

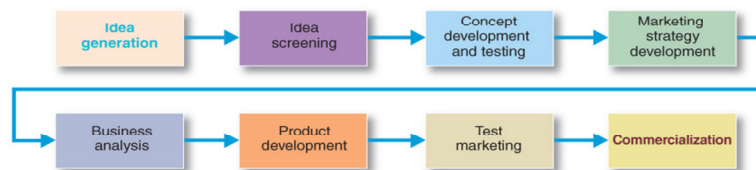
**Chapter Ten:**

1. Two ways to obtain new products.

- ✓ *Acquisition*—by buying a whole company, a patent, or a license to produce someone else's product.
- ✓ *New-product development* efforts—refers to original products, product improvements, product modifications, and new brands developed from the firm's own research and development.

**2. THE NEW-PRODUCT DEVELOPMENT PROCESS**

**Figure 10.1** Major Stages in New-Product Development



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**3. Idea generation** is the systematic search for new-product ideas.

Sources of new-product ideas:

- Internal sources refer to the company's own formal research and development, management and staff, and internal programs.
- External sources refer to sources outside the company, such as customers, competitors, distributors, suppliers, and outside design firms.
- Crowdsourcing throws the innovation doors wide open, inviting broad communities of people into the new-product innovation process.

**4. Idea Screening**

The first idea-reducing stage is **idea screening**, which helps spot good ideas and drop poor ones as soon as possible.

- R-W-W Screening Framework:

**5. Concept Development and Testing**

- ✓ A **product idea** is an idea for a possible product that the company can see itself offering to the market.
- ✓ A **product concept** is a detailed version of the idea stated in meaningful consumer terms.
- ✓ A **product image** is the way consumers perceive an actual or potential product.

- ✓ In **concept development**, several descriptions of the product are generated to find out how attractive each concept is to customers. From these concepts, the best one is chosen.
- ✓ **Concept testing** calls for testing new-product concepts with groups of target consumers.

**6. Marketing Strategy Development** -designing an initial marketing strategy for introducing the product to the market.

7. The **marketing strategy statement** consists of three parts.

- ✓ A description of the target market; the planned value proposition; and the sales, market share, and profit goals for the first few years.
- ✓ Outline of the product's planned price, distribution, and marketing budget for the first year.
- ✓ Description of the planned long-run sales, profit goals, and marketing mix strategy.

**8. Business analysis** involves a review of the sales, costs, and profit projections for a new product to find out whether they satisfy the company's objectives.

### **9. Product Development**

R&D or engineering develops the product concept into a physical product.

- Requires an increase in investment

**10. Test marketing** is the stage at which the product and marketing program are introduced into realistic market settings.

- Provides the marketer with experience in testing the product and entire marketing program before full introduction

### **11. Types of Test Market**

- ✓ *Standardized Test Markets*
- ✓ *Controlled Test Markets*
- ✓ *Simulated Test Markets*

**12. Commercialization** is introducing the new product into the market.

Decisions must be made concerning:

- When to launch
- Where to launch
- Planned market rollout

## **MANAGING NEW-PRODUCT DEVELOPMENT**

### **13. New-Product Development Strategies**

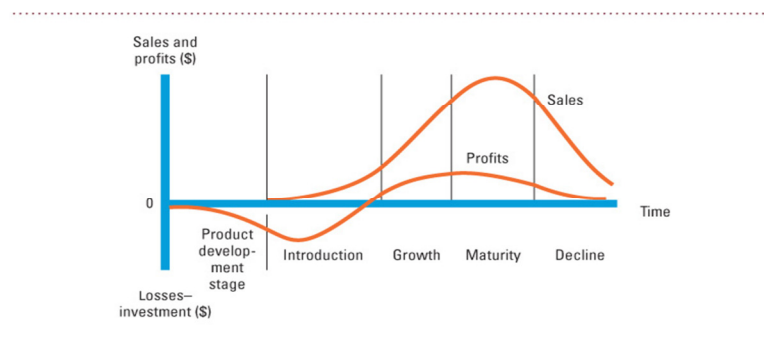
Successful new-product development requires

- **Customer-centred new product development:** focuses on finding new ways to solve customer problems and create more customer-satisfying experiences.

- **Sequential new-product development** is a development approach where company departments work closely together individually to complete each stage of the process before passing it along to the next department or stage.
- **Team-based new-product development** is a development approach where company departments work closely together in cross-functional teams, overlapping in the product-development process to save time and increase effectiveness.
- **Systematic new-product development** is an innovative development approach that collects, reviews, evaluates, and manages new-product ideas.

