Lecture 6: Marketing

Learning outcomes

After this lecture you should be able to:

- Employ the holistic 4P approach as a marketing model and tool to reach marketing objectives
- Recognize the product positioning
- Practice the pricing strategies
- Underline and differentiate promotion methods
- Compare and contrast different distribution channels

Lecture content

- The concept of marketing mix (4 P’s)
- Product
- Price
- Place
- Promotion

The concept of marketing mix (4 P's)

- Who will buy it? Design?
- Packaging?

- High/ low?
- Competitors' prices?

- Where will it be sold?

- How will customers know about it?

PRODUCT

- Strategic fit between customer wants and the company's product or service – VALUE PROPOSITION
- What is your USP (Unique Selling Point), that differentiates your product from others'?
- Is it capable to stimulate new wants from the consumer?

Recurring revenues!

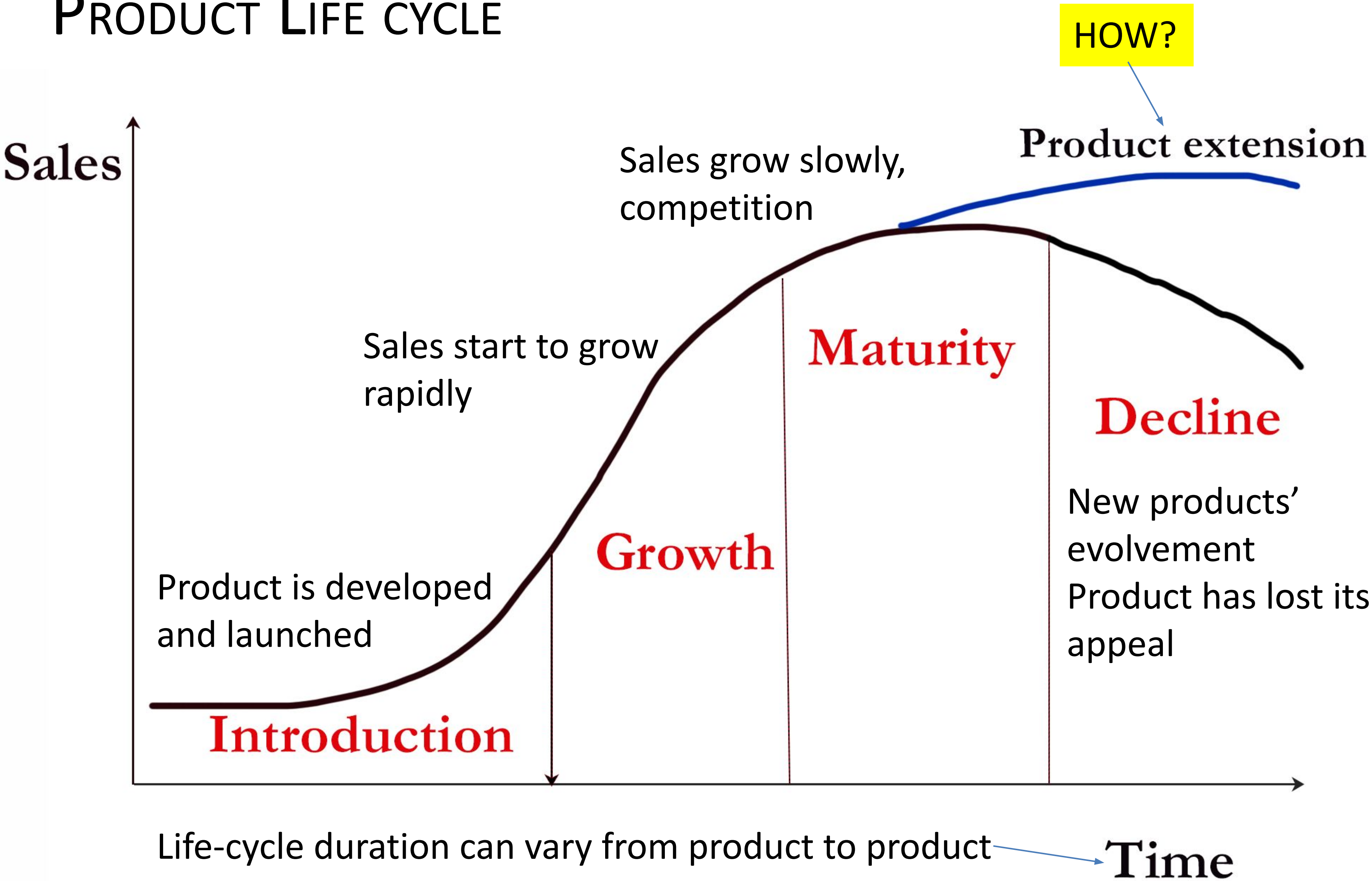
- Value for money
- Design – performance, reliability, quality consistent with brand image

