

Chapter 6

B2B Markets: The process of buying and selling goods or services to be used in the production of other goods and services, for consumption by the buying organization, or for resale by wholesalers and retailers.

B2B marketing involves manufacturers, wholesalers, retailers and service firms that market goods and services to other businesses but not to the consumer.

Distinction between B2B and B2C: The ultimate purchaser and user of that product or service.

B2B Markets

Manufacturers or Producers: Buy raw materials, components, and parts that allow them to manufacture their own goods.

Resellers: Marketing intermediaries that resell manufactured products without significantly altering their form.

Institutions: Such as hospitals, educational organizations, prisons, religious organizations and other non-profit organizations, also purchase all kinds of goods and services for the people they serve.

Government: In most countries the central government tends to be one of the largest purchasers of goods and services. Ex: Canadian government spends \$240 billion annually on procuring goods and services.

Derived Demand: The linkage between consumer's demand for a company's output and its purchase of necessary inputs to manufacture or assemble that particular output.

Buying Process: For routine purchases (or small dollar value) only one or few individuals within a department take care of it. BUT for purchases of **highly technical** or **complex** products that cost a lot, more people are involved.

Buying Centre: Technically trained and qualified professionals and they represent different interests (managerial, technical and departmental) within the organization.

- 1) Need Recognition** (the buying organization recognizes through either internal or external sources, that it has an unfilled need (ex: Toyota needs tires))
- 2) Product Specification** (come up with specifications that suppliers might use to develop their proposals to supply the product (ex: Toyota's design teams))

and engineers go to site vendors plants to develop the specifications for prototypes with their experts)

- 3) RFP process: Request for Proposals:** Buying organizations invite alternative suppliers to bid on supplying their required components. (ex: Toyota set up a website called **ToyotaSupplier.com** so current and potential suppliers can get information about purchasing policies and such)
- 4) Proposal Analysis and Supplier Selection:** The buying organization evaluates all the proposals it receives in response to its RFP. Firms are likely to narrow the process to suppliers they already did business with but also some firms have policies where they have to negotiate with other firms (about price, quality, delivery and financing). (ex: Toyota talks to many firms but the best deal comes from Goodyear so it goes there)
- 5) Order Specification:** Places order with its preferred supplier (or suppliers). The order includes detailed description of goods, prices, delivery dates, penalties if orders not filled in time. The supplier then sends an acknowledgement that it received the order. (ex: The description for Toyota includes specific sizes and number of tires it wants, price it's going to pay etc.)
- 6) Vendor/Performance Assessment:** Firms analyze their vendors performance so they can make decisions about their future purchases. Analysis is formal and objective.

Factors Affecting B2B Buying Process

Buying Centre: The group of people typically responsible for buying decisions in organization:

Initiator: Person who says we need to get something

Influencer: Influences other's decisions

Decider: Determines if they should get it or not

Buyer: Handles paper work

User: Person who uses the service/product

Gatekeeper: Controls information or access to decision makers and influencers.

Organizational Culture: Reflects the set of values, traditions, and customs that guides a firm's employees' behaviours.

Democratic: Majoritey rules

Consultative: One person makes decision but takes other people's opinions

Consensus: Everyone has to agree

Autocratic: One person makes decision

Buying Situations

New Buy: Purchase of good or service for the first time: Buying decision is very involved because no one interacted with a purchase like this before

Modified Rebuy: When buyer has purchased a similar product in the past but has decided to change some specifications (cost, quality, customer service etc.)

Straight Rebuy: When buyer or buying organization buys additional units of products that had previously been purchased.

Chapter 8 & 9

Classifying Customer Goods:

Convenience Goods/Services: Products or services that people are not willing to spend a lot of time or effort to evaluate prior to purchase (toothpaste?)

Shopping Goods/Services: Products or services that people are willing to look at alternatives to compare it to (fragrances, apparel, appliances)

Specialty Goods/Services: Products or services that people show strong preference and will spend time and effort to find the best supplier (Rolex watch)

Unsought Goods/Services: Products or services that people don't think about buying or know about (Life insurance or prepaid insurance).

