Chapter 9
Product and Services strategy

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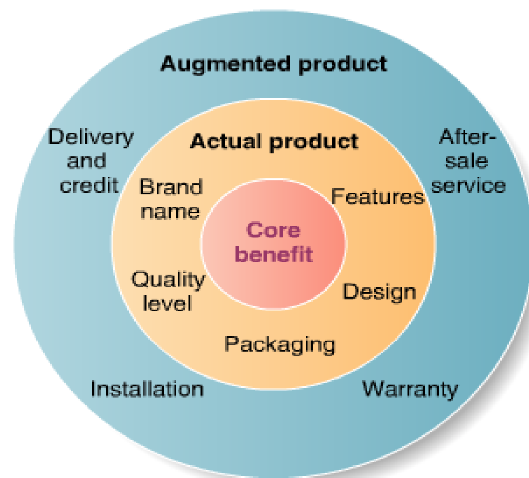
What is a product?

- **Product**: Anything offered to a market for attention, acquisition, use, or consumption that might satisfy a need or want.
- **Service**: Any activity or benefit that one party can offer to another that is essentially intangible and does not result in ownership of anything.

- Products, Services, and Experiences:

Market offerings, **product** - tangible goods - (soap, toothpaste), **services** – intangible - (financial services), **experiences** – memorable - .



- Levels of Product and Services:

Core benefit, actual product, and augmented product.

- The most basic level is the core benefit, which addresses the question: what is the buyer really buying?
- Product planners must turn the core benefit into an actual product.
- Product planners must build an augmented product around the core benefit and actual product by offering additional consumer services and benefits.

- Product and Service Classifications:

❖ **Consumer product**: are product and services bought by final consumers for personal consumption.

Convenience product: customer usually buys frequently, immediately and with a minimum of comparison and buying efforts. **Convenience product** usually low priced and market placed them in many locations. (Soap, candy, newspaper)

Shopping products: Less frequent purchases requiring more shopping effort and price, quality, and style comparisons. Higher than convenience good pricing. Selective distribution in fewer outlets. Advertising and personal selling by producer and reseller. (Major appliances, TV's, furniture, clothing).

Specialty product: Strong brand preference and loyalty, requires special purchase effort, little brand comparisons, and low price sensitivity. High price. Exclusive distribution. Carefully targeted promotion by producers and resellers. (Specific brands and types of cars, high-priced photographic equipment)

Unsought products: Little product awareness and knowledge (or if aware, sometimes negative interest). Pricing varies. Distribution varies. Aggressive advertising and personal selling by producers and resellers. (Life insurance, cemetery plots)

❖ **Industrial Products**: products bought by individuals and organizations for further processing or for use in conducting a business.

- *Materials and parts* include raw materials and manufactured materials and parts.
- *Capital items:* are industrial products that aid in the buyer's production or operations including installations and accessory equipment.
- *Supplies and services:* include operating supplies (paper, pencils) and repair and maintenance items (paint, nails, brooms)

❖ **Organizations, persons, places, and ideas:**

- *Organizational marketing* makes use of corporate image advertising.
- Person marketing applies to political candidates; entertainment sports figures, and professionals.
- *Place marketing* relates to tourism.
- *Social marketing* campaigns promote ideas.

Product and Service Decisions:

- Individual product and service decisions:

  - **Branding:** is a name, term, sign, symbol, or design that identifies the market or seller of a product or service.
    - Branding can add value to a product.
    - Branding has become so strong.
    - Branding helps buyers in many ways.
    - Branding also gives seller several advantages.
    - Building and managing brands is perhaps the marketer's most important task.

  - **Packaging:** the activities of designing and producing the container or wrapper for product.
    - The primary function of the package was to contain and protect the product.
    - Important marketing tool.
    - Attracting attention.
    - Describing the product.

  - **Labeling:**
    - Part of the package.
    - Identifies he product.
    - Describe several things about the product.
    - Unit price.
    - Open dating.
    - Nutritional labeling.

- Product Line decisions:

A product line: is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges.

- *Product line length:* the line is too short if the manger can increase profit by adding items; the line is too long if the manger can increase profit by dropping items.
- *Line stretching:* adding products that are higher or lower priced than the existing line.
- *Line filling*: adding more items within the present price range.

- Product mix decisions:

Product mix (or product assortment): the set of all product lines and items that a particular seller offers for sale.

A company's product mix has 4 important dimensions:

- *Width*: the number of different product lines in the company carries.
- *Length*: the total number of items the company carries within the product line.
- *Depth*: the number of version offered of each product in the line.
- *Consistency*: how closely related the various product lines are in end use, production requirements, or other way.

Branding strategy:

- Brand equity:

Brand equity: is the positive differential effect that knowing the brand name has on customer response to product or service.

- Brands are powerful assets that must be carefully developed / managed.
- Brands with strong equity have many competitive advantages:
    - High consumer awareness
    - Strong brand loyalty
    - Helps when introducing new products
    - Less susceptible to price competition

    - *Brand valuation* is the process of estimating the total financial value of a brand.
    - *Customer equity* the value of the customer relationship that the brand creates.

