

# INTRODUCTION TO MARKETING

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WEEK 8

# Agenda

- 1- Chapter 9
- 2- Chapter 10
- 3- Tropicana case study

What did we cover last week in chapter 9?

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# Brand Characteristics

- **Brand Equity:**
  - A financial value attributed to the brand based largely on intangible qualities
- **Brand Personality:**
  - Human attributes and the emotions they inspire toward customers
- **Brands Elements:**
  - Name
  - Logo or icon  
(shape, colours, etc.)

# What Are the Steps in Developing a Brand?

- Involves decisions about...

Brand strategy

Brand name selection

- Good
- Strong
- Memorable

Brand positioning

- Attributes
- Benefits
- Beliefs & values

Brand sponsorship

- National
- Private
- Licensing
- Co-branding

Brand development

- Line extension
- Brand extension
- Multibranding
- New brands

Manage brand

# What are Brand Sponsorship Decisions?

## NATIONAL BRANDS

Brands created and own by the manufacturer

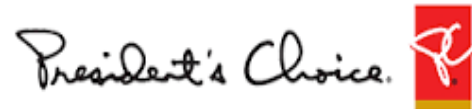
- Well-known
- Well-established



# What are Brand Sponsorship Decisions?

## PRIVATE BRANDING

- Products sold under the brand name of a wholesaler or retailer
  - Store brands/ private labels
    - + Higher profit margins
    - + Total product control
    - + Priced lower
    - + Exclusive products
    - + Create store loyalty & traffic
- Hard to establish
  - Costly to stock
  - Costly to promote



# What are Brand Sponsorship Decisions?

## LICENSING

- Buying and selling of the rights to use a brand name, logo, character, icon, or image.
  - + Instant and proven brand name
  - + Highly profitable enterprise
  - Licensing fee can be expensive



