

CHAPTER 13 PROMOTION AND PRICING STRATEGIES

Promotion is the function of informing, persuading, and influencing a purchase decision.

- **Primary Demand:** Consumer desire
- Objective: Stimulate sales for an entire industry so that individual firms benefit from the total market growth
- **Consumer Demand:** Desire for a specific brand

Integrated Marketing Communications (IMC): The coordination of all promotional activities, media advertising, public relations, etc... to produce a unified, customer focused promotional strategy.

INTEGRATED MARKETING COMMUNICATIONS

IMC:

- Focuses on customer needs
- Creates a unified promotional message in the firm's ads, in store displays, product samples, etc..
- To gain competitive advantage, marketers that use IMC need a broad view of promotion
- Coordinated activities also increase the effectiveness of reaching and serving target markets
- Marketing managers set the goals and objectives for the firm's promotional strategy.

The Promotional Mix:

The promotional mix is the combination of personal and nonpersonal selling that marketers use to meet the needs of a firm's target customers and to effectively and efficiently communicate its message them.

Personal selling is the most basic form of promotion: a direct person-to-person promotional presentation to a potential buyer

Non Personal selling is the form of selling through advertising, sales promotion, direct marketing, and public relations.

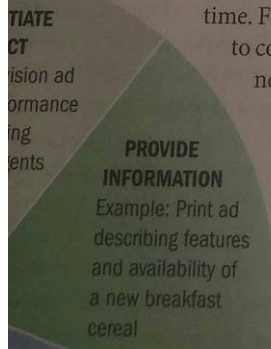
Objectives of Promotional Strategy:

Comparing the Elements of the Promotional Mix

Table 13.1 Comparing the Elements of the Promotional Mix

ELEMENT	ADVANTAGES	DISADVANTAGES
Advertising	Reaches large consumer audience at low cost per contact Allows strong control of the message Message can be modified to suit different audiences	Difficult to measure effectiveness Limited value for closing sales
Personal selling	Message can be tailored for each customer Produces immediate buyer response Effectiveness is easily measured	High cost per contact High expense and difficulty of attracting and retaining effective salespeople
Sales promotion	Attracts attention and creates awareness Effectiveness is easily measured Produces increases in short-term sales	Difficult to differentiate from similar programs of competitors Nonpersonal appeal
Public relations	Improves trust in a product or firm Creates a positive attitude about the product or company	Difficult to measure effectiveness Often devoted to nonmarketing activities
Sponsorships	Viewed positively by consumers Enhances brand awareness	Difficult to control message

Marketers often pursue more than one promotional objective at the same time. For example, to promote its Microsoft Office software, Microsoft needs to convince two groups that the product is a worthwhile investment: business owners, who buy the software, and the business owners' employees, who use the software.



Providing Information

A major portion of advertising is information-oriented. Card ads provide information about benefits and rates. Ad hair-care products include information about benefits as shine and volume. Ads for breakfast cereals often mention nutritional information. Television ads for prescription d

Marketers often pursue more than one promotional objective at the same time. There are 5 major promotional objectives:

1. **Provide information**

- Describe features/availability/benefits
- 2. Stabilize sales**
 - Stable sales patterns brings several advantages
 - Evens out production cycle
 - Reduces some management and production costs
 - Simplifies financial, purchasing, and marketing planning
- 3. Increase sales**
 - Most common objective of a promotional strategy
- 4. Highlight product value**
 - Some promotional strategies improve a product's value by explaining the hidden benefits of ownership (life insurance, life time warranty, etc..)
- 5. Differentiate product**
 - By **positioning**, marketers try to establish their products in the mind of customers.
 - The idea is to communicate to buyers some meaningful differences about the attributes, price, quality, or use of a good/service

Promotional Planning

Product placement is a form of promotion where marketers pay placement fees to have their products featured in various media (magazines, newspapers, television, and movies).

- Think of the product placement of *Coca Cola* on American Idol

Guerilla Marketing is the innovative, low cost marketing efforts designed to get consumers' attention in unusual ways. It is an increasingly popular tactic for marketers, especially those with limited promotional budgets.