#### 14. PRODUCT LIFE-CYCLE STRATEGIES

**Figure 10.2** Sales and Profits over the Product's Life from Inception to Decline



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- *Product development*
  - Sales are zero and investment costs mount
- *Introduction*
  - Slow sales growth and profits are nonexistent
    - Low sales
    - High cost per customer
    - Negative profits
    - Innovator customers
    - Few competitors
    - Create product awareness and trial.
    - Offer a basic product.
    - Use cost-plus pricing.
    - Build selective distribution.
    - Build product awareness among early adopters and dealers.
    - Use heavy sales promotions to entice trial.

- *Growth*
  - Rapid market acceptance and increasing profits
    - Rapidly rising sales
    - Average costs per customer
    - Rising profits
    - Customers as early adopters
    - Growing number of competitors
    - Promotion and manufacturing costs gain economies of scale
    - Maximize market share.
    - Offer product extensions, service, warranty.
    - Price to penetrate market.
    - Build intensive distribution.
    - Build awareness and interest in the mass market.
    - Reduce sales promotion to take advantage of heavy consumer damage.
- *Maturity*
  - Slowdown in sales growth and profits level off or decline
    - Slowdown in sales as they peak
    - Low costs per customer
    - High profits
    - Customers are middle majority
    - Substitute products are introduced, stable competition beginning to decline
    - Increased promotion and R&D to support sales and profits
    - Maximize profit while defending market share.
    - Diversify product brand and models.
    - Price to match or beat competitors.
    - Build more intensive distribution.
    - Stress brand differences and benefits.
    - Increase sales promotion to encourage brand switching.
  - **Maturity Stage Modifying Strategies**
    - **Market modifying** tries to increase consumption of the current product—looking for new users and market segments or inventing new uses for existing products.
    - **Product modifying** changes characteristics of products, such as quality, features, style, or packaging to attract new users and to inspire more usage.

- **Modifying the marketing mix** involves improving sales by changing one or more of the marketing mix elements.
- *Decline*
  - Sales fall off and profits drop

### Chapter Eleven:

15. Price is the amount of money charged for a product or service.

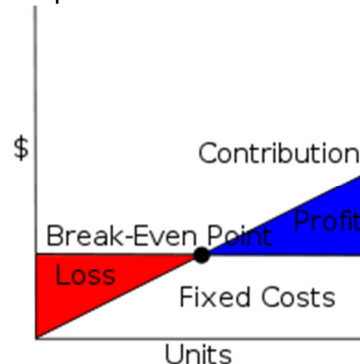
- ✓ It is the sum of all the values that consumers exchange for the benefits of having or using a product or service.

## 16. MAJOR PRICING STRATEGIES

### ✓ *Customer value-based pricing*

- **Value-based pricing** uses the *buyers' perceptions of value, not the sellers' cost*, as the key to pricing. Price is considered before the marketing program is set.
- **Good-value pricing** offers the right combination of quality and good service to fair price.
  - **Everyday low pricing (EDLP)** involves charging a constant everyday low price with few or no temporary price discounts.
  - **High-low pricing** involves charging higher prices on an everyday basis but running frequent promotions to lower prices temporarily on selected items.
- **Value-added pricing** attaches value-added features and services to differentiate offers, support higher prices, and build pricing power.
- ✓ **Cost-based pricing**, setting prices based on the costs for producing, distributing, and selling the product plus a fair rate of return for its effort and risk.
  - **Cost-plus pricing** adds a standard markup to the cost of the product.
    - ✓ Benefits:
      - ✓ Sellers are certain about costs than about demand
      - ✓ Prices are similar in industry and price competition is minimized.
      - ✓ Consumers feel it is fair.
    - ✓ Disadvantages:
      - ✓ Ignores demand and competitor prices

- **Break-even pricing** is the price at which total costs are equal to total revenue and there is no profit.



