**Product/Service Design**

**DESIGN MIX = AESTHETICS + FUNCTION + COST**

- **AESTHETICS** – refers to the design, style, and appearance of a product. It is about making products desirable.
- **FUNCTION** – refers to the benefits that a product or service provides. It includes how well a product meets a need or solves the problem for which it was intended.
- **COST** – encapsulates all production costs of a product. Specifically, the cost per unit.

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**Promotion**

- **ABOVE-THE-LINE** – involves any form of advertising through the media, such as TV, radio, internet, posters/billboards, cinema, and direct marketing.
- **BELOW-THE-LINE** – includes all other forms of promotion that are not advertising, e.g. sales promotion (coupons), public relations, merchandising and packaging, direct selling, exhibitions, and trade fairs.

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**Influences on Promotion:**

- Promotion budget – the promotion budget will determine which methods are available and the geographical reach of the campaign.
- The message – e.g. a sneak peak at a new product might be shared via social media.
- Technology – it can help a firm to narrow down for a product's market so that it only reaches the right people.
- Target Markets – a firm must choose the right method and channel to reach the right people.

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**Branding**

- A clear and obvious logo, name, or statement that customers can recognise as being related to a certain product or firm.

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**Brand can be developed through:**

- Exploiting a USP
- Advertising
- Sponsorship
- Using social media
- Firms are switching their attention to forms of social media.

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**The importance of branding:**

- It adds value to the product.
- It allows a premium price to be charged.
- It builds trust.
- Product might become the natural choice for the novice customer.
- It helps a firm to position itself in the market relative to other competitors.

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**Key Words**

<table>
<thead>
<tr>
<th>Design Mix</th>
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<tbody>
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<td>Customer Loyalty</td>
<td>Pricing Strategy</td>
<td>Digital Marketing</td>
</tr>
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**Topic 1.3 Marketing Mix**

**Price**

- Price is a key factor in any product decision. It will not only determine the demand for a product, it will also determine the contribution of a product and the overall profit margin for a firm.

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**Influences on price:**

- Costs – what profit margin is the firm hoping to achieve?
- The PED – the potential for a firm to change the price.
- Competition – the level of competition and the price set by the market.
- Product life cycle – the stage of the life cycle the product is in.
- Branding – the perceptions customers have of the brand and how much value they place on it.
- Other elements of the marketing mix – the 7Ps must complement one another.

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**Pricing Strategies**

- **PRICE SKIMMING** – used to capitalise on people who are willing to pay premium to be the first to own a product. The initial price is high so the profit in the market can be ‘skimmed’. Suitable for established brands where anticipating a new product is high. Particularly effective in technologically driven products.
- **BARRICADE PRICING** – applied to products where price can fluctuate with the level of demand, such as hotel rooms.
- **PENETRATION PRICING** – applied to a new product attempting to enter the market. Initial price is low in order to penetrate the market by undercutting competitors. Over time price may increase as demand grows and reputation/popularity builds.
- **PREDA TORY PRICING** – this is where the firm sets a low price in order to price competitors out of the market. The firm may make a loss for a period of time until the competitor fails.
- **COMPETITIVE PRICING** – the firm sets prices based on the nearest competitor. This is used in very competitive markets and helps avoid price wars.
- **PSYCHOLOGICAL PRICING** – the business bases the price below the next whole number to trick consumers into thinking the price is lower. E.g. £9.99 psychologically appears cheaper than £10.
- **COST-PLUS PRICING** – a firm bases a price on the unit cost and then adds a percentage as a mark-up. This strategy is effective as it considers the profit margin the firm is willing to accept.
- **MARK-UP = UNIT COST X PERCENTAGE MARK-UP**

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**Place (Distribution)**

- Distribution refers to how the product gets to the customer. The key is to make distribution easy and convenient for the customer in order to maximise sales.

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**Influences on Distribution:**

- Control over promotion and pricing – a firm may opt to use its own website or retail chain if controlling these factors are important.
- Expectations of customers – will customers expect to access the product via multi-channels or will one suffice?
- Nature of the product – some products are not suitable for certain channels. E.g. it can be difficult and costly to ship plants, flowers, and other delicate objects.
- Scope/scale – a product sold internationally may require distribution through an extensive network of wholesalers, agents, and distribution companies. By contrast, a local firm may simply require one retail outlet.

---

**Online Distribution**

- **The value of digital marketing and e-commerce:**
  - Allows small firms to target a global market.
  - Builds relationships through a more personal service by tracking buying habits.
  - Targeting specific segments is much easier – even on an individual basis.
  - Opportunities for personalisation and involving customers in the design of products.
  - Allows firms to gather customer information easily.

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**Benefits for Firms**

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