Product: Anything that can be offered to a market for attention, acquisition, use, or consumption, that might satisfy a need or a want.

Core Benefit: Transportation, Cargo, Image, Enhancement

Actual Product: Design, Options, Engine Size, Color, Brand

Associated Product: Credit, Delivery, Warranty, Post-Service, Manual

Consumer Products: Products purchased by the ultimate consumer

Business Products: Products that assist directly or indirectly in providing products off resale (B2B products).

Product Life Cycle (PLC): Describes the stages a new product goes through in the market place

Introduction: Innovators start buying the product

Growth: Product gains acceptance, demand and sales go up, competitors emerge.

Maturity: Industry sales reach their peak, firms try to rejuvenate their products by adding new features or repositioning them.

Decline: Sales decline and product exits market.

Diffusion of Innovation or Consumer Adoption Cycle

Beg: Innovators: venturesome, higher educated, use multiple if sources

Growth: Early adopters: leaders in social setting, slightly above average education

Maturity: Late Maj: Deliberate many informal social contacts

Decline: Late Maj: Skeptical, below average social status

Decline:Laggards: Fear of debt, neighbours and friends are information sources

IN DEPTH LOOK

Introduction

SALES are **LOW**

PROFITS are **NEGATIVE/LOW**

CONSUMERS are **INNOVATORS**

COMPETITION is **ONE OR FEW**

MARKETING OBJECTIVES create product awareness and trial

PROMOTION inform, educate, often high, expenditures

PLACE (DISTRIBUTION) is **LIMITED**

PRODUCT small product line

PRICE skimming or penetration

GROWTH

SALES are **RISING**

PROFITS are **RAPIDLY RISING**

CONSUMERS are **EARLY ADOPTERS AND EARLY MAJORITY**

COMPETITION is **FEW BUT RISING**

MARKETING OBJECTIVES maximize market share

PROMOTION stress competitive differences, moderate expenditures

PLACE (DISTRIBUTION) is **INCREASING**

PRODUCT more versions

PRICE aggressive (gain market share)

MATURITY

SALES are **PEAK**

PROFITS are **PEAK TO DECLINING**

CONSUMERS are **LATE MAJORITY**

COMPETITION is **HIGH**

MARKETING OBJECTIVES maximize profit while defending market share

PROMOTION reminder oriented

PLACE (DISTRIBUTION) is **MAXIMUM number of outlets (GLOBAL)**

PRODUCT full product line

PRICE defend market share

DECLINE

SALES are **DECLINING**

PROFITS are **DECLINING**

CONSUMERS are **LAGGARDS** (consumers who avoid change and rely on traditional products).

COMPETITION is **LOW**

MARKETING OBJECTIVES reduce expenditures and milk the brand

PROMOTION is **MINIMAL PROMOTION**

PLACE (DISTRIBUTION) fewer outlets

PRODUCT is **BEST SELLERS**

PRICE is to **STAY PROFITABLE**

Why do companies come up with new products: All products decline, companies must be good at replacing aging ones with new ones
Firms must also be good at adapting its marketing strategies in the face of changing tastes, technologies and competition.

New Product: A product new to the world, the market, the producer, the seller or some combination of these.

New to the world products, new products lines, additions to existing product lines, improvements or revisions of existing products.

Chapter 9

Complexity of Products

Core Customer Value: The basic problem-solving benefits that consumers are seeking.

Associated Services (or augmented product): The nonphysical attributes of the product, including product warranties, financing, product support and after-sale service.

Strategies for Extending the PLC (pg.276)

Develop new uses

Modify the product

Increase frequency of use

Increase number of users

Find new users

Reposition product

Tweak marketing strategy

The Product Development Process

1) Idea Generation: Development of viable new product ideas

2) Concept Testing: Testing the new product idea among a set of potential customers

- 3) Product Development:** Development of prototypes and/or the product
- 4) Market Testing:** Testing the actual products in a few test markets
- 5) Product Launch:** Full scale commercialization of the product
- 6) Evaluation of Results:** Analysis of the performance of the new product and making appropriate modifications

Impact of the Innovation Continuum

Incremental Innovation (Continuous Innovation)

Requires no new learning by consumer

Marketing efforts emphasis to generate consumer awareness and widespread distribution

Low risk for consumers/firms

Radical Innovation (Discontinuous Innovation)

Establishes new consumption pattern

Marketing emphasis on educating consumers via trials and personal selling

High risk for consumers/firms

Why do so many new products fail?