# What are Brand Sponsorship Decisions?

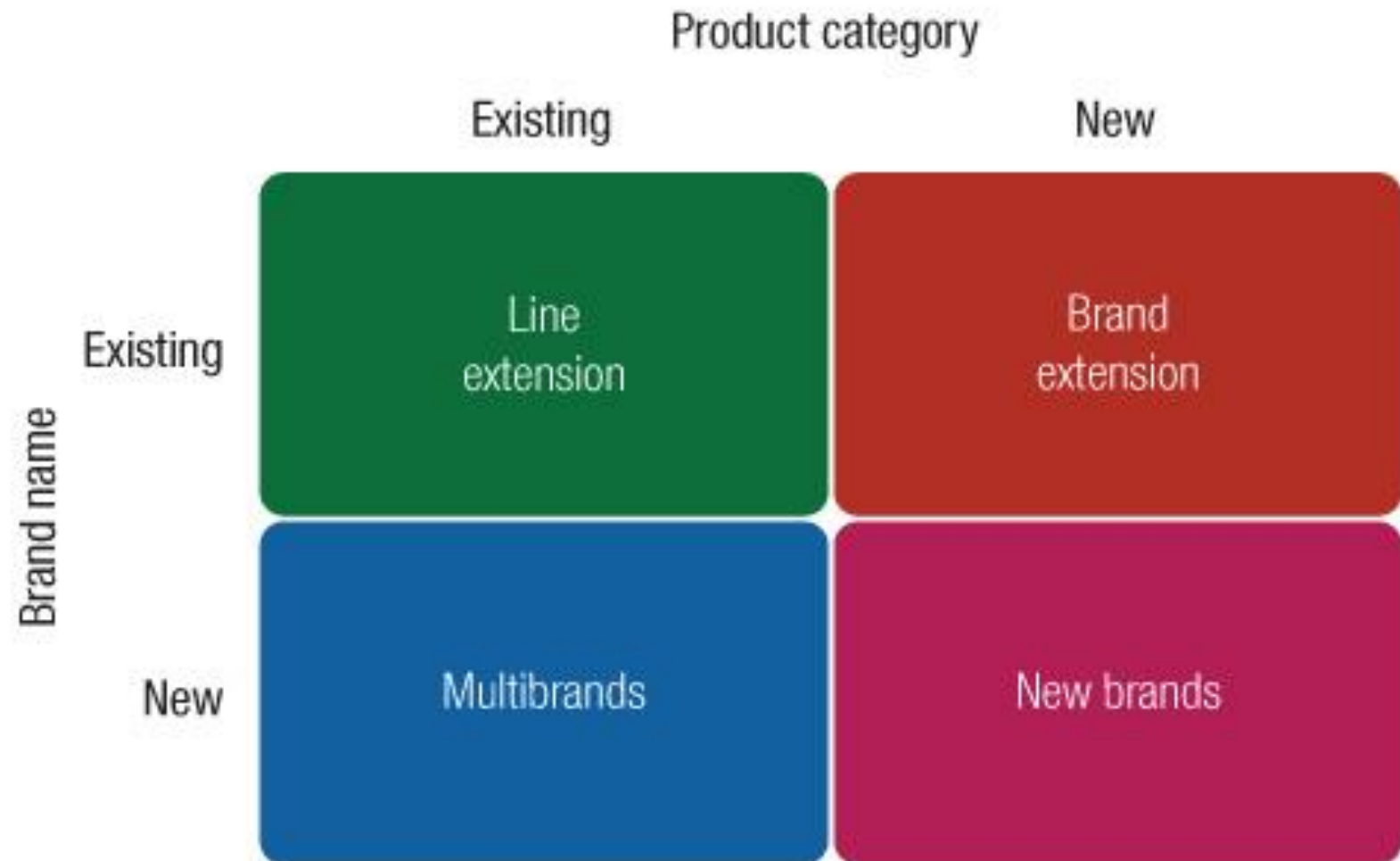
## CO-BRANDING

- Using the established brand names of two different companies on the same product.
  - +Broadened consumer appeal
  - +Greater brand equity
  - +Allows expansion into a new category



# Brand Development & Management

**FIGURE 9.1** Brand Development Strategies



# What Are Brand Development Strategies?

## LINE EXTENSION

- Extending an existing brand name to new forms, colours, sizes, ingredients, or flavours of an existing product category.
  - + Low cost/low risk
  - + Consumer demand for variety
  - + Boost market demand
  - + Take more shelf space
  - Losing meaning due to overextension
  - Sales cannibalization from other line items



# What Are Brand Development Strategies?

## BRAND/CATEGORY EXTENSION

- Extending an existing brand name to new product categories (keeping the same brand name)

- + Instant recognition
- + Faster acceptance
- + Saves in ad costs

- Brand confusion
- Bad product can mirror badly on mother brand



# What Are Brand Development Strategies?

## MULTIBRANDING

- Manufacturer produces many different brands in the same product category.
  - + Captures larger market share
  - + Appeals to more customers
  - Each brand might have only have a small market share
  - Spread too thin



# What Are Brand Development Strategies?

## NEW BRAND

- Brands created when entering a new product category for which none of the current brand names are appropriate.

The image shows the Facebook logo, which consists of the word "facebook" in a white, lowercase, sans-serif font, centered within a solid blue rectangular background.

facebook

# Brand Communications

- In addition to advertising, brand messages are communicated through:
  - *Brand Experiences*
  - *Touchpoints*
  - *Brand Icons/Characters*
  - *Brand Ambassadors*
  - *Brand Stories*
  - *Branded Content*
  - *Branded Entertainment*

# Brand Stories

- Brands can be thought of as a form of storytelling.
- When brand managers tell stories about brands, the details of character, place, and action embellish the basic “information maps” we all keep in our heads.
- Psychologists refer to these information maps as *schemas*.
- ***Brand stories are an excellent strategy for inspiring loyalty among consumers for a brand that might otherwise go unnoticed***

# Branded Content and Branded Entertainment

- **Branded Content** (Content Marketing) is any form of information or story written and produced by a brand marketer, with the brand clearly and prominently featured.

- Sunnybrook Health Sciences Centre

- **Branded entertainment** is a form of entertainment, usually video, that is created with the cooperation or financial support of a marketer.

- BMW

# Brands and Social Media

- Brand managers must create social groups, fan pages, and host dialogue with consumers.
- In the era of the social web, brand managers must *engage* consumers online

A brand is no longer what we  
tell the consumer it is.  
It is what consumers tell  
each other it is.

