

# Promotion and Pricing Strategies

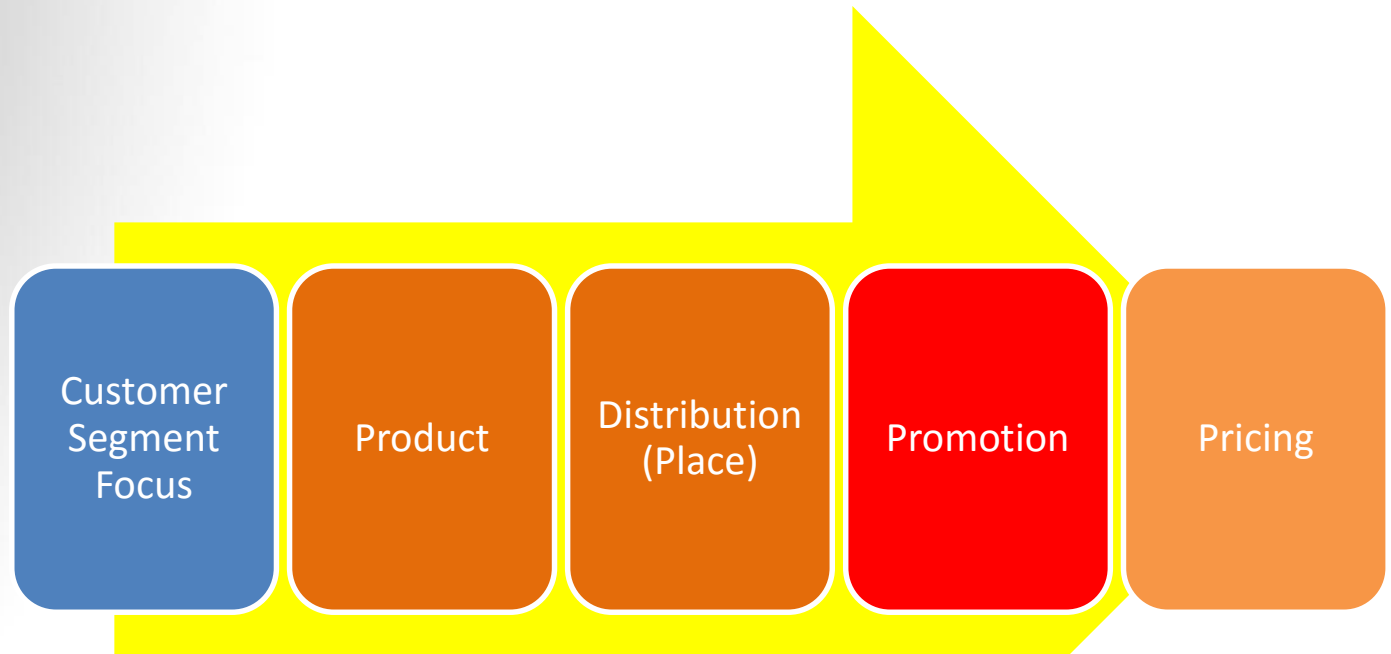




## 4 Ps Video

*Review of the marketing concepts*

# Marketing Mix – Promotion & Pricing



- Product & Distribution are about providing an appropriate product to the right place.
- Promotion & Pricing are about attracting and sustaining customers.



Marketing Mix

# PROMOTIONAL STRATEGY



# Promotion Strategies



- **Promotion:** The function of **informing**, **persuading**, and **influencing** a purchase decision.



# Which is a better car?



Cadillac CTS Sedan

Mercedes C-Class

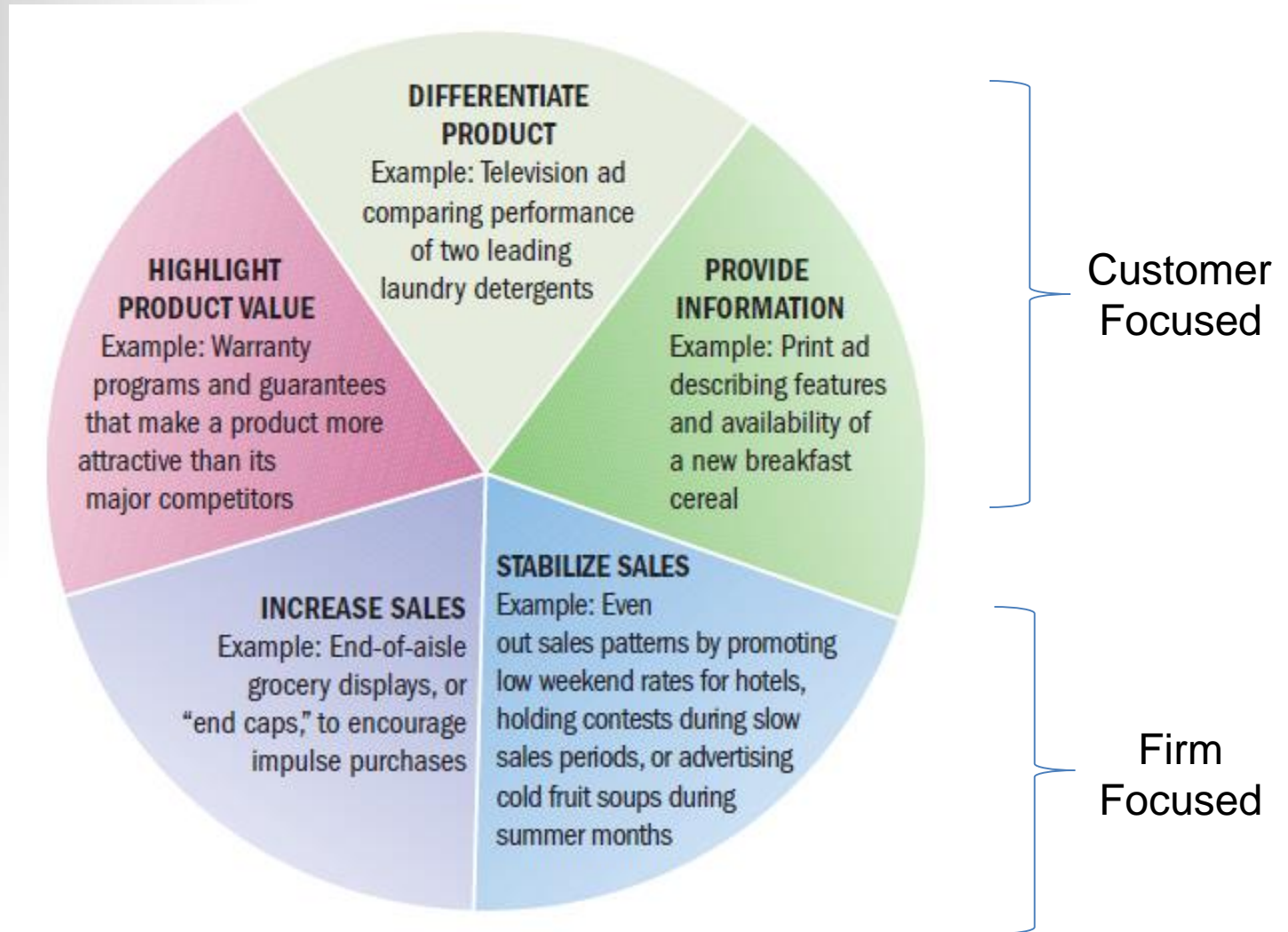




# Product Rankings Versus Perceptions

- Motor Trend Magazine
  - Cadillac – 2014 ranked
  - Mercedes C-class – unranked
- US News – Upscale Midsized Cars
  - Cadillac – Ranked #5
  - Mercedes C-class – Ranked #8