An idea may be good, the market size may have been overestimated.

Incorrectly positioned in the market, priced too high, or advertised poorly

A high-level executive might push a favorite idea despite poor marketing research findings.

The costs of product development are higher than expected.

The competitors fight back harder than expected

Brand: A brand is a name, term, design, symbol or any other feature that identifies one seller's good or service as distinct from those of other sellers

Brand Name: Elements of a brand that can be spoken

Brand Mark: Elements of a brand that cannot be spoken

What Makes A Brand?

Name, logo symbols, characters, slogans, jingles, distinct packages.

Brands offer a promise to customers, employees, shareholders and suppliers.

More important, brands are marks of reputation and engender trust.

Brand Equity: The added value that a given brand name gives to a product beyond the functional benefits provided. The set of assets and liabilities linked to a brand that add or subtract from the value provided by the product or service.

One measure of equity is the extent to which customers are willing to pay more for the brand.

Brand equity is the positive differential effect that knowing the brand name has on customer response to the product or service

Brand valuation is the process of estimating the total financial value of a brand

Why is Brand Equity Important?

Brands with strong equity have many competitive advantages

- high consumer awareness
- high brand loyalty
- less sensitive to price competition
- advantage when introducing new products

Branding Strategies

Brand Ownership Strategies

Manufacturer Brands (national brands): Brands owned and managed by the manufacturer

Private-label Brands (store brands): Brands developed and marketed by a retailer and available only from that retailer

Brand Name Strategies

Multi product Branding (Family Branding): Corporate Brand (family brand):
The use of a firm's own corporate name to brand all of its product lines and products

Multi Branding (Individual Branding): Different brand names for different products

Private Branding: Private labeling. Reseller/store branding. Products sold under the name of a wholesaler or retailer

Mixed Branding: Firm markets products both under its own name and a reseller's name.

Manufacturer Brand: The brand name of a manufacturer.

Brand Extension: The use of the same brand name for new products being introduced to the same or new markets.

Co-Branding: The practice of marketing two or more brands together, on the same package or promotion

Co-branding

The use of a combination of brand names to enhance the perceived value of a product

May be used to identify product ingredients or components.
May be used when two organizations wish to collaborate to offer a product.
Adds value to products that are generally perceived to be homogeneous shopping goods

Brand Extension vs Line Extension

BE: New product category but existing brand name

LE: Existing product category existing brand name

Product Line Extension: Using a current brand name to its product class

Brand Extension: Using a current brand name to enter a completely different product class

Benefits of Brand Extension

Well established name

Brand known for high quality

Lower marketing costs

Synergy among products

Boost sales of the core brand

Co-Branding Adv

-the combined brands create broader consumer appeal and greater brand equity.

-expand its existing brand into a category it might otherwise have difficulty entering alone.

Co-Branding DisAdv

-complex legal contracts and licenses.

-Co-branding partners must carefully coordinate their advertising, sales promotion, and other marketing efforts.

-When co-branding, each partner must trust the other will take good care of its brand.

Brand Development

Brand Extension: New product category but existing brand name

Line Extension: Existing product category existing brand name

Multibrands: Existing product category but new brand name

New Brands: New product category and new brand name

Chapter 12 and 13

What are intermediaries?

Any liaison between manufacturer and end-user market

Agent or broker: Any intermediary with legal authority to represent retailers, wholesalers, or manufacturer
Does not take ownership of product

Wholesaler: An intermediary who sells to other intermediaries.
Takes ownership of product.

Retailer: An intermediary who mainly sells to consumers.
Takes ownership of product.

Why do we need intermediaries?

