BLUES

EUROPEAN ENTREPRENEURSHIP EXPERIENCE

Blended-learning international entrepreneurship skills programme

Co-funded by the Erasmus+ Programme of the European Union

MODULE 5

TOPIC 3

DEFINING THE STRATEGY TO REACH THE MARKET: MARKETING MIX

1. Pricing

Pricing: definition

Price is the amount of money charged for the product. In other words, it is the sum that consumers exchange for the benefits of having or using the product.

Formally, the price represents the monetary expression of the value and is given by the ratio between the amount of money transferred by the customer and the quantity of goods sold by the seller.

In the customer’s perspective, the price is given by the ratio between total costs (monetary and non-monetary) paid by the customer and total benefits (tangible and intangible) provided by the product.

The role of pricing decisions

While all other marketing activities generate costs, the price is the only component of the marketing-mix which generates revenue. For this reason, the price directly determines the profitability of the company.

Pricing influences the global perception of the product or brand contributing to the positioning in the mind of potential customers.

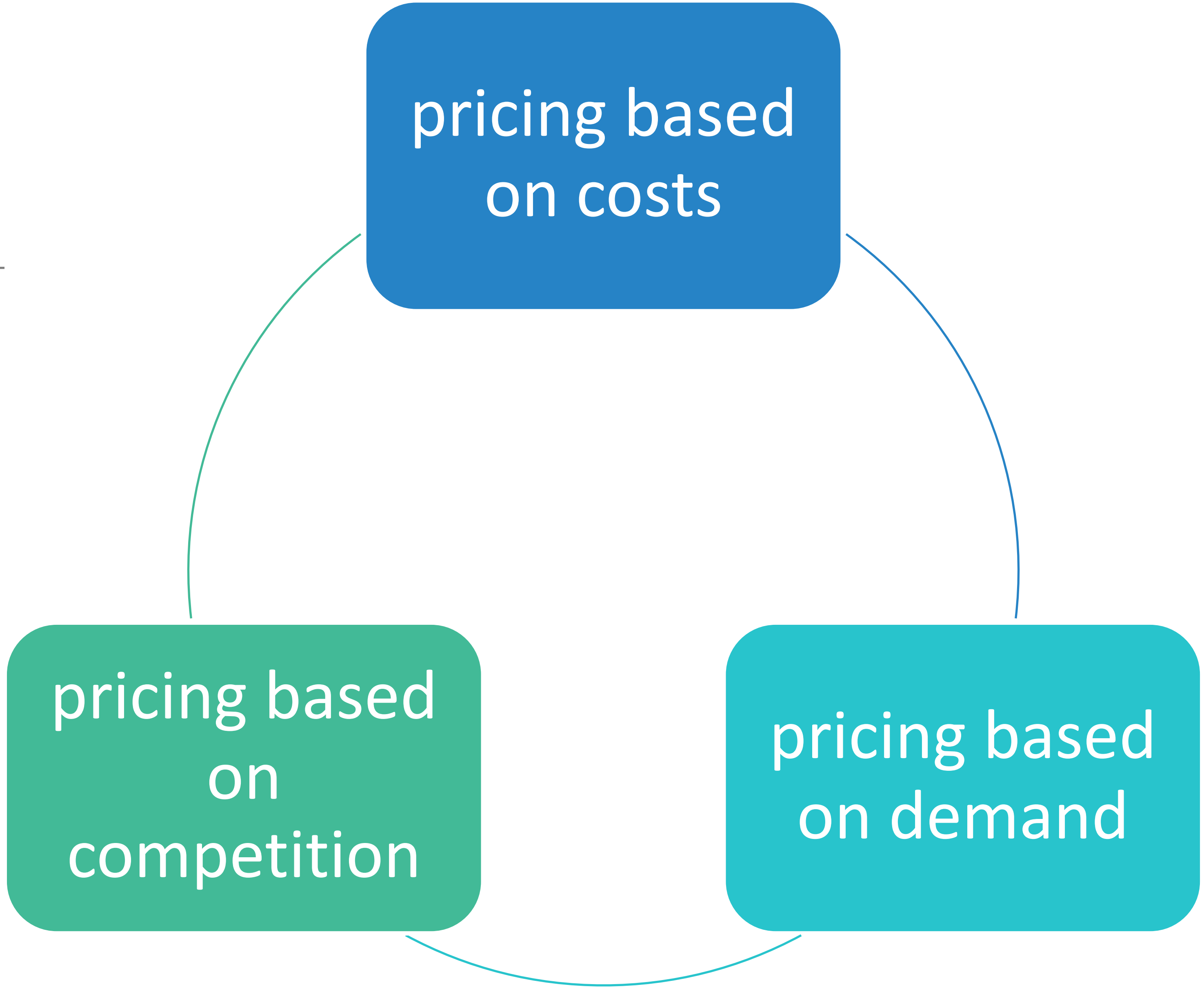
The price is an element which facilitates the comparison between products or competing brands.

