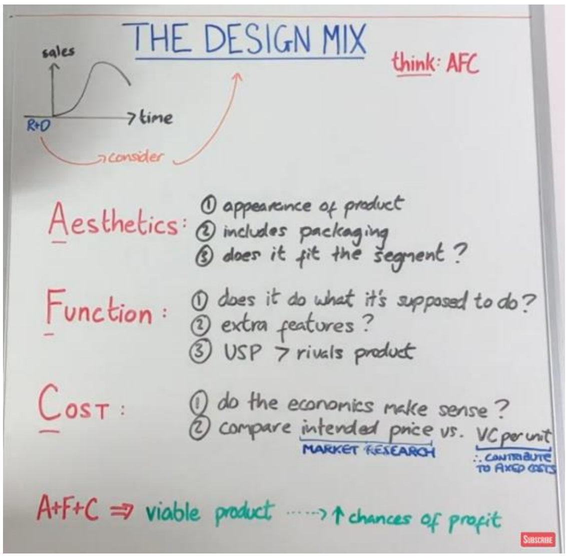
# The design mix:




Design mix happens during the research and development stage

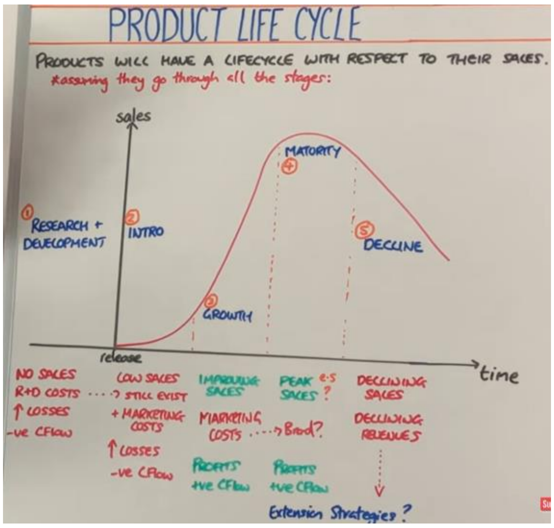
## 3 parts of design mix (AFC):

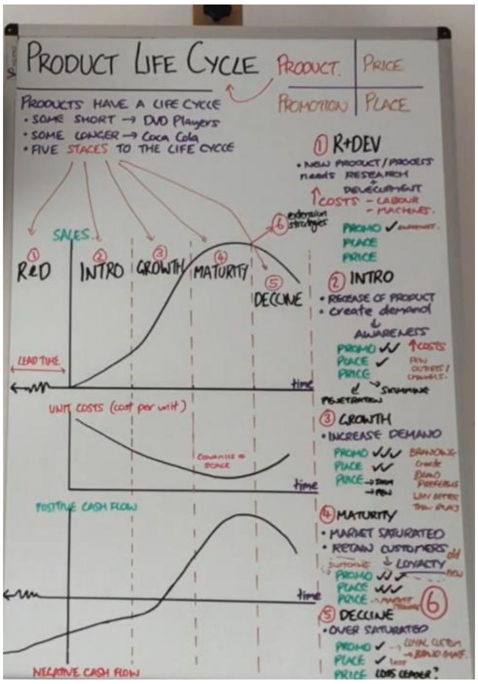
- Aesthetics:
  - Appearance of products (includes packaging)
  - Does it fit the segment? (gender, race, culture)
- Function:
  - Does product do what its supposed to do
  - Extra features? → USP → Give you competitive edge
- Cost:
  - Do economics make sense
  - Compare intended price vs VC per unit (intended price must be more than VC)

A+F+C → Viable (successful) product → Increases chances of obtaining profit

## **Product life cycle:**

Products will have a lifecycle with respect to their sales




### **Research and development (lead time):**

- High costs (labour, machines) → Negative cashflow
- Promote new product entering the market to create awareness → Increase marketing costs

**Introduction (Release of product):**

- Create demand → High costs (marketing)
- Product may be trialled in a **few** outlet channels → Low revenue → Negative cashflow
- Low sales → Low revenue → Low economies of scale
- Pricing strategy:
  - Price skimming (set prices high to maximise profit and recover R&D costs)
  - Price penetration (set prices low to attract customers → Increase market share)

**Growth:**

- Increase demand → Create brand preference and customer loyalty → Start branding → Increased marketing costs
- Increase channels of distribution (selling in more outlets)
- Changing price depending on pricing strategy (skimming/penetration)
- More sales → More output from business → Lower unit costs → Economies of scale
- Positive cashflow