- SCOTT COOK | DIRECTOR, P&G

# Brand Advocates

- Brand advocates are people who:
  - Voluntarily promote brands
  - Trust brands and companies behind them
  - Love the brands they advocate



M. Spencer Green/AP

**Exhibit 9.13 Brand advocates:** Truly devoted fans of a brand, like these consumers willing to sleep on the sidewalk to be first in line to get the newest Apple product, can be cultivated by marketers to act as brand advocates.

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Brand sponsorship

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Brand development

- Line extension
- Brand extension
- Multibranding
- New brands



Manage brand  
Meaning,  
content, story,

## CHAPTER 10

# Pricing: Understanding and Capturing Customer Value

**Exhibit 10.1 Pricing:** No matter what the state of the economy, companies should sell value, not price.



# Chapter 10: Learning Objectives

1. Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.
2. Identify and define the other important external and internal factors affecting a firm's pricing decisions.
3. Describe the major strategies for pricing new products.
4. Explain how companies find a set of prices that maximizes the profits from the total product mix.
5. Discuss how companies adjust their prices to take into account different types of customers and situations.
6. Discuss the key issues related to initiating and responding to price changes.
7. List and briefly describe the major legislation in Canada that affect marketers' pricing decisions.

# What is Price?

## What is price?

- The total value that customers exchange for the benefits of having or using the product or service



# The three major pricing strategies

Strategy	Description
Customer value-based	Pricing based on buyer perception
Cost-based	Pricing based on seller costs
Competition-based	Pricing based on competitors

# Considerations in Setting Price

**FIGURE 10.1** Considerations in Setting Price



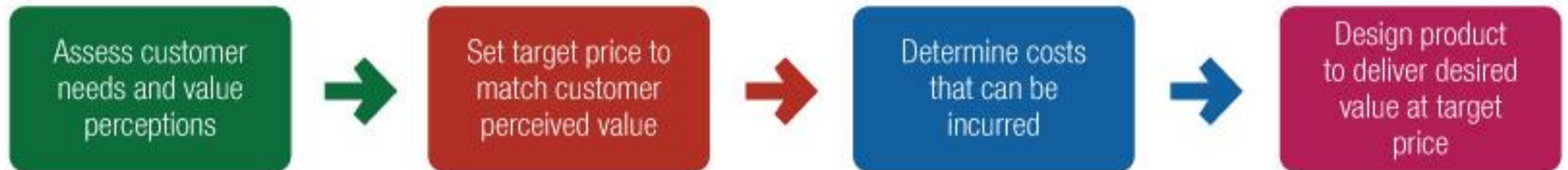
# Value-Based Pricing vs. Cost-Based Pricing?

**FIGURE 10.2** Value-Based Pricing versus Cost-Based Pricing

Cost-based pricing



Value-based pricing



Copyright © 2017 Pearson Canada Inc. Good value ≠ low price

# Customer Value-Based Pricing

**Good-value pricing** => quality and good service at a fair price

- **Everyday low pricing (EDLP)** => Charging a constant everyday low price with few or no temporary price discounts.