# Objectives of Promotional Strategies



# The Promotional Mix

- **Promotional mix:** The combination of personal and non-personal selling that marketers use to meet the needs of a firm's target customers and to effectively and efficiently communicate its message to them
  - **Personal selling:** The most basic form of promotion: a direct person-to-person promotional presentation to a potential buyer
  - **Non-personal selling:** Forms of selling such as advertising, sales promotion, direct marketing, and public relations



# Push vs Pull Market Strategies

**Pushing strategy:** Promotion of an product to wholesalers and retailers in a company's distribution channels

- Companies promote the product to members of the marketing channel, not to end users.

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

- Potential buyers will request that retailers or local distributors carry the product, thereby pulling it through the distribution channel.
- Most marketing promotional strategies require combinations of push and pull strategies

**Cooperative advertising:** Allowances that marketers provide to share with channel partners the cost of local advertising of their firm's product or product line



# Comparing the Elements of the Promotional Mix



ELEMENT	ADVANTAGES	DISADVANTAGES
Advertising	<ul style="list-style-type: none"> <li>Reaches large consumer audience at low cost per contact</li> <li>Allows strong control of the message</li> <li>Message can be modified to suit different audiences</li> </ul>	<ul style="list-style-type: none"> <li>Difficult to measure effectiveness</li> <li>Limited value for closing sales</li> </ul>
Personal selling	<ul style="list-style-type: none"> <li>Message can be tailored for each customer</li> <li>Produces immediate buyer response</li> <li>Effectiveness is easily measured</li> </ul>	<ul style="list-style-type: none"> <li>High cost per contact</li> <li>High expense and difficulty of attracting and retaining effective salespeople</li> </ul>
Sales promotion	<ul style="list-style-type: none"> <li>Attracts attention and creates awareness</li> <li>Effectiveness is easily measured</li> <li>Produces increases in short-term sales</li> </ul>	<ul style="list-style-type: none"> <li>Difficult to differentiate from similar programs of competitors</li> <li>Nonpersonal appeal</li> </ul>
Public relations	<ul style="list-style-type: none"> <li>Improves trust in a product or firm</li> <li>Creates a positive attitude about the product or company</li> </ul>	<ul style="list-style-type: none"> <li>Difficult to measure effectiveness</li> <li>Often devoted to nonmarketing activities</li> </ul>
Sponsorships	<ul style="list-style-type: none"> <li>Viewed positively by consumers</li> <li>Enhances brand awareness</li> </ul>	<ul style="list-style-type: none"> <li>Difficult to control message</li> </ul>



- Advertising
- Sales Promotion
- Personal Selling

# Types of Advertising (product/service)



- **Product advertising:** Messages designed to sell a particular good or service
- **Institutional advertising:** Messages that promote concepts, ideas, or philosophies. It can also promote goodwill toward industries, companies, organizations, or government entities
  - Government advertising economic plan
  - **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
  - Example – Cancer Research

# Types of Advertising & the Product Life Cycle

- **Informative advertising** is used to build initial demand for a product in its *introductory phase*.
- **Persuasive advertising** attempts to improve the competitive status of a product, institution, or concept, usually in its *growth and maturity stages*.
- **Comparative advertising** compares products directly with their competitors, either by name or by inference.
- **Reminder-oriented advertising** maintains awareness of the importance and usefulness of a product in its *late maturity or decline stages*.



# Forms of Advertising Media

- Television
  - Easiest way to reach a large number of consumers
  - Leading, but most expensive, advertising medium
- Newspapers
  - Dominate local advertising
  - Relatively short life span
- Radio
  - Commuters in cars are a captive audience
  - Internet radio offers new opportunities
- Magazines
  - Consumer publications and trade journals
  - Can customize message for different areas of the country (local ads, wraparounds)
- Direct Mail
  - Average North American receives 550 pieces annually
  - High per person cost, but can be carefully targeted and highly effective
- Outdoor Advertising
  - Billions spent annually in North America
  - Requires brief messages



# Other Forms of Advertising

## Online and interactive advertising

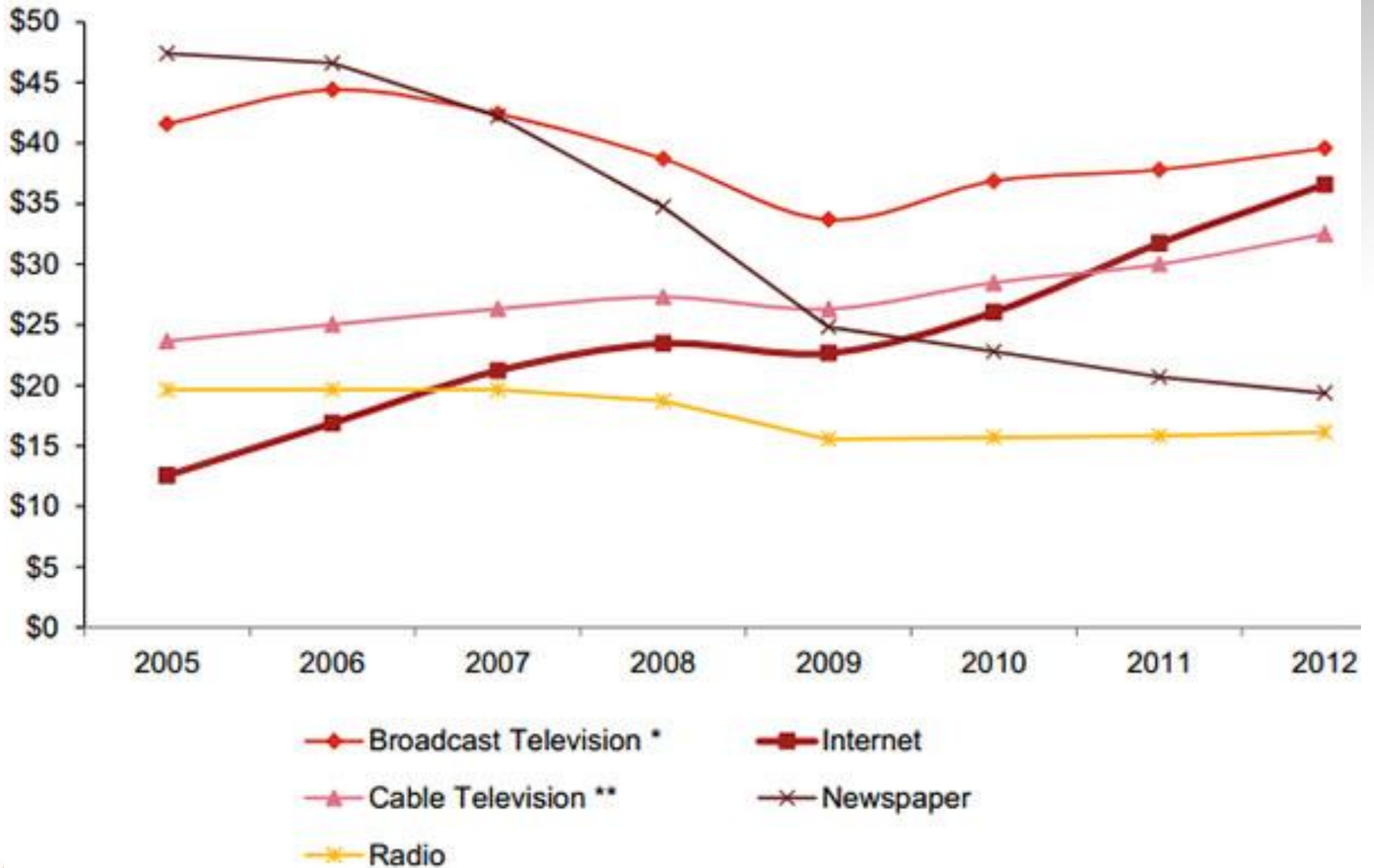
- Widgets (or gadgets) are small television screen images carrying marketing messages; contain embedded links to home sites.
- Viral advertising creates a message that is novel or entertaining enough for consumers to forward it to others