Packaging

Which one is more expensive? Which one is better?

- Packaging can be a defining factor to make a decision for a customer

Product Life cycle



EXTENDING THE PRODUCT LIFE CYCLE

- introduce new variations of the original product, e.g. a children's version
- sell into new markets, e.g. export the product to another country
- make small changes to the product's design, colour or packaging
- use a new advertising campaign
- introduce a new, improved version of the old product
- sell through additional, different retail outlets

iPhone X (2017)

iPhone XS and
iPhone XS Max (2018)

PRICE

- Is market competitive? Buying ability?
- Value for money (SUBJECTIVE!!!)
- Brand image

The pricing strategy may have several objectives:

- Entering the new market
- Increasing market share (sales turnover)
- Increasing profits
- Break-even

Methods of pricing

- Cost-plus pricing

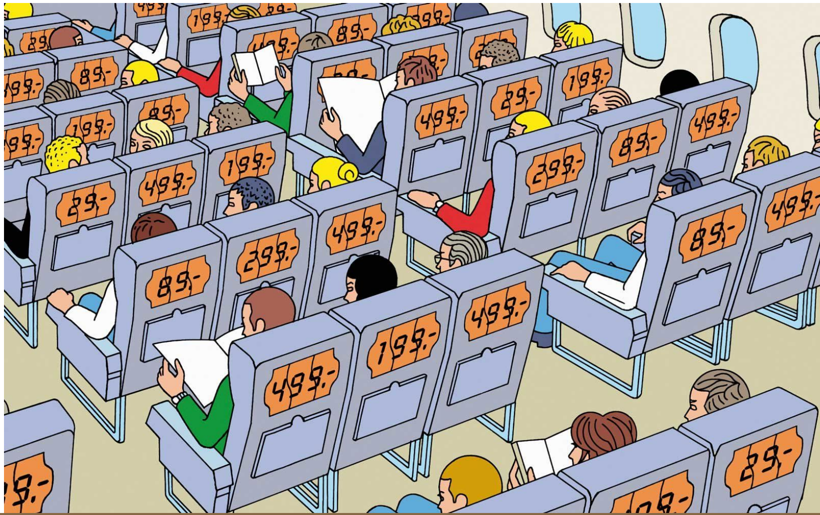
Total costs of making 2000 chocolates is $2000, if industrywide profit averages 50% profit margin, then the price per chocolate:

$$\$2000/2000 + 50\% = \$1.5 \ or$$
$$\left(Total\ cost \Big/ output\right) \times \%mark - up = price\ per\ output$$

- Competitive pricing – similar to competitors
- Psychological pricing - $99, STATUS

Methods of pricing

- Penetration pricing – damping, when entering the market
- Price skimming – new invention with higher prices
- Promotional pricing – discounts (break-even!)
- Dynamic pricing – same product at different price, due to:
  - ✔ Higher volumes
  - ✔ Demand, e.g. airline tickets



Price Elasticity (Seminar 1 example)

- *** Bakery's average sales per month is 1000 units (a cake + a cup of hot drink) at 600 KZT price. Arman has conducted some research on price elasticity (to what extent the prices can go up to retain customers). The study revealed that prices can be increased by 20% with the sales volume loss of only 10%. Calculate the net profit in KZT.
- <u>Revenue = price per unit × number of units sold</u>
- New monthly revenue = 600 KZT*1.2*1000*(1-0.1) = 648 000 KZT. The cost per unit does not change,
- Costs = Cost per unit × number of units = 200 KZT*1000 (1-0.1) = 180 000 KZT

Old profit was 400,000 KZT!

