14. The â€˜4â€™ Marketing â€˜Psâ€™: The Classification of Products and Various Pricing Policies

Objectives

At the end of this chapter, students should be able to explain the policies regarding two of the four main concepts of the marketing function, that is, product and price policies, and to recognize the different categories of products in the market at any given time, and the different prices chargeable.

14.1 Introduction

Product, price, place and promotion are fundamental to marketing. The 4 â€˜Psâ€™ are complementary to each other. It is unusual in marketing to talk of a product without price, place (distribution) and promotion. The four are interrelated and amount to what is known as integrated marketing; and in our discussion of policies governing them, we shall take them as coordinated policy organs of the marketing function.

14.2 Product Policy

This is about the flow of commercially – viable products which are compatible with a firmâ€™s existing resources, that is, stock of equipment, liquid assets, human skills and goodwill. Product policy can also embrace the extension or reduction of the range, diversification and segmentation; it must also be conscious of the advantages and the disadvantages of various policies; the need for common components (known as communization in marketing) and variations of standard models suited to customer requirements. Product Policy also has serious financial implications, as well as quality control, and the design policy.

Activities Concerned with Product Policy

(i) **The expiration of the life cycle of the initial products:** When originally a firm commences production, such firm launches its initial products. But experience shows that every product has its own life cycle, from the launching of a product to its full capture of the market and lastly to the collapse of demand for such product. The three stages are shown in the diagram below as: (i) the period of development, when it is just appearing in the market, with little or no profit at all; (ii) the growth and maturity when demand, as well as profit margin, is at its maximum; and finally (iii) the decline phase when competition and or substitution gives rise to a fall in demand.

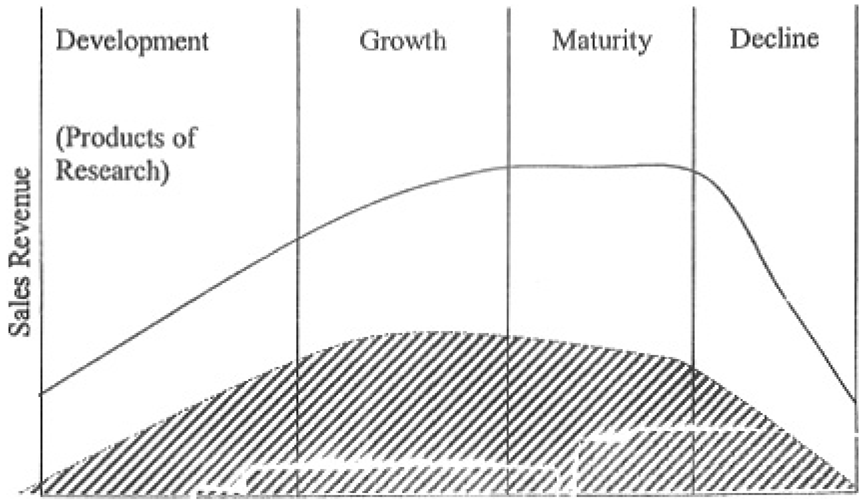

Fig. 13.1: *The full life cycle of a product*

(ii) **Evolution of new products:** Following on before the decline stage of the initial product, a firm, in keeping with ts product policy, must be capable of bringing out new products into the market. The following factors may server as guide to its product policy:

(a) *Use of existing skills and materials* In turning out alternative products, e.g. ship builders can turn containers to living quarters in form of caravans or industrial ho using units – ship building, house and caravan building require common skills.

(b) *Extension of a range:* This may be based on a package deal associated with the present basic product, e.g. furniture firms can extend from tables and chairs to beds and office furniture.

(c) *Diversification of products based on future market demand:* This goes beyond the immediate needs for product range. But it is based on the existing corporate strength of the firm. However, care must be taken not to over-estimate the medium and long-term advantages of such product policy. There must also be an awareness of the need for an aggressive marketing policy to sell the new products to the potential consumers and the possibility of competitors â€˜mapping outâ€™ the same policy.

(d) *Necessity for continuous research and development:* This is primary if the product policy of injecting necessary flow of new products or variations to sustain demand at its profitable level would not be an idle dream. This would result in a number of advantages: knowledge of the socio-economic forces affecting the trend of demand, fashion, the timely launching of new products and above all, the quality and price growth which product policy should track down through research.

