- Enough customers are willing to buy the product at the high initial price to make these sales profitable.
- The high initial price will not attract competitors.
- Lowering price has only a minor effect on increasing the sales volume and reducingthe unit costs.
- Customers interpret the high price as high quality.
- These four conditions are most likely to exist when patents or copyrights protect the new product or its uniqueness is understood and valued by consumers.

2. Penetration Pricing.

a. Setting a low initial price on a new product to appeal immediately to the mass market is **penetration pricing**, the exact opposite of skimming pricing.

b. The conditions favoring penetration pricing are:

- Many segments of the market are price sensitive.
- A low initial price discourages competitors from entering the market.
- Unit production and marketing costs fall dramatically as production volumes increase.

c. A firm using penetration pricing may:

- Maintain the initial price for a time to gain profit lost from its low introductory level.
- Lower the price further, counting on the new volume to generate the necessary profit.

d. Penetration pricing may follow skimming pricing:

- A firm might initially price a product high to attract price-insensitive consumers as well as recoup initial R&D costs and introductory promotional expenses.
- Then penetration pricing is used to appeal to a broader segment of the population and increase market share.

3. Prestige Pricing.

a. Prestige pricing involves setting a high price so that quality- or status conscious consumers will be attracted to the product and buy it.

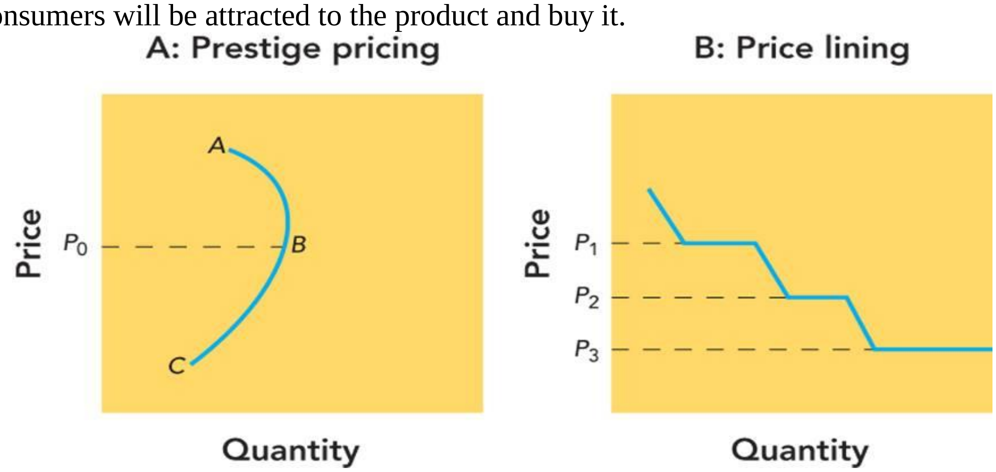

FIGURE 14-3. Demand curves for two demand-oriented pricing approaches

b. In Figure 14-3A:

· Expected incremental revenues from pricing and other marketing actions mustmore than offset incremental costs.

VII. STEP 6: MAKE SPECIAL ADJUSTMENTS TO THE LIST OR QUOTED PRICE

Marketers make three special adjustments to the list or quoted price for both wholesalers and retailers in the channel of distribution.

A. Discounts

Discounts are reductions from the list price that a seller gives a buyer as a reward for some activity of the buyer that is favorable to the seller. Four kinds of discounts (quantity, seasonal, trade/functional, and cash) are important in marketing strategy:

1. Quantity Discounts.

a. To encourage customers to buy larger quantities of a product, firms in the distribution channel are offered **quantity discounts**, which are reductions in unit costs for a larger order.

b. Since larger purchases may make more efficient of production equipment and/or reduce order-handling costs, firms may be willing to pass on some of the cost savings in the form of quantity discounts.

c. Quantity discounts are of two general kinds:

· *Noncumulative quantity discounts* encourage large individual purchase orders, not a series of orders.