**Sponsorship:** Providing funds for a sporting or cultural event in exchange for a direct association with the event

- Exposure to target audience
- Association with image of the event



# Trends in Advertising





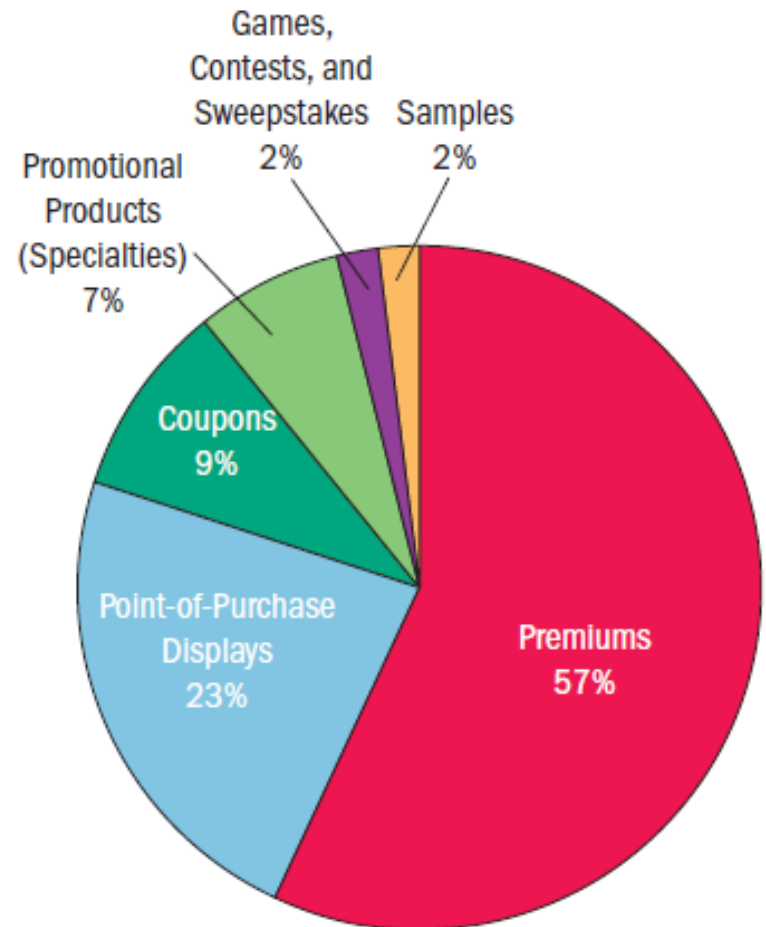
# Advertising Video

- What is it advertising?
- What life cycle phase is it advertising??
- Do you think it works? Why? Is it informative, persuasive, reminder, or comparative advertising?

# Sales Promotion



**Sales promotion:** Forms of promotion such as coupons, product samples, and rebates that support advertising and personal selling



# Consumer-Oriented Promotions

## Premiums, coupons, rebates, samples

- Marketers generally choose free/reduced price premiums likely to get consumers thinking and caring about a brand and product.
- Coupons attract new customers, but focus on price rather than brand loyalty.
- Rebates increase purchase rates, promote multiple purchases, and reward product users.
- Three of every four consumers who receive a sample will try it.

## Games, contests, sweepstakes

- Introduction of new products.
- Offer cash, merchandise, or travel as prizes to participating winners.
- Subject to legal restrictions.

## Specialty advertising

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



# Trade-Oriented Promotions

- Sales promotion geared to marketing intermediaries, not to final consumers
- Encourage retailers
  - To stock new products
  - To continue carrying existing ones
  - To promote both new and existing products effectively to consumers
- Point-of-purchase (POP) advertising
- Trade shows



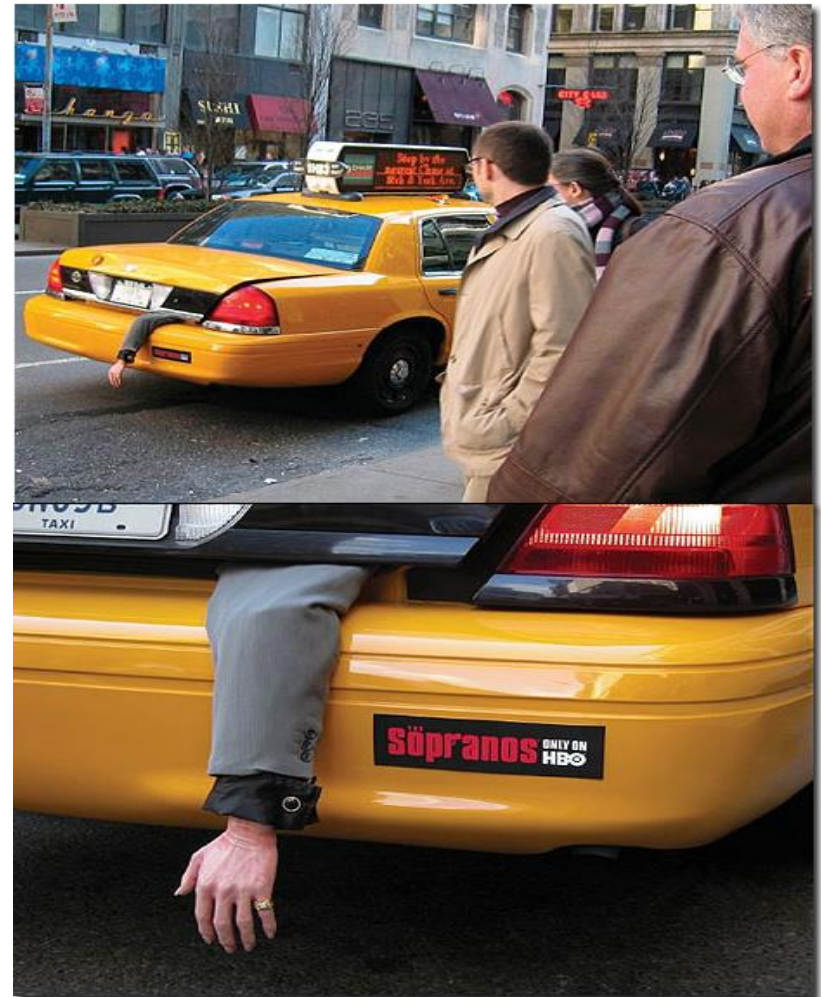
# Product Placement Promotion

- **Product placement:** A form of promotion where marketers pay placement fees to have their products featured in various media, from newspapers and magazines to television and movies



# Guerilla Marketing Promotion

- **Guerilla marketing:** Innovative, low-cost marketing efforts designed to get consumers' attention in unusual ways.



