



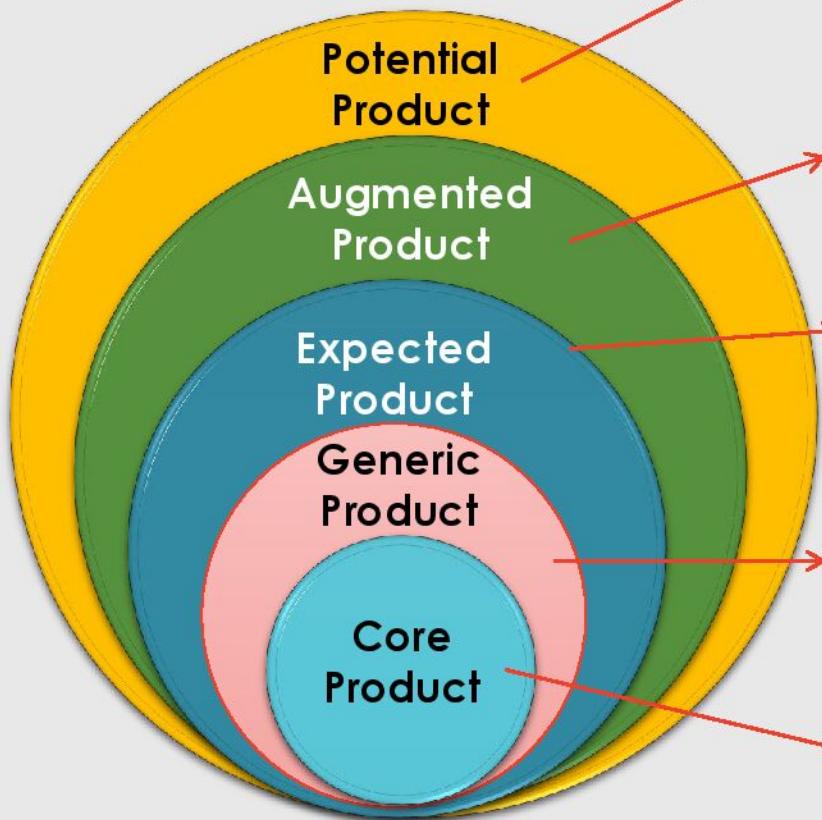
PRODUCT DECISIONS

What Is a Product?

Product is anything that can be offered in a market for **attention, acquisition, consumption** or **experience** that might satisfy a need, want or demand

From organization's perspective it is the **Core of the offer** made to the customers

Levels of Product



Future updates and upgrades, compatibility & connectivity with other gadgets & devices, etc.

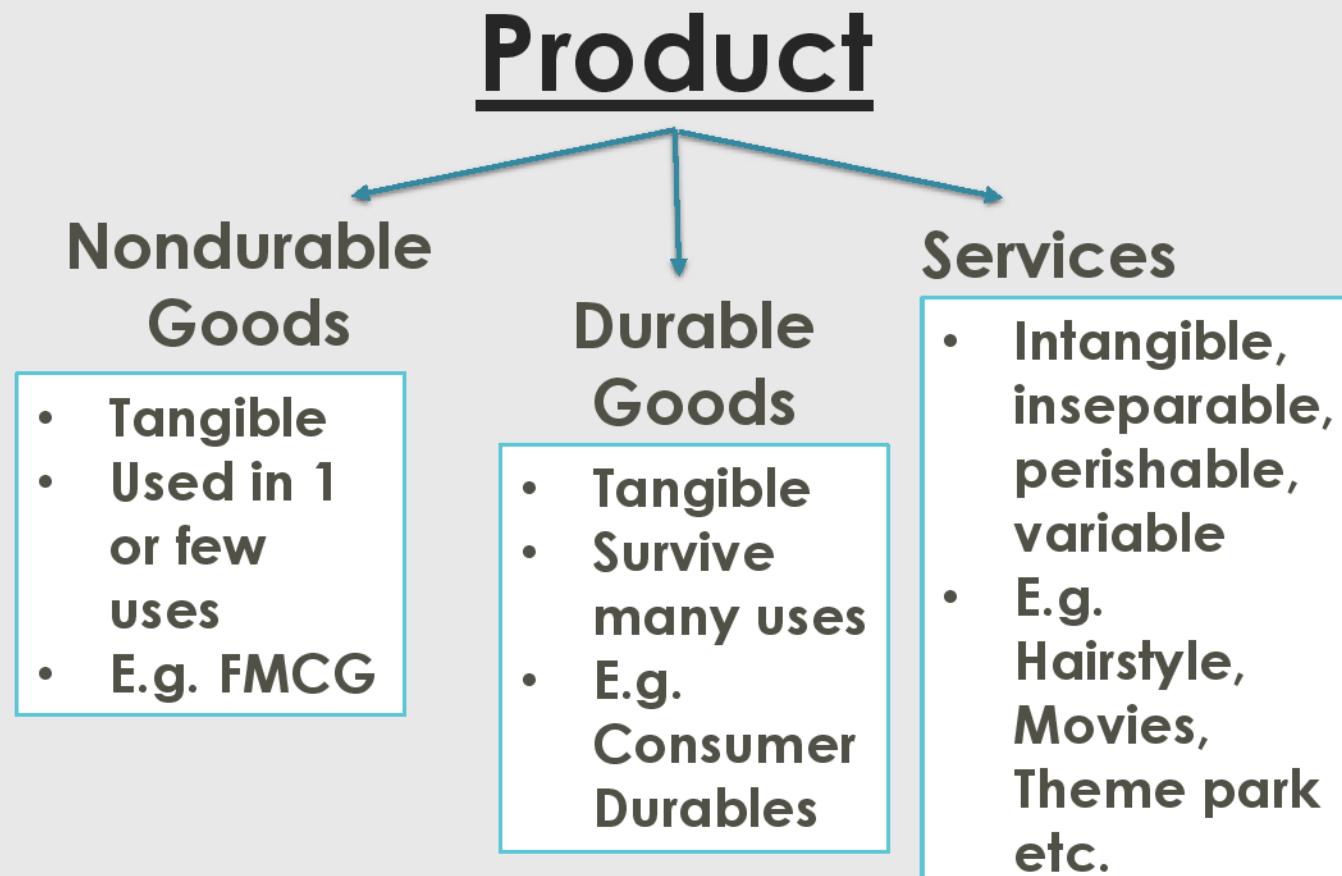
Unique & Differentiated benefits – 4K/ 8K Camera, High Refresh rate Display, latest processor, etc.

Expected benefits – Good Quality Photos, speed, longer battery life etc.

Features – Display, Camera, RAM, Battery Life etc.

Communication & Mobility

Classification of Product (based on Durability & Tangibility)



Classification of Product (based on Use)

- Consumer products
- Business products

Consumer Products

Consumer products are products for the personal consumption

- Classified by how consumers buy them
 - **Convenience products**
 - **Shopping products**
 - **Specialty products**
 - **Unsought products**

Consumer Products

Convenience products

Customer usually buys

- Frequently
- Immediately
- With minimum comparison and buying effort

E.g.

- Newspapers
- Chocolate/ Candy
- FMCG

Consumer Products

Shopping Products

Customer compares carefully on

- Suitability
- Quality
- Price
- Style

E.g.

- Clothes
- Electrical Appliances

Consumer Products

Specialty Products

Products with unique characteristics or brand identification

A significant group of buyers is willing to make a special purchase effort

E.g.

- High-priced Designer Dresses
- Gold/ Diamond Ornaments
- Cars

Consumer Products

Unsought products

Customer does not know about or does not normally think of buying

Purchase of such products arises due to danger or the fear of danger and not out of a desire buy it.

E.g.

- Health insurance
- Fire Extinguishers

Business Products

Products purchased for further processing or for use in conducting a business.

Differentiates from consumer products majorly in terms of Buying Motives, Buying Process and Buying Habits

Broadly classified by the purpose for which the product is purchased

- **Materials and parts**
- **Capital Items**

Business Products

Materials and parts

Include raw materials, manufactured materials and parts, usually sold directly to the industrial users

E.g.

- Lumber
- Iron
- Cement
- Plastic

Business Products

Capital items are business products that aid in the buyer's production or operations

E.g.

- Buildings
- Elevators
- Computers/ Laptops
- Machinery

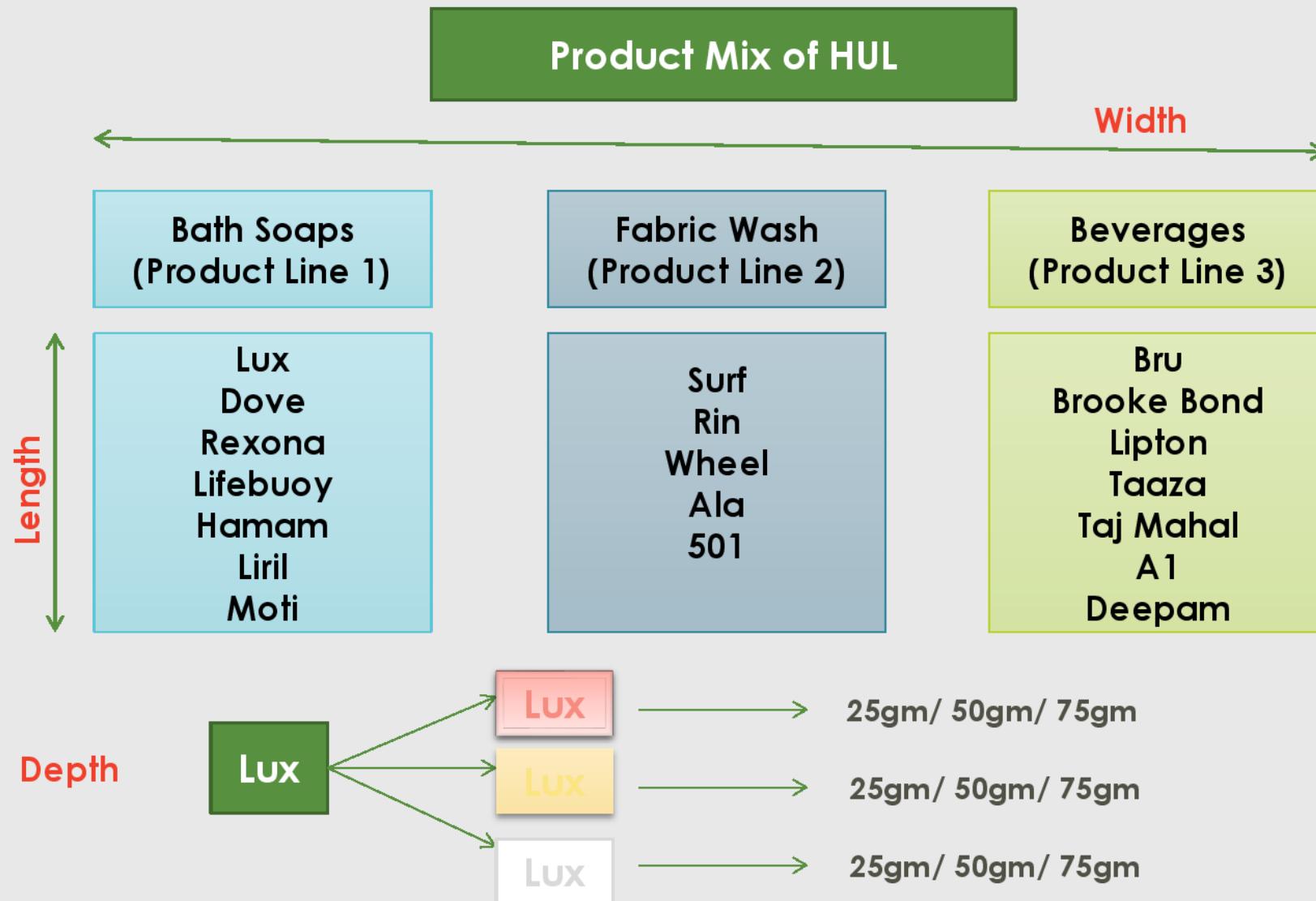
The Components of Product Personality

- **Product attributes**
 - Quality, Features, Style & Design
- **Branding**
 - Name, Logo, Design, Symbol, Tagline
- **Packaging**
 - Look, Feel, Size, Shape, Material

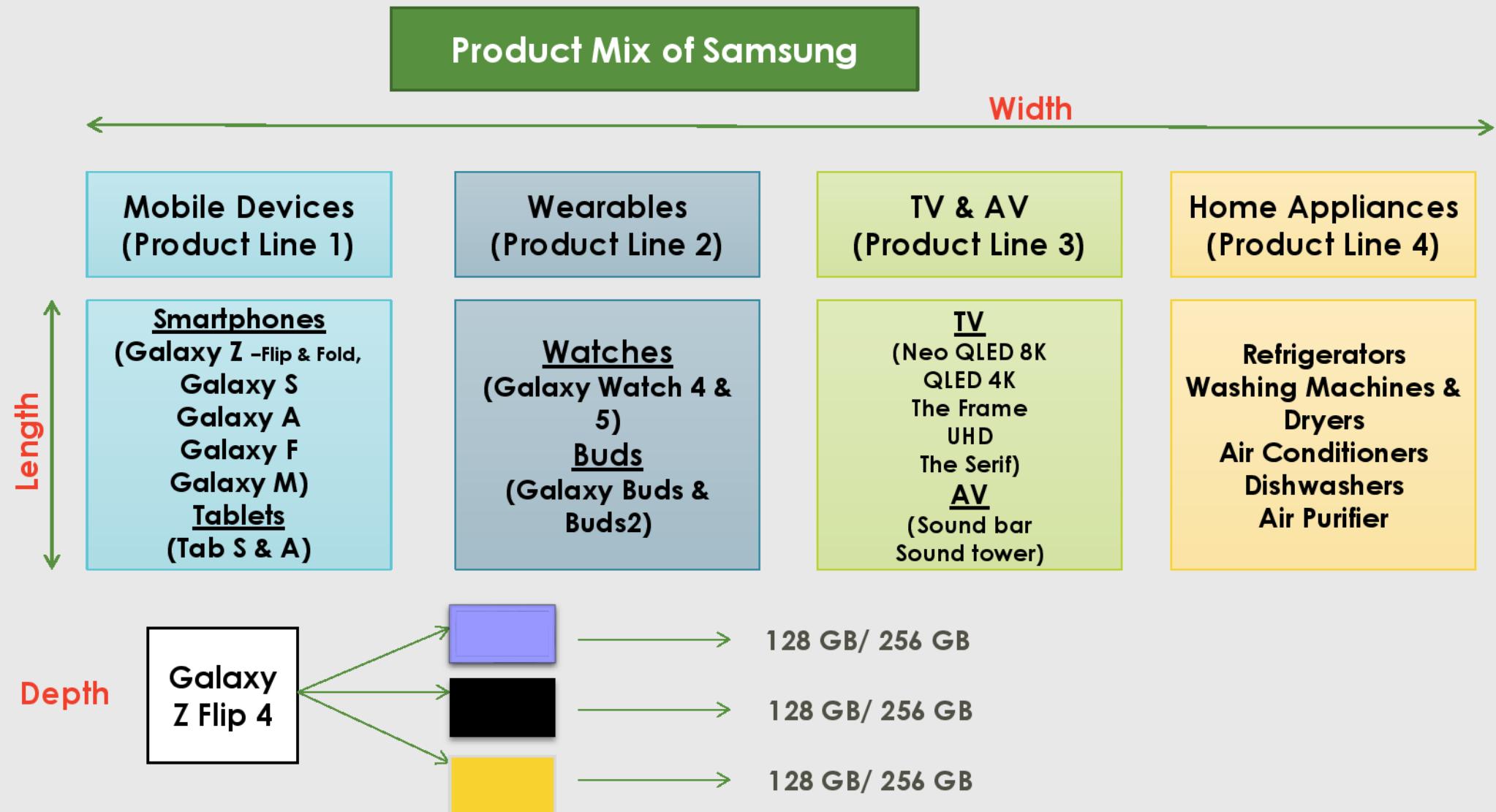
The Components of Product Personality

- **Labeling**
 - Describes attributes & provides promotion
- **Product support services**
 - After sales service, Warranty, Repair, Replacement