Brand Name \ Product Category	Existing	New
Existing	Line extension	Brand extension
New	Multibrands	New brands

- Brand development:
- **Line extensions** occur when a company introduces additional items in a given product category under the same brand name, such as new flavors, forms, colors, ingredients or package size.
    - Minor changes to existing products

- **Brand extensions** involve the use of a successful brand name to launch new or modified products in a new category.
    - Successful brand names help introduce new products

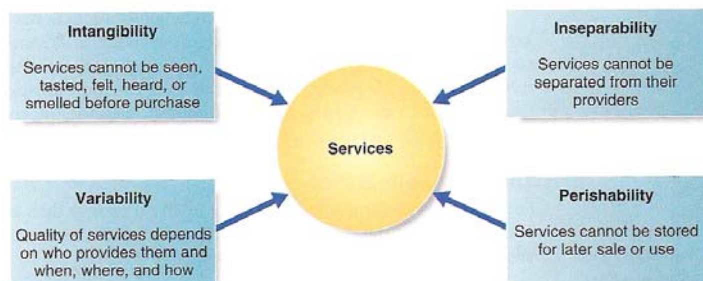
- **Multibrands** companies often introduce additional brands in the same category. multibranding offers a way to establish different features and appeal to different buying motives
    - Multiple product entries in a product category

- **New brands** a company may create a new brand name when it enters a new product category for which none of the company's current brand names is appropriate.
    - New product category

Services marketing:

- *Governments* offer service through courts, employment services, hospitals, police and fire department.
- *Not-for-profit organization* offer services through museums, colleges and hospitals.
- *Business organizations* offer service trough airlines, banks, hotels and firms.

- The nature and characteristics of a service :
    - **Intangibility** means that services cannot be seen, tasted, felt or smelled before they are bought.
        - *Consumers look for service quality signals*
    - **Inseparability** means that the service cannot be separated from their providers, whether the providers are people or machines.
        - *Services can't be separated from providers*
    - **Variability** means that the quality of services depends on who provides them as well as when, where, and how they are provided.
        - *Employees and other factors result in variability*
    - **Perishability** means that services cannot be stored for later sale or use.
        - *Services can't be inventoried for later sale*



- Marketing strategies for service firms :

  - **The service-profit chain:** the chain that links service firm profits with employee and customer satisfaction. this chain consists of 5 links:
    - Internal service quality:
      - Employee selection and training.
      - Quality work environment.
      - Strong support for there dealing with customer.
    - Satisfied and productive:
      - More satisfied, loyal, and hardworking employee.
    - Greater service value:
      - More effective and efficient customer value.
    - Satisfied and loyal customers:
      - Loyal, satisfied, repeat purchase.
    - Healthy service profit and growth:
      - Superior firm performance.

Internal marketing: marketing by service firm to train and effectively motivate its customer contact employees and all the supporting service people to work as a team to provide customer satisfaction.

Interactive marketing: marketing by a service firm that recognizes that perceived service quality depends heavily on the quality of buyer-seller interaction

- **Managing service differentiation:**
- **Managing service quality:**
- **Managing service productivity:**

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Chapter 10
New product development and product life-cycle strategies

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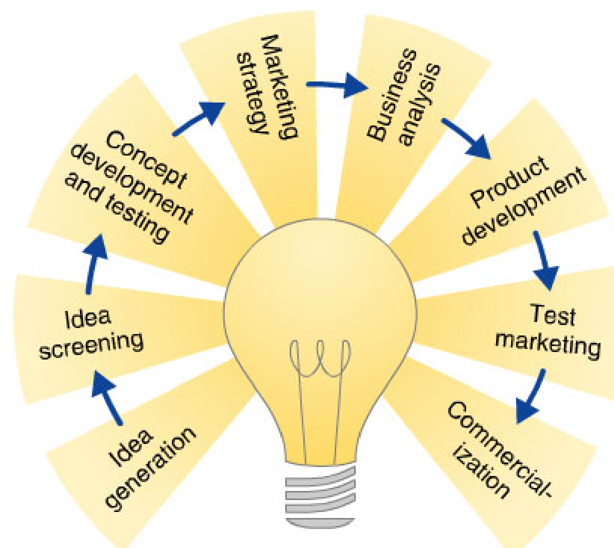
New-Product Development Strategy:

- **New product development**: the development of original product, product improvements, product modifications, and new brands through the firm's own R&D efforts.
- Innovation can be very risky.
- Why do products fail?
  - Over estimation of the market.
  - Poorly designed product.
  - Price is too high.
  - Poor promotion.
  - Product may have been brunched at the wrong time.
  - The lunch of a new product can go way over budget.
  - Poor R&D.
  - Poor posting in the market.

- The best thing to do is to study successful products and find out why are they so successful.
- If products are to be successful it is necessary to understand customers, market and competitors.
- Then it is necessary to develop a product which will offer superior service to the customer.
- There must be strong product planning and a strong systematic development process.



- ## Idea Generation:
- The systematic search for new-product ideas.
- Major sources of new product ideas include internal sources and external sources.

❖ Internal Idea Sources:

  - R & S
  - Executives, sales people, engineers, manufacturing staff.

❖ External Idea Sources:

  - Watching and listening to customers.
  - Engineers and sales people can work side by side with the customers to get ideas.
  - The company can conduct surveys of focus groups.
  - Customers can sometimes decide are what products they need
  - However it's not always a good idea to rely too heavily on customers, they may not know what they need.
  - Competitors are another good source for new product idea.
  - Distributors, suppliers and resellers contribute many good new product ideas.
  - Trade magazines, shows, seminars; government agencies; new product consultants; advertising agencies; marketing research firms; university.
  - Top management can avoid the problems by installing an *idea management system* that directs the flow of the new product ideas to a central point where they can be collected, reviewed and evaluated.
    - Appoint a respected senior person to be the company's idea manger.
    - Create a cross-functional management team who will give ideas.
    - Set up a web site where people can send new ideas to management.
    - Encourage all company stakeholders, employees, suppliers and dealers to send their ideas to the idea manager.
    - Set up formal recognition programs to reward those who contribute the best new ideas.
  - Setting up this system had advantages:
    - Helps create an innovation oriented company culture.
    - Shows that top management supports and rewards innovation.
    - It will yield a larger number of ideas, among which will be found some especially good ones.