(e) *As a â€˜hedgeâ€™ or insurance against idle committed assets:* Product policy should be capable of maximizing the use of the firmâ€™s assets capacity. A book publishing house with a printing business should be able to take jobs from other publishers or printing firms during the formerâ€™s slack period in order to maximize its capacity. In addition, in utilizing existing capacity fully, there could be a mix of scale.

(f) *Diversification:* This is the ability to expand the scope of a series of products which may be made by a firm and promoted under a brand name. Diversification provides an insurance against over-dependence on one successful product or market. But there should be caution to guard against overheads costs associated with diversification in terms of entering into new markets, both in time and in money and the cost of establishing goodwill.

(g) *Segmentation:* This falls short of extreme diversification in that product range is basically reduced to a single product, e.g. furniture or 504 Peugeot motor car only. But it involves a range of quality or price or other attributes that cater for different segments of the market, e.g. 504 GL; 504 GR; 504 SR with or without an air conditioner. It is based on the desire to maintain markets large enough to achieve the lowest cost of unit output. It may have to use the same production machinery, skills and administration. However, where segmentation warrants the use of other equipment, skill, etc. then it is close to diversification.

(h) *â€œCommonization â€œ or variety reduction or simplification:* This is the reduction in the range of products or the components being used for final production. That is, standard parts for all the models in the range are being used. Unlike segmentation, this is basically a one-product manufacturing firm. It has a number of advantages such as spreading of the fixed cost of manufacturing; lower production cost and sales prices that would lead to greater sales and profit margin. Forecasting and production planning are much easier. Sales activities and after-sales services are more straight forward.

(i) *Quality control:* Again, as we have emphasized all along, the importance of quality control in product policy cannot be overemphasized. If the goals and objectives of a firm as to the category of goods to be produced would be realized, then quality control becomes an internal part of product policy; all that was said about this topic in the previous chapter becomes very relevant here.

The basic classification of products

Generally, the division of goods is based on their inherent characteristics and the shopping habits associated with them. Basically, one may distinguish goods as convenience goods, shopping and speciality goods. However, one must quickly add that there is some degree of subjectivity in such classification in that, convenience goods to one person may be viewed as speciality goods by another, e.g. toothbrush and toothpaste. However, our classification would be based on market attitude; if the market takes both products as convenience goods, then these are similarly classified.

(a) **Convenience goods:** They have low unit value, purchased regularly and in small amounts; and the consumer spends minimum time and inconvenience in looking for them. These are the everyday purchases of life such as salt, cooking oil, tea, coffee, sugar, bread, etc. They are capable of being supplied by many manufacturers at many convenient stores and therefore, there is no need for customers to store them in large quantities. The goods are similar, vary in brand, and customers are volatile in their choice.

Therefore, to remove the danger of unsaleability, manufacturers of convenience goods must remove anonymity and introduce some unique and special attributes among the available substitutes. That is, the design of convenience articles must be so good that such goods can be easily advertised.

Also, the distribution system must be such that the article is always available; this explains why the retail shops are the most convenient sales outlets for convenience goods. If high quality is coupled with high prices, it will be a way of differentiation among convenience goods. Thus the classification of goods forms the basis for important decisions in sales promotion, distribution and price policy.

(b) **Shopping goods:** These, by their description, are the opposite of convenience goods. Shopping goods are of higher unit value and are purchased less frequently. They are bought only once in a few years or once in a lifetime, e.g. cars, furniture, radios sets; on the service side, entertainment and tours or holidays. Customers are therefore more discriminating and would look for alternatives from which a choice can be made. The customers can afford to suffer some inconvenience in their search for shopping goods. There is the lack of urgency and the goods are not consumable like food items, which have to be replaced, but are goods only necessary for social reasons; and when replacement is required, there is no urgency about it. The sales outlets therefore could be reduced because of consumersâ€™ willingness to spend time searching for shopping goods.

They can be put close to competing products to facilitate the process of choice-making. Where there are many substitutes, there are marketing activities which are useful to shopping goods but not to convenience goods, e.g. combined qualities of prices, durability, after-sales services, etc.