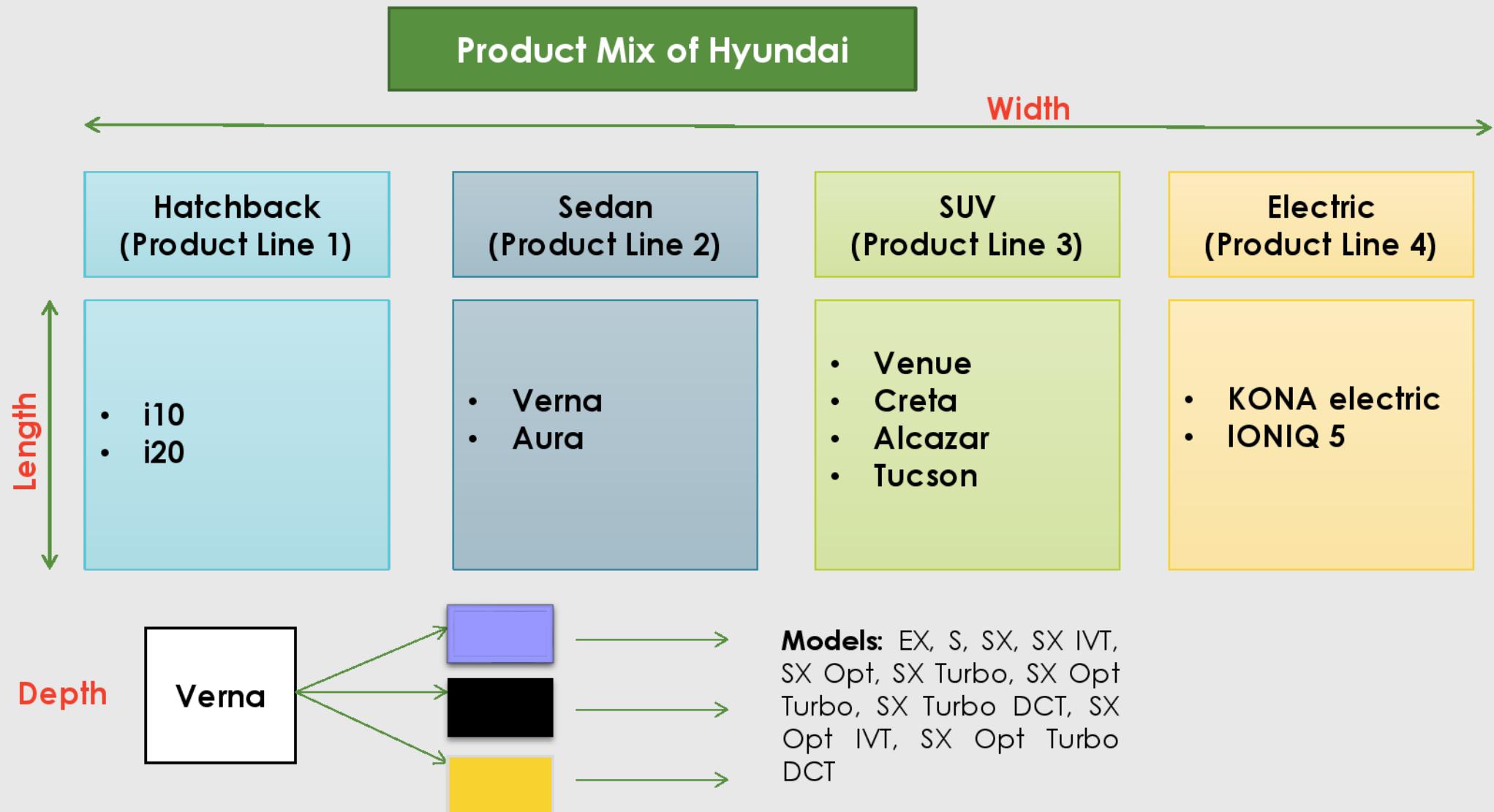
Product Mix & Product Line



Product Mix & Product Line



Product Mix & Product Line



Strategies for Managing Product Line

Product line stretching

Company lengthens its product line beyond its current range

- Downward Stretch (Samsung M series)
- Upward Stretch (Maruti Nexa)
- Two way Stretch (Combination of both – E.g. BBK Group)

Product line filling

Companies add more items within the present range of the line

- More profits
- Satisfying dealers
- Excess capacity
- Plugging holes to fend off competitors

Strategies for Managing Product Line

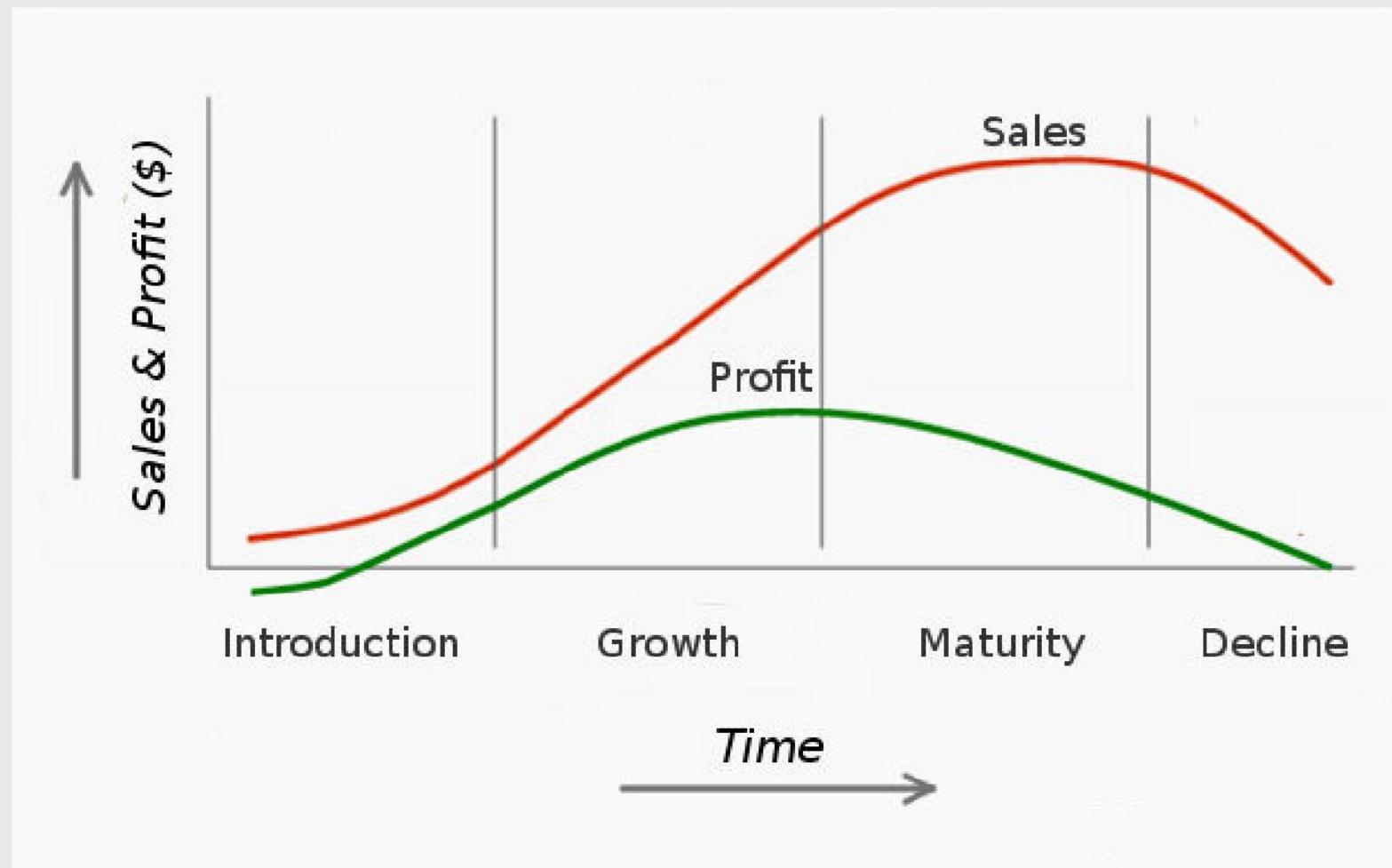
Product line Modernization, Featuring, and Pruning

Product lines regularly need to be modernized.

The product line manager typically selects one or a few items in the line to feature.

Using sales and cost analysis, product line managers must periodically review the line for deadwood that depresses profits.

Product Life Cycle



Product Life Cycle

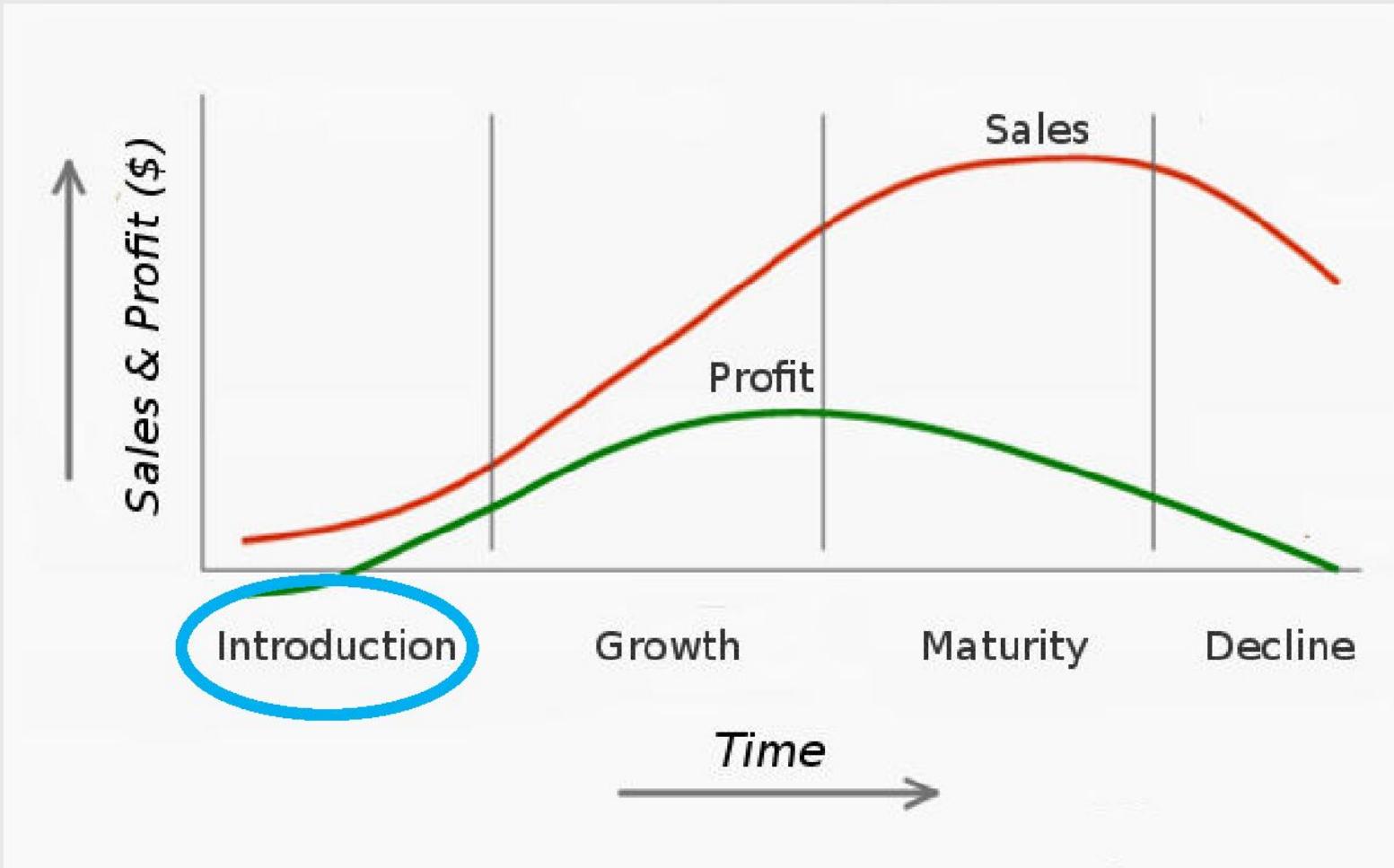
Four Key Assumptions:

- Limited Life of Products
- Products' sale pass through multiple & distinct stages
- Profits rise & fall at different stages
- At each stage – different strategies for Marketing, Finance, Manufacturing, HR

Product Life Cycle

- Applicable to analyze – Product Category, Product & Brand
- Length of PLC and each stage differs from product to product
- Helps managers to think about challenges at different stages

Product Life Cycle



Introduction

- Slow sales growth and nonexistent profits due to heavy expenses
- Promotional expenses to Sales ratio is highest due to the need of:
 - Informing potential consumers
 - Inducing product trial
 - Securing distribution in retail outlets

Product Life Cycle



Growth

- Rapid Market acceptance and substantial profit improvement
- Promotional expenses are maintained or increased to compete effectively
- Promotional expenses to Sales ratio reduces – large sales volume
- Strategies:
 - Improved offering (superior quality, new features/ styling)
 - New variants
 - New target segments
 - Increase distribution coverage
 - Lower price to attract more segments

Product Life Cycle



Maturity

- **3 Phases:**
 - **Growth** (Sales growth slows down, no new distribution channels)
 - **Stable** (Sales per capita flatten due to market saturation, as most potential buyers have already purchased)
 - **Decaying** Maturity (Sales starts declining, as customers starts switching to other products)

Maturity

- **3 Remedial Ways:**

- **Market Modification**

- Expand No. of Users – Convert non-users, Enter New Segments, Attract Competitors' customers
 - Increase Usage Rate – More consumption, More occasions, New ways of consumption (E.g. Cadbury, Kurkure)