- **Idea screening:**

Screening new-product ideas in order to spot good ideas and drop poor ones as soon as possible.

- The purpose of the succeeding stage is to reduce the number of the ideas.
- The company wants to go ahead only with the produce ideas that will turn into profitable products.

- **Concept development and testing:**

Product concept: a detailed version of the new product idea stated in meaningful consumer terms.
It is important to distinguish between a product idea, a product concept, and a product image.

- *Product idea*: is an idea for a possible product that the company can see itself offering to the market.
- *Product concept*: is a detailed version of the new product idea stated in meaningful consumer terms.
- *Product image*: is the way consumers perceive an actual or potential product.

- **Concept Testing**: testing new product concepts with a group of target consumers to find out if the concepts have strong consumer appeal.

- Product concepts provide detailed versions of new product ideas.
- Concept tests ask target consumers to evaluate product concepts.

- **Marketing Strategy Development:**

Designing an initial marketing strategy for a new product based on the product concept.

The *marketing strategy statement* consists of 3 parts:

- Describes the target market.
- The planned product positioning.
- The sales, market share and planned profit revenues for the first four years.

- **Business Analysis:**

A review of the sales, costs, and profit projections for a new product to find out whether these factors satisfy the company's objectives.

- ## Product Development:

Here the product is developed into a physical product in order to ensure that the product idea can be turned into a workable product.

- Develop the concept into an actual product.
- There is a lot of investment involved
- The R&D departments are heavily involved.
- At this stage we can see whether the idea can be turned into a workable product.
- The objective of R&D is to develop a product quickly at reasonable costs which will satisfy the need of consumer.
- Only one or few product are developed and tasted at this stage.

- ## Test Marketing:

The stage of new product development in which the product and marketing program are tested in more realistic market settings.
It lets the company test the product and its entire marketing program-posting strategy, advertising, distribution, pricing and budget levels.

❖ Standard Test Markets:

- The company markets the product with its full marketing programs in a *few test cities*.
- The company use information for the store, consumer, and distributors about the product.
- This information can be used to forecast sales and profit.
- It is time consuming.
- It's costly.
- Competitors can monitor test market results or even interfere with them by cutting their price in test cities and increasing their promotion.
- It gives competitors a chance to see the new product before it is lunched full scale.

❖ Controlled Test Markets:

Is a name, term, sign, symbol, or design that identifies the market or seller of a product or service.

- Several research firms keep controlled panels of stores that have agreed to carry new products for a fee.
- A controlled panel of stores agrees to keep new product for test marketing.
- Detailed scanner information on each consumer's purchases into a central computer.
- Controlled test marketing costs less than standard test marketing and is faster.

- **Simulated Test Markets:**
  - Companies can also test new product in a simulated shopping environment.
  - Here ads and promotions of new product are shown to a sample of consumers.
  - They decide which products they will buy.
  - They are given a certain amount of money and taken to a laboratory are store where they can purchase a product.
  - This cost less, is faster and is out of the view of competitors.

- **Commercialization**:

Commercialization: introducing a new product into the market.

- If the company goes ahead with commercialization, it will face high costs.
- The company must decide on introduction *timing*.
- The company must decide *where* to lunch the new product.
- They will develop a planned market *rollout* over time.

- **Organizing for new product development:**

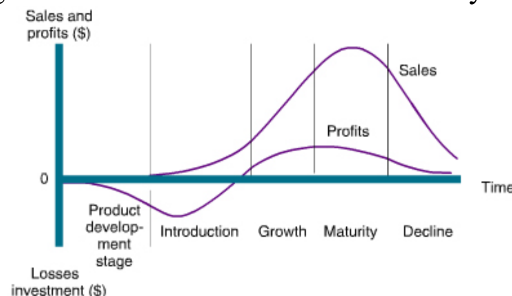
Sequential product development: a new product development approach in which one company department works to complete its stage of the process before passing the new product along to the next department and stage.

- Step by step process
- Can help bring control to complex and risky projects.
- Company departments work closely together_overlapping the steps in the product development to save time and increases effectiveness.

Product Life-Cycle Strategies:

The product life cycle have 5 distinct stages:

1) *Product development*: begins when the company finds a new product idea. Sales are 0 and investment costs mount.
2) *Introduction*: slow sales growth. Profits are nonexistent. Heavy expenses of product introduction.
3) *Growth*: rapid market acceptance. Increasing profits.
4) *Maturity*: period of slowdown in sales growth. Profits level off or decline.
5) *Decline*: sales fall of and profits drop.



Some product die quickly; others stay in the mature stage for a long time.

- **Product classes** have the longest life cycle, the sales stay in the mature stage for long time.
- **Style:** a basic and distinctive mode of expression.
- **Fashion:** a currently accepted of popular style in a given field.
- **Fad:** a fashion that enters quickly. Is adopted with great zeal, peaks early, and declines very quickly.

- **Introduction stage**:
- **Introduction stage:** the product life cycle stage in which the new product is first distributed and made available for purchases.
    - Profits are negative or low
    - Low sales and high distribution and promotion expenses.
    - Promotion spending to inform consumers of the new product.
    - It's costly to get distributors the store the product.
    - A company, especially the *market pioneer*, must choose a launch strategy that is consistent with the intended product positioning.

