The Marketing Web

Student Handout/Resource Guide

Marketing Magnet Program

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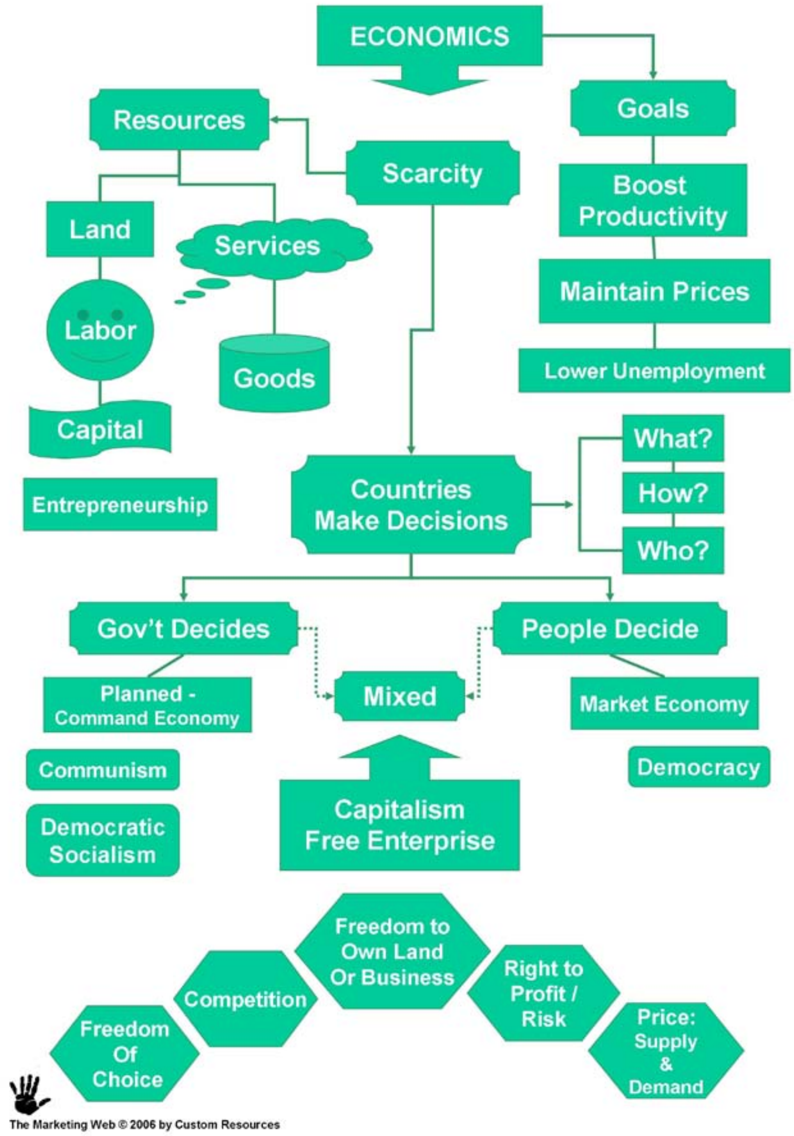
The Marketing Web: Economics



The web begins with the term "resources." There are three categories for resources: land, labor, and capital. Some people refer to the 4th as entrepreneurship. From these resources, products are made and can be either goods or services. Goods are tangible and services are intangible.

Because a country does not have enough resources to produce all the goods and services that people need and want, scarcity exists. It is because of this problem that countries have to have an economic system in order to make decisions about their precious resources. Those who make these decisions determine the type of economy a nation has. There are three economic questions that must be answered in order to use the resources most efficiently. What will be produced? How will it be produced? Who will receive the products?

In some countries, the government answers these three economic questions. This is known as a planned economy or a command economy. Two common types of political systems associated with planned (command) economies are communism and democratic socialism.

On the other hand, when the people answer the three questions, the system is called a market economy. It is called a market economy because the people make up the "market" for the available goods and services.

Realistically, no country is purely a command or market economy. The true existence is known as a mixed economy. Since the US has both governmental controls and regulations and the people have the freedom to make consumer choices, the economy is one that is mixed. It is referred to as the Free Enterprise System. The political system associated with the Free Enterprise System is a democracy.

Freedoms associated with the Free Enterprise System are freedom to compete, make a profit and with that comes risk, own land or open a business, and freedom of choice. Through the freedom of consumer choices, prices are set in a mixed economy based on demand and supply.

The goals of the US economy are to boost productivity, maintain fair and affordable prices, and to lower unemployment.

Three Key Economic Concepts

Concept #1:

RESOURCES are necessary to make products that will satisfy our wants and needs. There are three major resources:

1. **<u>land</u>** (natural resources) - anything in it's natural state found on land or the sea
2. **<u>labor</u>** - all people who work to make goods and services possible
3. **<u>capital</u>** - all money required to start and operate a business; also resources necessary to produce other goods

Identify each of the following as one of the 3 resources:

______ heavy equipment operator	_____ oil
______ receptionist	_____ fish
______ computer used in an office	_____ teacher
______ dump truck	_____ tools
______ school bus	_____ loan
______ coal	_____ manager
______ advertising agent	_____ factory
______ farm	_____ ship

Concept #2:

We fulfill our wants and needs by purchasing **PRODUCTS**. The economic terms for products are **GOODS & SERVICES**.