- Net profit per month = 648 000 – 180 000 = 468 000 KZT

Promotion objectives

- Build awareness – new company or new product
- Create interest – trigger purchasing behavior
- Stimulate demand – occasional special deals
- Differentiate product – in a competitive area
- Reinforce the brand – life-time purchaser

TYPES OF ADVERTISING

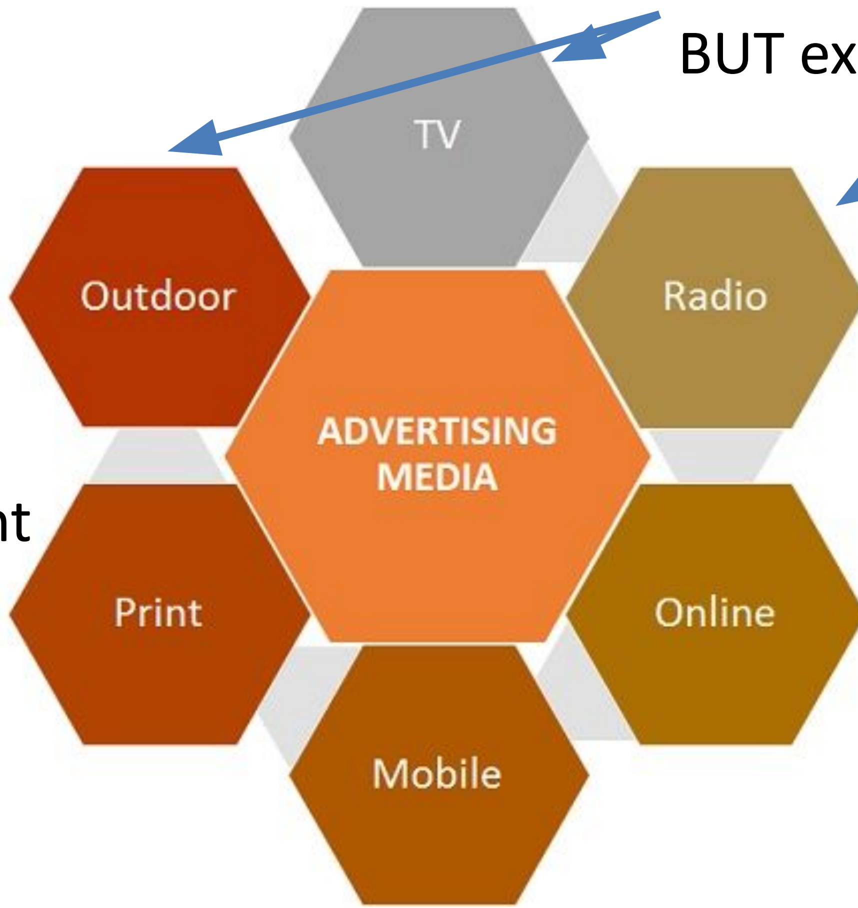
- Informative – heavily relies on facts

  iPhone 11 Pro official advertisement (click)
- Persuasive - appeals to consumer's emotion
- Range Rover Sport plug-in hybrid

https://youtu.be/cVEemOmHw9Y
https://www.youtube.com/watch?v=ao2wFvrZsVE

PROMOTION AND ADVERTISING MEDIA

Mass market, vast reach. BUT expensive



Newspapers or magazines. A particular segment of customers. May not be eye-catching. Limited reach.