- **Maturity stage**:
- **Maturity stage:** the stage in the product life cycle in which sales growth slows or levels off.
    - Sales growth will slow down
    - Competitors begin marking down prices.
    - Increasing their advertising and sales promotion.
    - Lead to drop in profit
    - Weaker competitors start dropping out
    - They should consider modifying the market, product and marketing mix.
    - In *modifying market* the company tries to increase the consumption on the current product.
    - *Modifying the product*: changing characteristics such as quality, features, or style to attract new users and inspire more usage.
    - Modifying the marketing mix: improving sales changing one or more marketing mix elements.
    - It can cut price to attract new users or use aggressive sales promotions.

- ## Decline stage:
- **decline stage:** the product life-sycle stage in which a product`s sales decline..
    - sales and profits decline.
    - Some firms withdraw from the market.
    - Decide to maintain the brand without change in the hope that competitors will leave the industry.
    - May decide to harvest the product, which means reducing various costs and hoping that sales hold up (put lettel money)

Chapter 11
Pricing Considerations and Approaches

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What is a price? :

- **Price**: the amount of money charged for a product or service, or the sum of the values that consumers exchange for the benefits of having or using the product or service.
- **Fixed price**: setting one price for all buyers
- **Dynamic pricing**: charging different prices depending on individual customers and situations.
- Price and the Marketing Mix:
  - Only element to produce revenues
  - Most flexible element
  - Can be changed quickly
- Price Competition
  - Number one problem facing many marketing executives
  - Companies are too quick to reduce the price than convincing buyers that their products are worth a higher price.
- Common Pricing Mistakes
  - Too cost oriented rather than customer-value oriented.

Factors to consider when setting prices:

- ### Internal factors affecting price decisions:

Include the company's marketing objective, marketing mix strategy, costs, and organizational considerations.

- #### Marketing objective:
  - Before setting a price, company must decide strategy for the product.
  - Pricing strategy is largely determined by decisions on market positioning.
  - Other pricing objectives:
    - *Survival*:
      - If they are troubled by too much capacity, heavy competition, or changing customer wants.
      - Set a low price hoping to increase demand.
    - *Current profit maximization:*
      - Choose the price that produces the maximum revenue.
    - *Market share leadership:*
      - Must set price as low as possible.
    - *Product quality leadership:*
      - Charging high price to cover the high cost.

- **Marketing mix strategy:**
  - Pricing must be carefully coordinated with the other marketing mix elements.
  - **Target costing:** pricing that starts with an ideal selling price, and then targets costs that will insure that the price is met.
  - **Target costing** is often used to support product positioning strategies based on price
  - Nonprice positioning can also be used.
  - The best strategy is not to charge the lowest price, but rather to differentiate the marketing offer the make it worth a higher price.

- **Costs:**
  - Typed of costs:
    - *Fixed costs*: costs that do not vary with production or sales level.
    - *Variable costs*: costs that vary directly with the level of production
    - *Total costs*: the sum of the fixed and variable costs for any given level of production.
  - Management must charge a price that at least covers the total costs.
  - Costs at different production levels influence price setting.
  - **Experience (learning) curve:** the drop in the average per-unit production cost that comes with accumulated production experience.

- ***Organizational considerations* :**
  - Small companies: top management set the price
  - Large companies: divisional or product line managers set the price
  - Some industries have pricing departments.
  - Price negotiation is common in industrial settings.

External factors affecting price decisions:

Include the nature of the market and demand, competition, and other environmental elements.

- **The market and demand:**
  - Costs set the lower limit of prices, the market and demand set the upper limit.
  - Before setting the prices, the marketer must understand the relationship between price and demand for its product.
  - **Pricing in different types of markets**:
    - *Pure competition*:
      - Many buyers and many sellers.
      - No single buyer/seller has much effect on the price.
      - Seller cannot charge more than the going price.
      - Sellers don't spend much time on marketing strategy.

- *Monopolistic competition*:
  - Many buyer and seller.
  - Range of price occurs because sellers can differentiate their offers to buyers.

- *Oligopolistic competition*:
  - Few sellers.
  - Highly sensitive to each other's pricing and marketing strategy.
  - Product can be uniform or nonuniform.
  - Difficult for new seller to inter the market.
  - Each seller is alert to competitors` strategy and moves.

- *Pure monopoly*:
  - One seller.
  - Government monopoly, a private regulated monopoly, or a private nonregulated monopoly.

- **Consumer perceptions of price and value**:
  - In the end, the consumer will decide whether a price is right.
  - If customer perceives that the price is greater then the product's value, they will not buy the product.
  - If customer perceives that the price is below then the product's value, they will buy the product, but the seller loses profit opportunities.

- **Analyzing the price-demand relationship**:
  - Each price the company might charge will lead to a different level of demand.
  - **Demand curve:** a curve that shows he number of units the market will buy in a given time period, at different prices that might be charged.
  - In the normal case, demand and price are inversely related.
  - In the case of prestige goods. The demand cure sometimes slopes upward.
  - Most companies try to measure their demand curves by estimating demand at different price.