ADVERTISING

Advertising is the paid nonpersonal communication usually targeted at large numbers of potential buyers. There are 3 types of advertising:

- 1. Product Advertising**
 - Messages designed to sell a particular good or services
- 2. Institutional Advertising**
 - Messages that promote concepts, ideas, or philosophies (can also promote goodwill towards government entities, industries, or companies)
- 3. Cause Advertising**
 - A form of institutional advertising that promotes a specific viewpoint on a public issue as a way to influence public opinion and the political process (NFP Organizations and businesses use this method)
 - Also called advocacy advertising

Advertising and the Product Life Cycle

Advertising is designed to **inform, persuade, or remind**. Both institutional and product advertising belong to one of these 3 categories.

Informative Advertising: Builds initial demand for a product in the **introductory, or beginning, phase** of a product life cycle.

Persuasive Advertising: Improves the competitive status of a product, institution, or concept. Used in the **growth and maturity stage** in the product life cycle.

Comparative Advertising: One of the most popular types of advertising, compares products directly with their competitors (either by naming the competitor's product or by suggesting)

- Must be careful with this advertising, in risk of controversy or even legal action

Reminder Oriented Advertising: Often used for products in the **late maturity stage or decline stage** of the product life cycle.

- This advertising is used to maintain awareness of the importance and usefulness of a product, concept, or institution

Advertising Media

Firms advertised through these methods: **Television, newspapers, radio, magazines, direct mail, outdoor advertising, internet advertising, sponsorship, and others.**

Television:

- TV reaches the greatest numbers of consumers at once
- Leading marketing medium
- Most expensive marketing medium (Think of the Super Bowl)
- Marketers want to be certain that their commercials reach the greatest number of viewers
- Advertisers may demand guaranteed of audience size and receive compensation if a show fails to deliver the promised number of viewers

Newspapers:

- Most popular type of local advertising
- Marketers can easily tailor newspaper advertising for local tastes and preferences
- Able to coordinate newspaper advertisements with other promotional efforts (discount coupons)
- Disadvantage: Short life of span of advertisement

Radio:

- Captive audience of listeners as they commute to different locations
- Morning/Evening drive time shows have the highest ad rates
- In major markets, many stations serve different demographic groups by offering targeted programming.
- Internet radio programming offers more opportunities for more focused targeting

Magazines:

- Include consumer publications (Sports Illustrated, TIME) and business trade journals (Oil and Gas, Advertising Age)
- Magazines customize their publications/target advertising messages to different regions of the country
- Natural choice for targeted advertising
- Media buyers study demographics of subscribers and select magazines that attract the desired readers

Direct Mail:

- Low cost form of direct marketing
- Marketers can target the most interested Internet users by offering website visitors an option to register to receive emails
- Direct email marketers use data mining techniques to segment markets
- CMA/DMA helps marketers by offering its members guidelines on ethical business practices (other than just email practices). DMA also provides consumer information.

Outdoor Advertising:

- Outdoor advertising includes the use of billboards
- Accounts for the \$6 billion in NA in advertising spending
- Includes signs in transit stations, airports, stores, etc...
- Exploring new forms of outdoor advertising: computerized paintings, trivision, moving billboards, etc..
- Disadvantages: This medium requires brief advertising, and billboards are often attacked by preservation and conservation groups (+ graffiti)

Internet Advertising:

- Search engine marketing, display ads, and classified ads spending is increasing \$\$\$
- Widgets and gadgets are becoming more popular; they carry marketing messages that display a few inches high of an advertisement on a website. (Also carry embodied links to the home site)
- **Viral Advertising:** Creates a message that is novel or entertaining enough for consumers to forward it to others. Advantage? Costs nothing
- ^ AKA Word of Mouth promotions

Sponsorship:

The act of providing funds for a sporting/cultural event in exchange for a direct association with the event

- Benefit: Gain exposure to the event's audience/Gain association with the image of the activity

Other Media Options:

- Other options include infomercials and specialized media

- **Infomercials:** A form of broadcast direct marketing; 30 minute programs resemble regular TV programs, but sell goods or services. (**direct response television (DRTV)**)
- **ATM's** are now an option; they are able to showcase 15 second commercials
- **Directory advertising** includes the familiar Yellow Pages listings in telephone books.

