Lesson 21

The Marketing Mix

Aims

The aim of this lesson is to enable you to consider the following aspects of the marketing mix:

- product decisions
- pricing methods including cost plus policy, competitor pricing, promotional pricing, penetration pricing, skimming or creaming, loss leaders, predator or destroyer pricing
- promotion techniques and decisions
- place, or channels of distribution, including e-commerce and m-commerce

Context

The application of the marketing mix should be applied to a variety of case study scenarios. Analysis should be made in context to evaluate possible solutions to problems.

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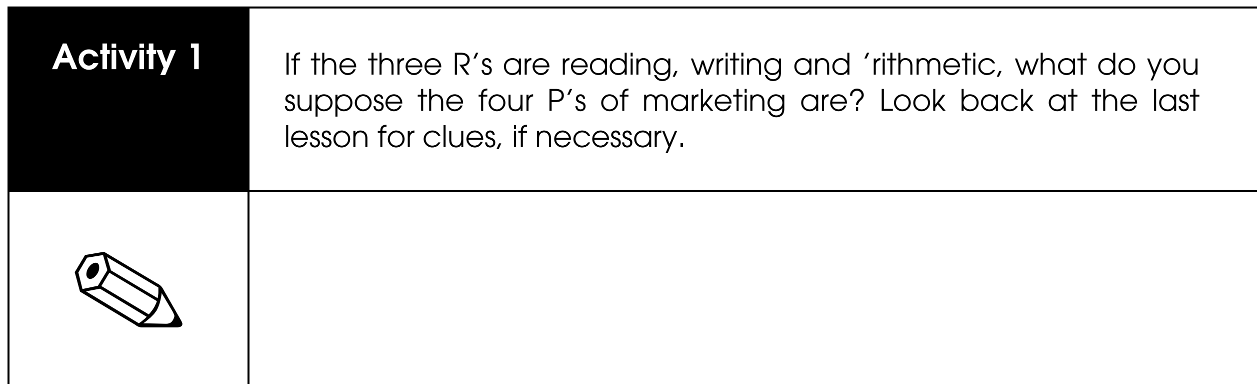
The Marketing Mix: The Four P's

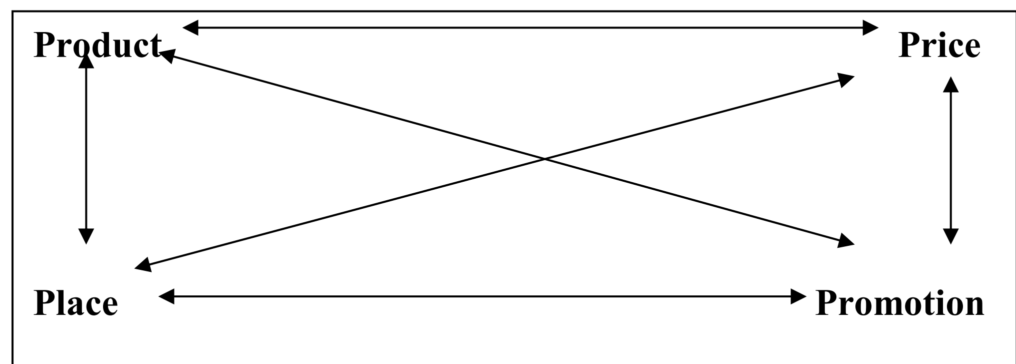
The marketing operation is traditionally divided into four main elements and these are usually known as the Four P's.



Activity 1

If the three R's are reading, writing and 'rithmetic, what do you suppose the four P's of marketing are? Look back at the last lesson for clues, if necessary.

With a little thought, you might have guessed the following: product(ion), price, publicity, promotion and packaging. Packaging is an aspect of production; publicity and promotion mean much the same thing. The fourth P is "place" or distribution — how the product gets from the producer to the end-user. So the four P's are as follows:



You shouldn't find it too difficult to memorize the four P's and it is vital to keep them firmly in mind because most, if not all, of them will be relevant to any analysis or case study that you have to write.

Each of these elements does not exist in isolation. They are all very closely linked. Decisions about the product will have consequences for its price and the way it is promoted, and vice versa. For any particular product or service the blend of these four elements is called the **marketing mix**. As with a cake mix, you can't just double the quantities of one ingredient without thinking about what else needs to be changed.