# Personal Selling



- A person-to-person promotional presentation to a potential buyer

# When Personal Selling is Advantageous

- ❑ Firms focus on personal selling under four conditions:
  - Few, geographically concentrated customers
  - Product is technically complex, involves trade-ins, or requires special handling
  - Product carries a relatively high price
  - Product moves through direct-distribution channels



# 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

**Creative selling:** A persuasive type of promotional presentation

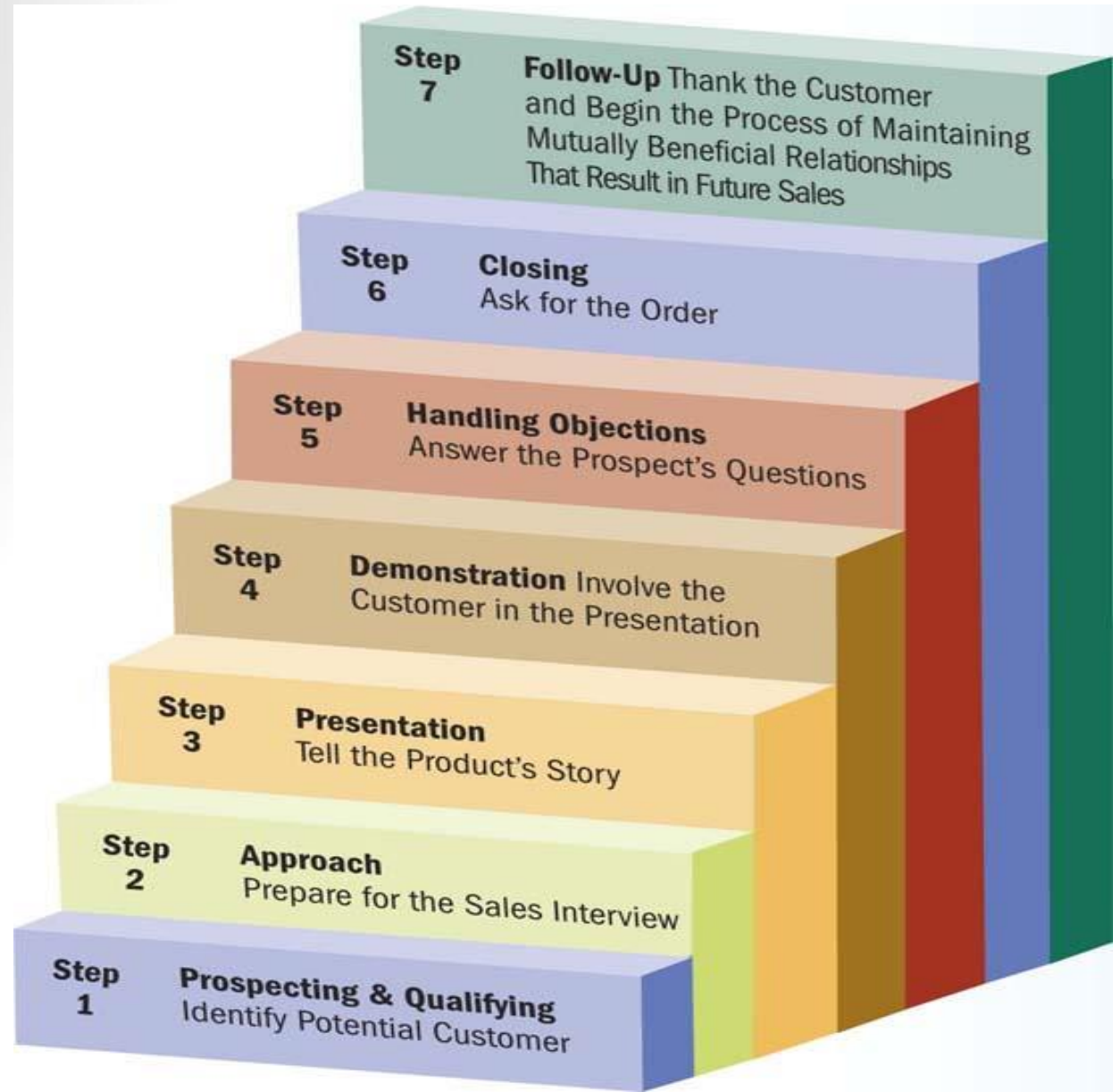
- Promotes a good or service whose benefits are not readily apparent or whose purchase decision requires a close analysis of alternatives

**Telemarketing:** Personal selling by telephone, which provides a firm's marketers with a high return on their expenditures, an immediate response, and an opportunity for personalized two-way conversation

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



# The Sales Process



# Prospecting, Qualifying, and Approaching

A good salesperson varies the sales process based on customers' needs and responses.

**Prospecting** is identifying potential customers.

& **Qualifying** is identifying potential customers who have financial ability and buying authority.

- Done through direct mail responses, personal visits from sales representatives, email, electronic social media

**Approaching** is analyzing available data about a prospective customer's product lines and other pertinent information.



# Presentation and Demonstration



## **Presentation**

- Salespeople communicate promotional messages. They may describe the major features of their products, highlight the advantages, and cite examples of satisfied consumers.

## **Demonstration**

- Reinforces the message that the salesperson has been communicating.

# Closing

- Use **objections** as an opportunity to answer questions and explain how the product will benefit the customer.
- The **closing** is the critical point in the sales process; asking the customer to buy.
- Even if the sale is not made, the salesperson should regard the interaction as the beginning of a potential relationship.





# Follow-Up

(influences post-purchase perception)

- An important part of building a long-lasting relationship.
- May determine whether the customer will make another purchase.