- **Target profit pricing** is the price at which the firm will break even or make the profit it's seeking.
- ✓ **Competition-based pricing**, involves setting prices based on competitors' strategies, costs, prices, and market offerings. Consumers will base their judgments of a product's value on the prices that competitors charge for similar products

### 17. Types of Costs

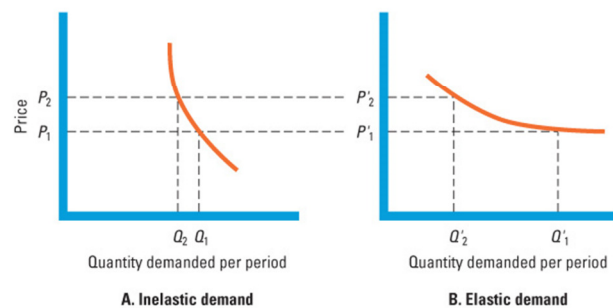
- ✓ **Fixed costs** (also known as overhead) are costs that do not vary with production or sales level.
- ✓ **Variable costs** vary directly with the level of production. They are called variable because their total varies with the number of units produced.
- ✓ **Total costs** are the sum of the fixed and variable costs for any given level of production.

### 18. Other Internal and External Considerations Affecting Price Decisions

- ✓ **Target costing** starts with an ideal selling price based on consumer value considerations and then targets costs that will ensure that the price is met.
- ✓ **Organizational considerations** include:
  - Who should set the price
  - Who can influence the prices
- ✓ **The Market and Demand:** relationship between price and demand for its products.
  - **Pricing in Different Types of Markets:**
    - Under **pure competition**, the market consists of many buyers and sellers trading in a uniform commodity.
    - Under **monopolistic competition**, the market consists of many buyers and sellers who trade over a range of prices.

- Under **oligopolistic competition**, the market consists of a few sellers who are highly sensitive to each other's pricing and marketing strategies.
  - Under **pure monopoly**, the market consists of one seller.
- **Demand curve:** The relationship between the price charged and the resulting demand level.
    - Shows the number of units the market will buy in a given period at different prices.
    - Normally, demand and price are inversely related.
  - **Price elasticity of demand** illustrates the response of demand to a change in price.
    - **Inelastic demand** occurs when demand hardly changes when there is a small change in price.
    - **Elastic demand** occurs when demand changes greatly for a small change in price.
    - **Price elasticity of demand** =  $\frac{\% \text{ change in quantity demand}}{\% \text{ change in price}}$

**Figure 11.6** Demand Curves



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- ✓ **Economic conditions**
- ✓ **Reseller's response to price**
- ✓ **Government**
- ✓ **Social concerns**

## 19. **New-Product Pricing Strategies**

- **Market-skimming pricing:**
  - a strategy with high initial prices to skim maximum revenues from the segments willing to pay the high price.
  - Product quality and image must support the price.
  - Buyers must want the product at the price.
  - Costs of producing the product in small volume should not cancel the advantage of higher prices.
  - Competitors should not be able to enter the market easily.

- **Market-penetration pricing:**

- Sets a low initial price in order to attract a large number of buyers and a large market share.
- Price sensitive market
- Inverse relationship of production and distribution cost to sales growth
- Low prices must keep competition out of the market

## 20. **Product Mix Pricing Strategies**

- ✓ **Product line pricing** takes into account the cost differences between products in the line, customer evaluation of their features, and competitors' prices.
- ✓ **Optional-product pricing** takes into account optional or accessory products along with the main product
  - Which one is base and which one to offer as option
- ✓ **Captive-product pricing** involves products that must be used along with the main product
- ✓ **Two-part pricing** involves breaking the price into
  - Fixed fee
  - Variable usage fee
- ✓ **By-product pricing** refers to products with little or no value produced as a result of the main product.
  - Producers will seek little or no profit other than the cost to cover storage and delivery.
- ✓ **Product bundle pricing** combines several products at a reduced price

## 21. **Price-Adjustment Strategies**

1. **Discount and allowance pricing** reduces prices to reward customer responses such as paying early or promoting the product, off-season buying.
  - Discounts are straight reductions in price on purchases during a stated period of time.
  - Allowance is promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer's product in some way.

2. **Segmented pricing** is used when a company sells a product at two or more prices even though the difference is not based on cost.

- **Customer segment pricing** is when different customers pay different prices for the same product or service.
- **Product-form segment pricing** is when different versions of the product are priced differently but not according to differences in cost.
- **Location pricing** is when the product sold in different geographic areas is priced differently even though the cost is the same.
- **Time pricing** varies by the season, the month, the day, and even the hour.

\*To be effective:

- ✓ The market must be segmentable.
- ✓ Segments must show different degrees of demand.
- ✓ Watching the market cannot exceed the extra revenue obtained from the price difference.
- ✓ The market must be legal.