SALES PROMOTION

Sales promotion is a form of promotion such as coupons, product samples, games, contests, and rebates that support advertising and personal selling.

- Sales promotion can lead to the short term advantage of increased sales
- Can also help marketers build brand equity and improve their customer relationships.

Consumer Oriented Promotions:

The goal of a consumer oriented sales promotion is to get new and existing customers to try products, and ultimately, to buy products.

Specialty Advertising:

Promotional items that prominently display a firm's name, logo, or business slogan.

- Originally designed to identify and create goodwill for advertisers
- Now, it generates sales leads and develops traffic for stores and trade show exhibitors
- Reinforces the brand's image

Trade Oriented Promotions:

Trade promotion are sales promotions that are geared to marketing intermediaries and not to final consumers.

- Marketers use trade promotion to encourage retailers to stock new products, continue carrying existing products, and promote both new and existing products effectively.
- This promotion should bring quick results and improve retail sales.
- Major trade promotions include POP advertising and trade shows
- **POP (Point of Purchase) advertising** are displays or demonstrations that promote products when and where consumers buy them, such as in retail stores.

Firms are most likely to focus on personal selling instead of advertising or sales promotion under four conditions:

1. Customers are relatively few in number and are geographically concentrated
2. The product is technically complex, involves trade ins, or requires special handling
3. The product carries a relatively high price
4. The product moves through direct distribution channels

Field Selling refers to sales representatives who make sales calls on prospective customers at their businesses.

Over the Counter selling describes sales activities in retailing and some wholesale locations, where customers visit the seller's facility to purchase items.

Telemarketing sales representatives make their presentations over the phone.

Sales Tasks:

Order Processing: A form of selling used mostly at the wholesale and retail levels; involves identifying customer needs, pointing out products that meet those needs, and completing orders

- Used in both field selling and telemarketing

Creative Selling: A persuasive type of promotional presentation

- Used to sell intangible products (Can also be used for tangible products)

Missionary Selling: An indirect form of selling where the representative promotes goodwill for a company or provides technical or operational assistance to the customer

Telemarketing: Personal selling by telephone, which provides marketers with a high return on their expenses, an immediate response, and an opportunity for a personalized two way conversation

- **Outbound telemarketers** must follow various legal requirements and industry guidelines that guide their behaviour.

The Sales Process

1. Prospecting & Qualifying

- Identify potential customer
- Look for leads for prospective sales from different sources
- Qualifying process identifies customers who have the financial ability and authority to buy

2. Approach

- Refer to (1)

3. Presentation

- Communicate promotional messages
- Describe major features, highlight advantages, etc...
- May demonstrate products using laptops, multimedia presentations, web conferences, podcasts, etc

4. Demonstration

- Refer to (3)

5. Handling Objectives

- Sell the benefits, not the features
- Good salesperson can use objections as an opportunity to answer questions and explain how the product will benefit the customer

6. Closing

- When the salesperson asks the prospect to buy
- Begins the relationship (B2C, B2B)
- Customer begins to build loyalty towards the brand

7. Follow-Up

- Process offer immediately after closing
- Creates opportunities to correct any problems

Public Relations

Public relations are an organization's communications and relationships with its various public audiences.

- They are an efficient, indirect communications channel for promoting products.
- Can publicize products and help create and maintain a positive image of the company
- Links firm with a media

Publicity: The nonpersonal stimulation of demand for a good, service, place, idea, event, person, or organization by unpaid placement of information in print or broadcast media.

PUSHING AND PULLING STRATEGIES

Marketers choose between 2 general promotional strategies:

Pushing Strategy: Personal selling to market an item to wholesalers and retailers in a company's distribution channels.

- **Cooperative Advertising:** Allowances that marketers provide to share with channel partners the cost of local advertising of their firm's product or product line
- Ex: Drug manufacturers who used to market only to physicians and hospitals

Pulling Strategy: Promotion of a product by generating consumer demand for it, mainly through advertising and sales promotion appeals.