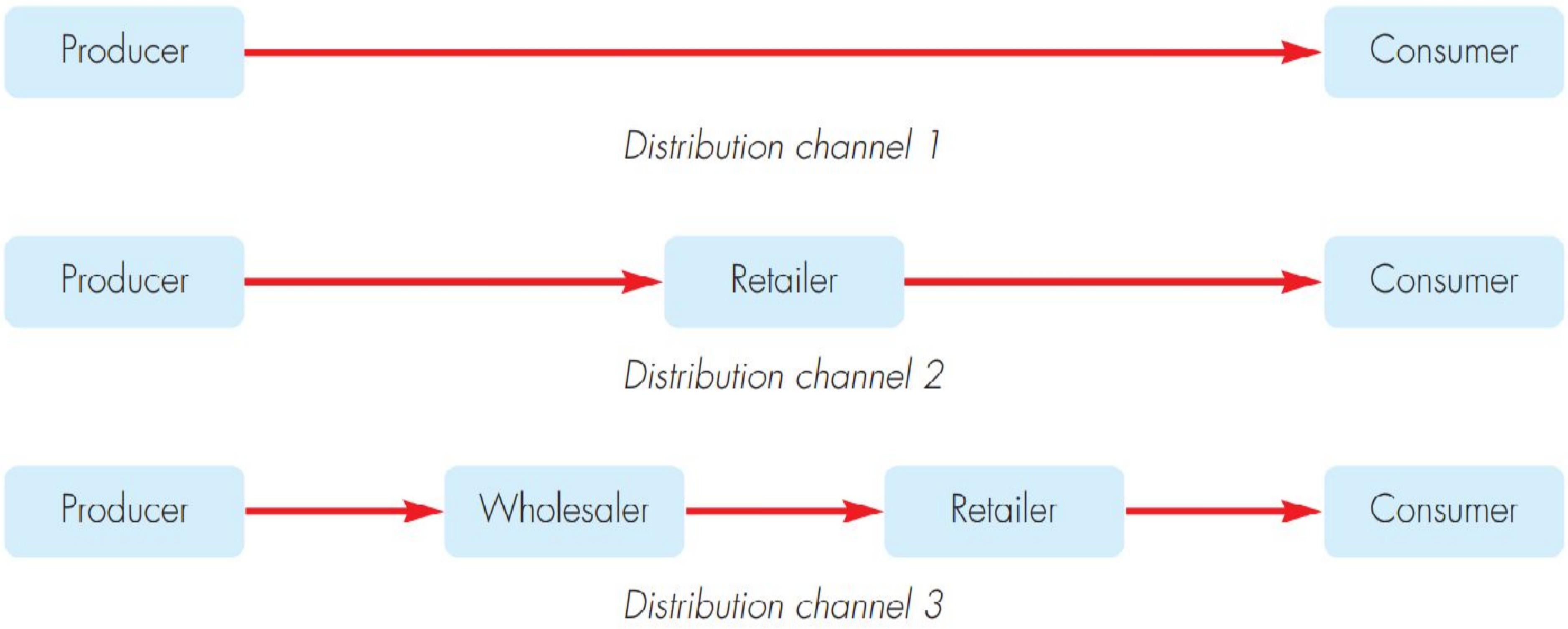
Cheapest, easy access, instant purchases. BUT, fierce competition, security issues