(c) **Speciality goods:** The consumer of speciality goods is aware of what he wants and is willing to make a special effort to obtain it. The nearest Leica camera dealer may be many kilometres away or in the nearest city, but the Leica camera enthusiast will go to that store to obtain his heartâ€™s desire. Another example is a doctorâ€™s drugs prescription which a patient would search for, no matter the distance.

Speciality goods have some unique property, particular attribute, or overall quality which distinguishes them from similar products. Such attributes can be achieved as a result of product development and design, or the long standing tradition of the producer. Once these distinguished attributes are appreciated by the customers, then speciality goods come to be treated as such. The volatility of sales situation is considerably reduced and the customer specially spends time to look for it in dealerâ€™s shop; even within brands, customers attach some speciality and seek out a definite speciality goods.

Therefore, there are consequences for the distribution activities of speciality goods. Retail outlets can be reduced, perhaps to the point of exclusive reputed dealers. There could be direct dealings with the obvious sales for administration convenience. Sales forecasting of a speciality is made easier if it can be assumed that the customer clearly distinguishes it from others. There would be some degree of inelasticity in the demand for such goods which consumers regard as unique.

The dynamic aspect of classifications: Like all aspects of marketing, classification of goods is a dynamic issue, plan or policy. For example, shopping goods could become convenience goods and assume the distributive policies of these goods while every effort is made to promote convenience goods to the higher ranks of classification. A product can grow to the point of assuming the attributes of another class of products or goods by the customersâ€™ attitude. When this happens the producers re-orientate their sales policies accordingly. This has happened to gramophone records, transistor radios, hardware goods, films, paperbacks and some domestic electrical equipment. Such goods could be sold on a hybrid basis of half-shopping, half-convenience classification.

Convenience goods could be promoted to shopping goods by brands and active sales promotion, although there is the difficulty of losing their original identity.

Conversely, in a period when the market is more price-conscious, brand preference is reduced. Articles that had enjoyed some royalty as shopping or speciality goods can easily lose their ranking if the price policy is not correctly adjusted to current economic conditions. In addition, the affluence of customers can also relegate goods to a lower rank. However, in order to arrest such relegation, where necessary, sales promotion efforts could be applied; alternatively, it might be more prudent to follow and accept the customersâ€™ attitude of classification.

(d) **Impulse goods:** There is another category of goods known as impulse goods. They are goods that are bought on impulse. In other words, they are goods which consumers buy without any previous plan to buy them. The thought to buy the goods comes up when the consumer sees them and they stimulate his desire for them. That is, the mere sight of the goods evokes its use in the consumer who then goes for them, e.g. childrenâ€™s toy offered by hawkers in a traffic jam or hold up, ice cream on a hot day. Other items in this group include all types of sweets, razor blades and chewing gum which are usually displayed on the cashierâ€™s desk in the supermarkets. Some novels are bought on impulse in the lobbies (waiting rooms) of big hotels, passengers waiting rooms at the airports, etc.

(e) **Unsought goods:** This is another class of consumer goods which potential consumers do not yet want. They do not know they can buy them and so do not go about looking for them. The consumers may not even buy these goods if they come across them unless persuasion is used to make them purchase them. Their main or major characteristic is that they are goods used on certain occasions, eg. encyclopaedia, engagement rings, wedding dresses, life assurance, coffins and gravestones.

14.3 Price Policy

This occupies a special position in sales promotion activities. A firm has a price policy when a decision has to be made on the price to be charged for a product or service. It is a positive attitude on the part of a business to decide on its price policy. It is governed by a number of factors.

(i) **Economic forces:** This is a situation of competition among brands of similar products. Even when the firm attempts to change consumersâ€™ valuation and preferences among the competing products, it also adjusts its prices to the extent to which its sales promotion efforts are successful, e.g. when, determining the price of *Peak Milk* one cannot ignore the price of *Coast Milk.*

(ii) **Consumersâ€™ preferences:** The preferences are not just within generic group of products, but also among all those products competing for the same purchasing power of consumers. For instance, radio or television may compete in preference to household furniture. Price policy should take cognizance of the change in consumerâ€™s preferences.

(iii) **Credit system:** Following (i) above, the adoption of credit buying which seeks to reduce the financial burden of purchasing a product can have positive effects on price policy. Consumers have been known to go for credit buying, even when inherent in the credit system is paying more for the article than if it was a cash purchase. Consumers would do this instead of doing without a good that appeals to their fancy.