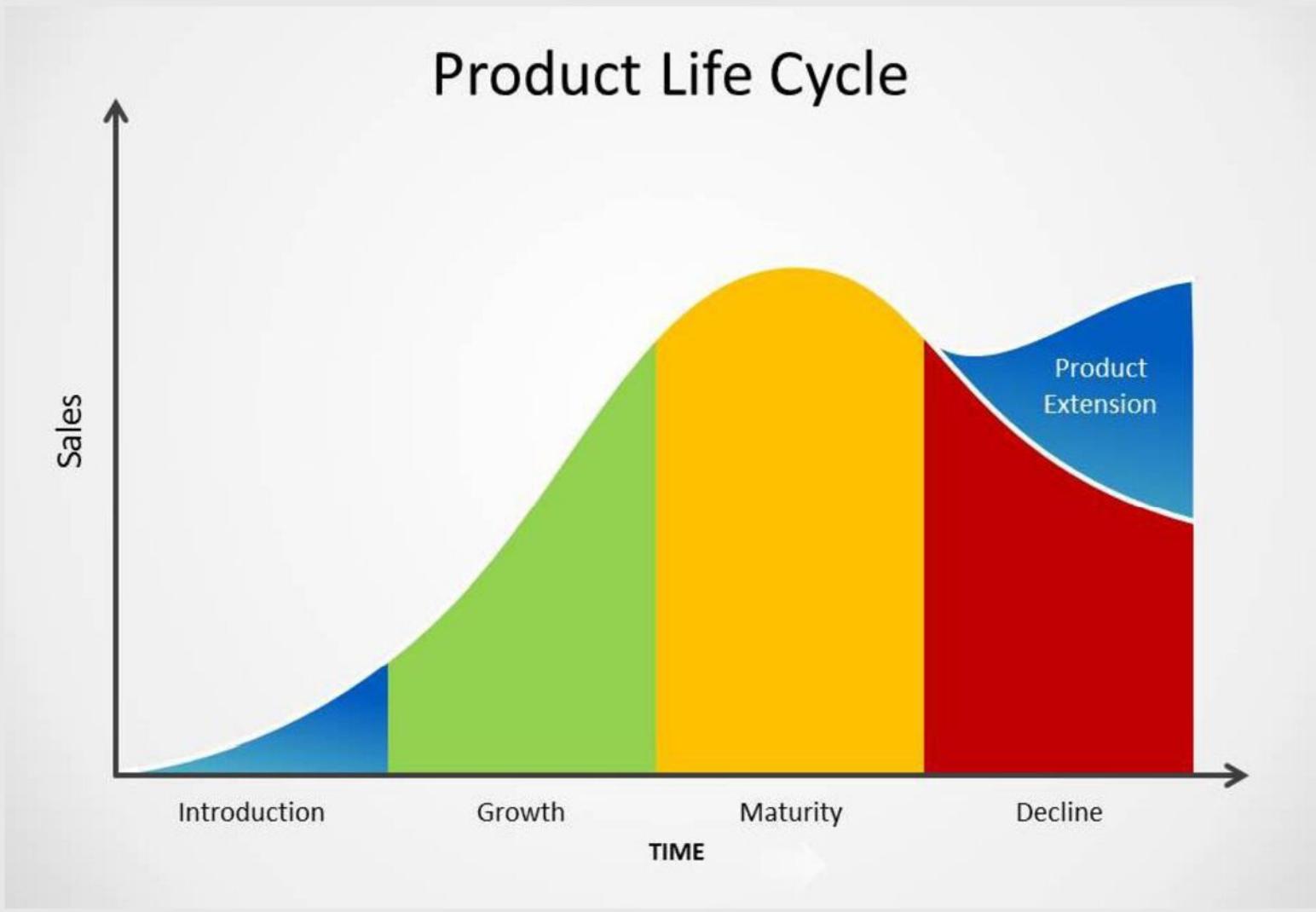
- **Product Modification**

- Quality improvement
 - Additional Features
 - Style improvement

- **Marketing Program Modification**

- Price
 - Distribution
 - Communication

Stages of the Product Life Cycle



Product Life Cycle



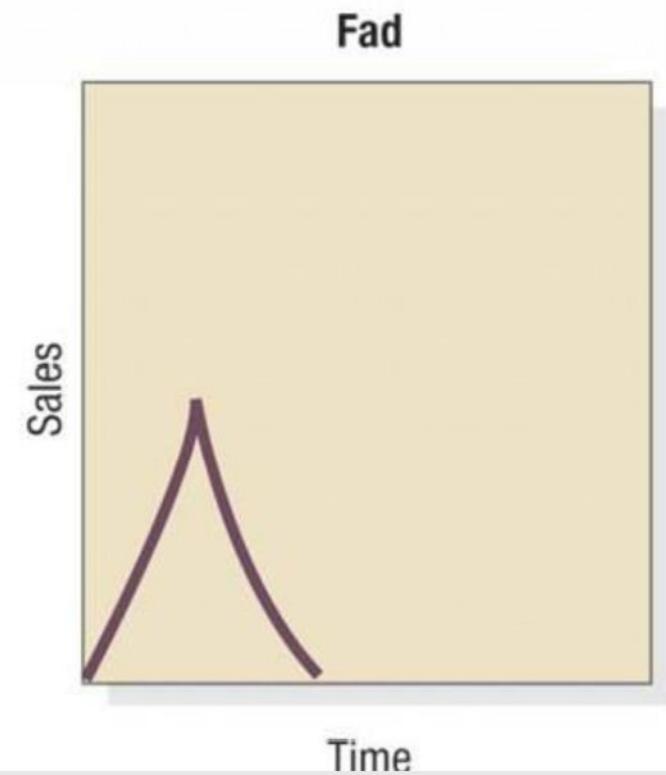
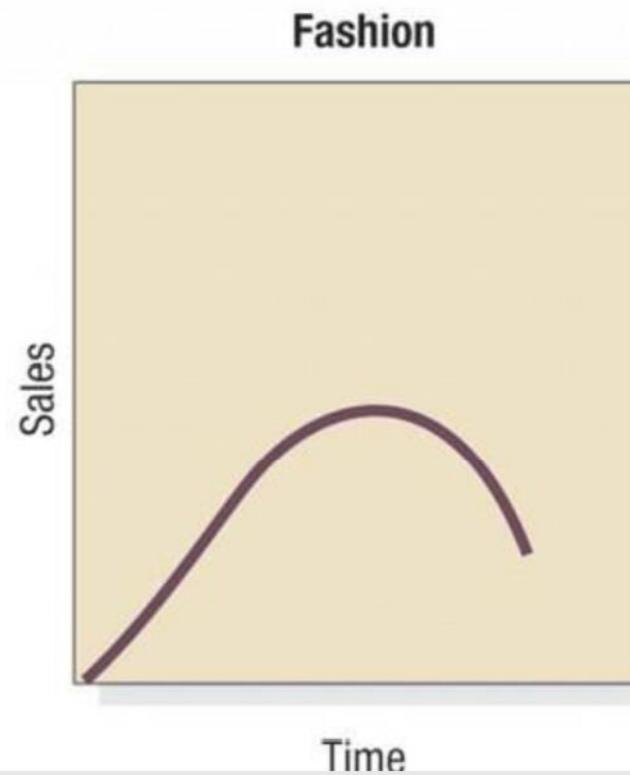
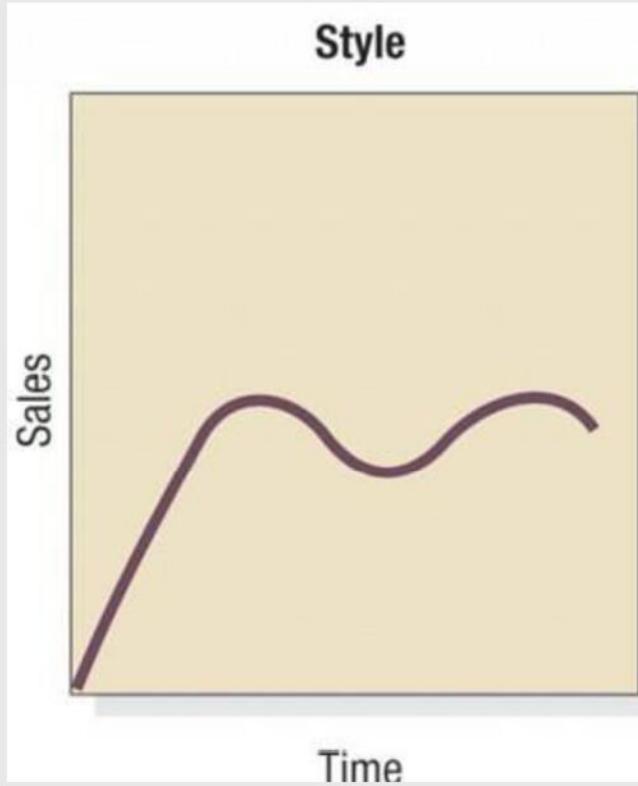
Decline

- **Sales show downward drift, Profits erode**
- **Remedial Ways:**
 - **Eliminate Weak Products**
 - **Harvesting** (gradually reducing product's cost)
 - **Divesting** (sell it to another firm)

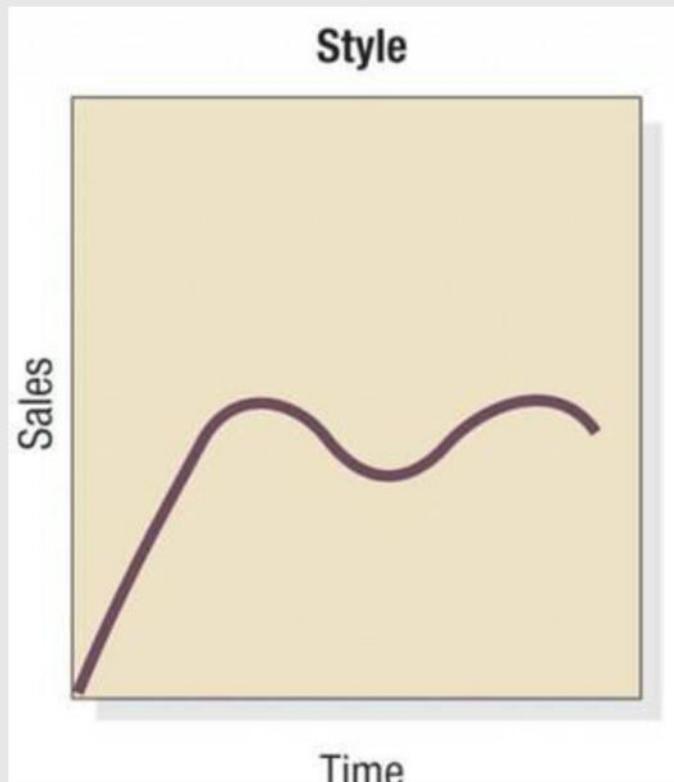
Stages of the PLC

	Introduction	Growth	Maturity	Decline
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Marketing Objectives	Product awareness & trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure & milk the brand
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brand and models	Phase out weak items
Price	Use cost-plus	Price to penetrate market	Price to match or best competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Advertising	Build product awareness among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain loyal customers

Style, Fashion, and Fad Life Cycles

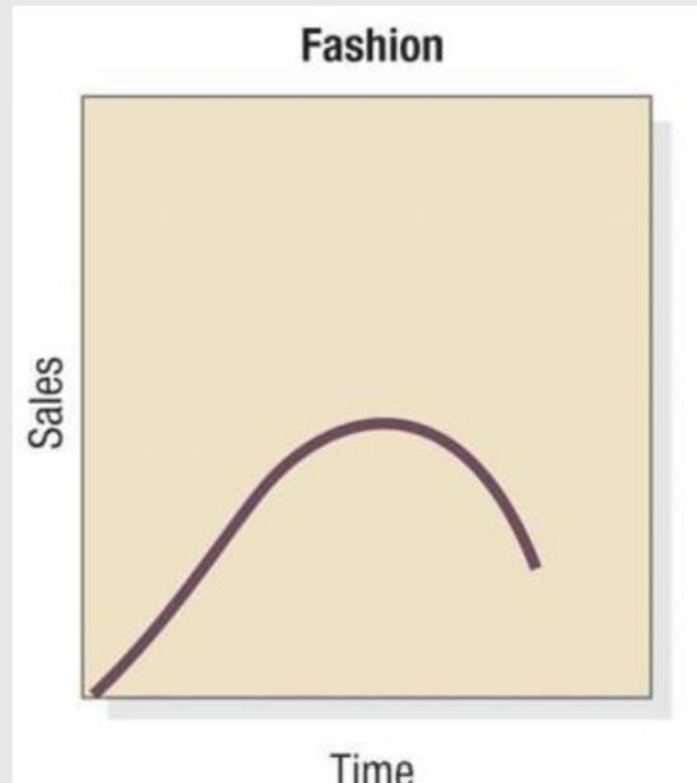


Style, Fashion, and Fad Life Cycles



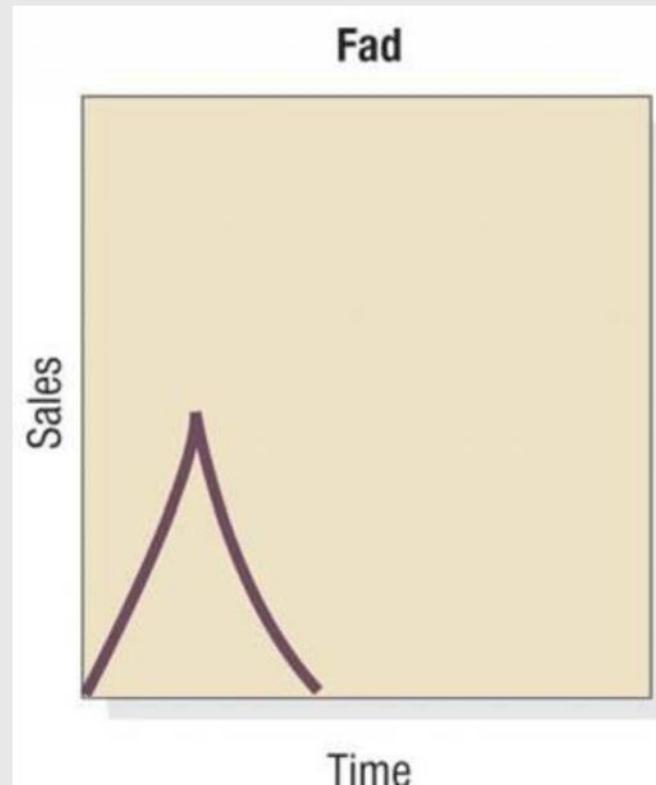
- A basic & distinctive mode of Expression
- E.g. Clothing – Formal, Business Casual, Ethnic etc.
- Style can last for generations and go in & out of vogue

Style, Fashion, and Fad Life Cycles



- Currently accepted or popular style in a given field
- 4 stages: Distinctiveness, Emulation (Initial imitation), Mass Fashion 7 Decline
- Length is hard to predict – End when consumers look for missing attributes

Style, Fashion, and Fad Life Cycles



- Fashion that comes quickly in public view, adopted, peak early & decline fast
- E.g. Amazon Kindle
- Decline fast because don't satisfy strong need



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New Product Development

New Product Development

- ▶ It is a process of developing a new offering (physical good or service) for the market
- ▶ It involves development of **original products, product improvements, product modifications, and new brands** through the firm's own R & D efforts
- ▶ NPD is done either to **compete** with competitor's product/service or to **improve** an already established product



How Amazon Built the Echo

Meet Alexa

The brain behind Echo
and built in cloud



Types of New Product

▶ **New-to-the-world**

- ▶ An Invention
- ▶ Potential customers needs to be educated about it
- ▶ The designs can be protected through patents
- ▶ Popularity of new product can boost reputation of company
- ▶ **E.g. Amazon Kindle, Echo Dot, Walkman, Iphone**

▶ **New-to-the-firm**

- ▶ A product that the company has never made, but available in the market
- ▶ company does not require to create knowledge on how product works
- ▶ The product must fit the image of what the company specializes in
- ▶ **E.g. Google+**

▶ **Addition to existing product line**

- ▶ Launching new product variants under existing product line
- ▶ Helps in better segmentation
- ▶ **E.g. Samsung Galaxy Smartphone series**



Types of New Product

▶ **Improved and revised**

- ▶ Existing products/ brands are further improved with features/ technology
- ▶ Actual value increased in the long run
- ▶ **E.g. Activa 7G**

▶ **Repositioning**

- ▶ Changing the perception in the mind of the consumer.
- ▶ Generating revenue from an existing product
- ▶ **E.g. Maggi/ Hero MotoCorp**

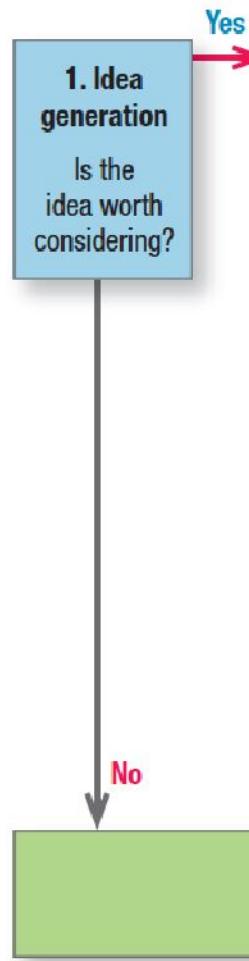


Factors Contributing NPD

- ▶ Change in Consumer Preference (Smartphones)
- ▶ Change in Technology (Android)
- ▶ Govt. Policy (Tally)
- ▶ Competition (BBK)
- ▶ Environmental Threat (McDonalds/ KFC)