Creating the Mix

In any competitive market, a company needs to get all four elements right if it is to stand a chance of succeeding. The mix may be quite different for each product or service, and there may be a number of separate mixes for the same business unit.

For instance, Apple might sell the same computer to private users (consumers) and also to businesses, but there are separate marketing mixes for each of these target markets. The same computer is packaged differently, carries a different price tag, is advertised differently, and has totally separate channels of distribution.

Let's look in some detail at the different elements of the mix.

The Product

In everyday speech, we tend to think of a product as a physical object, such as perfume or a piece of cheese or a set of spanners. In marketing, the term **product** carries a slightly wider meaning. It includes not just the perfume but also any packaging, such as the bottle in which the perfume is contained, the box which holds the bottle, the ribbon, and the writing on the box. It may also include *intangible* elements, including the reasons *why* it might be purchased. What is the product offered by a private piano teacher, for instance?

Even with something that *seems* to be tangible, like Coca-Cola or Pepsi Cola, you should beware of thinking too narrowly. Is what is being sold simply a black liquid with a certain taste? The advertisements claim "you can't beat the feeling" and indeed it is a *feeling* which is being sold, perhaps of youth, fun, excitement, glamour. Some would see this as a result of the way this drink has been "promoted" (a different P), but what it shows most clearly is how the four P's are inter-related. You can't really separate the product from the way it is promoted.

For the purpose of your examination, you are unlikely to be concerned with the technical aspects of production, such as which machinery, equipment, labour and materials are needed. You are more likely to be more concerned with "product" in a more *abstract* sense, the *concept* which is being projected or the *value* which is being acquired by the purchaser.

Place: the Distribution Channels

This "P" is often overlooked even though it is fundamental to any marketing strategy. It includes the "geographical" question of **where** the product is being sold, and also the **way** in which it is sold.

The question of *where* is one that is often dictated by the nature of the product. If you were trying to market the *Wickford Star*, a local newspaper, you would be unlikely to be concerned with overseas sales or even sales in the next county. So much depends on common sense and on the size of the business operation. Most start as small local businesses and, if successful, gradually extend the range of their operations until eventually, perhaps, they are an international concern. For instance, you might open a Pizza takeaway service in your local town and, when you build up a strong reputation, open a similar venture in a neighbouring town, and so on.

Some channels of distribution are considered below.

Wholesaling and Retailing

The most "traditional" channel of distribution is from the producer, through wholesalers and retailers to the customer. **Retailing** involves an intermediate organization between manufacturer and customer, e.g. a shop in the high street, selling items, perhaps one at a time, on a local basis. The retailer may acquire the stock from the manufacturer or wholesaler at a much lower unit price, buying in bulk and benefitting from economies of scale.

There is often a mutually supportive relationship between manufacturers and wholesaling partners This is important when the demand is seasonal. For example, with fireworks or home computers or even central heating systems, wholesalers may take up stocks which otherwise the manufacturer would have a problem in selling at a particular time.

Wholesalers may also be a useful source of feedback to firms and sometimes may provide credit facilities in turn to their customers. The wholesalers reduce the need for transport facilities since the manufacturer only has to deal with a relatively few wholesalers rather than a whole host of retailers.

Other traditional methods of distribution include: selling via department stores, franchises, chain stores, discount stores, superstores, supermarkets and mail order.

Direct Sales to Customers

Direct sales are used by organisations such as gardening firms and also some travel firms. One of the disadvantages is that direct sales by a business may annoy its existing sales outlets. For example, Sky television almost certainly annoyed the electrical retailers, Dixons, by their direct sales advertisements to consumers in *The Sun*. These undercut the prices Dixons had paid for their stocks and made it harder for them to sell Sky products to consumers. Repairs and maintenance may be a particular problem when mechanical goods are supplied direct from manufacturer to end-user. For instance, it's tricky to send goods back to another country for minor adjustments to be made. It's easier to take it along to the shop where you bought.

E-commerce (e-tailing)

Nevertheless, many companies now offer their products directly to consumers via the internet. This is electronic commerce or **e-commerce**. It cuts out the wholesaler and retailer parts of the distribution network, thus lowering overheads and increasing profits to the producer. By establishing warehouses in low-cost locations, producers can distribute products to online customers directly. Amazon is one very successful example of e-commerce.