· *Cumulative quantity discounts* apply to the accumulation of purchases of a product over a given time period, typically a year. Cumulative quantity discounts encourage repeat buying by a single customer.

2. Seasonal Discounts.

a. Marketers use *seasonal discounts* to encourage buyers to stock inventory earlier than their normal demand would require.

b. This allows marketers to smooth out seasonal manufacturing peaks and troughs for more efficient production.

c. It also rewards wholesalers and retailers for the risk of assuming increased inventory carrying costs and having supplies in stock when customers want.

3. Trade (Functional) Discounts.

a. To reward wholesalers and retailers for marketing functions they will perform in the future, a manufacturer often gives *trade,* or *functional,discounts*.

b. *Trade, or functional, discounts* are reductions off the list or base price offered to wholesalers and retailers on the basis of (1) where they are in the channel and (2) the marketing activities they are expected to perform in the future.

c. Suppose a manufacturer quotes a price in the following form: List price = $100 less 30/10/5.

· This price quote shows $100 is the manufacturer's suggested retail price (MSRP).

· The first number always refers to the retailer, which receives 30 percent of the MSRP to cover costs and provide a profit of $30 ($100 × 0.3 = $30).

· The middle number refers to the wholesaler closest to the retailer in the channel, which gets 10 percent of its selling price ($70 × 0.1 = $7).

· The last number always refers to the wholesaler or jobber closest to the manufacturer in the channel, which gets 5 percent of its selling price ($63 × 0.05 = $3.15).

c. *Horizontal conflict* occurs between intermediaries at the same level in a marketing channel, such as between two or more retailers or two or more wholesalers, who handle the same manufacturer's brands. Two sources are:

· Conflict when a manufacturer increases its distribution coverage in a geographical area.

· Dual distribution causes conflict when different types of retailers carry the same brands.

2. Securing Cooperation in Marketing Channels. Conflict can have destructive effects on the workings of a marketing channel so it is necessary to secure cooperation among channel member.

3. Channel Captain. Is a channel member (producer, wholesaler, or retailer) that coordinates, directs, and supports other channel members.

4. Channel Influence. A firm (a producer, wholesaler, or retailer) becomes a channel captain because it is the channel member with the ability to influence the behavior of other members. Influences can take four forms:

a. *Economic*, which arises from the firm's ability to reward other members, given its strong financial position.

b. *Expertise*, in the form of inventory management, order processing, etc.

c. *Identification*, or the desire to be associated with a channel member gives that firm influence over others.

d. The *legitimate right* of one channel member to direct the behavior of other members, such as under contractual vertical marketing systems where a franchisor can legitimately direct how a franchisee behaves.

e. Channel influence can be used to gain concessions from other channel members.

5. Legal Considerations.

a. Conflict in marketing channels is typically resolved through negotiation or the exercise of influence by channel members. Sometimes conflict produces legal action.

b. Suppliers can select whomever they want as channel intermediaries and may refuse to deal with whomever they choose.

c. The Justice Department monitors channel practices that restrain competition, create monopolies, or otherwise represent unfair methods of competition.

d. Six practices have received the most attention:

· *Dual distribution*, although not illegal, can be viewed as anticompetitive and violate both the *Sherman* and *Clayton Acts* when a manufacturer distributes through its own vertical channel in competition with independent wholesalers and retailers that also sell its products to lessen competition by eliminating these resellers.

· *Vertical integration* is viewed in a similar light. Although not illegal, this practice is sometimes subject to legal action under the *Clayton Act* if it has the potential to lessen competition or foster monopoly.

· *Exclusive dealing* exists when a supplier requires channel members to sell only its products or restricts distributors from selling directly competitive products. It is specifically prohibited under the *ClaytonAct* when it lessens competition or creates monopolies.

· *Tying arrangements* occur when a supplier requires a distributor purchasing some products to buy others from the supplier. These arrangements arise in franchising.