NPD Process



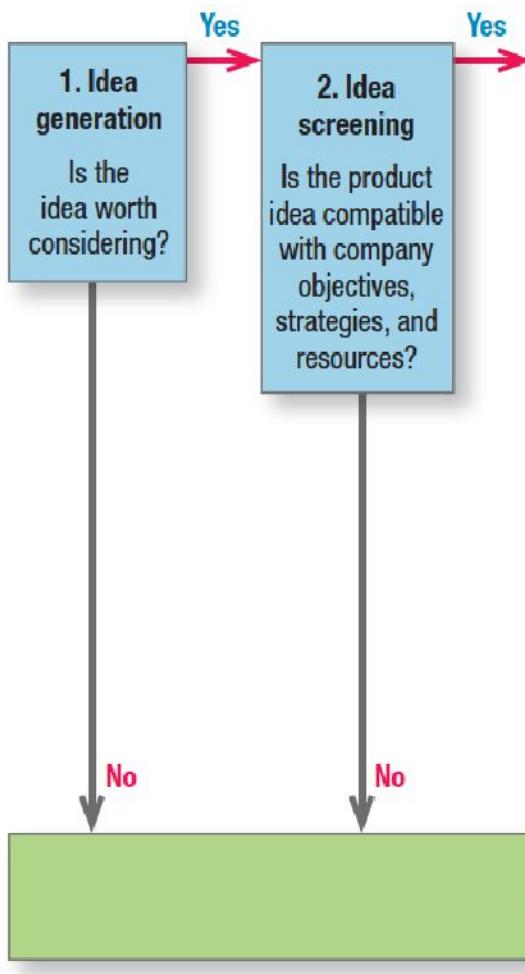
NPD Process

▶ **Idea Generation Tools**

- ▶ Observing Customers
- ▶ Interviewing Customers
- ▶ Interviewing Employees
- ▶ Interviewing Experts
- ▶ Analyzing the Competition
- ▶ Crowdsourcing



NPD Process



NPD Process

▶ Idea Screening

▶ Product-Idea Rating Device

Product Success Requirements	Relative Weight (a)	Product Score (b)	Product Rating (c = a × b)
Unique or superior product	.40	.8	.32
High performance-to-cost ratio	.30	.6	.18
High marketing dollar support	.20	.7	.14
Lack of strong competition	.10	.5	.05
Total	1.00		.69

^a Rating scale: .00–.30 poor; .31–.60 fair; .61–.80 good. Minimum acceptance rate: .61

NPD Process

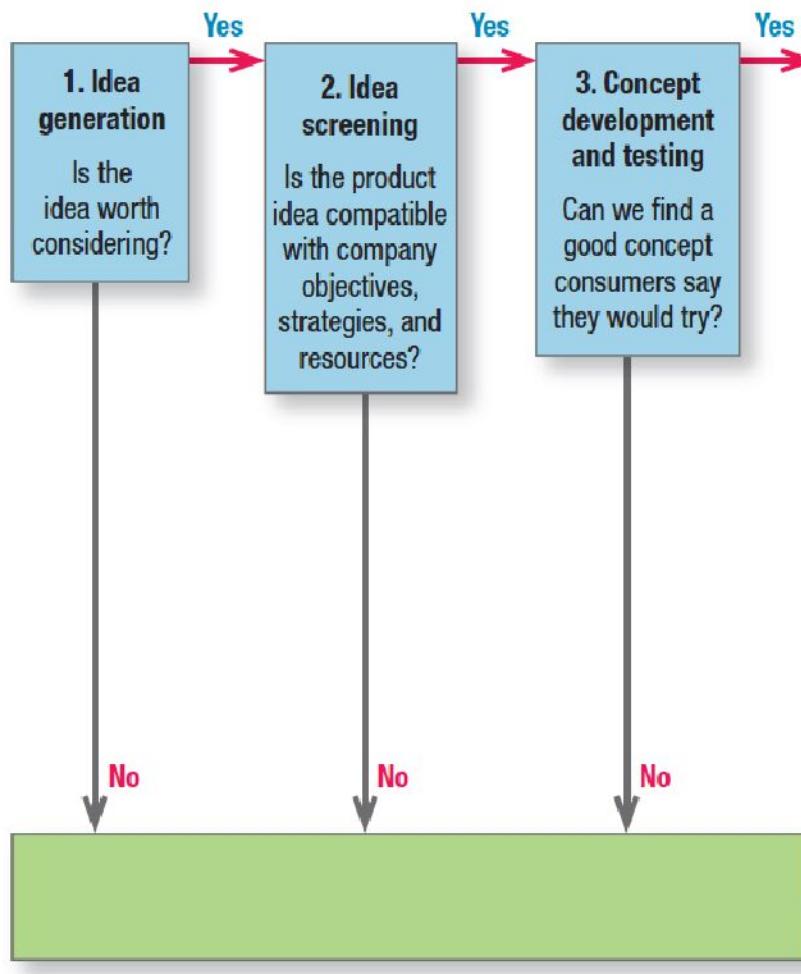
▶ Idea Screening

- ▶ Product-Idea Rating Device
- ▶ Estimate Product's overall Probability of Success

$$\begin{array}{lclclclcl} \text{Overall} & & \text{Probability} & & \text{Probability of} & & \text{Probability of} \\ \text{probability} & = & \text{of technical} & \times & \text{commercialization} & \times & \text{economic} \\ \text{of success} & & \text{completion} & & \text{given technical} & & \text{success given} \\ & & & & \text{completion} & & \text{commercialization} \end{array}$$



NPD Process



NPD Process

Concept Development & Testing

Presenting the product concept to target consumers, physically or symbolically, and getting their reactions.

- ▶ **Communicability and believability**
 - ▶ *“Are the benefits clear to you and believable?”* If the scores are low, the concept must be refined or revised.
- ▶ **Need level**
 - ▶ *“Do you see this product solving a problem or filling a need for you?”* The stronger the need, the higher the expected consumer interest.
- ▶ **Gap level**
 - ▶ *“Do other products currently meet this need and satisfy you?”* The greater the gap, the higher the expected consumer interest.
 - ▶ Marketers can **multiply** the **need level** by the **gap level** to produce a **need-gap score**. A high score means the consumer sees the product as filling a strong need, not satisfied by available alternatives.



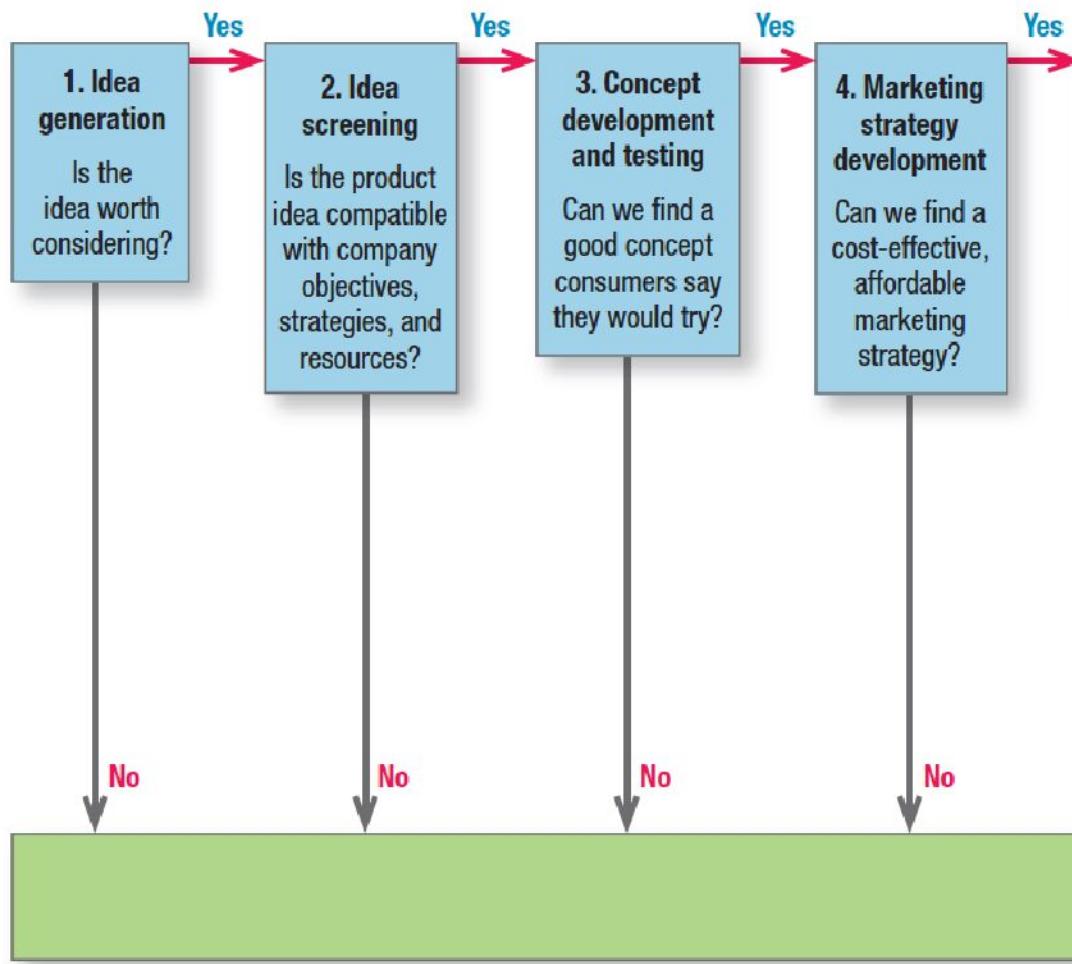
NPD Process

Concept Development & Testing

- ▶ **Perceived value**
 - ▶ “***Is the price reasonable in relationship to value?***” The higher the perceived value, the higher is expected consumer interest.
- ▶ **Purchase intention**
 - ▶ “***Would you (definitely, probably, probably not, definitely not) buy the product?***
- ▶ **User targets, purchase occasions, purchasing frequency**
 - ▶ “***Who would use this product, when, and how often?***



NPD Process



NPD Process

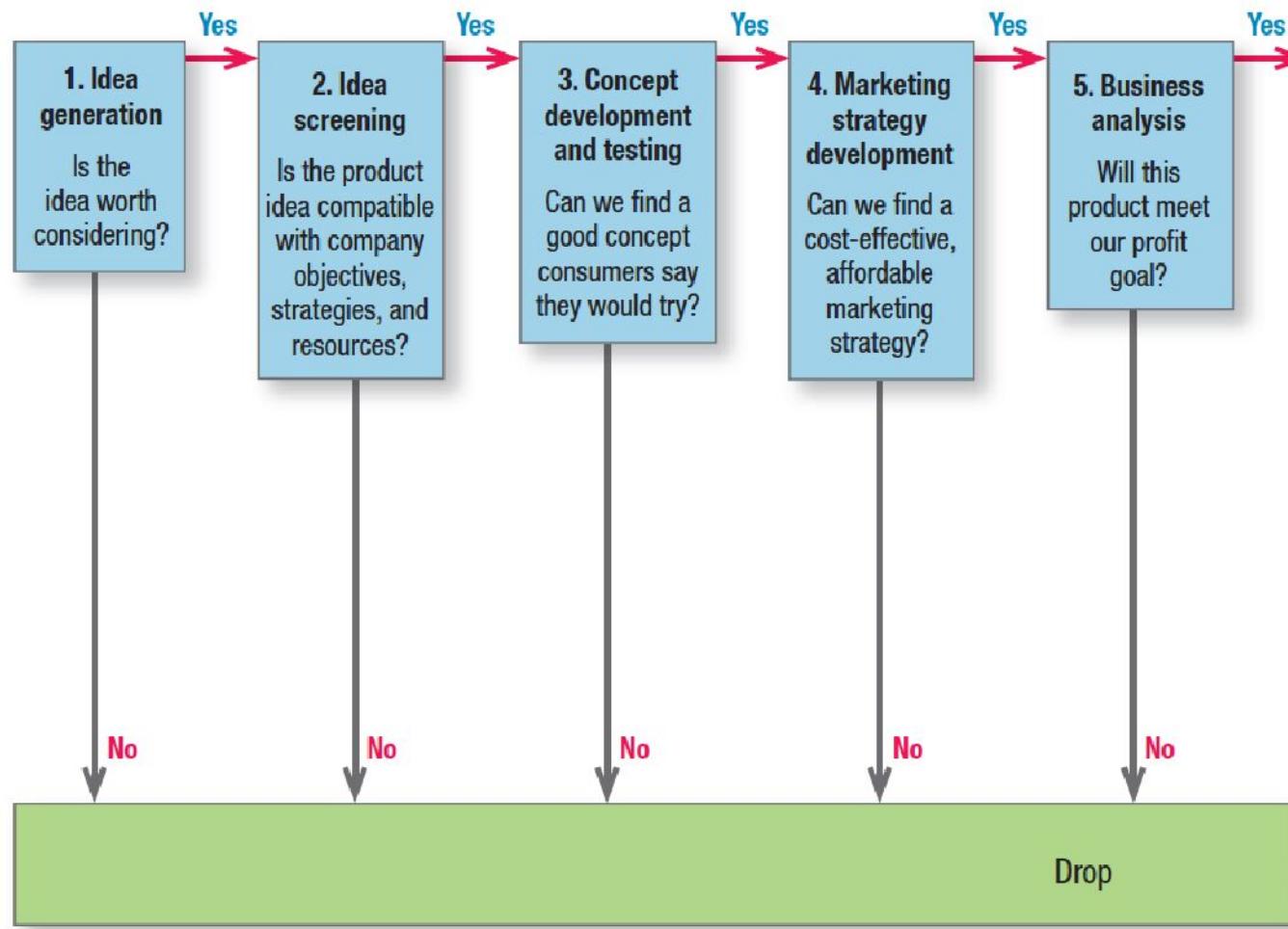
Market Strategy Development

Essential aspects to be considered

- ▶ Target market's size, structure, & behavior
- ▶ Planned brand positioning
- ▶ Sales, Market share & Profit goals in first few years
- ▶ Planned price, distribution strategy, and marketing budget for the first year
- ▶ Long-run sales & profit goals and marketing-mix strategy over time



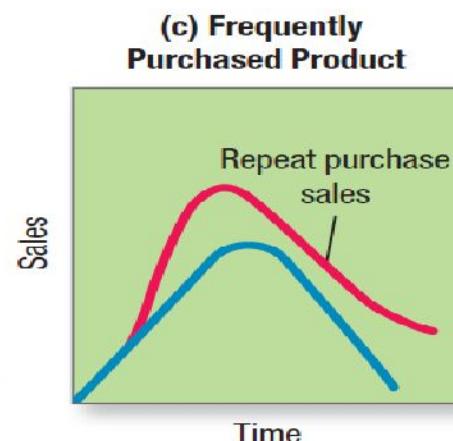
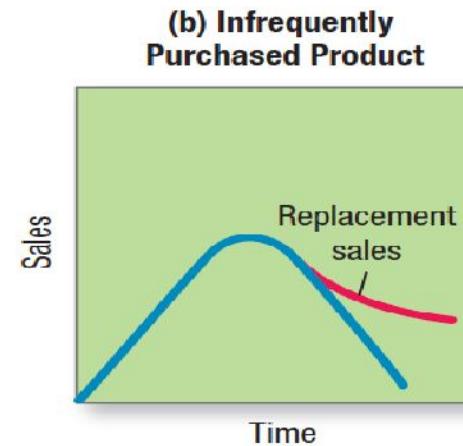
NPD Process