Transactional Function: Buying, selling, promotion, risk taking.

Logistical Function: Storing, physical distribution.

Facilitating Function: Financing, gather marketing information.

Benefits of Having Intermediaries

The use of intermediaries results from their greater efficiency in making goods available to target markets

Offers the firm more than it can achieve on its own

Efficiency leading to overall gain

Specialization in its own domain of expertise

Scale of economy

Source of Competitive Advantage

Marketing Channels for Consumer Goods

Direct Channel: Manufacturer—> Consumer

* **Retailer Channel:** Manufacturer—>Retailer—>Consumer

* **Wholesaler Channel:** Manufacturer—>Wholesaler—>Retailer—>Consumer

* Indirect Channels

Multi/Dual Channel Distribution

Employing two or more different type of marketing channels to distribute products.

Ex: Apple

Direct Channel: Producer to Consumer (Apple Online Store)

Direct Channel: Producer to consumer (Apple Offline Store)

Direct Channel, Strategic Alliance, Multichannel Distribution: Producer to retailer to consumer: Best Buy

Conventional VS Vertical Marketing Systems (VMS)

Conventional Distribution Channels

Consist of one or more independent channel members

Often result in poor performance
Each seeking to maximize its own profit

Vertical Marketing System (VMS): Lets maximize the profit of the entire channel. A supply chain in which the members act as a unified system, there are 3 types: administered, contractual and corporate. One channel member owns, has contracts with, or has so much power that they all cooperate

Benefits should include greater control, less conflict, and economies of scale due to the size of the system

- 1) Administered vertical marketing system: A supply chain system in which there is no common ownership and no contractual relationships, but the dominant channel member controls the channel relationship
- 2) Contractual Vertical Marketing System: A system in which dependent firms at different levels of the supply chain join together through contracts to obtain economies of scale and coordination and to reduce conflict
- 3) Corporate Vertical Marketing System: A system in which the parent company has complete control and can dictate the priorities and objectives of the supply chain; it may own facilities such as manufacturing plants, warehouse facilities, retail outlets and design studios.

Levels of Distribution Intensity: The number of channel members to use at each level of the supply chain.

Intensive Distribution: A strategy designed to get products into as many outlets as possible

Exclusive Distribution: Strategy of granting exclusive rights to sell to one or very few retail customers so no other customers can sell a particular brand.

Selective Distribution: Lies between the intensive and exclusive distribution strategies, uses a few selected customers in a territory.

Channel Conflict: Results when supply chain members are not in agreement about their goals, roles or rewards.

Horizontal Conflict: Between same levels in marketing channel

Vertical Conflict: Between different levels in marketing channel

Minimize the horizontal conflict: Contracts, marketing power to have control over the channel member.

Minimize the vertical conflict: Find a channel captain, differentiate the offer, clear state the agreement among channel members (VMS) ex: P&G, Walmart

Chapter 13: Retailing

Retailing: The set of business activities that add value to products and services sold to consumers for their personal or family use, includes products bought at stores through catalogues and over the internet as well as services such as fast-food restaurants, airlines and hotels.

ALSO: Retailing includes all the activities involved in selling products (or services) directly to final consumers

Classification of Retail Operations

1) Ownership

Independent:

Most common for retail ownership

Operate 1 to 3 stores

Accounting for 60% of total retail trade

Chain/corporate chain

Multiple outlets under common ownership

Centralization of power: Better bargain power

Franchise: Individual firm (franchisee) and a parent company (franchisor) set up a business or retail outlet.

Operate stores based on contractual agreement.

PROS: Get good brand image, get discounts available to chains, parent company provides advertising, personnel training services.

CONS: Limited control over 4Ps, cost associated (initial franchise fee + franchise tax), limited control over success.

2) Level of Service

Self Service: Factory outlets, warehouse clubs Discount stores

Full Service: Exclusive Stores

3) Breadth and Depth of Merchandise Lines

Depth of Product Line: Assortment (depth) of related items-line.

Breadth of Product Line: Broad product line with limited depth.

Breadth: Number of different product lines

Depth: Number of items within each product line.