· A *refusal to deal* with existing channel members may be illegal under the *Clayton Act* even though a supplier has a legal right to choose intermediaries.

· *Resale restrictions* refer to a supplier's attempt to stipulate to whom distributors may resell the supplier's products and in what specific geographical areas or territories they may be sold. These practices have been prosecuted under the *Sherman Act*. Today, the courts apply

2. Purchase Stage.

a. Personal selling is most important, whereas the impact of advertising is lowest.

b. Sales promotion in the form of coupons, deals, point-of-purchase displays, and rebates stimulate demand.

c. Although advertising is not an active influence on the purchase, it is the means of delivering the sales promotion.

d. Direct marketing activities shorten the time consumers take to adopt a product or service.

3. Postpurchase Stage.

a. The more personal selling is used to provide post sales support, the more the buyer is satisfied.

b. Advertising also provides post sales assurance to reduce a customer's cognitive dissonance.

c. Sales promotion in the form of coupons and direct marketing reminders encourages repeat purchases.

d. Public relations play only a minor role.

E. Channel Strategies

Two types of promotional strategies help marketers achieve control of and can assist in moving a product through the marketing channel.

1. Push Strategy.

a. A **push strategy** directs the promotional mix to channel members to gain their cooperation in ordering and stocking the product.

b. Salespeople call on wholesalers and retailers to encourage orders and provide sales assistance.

c. Sales promotions, such as case discounts, are offered to intermediaries to stimulate demand.

d. Marketers push products to channels members so they will push them to their customers.

2. Pull Strategy.

a. A **pull strategy** directs the promotional mix at ultimate consumers to encourage them to ask the retailer for a product.

b. Sometimes, manufacturers face resistance from channel members who do not want to order a new product or increase inventory levels of an existing brand.

c. Seeing demand from consumers, retailers order the product from wholesalers, pulling the item through intermediaries.

d. Many firms use *direct-to-consumer* advertising that complement traditional personal selling and free samples. The strategy is designed to encourage consumers to ask their retailer for the product—pulling it through the channel.

IV. DEVELOPING AN IMC PROGRAM

Due to high media costs, promotion decisions must be made carefully using a systematic approach like the strategic marketing process.

· The promotion decision process is divided into developing, executing, and evaluating the promotion program.

· Development of the promotion program focuses on the four *W*s:

a. *Who* is the target audience?

b. *What* (1) are the promotion objectives, (2) is the budget for the promotion program, and (3) kinds of promotion should be used?

c. *Where* should the promotion be run?

d. *When* should the promotion be run?

· The ability to customize communication efforts and create one-to-one interactions is appealing to most marketers, particularly those with IMC programs due to the availability of databases.
· In recent years, direct marketing growth (in terms of spending, revenue generated, and employment) has outpaced total economic growth, in part due to the popularity of the Internet.

B. The Value of Direct Marketing

· Consumers benefit from direct marketing efforts, which enables them to order goods or services by phone or mail, respond to a TV offer, access online services, and make three to five purchases from a catalog each year.
· Direct marketing has several benefits. Consumers: don't have to go to a store; can shop 24 hours a day; save time and money; avoid hassles with salespeople; have more fun and privacy than in-store shopping; and receive excellent customer service.
· Toll-free telephone numbers, representatives with access to purchase preference information, overnight delivery, and unconditional guarantees all help create customer value.
· The value of direct marketing for sellers can be described in terms of the responses it generates:

> **a. Direct orders** are the result of direct marketing offers that contain all the information necessary for a prospective buyer to make a decision to purchase and complete the transaction.
> **b. Lead generation** is the result of a direct marketing offer designed to generate interest in a product or service and a request for additional information.
> **c. Traffic generation** is the outcome of a direct marketing offer designed to motivate people to visit a business.