# Customer Value-Based Pricing

## Good-value pricing

**High-low pricing** => Running frequent promotions to lower prices temporarily on selected items

## Value-added pricing

- Opposed to cutting prices
- Attaches value-added features and services



# Cost-Based Pricing

## Cost-based prices

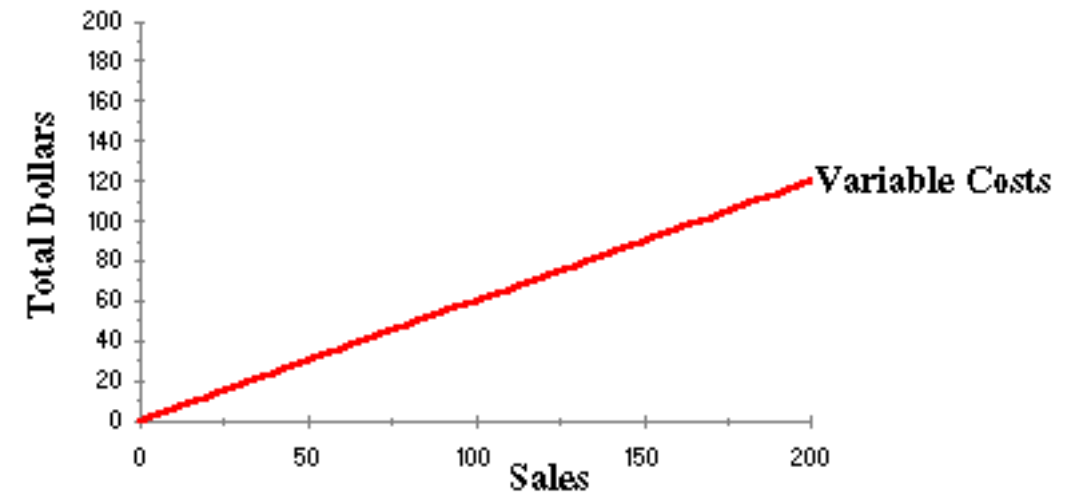
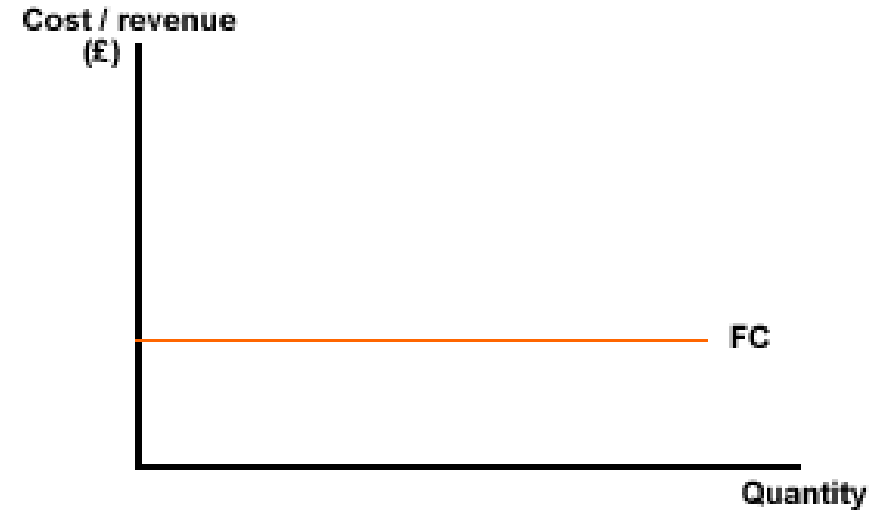
**Product cost** = producing + distributing + selling +  
return of investment



# Cost-Based Pricing

## TYPES OF COSTS

- Fixed costs (overhead)
- Variable costs
- Total costs
  - FC + VC @ any given level of production