**Maturity:**

- Market saturated (no more potential customers and all customers have product)
- Retain customers → Create new loyalty

- Increase distribution channels
- Best economies of scale
- Best cashflow
- Need to start thinking about future cash cows (product making profit with minimal investment)

**Extension strategies:**

- Maintain sales of product

**Decline:**

- Market is over-saturated
- Keep customer loyalty → Increase branding
- Decrease channels of distribution to manage costs
- Product may be used as a loss leader (sold with profit loss but make customers buy other products) → Attract new customers

**<u>Extension strategies:</u>**


Extension strategy = Method for business to increase sales of a certain product when in a saturated market

Happens usually in maturity stage

**Advantages:**

- Increase sales → Increase revenue → Increase profits/market share

**Disadvantages:**

- Expensive
- Could be an opportunity cost (Could've used it for research and development)

**Types of extension strategies:**

- Segments:
  - Target and position in a new segment
  - LID (location, income, demographics)
- Price:
  - Reduce price → Increase sales → Increase revenue
  - Reducing prices may open a new segment (low income)
- Advertising:
  - Run promotion campaign (change perception) → Increase awareness/remind customers → Increase sales
- Markets:
  - Enter international markets – Globalisation, e-commerce → exchange rates (SPICED)

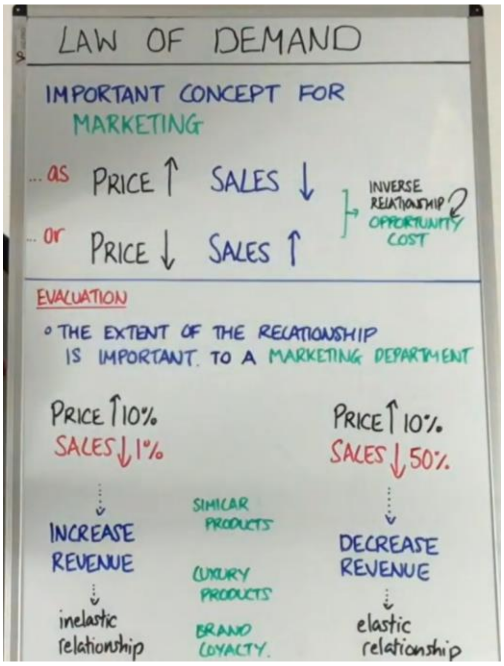
**SPAM**

**Business could:**

- Rebranding
- Repackaging
- New features/functionality

You can use combinations of extension strategies

**<u>Law of demand:</u>**




Prices increased → Customer can't afford product → Doesn't buy (opportunity cost)

Extent of relationship (price & sales) is important to marketing department

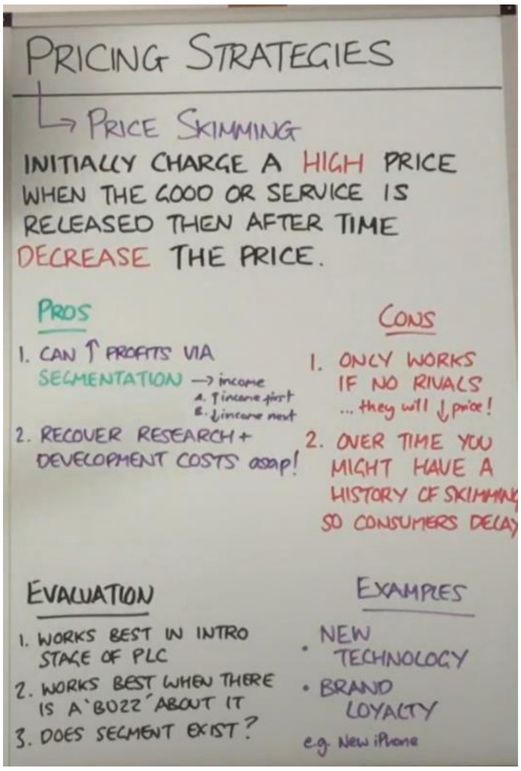
**Two types of relationships:**

- Elastic:
    - Customers are more sensitive to price changes
    - Increasing prices → Big decrease in sales
    - Decreasing prices → Large increase in sales
- Inelastic:
    - Customers are less price sensitive
    - Price increases → Sales decreases by a small amount
    - Price decreases → Sales increases by a small amount

**Factors affecting relationships:**

- Similar products: Increasing prices may lead to customers switching to competitors
- Luxury products: Customers may be more loyal and absorb the price
- Brand loyalty: Less price sensitive → Inelastic relationship