The price directly influences the level of demand and determines the level of activity.

Pricing must be consistent with other components of the marketing-mix.

Pricing methods

There are three methods to define the price of a product



1. Pricing based on costs

Prices are determined by considering cost or profit constraints without explicit reference to market factors.

01

Floor price which is the minimum price corresponding to variable costs, also called out-of-pocket costs.

02

Break-even price which corresponds to the price at which fixed costs and variable costs are covered, given a certain level of sales.

03

Mark-up price which is obtained by adding percentage mark-up to the technical price.

2. Pricing based on demand

Existence of two different approaches

The **price elasticity**: it measures the price sensitivity of consumer and it is given by the ratio between the percentage variation of the quantity sold and the percentage variation of price.

The **perceived value** of the product by consumers: the method is based on the concept of product as a basket of attributes and the score of the perceived value is calculated starting from the weight of most important tangible and intangible attributes, as perceived by consumers.

3. Pricing based on competition

The enterprise bases its price on the prices of competitors with less attention paid to its costs or to demand. This depends on the market conditions:

Monopoly or differentiated oligopoly	Monopolistic competition	Undifferentiated oligopoly	Perfect competition
Price based on perceived value	Price based on perceived value	Price alignment or price leadership	Market price

2. Communication

Communication: definition

It is the message that an enterprise decides to convey to its market. It is not enough developing a good product, pricing it attractively, and making it available to target customers. Companies must also communicate with their customers!

The reason is simple: viewing communications as the management of the customer buying process over time – that is from pre-selling, through selling, to consuming and post-consumption stages.

The role of communication

01

Creating and maintaining links between the partners involved in the purchasing process.

02

Provide information on exchange and innovations.

03

Positively influence the partners participating in the exchange process.

04

Fight and remove competitors.

The communication-mix

Set of signals addressed by the company to the various audiences: customers, distributors, suppliers, shareholders, public institutions, as well as those transmitted by the company to its employees.

- Advertising
- Sales promotion
- Public relations
- Personal selling

1. Advertising (1)

Definition

Any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor using print media (newspapers, magazines, direct mail), broadcast media (radio, television) and display media (billboards, posters)

Advertising is one way, or one-sided communication, a standardized message, received from different audiences, coming from a well identified advertiser, designed to create a positive attitude, and not so much response behavior, and that has a low cost per contact.

1. Advertising (2)

Aims of advertising communication (sequential level of market response)	**Cognitive response** (learning). The notoriety and the knowledge of the product characteristics: aims as information, memory, recognition and familiarity.
	Affective response (feeling). The evaluation of the brand in terms of feelings, favourable or adverse opinions and preferences: aims are influencing the attitude and creating the intention to purchase.
	Behaviour response (action). Purchase behaviour after the purchase: aims are visiting to the showroom, returning of coupons, requesting for a catalogue, etc.

1. Advertising (3)

Kinds of advertising

Image advertising: communication with an affective goal. It aims at changing the customer's attitude towards the brand.

Promotional advertising: communication with a behavioral goal. It tends to influence purchasing behavior (stimulate short-term purchases and effectiveness correlated to sales).

Interactive advertising: personalized advertising message that aims at building a business relationship.

2. Sales promotion (1)

Short-term incentives to encourage the purchase or sale of a product.