Before the development of e-commerce, customers would go to shops and sales assistants would advise them on competing products, technical features, etc, enabling the customer to make an informed decision. But now that all that information is available on the internet, it is inevitable that many of us will prefer to shop from the comfort of our own homes, paying lower prices and avoiding the pressure that may come from a face-to-face encounter with a sales adviser.

Because of their lower operational costs, e-tailers can offer lower prices than traditional retailers and this has contributed to the phenomenon known as "the death of the high street". Certainly, it has made it much more difficult to make a profit from traditional retail.

Advances in technology have given e-commerce an ever stronger position as a channel of distribution. One of the challenges has

been to devise a quick and safe means of payment. Businesses like PayPal have emerged to fulfil that need, using sophisticated encryption methods to prevent information (about personal bank accounts, etc) falling into the wrong hands.

Within the overall category of e-commerce, one should note the increasing importance of **mobile commerce** (m-commerce). This refers to the ability of customers to buy products with their smartphones. This means that we are potential shoppers at all times of the day, on the move or at any location. Just as it has become (arguably) too easy to place a bet on a sports fixture at any hour of the day, so it has become ever easier to spend money on products we may or may not need. Because each smartphone is linked to a specific user, it has also become easier for e-tailers to gather information about our spending habits, customer preferences, etc, and send carefully targeted texts and other marketing information to us, persuading us to spend even more money.

E-commerce is relatively unhindered by international boundaries. The largest e-tailers, like Amazon, can put their headquarters almost anywhere (wherever the tax regime is most favourable) and gain a further advantage over organisations which pay the various taxes required for businesses and property-occupiers in the country where they are physically located. This enables them to price traditional retailers out of the market.

Promotion Techniques and Decisions

Promotion covers all the ways in which a company or organisation brings its products or services to the attention of its target markets. Promotional techniques include *advertising, public relations, sales promotion, and personal selling.*

Some companies divide their promotional effort into above-the-line and below-the-line activities. **Above-the-line** means direct advertising in the media (TV, radio, cinema, newspapers, online, internet, posters and leaflets); **below-the-line** means every other sort of promotion including price reductions, gifts, after sales, free samples, competitions, and point of sale giveaways and free samples.

Businesses use a range of techniques to promote a product. As promotion costs money, it must be effective in increasing sales.

If promotion forms part of an overall marketing plan, monitoring the plans should ensure that increased sales income exceeds promotional costs.

Promotional Tactics

For any company an important role of the marketing executive is to create a suitable *promotional mix* of all the elements of advertising, public relations, sales promotion and personal selling to enable the company's products or services to stand out from the competition. TV advertising *might* provide a complete solution to marketing needs, or personal selling *may* be the key, but most often a blend of these different approaches provides the best chance of increasing sales.

Sales Promotion

Many sales promotions are dependent on co-operation between the manufacturer and the retailer. Note that in some cases (for example, the introduction of new products) demand needs to be created rather than being already there. In the early 1980s home computers seemed to create their own demand to such an extent that many people bought home computers ostentatiously for educational purposes, even though they were mainly used in practice for games.

New products, in particular, may well need to overcome resistance. For example, how would one market DVD players when most people already had compact disc players or video recorders? A good sales promotion may well succeed in overcoming resistance and establishing a new product as the "norm". Think, for example, of the mobile phone market. Within ten years, many homes have transformed their use of phones from one land line with one or two handsets, to one landline plus a mobile phone each for most of its occupants. Within the mobile phone market new products are introduced all the time, offering more and more facilities. Marketing these products focuses on the new benefits users can obtain by 'upgrading' their existing phone.

Tactics to increase sales include:

1. Special offers, for example, 'buy one get one free', '3 for 2'; 33% extra free. These are usually available for a limited period only.