Chapter 14 & 15

IMC: Integrated Marketing Communications: Represents the promotion dimension of the four Ps: encompasses a variety of communication disciplines-general advertising, personal selling, sales promotion, public

relations, direct marketing, and electronic media- in combination to provide clarity, consistency and maximum communicative impact.

IMC TOOLS

Advertising: A paid form of communication from an identifiable source delivered through a communication channel, and designed to persuade the receiver to take some action now or in the future. **One-way mass communication about a product or organization that is paid for by an identified sponsor (e.g., TV, radio, newspapers, magazines, books, billboards).**

Effective for creating awareness of a product or service and generating interest. Reminds consumers of existing brands.

Has to break through clutter of other messages to reach intended audience. Less money invested in advertising.

Personal Selling: Two way flow of communication between a buyer and a seller that is designed to influence the buyer's purchase decision. Personal interactions between an organizations (sales) representative and customers. The goal is to build customer relations and make sales. **Two-way flow of communication between a buyer and seller, often in a face-to-face encounter, designed to influence a person's or groups purchase decision.**

Cost of directly communicating with potential customers is high compared to other forms of promotion.

But the best and most efficient way to sell certain products and services.

Sales people simplify the buying process by providing information and services that save customers time and effort. Sales people add significant value.

Public Relations: The organization function that manages the firm's communications to achieve a variety of objectives, including building and maintaining a positive image, handling or heading off unfavourable stories or events and maintaining positive relationships with the media. A form of communication management that seeks to influence the feelings, opinions or beliefs held by the public (e.g., through events sponsorship, lobbying efforts, etc...)

A passive tactic (the customers don't have to do anything to get it) and it spans online and offline. PR activities support other promotional efforts by bringing "free" media attention.

Can be difficult to get media to write about a company or its products or services.

People started to believe marketing efforts through PR more than when it's on tv or anything because they feel like the advertising wasn't bought so

if a company does something good then it's because the company is good.

Advertising VS PR

The main difference between publicity and advertising is that with PR a company does not PAY for space in the medium.

Sales promotions: Special incentives or excitement-building programs that encourage the purchase of a product or service such as coupons, rebates, contests, free samples and point of purchase displays. Short term incentives to induce trial or stimulate sales.

Though its short terms some (contests and sweepstakes) build customer loyalty.

Personal Selling VS Advertising and Sales Promotion

Personal Selling if:

The product has a high value

It is a custom made product

There are few customers

The product is complex

Customers are concentrated

EX: Insurance, airplane engines, custom windows

Advertising and Sales Promotion if:

The product has a low value

Is a standardized product

There are many customers

The product is easy to understand

Customers are geographically dispersed.

EX: soap, cereal, T-Shirts

Direct Marketing: Marketing that communicates directly with target customers to generate a response or transaction. . It includes direct mail, telemarketing, direct response TV etc. Direct retailing, social media **Direct** communication with consumers to generate a response in the form of an order, a request for further information, or a visit to a retail outlet (e.g., direct mail, catalogues, online advertising).

Direct marketing allows advantage of personalizing messages not like mass media.

4 characteristics: Targeted, motivates an action, is measurable and can provide info for the development of a marketing database. The use of response generating direct marketing forms, such as direct mail, direct

response tv or telemarketing can provide meaningful results that allow the evaluation of marketing campaign in a timely manner. Companies that use direct marketing appreciate the ability to sell to a much wider target audience that could be reached with traditional marketing channels. CHEAPER THAN PERSONAL SELLING OR MASS MEDIA ADVERTISING. It's measurable.

Electronic Media: Tools ranging from simple website content to far more interactive features such as corporate blogs, online games, text messaging, social media and mobile apps.

What is IMC: Advertising, Personal Selling, Sales Promotion, Public Relations, Direct Marketing, Electronic Media
A company integrates and coordinates its many communication channels to deliver a clear, consistent and compelling message about the organization and its products.

