Topic 1.3 Marketing Mix

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.

Promotion

- The methods used by a business to inform consumers about a product, or to persuade them to buy it.
- 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.
- 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 line might be share via social media.
  - Technology – it can help a firm narrow down its promotion so that it only reaches the right people.
  - Target audience – a firm must choose the right method and channel to reach the right people.

Branding

- A clear and obvious logo, name, or statement that customers can recognise as being related to a certain product or firm.
- Brand can be developed through:
  - Exploiting a USP
  - Advertising
  - Sponsorship
  - Using social media
  - Firms are switching their attention to forms of social media.
- 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.

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.
- 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.

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 marker can be 'skimmed'. Suitable for established brands where anticipation for a new product is high. Particularly effective in technology markets.
- DYNAMIC 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.
- PREDATORY PRICING – this is where the firms 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 firms 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

Key Words

Design Mix	Promotion	Branding
Customer Loyalty	Pricing Strategy	Digital Marketing
E-Commerce	Distribution	Distribution Channels
Marketing	Product Life Cycle	Boston Matrix
B2C	B2B	

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.
- Parties in the distribution network:
  - AGENTS/BROKERS – agents link buyers and sellers together and operate in industries. They have specialist knowledge and will often give both parties advice. They are common when firms export.
  - RETAILERS – they provide customers with a specialist service and give customers the opportunity to browse, enjoy the shopping experience and get advice and support from retail employees.
  - WHOLESALERS – they take bulk quantities from manufacturers and distribute them across a network of retailers. They store, break down bulk and offer a distribution service for manufacturers.
  - DIRECT SELLING – the main route to direct sell today is through online sales and e-commerce website. However, direct channels also include telephone selling, door-to-door, and online shopping channels.

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.

BENEFITS FOR FIRMS	BENEFITS FOR CUSTOMERS
E-tailers do not have to meet the costs of retail stores.	Customers gain from lower prices as e-tailers pass on lower costs.
Lower start-up costs make it easier for small firms to launch.	Customers can shop 24/7.
Transactions can take place in a secure online environment.	Comparison between brands is much easier.
Firms can take sales 24/7.	There is usually a wider choice available.
Firms can offer goods to a much wider market.	Customers can see reviews of products and services.