3. **Psychological pricing** occurs when sellers consider the psychology of prices and not simply the economics.

- **Reference prices** are prices that buyers carry in their minds and refer to when looking at a given product.
  - Noting current prices
  - Remembering past prices
  - Assessing the buying situations
  -

4. **Promotional pricing** is when prices are temporarily priced below list price or cost to increase demand.

- **Loss leaders** are products sold below cost to attract customers in the hope they will buy other items at normal markups.
- **Special event pricing** is used to attract customers during certain seasons or periods.
- **Cash rebates** are given to consumers who buy products within a specified time.
- **Low-interest financing, longer warranties, and free maintenance** lower the consumer's "total price."

**5. Geographical pricing** is used for customers in different parts of the country or the world

- FOB-origin (free on board) pricing:

The goods are delivered to the carrier and the title and responsibility passes to the customer

- Uniformed-delivered pricing:

The company charges the same price plus freight to all customers, regardless of location.

- Zone pricing:

The company sets up two or more zones where customers within a given zone pay a single total price.

- Basing-point pricing:

A seller selects a given city as a “basing point” and charges all customers the freight cost associated from that city to the customer location, regardless of the city from which the goods are actually shipped.

- Freight-absorption pricing:

The seller absorbs all or part of the actual freight charge as an incentive to attract business in competitive markets.

**6. Dynamic pricing** is when prices are adjusted continually to meet the characteristics and needs of the individual customer and situations.

**7. International pricing** is when prices are set in a specific country based on country-specific factors.

- Economic conditions
- Competitive conditions
- Laws and regulations
- Infrastructure
- Company marketing objective

22. **PRICE CHANGES**

- **Price cuts occur due to:**
  - Excess capacity
  - Increase market share
- **Price increase from:**
  - Cost inflation
  - Overdemand
  - Lack of supply

23. **Buyer Reactions to Price Changes**

- Price increases
  - Product is “hot”
  - Company greed
- Price cuts
  - New models will be available
  - Models are not selling well
  - Quality issues

24. **Public Policy and Pricing:**

✓ *Pricing Within Channel Levels*

✓

- **Price fixing:** Sellers must set prices without talking to competitors.
- **Predatory pricing:** Selling below cost with the intention of punishing a competitor or gaining higher long-term profits by putting competitors out of business.

✓ *Pricing Across Channel Levels*

- **Retail (or resale) price maintenance** is when a manufacturer requires a dealer to charge a specific retail price for its products.
- **Deceptive pricing** occurs when a seller states prices or price savings that mislead consumers or are not actually available to consumers.

**Chapter Twelve:**

25. **Supply chain** consists of “upstream” and “downstream” partners.

- Upstream from the company is the set of firms that supply the raw materials, components, parts, information, finances, and expertise needed to create a product or service.
- Marketers have traditionally focused on the “**downstream**” side of the supply chain—on the **marketing channels (or distribution channels)** that look forward toward the customer.

26. **Supply Chain Views:**

- **Supply chain “make and sell”** view includes the firm’s raw materials, productive inputs, and factory capacity as starting point for market planning.
- **Demand chain “sense and respond”** view suggests that planning starts with the needs of the target customer, and the firm responds to these needs by organizing a chain of resources and activities with the goal of creating customer value.

\*A better term would be **demand chain** because it suggests a **sense-and-respond** view of the market.

27. **Value delivery network** is the firm’s suppliers, distributors, and ultimately customers who partner with each other to improve the performance of the entire system.

28. **Marketing (distribution) channels** are sets of independent organizations that help make a product or service available for use or consumption by the consumer or business user.

29. **Intermediaries** offer producers greater efficiency in making goods available to target markets. Through their contacts, experience, specialization, and scale of operations, intermediaries usually offer the firm more than it can achieve on its own.

30. **How Channel Members Add Value:**

- From an economic view:
  - Intermediaries role: transform the assortment of products into assortments wanted by consumers.
  - Channel members add value by bridging the major time, place, and possession gaps that separate goods and services from those who would use them.