# Cost-Based Pricing

## Cost-plus pricing

- Adds a standard markup to cost of product
- Mark up=  $(SP - VC) / VC$

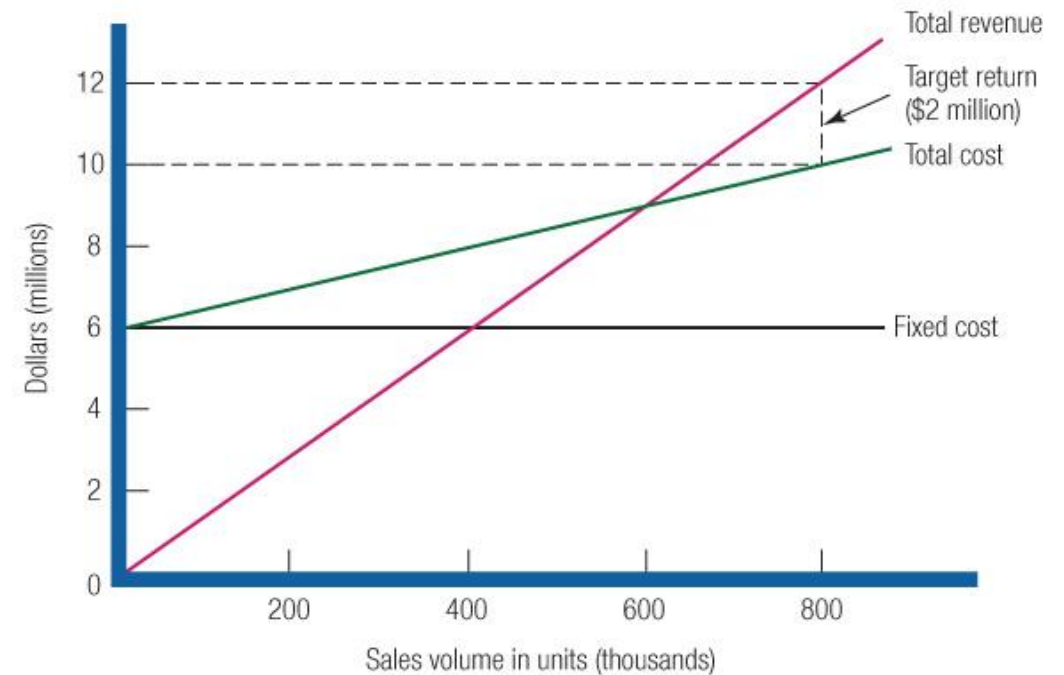
HOW THE PRODUCTS COMPARE			MARK-UP
	Tomato & Basil Soup by Sainsbury's (400g) left above <b>50p</b>	Sainsbury's Free From Juicy Tomato & Basil Soup (300g) left below <b>£1.50</b>	<b>200%</b>
	Tesco White Lasagne Sauce (430g) <b>85p</b>		Tesco Free From White Lasagne Sauce (480g) <b>£2</b> <b>135%</b>
	Tesco Tomato Ketchup (460g) <b>65p</b>		Tesco Free From Tomato Ketchup (460g) <b>£1.20</b> <b>84.6%</b>
	Sainsbury's Tikka Masala sauce (500g) <b>95p</b>		Sainsbury's Free From Tikka sauce (300g) <b>£1.50</b> <b>58%</b>
	Tesco Lightly Salted Rice Cakes (130g) <b>90p</b>		Tesco Free From Plain Wholegrain Rice Cakes (130g) <b>£1.40</b> <b>55%</b>
	Mayonnaise by Sainsbury's (430ml) <b>£1.00</b>		Chippa Gluten Free Mayo (280g) <b>£1.50</b> <b>50%</b>

(Source: Supers shoppers, Channel 4)

# Cost-Based Pricing

- **Break-even pricing / Target return**
  - At which point total revenue = total costs?
  - $BE \text{ (units)} = FC / (P - VC)$

**FIGURE 10.3** Break-Even Chart for Determining Target Return Price and Break-Even Volume



# Competition-Based Pricing

## Competition-based pricing

- Setting prices based on competitors' strategies, costs, prices, and market offerings.