NPD Process

Business Analysis

- ▶ Estimating total sales
- ▶ Product Life-Cycle Sales for 3 Types of Products



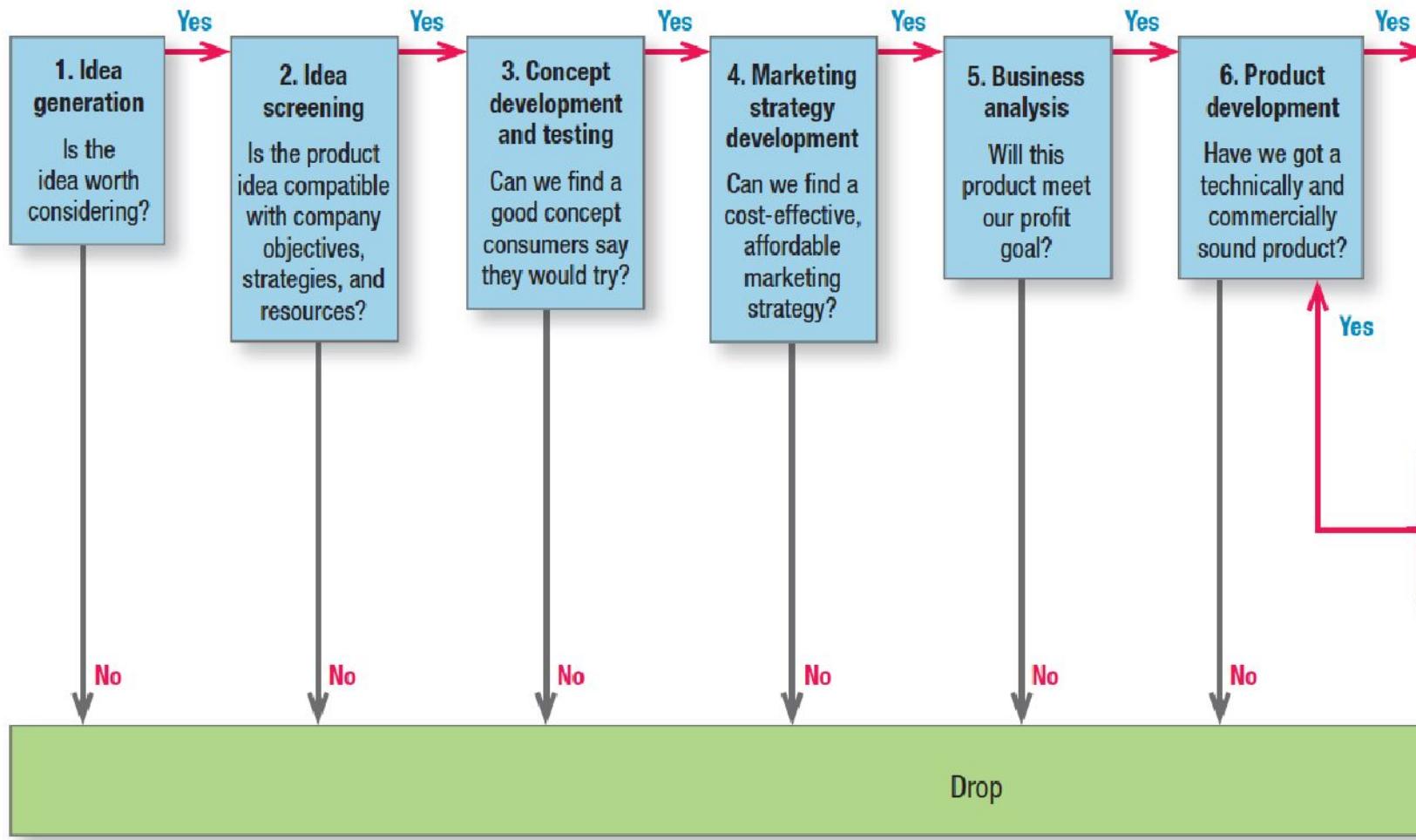
NPD Process

Business Analysis

► Estimating Costs & Profits

Projected Five-Year Cash Flow Statement (in thousands of dollars)						
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
1. Sales revenue	\$0	\$11,889	\$15,381	\$19,654	\$28,253	\$32,491
2. Cost of goods sold	0	3,981	5,150	6,581	9,461	10,880
3. Gross margin	0	7,908	10,231	13,073	18,792	21,611
4. Development costs	-3,500	0	0	0	0	0
5. Marketing costs	0	8,000	6,460	8,255	11,866	13,646
6. Allocated overhead	0	1,189	1,538	1,965	2,825	3,249
7. Gross contribution	-3,500	-1,281	2,233	2,853	4,101	4,716
8. Supplementary contribution	0	0	0	0	0	0
9. Net contribution	-3,500	-1,281	2,233	2,853	4,101	4,716
10. Discounted contribution (15%)	-3,500	-1,113	1,691	1,877	2,343	2,346
11. Cumulative discounted cash flow	-3,500	-4,613	-2,922	-1,045	1,298	3,644

NPD Process



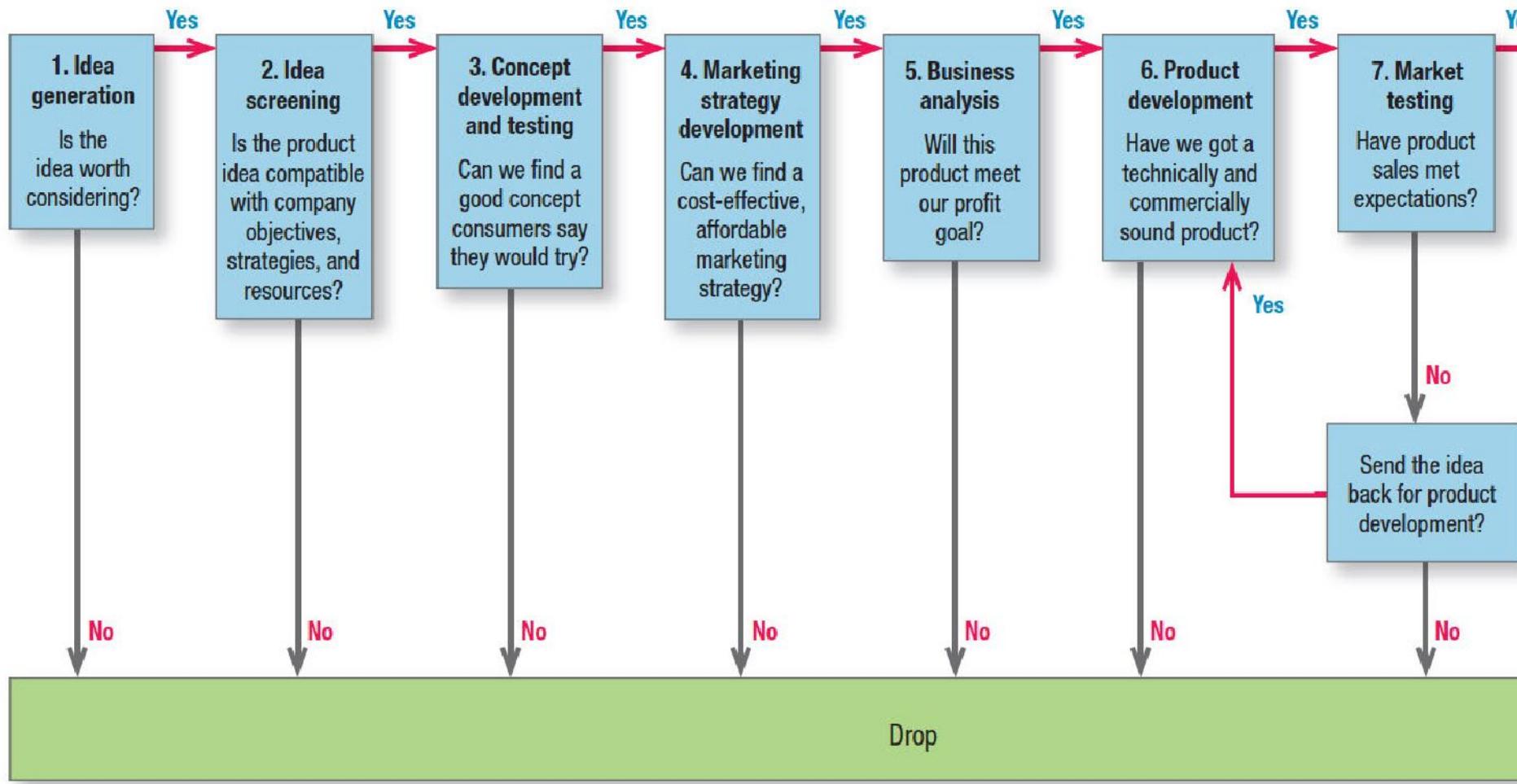
NPD Process

Product Development

- ▶ Physical prototypes
- ▶ Customer tests: alpha & beta testing
 - ▶ **Alpha** testing helps validate the **quality** of the product
 - ▶ **Beta** testing helps to obtain **real-world feedback** to ensure you're building products that your customers actually like



NPD Process



NPD Process

Market Testing

- ▶ Consumer-goods market testing
- ▶ Business-goods market testing



NPD Process

Market Testing

- ▶ **Methods**
 - ▶ Sales-wave research
 - ▶ A technique used to **test consumer reaction** to new products prior to full-scale commercialization
 - ▶ Simulated Test Marketing
 - ▶ Consumers are **exposed to a simulated purchase situation** to gauge the their reactions to a product, advertising or marketing mix variations



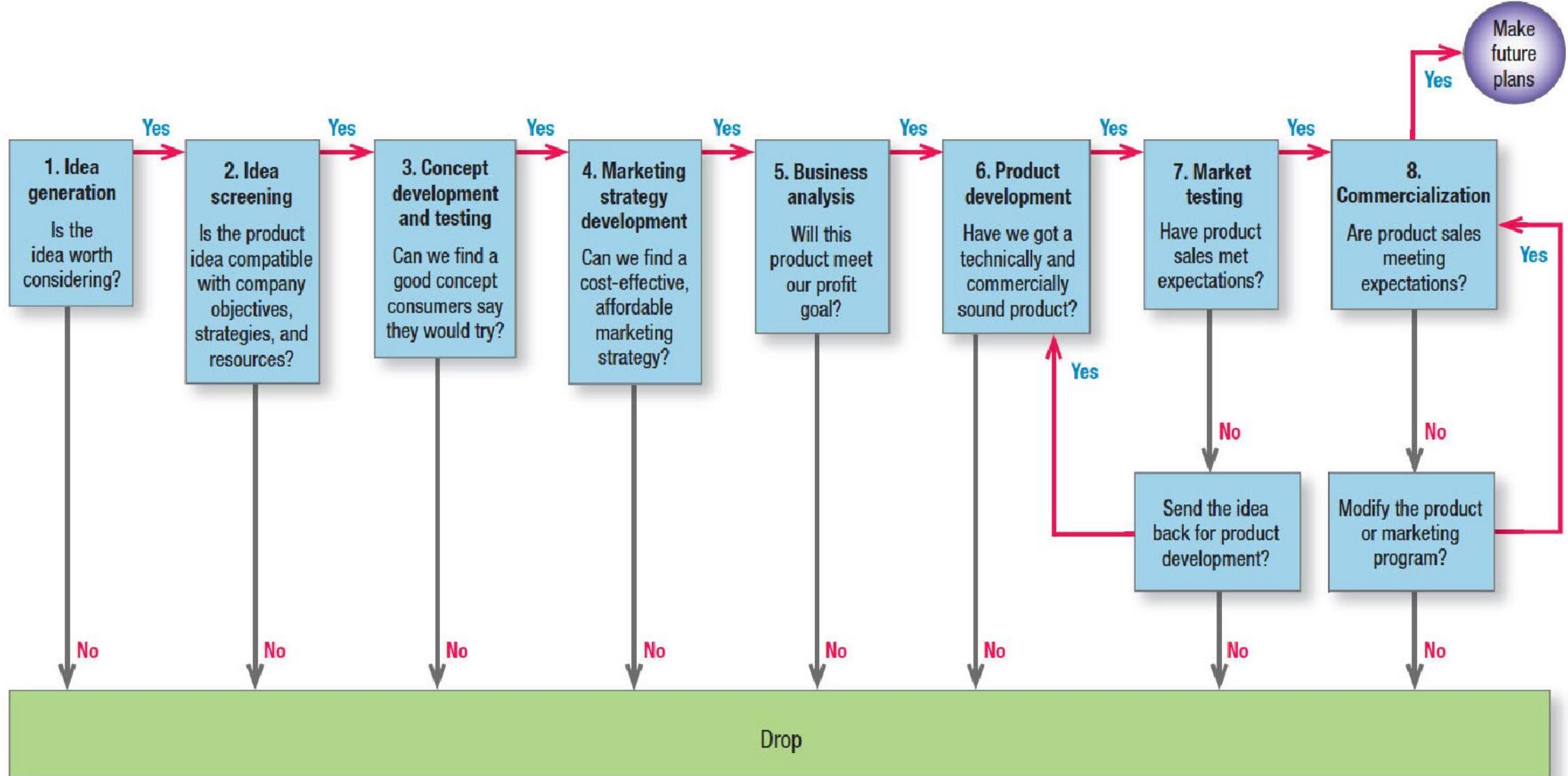
NPD Process

Market Testing

- ▶ **Methods**
 - ▶ Controlled Test Marketing
 - ▶ Researcher offers the marketer a panel of stores, where the checkout scanner data is monitored to measure initial and repeat purchases, along with the sales of competitive products
 - ▶ Test Markets
 - ▶ The company selects a **small number of representative cities** in which to trial the full marketing mix prior to a new product launch



NPD Process



NPD Process

Commercialization

- ▶ Where (Geographic Strategy)
- ▶ To Whom (Target-Market Prospects)
- ▶ How (Introductory Market Strategy)





Pricing Decisions



What is Price?

Rent

Fee

Fare

Commission

Gifts

Premium

Tax

Toll

Salary

Bonus

EMI

Interest

Retainer



Overview of Pricing

- The amount of **money charged** for a product or service, or the sum of the values that **consumers exchange for the benefits** of having or using the product or service.
- The only element among the 4Ps, that **generates revenues**
- The **most flexible element** of Marketing mix
- Important **determinant of the profitability** of business
- One “P” that has been **dramatically affected by** the use of the **Internet**.



Overview of Pricing

- **How companies price**
 - Small companies: boss
 - Large companies: division/product line managers



Which Factors Affects the Pricing Decisions from Organization's Perspective?