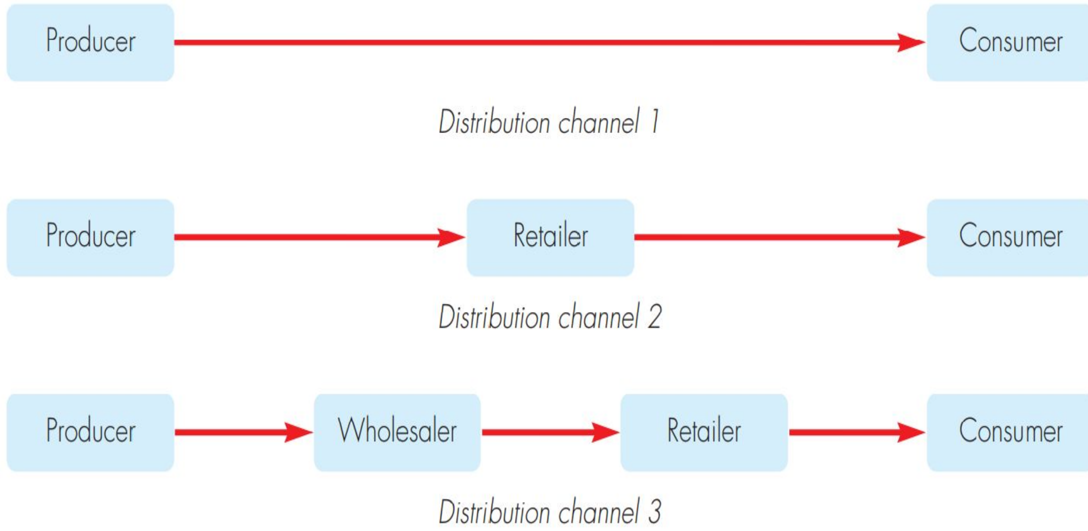
Promotions

- Price reductions
- Gifts
- Buy one and get one free
- Competitions
- Free samples
- After-sales service

PLACE AND DISTRIBUTION CHANNELS

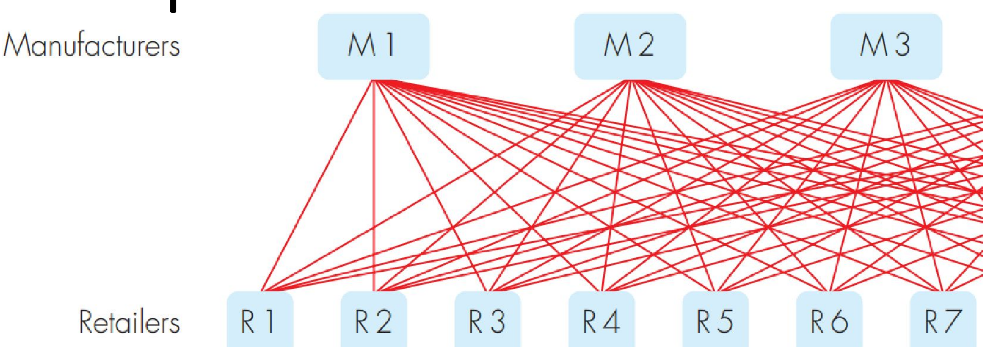
- A distribution channel is the means by which a product is passed from the place of production to the customer