- Incentives designed to stimulate a response in terms of sales.
- Temporary and / or local nature to support sellers and distributors.
- Traffic creation in the distribution network.
- Reinforcement of the role of advertising and personal sales.
- Self-destructive tool if used too frequently.

2. Sales promotion (2)

Promotional techniques

Price reductions. Sell the same product at a lower price.

Sales with awards and gifts. Small items are offered to the buyer at the time of purchase or later.

Tests and samples. Free distribution, tests or tastings of the product.

Games and competitions. Give to the customer the chance to win an important award.

3. Public relations (1)

Building good relations with the various publics of the company by obtaining favourable publicity, building up a good corporate image, and handling or heading off unfavourable rumours, stories and events.

An institutional or business communication to different public to gain moral support and acceptance and taking the form of a soft communication that tries to have an impact mainly on the attitude.

3. Public relations (2)

Tools of public relations

Company information (main contracts, R&D results, mergers or acquisitions, etc.).

Publications (annual reports, house journals, catalogs, website, etc.).

Events and special occasions (company visits, concerts, open days, training for distributors, etc.).

Patronage (support for causes of general interest).

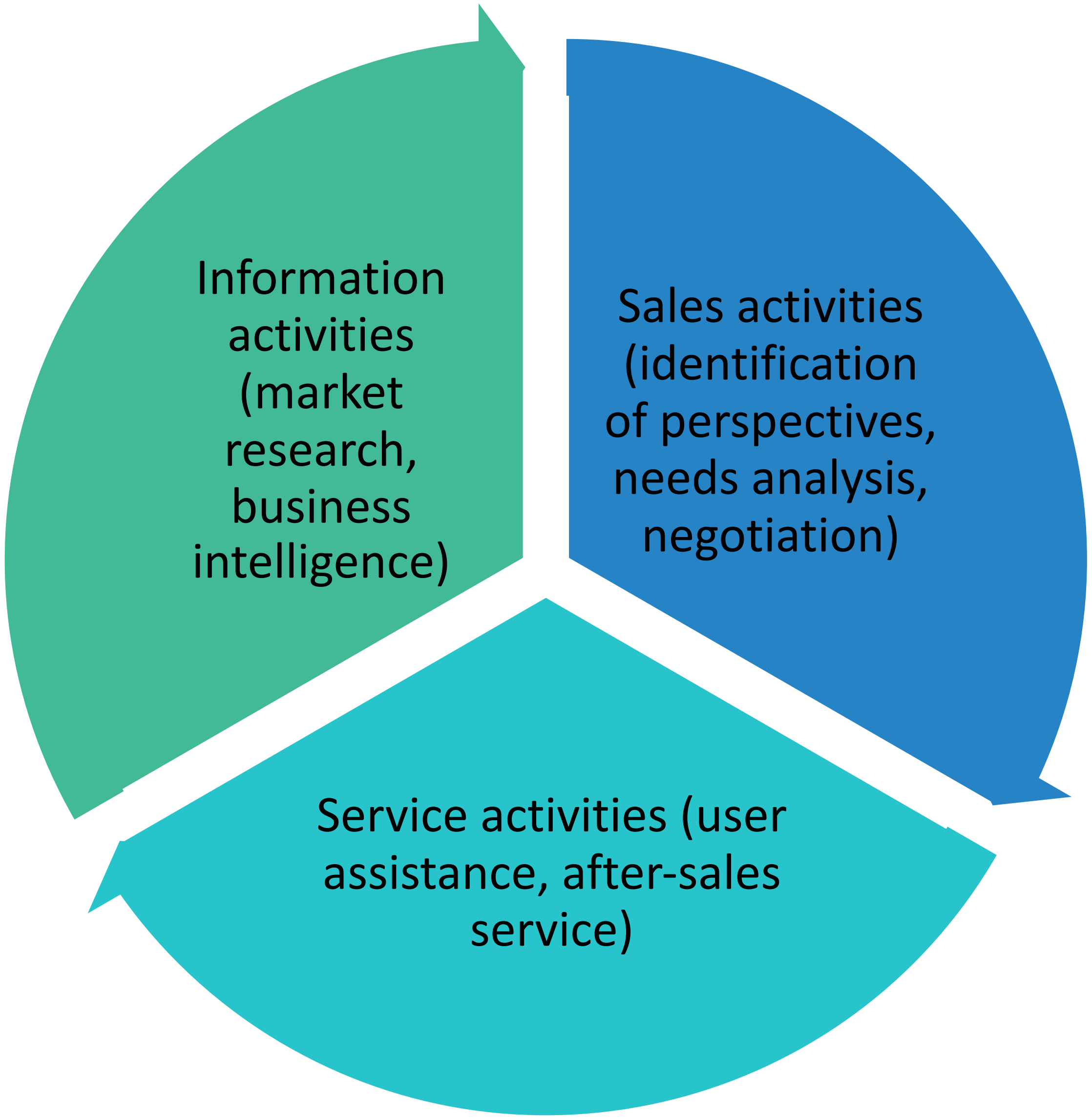
4. Personal selling (1)