## Price skimming




Price skimming = Setting a high initial price before gradually lowering it over time

**Why?:**

- Maximise profits from early adopters (lower PED) and lower price after to attract more price sensitive customers (those with more PED)
  - Capitalise on consumer willingness to pay
  - May create an 'aura' of exclusivity

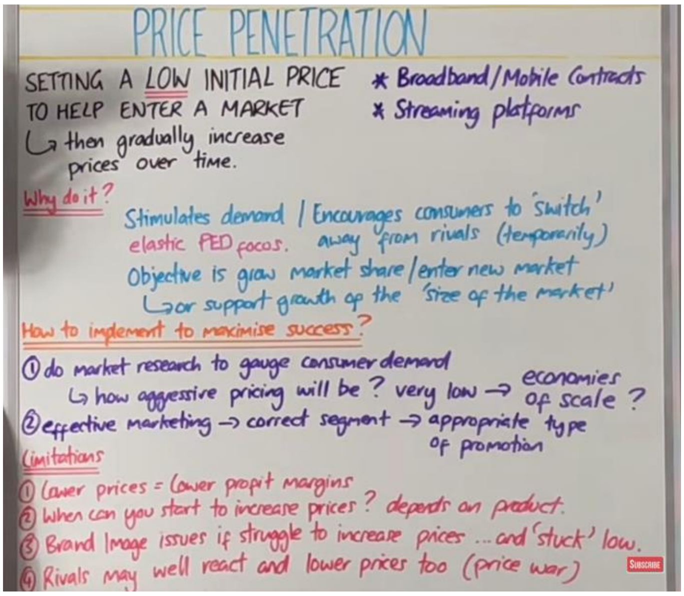
**How to implement to maximise success:**

- Do market research to gauge (find out) consumer demand (and PED)
- Use integrated marketing mix to combine price with promotion → Push exclusivity
- Monitor rivals pricing strategies

**Limitations:**

- Risk of losing 'price sensitive' customers (more elastic customers)
- Risk of rivals charging lower prices → First mover advantage
- Gradually lowering price phase → Constant monitoring to maintain competitiveness

**<u>Price penetration:</u>**




Price penetration = Setting a low initial price to help enter a market then gradually increases over time

**Why?**

- Stimulate demand → Encourages customers to switch elastic PED focus away from rivals (temporarily)
- Objective is grow market share and enter new market or support growth of size of market

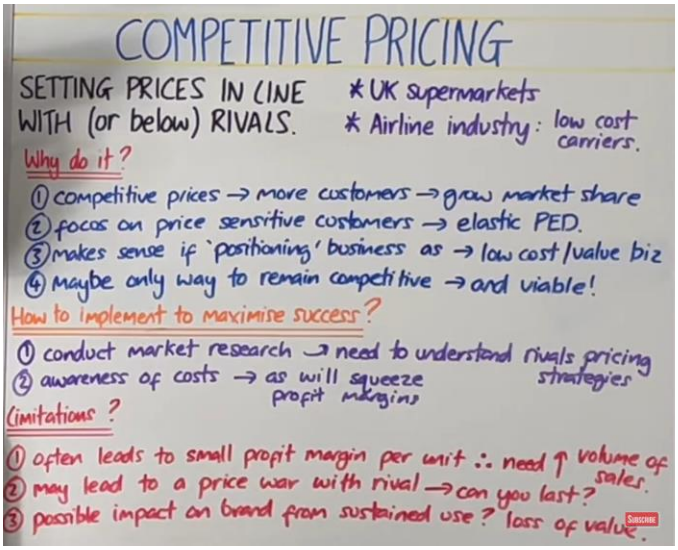
**How to implement to maximise success:**

- Do market research to gauge customer demand
    - How aggressive will pricing be? Very low → High sales → Economies of scale
- Effective marketing → Correct segment → Appropriate type of promotion

**Limitations:**

- Lower prices = Lower profit margins
- When can you start to increase prices? → Successful when  increase prices? (depends on product)
- Brand image issues if stuck struggle to increase prices (people will see brand as cheap)
- Rivals may react and lower prices too (price war)

**<u>Competitive pricing:</u>**




Competitive pricing = Setting prices in line with (or below) rivals

**Why?:**

- Competitive prices → More customers → Grow market share
- Focus on price sensitive customers → Elastic PED
- Position business as low cost or value
- Only way to remain competitive and viable