C. Technological, Global, and Ethical Issues in Direct Marketing

· Databases are the result of organizations' efforts to collect demographic, media, and consumption profiles of customers so that direct marketing tools can be directed at specific customers.
· The data must be unbiased, timely, pertinent, accessible, and organized in a way that helps the marketing manager make decisions that lead to direct marketing actions.
· Consumer data collected as follows:

> **a.** Lifestyle, media use, and consumption behavior data must be collected in consumers' homes.
> **b.** Other types of data (can be collected from the businesses where purchases are made.
> **c.** Optical scanners helps collect data with as little intrusion on the customer as possible.
> **d.** Transactional websites and online search services can be sources of information.

· Technology, deregulation, and improved payment systems may help the global growth of direct marketing.
· Direct marketers face ethical challenges that are of increasing concern to consumers, governments, and direct marketers. Some of these issues include telephone solicitations, privacy of personal data, and the proliferation of e-mail advertising, also known as spam.

ADVERTISING, SALES PROMOTION AND PUBLIC RELATION

I. TYPES OF ADVERTISEMENTS

· **Advertising** is any paid form of nonpersonal communication about an organization, good, service, or idea by an identified sponsor.

- Has been shown to increase purchase rates.
- Is a good visual and supplemental reinforcement for well-known products.
- Is a relatively low-cost, flexible alternative.

d. The disadvantages of using billboards are:

- No opportunity exists for lengthy advertising copy.
- A good billboard site depends on traffic patterns and sight lines.
- In many areas, environmental laws have limited or banned the use of this medium.

e. *Transit advertising* is common in metropolitan areas and includes messages on the interior and exterior of buses, subway cars, and taxis.

- Advantages are:
  – Mass transit is growing.
  – Selectivity is available to advertisers, who can buy space by neighborhood or route.
- A disadvantage is that during heavy travel times when the audiences are the largest, people may find it difficult to read the message.

f. Outdoor advertising has experienced a surge of growth recently. Lower costs, faster technology, and creativity have attracted large, national advertisers.

8. Other Media.

a. As traditional media have become more expensive and cluttered, advertisers are now using a variety of nontraditional advertising options called *place-based media*.

b. Messages are placed in locations that attract a specific target audience, such as airports, doctors' offices, health clubs, theaters, gas pumps, elevators, and other locations.

9. Selection Criteria.

a. Knowing the media habits of the target audience is essential to deciding among the alternatives.

b. Occasionally, product attributes determine the media used.

- Radio is excluded if color is a part of product appeal.
- Newspapers allow advertising for quick actions to confront competitors.
- Magazines are used for complicated messages.

c. Alternative media are compared using reach and cost (CPM).

II. SALES PROMOTION

- Sales promotion is a key element of the promotional mix, which now accounts for more than US$288 billion in annual expenditures.
- The allocation of marketing expenditures reflects the trend toward integrated programs that include a variety of promotion elements.

A. Consumer-Oriented Sales Promotions

Consumer-oriented sales promotions, or simply *consumer promotions*, are sales tools used to support a company's advertising and personal selling directed to ultimate consumers.

1. Coupons.

a. Coupons are sales promotions that usually offer a discounted price to the consumer, which encourages trial.

b. Some firms have actually increased their use of coupons.

c. Coupons generated at Internet sites and over cell phones are increasing.

d. Coupons help increase sales and market share during the period immediately after coupons are distributed.

e. However, coupons can reduce gross revenues by lowering the price paid by already-loyal consumers.

c. Online consumers are more likely to use rebates.

10. Product Placement.

a. Product placement involves the use of brand-name products in a movie, television show, video, or commercial for another product.

b. Companies are usually eager to gain exposure for their products.

c. Studios believe that product placements add authenticity to the film or program and typically receive fees in exchange for the in-program exposure.

d. Trade-oriented sales promotions, or simply *trade promotions*, are sales tools used to support a company's advertising and personal selling directed to wholesalers, distributors, or retailers.