(iv) **Product value:** Prices have been determined by the value placed on the product by the customer. Again, this product value can be a result of utility value gained by customers from this product or the price charged for other goods. Consumers have been known to place higher value on the more highly priced goods. In addition, certain goods have always been associated with high value – television sets, cosmetics (by ladies), wedding gowns, electrical appliances, etc.

(v) **The established or administered price:** Where a price is longstanding in the market and becomes accepted for a product, then it is against pricing norm, as far as customers are concerned, to change suchâ€™naturalâ€™price.

Methods of Pricing or Types of Prices

(i) **The concept of established price:** This is a price that is acceptable to the consumer segment of the market for that product, and any new price below or above this established price may evoke some suspicion. For instance, the coloured television set, Mercedes Benz cars, all tend to have an established price in the minds of consumers.

(ii) **Cost plus profit margin price:** Total cost of production plus profit margin may be sometimes a method of pricing. Again, this will depend on whether the market for the product can absorb total cost plus a margin of profit. This, to the manufacturer, is the most convenient cost. But there are times, such as periods of slump, or the initial launching of products, when products cannot just absorb total costs. Economists and accountants make use of what is referred to as marginal cost (minimum cost) that is, total cost and less fixed costs (i.e. variable cost). In a slump period, firms struggle to stay in the market in the hope of better times. Similarly, the heavy method of advertising today is expected to generate increased revenue in the future.

(iii) **Elasticity of demand for product:** If with a lower price for a product, total revenue and profitability per unit output will increase, then the price of the product may be put low. But where demand is inelastic, the higher the price, the greater is the revenue and profitability, e.g. price of essential goods like salt. Another example is when an article is used in a small proportion with a high-valued product, e.g. petrol and motor vehicle. Increasing the price of petrol will not necessarily lead to non-use of cars. This is likely to be one of the economic considerations for the Federal Governmentâ€™s removal of fuel subsidy.

(iv) **Differential Prices:** Prices could be segmented – for instance, one price in the home market and another one in the foreign market. The price could be lower where the firm is struggling to penetrate the market or is facing extreme competition. In the telephone service and electricity supply, differential prices are charged for â€˜peakâ€™ hours when there are far more customers using telephone services, and cheaper rates at â€˜off-peakâ€™ periods when plants and equipment are underutilized. Also, electricity charges could be higher for industries but lower for home consumers. However, certain conditions should prevail:

(a) the articles must not be profitably transferable between segments, since this will undermine the policy.

(b) There should not be what is known in marketing terms as â€˜cannibalismâ€™ of products or services. Those that consume at higher rates should not be capable of doing so at the lower price sector.

(v) **Price and the practice of the market:** If there is a general convention of price conformity in the market, then price determination must be uniform. Any non-conformist may be severely penalized or bought off the market if its own price â€œbeats others below the beltâ€. With a price conformist, traditional firms can only compete using other selling functions like speed of delivery, after-sales service, etc.

(vi) **â€˜Lossâ€ leader product price:** Where a product is to be sold as a â€˜lossâ€™ leader, then its price can be put so low that consumers attracted by the price will â€˜shopâ€™ for other products of the same firm, thus raising total sales revenue for the firm.

(vii) **Price and dealer margins:** Dealers constitute a forceful distribution factor in marketing and margins are usually offered to dealers to motivate them into stock holding. Prices should always take account of dealer margins, and under no circumstances should established dealersâ€™ margins be reduced. In fact, upward adjustment of dealer margins would serve as effective sales promotion effort.

(viii) **Price adjusted to quality:** Where a product assumes new quality image, prices could be raised to reflect this. But this may require very powerful promotion activities to create the correct image.

(ix) **Price and motivation:** This is similar to (viii) above. The difference is where a firm deliberately concentrates on high quality product for its appeal to the taste of a high-class customer; then the price can be determined accordingly – higher prices evoke a higher quality image for such products. Here, prices mounted on high quality goods are a sort of motivation.

(x) **Temporary special offers** (Cut-down prices). This is very common in places like the U.K. when there is need to clear the shelves of clothes meant for winter at the advent of spring or summer season, since different wears are for different seasons. In Nigeria, there are temporary special offers for Christmas period to motivate Christmas shoppers to greater purchases. This is called â€˜salesâ€™. Alternatively, cut-down prices are adopted by a business which decides to close down operations, e.g. Kingsway Stores in some of its establishments in the country in 1987.