- **Price elasticity of demand**:
  - **Price elasticity**: a measure of the sensitivity of demand to changes in price.
  - Price elasticity of demand = $\frac{\text{\% change in quantity demand}}{\text{\% change in price}}$

- **Competitors` costs, prices, and offers:**
  - Consider competitors' costs, prices, and possible reactions when developing a pricing strategy
  - Pricing strategy influences the nature of competition
  - Low-price low-margin strategies inhibit competition
  - High-price high-margin strategies attract competition
  - Benchmarking costs against the competition is recommended

- **Other external factors:**
  - *Economic conditions* can have strong impact on the firm's pricing strategies.
  - Economic conditions affect production costs
  - Economic conditions affect buyer perceptions of price and value
  - *Reseller* reactions to prices must be considered.
  - Company should set prices that give resellers fair profit and help them to sell the product effectively.
  - *Government* may restrict or limit pricing options
  - *Social considerations* may be taken into account

General pricing approaches:

The price the company charge will be somewhere between one that is too low to produce a profit and one that is too high to produce any demand.

- Costs set the floor to the price.
- Consumer perceptions set the ceiling.

Cost-Based pricing :

- Simplest pricing method.
- **Cost-plus pricing**: adding a standard markup to the cost of the product.
- Using standard markup does not make sense to set the price.
- Ignores demand and competition.
- Markup pricing remains popular:
  - Sellers are more certain about costs than about demand.
  - It simplifies the pricing process
  - When all firms in the industry use this pricing method, price tends to be similar and price competition in thus minimized.
  - It is perceived as more fair to both buyers and sellers.

Cost-Based Pricing Example

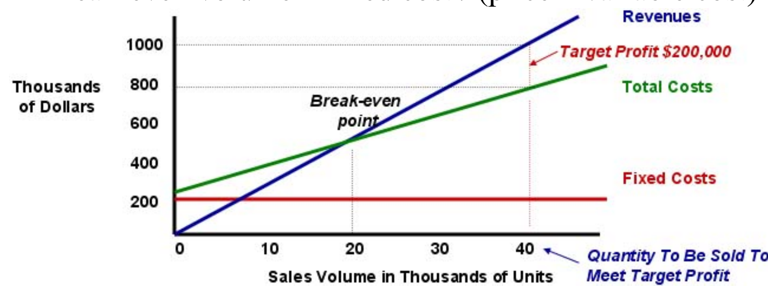
Variable costs: $20 Fixed costs: $ 500,000
Expected sales: 100,000 units Desired Sales Markup: 20%

Variable Cost + Fixed Costs/Unit Sales = Unit Cost
$20 + $500,000/100,000 = $25 per unit

Unit Cost/ (1 – Desired Return on Sales) = Markup Price
$25 / (1 - .20) = $31.25

❖ *Break-Even Analysis and Target Profit Pricing*:

- **Break-even pricing (target profit pricing):** setting price to break even on the costs of making and marketing a product; or setting price to make a target profit.
- Target pricing use the concept of *break-even chart*, which show the total cost and total revenue expected at different sales volume levels.
- The intersection of the total revenue and total cost curves is the break-even point.
- Companies wishing to make a profit must exceed the break-even unit volume.
- Break-even volume = fixed cost / (price – variable cost)



- **Value-based pricing :**
  - **Value-based pricing:** setting price based on buyers` perceptions of value rather than on the seller's cost.
  - Marketer cannot design a product and marketing program and then set the price.
  - Price is considered along the other marketing mix variables before the marketing program is set.
  - Company sets its target priced based on customer perceptions of the product value.
  - The targeted value and price then drive decisions about product design and what costs can be incurred.
  - Measuring perceived value can be difficult.
  - **Value pricing**: offering just the right combination of quality and good service at a fair price.
  - Consumer attitudes toward price and quality have shifted during the last decade.
  - Introduction of less expensive versions of established brands has become common.
  - Business-to-business firms seek to retain pricing power.
  - *Pricing power*: its power to maintain or even raise prices without losing market share.
  - *Value-added strategies* can help, rather than cutting prices to match competitors, they attach value-added services to differentiate their offers and thus support higher margins.
  - *Everyday low pricing (EDLP):* charging everyday low price with few or no temporary price discounts.
  - *High-low pricing:* charging higher prices on everyday basis but running frequent promotions to lower prices temporarily on selected items below EDLP level.

- **Competition-based pricing :**
  - **Competition-based pricing:** setting prices based on the price that competitor's charge of similar products.
  - Also called going-rate pricing
  - May price at the same level, above, or below the competition.
  - The smaller firm follows the leader.
  - Going rate pricing is quite popular.
  - Bidding for jobs is another variation of competition-based pricing
  - *Sealed-bid pricing:* a firm bases its price on how it thinks competitors will price rather than on its own costs or on the demand.

Chapter 12
Pricing Strategies

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New product pricing strategies:

- Pricing change as the product passes through its life sycle.
- Companies can choose between 2 broad strategies.

- ### Market-skimming pricing:
    - **Market-skimming pricing**: setting a high price for a new product to skin maximum revenues layer by layer from the segments willing to pay the high price.
    - Company make fewer but higher profitable sales.
    - Market skimming make sense if:
        - The product must be positioned in the market
        - The product's quality must support its higher price.
        - The cost of producing a smaller volume cannot be so high that they cancel the advantage of charging more.
        - Competitors should not be able to enter the market easily and undercut the high price.

- ### Market-penetration pricing:
    - **Market-penetration pricing**: setting a low price for a new product in order to attract a large number of buyers and a large market share.
    - Opposite of market skimming.
    - Producing in large quantities will result in economic of scale which will result in lower cost.
    - The lower production cost will result in cheaper price.
    - Market penetration make sense if:
        - Market must be high price sensitive so that a lower price produces more market growth.
        - Production and distribution costs must fall as sales volume increase.
        - Low price must help keep out the competitors

Product mix pricing strategies:

The firm looks for set of prices that maximizes the profits on the total product mix.

