



CHAPTER 6

The Marketing Program



The Marketing Program

- **Marketing Program**
 - *The strategic combination of the four marketing mix elements*
 - *The product receives the most attention because it is most responsible for fulfilling the customers' needs and wants.*
- **Involves creating an offering that is an array of physical (tangible), service (intangible), and symbolic (perceptual) attributes designed to satisfy customers' needs and wants**
- **Due to commoditization, the core product typically becomes incapable of differentiating the offering.**
- **Most organizations work to enhance the service and symbolic elements of their offerings to stand out in a crowded market.**
 - *Typically done by changing price, distribution, or promotion.*

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Product Strategy

- Defines what the organization does and why it exists
- A product offering's real value comes from its ability to deliver benefits that enhance a customer's situation or solve a customer's problems.
- Products fall into two general categories
 - *Consumer products – for personal use and enjoyment*
 - *Business products – for resale, use in making other products, or use in a firm's operations*

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Types of Consumer Products (Exhibit 6.1)

- Convenience Products
- Shopping Products
- Specialty Products
- Unsought Products

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The Product Portfolio

- **Product Line**
 - *A group of closely related product items*
- **Product Mix or Portfolio**
 - *The total group of products offered by the firm*
- **Strategic Decisions**
 - *Variety – number of product lines offered*
 - *Assortment – depth of each product line*

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P&G's Portfolio of Household Care Products (Exhibit 6.2)

	Product Mix Width (Variety)					
	Dish Washing	Household Cleaners	Batteries	Laundry and Fabric Care	Paper Products	Snacks
Product Mix	Ariel	Mr. Clean	Duracell	Tide	Charmin	Pringles
Depth (Assortment)	Dawn	Bounty		Cheer	Bounty	
	Cascade	Swiffer		Bounce	Puffs	
				Gain		
				Downy		
				Dreft		
				Era		
				Febreze		
				Bold		
				Ace		

Source: From the Procter & Gamble website (http://www.pg.com/en_US/brands/household_care/index.shtml), accessed May 17, 2012.

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Potential Benefits of Offering a Large Product Portfolio

- Economies of Scale
- Package Uniformity
- Standardization
- Sales and Distribution Efficiency
- Equivalent Quality Beliefs

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Consider the number of product choices available in the Vietnam consumer market. In virtually every product category, consumers have many options to fulfill their needs.

- Are all of these options really necessary? Is having this many choices a good thing for consumers? Why or why not?
- Is it a good thing for marketers and retailers that have to support and carry all of these product choices? Why or why not?

DISCUSSION QUESTIONS

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The Challenges of Service Products

- Balancing supply (capacity) with demand
- Time and place dependency of demand
- Difficulty of evaluating service quality prior to purchase
- Inconsistency of service quality

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Unique Characteristics of Services (Exhibit 6.3)

- Intangibility
- Simultaneous Production and Consumption
- Perishability
- Heterogeneity
- Client-Based Relationships

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Developing New Products

- A vital part of a firm's effort to sustain growth and profits
- Depends on the firm's ability to create a differential advantage for the new product
- Customer *perception* of newness is critical

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Strategic Options for Newness of a Product

- New-to-the-World Products (Discontinuous Innovations)
- New Product Lines
- Product Line Extensions
- Improvements or Revisions of Existing Products
- Repositioning
- Cost Reductions

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New Product Development Process

- Idea Generation
- Screening and Evaluation
- Development
- Test Marketing
- Commercialization

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Pricing Strategy

- Is a key factor in producing revenue for the firm
- Is the easiest of all marketing variables to change
- Is an important consideration in competitive intelligence
- Is considered to be the only real means of differentiation in highly commoditized markets

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Key Issues in Pricing Strategy

- The Firm's Cost Structure
- Perceived Value
- The Price/Revenue Relationship
- Pricing Objectives
- Price Elasticity

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The Firm's Cost Structure

- Breakeven in Units

$$\frac{\text{Total Fixed Costs}}{\text{Unit Price} - \text{Unit Variable Costs}}$$

- Selling Price

$$\frac{\text{Average Unit Cost}}{1 - \text{Markup Percent (decimal)}}$$

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Perceived Value

- Value is a customer's subjective evaluation of benefits relative to costs to determine the worth of a firm's product offering relative to other product offerings.
 - *Benefits – everything the customer obtains from the offering*
 - *Costs – everything the customer must give up*
- Value is intricately tied to every element in the marketing program.