2. Reductions: reducing the price of a product for a limited time may boost sales for longer than the period of the price reduction.
3. Free samples are sometimes used during the launch of a new product. These may entice potential new customers to try something they haven't used before.
4. Free gifts can promote products and make existing products seem more attractive.
5. Point of sale. A technique often used in supermarkets to attract customers to try a new product. Small samples of food or drink are offered to shoppers to try. It is often offered near to similar products on the shelves. (For example, a speciality cheese may be promoted near the deli counter, or a wine near the drinks' section.)
6. Competitions and prize draws are used to attract customers to consider large price-tag products.
7. Some companies use brochures and catalogues to promote 'lifestyle' choices, and other less tangible product benefits. For example, independent schools, fitness clubs, life insurance schemes, holidays and health care products are promoted in glossy brochures that set out the benefits of their products alongside attractive photographs of desirable goods and services.
8. After sales care helps to ensure that customers remain happy with a purchase. This includes guarantees against the failure of a product over a limited period of time.

Promoting Brands through Advertising

The most obvious kind of promotion is through **advertising**. In some cases, advertising does not seem to be worthwhile. For example, it is doubtful whether Rolls Royce can really extend their market through ordinary advertising. But advertising may well be vital to establish and sustain a wide variety of brand names and deter potential rivals.

For example, in the detergent market, a new firm advertising products similar to those sold by Proctor & Gamble and Unilever (the two major competitors in this market) would, on a logical basis, gain about one third of the market if it could sell at comparable prices. Because of **product branding** however, there may be about ten products marketed by each of these huge companies. It will be difficult for a new firm, unless it also introduces a variety of products, to gain even five per cent of the market.

One of the problems of advertising is to know how far it is successful. Just because sales go up after an advertising campaign does not mean that the increase is due to the quality of that campaign. Many other factors *may* have contributed to the improvement.

Advertising: the Selection of Media

Advertising requires a medium, a platform on which to present its message and reach the attention of target customers. The medium might be television, a magazine, one or more websites, or even a billboard. How can we select the appropriate media? One peak-time television advertisement lasting only a few seconds will cost several thousand pounds so we need to look at **cost-effectiveness**.

Advertising on television is, in one sense, the crudest marketing strategy. On the one hand, it is a scatter-gun approach, spraying out bullets into half the homes in the country in the hope that some will find their mark. On the other, it can be the most sophisticated kind of promotion with enormous ingenuity devoted to getting the advertisement just right.

Television advertising has changed as television has changed. Fifty years ago there were only two or three channels and BBC1 and ITV might have 10 million viewers each. Nowadays there are hundreds of channels, each showing programmes that are designed to appear to a very small and specific demographic. Advertising is carefully matched to that demographic, i.e. it is a lot less scattergun than in days gone by.

Advertising in the Internet Age

The internet has transformed advertising expenditure. Where companies used to pay a fortune to advertise their wares in national (or local) newspapers and magazines or to create striking TV ads, they often now concentrate their efforts on marketing through the internet. This reflects a big change in buyer behaviour. Instead of walking along a high street and gazing at shop windows, buyers are now typing ‘shirts’ or ‘acrylic paints’ into a search engine (Google is the most popular). This is much quicker and easier, allowing buyers to compare prices and specifications on a vast range of products, then ordering it for home-delivery or collection at a store.

In this world, it is hugely important to have your product in the first three or four items that the customers sees as their search results. Most customers are too lazy to search beyond the information they see on that first screen because from experience, that's where they will find the best prices. That first screen is likely to display a mixture of paid-for advertising (at the top) and directions to website that have earned the right to be considered the most popular, e.g. because they have won the most customers and site-visitors in the recent past. Google strictly limits the number of paid-for advertisers in a set of search results. If there will be just two paid-for advertisers at the top, there will, in effect, be an auction for those two spaces – the "winners " are the ones prepared to pay the most.

As a result, there is huge competition to occupy the top spaces that do not require a payment to the search engine.

E-Newsletters and Viral Advertising

The internet is not a single medium. It offers many different advertising and promotional opportunities. The best strategy may depend on whether a business is promoting its wares to another business (**B2B**) or to an individual customer or consumer (**B2C**). Many individuals today rely heavily on e-mail communications so businesses will often acquire mailing lists of personal e-mail addresses and communicate directly in the form of an e-mail.

This has the advantage (for the business) that it is relatively cheap and easy. A single e-mail could be sent to a million customers for less than the price of a small box in a local newspaper. The vast majority of recipients do not want to see this advertisement; for them it is **spam** (junk-mail) but if only a small number of recipients become customers, the bombardment has more than paid for itself. This raises many ethical questions and most reputable companies do not engage in spam. Most e-mail users now feel they have to use filters to exclude junk-mail from their Inbox.