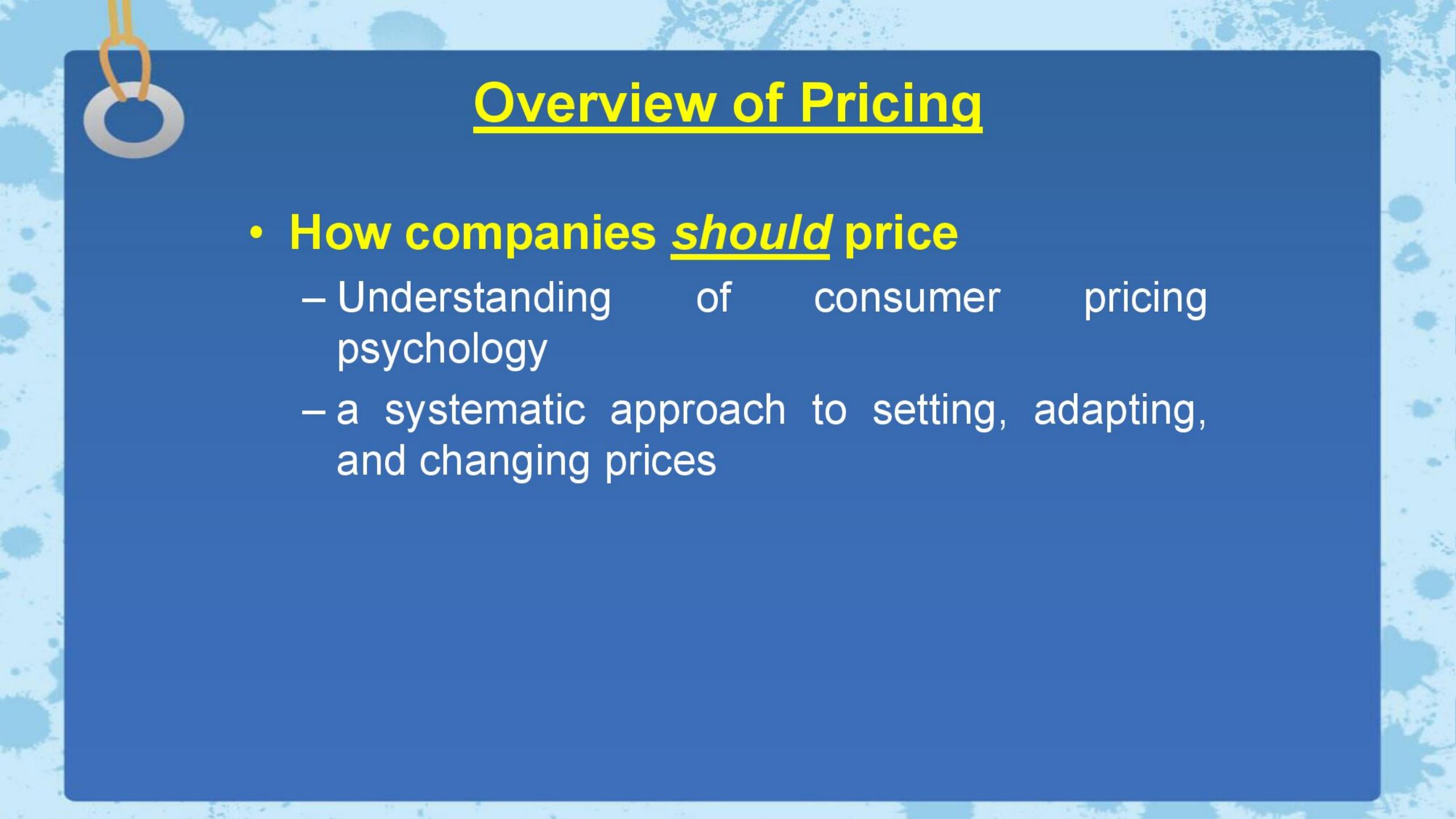
Internal Factors

- **Marketing Objectives**
 - Survival/ Profit maximization/ Market share leadership/ Product quality leadership
 - E.g. LG
- **Marketing Mix Strategies**
 - Careful coordination with other marketing mix elements
 - E.g. McVities Digestive Biscuits
- **Costs**
 - Variable/ Fixed/ Total Costs
- **Organizational Considerations**
 - Price setters: CEO/ Top Mgt. in small companies, Product line Mgr. in large companies



External Factors

- **Nature of Market and Demand**
 - Monopoly/ Monopolistic/ Oligopoly; price elasticity of Demand
- **Competition**
 - Competitors' Costs, Prices and Offers
- **Other Environmental Elements**
 - Political, Economical, Social, Technological, Legal



Overview of Pricing

- **How companies should price**
 - Understanding of consumer pricing psychology
 - a systematic approach to setting, adapting, and changing prices



Consumer Psychology and Pricing

- *Purchase decisions*
 - How consumers perceive prices
 - What they consider the current actual price to be
- *Customers may have predetermined perceptions on:*
 - **Lower price threshold** - below which prices signal inferior or unacceptable quality
 - **Upper price threshold** - above which prices are prohibitive and the product appears not worth the money



How Consumers arrive at their Perceptions of Pricing?

- **Reference Prices**

- Comparing an observed price to **internal reference** price they remember (previously advertised/ paid price) or an **external frame of reference** such as “regular retail price” by the competitors

Possible Consumer Reference Prices

- “Fair Price” (what consumers feel the product should cost)
- Typical Price
- Last Price Paid
- Upper-Bound Price (reservation price or the maximum most consumers would pay)
- Lower-Bound Price (lower threshold price or the minimum most consumers would pay)
- Historical Competitor Prices
- Expected Future Price
- Usual Discounted Price



How Consumers arrive at their Perceptions of Pricing?

- **Image Pricing**
 - Consumers perceive price as an **indicator of quality**
 - Effective with **ego-sensitive products** such as perfumes, expensive cars, and designer clothing
- **Pricing Cues**
 - Customers perceive an item priced at \$299 to be in the \$200 rather than the \$300 range
 - Useful when there is a mental price break at the higher, rounded price



How to Set the Price?





How to Set the Price?

- **Step 1: Selecting the Pricing Objective**
 - **Short term Profit**
 - Maximize current profits, cash flow & rate of ROI
 - Based on the demand estimates & costs associated with alternative prices
 - **Market Penetration**
 - Maximize Market share and increase the sales volume by setting lower price (E.g. OYO Rooms, Jio)
 - **Market Skimming**
 - While unveiling a new technology/ experience set high prices to 'skim the cream' off the market & then slowly drop the price (E.g. Sony)
 - **Quality Leadership**
 - Positioning of Quality leader in the market (E.g. Starbucks, BMW, Apple)



How to Set the Price?

- **Step 2: Determining Demand**
 - To understand what affects price sensitivity
 - Customers are less price sensitive when:
 - (1) There are few or no substitutes or competitors
 - (2) They do not readily notice the higher price
 - (3) They are slow to change their buying habits
 - (4) They think the higher prices are justified
 - (5) Price is only a small part of the total cost of obtaining, operating, and servicing the product over its lifetime



How to Set the Price?

- **Step 2: Determining Demand**

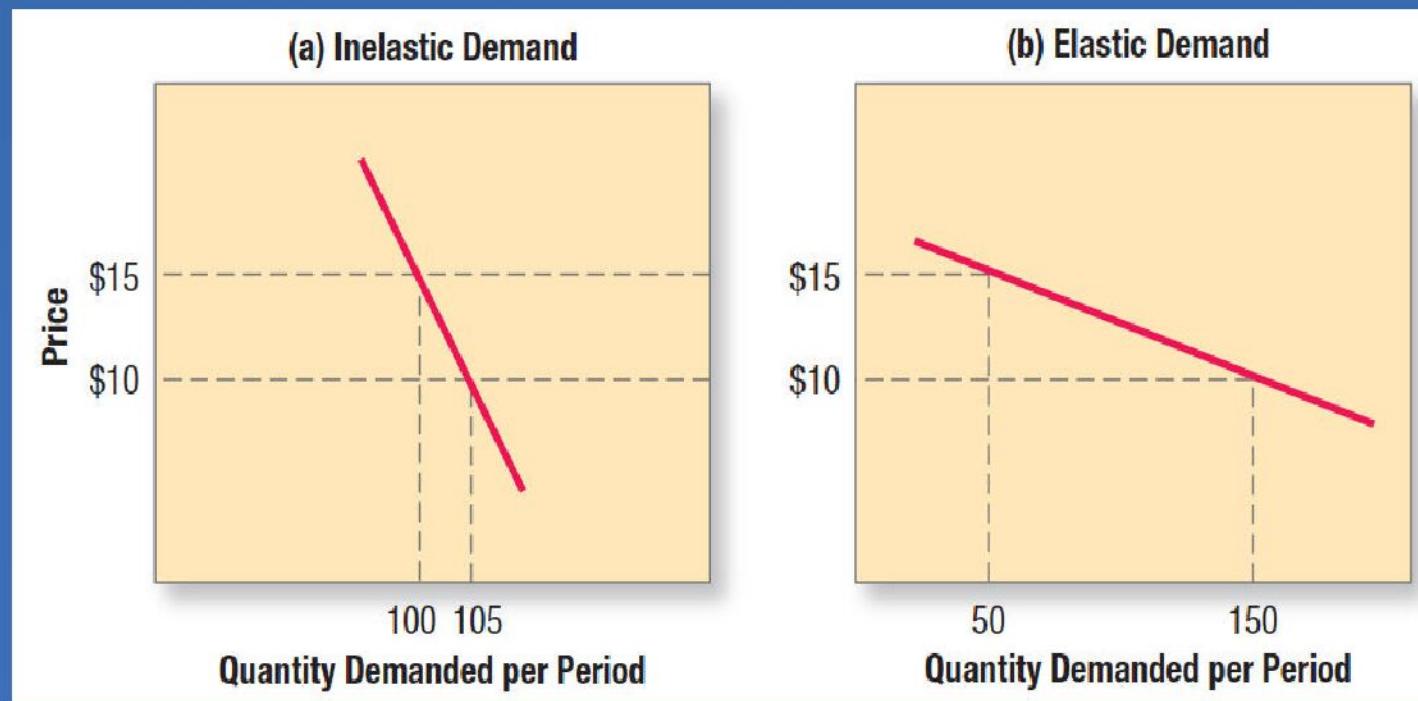
Factors That Reduce Price Sensitivity

- The product is more distinctive.
- Buyers are less aware of substitutes.
- Buyers cannot easily compare the quality of substitutes.
- The expenditure is a smaller part of the buyer's total income.
- The expenditure is small compared to the total cost of the end product.
- Part of the cost is borne by another party.
- The product is used in conjunction with assets previously bought.
- The product is assumed to have more quality, prestige, or exclusiveness.
- Buyers cannot store the product.



How to Set the Price?

- **Step 2: Determining Demand**
 - Estimating demand curves
 - Surveys, price experiments, & statistical analysis

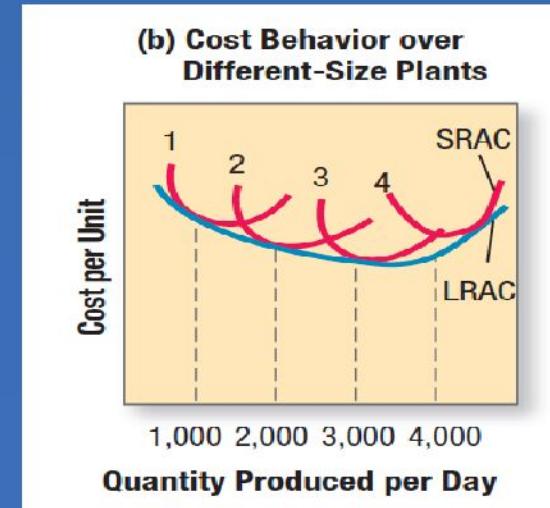
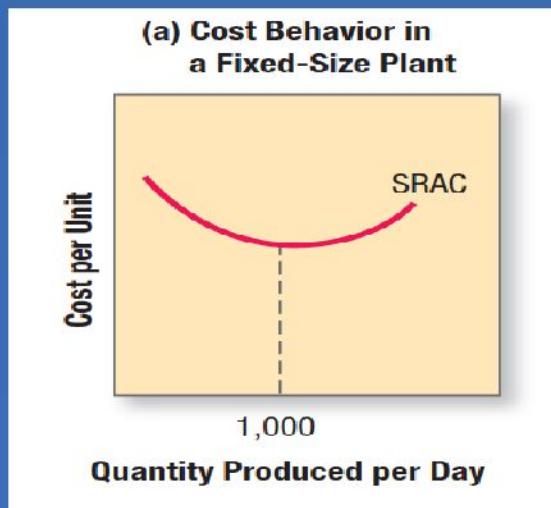




How to Set the Price?

- **Step 3: Estimating Costs**

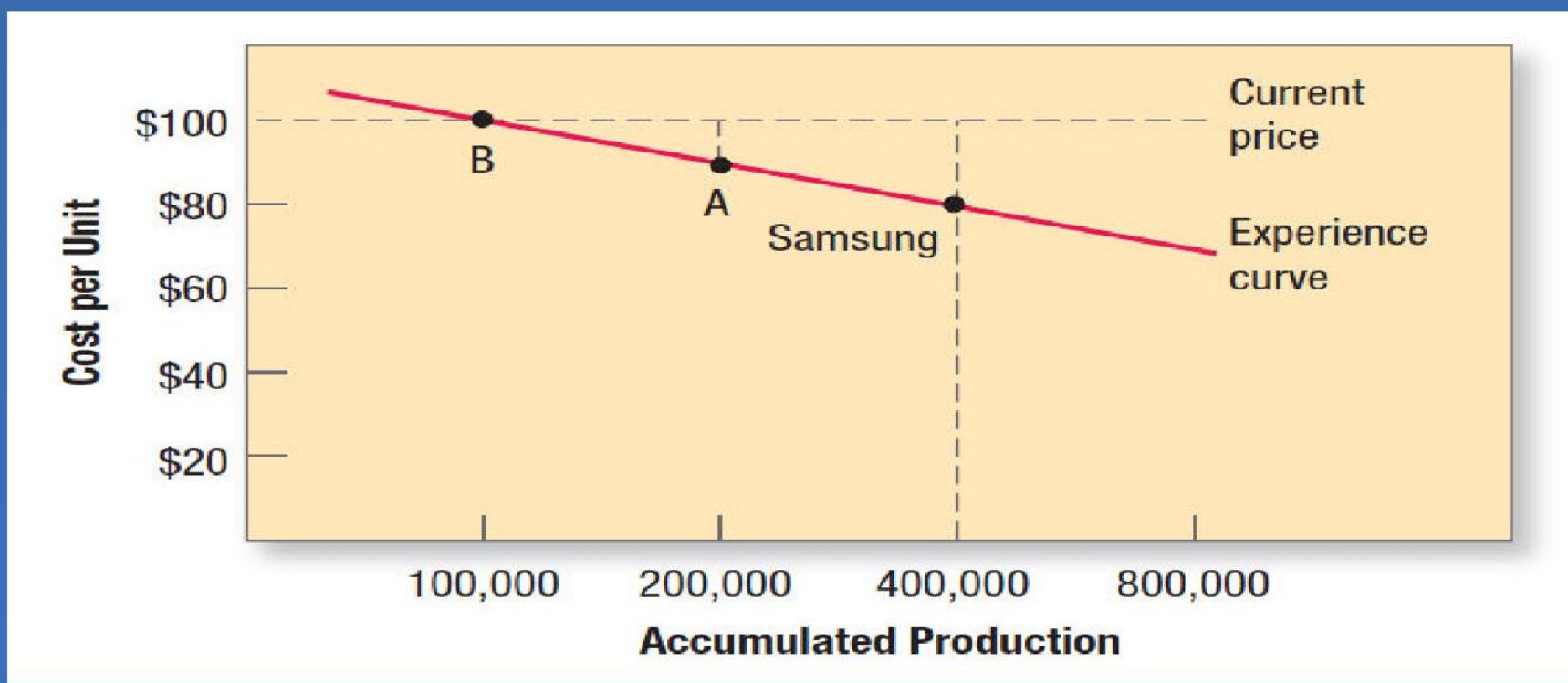
- Charge a price that covers cost of producing, distributing, promoting and selling the product, including a fair return for its effort and risk
- Fixed Vs. Variable Costs; Total Costs; Average Cost (cost per unit)





How to Set the Price?

- **Step 3: Estimating Costs**
 - Accumulated production
 - Experience/learning curve





How to Set the Price?

- **Step 3: Estimating Costs**
 - Target costing
 - $(\text{Price}) - (\text{desired profit margin})$
 - Examine each cost element — design, engineering, manufacturing, sales — and bring down costs
 - But Cost cutting should not affect the brand promise and value delivered (E.g. Tata Nano)



How to Set the Price?

