontraditional Channels

- Internet
- Mail-order

Strategic Channel Alliances

- Use another firm's established channel.

Now, there are some alternative channel arrangements, multiple channels, where you might sell your product in two ways. Maybe you sell it in big box stores, but you also sell it through small gift shops. That might be an example of that. But there's other things. For instance, Starbucks and Dunkin' Donuts both sell coffee in their stores, say, bags of coffee. But they also sell it in grocery stores. So you've got multiple channels.

Nontraditional channels, that's the category where we throw internet and mail order. So it's things that don't look like the retail store model from-- it's hundreds of years old. And then you've also got something called strategic channel alliances. This is an interesting one. This is where maybe somebody wants to set up a distribution for their product, but a wholesaler really doesn't make sense because of some special needs of the products. It needs to be frozen or refrigerated or handled specially, that sort of thing. Or maybe there's certain people handling distribution that really know the types of stores that your product would sell in.

So that's when you get into these alliances. A good example of one that was formed and then broken is, going back to Starbucks again, when they decided they wanted to sell in stores, they went to Kraft-- or what was, at that time, Kraft. Kraft has since been split into pieces. But they had a contract with Kraft, so Kraft actually distributed to all these stores for them.

As Starbucks grew, they realized they would be better off distributing on their own. They were big enough now. But they had a contract with Kraft. They had to break it. It cost them about a $1 billion to do it. But they did, and now they distribute on their own. And they're much better off for it.

Ben and Jerry's, the ice cream people, when they first started, I believe they distributed using Dreyer's and EDY'S, the ice cream company. It depends on where you are in the country which brand they use. But they have a national distribution of ice cream. That's a pretty specialized thing. Everything has to [INAUDIBLE] be frozen. And it worked fine with Ben and Jerry's, because Ben and Jerry's is a super premium. EDY's and Dreyer's is a premium. They don't really compete directly head on, and it made sense for both companies. So an alternative channel arrangement was born.

Factors Impacting Channel Choice

Market	Product	Producer
• Customer profiles • Consumer or industrial • Market size • Geographic location	• Complexity • Price • Standardization • Life cycle • Delicacy	• Resources • Product lines • Desire for channel control

There's a lot of factors that can impact channel choice-- Market type factors, product factors, producer factors; so the types of customers that might facilitate certain retailers, the wholesalers that can serve those retailers, where a product is. Sometimes a product is heavily accepted in one part of the country and less so in another. That may impact where your channel choice. The product itself, the complexity-- are you trying to sell cell phones or stereo equipment or automobiles, or are you trying to sell chewing gum? Those are two very different products in terms of complexity.

The same thing with price or how standardized it is, how long the lifecycle, delicacy. Go back to the produce in the grocery stores. Notice that it had a different channel than the cake mixes. That's because of delicacy.

Producers-- sometimes producers have the resources to field their own wholesale or distribution arrangement in their sales force, and all that. Sometimes they don't, and that's why they use wholesalers or sales organizations. It might depend on how many product lines. And do they have different product lines that need different distribution? And a lot of times, it comes down to how much do they have desire for control of the channels that their product moves through?

So think about somebody like Apple, who keeps very tight control, versus somebody-- well, we just talked about chewing gum. So, say, Wrigley, who they don't care. Any convenience store is fine with them. So very different attitudes from the producers.

Four P's – Price

- Price is what a buyer forgoes in order to acquire a product
- Often flexible and easy to change
- Competitive tool
- Choosing a pricing strategy and setting prices are important to a company – price directly impacts profitability

Another P is price. And in terms of price, it's really just what the buyer is paying and what the seller is receiving. They come to some kind of agreement on that. Price is pretty flexible. It's easy for a seller to change that. It's often used as a competitive tool. That's what sales are, to adjustment in the price, and that's how a very popular competitive tool among retailers. By the way, price can also happen between the producer and the wholesaler and the wholesaler and the retailer. There are price promotions that happen away from the consumer as well.

And then finally, it's important to note that choosing a pricing strategy and actually setting the prices has a very, very direct impact on profitability of the company, because you're immediately impacting how much revenue you're going to get in per unit of product sold. So if you drop your price, and you don't increase the number of units, it's a mathematical formula. If you don't increase the number of units enough, you actually have a drop in revenue.