Lancia Rotini  
900 grams

★★★★★ 2 Reviews

**\$1.27**

14c/100g

Add to cart



Great Value Dry Pasta  
Penne Rigate  
900 grams

★★★★☆ 1 Review

**\$1**

11c/100g

Add to cart



Catelli Bistro Fusilli Tri-Colour Vegetable Pasta  
375 g

☆  ☆ 0 Reviews

**\$2.27**

61c/100g

Add to cart



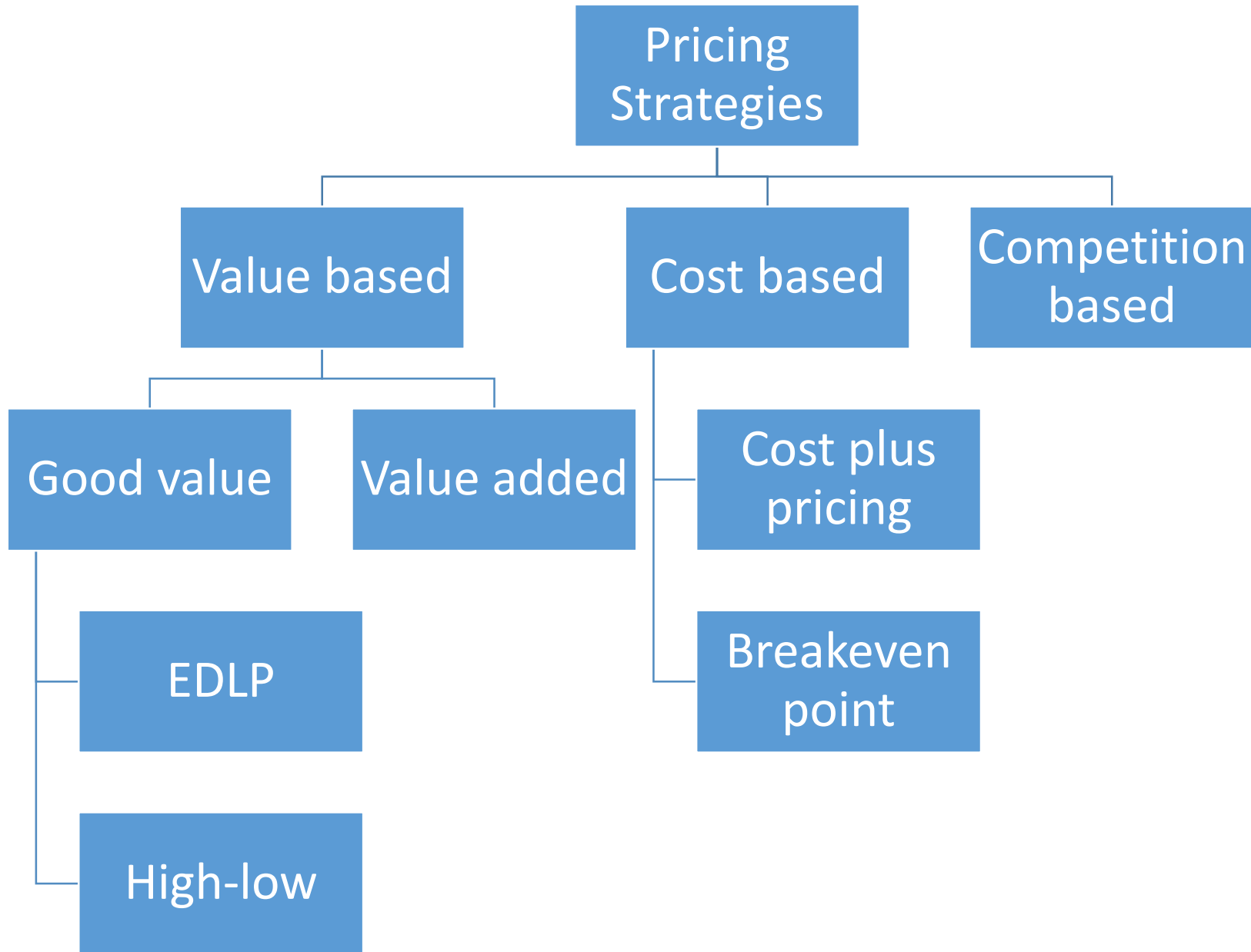
Barilla Penne Rigate Pasta  
454 g

★★★★★ 1 Review

**\$1.97**

43c/100g

Add to cart



# What Factors Should be Considered when Setting Prices?

## **Internal Factors**

- Marketing strategy
- Marketing mix
- Costs => DONE
- Organizational considerations

## **External Factors**

- The market and demand
- Competition (costs, prices, and offers) => DONE
- Other environmental elements

# Internal Factors to Consider when Setting Prices

## MARKETING STRATEGY/ OBJECTIVE

- Before setting prices, company must consider the firm/product objectives

### **Pricing objectives include:**

- Survival in the market
- Current profit maximization
- Market share leadership
- Product quality leadership
- Customer retention and relationship building
- Attracting new customers
- Opposing competitive threats
- Increasing product excitement

# Internal Factors to Consider when Setting Prices

## MARKETING MIX

- Price is just one element of your marketing mix and it has to be carefully coordinate with the rest to have one image!

CAD 1,430



# Internal Factors to Consider when Setting Prices

## ORGANIZATIONAL CONSIDERATIONS:

- Must decide who within the organization should set prices
- This will vary depending on the size and type of company
- Some firms maintain pricing departments

# External Factors Affecting Price Decisions

- **Market and demand** => How do prices vary within different types of markets?