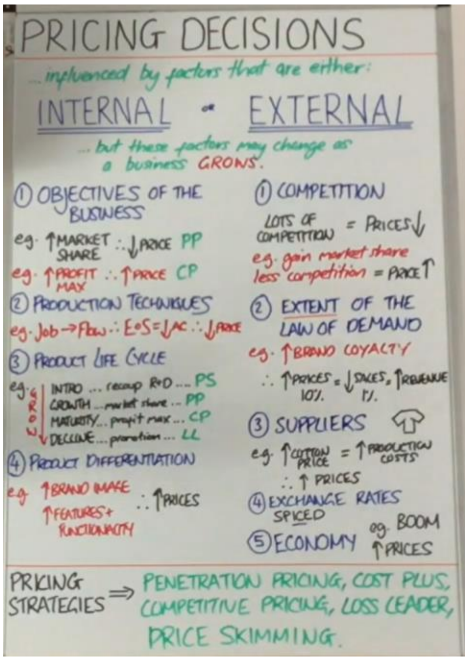
**How to implement to maximise success:**

- Conduct market research → Need to understand rivals pricing strategies
- Bringing prices down → Increase awareness of costs → Profit margins will be tight

**Limitations:**

- Profit margins very small → Need large volume of sales
- May lead to price war with rivals → Long term will affect costs
- Possible impact on brand image → Lose value

**<u>Pricing decisions:</u>**




Pricing decisions are affected by: (may change when business grows)

- Internal factors

- External factors

**Internal:**

- Objectives of business
  - Eg. Increase market share → Lower price
- Production techniques
  - Job production → Flow production → Economies of scale → Lower average cost/unit → Lower product price
- Product life cycle
- Product differentiation (Stand out)
  - Better features + functionality → Better brand image → Enable price increase

**OPPP**

**External:**

- Competition
  - High competition → Decrease prices
- Extent of the law of demand
  - Good brand loyalty → Can increase prices by a lot and sales will fall only small amount → Increase revenue
- Suppliers
  - Cotton price increases → Increased production cost → Higher prices
- Exchange rates

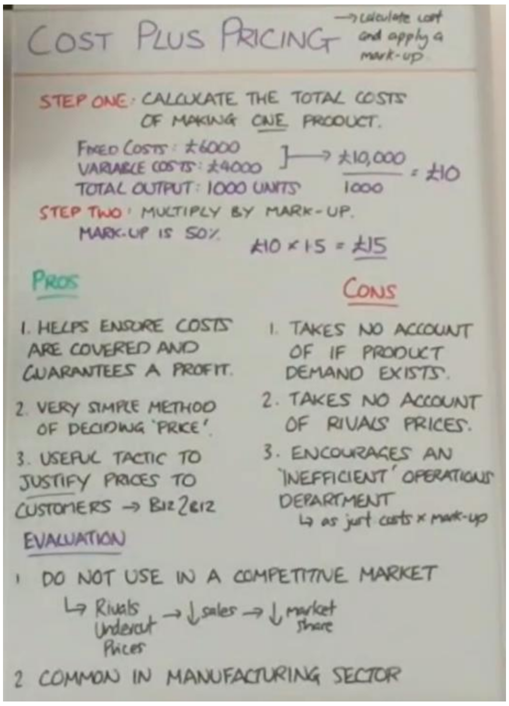
    - SPICED (strong pound imports cheap exports dear)
- Economy
    - Booming → Increase prices because more people have jobs
    - Recession → Decrease prices

**CESED**

**Pricing strategies:**

- Price penetration
- Price skimming
- Cost plus
- Competitive pricing
- Loss leader

**<u>Cost plus pricing:</u>**




Cost plus pricing = Calculate total cost and apply mark-up (mark-up = profit)

$$\text{Selling Price per Unit} = \left(\frac{\text{Total Cost}}{\text{Total Output}}\right) \times \text{Markup Multiplier}$$

**Advantages:**

- Helps ensure costs and profit is covered
- Very simple method of deciding price
- Useful to justify prices to customers or business to business