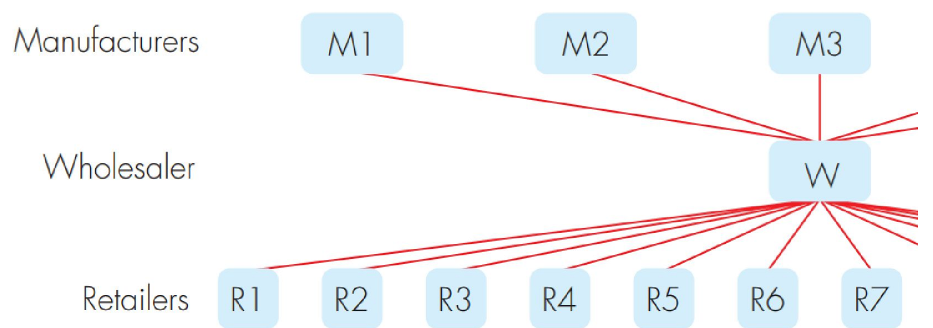




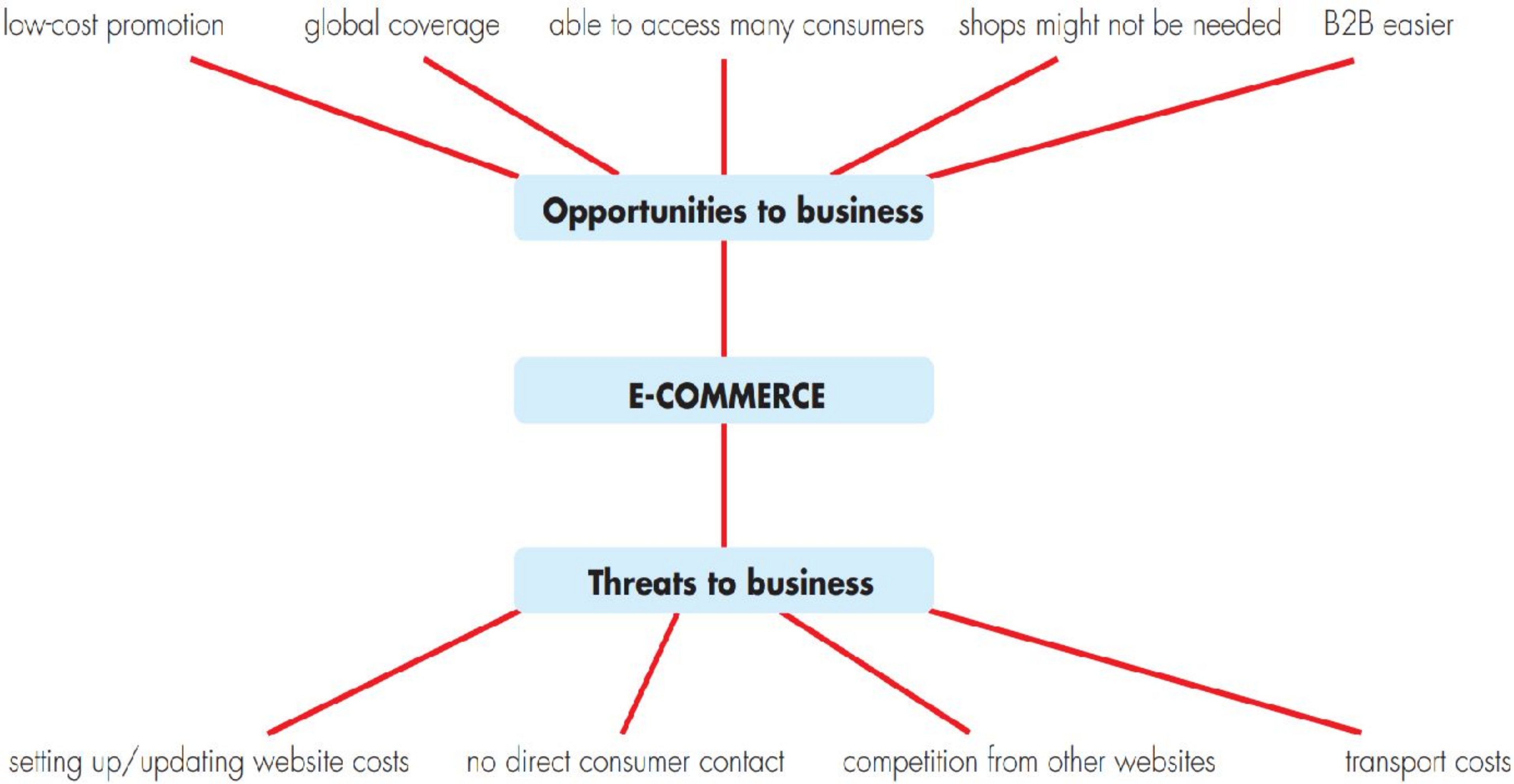
- Channel 1 (e.g. agriculture) allows highest profit margin, but may not be feasible in many cases

- Channel 2 (e.g. Amazon, Alibaba, Walmart): producer sells directly to outlet, a retailer in large volumes
- Channel 3: producer sells to the wholesaler to further sell the product to smaller retailers





E-COMMERCE


low-cost promotion
global coverage
able to access many consumers
shops might not be needed
B2B easier
Opportunities to business
E-COMMERCE
Threats to business
setting up/updating website costs
no direct consumer contact
competition from other websites
transport costs

E-COMMERCE CASE STUDY

Alibaba.com was formed in 1999 in China. It provided a market place for small businesses to sell their products. It has become a trusted source for online shopping and is now available not only in China but globally. More and more businesses use their products and it has encouraged an increasing number of customers to shop online.

- Why do you think customers like to shop on this website?
- What disadvantages might there be to businesses that use the website?

Reference list:

1) Borrington, K. and Stimpson, P. (2013). *Cambridge Igcse Business Studies*. 4th ed. London: Hodder Education, Ch. 12-15