Oral presentation in a conversation with one or more prospective consumers for the purpose of making sales and building customer relationships.

A personal contact, a verbal contact that represents a dialogue, a tailor-made message, that has the function of acquiring information, designed to generate an answer, at a very high cost per contact.

4. Personal selling (2)

Roles and tasks of the seller



3. Retailing channels

The economic role of distribution (1)

Organizing the competitive exchange from a physical point of view to ensure an efficient match between the supply and demand for goods and services.

Transfer goods from the place of production to the place of consumption.

Create the added value of the distribution, generating three types of utilities:

- utility of state (fragmentation, packaging, assortment)
- utility of place (transport, geographical location)
- time utility (storage)

The economic role of distribution (2)

Distribution plays an important role in making products or services available to customers. Channel members ensure the transfer of several entities; the physical product, ownership, money or payment, information and promotion.

As specified by Kotler et al. "*the question is not whether these functions need to be performed, but rather who is to perform them. The producer can eliminate or substitute institutions in the channel system, but the functions cannot be eliminated. When channel members are eliminated, their functions are moved either forwards or backwards in the channel, only to be assumed by other members. In short, the producers can do without intermediaries, but they cannot eliminate their functions*".

The distribution channel (1)

Kotler et al. define the distribution channel as "*a set of interdependent organizations involved in the process of making a product available for use or consumption by the consumer or business user*".

In other words, the channel of distribution is all those organizations through which a product must pass between its point of production and consumption.

Lambin provides the following definition "*distribution channel is a structure formed by independent partners that make goods and services available to consumers or industrial customers*".

The distribution channel (2)

In addition to the producer and the consumer, the distribution channel consists of independent operators.

Among these there are the **wholesalers** that perform the following functions: purchase on own account, storage and sale of products to retailers or professional users.

There are then **retailers** who sell directly to end consumers, and which can be distinguished according to the activity performed (food, specialized and artisans), service provided (self-service or full service), operating mode (reduced margin / intense rotation or high margin / slow rotation).

The distribution channel (3)

There are also:

The **integrated distribution** consisting of department store, chain stores, popular warehouses, supermarkets (one-stop shopping), presenting the following characteristics:

Wide assortment, Low purchase price (contract power), Reduced margin and low selling price, Dynamic promotional policy, Economies of scale, Long-term payment