Coordination across the promotional mix is not always easy.....if not done properly, it can lead to:

- Customer confusion
- Loss of customers
- Loss of brand equity

Disadvantages of IMC

- Expensive
- Time consuming
- Difficult to coordinate between different departments
- Difficult to create a good balance between elements
- Can be disadvantageous if lack of expertise, lack of budget, and lack of management approval.

Steps in Developing Effective IMC

- 1) Identify Target Audience
- 2) Set Objectives (generating inquiries, increasing awareness, prompting trial or increasing sales, market share and customer loyalty). Objectives appear in the Advertising plan: a section of the firm's overall marketing plan that explicitly outlines the objectives of the campaign and how they could accomplish it)
- 3) Determine Budget (**Objective-and-task method:** Budget that determines the cost required to undertake specific tasks to accomplish communication objectives, setting objectives, choosing media and determining cost, **Competitive parity method:** Budget where firms share of communication expense is in line with its market share. **Percentage of Sales method:** Budget based on fixed percentage of forecasted sales. **Affordable method:** Based on what is left over after operating costs)

- 4) Convey Message (Design a message, what to say (message content) and how to say it (message structure and format). Appeals: **Rational Appeal:** Offering factual information and strong arguments built around relevant issues that encourage consumers to evaluate the brand favourably based on key benefits it provides. **Emotional Appeal:** Satisfy emotional desires rather than utilitarian needs. Informing, reminding, persuading.
- 5) Evaluate and select Media (Goals and Tasks: Inform, Persuade, Remind)
 - Inform:** Increase awareness, explain product, build company image)
 - Persuade:** Encourage brand switching, influence customer to buy now, persuade customers to call).
 - Remind:** Remind consumers where to buy, remind them the product is needed).
- 6) Create Communication(Major Media: print media, broadcast media, display media, online media. Atmospheres: Store decoration, office ambience, showroom. Events: press conference, grand opening, shows and exhibits, public tours).
- 7) Assess Impact(Whether audiences remember the message. How many times do they see it What points they recall How they felt about the message Their past and present attitudes toward the product and company Audiences' purchase behaviour resulting from the message)

Pull Strategy: Designed to get consumers to pull the product into the supply chain by demanding retailers carry it.

Push Strategy: Designed to increase demanding by focusing on wholesalers, distributors or salespeople who push the product to consumers via distribution channels.

Push and Pull Strategies

Push Strategy

Target at trade partners such as retailers.

Using promotional efforts to **push** product through distribution channel.

Provide incentives to channel members.

Used more by B2B marketing.

Use more personal selling as the primary promotion method.

Increase the immediate return of promotional expenses.

Grow price-prone consumers; sacrifice long-run benefits for short-run gains.

Pull Strategy

Target at final consumers.

Using consumer advertising to **pull** product through the channel of distribution.

Target end consumers directly.

Used more by consumer products/services.

Use mass advertising as the primary promotion method.

Build brand loyalty and brand image.

Expensive and inefficient.

Chapter 16 Global Marketing

Factors that Drive Globalization

Demand Do foreign consumers need the product?

Competitive environment Number of competitors in the country?

Industry environment Are there enough suppliers/distributor?

Economic environment What is the state of the country's economy?

Social-cultural environment How do cultural factors affect business?

Political-legal environment Do any legal restrictions complicate entering the market?

Technological environment To what degree are technological innovations used by consumers in the market?

Environmental Scanning: Tracking Environmental Trends

Changes in the environment can affect the organization as well as its suppliers and customers. Macroenvironments are sources of opportunities and threats and need to be managed.

SWOT Analysis Requires Environmental Scanning.

Choosing a Global Entry Strategy: IN INCREASING AMOUNT OF RISK ORDER

1) Exporting: Producing goods in one country and selling them in another.

2) Franchising: Franchising is a contractual agreement between a firm, the franchisor and another firm or individual, the franchisee.

3) Strategic Alliance: A collaborative relationship between independent firms, though the partnering firms do not create an equity partnership: that is, they do not invest in one another.

4) Joint Venture: Formed when a firm entering a new market pools its resources with those of a local firm to form a new company in which ownership, control and profits are shared.