- *Product line pricing*: setting price steps between product line items.
- *Optional-product pricing*: pricing optional or accessory products sold with the main product.
- *Captive-product pricing*: pricing products that must be used with the main product.
- *By-product pricing:* pricing low-value by-products to get rid of them.
- *Product bundle pricing:* pricing bundles of products sold together.

- ### Product Line Pricing :
    - **Product line pricing**: setting the price steps between various products in a product line based on cost differences between the products, customer evaluations of different features, and competitors` price.

- ### Optional-product Pricing :
    - **Optional-product pricing**: the pricing of optional or accessory products along with a main product.
    - Pricing these options is a sticky problem.

- ### Captive-product pricing :
    - **Captive-product pricing**: setting a price for products that must be used along with a main product, such as blades for a razor and film for a camera.
    - The producer set a low price for the original product and a high price for the product that must be used with it. Printer: 20BD & Ink: 12BD.
    - In the case of services, this strategy is called *two-part pricing*.
        - *Fixed fee*
        - *Variable usage rate*
    - Fixed amount should be low enough to induce usage of the service.
    - Profit can be made on the variable fees.

- ### By-product pricing :
    - **By-product pricing**: setting a price for by-products in order to make the main product's price more competitive.
    - If the by-products have no value and if getting rid of them is costly, this will affect the pricing of the main product.
    - The firm will accept any price that covers more than the costs of storing a delivering.

- ### Product bundle pricing :
    - **Product bundle pricing**: combining several products and offering the bundle at a reduced price.
    - Price bundling can promote the sales of products consumers might not buy, but the combined price must be low enough to get them to buy the bundle.

Price adjustment strategies:

- *Discount and allowance*: reducing price to reward customer response such ad paying early or promoting the product.
- *Segmented pricing*: adjusting price to allow for differences in customers, products or locations
- *Psychological pricing*: adjusting prices for psychological effect.
- *Promotional pricing:* temporarily reducing prices to increase short-run sales.
- *geographical pricing:* adjusting prices to account for the geographic location for customers
- *International pricing:* adjusting prices for international markets.

- **Discount and allowance pricing :**
    - **Discount**: a straight reduction in price on purchases during a stated period of time.
    - Types of discounts:
        - *Cash discount:* a price reduction to buyers who pay their bills promptly.
        - *Quantity discount:* a price reduction to buyers who buy large volumes. (incentive to the customer to buy more from one given seller, rather than from many different sources)
        - *Functional (trade) discount:* offered by the seller to trade-channel members who perform certain functions.
        - *Seasonal discount*: a price reduction to buyers who buy merchandise or services out or season.
    - **Allowance**: promotional money paid by manufactures to retailers in return for an agreement to feature the manufacturer's products in some way.
    - Types of allowances:
        - *Trade-in allowances are* most common in the automobile industry but are also given for other durable goods.
        - *Promotional allowances* are payments or price reductions to reward dealers for participating in advertising and sales support programs.

- **Segmented pricing :**
    - **Segmented pricing**: selling a product or service at two ore more prices, where the difference in prices is not based on differences in costs.
    - Also called revenue or yield management
    - Types of segmented pricing strategies:
        - *Customer-segment:* different customers pay different prices for the same product. (museums charge lower for students)
        - *Product-form pricing:* different versions of the product are priced differently but not according to differences in their costs.
        - *Location pricing:* charge different prices for different locations, even though the cost of offering each location is the same.
        - *Time pricing:* a firm varies its price by the season
    - For segmented pricing to be effective strategy, certain conditions must exist.
    - Conditions Necessary for Segmented Pricing Effectiveness:
        - Market is segment able
        - Lower priced segments are not able to resell
        - Competitors can not undersell segments charging higher prices
        - Pricing must be legal
        - Costs of segmentation can not exceed revenues earned
        - Segmented pricing must reflect real differences in customers' perceived value

- ## Psychological pricing :
  - **Psychological pricing**: a pricing approach that considers the psychology of prices and not simply the economics; the price is used to say something about the product.
  - **Reference price**: prices that buyers carry in their minds and refer to when they look at a given product.
  - Even small differences in price can suggest product differences.
  - Numeric digits may have symbolic and visual qualities that psychologically influence the buyer

- ## Promotional pricing :
  - **Promotional pricing**: temporarily pricing products below the list price, and sometimes even below cost, to increase short-run sales.
  - Promotional pricing takes several forms:
    - Loss leaders
    - Special-event pricing
    - Cash rebates
    - Low-interest financing, longer warranties, free maintenance
  - Promotional pricing can have adverse effects:
    - Easily copied by competitors
    - Creates deal-prone consumers
    - May erode brand's value
    - Not a legitimate substitute for effective strategic planning
    - Frequent use leads to industry price wars which benefit few firms

- ## Geographical pricing :
  - A company also must decide how to prices its products for customers located in different parts of the country or world.
  - **FOB-origin pricing**: goods are placed free on board a carrier; the customer pays the fright from the factory to the destination.
  - **Uniform-delivered pricing**: the company charges the same price plus fright to all customers. Regardless of their location.
  - **Zone pricing:** the company sets up two or more zones. All customers within a zone pay the same total price; the more distant the zone, the higher the price.
  - **Basing-point pricing**: the seller designates some city as a basing point and charges all customer the freight cost from the city to the customer.
  - **Freight-absorption pricing:** the seller absorbs all or part of the fright charges in order to get the desired business.