Promotion, the fourth P, is usually thought of as advertising. But there's a few other things. The goals of promotion really come down to informing, persuading, reminding, connecting. So informing somebody about a new product or a new feature of a product; persuading is trying to get them to buy it; reminding is to say, hey, it's time to buy that again, so you're constantly reminding, especially consumable type products; and then connecting.

Even if you're not in a position where you're going to be able to sell to somebody-- maybe they just bought a car from you last year, and you know they aren't going to buy for another 2, 3, maybe 10 years. But you can still connect and build relationships, because what you're trying to do, in that case, is create brand advocates, people who will go out and talk well about your product. And hopefully, they do it on social media, as well as just talking.

The promotional mix is similar to the marketing mix, is, in this case, consists of five different types of promotions-- advertising, public relations, personal selling, sales promotion, social media. And then the strategy comes from how much of this and how much of that. You concoct your own recipe for your promotional strategy, based on this mix.

So advertising-- straightforward. Public relations-- that's often thought of as earned media, as opposed to paid media. That's what advertising is. And we say earned media, because you have to produce a press release, or you have to engage the press somehow or other about some event or something that can be relatively newsworthy, and get them to cover it. You don't have to pay for it, but you also don't have control over exactly what they say.

Advertising, you pay for it, and you have control over every word and image, and all the other stuff. Personal selling happens with sales reps. It also happens inside the retail environment. Sales promotion is just a term for short-term promotions. So if you've got something on sale for two weeks, a buy one, get one, or you've got coupons that are out there, things like that, they're designed to get you additional sales in the short term. And then social media, we're all familiar with. But it, in a way, mixes advertising and public relations, but through different channels, through all these various social media, and is a very powerful part of the mix these days.

Use the Right Tool for the Job

	Advertising	Public relations	Sales promotion	Personal selling	Social media
Communication type	Indirect Impersonal	Typically indirect + impersonal	Typically indirect + impersonal	Direct	Indirect
Control	Low	Medium to low	Medium to low	High	Medium
Feedback amount	Little	Little	Little	Little to some	Great deal
Feedback speed	Slow	Slow	Varies	Medium	Medium
Message direction	Unidirectional	Unidirectional	Mostly unidirectional	Bidirectional	Multidirectional
Control of content	Yes	No	Yes	Yes	Mostly no
Sponsor identification	Yes	No	Yes	Yes	Yes
Speed reaching large audience	Fast	Typically fast	Fast	Slow	Fast
Message flexibility	Same message to everyone	Typically no control over audience	Same message to multiple targets	Customized to buyer	Can target selected audiences

We won't go through this slide. It's available in the PowerPoint that you can get off of D2L, if you want to take a look at all the details. Or you can just pause it, I guess. But basically, it talks about the characteristics of each of the different types of promotional ways you can promote. And the idea is you want to pick the one that fits your needs.

Two C's – Customers

Understand your current customers

- Purchases and other behaviors
- Market research

Understand consumer decision making

- New customer needs
- Collect data from each contact

Identify most valuable customers

- How are they different?
- What do they want?

Profile of current customers tells you who your best prospects are

Now, moving on to the two Cs, we've got customers, the first C. And its importance, three-- excuse me, four things that are important about this is, one, you should understand your current customers. You should have an idea of their purchase patterns and other behaviors. You might be able to pull this off your point of sale. If you're a retailer of some kind or other, you might need to do market research on it.

You also need to understand consumer decision-making, especially with new customers. They're going to have needs. You have to understand what their needs are in the decision-making process they go through. And you might want to collect data from each transaction with a new customer or a first-time customer, and see if you can start to get some insights into how they think. It's a form of data collection. Sometimes it's very quantitative. Sometimes it's very qualitative. But it's important.

You also want identify your most valuable customers. So you need to be able to analyze your sales, whether it's from your point of sale terminals or some other method, depending what kind of business you're in. You want to also tag each of those customers with some demographic and maybe some psychographic data, so that you can draw conclusions, that you know that females under 30 are your biggest spenders. Or they're your least biggest spenders. Or they come in lots of times, but they don't buy much each time. Or maybe they come in very seldom, but they buy a lot. Whatever it is, you're trying to discern a pattern and create a profile of customer types, because that can help you in promotions.