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The Price/Revenue Relationship

- **Myth #1** – When business is good, a price cut will capture greater market share.
- **Myth #2** – When business is bad, a price cut will stimulate sales.
- Price cutting is generally not in the best interests of the firm unless sales volume will increase.
- A better strategy is to build value into the product offering at the same (or even a higher) price.

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Common Pricing Objectives (Exhibit 6.4)

Pricing Objectives	Description
Profit-Oriented	Designed to maximize price relative to competitors' prices, the product's perceived value, the firm's cost structure, and production efficiency. Profit objectives are typically based on a target return, rather than simple profit maximization.
Volume-Oriented	Sets prices in order to maximize dollar or unit sales volume. This objective sacrifices profit margin in favor of high product turnover.
Market Demand	Sets prices in accordance with customer expectations and specific buying situations. This objective is often known as "charging what the market will bear."
Market Share	Designed to increase or maintain market share regardless of fluctuations in industry sales. Market share objectives are often used in the maturity stage of the product life cycle.
Cash Flow	Designed to maximize the recovery of cash as quickly as possible. This objective is useful when a firm has a cash emergency or when the product life cycle is expected to be quite short.
Competitive Matching	Designed to match or beat competitors' prices. The goal is to maintain the perception of good value relative to the competition.
Prestige	Sets high prices that are consistent with a prestige or high status product. Prices are set with little regard for the firm's cost structure or the competition.
Status Quo	Maintains current prices in an effort to sustain a position relative to the competition.

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Price Elasticity

- Refers to customers' sensitivity to changes in price
- The relative impact on the demand for a product, given specific increases or decreases in the price charged for that product
- Perhaps the most important overall consideration in setting effective prices.

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Pricing Service Products

- Service pricing is critical because price may be the only cue to quality in advance of purchase.
- Service pricing becomes more important and difficult when:
 - *Service quality is hard to detect prior to purchase*
 - *Costs are difficult to determine*
 - *Customers are unfamiliar with the service process*
 - *Brand names are not well established*
 - *Customers can perform the service themselves*
 - *Advertising within the service category is limited*
 - *The total price of the service is difficult to state beforehand*

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Pricing strategy associated with services is typically more complex than the pricing of tangible goods. As a consumer, what pricing issues do you consider when purchasing services? How difficult is it to compare prices among competing services, or to determine the complete price of the service before purchase? What could service providers do to solve these issues?

DISCUSSION QUESTIONS

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Base Pricing Strategies

- Price Skimming
- Price Penetration
- Prestige Pricing
- Value-Based Pricing (EDLP)
- Competitive Matching
- Non-Price Strategies

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Adjusting the Base Price

- Discounting
- Reference Pricing
- Price Lining
- Odd Pricing
- Price Bundling

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Pricing Strategies in Business Markets

■ Adjusting Prices in Business Markets

- *Trade discounts*
- *Discounts and allowances*
- *Geographic pricing*
- *Transfer pricing*
- *Barter and countertrade*
- *Price discrimination*

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Supply Chain Strategy

■ Marketing Channels

- *An organized system of marketing institutions through which products, resources, information, funds, and/or product ownership flow from the point of production to the final user.*

■ Physical Distribution

- *Coordinating the flow of information and products among members of the channel to ensure that products are available in the right places, in the right quantities, at the right times, and in a cost-efficient manner.*