- ## International pricing :
  - Companies that market their products internationally must decide what prices to charge in the different countries in which they operate.
  - Prices charged in a specific country depend on many factors

Economic conditions	Distribution system
Competitive situation	Consumer perceptions
Laws / regulations	Cost considerations

Price changes:

After developing their pricing structures and strategies, companies often face situations which they must initiate price changes or respond to price changes by competitors.

- **Initiating price change :**

❖ **Initiating price cuts :**

- Over capacity- too many goods
- It may be necessary to cut price to increase sales.
- Faces falling market share due to price competition.
- Desires to be a market share leader through lower cost and price.

❖ **Initiating price increases :**

- Higher cost of inputs.
- Rising costs lead companies to pass cost increase along to customers.
- Overdemand (greater demand than can be supplied)
- there are some techniques for avoiding this problem:
  - Communication program telling customer why prices are being increase.
  - Making lowe-visibilty price moves first.
  - Change the raw materials. (using less expensive materials)
  - Shrink the product.
  - Reducing product size
  - unbundling the product

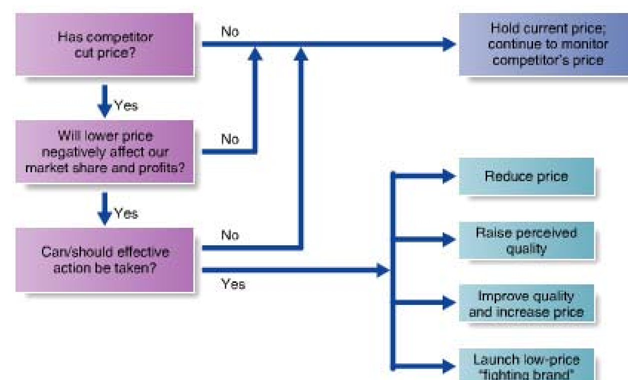
❖ **Buyer reactions to price change:**

- Buyer reactions to price changes must be considered.

❖ **Competitor reaction to price change:**

- more likely to react to price changes under certain conditions:
  - Number of firms is small
  - Product is uniform
  - Buyers are well informed

- **Responding to price changes :**
  - Respond To Price Changes Only If:
    - Market share / profits will be negatively affected if nothing is changed.
  - Effective action can be taken:
    - Reducing price
    - Raising perceived quality
    - Improving quality and increasing price
    - Launching



low-price “fighting brand”

Chapter 13
Marketing channels and supply chain management

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Value Delivery Network:

- The network made up of the company, suppliers, distributors, and ultimately customers who "partner" with each other to improve the performance of the entire system.

The nature and importance of marketing channels:

- **Marketing channel (distribution channel):** a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user.
- A company's channel decisions directly affect every other marketing decision.
- A strong distribution system can be a competitive advantage.
- Technology has changed the way distribution outlets work.
- The company's pricing depends on:
  - Whether it works with national discount chains
  - Uses high-quality specialty stores
  - Sells directly to consumers via the Web.
- Channel decisions involve long-term commitments to other firms.

• How channel members add value? :

- Through their contacts, experience, specialization, and scale operation, intermediaries usually offer the firm more than it can achieve on its own.
- Intermediaries reduce the amount of work that must be done.
- Intermediaries buy large quantities from many producers and break them down into the smaller quantities broader assortments wanted by customers.
- Intermediaries match supply and demand in the market.
- Intermediaries make goods available at the correct time, place and fill the possession gap.
- Key Functions Performed by Channel Members:
  - *Information:* gathering info. About actors and forces.
  - *Promotion:* developing & spreading persuasive communications about an offer
  - *Contact:* finding & communicating prospective buyers.
  - *Matching:* shaping & fitting the offer to the buyer's needs.
  - *Negotiation:* reaching an agreement on price and other terms.
  - *Physical Distribution:* transporting and storing goods.
  - *Financing: I acquiring and using funds to cover the costs of channel work*
  - *Risk taking:* assuming the risks of carrying out the channel work.

- ### Number of Channel Levels:
  - **Channel level:** a layer of intermediaries that performs some work in bringing the product and its ownership closer to the final buyer.
  - **Direct marketing channel:** a marketing channel that has no intermediary levels.
  - **Indirect marketing channel:** channel containing one or more intermediary levels.
  - The number of intermediary levels indicates the length of the channel.
  - A greater number of levels mean less control and greater channel complexity.
  - Channel Members Are Connected Via A Variety of Flows:
    Physical Flow   Information Flow   Flow of Ownership
    Payment Flow   Promotion Flow

Channel Behavior and Organization:

- ### Channel behavior :
  - Marketing consists of firms that have banded together for their common good.
  - Each channel member depends on the other.
  - Each channel member plays a specialized role in the channel.
  - **Channel conflict:** disagreement among marketing channel members on goals and roles-who should do what and for what reward.(Occurs when channel members disagree on roles, activities, or rewards)
    - *Horizontal conflict:* occurs among firms at the same level of channel.
    - *Vertical conflict:* conflicts between different levels of the same channel, is even more common.
  - Some conflict in the channel takes the form of healthy competition.

Channel Design Decisions:

Deciding on the best channels might not be a problem, the problem might simply be how o convince one or a few goods intermediaries to handle the line.

- ### *Step 1:* Analyzing Consumer Needs
  - Cost and feasibility of meeting needs must be considered.
  - Marketing channel is part of overall customer value delivery network.
  - Each channel member adds value for the customer.
  - Channel design begins with finding out what the customer want from the channel.
  - The company and its channel members may not have the resources or skills needed to provide all the desired services.
  - The company must balance consumer needs and costs of meeting there needs. (the cost of providing these needs with customer preferences)

- ***Step 2:* Setting Channel Objectives**
  - Set channel objectives in terms of targeted level of customer service.
  - The company's channel objectives are also influenced by the nature of the company, its products, its marketing intermediaries, its competitors, and the environment.
  - The company's size and financial situation determine which marketing functions it can handle itself and which it muse give to intermediaries.