- **Step 3: Estimating Costs**

- Target costing

- E.g. Despite the early success of the PT Cruiser, Chrysler chose to squeeze out more profit by avoiding certain redesigns and cutting costs with cheaper radios and inferior materials. Once a best-selling car, the PT Cruiser was eventually discontinued





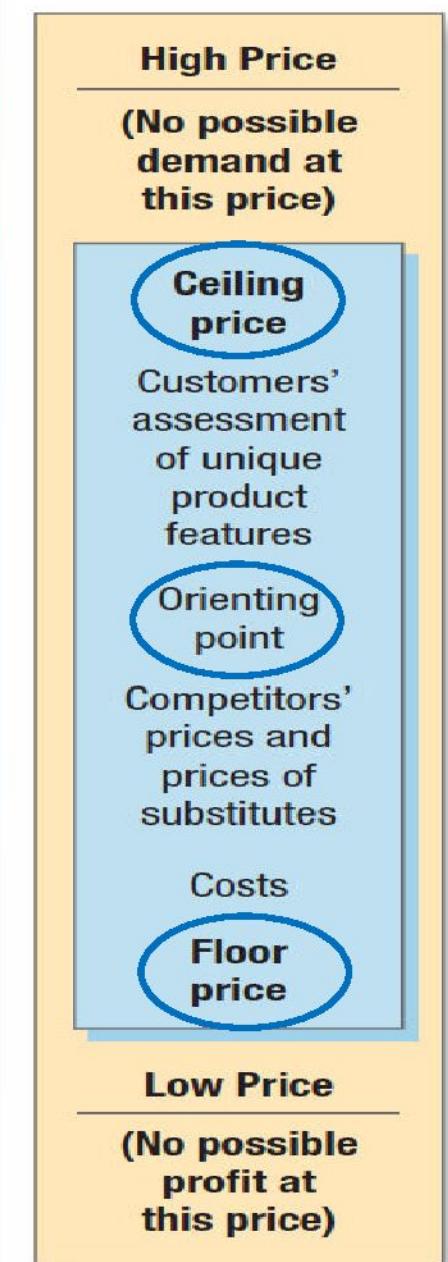
How to Set the Price?

- **Step 4: Analyzing Competitors' Prices**
 - Analysis of competitors' costs, prices, & reactions
 - Value-priced competitors (powerful combination of low price and high quality)
 - E.g. Southwest Airlines, Walmart



How to Set the Price?

- **Step 5: Selecting a Pricing Method**
 - Three major considerations in price
 - Costs = price floor
 - Competitors' prices = orienting point
 - Customers' assessment of unique features = price ceiling





How to Set the Price?

- **Step 5: Selecting a Pricing Method**
 - Markup pricing

$$\text{Markup price} = \frac{\text{unit cost}}{(1 - \text{desired return on sales})}$$

$$= 1000 / (1 - 20\%)$$

$$= 1000 / 0.8$$

$$= 1250$$



How to Set the Price?

- **Step 5: Selecting a Pricing Method**
 - Target-return pricing
 - Price that yields its target rate of return on investment

$$\text{Target-return price} = \text{unit cost} + \frac{\text{desired return} \times \text{invested capital}}{\text{unit sales}}$$

$$= 1000 + [(20\% \times 500,000)/ 1000]$$

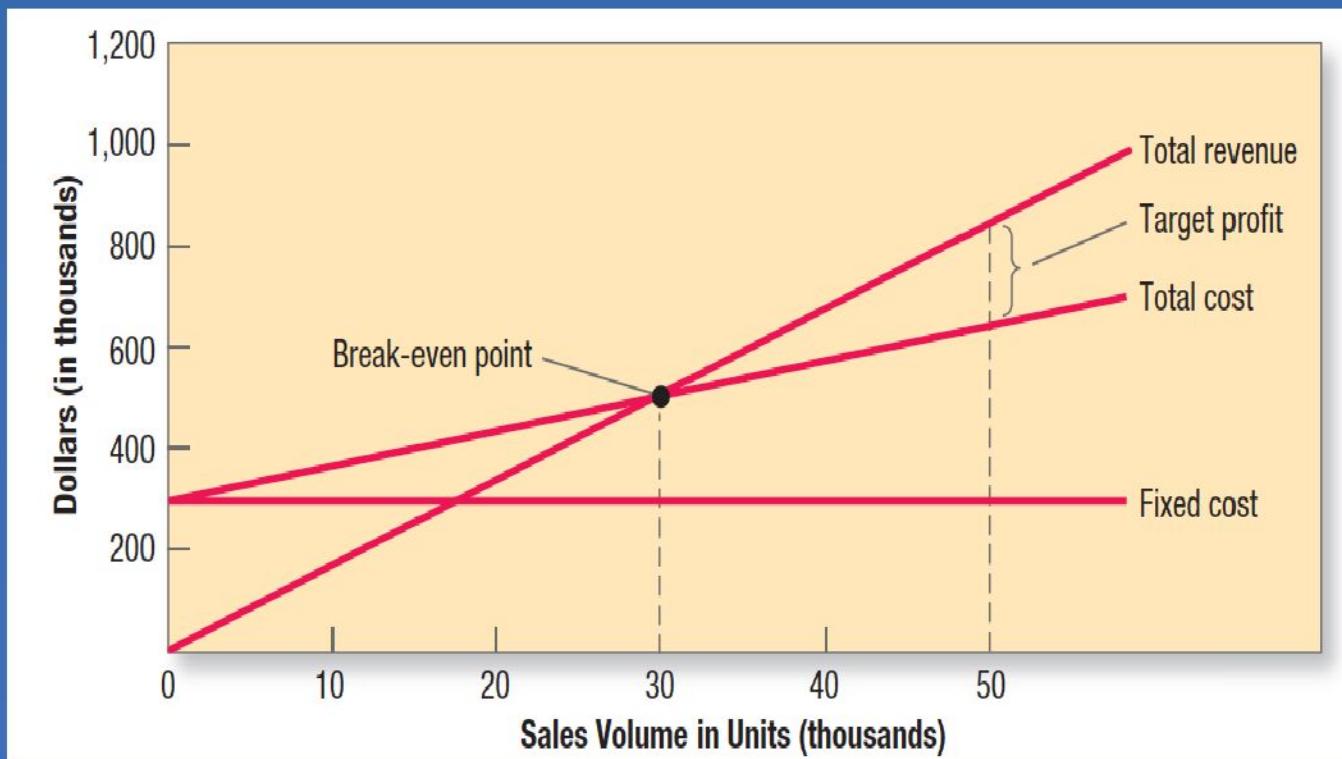
$$= 1000 + [100,000/ 1000]$$

$$= 1100$$



How to Set the Price?

- **Step 5: Selecting a Pricing Method**
 - Target-return pricing
 - Break-Even for Target-Return Price





How to Set the Price?

- **Step 5: Selecting a Pricing Method**
 - Perceived-value pricing
 - Based on
 - Buyer's image of product
 - Channel deliverables
 - Warranty quality
 - Customer support
 - Softer attributes (e.g. reputation)
 - To communicate and enhance perceived value in buyers' minds - Brands use the marketing program elements (advertising, sales force, and internet)



How to Set the Price?

- **Step 5: Selecting a Pricing Method**
 - Value pricing
 - Fairly low price for a high-quality offering to win loyal customers
 - Focused on re-engineering the company's operations to become a low-cost producer without sacrificing quality to attract a large number of value-conscious customers
 - E.g. IKEA & Southwest Airlines



How to Set the Price?

- **Step 5: Selecting a Pricing Method**
 - EDLP
 - A retailer using everyday low pricing (EDLP) charges a constant low price with little or no price promotion or special sales (e.g. Walmart)
 - High-low pricing
 - Retailer charges higher prices on an everyday basis but runs frequent promotions with prices temporarily lower than the EDLP level



How to Set the Price?

- **Step 5: Selecting a Pricing Method**
 - Going-rate pricing
 - Brands bases its price largely on competitors' prices
 - Useful where costs are difficult to measure or competitive response is uncertain
 - Reflects the industry's collective wisdom



How to Set the Price?

- **Step 5: Selecting a Pricing Method**
 - Auction-type pricing
 - English auctions (ascending bids) - one seller and many buyers - seller puts up an item and bidders raise their offer prices until the top price is reached (e.g. Used cars/Properties)
 - Dutch auctions (descending bids) –
 - One seller and many buyers - auctioneer announces a high price for a product and then slowly decreases the price until a bidder accepts
 - One buyer and many sellers - the buyer announces something he or she wants to buy, and potential sellers compete to offer the lowest price



How to Set the Price?

- **Step 5: Selecting a Pricing Method**
 - Auction-type pricing
 - Sealed-bid auctions - suppliers submit only one bid; they cannot know the other bids (e.g. Govt. or Company tenders)



Other Pricing Approaches & Strategies

- **Skimming**
 - Products are sold at higher prices so that fewer sales are needed to break even
 - This strategy is employed only for a limited duration, to target “Early adopters”
- **Loss Leader**
 - Product sold at a low price to stimulate other profitable sales. This would help the companies to expand its market share as a whole.



Other Pricing Approaches & Strategies

- **Penetration Pricing**
 - Setting the price low in order to attract customers and gain market share.
- **Differential Pricing**
 - Different price for the same product in different segments to the market
- **Premium Pricing**
 - keeping the price of a product or service artificially high in order to encourage favorable perceptions among buyers, based solely on the price



Other Pricing Approaches & Strategies

- **Psychological Pricing**
 - Pricing designed to have a positive psychological impact.
 - E.g. Rs. 99/- 149/- 199/-
- **Dynamic Pricing**
 - A flexible pricing mechanism made possible by advances in information technology
 - E.g. App based taxi services, Airlines, E-commerce
- **Freemium Pricing**
 - offering a product or service free of charge (typically digital offerings such as software, content, games, web services or other) while charging a premium for advanced features.
 - E.g. LinkedIn, Hotstar



How to Set the Price?

- **Step 6: Selecting the Final Price**
 - Additional factors to select final price
 - Impact of other marketing activities
 - Brand's quality and Advertising relative to the competition
 - Company pricing policies
 - E.g. bank charges, Travel cancellation charges
 - Gain-and-risk-sharing pricing
 - Guarantee for promised value
 - Impact of price on other parties
 - Stakeholders - Dealers, Distributors, Sales force, Government, Competitors

Promotion/ Marketing Communications Decisions

What is Promotion?

Advertising

Exhibitions

Sale Promotions

Direct Mail

Sponsorships

Personal Selling

Public Relations

Outdoor
Promotions

Online
Promotions

Promotion Mix

“The Promotion mix (the marketing communication mix) is the specific blend of promotion tools that the company uses to persuasively **communicate customer value** and **build customer relationships**”



Promotion Mix

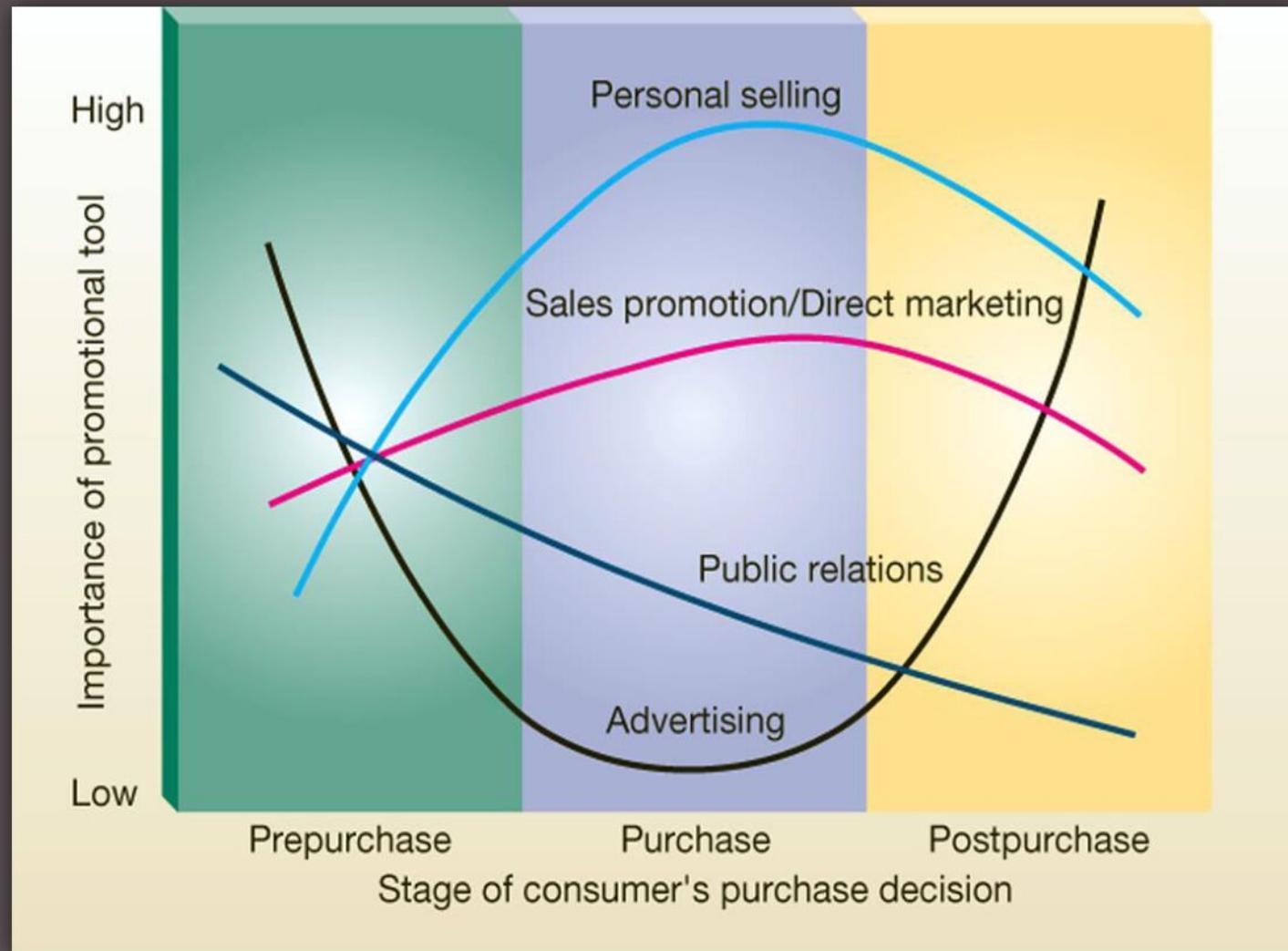
Marketing Communications:

The means by which firms attempt to inform, persuade, and remind consumers about the products and brands they sell