## TYPES OF MARKETS:

- Pure competition
- Monopolistic competition
- Oligopolistic competition
- Pure monopoly

# Nature of Market and Demand

## **Pure competition**

- ⇒ Many buyers and sellers trading in a **uniform commodity**
- ⇒ EG: wheat, copper, financial securities
- ⇒ Marketing strategy plays no role

# Nature of Market and Demand

## Monopolistic competition

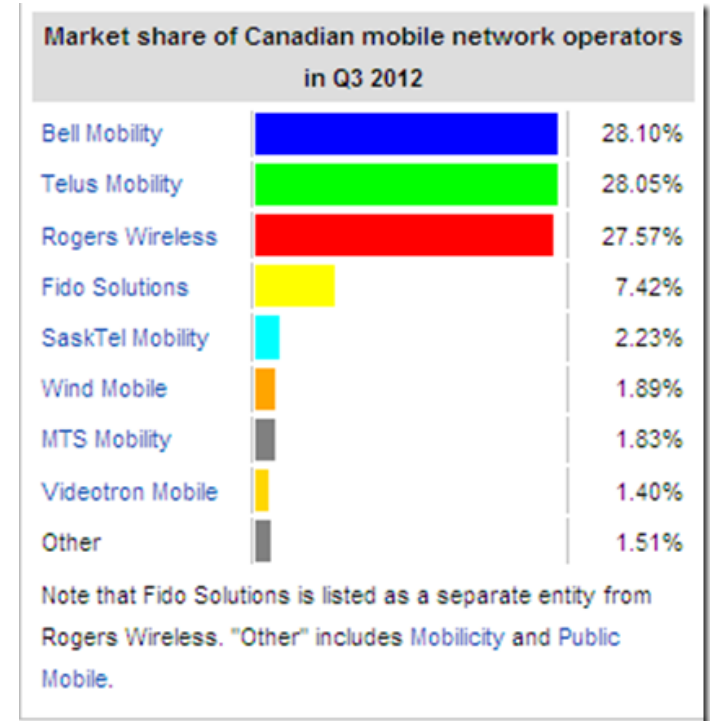
⇒ Many buyers and sellers trading over a range of prices

- KEY: Differentiated offers
- Marketing matters



# Nature of Market and Demand

- **Oligopolistic competition** => few sellers highly sensitive to each other's pricing and marketing strategies.



# Nature of Market and Demand

**Pure monopoly** => the market consists of one seller.



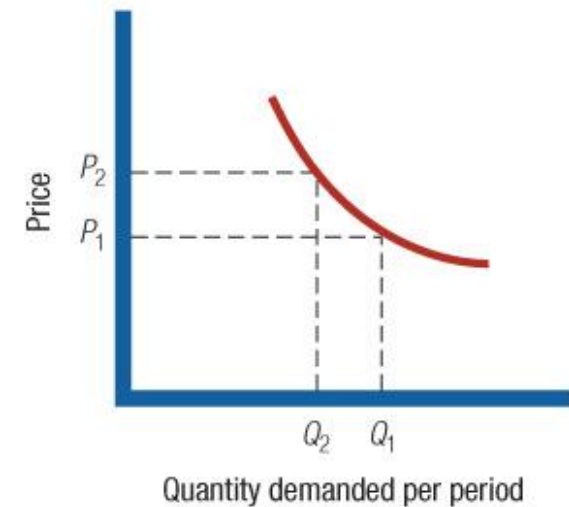
# Nature of Market and Demand

- **Demand curve**

- Normally, demand and price are inversely related.
- Higher price = lower demand.
- For prestige (luxury) goods, higher price = higher demand

- **Demand Curve**
- **Price Elasticity**

FIGURE 10.4 Demand Curve



# External Factors to Consider when Setting Prices

- Other environmental elements
- The economy?
- Recession
- Inflation
- Interest rates

# Type of Pricing Approaches

- New-Product Pricing
  - Introductory stage
- Product Mix Pricing
  - For products in the marketing mix
- Price Adjustment Strategies
  - Customer differences and changing situations
- Price Changes [book]

## think

Is it smarter to save money on a printer or save money on ink?  
(Hint: you only buy the printer once)

With revolutionary, new KODAK EASYSHARE All-in-One Printers, you can **SAVE UP TO 50% ON EVERYTHING YOU PRINT** compared to similar consumer inkjet printers.\*

Imagine paying less for ink and printing more than ever before. Imagine printing 4"x6" color photos for as little as 10 cents a photo.\*\* Now, you can—at the touch of a button.

Welcome to printing made honest.