# Persuasion Video





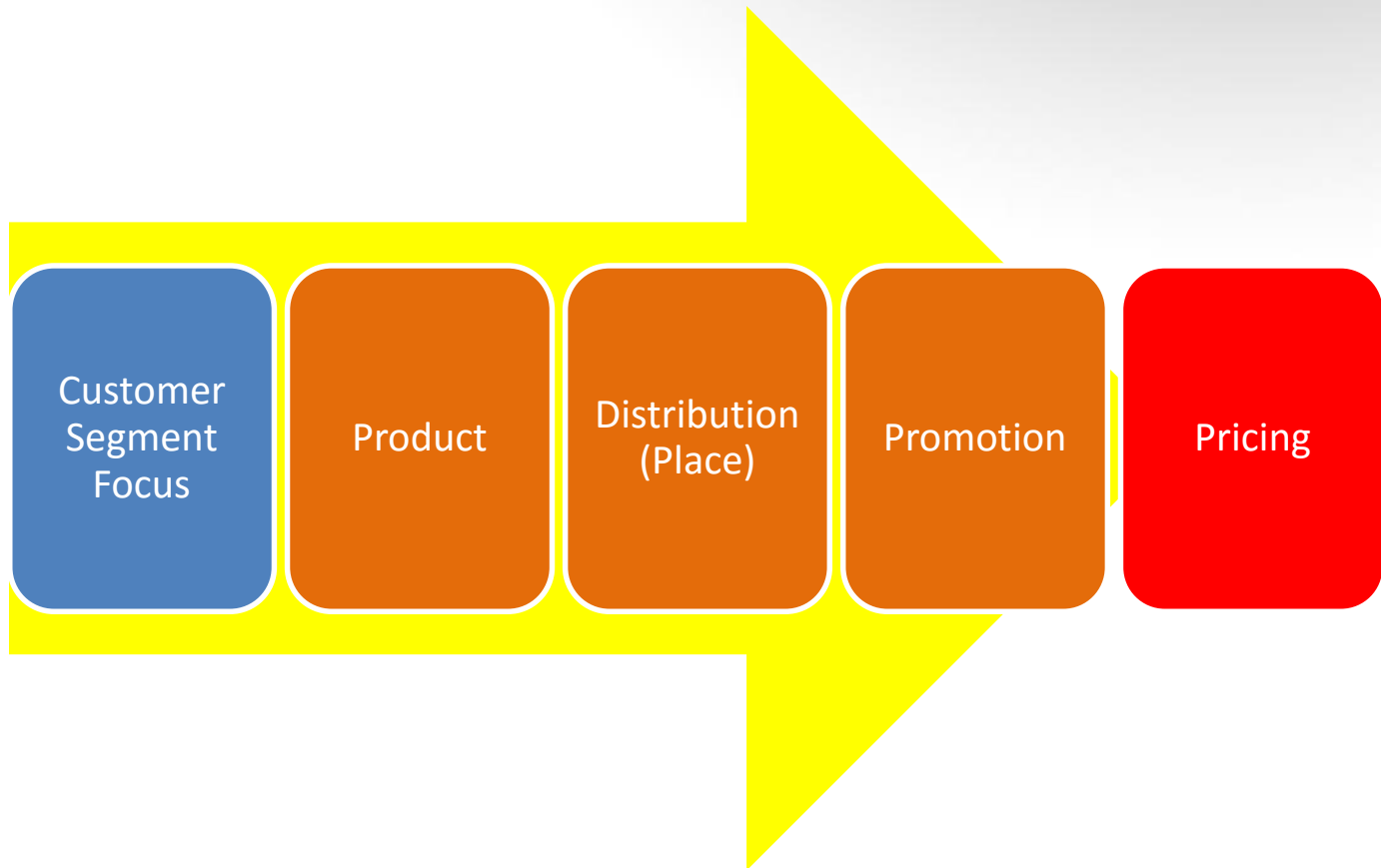
Marketing Strategy

# PRICING STRATEGY

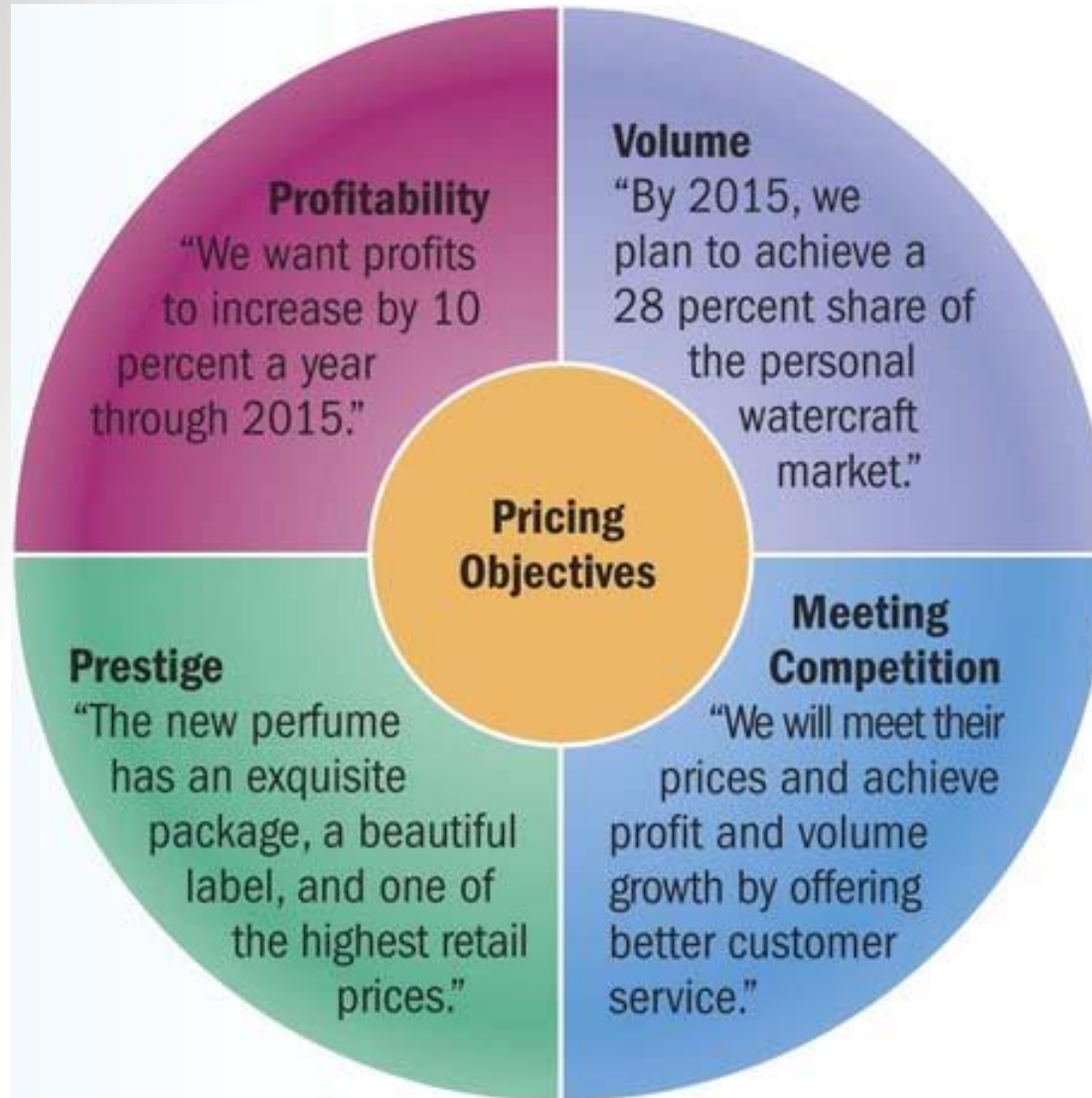
# Marketing Strategy



- 4 Ps Video



# Pricing Objectives in the Marketing Mix



# Prestige Objectives

- **Prestige pricing:** Establishing a relatively high price to develop and maintain an image of quality and exclusiveness
- Recognition of the role of price in communicating an overall image for the firm and its products.
- Products that are limited in distribution or so popular that they become scarce generate their own prestige.