5) Direct Investment: When a firm maintains 100 percent ownership of its plants, operation facilities, and offices in a foreign country often through the formation of wholly owned subsidiaries.

Exporting

Direct: through own distribution

Indirect: through intermediaries

Advantages: Low risk, low financial commitment, fast way to enter
Disadvantages: Low control, lower profit potential

Chapter 11 Pricing

“+” or “-” shows the relationship between Price and Quantity Demanded

| # shows the strength of the relationship.

Price Elasticity: A measure of the sensitivity of demand changes in price. Changes in price affect quantity demanded.

Price Elasticity of Demand: % change in quantity demanded / changes in price

%change = $\frac{\text{New} - \text{Old}}{\text{Old}}$

Elastic: Refers to a market for a product or service that is price sensitive: changes in price will have significant changes in quantity demand.

Inelastic: Refers to a market for a product or service that is price insensitive, that is relatively small changes in price will not have significant changes in quantity demand.

If **absolute PE < 1**, the product is said to be **price inelastic**. Here, a decrease in price yields a less than proportional increase in demand and an increase in price yields a less than proportional decrease in demand.

**Generally, lowering price => a decrease in profits;
raising price => increase in profits.**

If **absolute PE > 1**, the product is said to be **price elastic**. Here, a decrease in price yields a greater than proportional increase in demand and an increase in price yields a greater than proportional decrease in demand.

**Generally, lowering price => increase in profit;
raising price => decrease in profit.**

If **absolute PE = 1**, the product is said to be **unitary elastic**. Here, an increase or decrease in price **yields the same change in demand**.

Costs

Variable Costs: Costs for labour and material which vary with production volume.

Fixed Costs: Costs that remain the same level, regardless of any changes of volume.

Total Variable Cost = Variable Cost per unit X Quantity
Total Cost = Fixed Cost + Total Variable Cost
Total Revenue = Price X Quantity

Costs:
 Sum of variable cost and fixed costs.

Break-Even Point (units) = $\frac{\text{Fixed Costs}}{\text{Contribution per unit}}$

Types of Cost Margins

Fixed Costs (FC) do not fluctuate with changes in volume of production (i.e. advertising, public relations, fixed salaries, administration and overhead, rent, utilities, research and development...)

Variable Costs (VC) are directly associated with volume of production (i.e. labor, materials, transportation, promotion costs such as allowances, coupons, ...)

Contribution Margin (CM) is the marginal profit per unit sale.

CM per unit = Selling Price (SP) per unit - VC per unit

CM per unit as % = $\frac{\text{Selling Price (SP) per unit} - \text{VC per unit}}{\text{Price per unit}}$

Profit Contribution (PC) represents how much is left over after accounting for all costs (fixed and variable).

In other words:

Unit Price - Unit VC = Contribution Margin (Per Unit)

Contribution Margin (Per Unit) - Fixed Costs (Per Unit) = Profit Margin (Per Unit)

Unit SP - Unit VC

= Unit CM

Unit CM - Unit FC

= Unit PM

Or: $SP - VC - FC = PM$

Also: $VC + FC = \text{Total Cost}$

Breakeven Point: The point at which the number of units sold generates just enough revenue to equal the total costs; at this point profits are zero. **Analyzes the relationship between total revenue and total cost to determine profitability.**

Breakeven Point (BEP): Quantity at which total revenue and total costs are equal.

BREAKEVEN UNITS

$SP(\text{unit})$ = selling price

$VC(\text{unit})$ = variable cost

$$BE(\text{units}) = \frac{FC}{SP(\text{unit}) - VC(\text{unit})}$$

$$BE(\text{Units}) = \frac{\text{Total FC}}{SP(\text{unit}) - VC(\text{unit})} = \frac{\text{Total FC}}{BE(\$) \text{ per unit}}$$

Competition

Monopolistic Competition: Occurs when only one firm provides a particular product or service in a particular industry.

Oligopolistic Competition: Occurs when only a few firms dominate in a market.

Monopolistic Competition: Occurs when many firms sell closely related but not homogenous products these products may be viewed as substitutes but are not perfect substitutes.