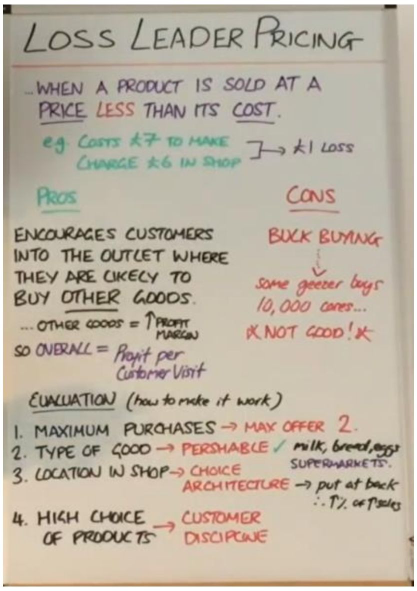
**Disadvantages:**

- Takes no account of demand of product exists
- Takes no account of rivals prices
- Encourages inefficient operations department (they will not try to reduce total costs)

**Evaluation:**

- Do not use in competitive market because rivals have undercut prices → Less sales → Less market share
- Common in manufacturing sector (secondary sector) and selling to tertiary sector (normal businesses) → simple method

## Loss leader pricing:




Loss leader = Product is sold at price less than its cost

**Advantages:**

- Encourage customers into outlet where they may be other goods → Higher profit margin → More profit

**Disadvantages:**

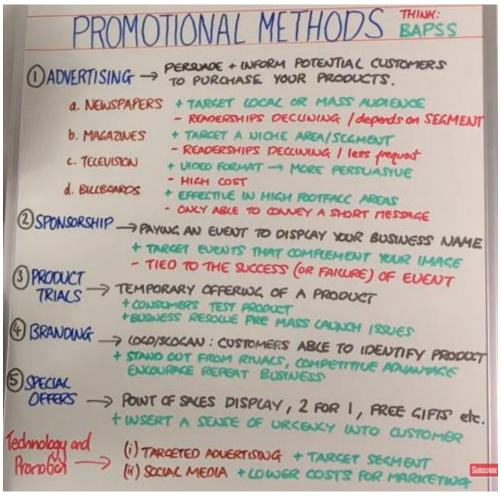
- Bulk buying

**Evaluation:**

- Maximum purchases of product (can only buy certain quantity)
- Type of good (perishable=temporary)
- Location in shop (choice architecture) → Put at back → Higher profit margin
- High choice of products/large product portfolio (maybe on offer) → Lower customer discipline

**MTLR**

**<u>Promotional methods:</u>**




**Advertising →** Persuade + inform potential customers to purchase product

- Newspapers
  - Target local or mass audience (adv)
  - Readership declining and depends on segment (dis)

- Magazines
    - Target niche (specialised) area/segment
    - Readership declining and less frequent
- Television
    - Video format → More persuasive
    - High cost
- Billboards
    - Effective in high footfall areas
    - Only able to convey short message

**Sponsorship** → Paying an event to display your business name

- Target events that complement your image
- Complimentary to success of failure of event

**Product trials** → Temporary offering of product

- Consumers test products
- Businesses can resolve issues before launch

**Branding** → Logo/slogan: Customers are able to identify product

- Competitive advantage
- Encourage repeat business
- Expensive

**Special offers** → Point of sales display

- Insert sense of urgency in customer

**Technology and promotion**

- Targeted advertising → Target segment
- Social media → Lower marketing costs

**B**randing

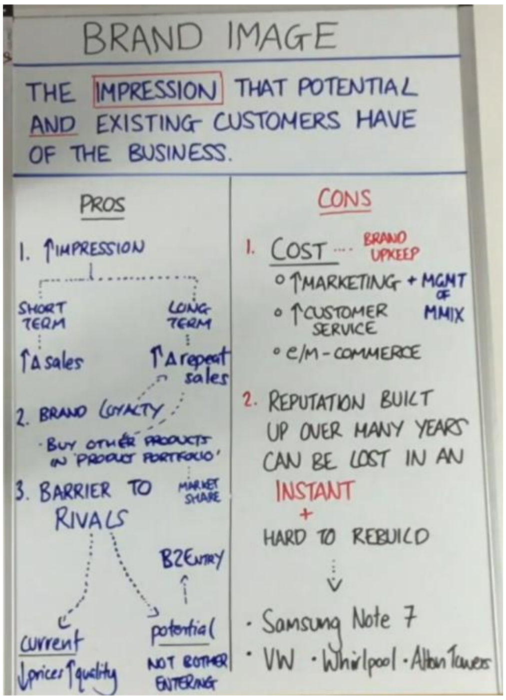
**A**dvertising

**P**roduct trials

**S**ponsorship

**S**pecial offers

## Brand image




Brand image = Impression that potential and existing customers have of the business