31. Channels perform the following functions:

- **Information:** Gathering and distributing marketing research and intelligence information about actors and forces in the marketing environment needed for planning and aiding exchange

- **Promotion:** Developing and spreading persuasive communications about an offer
- **Contact:** Finding and communicating with prospective buyers
- **Matching:** Shaping and fitting the offer to the buyer's needs, including activities such as manufacturing, grading, assembling, and packaging
- **Negotiation:** Reaching an agreement on price and other terms of the offer so that ownership or possession can be transferred
- **Physical distribution:** Transporting and storing goods
- **Financing:** Acquiring and using funds to cover the costs of the channel work
- **Risk taking:** Assuming the risks of carrying out the channel work

32. **Channel levels** are layers of intermediaries that perform some work in bringing the product and its ownership closer to the final buyer.

- **Direct marketing channel** refers to a marketing channel that has no intermediary levels.
- **Indirect marketing channels** contain one or more intermediary levels.

### 33. CHANNEL BEHAVIOUR AND ORGANIZATION

Distribution channels are more than simple collections of firms tied together by various flows. They are complex behavioural systems in which people and companies interact to accomplish individual, company, and channel goals.

34. **Marketing channel** consists of firms that have partnered for their common good with each member playing a specialized role.

35. **Channel conflict** refers to disagreement over goals, roles, and rewards by channel members:

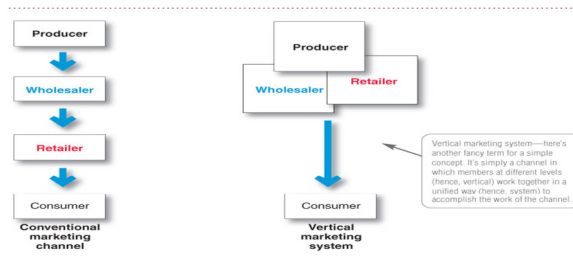
- Horizontal conflict: occurs among firms at the same level of the channel.
- Vertical conflict : occurs between different levels of the same channel

### 36. Marketing system-Distribution systems:

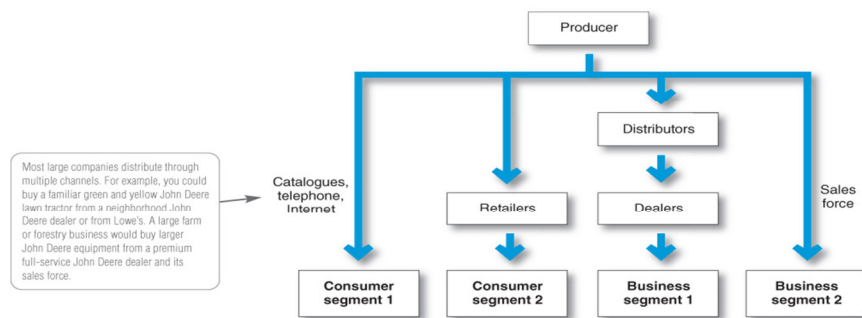
- **Conventional distribution systems** consist of one or more independent producers, wholesalers, and retailers.
  - ✓ Each separate business seeks to: maximize its own profits, even at the expense of profits for the system as a whole;
  - ✓ There is little control over the other members and no formal means for assigning roles and resolving conflict.

- **Vertical marketing systems (VMSs)** provide channel leadership and consist of producers, wholesalers, and retailers acting as a unified system.
  - **Corporate** vertical marketing systems: integrates successive stages of production and distribution under single ownership.
  - **Contractual** vertical marketing systems: consists of independent firms at different levels of production and distribution who join together through contracts to obtain more economies or sales impact than each could achieve alone.
    - The most common form is the franchise organization.
  - **Administered** vertical marketing systems: has a few dominant channel members without common ownership.
    - Leadership comes from size and power.
- **Horizontal Marketing System:** when two or more companies at one level join together to follow a new marketing opportunity.
  - Companies combine financial, production, or marketing resources to accomplish more than any one company could alone.
- **Hybrid Marketing Channels:** when a single firm sets up two or more marketing channels to reach one or more customer segments.

**Figure 12.3** Comparison of Conventional Distribution Channel with Vertical Marketing System



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**Figure 12.4** Multichannel Distribution System

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### 37. Changing Channel Organization

**Disintermediation** occurs when product or service producers cut out intermediaries and go directly to final buyers, or when radically new types of channel intermediaries displace traditional ones.