- Potential buyers will then request that their suppliers carry the product, which pulls it through the distribution channel (makeup, jewelry, etc..)

PRICING OBJECTIVES IN THE MARKETING MIX

Business people try to meet certain objectives through their pricing decisions/objectives:

1. Profitability

- Common goals that are included in the strategic plans of most firms
- Some firms maximize profits by reducing costs instead of increasing prices
- Companies can maintain prices and increase profitability by operating more efficiently or by changing the product to make it less costly to produce

2. Volume

- Pricing decisions that are based on market share the percentage of a market controlled by a certain company or product
- One firm may want 25% market share in a certain product category
- Another firm may want to expand or maintain its market share for specific product

3. Meeting competition

- Meeting competitor's prices so that price becomes a non issue

- “Price Wars” may occur (a race to match competition)
- Avoid price wars by other strategies (adding value, improving quality, educating consumers, and building relationships)
- 4. Prestige**
- Setting a relatively high price to develop and maintain an image of quality and exclusiveness
- Recognizes the role of price in communicating an overall image for the firm and its products
- Scarcity, waiting lists, limited edition products are all examples of prestige

PRICING STRATEGIES

Prices are determined in two basic ways:

1. Applying the concepts of supply and demand
2. Completing cost oriented analyses

Economic theory assumes that a market price will be set at the point where the amount of a product desired at a given price equals the amount that suppliers will offer for sale at the price.

IOW; The market price occurs at the point where the amount demanded and the amount supplied are =

Price Determination in Practice

Most businesses use **cost based pricing** formulas. **Cost based pricing** is the calculation of total costs per unit and then adding markups (an added amount) to cover overhead profits and generate profits.

The actual markup used varies depending on such factors as brand image and type of store.

Breakeven Analysis:

Businesses often do a **breakeven analysis** to calculate the minimum sales volume a product must generate at a certain price level to cover all costs. **Breakeven analysis** is the pricing-related technique used to calculate the minimum sales volume a product must generate at a certain price level to cover all costs (involves looking at various costs and total revenues)

Total cost is the sum of total variable costs and total fixed costs

Variable costs change with the level of production, as labour and raw materials do

Fixed costs remain stable regardless of the production level (insurance premiums, utility rates...)

Total revenue is calculated by multiplying price by the number of units sold

FINDING THE BREAKEVEN POINT:

Break Even Point (units) = Total Fixed Costs/ Contribution to fixed costs per unit

Break Even Point (dollars) = Total Fixed Costs/(1- variable costs per unit/price)

Marketers use breakeven analysis to calculate the profits or losses that would result from several different proposed prices.

Alternative Pricing Strategies

Skimming Pricing: A strategy that sets an intentionally high price relative to the prices of competing products

- Works when introducing a distinctive good or service that has little or no competition
- Can help marketers set a price that separates a firm's high end product from those of competitors
- Can also help a firm recover its product development costs before competitors enter the field

Penetration Pricing: A strategy that sets a low price as a major marketing tactic

- May price lower than competition when they enter new industries that have dozens of competitors
- Once product achieves some market success, they may increase the price to the level of competing products
- Stiff competition may prevent the price increase

Everyday Low Pricing (EDLP): A strategy of maintaining continuous low prices instead of short term price cutting tactics (coupons, rebates, special sales)

- Attracts customers by dropping prices for a set periods of time

Competitive Pricing: A strategy that tries to reduce the emphasis on price competition by matching other firms' price and by focusing their own marketing efforts on the product, distribution, and promotional elements of the marketing mix.

CONSUMER PERCEPTIONS OF PRICES

When setting prices, marketers consider price quality relationships and the use of odd pricing.

Price Quality Relationships

- A consumer's perception of product quality is closely related to an item's price
- Consumers associate prestige, quality, and high price as being related

Odd Pricing

A pricing method that uses uneven amounts to make prices appear to be less than they really are.

- Research shows that consumers prefer uneven amounts or amounts that sound less than they really are
- Also used to indicate a sales item