# Pricing



Cadillac CTS Sedan

Mercedes C-Class



# Pricing

- Cadillac – \$38 to 60 thousand
- Mercedes – \$33 to 60 thousand



# Consumer Perceptions of Prices



- **Price–quality relationships**
  - Consumers’ perceptions of quality closely tied to price
  - High price = prestige and higher quality
  - Low price = less prestige and lower quality
- **Odd pricing:** A pricing method that uses uneven amounts to make prices appear to be less than they really are
  - Examples: \$1.99; \$9.95

# Alternative Pricing Strategies



- **Skimming pricing:** A strategy that sets an intentionally high price relative to the prices of competing products
  - Helps marketers set a price that distinguishes a firm's high-end product from those of competitors
- **Penetration pricing:** A strategy that sets a low price as a major marketing tactic
  - Often used with new products
- **Everyday low pricing (EDLP):** A strategy of maintaining continuous low prices instead of using short-term price-cutting tactics such as cents-off coupons, rebates, and special sales
  - **Discount pricing** is used to attract customers by dropping prices for a set period of time.
- **Competitive pricing:** A strategy that tries to reduce the emphasis on price competition by matching other firms' prices and by focusing their own marketing efforts on the product, distribution, and promotional elements of the marketing mix

# Cost-based pricing

- Calculating total costs per unit and then adding markups to cover overhead costs and generate profits
  - Totals all costs associated with offering a product in the market, including research and development, production, transportation, and marketing expenses
  - Markup is added to cover any unexpected or overlooked expenses and provides a profit.
  - Total is the selling price.
  - Actual markup used varies by such factors as brand image and type of store.



# Types of Costs



## Fixed Costs

- expenses that do not change as a function of the activity of a business, within the relevant period (e.g., annual fixed costs).

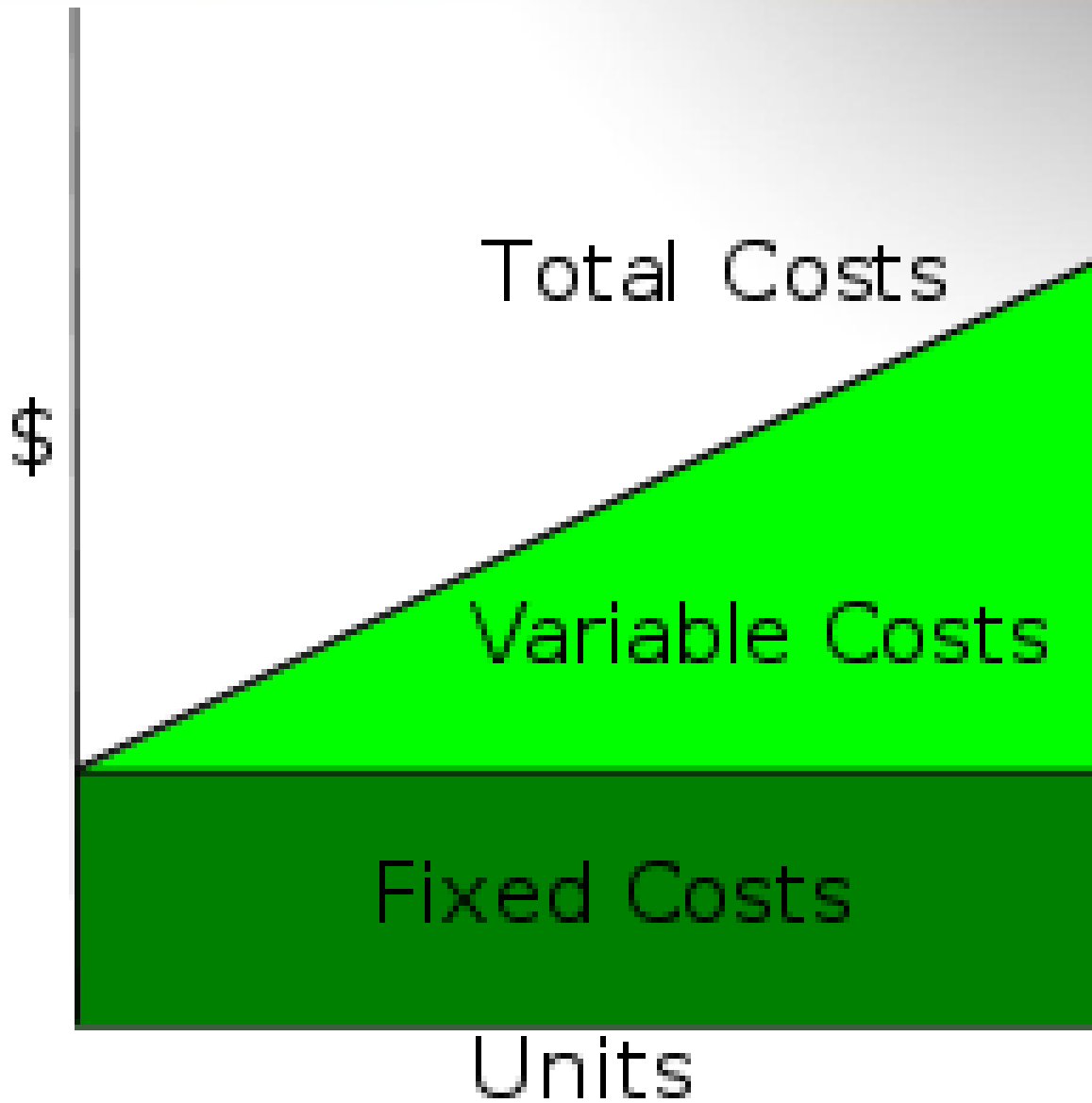
## Variable Costs

- vary depending on a company's production volume (e.g., cost per unit of product produced).