Elements of Promotion Mix

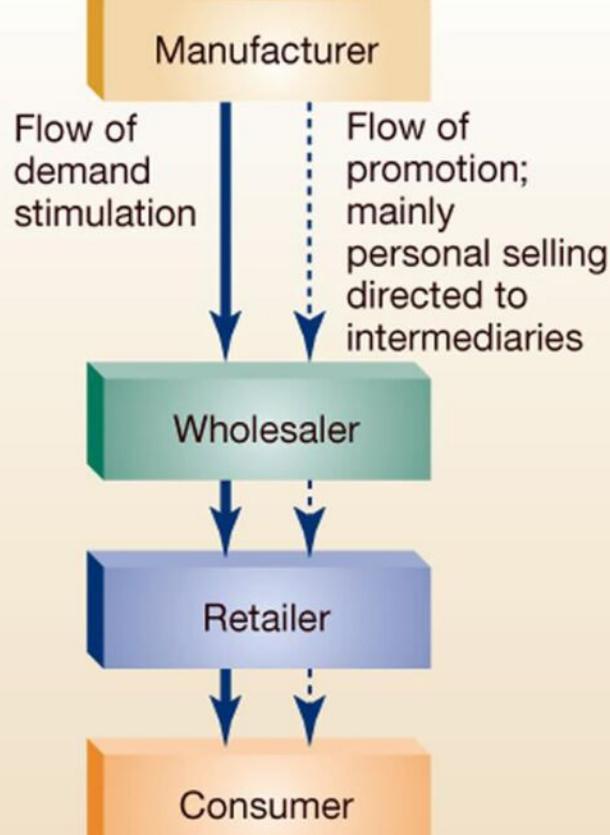
PROMOTIONAL ELEMENT	MASS VERSUS CUSTOMIZED	PAYMENT	STRENGTHS	WEAKNESSES
Advertising	Mass	Fees paid for space or time	<ul style="list-style-type: none"> Efficient means for reaching large numbers of people 	<ul style="list-style-type: none"> High absolute costs Difficult to receive good feedback
Personal selling	Customized	Fees paid to salespeople as either salaries or commissions	<ul style="list-style-type: none"> Immediate feedback Very persuasive Can select audience Can give complex information 	<ul style="list-style-type: none"> Extremely expensive per exposure Messages may differ between salespeople
Public relations	Mass	No direct payment to media	<ul style="list-style-type: none"> Often most credible source in the consumer's mind 	<ul style="list-style-type: none"> Difficult to get media cooperation
Sales promotion	Mass	Wide range of fees paid, depending on promotion selected	<ul style="list-style-type: none"> Effective at changing behavior in short run Very flexible 	<ul style="list-style-type: none"> Easily abused Can lead to promotion wars Easily duplicated
Direct marketing	Customized	Cost of communication through mail, telephone, or computer	<ul style="list-style-type: none"> Messages can be prepared quickly Facilitates relationship with customer 	<ul style="list-style-type: none"> Declining customer response Database management is expensive

How the Importance of Promotional Elements varies during the Stages of Consumer's Purchase Decision

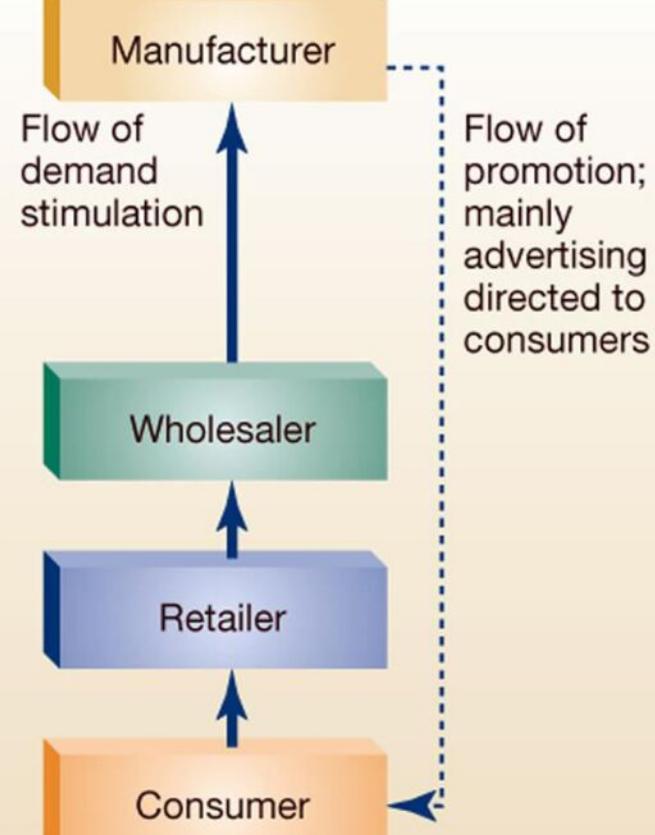


Push and Pull Promotional Strategies

A. Push strategy



B. Pull strategy



Response Hierarchy Models

Stages	Models			
	AIDA Model ^a	Hierarchy-of-Effects Model ^b	Innovation-Adoption Model ^c	Communications Model ^d
Cognitive Stage	Attention ↓ Interest ↓ Desire ↓ Action	Awareness ↓ Knowledge ↓ Liking ↓ Preference ↓ Conviction ↓ Purchase	Awareness ↓ Interest ↓ Evaluation ↓ Trial ↓ Adoption	Exposure ↓ Reception ↓ Cognitive response ↓ Attitude ↓ Intention ↓ Behavior
Affective Stage				
Behavior Stage				

Consumer Involvement & Response Sequence

- “learn-feel-do” - High involvement & perceived high differentiation (e.g. automobile/ house)
- “do-feel-learn” - High involvement, but perceives comparatively less or no differentiation (e.g. personal computers/ smart TVs)
- “learn-do-feel” - Low involvement and perceives comparatively little differentiation (e.g. FMCG)

How to develop the IMC Campaign/ Promotion Program?



IMC = Integrated
Marketing Communication

Developing the Promotion Program

1. Identify the Target Audience

- Who & Where are the Customers?
- How they behave?

2. Determine Objectives

- Establish need for category
- Build brand awareness
- Build brand attitude
- Influence brand purchase intention

Developing the Promotion Program

3. Design the Communications

- **Message strategy**
 - appeals, themes, or ideas that will tie in to the brand positioning and help establish points-of-parity or points-of-difference
- **Creative strategy**
 - Informational OR Transformational appeals
- **Message source**
 - Source credibility - expertise, trustworthiness, and likability

Developing the Promotion Program

4. Select the communications channels

- Personal Vs. Nonpersonal channels

5. Establish the Marketing Communications Budget

- Affordable method
- Percentage-of-sales method
- Competitive-parity method
- Objective-and-task method

Developing the Promotion Program

– Objective-and-task method

- ✓ Establish market share goal
- ✓ Select % of market reached by advertising
- ✓ Estimate % of prospects who should try brand
- ✓ Calculate ad impressions per 1% trial rate
- ✓ Find gross rating points to be purchased
- ✓ Calculate budget for cost of gross rating point

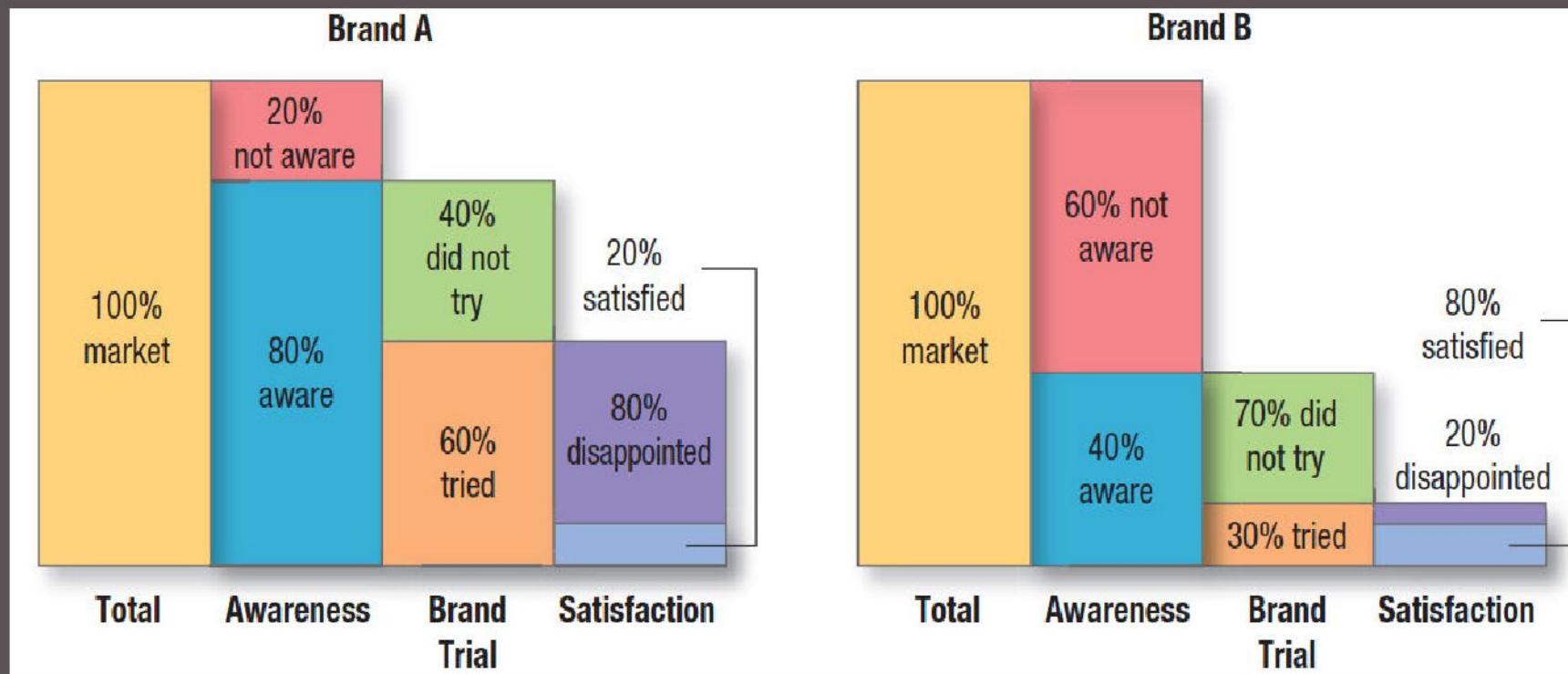
Developing the Promotion Program

6. Selecting the Marketing Communications Mix

Examples of the Eight Common Communication Platforms							
Advertising	Sales Promotion	Events and Experiences	Public Relations and Publicity	Online and Social Media Marketing	Mobile Marketing	Direct and Database Marketing	Personal Selling
Print and broadcast ads	Contests, games, sweepstakes, lotteries	Sports	Press kits	Web sites	Text messages	Catalogs	Sales presentations
Packaging—outer	Premiums and gifts	Entertainment	Speeches	E-mail	Online marketing	Mailings	Sales meetings
Packaging inserts	Sampling	Festivals	Seminars	Search ads	Social media marketing	Telemarketing	Incentive programs
Cinema	Fairs and trade shows	Arts	Annual reports	Display ads		Electronic shopping	Samples

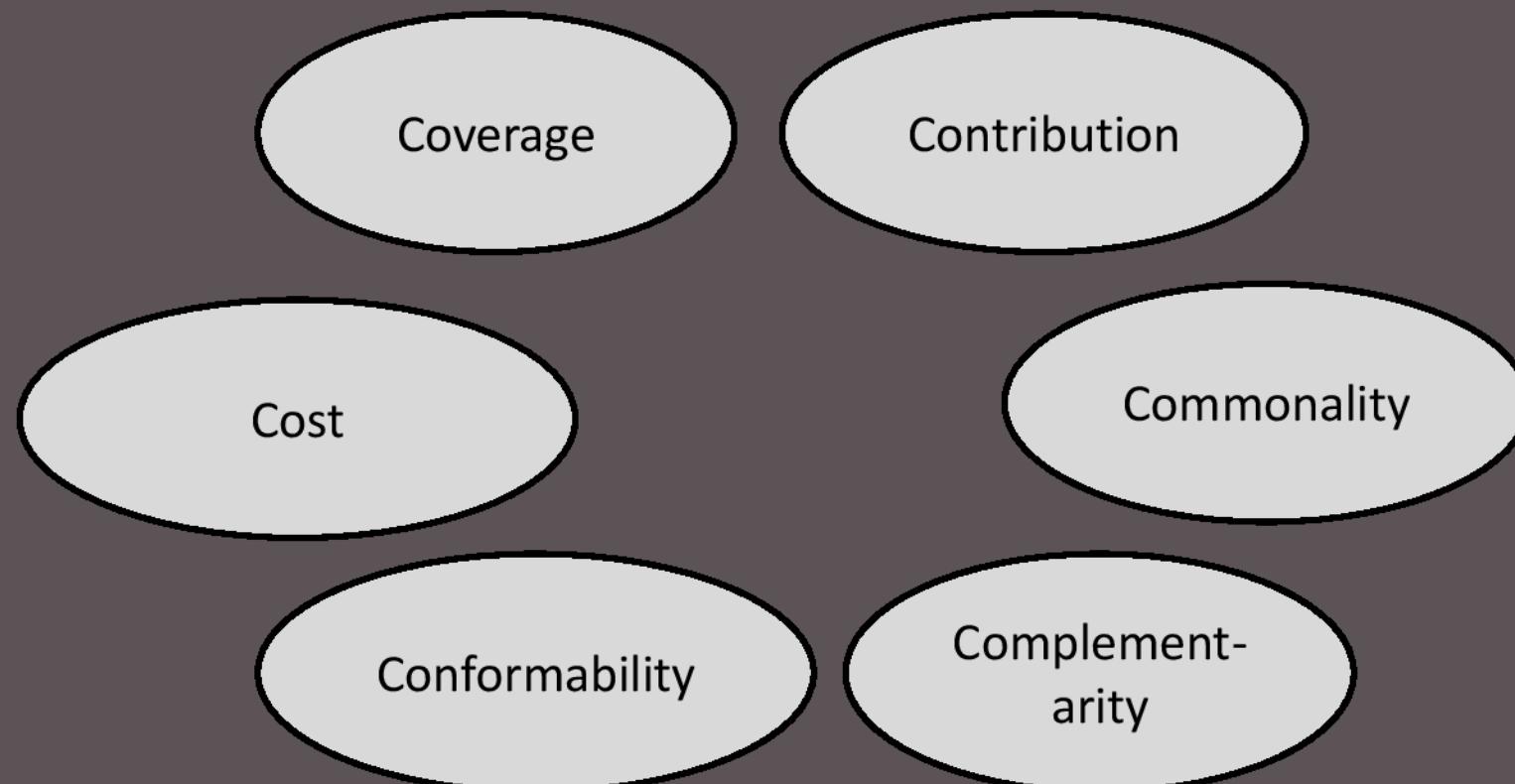
Developing the Promotion Program

7. Measuring Communication Results



Developing the Promotion Program

8. Managing Integrated Marketing Communications



5Ms of Advertising



Branding & Packaging

Co-Branding

- Two or more well-known brands are combined into a joint product or marketed together in some manner
 - Same-company
 - Joint-venture
 - Multiple-sponsor
 - Retail (e.g. jointly owned Pizza Hut, KFC, and Taco Bell restaurants)

Branding & Packaging

Ingredients Branding

- Co-branding that creates brand equity for parts that are necessarily contained within other branded products



E.g. Westin Hotels advertises its own “Heavenly Bed”—a critically important ingredient to a guest’s good night’s sleep

Branding & Packaging

Packaging

- All the activities of designing and producing the container for a product

Used as a marketing tool

- Self-service
- Consumer affluence
- Company and brand image
- Innovation opportunity

Packaging objectives

- Identify the brand
- Convey descriptive and persuasive information
- Facilitate product transportation and protection
- Assist at-home storage
- Aid product consumption

Branding & Packaging

Packaging

TABLE 13.3

The Color Wheel of Branding and Packaging

Red symbolizes excitement, energy, passion, courage, and being bold.

Orange connotes friendliness and fun. It combines the energy of red and the warmth of yellow.

Yellow, as the color of the sun, is equated with warmth, joy, and happiness.

Green, as the color of nature, connotes health, growth, freshness, and renewal.

Blue, as the color of the sky and sea, is associated with dependability, trust, competence, and integrity.

Purple has symbolized nobility, wealth, and wisdom. It combines the stability of blue and the energy of red.

Pink is considered to have soft, peaceful, comforting qualities.

Brown, as the color of the earth, connotes honesty and dependability.

Black is seen as classic, strong, and balanced.

White connotes purity, innocence, and cleanliness.