1. Allowances and Discounts.

a. Trade promotions often focus on maintaining or increasing inventory levels in the channel of distribution.

b. Allowances and discounts are effective methods, but overuse can lead to changes in ordering patterns.

c. *Merchandise allowances* reimburse a retailer for extra in-store support or special featuring of the brand.

· Consists of a percentage deduction from the list case price ordered during the promotional period.

· Manufacturers do not pay for allowances until they see proof of performance.

d. A *case allowance* is a discount on each case ordered during a specific time period and is deducted from the invoice.

· These allowances are usually deducted from the invoice.

· A variation of the case allowance is the "free goods" approach, whereby retailers receive some amount of the product free based on the amount ordered.

e. A *finance allowance* pays retailers for financing costs or financial losses associated with consumer sales promotions. This can take the form of:

· A floor stock protection program, in which manufacturers give retailers a case allowance price for products in their warehouse, thereby preventing stockouts during the promotional period.

· Freight allowances, which compensate retailers that transport orders from the manufacturer's warehouse.

2. Cooperative Advertising.

a. Cooperative advertising occurs when a manufacturer pays a percentage of the retailer's local advertising expense for advertising the manufacturer's products.

b. The manufacturer pays a percentage, often 50 percent, of the cost of advertising up to a certain dollar limit based on the purchases the retailer makes of the manufacturer's products.

c. The manufacturer also furnishes the retailer with a selection of different print or broadcast ads for the retailer to adapt and use.

3. Training of Distributors' Salesforces.

a. A manufacturer often spends time and money helping to train the reseller's salesforce about the manufacturer's products to increase sales performance.

b. Methods include providing manuals and brochures to educate the reseller's salesforce, which then uses them in selling situations.

c. To inform and motivate reseller's salesperson to sell their products, manufacturers will:

· Sponsor national sales meetings.

· Develop incentive and recognition programs to motivate reseller'ssalespeople to sell their products.

III. PUBLIC RELATIONS

· Public relations seeks to influence the image of an organization and its products and services through a variety of tools directed at many distinct audiences.

· Public relations personnel usually focus on communicating positive aspects of the business, but they may also be called on to minimize the negative impact of a problem or crisis.

A. Publicity Tools

Publicity tools are methods of obtaining nonpersonal presentation of an organization, good, or service without direct cost.

· A *news release* consists of an announcement regarding changes in the company or the product line.

a. The objective is to inform a newspaper, radio station, or other medium of an idea for a story.

b. More than 40 percent of all free mentions of a brand name occur during news programs.

· A *news conference* is where representatives of the media are all invited to an informational meeting, and advance materials regarding the content are sent. The tool is often used when negative publicity requires a company response.

· Nonprofit organizations rely heavily on *public service announcements* (PSAs), which are free space or time donated by the media.

· High-visibility individuals can create visibility and impact on public perceptions of their companies, products, and themselves.

IV. INCREASING THE VALUE OF PROMOTION

Promotion practices have changed dramatically to improve transactions and increase customer intimacy by (1) emphasizing long-term relationships and (2) increasing selfregulation.

A. Building Long-Term Relationships with Promotion

· Promotion can contribute to brand and store loyalty by improving its ability to target individual preferences and by engaging customers in valuable and entertaining communication.

· New media such as the Internet have provided immediate opportunities for personalized promotion activities.

· Technological developments have helped traditional media such as TV and radio focus on individual preferences

· Some experts predict that advertising agencies will soon become "communications consulting firms."

· Diverse and global audiences necessitate multimedia approaches and sensitivity communication techniques.

· Overall, companies hope that these changes will build customer relationships for the long term—emphasizing a lifetime of purchases rather than a single transaction.

B. Self-Regulation

· In the past, consumers have been misled, or even deceived, by some promotions. Examples include sweepstakes in which the gifts were not awarded, rebate offers that were a hassle, and advertisements whose promises were overstated.

· Promotions targeted at special groups such as children and the elderly also raise ethical concerns.