# Examples



Business	Fixed Cost	Variable Cost
Manufacturer	Office rent, administration	Parts to go in product
Farmer	Tractor, barn, land	Seeds, fertilizer
Web Retailer	Cost of setting up and maintaining web	Products purchased from wholesaler to sell through the web site





## Contribution (Margin)

- is the selling price per unit minus the variable cost per unit
- It is the contribution per unit to paying of the fixed costs.

$$\text{Contribution (Margin)} = \text{Price} - \text{Variable Cost}$$

(all in per unit)

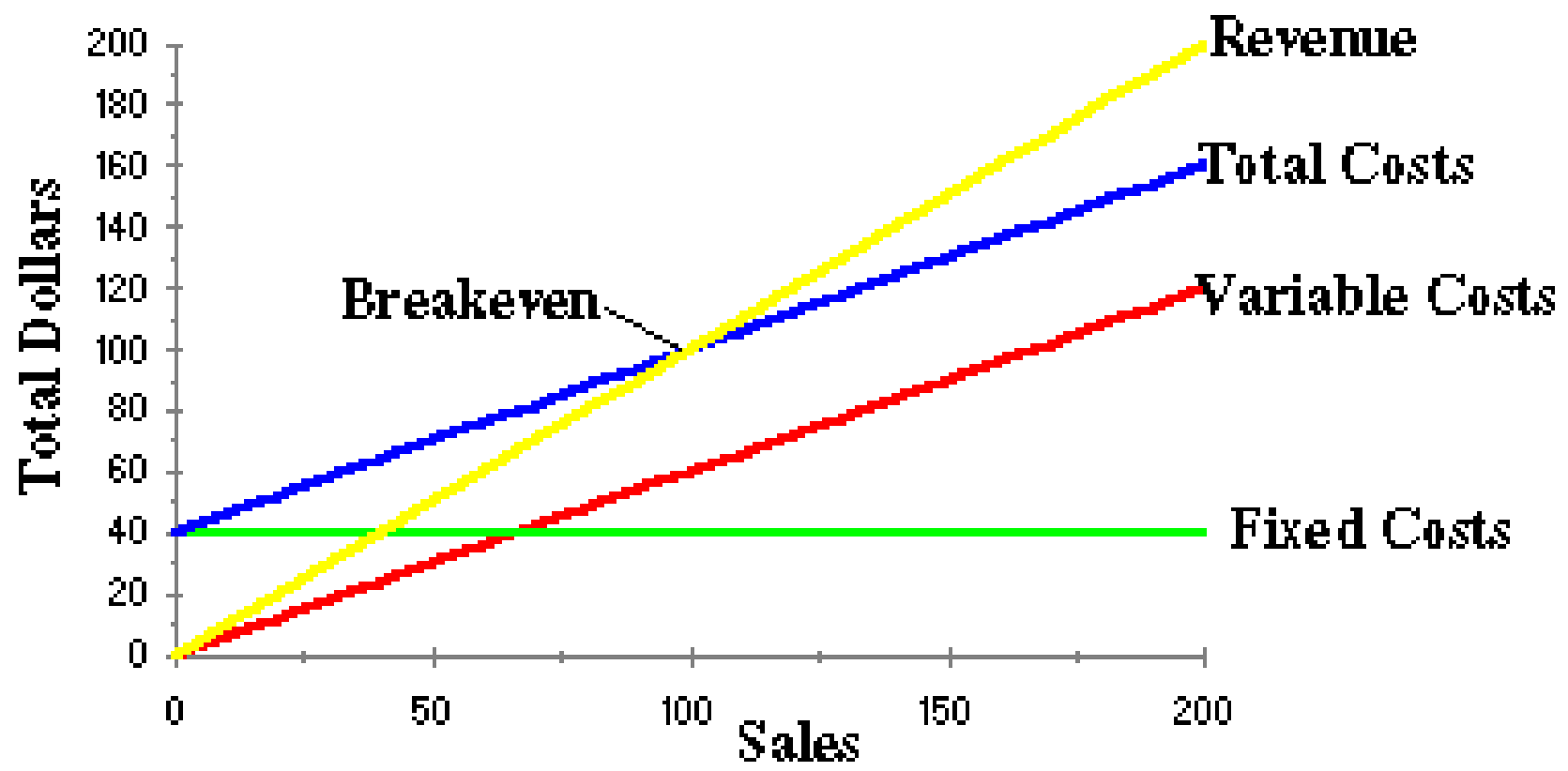
# Breakeven Analysis

- **Breakeven analysis:** The pricing-related technique used to calculate the minimum sales volume a product must generate at a certain price level to cover all costs

$$\text{Breakeven Point (in units)} = \frac{\text{Total fixed costs}}{\text{Contribution to fixed costs per unit}}$$

$$\text{Breakeven Point (in dollars)} = \frac{\text{Total fixed costs}}{1 - \text{Variable cost per unit/Price}}$$

$$\text{Contribution per Unit} = \text{Price per unit} - \text{Variable Cost per unit}$$



# Example



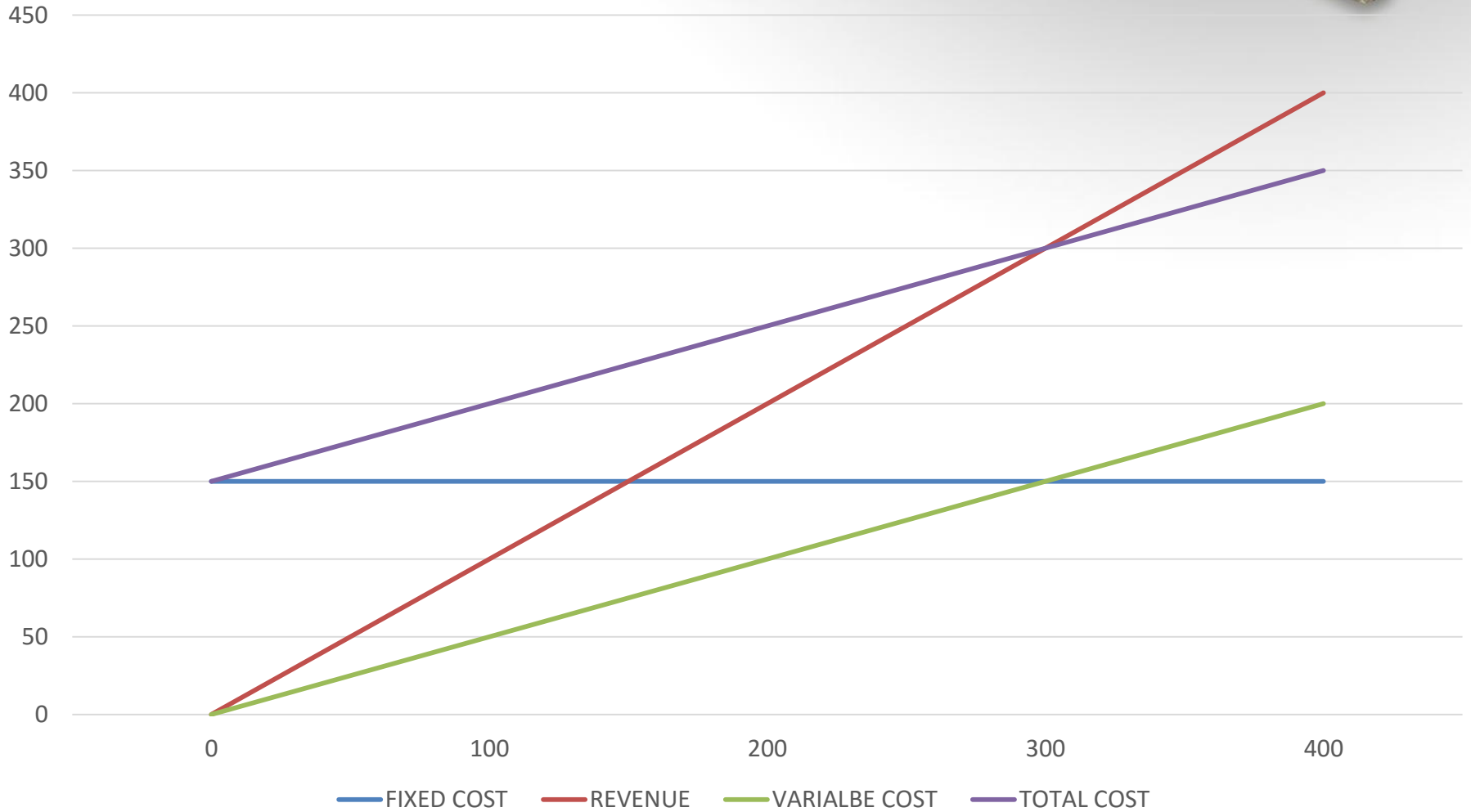
UNIT VOLUME	FIXED COST	REVENUE	VARIABLE COST	TOTAL COST
0	150	0	0	150
100	150	100	50	200
200	150	200	100	250
300	150	300	150	300
400	150	400	200	350