What is the difference between a piece of spam and an **e-newsletter**? Potentially, very little. Businesses sending out their "news" by e-mail will say they are sending it to those who will be interested in reading it, e.g. past customers, and this *may* be true. But a law of diminishing returns may set in. The more e-mails you send, the more your potential customer may view you as an annoying pest. Short-term gain may lead to long-term reputational damage.

An alternative approach is through **viral advertising**. This mean working within social media, e.g. FaceBook. If our friends on FaceBook share a story, an image or a video with us, we are more likely to be influenced by its message. And we, in turn, will pass it on. Like a snowball getting bigger (or a virus, of course), it may reach vast numbers of viewers very quickly at no cost to the original sender. An “ordinary” advert will not do the trick. It needs to be much subtler so that the viewer is entertained and perhaps not even aware of what is being marketed. The theory is simple but it may be difficult (and expensive) to achieve in practice.

Advertising Priorities

However, advertising that maximizes short-term sales may not necessarily be the same as that used to maximize long-term sales. One problem concerns non-recurrent purchases, including houses, cars, and most *consumer durables*. For these goods, people are unlikely, purely as a result of advertising, to go out and buy a refrigerator, freezer, house or even a car straight away. Therefore, an effective marketing strategy might need to take account of the long-term image of the product as well.

Some forms of advertising aim to persuade the consumer to buy a product, others aim to provide information about a product. Newspapers, magazines and websites include advertisements that include more complex information about longer-term products, such as insurance policies, mortgages, pensions, that more expensive media, such as TV or radio, may not convey as effectively in a short time span.

The internet has opened up a whole new range of advertising opportunities, including some that are relatively cheap and even “free”. A whole new science of web-optimisation has developed, in which advertisers attempt to maximize their visibility to search-engines. Because so many of us now shop online, this has diminished the effectiveness of most traditional media.

Public relations

Many businesses use public relations (PR) to create a good impression of their product(s). They hold product launch events and invite existing and potential good customers to attend. They issue press releases about new products (for example, new types

of car, perfume, designer clothing; use high profile stands at prestigious sporting and social events; invite celebrities to endorse their products). Promotional materials 'freebies' are given away at events. Some businesses invite the public to open days or visits to their sites as a means of maintaining good public relations with the local community.

Pricing Methods

According to the law of demand, the lower the price of a product, the more people will buy of it. Reducing the price may encourage sales; raising the price may lower sales. (Consider the price of petrol, or houses, for example.)

When businesses sell goods they want to make a profit. The higher the price, the more profit they will make. So they want to sell goods at the best possible price. This is called the law of supply.

The price at which a product is sold is influenced by the demand for the product. It is also influenced by the supply of the product. Demand for a product changes in response to its price. The flexibility of this response is called **elasticity of demand**. A business has to be sensitive to elasticity of demand. If costs go up in making a product, the business will want to increase prices to cover costs. The price increase may result in less demand and a drop in sales. So the company may need to absorb increased costs and maintain existing prices. If supply is higher than demand, the price of a product will fall because people will not buy at a high price. If demand is higher than supply the price will rise because businesses will raise the price. When the price is equal to the demand this is called the **equilibrium point**.

Rightly or wrongly, the **price** of products is often dictated by the costs involved in producing them. Very often a company works out what it costs to produce something, adds on half as much again and calls that the price. This is sometimes called **cost plus pricing**.

Mark-up pricing is similar. Non-manufacturers (such as retailers) who buy a product at one price and sell at another higher price, must determine what margin they require and in some businesses it is fairly standard, for example 20% for tobacco goods, and 34% for books.

Marginal (contribution) price strategies are similar to cost-plus but take account only of variable (not fixed) costs, relating those to demand at different prices.

Different customers at different levels of the market may be prepared to pay different prices, so the same product may be priced at more than one level, with a different brand name or packaging. This is **price discrimination**. Many supermarkets run cheaper "own-brand" labels which are manufactured by the brand leader and are identical to the brand leader's product.