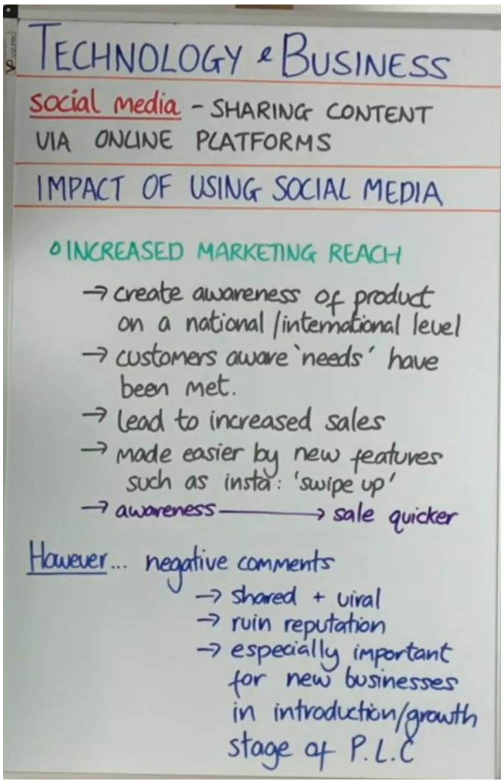
**Advantages:**

- Good brand image
  - Short term → Increase sales
  - Long term → Repeat sales
- Brand loyalty
  - Buy other products in product portfolio → Increase market share
- Barrier to rivals
  - Current rivals → Make them increase prices or quality
  - Potential rivals → Not bother entering market

**Disadvantages:**

- Cost
  - Increase marketing
  - Increase customer service
  - Strong e/m-commerce
  - Brand upkeep
- Reputation
  - Can be lost in instant
  - Hard to rebuild → Increased costs

## **<u>Impact of using social media</u>**

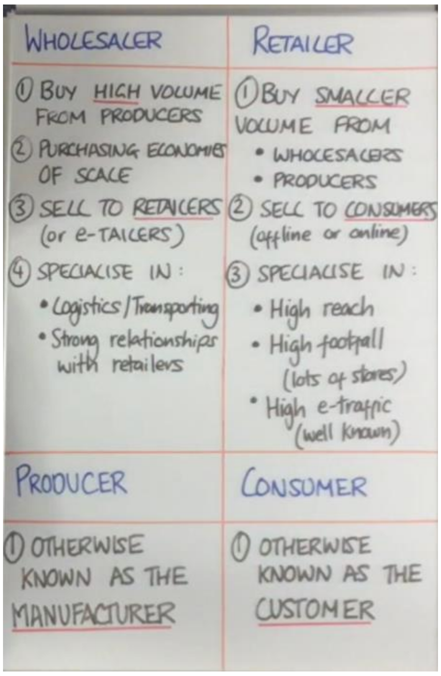



Social media = Sharing content via online platforms

**Impact:**

- Increased marketing reach
    - Create awareness of product on nation/international level
    - Customers aware needs have been met
    - Increased sales
    - Made easier by new features (quicker buying)
    - Awareness → Get sales quicker
- Negative comments
    - Shared and go viral → Ruin reputation
    - Very bad for new businesses in introduction/growth stage of P.L.C

**<u>Wholesaler and retailer</u>**




**Producer**

- Known as manufacturer
- Wants to sell to customer but requires channel of distribution

**Consumer**

- Known as customer

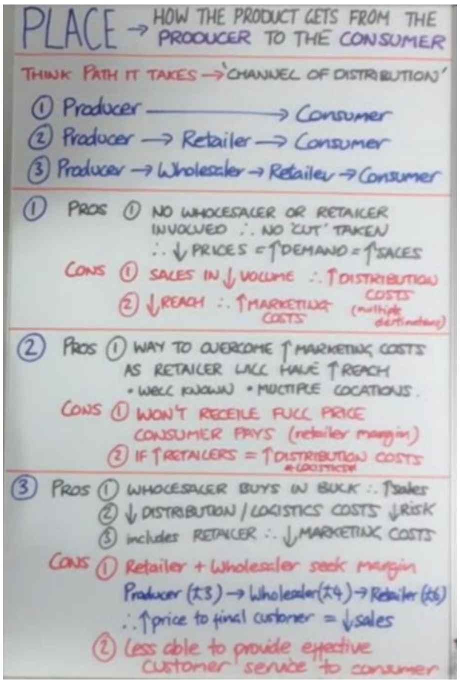
**Wholesaler**

- Buy high volume from producers
- Purchasing economies of scale
- Sell to retailers or e-tailers
- Specialise in:
  - Logistics/transporting
  - Strong relationships with retailers