Fixed Cost = \$150  
Price = \$1.00

Variable Cost = \$0.50 per unit  
Contribution = \$0.50 per unit



## BREAK EVEN EXAMPLE

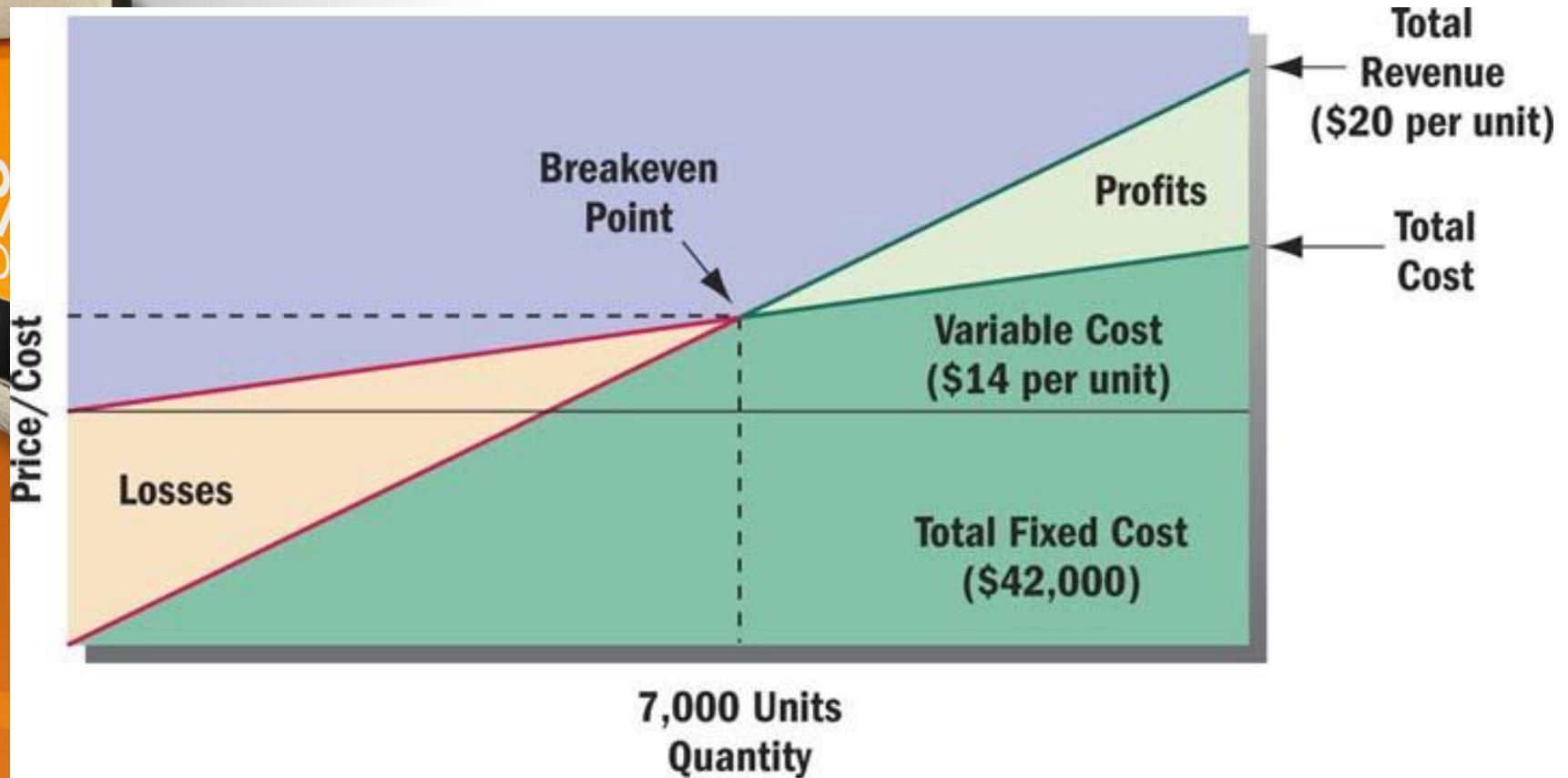




## Toy Firm Example

A firm makes a toy that has a price of \$20. The toy has a variable cost \$14 dollars. This variable cost represents costs such as materials and packaging, which varies directly with the amount of product manufactured. The fixed costs for the company are \$42,000 and they represents costs that do not vary with production volumes. What is the necessary number of units that need to be sold before the company breaks even (i.e., begins to make a profit).

# Breakeven Analysis



# Breakeven Analysis



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# Units Sold	Variable Cost	Fixed Cost	Revenue	Profits /Losses
1000				
2000				
3000				
4000				
5000				
6000				
7000				
8000				
9000				
10000				

# Breakeven Analysis



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# Units Sold	Variable Cost	Fixed Cost	Revenue	Profits /Losses
1,000	\$14,000	\$42,000	\$20,000	-\$36,000
2,000	\$28,000	\$42,000	\$40,000	-\$30,000
3,000	\$42,000	\$42,000	\$60,000	-\$24,000
4,000	\$56,000	\$42,000	\$80,000	-\$18,000
5,000	\$70,000	\$42,000	\$100,000	-\$12,000
6,000	\$84,000	\$42,000	\$120,000	-\$6,000
7,000	\$98,000	\$42,000	\$140,000	\$0
8,000	\$112,000	\$42,000	\$160,000	\$6,000
9,000	\$126,000	\$42,000	\$180,000	\$12,000
10,000	\$140,000	\$42,000	\$200,000	\$18,000

# Markup



How much channel intermediaries increase the price of the product from the cost they bought it at.

- Retail Markup – the percentage the price is increased from the cost of the product to the retailer to its selling price
- Wholesale Markup - the percentage the price is increased from the cost of the product to the wholesaler to its selling price.
- 100% markup - \$100 cost increases to \$200 price
- 20% markup - \$100 cost increases to \$120 price