**Kodak**

**BEST BUY**

Available now exclusively at Best Buy stores and BestBuy.com. Stop in for a demo today.

\*Based on the average cost per page (CPP) of 4"x6" color photos. Actual results may vary. \*\*Based on the average cost per page (CPP) of 4"x6" color photos. Actual results may vary.

©2007 Kodak. All rights reserved. Kodak and EasyShare are trademarks of Eastman Kodak Company.

# Type of Pricing Approaches: New-Product Pricing

## Market Skimming

### For use when:

- Product's quality and image support a high price;
- Costs of low volume do not cancel the benefit of higher price;
- Competitors cannot easily enter the market and undercut price

## Market Penetration

### For use when:

- Market is price sensitive
- Costs fall as volume increases
- Competition can be kept out of market

# Type of Pricing Approaches: Product Mix Pricing



Strategy	Description
Product line pricing	Setting prices across an entire product line
Optional-product pricing	Pricing optional products sold with main product
Captive-product pricing	Pricing products which must be used with main product
By-product pricing	Pricing by-products to make a main product's price more attractive
Product bundle pricing	Pricing a bundle of individual products at a price lower than if purchased separately

# Price Adjustment Strategies

- **Discounts:**
  - ✓ Cash
  - ✓ Quantity
  - ✓ Functional
  - ✓ Seasonal
- **Allowances:**
  - ✓ Trade-in
  - ✓ Promotional

**Exhibit 10.1 Pricing:** No matter what the state of the economy, companies should sell value, not price.



# Price Adjustment Strategies

- **Segmented Pricing:**

- Selling a product at two or more prices, where the difference in prices is not based on differences in costs

- **Types:**

- Customer-segment
- Product-form
- Location-based pricing
- Time-based pricing



ROBYN BECK/AFP/Getty Images

**Exhibit 10.12 Segmented pricing:** There is a segment of the market that is willing and able to pay for luxurious airplane seats.

# Price Adjustment Strategies

- **Psychological Pricing:**

- Considers consumer thought process, not simply the economics
- The price is used to say something about the product



The Image Gate/Getty Images

**Exhibit 10.13 Psychological pricing:** All Patek Philippe watches are expensive. Some are deliberately made to be collectors' items. One owned by Eric Clapton fetched \$3.6 million at auction. The other 40 000 watches the company makes each year are sold to the "merely well off."

# Price Adjustment Strategies

- **Promotional Pricing:**

- Discounts (loss leaders)
- Special-event pricing
- Cash rebates
- Low-interest financing
- Longer warranties
- Free maintenance



Infomages. Shutterstock

# Price Adjustment Strategies

- **Geographical Pricing:**

- Free on board-origin pricing
- Uniform-delivered pricing
- Zone pricing

- **International Pricing:**

- Adjusting prices for international markets, subject to many considerations



3DDeck, Shutterstock

# Price Adjustment Strategies

- **Dynamic Pricing:**

- Allows price to change as customer and situational forces change
- Consider the affect of the internet on pricing
- Benefits to marketers: Mine databases
- Benefits to consumers: Price comparison sites

# Price Changes

- **Price cuts may be initiated due to:**

- ✓ Excess capacity
- ✓ Falling demand
- ✓ Drive to dominate market

- **Price increases may be initiated due to:**

- ✓ Cost inflation
- ✓ Over-demand

# Price Changes

- Buyers will react – not always as expected!
- **Competitors may react:**
  - Reduce price to match competition
  - Raise the perceived value of its offer
  - Improve quality and increase price
  - Launch a low-price “fighting brand”



**Exhibit 10.14** Fighter brands: TELUS markets its lower-priced mobile phone services under the brand Koodo.

# What to do for next class

- Study chapter 9, 10
- Quiz on chapters 8,9,10 (until we discussed in class)
- Case studies : Center for the Arts & Case study 386-387  
(Questions for both would be posted on Moodle)

# Project Application

- What type of brand development strategy is your brand?
- Pricing:
  - Which pricing strategy would you apply for your brand? Why? Elaborate and give justifications ?
  - What type of market will your product compete in? Why is that?
  - What is the nature of demand in your market? Justify
  - What are the possible factors that can impact the pricing strategy that you use? What will do about them?

Thank you!