Agents and Intermediaries

Service company

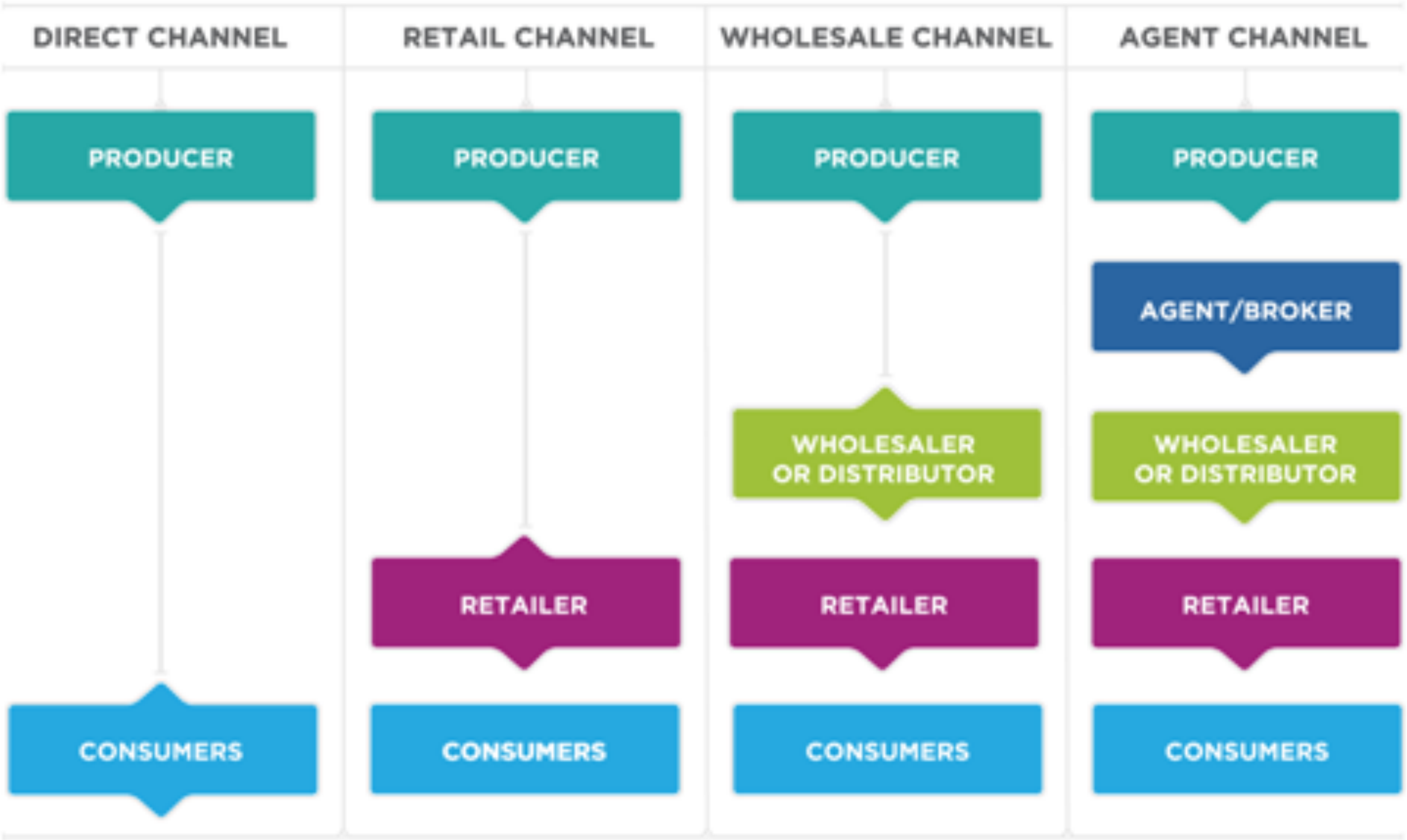
The distribution channel (4)

The number of intermediary levels indicates the length of a channel. It is possible to distinguish:

Direct-marketing channel, has no intermediary levels. It consists of a manufacturer selling directly to consumers.

Indirect-marketing channels. There could be only one intermediary level (in consumer markets, this level is typically a retailer) or two or more intermediary levels (as in the case of wholesaler and retailer).

The distribution channel (4)



Market coverage strategies

Companies has to decide how extensive their market coverage should be and, therefore, the number of channel members to use at each level. Three strategies are available:

intensive distribution: stocking the product in many outlets as possible;

exclusive distribution: giving a limited number of dealer the exclusive right to distribute the company's products in their territories;

selective distribution: the use of more than one, but fewer than all of the intermediaries that are willing to carry the company's products.

Communication strategies to intermediaries

As highlighted by Kotler et al., the kind of communication or relation between the enterprise and the distributor are the following

Push strategy. A promotion strategy that calls for using the sales force and trade promotion to push the product through channels. The producer promotes the product to wholesalers, the wholesalers promote lo retailers, and the retailers promote to consumers

Pull strategy. A promotion strategy that calls for spending a lot on advertising and consumer promotion lo build up consumer demand. If the strategy is successful, consumers will ask their retailers for the product, the retailers will ask the wholesalers, and the wholesalers will ask the producers.

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