■ Supply Chain

- *The connection and integration of all members of the marketing channel*

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Supply Chain Integration

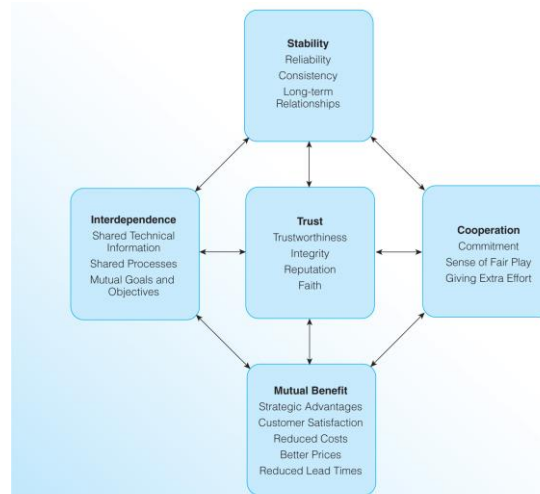
- **Connectivity**
 - *Informational and technological linkages among firms*
- **Community**
 - *Compatible goals and objectives among firms*
- **Collaboration**
 - *Recognition of mutual independence among firms*
- **The most seamlessly integrated supply chains blur the boundaries between firms.**

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Factors in Successful Supply Chain Integration (Exhibit 6.6)



Source: Davis, Edward W.; Speckman, Robert E., *The Extended Enterprise: Gaining Competitive Advantage through Collaborative Supply Chains*, 1st ed., © 2004.

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Strategic Supply Chain Issues: Marketing Channel Functions

- Contact Efficiency
- Channel Functions
 - *Sorting*
 - *Breaking bulk*
 - *Maintaining inventories*
 - *Maintaining convenient locations*
 - *Provide services*
- All channel functions must be performed regardless of who does them

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Some manufacturers and retailers advertise that customers should buy from them because they “eliminate the middleman.” Evaluate this comment in light of the functions that must be performed in a marketing channel. Does a channel with fewer members always deliver products to customers at lower prices? Defend your position.

DISCUSSION QUESTIONS

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Strategic Supply Chain Issues: Marketing Channel Structure

- **Exclusive Distribution**
 - *Giving one merchant or outlet the sole right to sell a product within a defined geographic region*
- **Selective Distribution**
 - *Giving several merchants or outlets the right to sell a product within a defined geographic region*
- **Intensive Distribution**
 - *Making a product available in the maximum number of merchants or outlets to gain as much exposure and sales opportunities as possible*

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Strategic Supply Chain Issues: Power in the Supply Chain

- **The Basis of Conflict in the Supply Chain**
 - *Each firm is different, and has its own goals and objectives*
 - *Mutual interdependence goes against the natural tendency of firms to seek their own self-interests.*
- **Sources of Power in a Supply Chain**
 - *Legitimate power*
 - *Reward power*
 - *Coercive power*
 - *Information power*
 - *Referent power*

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Integrated Marketing Communications

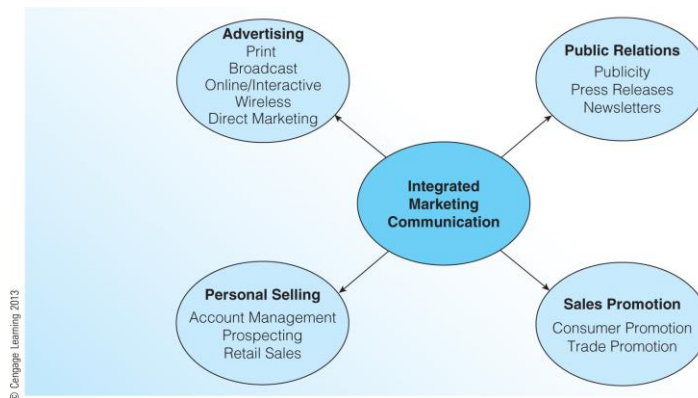
- **Integrated Marketing Communications (IMC)**
 - *The strategic, coordinated use of promotion to create one consistent message across multiple channels to ensure maximum persuasive impact on the firm's current and potential customers*
 - *Takes a 360-degree view of the customer*
- **The Importance of IMC**
 - *Foster's long-term relationships*
 - *Reduces or eliminates promotional redundancies*
 - *Technology allows better targeting of customers*

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Components of IMC Strategy (Exhibit 6.9)



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Strategic Issues in Integrated Marketing Communications

- IMC must have clear promotional goals and objectives
- The AIDA Model
 - *Attention*
 - *Interest*
 - *Desire*
 - *Action*
- Promotional Goals Regarding the Supply Chain
 - *Pull strategy – focus promotional efforts toward consumers*
 - *Push strategy – focus promotional efforts toward the supply chain*

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Review the steps in the AIDA model. In what ways has promotion affected you in various stages of this model?