### 38. CHANNEL DESIGN DECISIONS

*Marketing channel design* calls for:

- **Analyzing consumer needs:**
  - Do consumers want to buy from nearby locations or are they willing to travel to more distant, centralized locations?
  - Would they rather buy in person, by phone, or online?
  - Do they value breadth of assortment or do they prefer specialization?
  - Do they want many add-on services or will they obtain these elsewhere?
- **Setting channel objectives:**
  - State their marketing channel objectives in terms of targeted levels of customer service
  - What segments to serve
  - Best channels to use
  - Minimizing the cost of meeting customer service requirements
- **Identifying major channel alternatives:**
  - **Types** of intermediaries:
    - Identify the types of channel members available to carry out channel work.
  - **Responsibilities** of channel members
    - The producer and intermediaries need to agree on the terms and responsibilities of each channel member
  - ❖ Three strategies in number of marketing intermediaries:
  - ❖
    - ✓ **Intensive distribution** stocks the product in as many outlets as possible.(for convenience products and common raw materials)
    - ✓ **Exclusive distribution** gives a limited number of dealers exclusive rights to distribute the company's products in their territories.(luxury brands)
    - ✓ **Selective distribution** is the use of more than one but fewer than all of the intermediaries who are willing to carry the company's products.
- **Evaluating the Major Alternatives**

Each alternative should be evaluated against:

- **Economic** criteria: sales, costs, and profitability of different channel alternatives
- **Control**: giving intermediaries some control over the marketing of the product.
- **Adaptive** criteria: balancing long-term commitments with keeping the channel flexible, so that it can adapt to environmental changes.

### 39. Designing International Distribution Channels

- In some markets, the distribution system is complex and hard to penetrate, consisting of many layers and large numbers of intermediaries
- Channel systems can vary from country to country.
- Must be able to adapt channel strategies to the existing structures within each country

### 40. Channel Management Decisions:

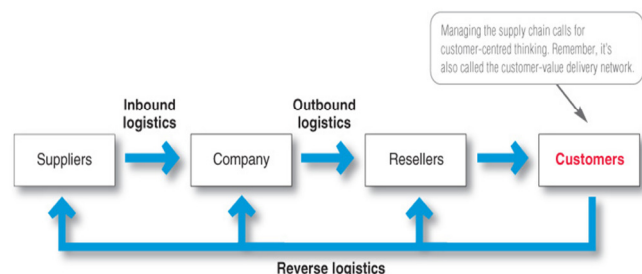
**Marketing channel management** calls for selecting, managing, and motivating individual channel members and evaluating their performance over time.

### 41. Public Policy and Distribution Decisions:

- **Exclusive distribution** is when the seller allows only certain outlets to carry its products.
- **Exclusive dealing** is when the seller requires that the dealer not handle competitors' products.
- **Exclusive territorial agreements** are where producer or seller limit territory.
- **Full-line pricing or Tying agreements** are agreements where the dealer must take most or all of the line.
- Producers are free to select their dealers, but their right to terminate them is restricted without cause, as per **dealer's rights**.

42. **Marketing logistics (physical distribution)** involves planning, implementing, and controlling the physical flow of goods, services, and related information from points of origin to points of consumption to meet consumer requirements at a profit.

**Figure 12.5** Supply Chain Management



**43. Supply chain management** is the process of managing upstream and downstream value-added flows of materials, final goods, and related information among suppliers, the company, resellers, and final consumers.

#### 44. Goals of the Logistics System

The goal of marketing logistics should be to provide a *targeted* level of customer service at the least cost.

#### 43. Major Logistics Functions

The major logistics functions include:

✓ **Warehousing:**

- how many and what type of warehouses it needs and where they will be located
- Distribution centres are large, highly automated warehouses designed to receive goods from various plants and suppliers, take orders, fill them efficiently, and deliver goods to customers as quickly as possible

✓ **Inventory management:**

- Just-in-time systems
- RFID – “Smart tag technology”  
Knowing exact product location
- Smart shelves  
Placing orders automatically

✓ **Transportation:** affects the pricing of products, delivery performance, and condition of the goods when they arrive (Truck, Railroads, Water carriers, Pipeline, Air, Internet)

✓ **Logistics information management.**

- The management of the flow of information, including customer orders, billing, inventory levels, and customer data.
  - EDI (electronic data interchange): Computerized exchange of data between organizations
  - VMI (vendor-managed inventory): customer sharing real-time data on sales and current inventory levels

**44. Integrated logistics management** is the recognition that providing customer service and trimming distribution costs requires teamwork internally and externally

**45. Third-party logistics** is the outsourcing of logistics functions to third-party logistics providers (3PLs) which offer the following :

- More efficiently
- Lower cost
- Focus on its core business
- Increased knowledgeability of complex logistics