When we consider that the purpose of marketing is to effect exchanges that are of mutual benefit to supplier and buyer it is clear that *cost plus* pricing may not be the best way to maximize benefit to both parties. The value that customers place on receiving the benefit on offer is unlikely in most instances to bear much relation to the costs involved in producing it. Customers will pay what they think the benefit is worth. To charge more or less than this does not make economic sense. Perfume is an obvious example. It is the role of the marketing executive to determine *what the market will bear* in terms of price on the basis of the *value* to the customer of the benefit received and *competitive* pricing levels.

Competitor pricing takes account of pricing charged by rivals. If the market leader charges £100, our price is £95, and so on.

Consideration has also to be taken of the value to the customer of *credit, discounts* and *allowances*. In addition *payment periods* can be crucial for both securing business and ensuring cash flow for survival.

Companies often wonder what would happen if they put the price up by 10%? Would the number of customers drop by 10%? It varies from one product to another. You will need to be familiar with the concept of **elasticity** of demand which is vital for an effective pricing strategy.

Pricing Strategies for New and Existing Products

Pricing strategies vary according to whether the product is established in the market place. For new products, the basic choice is between **skim pricing** and **penetration** pricing.

Skim (or cream) pricing means entry to the market at a relatively high price and testing the water with acceptable profit margins. One can hardly hope for more than slow growth.

Penetration pricing is much more aggressive. It means coming in at a low price, perhaps not even covering costs, in hopes of taking a good market share quickly and putting the price up after establishment.

In an unexplored market, skimming may be best, with penetration providing a better option for a mature market.

Once established, the strategy may change. Factors to consider for pricing existing products include

1. **the company's internal economic considerations** (e.g. how much profit is needed now, how much later).

1. **the tactics of competitors**; A **price maker** is a firm able to determine price, while a **price taker** is a firm which has to settle for the price set by the rest of the market. This may be because there is no real distinction between products, because margins are already cut to a minimum, or because it would be competitive folly to set a different price. Much also depends on the elasticity of demand, a topic to be considered later in the lesson.

   Tactics on pricing may vary from one week to the next. Supermarkets often experiment with loss leaders. These are prices set deliberately low, not to make a profit on the product itself but to bring customers into the shop so they will buy other things. In 1996, supermarkets sold baked beans at 10p a tin, not to make a profit on baked beans, but to establish a reputation for being better value than their rivals.

2. **current market position** (e.g. brand leader), People *expect* to pay a bit extra for what they perceive to be the brand leader, so it may be a mistake for brand leaders to try to match prices set by lesser rivals. **Price leaders** are companies in markets where they know that if they raise prices, all their competitors will do so as well (e.g. petrol and banking markets). **Predators** refuse to play by such rules. Whether leader or not, aggressive price-cutting is a dangerous strategy and it is generally undertaken with the objective of forcing competitors out of the market altogether.

3. **psychological considerations**. In many markets, customers actually *want* to pay more. Would Rolex sell more watches if they brought their prices down to match those of their nearest competitor? Probably not. Raising the price may even increase sales in certain markets. **Psychological pricing** takes advantage of the fact that minute differences in price can have a big difference in perception. Goods will be priced at £9.99 rather than £10, for instance. Petrol might be 89.9 pence a litre rather than 90 pence, and so on.

Self-Assessment Test (Lesson 21)

There are no "correct" answers for the following, but thinking about the issues involved will help you to understand some of the key topics.

1. Where would you advertise the following, and why?

   (a) Rolls Royce cars
   (b) Vacancies for unskilled staff for a local firm
   (c) Home computers
   (d) Detergents
   (e) Vacancies for teachers for a comprehensive school in a subject where recruitment is difficult
   (f) Vacancies for university lecturers

2. Why would firms take trade stands at the personal computer show?

3. What are the advantages and disadvantages of direct mailing?

4. How do mail order firms attract customers?

5. What would you advertise in a trade journal?

6. What are the advantages and disadvantages of posters as a form of publicity?

7. What types of promotion/publicity would you use, and why, in the following circumstances?

   (a) To promote vaccination of young children
   (b) For anti-smoking campaigns
   (c) To persuade old people to keep warm in winter.
   (d) To persuade people that nuclear power is safe
   (e) To persuade people that nuclear power is harmful

(f) To join a trade union