And then, of course, that leads to the fourth point, the profiling. So I've really jumped ahead to that as a second part of the identify the most valuable customers, because that really is the prelude to profiling. It helps if you can use your point of sale. Or maybe, if you get a loyalty program, you can gather a lot of information that way. But even without a loyalty program, there are ways to do it. And it's something you definitely would want to look into.

Two C’s – Competition

Know who your competitors are

- Watch for announcements
- Gather competitive intelligence
- Know the market power of each competitor
- Don’t forget indirect competitors

Understand competitors’ “personalities”

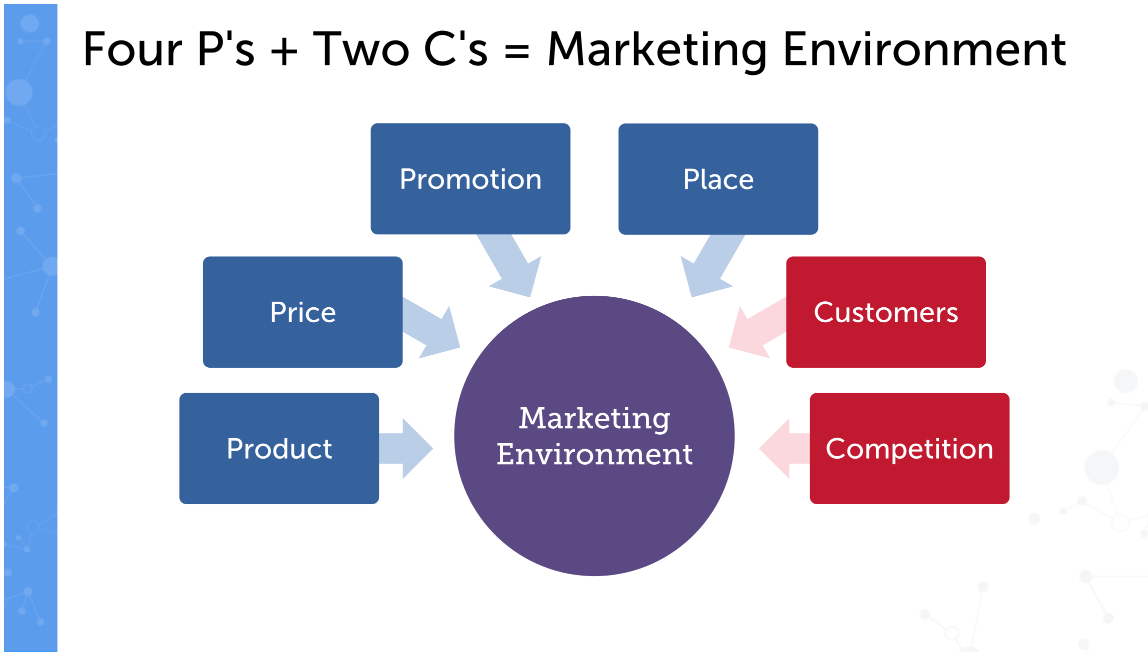
- Predict future moves
- Predict their possible reactions to your moves

Now, competition, two major points-- you've got to know who your competitors are, and you've got to understand their personalities. So you've got to know who they are. You do that by watching for announcements. You gather competitive intelligence. See what they're doing. And you talk to sales reps that call on both companies, things like that.

Know the market power of each of them. Know which one can move your market or which one can't. Because those are two very different kinds of competitors, from your viewpoint. And then don't forget indirect competitors. It's not people that are in exactly the same businesses as you are. There's other people maybe selling products, the same products or similar products, but maybe it's a sideline for them, those sorts of things. You need to know who those folks are as well.

You need to understand the personalities. You predict their future moves, if you can understand their personalities. And personalities, we're obviously putting up a human trait on a company. But it's something that's useful sometimes.

And then you also want to be able to predict their possible reactions to your moves. That's pretty important, because if you're going to make a bold move, it could backfire on you, if you know that you've got a competitor who is pretty ruthless and is willing to lose some revenue in order to teach you a lesson, or something like that, by slashing prices for a while. So you need to understand that with your competition.



In the end, the four Ps and the two Cs, like we started out with, the product, price, promotion, place, that you control as the company, and the customers and competition, which you really can't control very well, all together makes up the marketing environment. And that's where we'll end it. We'll be back for the last part, part four, whenever you're ready.