**Retailer**

- Buy smaller volume from:
    - Wholesalers
    - Producers
- Sell to consumers
- Specialise in:
    - High reach (high awareness)
    - High footfall
    - High e-traffic

## Channels of distribution




### Three most common channels:

1. Producer → Consumer
2. Producer → Retailer → Consumer
3. Producer → Wholesaler → Retailer → Consumer

### Advantages (1):

- No wholesaler/retailer → No extra cost → Lower prices → Increased demand → Increased sales

**Disadvantage (1):**

- Sales are in smaller volume → Increased distribution costs (multiple destination)
- Less reach (no awareness) → High marketing costs

**Advantages (2):**

- Overcome marketing costs because retailer has higher reach (multiple locations)

**Disadvantages:**

- Don't receive full price consumer pays (retailer margin)
- Selling to many retailers → Increased distribution costs

**Advantages (3):**

- Wholesaler buys in bulk → Increased sales
- Less distribution costs (bulk buying) → Less risk
- Includes retailer → Less marketing costs

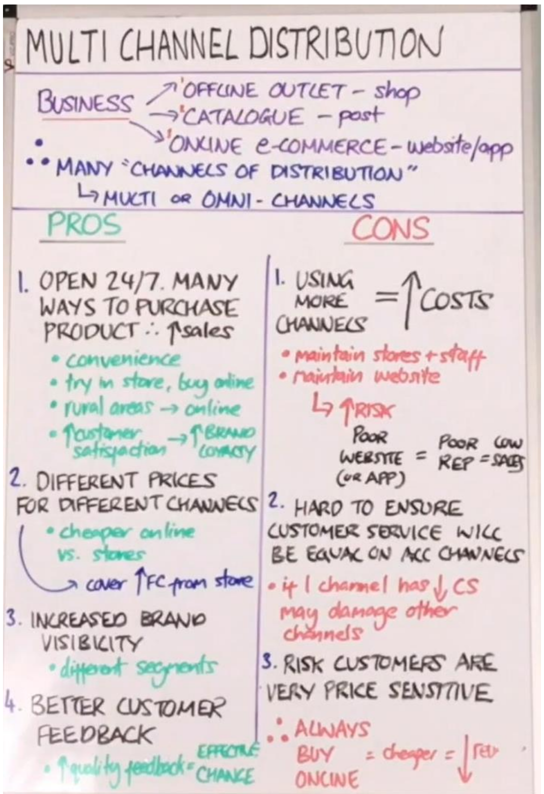
**Disadvantages (3):**

- Retailer and wholesaler want margin
- Less able to produce effective customer service to consumer

## Evaluation:

1. Depends on if you can finance and make profit while producing, distributing and marketing
2. Depends on volume of stock produced
    - High → Consider multi channels of distribution
3. Depends on retailer image/reputation
    - Low end → Give bad image of product
    - High end → Appear luxurious

## <u>Multi-channel distribution</u>




## Advantages:

- Open 24/7 → Increased sales
- Different prices for different channels
    - Cheaper online (less fixed costs) vs stores (fixed cost of store)

- Increased brand visibility
    - Different segments use different channels (elderly people go to shop)
- Better customer feedback
    - Doing market research → Higher quality feedback → Improve business

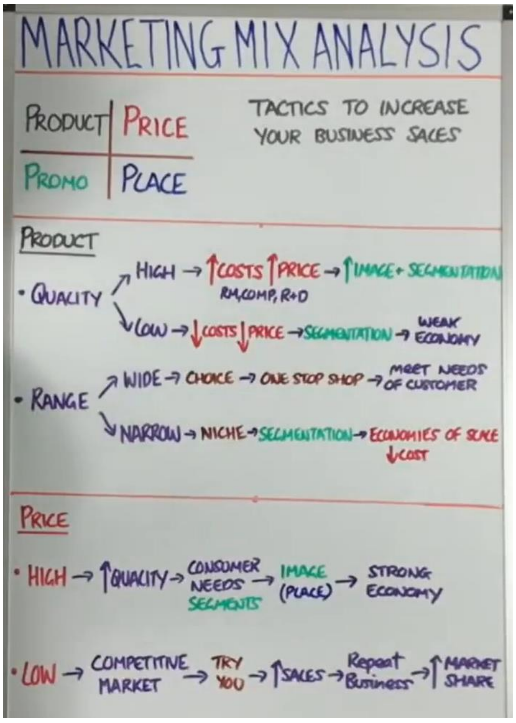
**Disadvantages:**

- Using more channels → Higher costs
    - Maintain shop (stores and staff)
    - Maintain website (risk of poor website → Bad reputation → Lower sales)
- Hard to ensure customer service will be equal on all channels
    - If one channel has poor customer service → Damage reputation
- Risk customers are price sensitive → Always buy online because its cheaper → Lower revenue