(xi) **Price increases and sales promotion:** Normally, raising prices generates hostility. But when supported by promotion activities like introducing new model, new conveniences of use, new utility to existing products, higher prices could be acceptable to the consumers who now allow a higher value-rating for the goods.

Summary

Product policy is the continuous flow of commercially profitable goods in the market. Conditions guiding such policy are product life cycle, the need to introduce new products, research and development, full utilization of asset capacity, diversification, segmentation, quality control and variety reduction.

Classification of Goods

(a) *Convenience goods:* consumption goods bought quickly and without time wasting, and usually of small unit value.

(b) *Shopping goods:* require buying time, of great unit value and with dealers as outlets; long life goods.

(c) *Speciality goods:* with specific or unique features, shoppers take their time inspecting them.

(d) *Impulse goods* are goods which consumers buy without previous budget for them. The sight of such goods evokes the desire to buy them, e.g. ice cream on a sunny day.

(e) *Unsought goods:* These are goods people do not go about to look for though they need them. They are used for certain occasions, e.g. wedding dresses, coffins.

The dynamic nature of classification is the possibility of a vertical movement of categories from convenience to shopping, and vice versa.

Price policy: This is a deliberate effort to determine the price of a product

(a) *Factors affecting price policy* are economic forces; consumerâ€™s preferences, adoption of credit system, product value, and what consumers regard as established prices.

(b) *Types of prices* are established price; cost plus profit margin; differential prices based on elasticity of demand; dealer profit margin price; quality-based price; special offer prices; prices based on increased sales promotion and on inflation and resale price maintenance.

Revision Questions

Essay Questions

1. Define segmentation and communication in marketing terms.
2. Compare and contrast with examples convenience goods and shopping goods.

3. Explain the bases of pricing for each of these:
   (i) established price
   (ii) value price
   (iii) price resulting from demand and supply elasticity
4. Write a short note on what is known as price policy in marketing.
5. Compare and contrast shopping goods and speciality goods.

Objective Questions

1. Modern business philosophy emphasizes
   A. quality products
   B. customer satisfaction
   C. sales volume
   D. public relations

   (JAMB 1999)
2. The concept of limiting the types, sizes and other characteristics of a product line without sacrificing utility or durability is called
   A. simplification
   B. standardization
   C. specialization
   D. satisfaction

   (JAMB 1999)
3. The focal point of all marketing efforts is the
   A. seller
   B. profit
   C. product
   D. buyer

   (JAMB 1999)
4. What is NOT an advantage of direct distribution of goods to the consumer by the manufacturer?
   A. closer contact with market trends
   B. decrease in bad debts
   C. greater intensiveness of the sales campaign
   D. no trading discounts need be allowed
   E. sales are more accurately and efficiently made to the consumer

   (NECO 2001)
5. One of the most important functions of marketing is
   A. creating classes of merchants among businessmen
   B. providing finances to business
   C. encouraging research activities to meet needs
   D. the extension of markets for business

(JAMB 2002)

6. In product pricing, which of these elements needs more consideration than others?
   A. the economic conditions in the market
   B. the demography of the buyers of the product
   C. the cost of producing the product
   D. the demand for the product

(JAMB 2002)

7. The marketing approach by which a firm carry out a detailed analysis of itself, the consumers and its competitors is known as
   A. market analysis
   B. marketing mix analysis
   C. marketing opportunities analysis
   D. marketing survey

(JAMB 1995)

8. A firm that adapts itself to delivering the desired satisfaction more effectively and efficiently than its competitons is said to be practising
   A marketing concept
   B. product concept
   C. price concept
   D. distribution concept
9. The focal point of marketing is
   A. profit-making
   B. sales
   C. the buyer
   D. the competitor

(JAMB 2003)

10. Stimulation of demand is a kind of communication in marketing which connotes
   A. sales promotion
   B. merchandising
   C. personal selling
   D. advertising

(JAMB 2003)

Project

Make a visit to some local shops or markets and give a list of the goods you find in the following categories:

(a) Speciality goods
(b) Shopping goods
(c) Convenience goods