- ***Step 3:* Identifying Major Alternatives**

  When the company had defined its channel objectives, it should next identify its major channel alternatives in terms of types of intermediaries, the number of intermediaries, and the responsibilities of each channel member.

❖ **Types of intermediaries:**
  - **Company sales force:** expand the company's direct sales force.
  - **Manufacturer's agency:** hire manufacturer's agent – independent firms whose sales forces handle related products from many companies - in different regions or industries to sell the new test equipments.
  - **Industrial distributors:** find distributors in the different regions who will buy and carry the new line.

❖ **Number of marketing intermediaries:**
  - Companies must determine the number of channel members to use at each level.
  - **Intensive distribution:** stocking the product in as many outlets as possible.
    - Convenience product and common raw materials.
    - Goods must be available where and when customer wants.
  - **Exclusive distribution:** giving a limited number of dealers the exclusive right to distribute the company's product in their territories.
    - Often found in the distribution of new automobiles and prestige women's clothing.
  - **Selective distribution:** the use of more than one, but fewer than all, of the intermediaries who are willing to carry the company's products.
    - Between intensive and elusive.
    - Televisions, furniture, and small appliance brands.

❖ **Responsibilities of channel members:**
  - The producer and intermediaries need to agree on the terms and responsibilities of each channel member.
    - Price policies
    - Conditions of sale
    - Territorial rights

- Specific services

- ***Step 4:* Evaluating Major Alternatives**

When a company had identified several channel alternatives and wants to select the one that will best satisfy its long-run objectives, it should evaluated the alternative against economic, control, and adaptive criteria.

  - *Economic criteria:* a company compares the likely sales, costs, and profitability of different channel alternatives.
  - *Control issues:* the company prefers to keep as much control as possible.
  - *Adaptive criteria:* channels often involve long-term commitments, yet the company wants to keep channel flexible so that is can adapt an environmental changes.

- ***Step 5:* Designing International Distribution Channels**
  - Global marketers usually adapt their channel strategies to structures that exist within foreign countries
  - In some markets, the distribution system May be complex or hard to penetrate
  - In developing countries, the distribution system May be scattered, inefficient, or totally lacking.

Channel Behavior and Organization:

Once the company has reviewed and choose the best channel design, it must implant and manage the chosen channel.

- **Channel Management Decisions:**
  - When selecting intermediaries, the company should determine what characteristic distinguish the better one. (Identify characteristics that distinguish the best channel members).

- **Managing and Motivating Channel Members:**
  - Once selected, channel members must be continuously and motivated to do their best.
  - The company must sell to and with the intermediaries, not only through them.
  - Partner relationship management (PRM) is key.
  - This creates a marketing system that meets the needs of both the company and its partners.

- **Evaluating Channel Members:**
  - The producer must regularly check channel member performance against standards such as sales quotas, average inventory levels, customer delivery time … etc.
  - Company should recognize and reward intermediaries who are performing well and adding food value for the customer.
  - Manufacturers need to be sensitive to their dealers.

Marketing Logistics and Supply Chain Management:

• The nature and importance of marketing logistics :

- **Marketing logistics (physical distribution):** the tasks involved in planning, implementing, and controlling the physical flow of materials, final goods, and related information from point of origin to point consumption to meet customer requirements to a profit. (Getting the right product to the right customer in the right place at the right time).
- Marketing logistics addresses:
    - *Outbound distribution:* moving product from the factory and ultimately to customers.
    - *Inbound distribution:* moving product and materials from suppliers to the factory).
    - *Reverse distribution:* moving broken, unwanted, or excess product returned by consumer or resellers).
    - Involves the entire **supply chain management system**: managing upstream and downstream value-added flows of materials, final goods, and related information among suppliers, the company, resellers, and final consumers.
- Companies today are placing greater emphasis on logistics. Why?
    - Offers firms a competitive advantage (give customers better service and lower prices)
    - Can yield cost savings (for both company and its customers)
    - The explosion in product variety has created a need for improved logistics management.
    - Improvements in information technology have crated opportunities for major chains in distribution efficiency.

• Goals of the logistics system :

- No system can both maximize customer service and minimize costs.
- Provide a targeted level of customer service at the least cost.
- Firms must first weigh the benefits of higher service against the costs.

• Major logistic functions :

❖ Warehousing:

- **Distribution centers:** a large, highly automated warehouse designed to receive goods from various plants and suppliers, take orders, fill them efficiently, and deliver goods to customers as quickly as possible.

❖ Inventory Management:

- Managers must maintain the delicate balance between carrying too little inventory and carrying too much.

- *Just in time logistic systems*

- **Transportation:**
  - Choice of transporting carriers affects the pricing product.
    - *Truck:* within cities and between them.
    - *Rail:* One of the most cost-effective modes for shipping large amounts of bulk product.
    - *Water:* the cost is very low
    - *Pipeline* shipping petroleum, natural gas
    - *Air:* rates much higher, when speed is needed or distant markets have to be reached.
    - *Internet:* digital products
    - **Interposal transportation**: combining two or more modes of transportation.

- **Logistics information management:**
  - Companies manage their supply chains through information.
  - Channel partners often link up to share information and make better joint logistics decisions.
  - By *EDI*: electronic data interchange, the computerized exchange of data between organizations.