**Evaluation:**

- What are competitors doing? (single channel or multi-channel) → If competitors have multi-channel then business should have multi-channel
- If customers are price sensitive → Single channel of distribution (e-commerce) because it's cheaper

## Marketing mix analysis




### Product

- Quality
  - High → High costs (raw materials, components, R+D) → Charge high prices (retain strong profit margin → Want good product image and use segmentation (target those with higher income)
  - Low → Less costs → Reduce price → Target different segment (younger people → Less disposable income) → Good in weak economy (less disposable income)
- Range
  - Wide → More choice → Shop sells everything needed → Customer needs are met
  - Narrow → Producing in a niche market → Segmentation (target specific segment with product) → Lower costs (economies of scale)

**Price**

- High → Suits higher quality → Segmentation (high income) → Want good brand image (sell through popular retailer/e-tailer) → Good for strong economy
- Low → Suits competitive market → Likely consumers will try your product (lower price) → Higher sales → Repeat business → Increased market share

**Promotion**

- Lots → Increase awareness → Decide which segment and channel to sell through → Higher costs → Overcome by higher sales = Higher market share
- Little → Lower costs → Can lower prices (may use social media → Cheaper)

**Place**

- Outlet → Can try product (suits high priced products) → More trust in purchase → Increase sales / product is perishable → Want to meet customer needs (coffee)
- E-commerce (domestic) → No rent → Lower fixed costs → Potentially charge lower prices → Increase sales
- E-commerce (international) → More reach → Lower exchange rates (exports cheaper) → Charge lower prices → More competitive

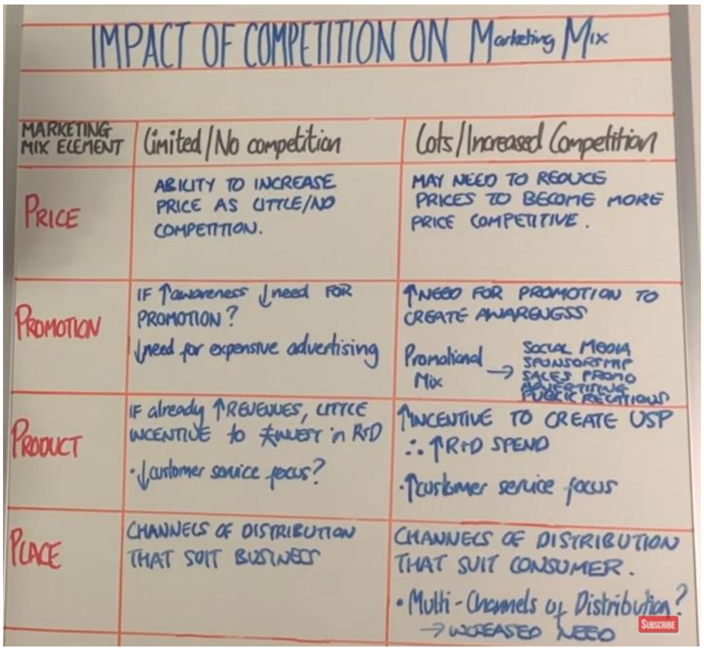
- Indirect channel (P-R-C) → Use retailer/e-tailer → Have more reach → More sales

Marketing mix must evolve overtime

**Consideration of changing marketing mix:**

- **C**ompetitive nature
- **C**hanging consumer needs (P.L.C)
- E-**C**ommerce

## <u>Impact of competition on marketing mix</u>




| **Element** | **Limited/no competition** | **High competition** |
|---|---|---|
| Price | Ability to increase price (no alternative) | Reduce prices to become more competitive |
| Promotion | Already high awareness → Less | More promotion needed → Create |

| | | |
|---|---|---|
| | promotion → Lower costs<br><br>Less customer focused | more awareness to differentiate between rivals<br><br>Promotion mix:<br>- Social media<br>- Sponsorship<br>- Advertising<br>- Public relations<br>More customer focused |
| Product | Already high revenue → Less incentive to invest into R+D | More incentive to create USP → Spend more on R+D |
| Place | Channels which suit the business | Channels which suit consumer<br><br>Maybe use multi-channels |