Does promotion affect you differently based on the type of product in question? Does the price of the product (low versus high) make a difference in how promotion can affect your choices? Explain.

DISCUSSION QUESTIONS

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Advertising

- Can be used to reach a mass audience or a precisely defined market segment
- Very cost efficient when used to reach a mass audience
- Traditional mass audiences are fragmenting due to increasing media options
- Digital communication (Internet, mobile) is the fastest growing form of advertising.
- Traditional media (newspapers, radio, magazines) are struggling for relevance.

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Public Relations

- Corporate Affairs
 - *A collection of strategic activities aimed at marketing an organization, its issues, and its ideals to potential stakeholders (consumers, general public, shareholders, media, government, and so on).*
- Goal of Public Relations
 - *To track public attitudes, identify issues that may elicit public concern, and develop programs to create and maintain positive relationships between a firm and its stakeholders*
- Use of Public Relations
 - *To promote the firm, its people, its ideas, and its image*
 - *To create an internal shared understanding among employees*

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Public Relations Methods

- Publicity is a part of public relations, but is more narrowly focused on gaining media attention
- Public Relations Methods
 - *News (or Press) releases*
 - *Feature articles*
 - *White papers*
 - *Press conferences*
 - *Event sponsorship*
 - *Employee relations*

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Personal Selling and Sales Management

- Focused less on sales and more on developing long-term, personal relationships with buyers
- The most precise form of communication, but with very high cost per contact
- Has evolved to take on elements of customer service and marketing research
- The frontline knowledge held by the sales force is one of the most important assets of the firm.

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Sales Force Compensation Methods (Exhibit 6.12)

Method	Most Useful When:	Advantages	Disadvantages
Straight Salary	<ul style="list-style-type: none"> Salespeople are new Salespeople move into new territories Products require intense presale and postsale service 	<ul style="list-style-type: none"> Easy to administer Gives salespeople more security Greater control over salespeople More predictable selling expenses 	<ul style="list-style-type: none"> Little or no incentive for salespeople Salespeople require close supervision
Straight Commission	<ul style="list-style-type: none"> Aggressive selling is required Nonselling tasks can be minimized The firm outsources some selling functions 	<ul style="list-style-type: none"> Gives salespeople maximum incentive Ties selling expenses to sales volume Can use differential commissions for different products to boost sales 	<ul style="list-style-type: none"> Less security for salespeople Managers have less control over salespeople Small accounts may receive less service
Combination	<ul style="list-style-type: none"> Sales territories have similar sales potential The firm wants to provide incentive and still have some control 	<ul style="list-style-type: none"> Good balance of incentive and security for salespeople 	<ul style="list-style-type: none"> Selling expenses are less predictable May be difficult to administer

Source: Adapted from William M. Pride and O.C. Ferrell, *Marketing* (Mason, OH: South-Western: Cengage Learning, 2010), p. 530.

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Sales Promotion

- Accounts for the bulk of promotional spending in many firms
- Activities that create buyer incentives to purchase a product or that add value for the buyer or the trade
- Has one universal goal: to induce product trial and purchase
- Typically used to support other promotional activities rather than as a stand-alone promotional element

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Consumer and Trade Sales Promotion

■ Consumer Sales Promotion

- Coupons
- Rebates
- Samples
- Loyalty programs
- Point-of-purchase
- Premiums
- Contests and sweepstakes
- Direct mail

■ Business (Trade) Sales Promotion

- Trade allowances
- Free merchandise
- Cooperative advertising
- Training assistance and sales incentives

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CHAPTER 6

End!

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