Pure Competition: Occurs when different companies sell commodity products that consumers perceive as substitutable price usually is set according to the laws of supply and demand.

Influences of Pricing

The Internet: Increased price sensitivity, growth of online auctions.

Economic Factors

Cross Shopping: The pattern of buying both premium and low priced merchandise or patronizing both expensive, status oriented retailers and price oriented retailers

Local Economic Conditions

Increasing Globalization

Increasing Disposable Income

Increasing Status Consciousness

Pricing Strategies

1) Cost Based Methods: Determines the final price to charge by starting with the cost without recognizing the role that consumers or competitors prices' play in the market place. Cost-base pricing methods start with cost
All costs calculated on a per unit basis

Cost Oriented Approach focusing on production and marketing costs.

Standard Markup Pricing

Adding fixed percentage to cost.

Cost-Plus Pricing

Adding specific amount to cost.

Establish price using cost and a mark-up

Advantage

Fair to both buyers and sellers

(Demand is uncertain, costs are certain)

Easy to calculate

Assumes costs don't vary for different levels of production

2) Competitor Based Method: Attempts to reflect how the firms wants customers to interpret its products relative to the competitor's offerings.

Premium Pricing: A method where the firm deliberately prices a product above the prices set for competing products to capture the consumers who always shop for the best or for who price does not matter.

Above-, At-, or Below-Market Pricing setting price based on similar products in the market.

Loss Leader Pricing setting very low price to customers' attention in the hope they will buy other products.

3) Value Based Pricing Method: Focuses on overall value of the product offering as perceived by consumers who determine value by comparing the benefits they expect the product to deliver with the sacrifice they will need to make to acquire the product. Setting prices that focus on the overall value of the product

Focus on consumer perceptions, use buyer's perceptions of value, not the seller's cost

Cost- & Value-based Pricing

Cost-based pricing

cost-plus pricing

break-even analysis

target profit pricing.....

Value-based pricing

buyer-based pricing

perceived-value pricing.....

In the past, cost-plus pricing was widely used and accepted, perhaps because it was widely taught in business schools and economic courses.

Uses buyer's perceptions of value, not the seller's cost, as the key to pricing. price is considered along with the other marketing mix before the marketing program is set.

Cost is a fact, pricing is a policy, and value is subjective.

Skimming Pricing start with high price to catch price insensitive customers and then lower price.

Penetration Pricing start with low price to attract mass market.

Skimming Pricing

Start with high price to catch price insensitive customers and then lower price. Setting a high price for a new product to **skim**.

Maximum revenues layer by layer from the segments willing to pay the high price; the company makes **fewer but more profitable** sales.

The product's quality and image must support the higher price, and enough buyer must want the product at this price. **High quality/high image** products.

The costs of producing a smaller volume cannot be so high that they cancel the advantage of charging more. Sometimes used by firms without economies of scale (e.g., customized goods)

Competitors should not be able to enter the market easily and undercut the high price. Competitive barriers that keep competitors out

Penetration Pricing

Sets the price at a lower level to attract a **large number of buyers** and a **large market share** (Penetrate the market). low prices to attract high volume.

Predatory Pricing

The objective is to drive away competition and then **charge higher prices later**. This is illegal and different from penetration pricing.

Penetration Pricing

Conditions

Market must be **price sensitive**
(The demand is **price elastic**)

Economies of scale (Average cost decreases as production volume increases) or the company must have **the lowest cost structure** that competitors can not match.

Penetration Pricing start with low price to attract mass market.

Cost improvements from scale, scope or experience (learning curve).

Substantial complementary product sales (e.g. razors and blades, toner cartridges for printers and copiers).

Subsequent upgrade cycles (e.g., software).

Network effects that provide increasing benefits as more customers buy the product (e.g. fax machines).

Skimming Pricing start with high price to catch price insensitive customers and then lower price

High price to reap maximum profit from early adopter segments.

Can encourage competition.

Products must be unique and hard to copy.

Used when the product is new technology, and not easily copied

Most consumer electronic products enter at a high price with skimming.