Some examples of ***goods*** you will purchase this week:

__________________________ __________________________
__________________________ __________________________

Some examples of ***services*** you will purchase:

__________________________ __________________________
__________________________ __________________________

What can we say about these goods and services?

* they <u>satisfy our wants and needs</u>
* each one has <u>monetary value</u>

Which is <u>tangible</u>? __________________________
Which is <u>intangible</u>? ________________________

Concept #3:

Can we have as many goods and services as we want?

The fact is, we have an **unlimited number of wants and needs**, but we have a very **limited number of resources**.

This is known as **SCARCITY**.

Because of this simple concept, businesses, individuals, and countries are forced to make ***economic decisions***. These decisions help us use our limited resources in the most efficient manner.

* Because of scarcity, what economic decisions do you make for yourself? Do you get enough allowance or a big enough paycheck to buy everything you need and want? How do you determine what you will buy, and how much of it you will buy? Could this decision making process be your own personal form of an economy? ? ? Do you use your resources most efficiently?

___

* Because of scarcity, what economic decisions do you think a business makes regarding the three resources?

___

___

___

On a larger scale, a country such as the United States
is also faced with the concept of scarcity.
The decisions made and how they are made
determine the country's ECONOMY.

Resources & Economic Systems

I. **Economic System** – the way a nation chooses to use its limited resources to produce goods and services

A. **Productive resources** – used to produce goods and services
1. land - natural resources: coal, trees, lakes
2. labor: management, secretaries, teachers
3. capital: money and equipment

B. **Limitation of resources** – decisions need to be made about using our resources most efficiently
Economists must answer…
1. what goods & services should be produced?
2. how they will be produced?
3. who will receive the goods & services?
   a. in our economy, the private free enterprise system, the people and businesses answer these questions
   b. in a planned economy (command economy), the government answers these questions

II. **Private Free Enterprise System**

A. **Freedom of ownership** – people are free to own, lease, sell, or give away property; people can own just about anything and do with it as they wish

B. **Competition** – the struggle between businesses to obtain a market share

1. Two types of competition
   a. price competition - focus on price; all other things equal, people tend to buy the lowest priced item
   b. non-price competition - competing on other factors besides price
   i.e. quality, service, convenience, location

2. Benefits of Competition
   a. forces businesses to lower prices
   b. selection of better quality merchandise
   c. new products developed
   d. old products improve
   e. incentive to businesses to operate most efficient way possible - good for the economy

3. Monopolies - exclusive control over a product
   a. prohibited in U.S.
   b. except for a few, i.e.: utility companies
      - reason: too wasteful to have more than one utility
      - the government regulates rate increases of the utilities

C. **Profit** – the major incentive for going into business
With this comes Risk – the possibility of loss or failure
1. one-third of new businesses fail within the first year
2. only one-half will last for two years; major reason for failure: poor management

D. **Freedom of choice**
1. Choice of goods and services
2. Choice of careers
3. Choice of government representatives

III. Other Economic Systems

A. **Socialism** – relies on government to make major economic decisions
   1. government owns big business
   2. income is distributed equally; less poverty
   3. welfare of the people is taken care of
   4. higher taxes provide free education, health care for all, etc.
   5. the government does not believe that the market forces spur economic growth; the government keeps everything consistent
   6. Holland, Spain, and Australia

B. **Planned/Command**– government makes all decisions
   1. government owns all industries and resources
   2. Karl Marx founder (classless society)
   3. Korea, Cuba, and Vietnam

Economics Comparative Outline

Business Ownership:

Capitalistic economy – most are owned privately
Democratic Socialism – some are owned by the government, but private ownership is encouraged
Command economy – all industries and resources are owned by the government

Consumer Products:

Capitalistic economy – many goods and services to choose from
Democratic Socialism – many goods and services to choose from
Command economy – few products to choose from

Employment:

Capitalistic economy – people are free to choose work, union formation, job competitiveness
Democratic Socialism - people are free to choose work, union formation, job competitiveness
Command economy – workers are assigned jobs according to government priorities

Private Property:

Capitalistic economy – land is privately owned, can be rented, sold, or developed
Democratic Socialism – land is privately owned, can be rented, sold, or developed
Command economy – land is government owned

Competition:

Capitalistic economy – businesses are constantly trying to gain customers due to profit incentive
Democratic Socialism – businesses are constantly trying to gain customers due to profit incentive
Command economy – no profit incentive due to government owned business, therefore no competitive incentive

Profit and Risk:

Capitalistic economy – individuals enjoy profit, but risk failure
Democratic Socialism – individuals enjoy profit, but risk failure
Command economy – no risk or profit apparent; success is not measured by profit or wealth

Social Services:

Capitalistic economy – education is free through twelfth grade; some assistance to less fortunate
Democratic Socialism – education is free through twelfth grade and college is paid for those who qualify; food, shelter, and medical care provided to all through program assistance
Command economy – education through sixth grade, government decides who will continue; food, shelter, and medical care should be provided to all

The Free Enterprise System - Demand

Objectives:
- Explain the law of demand
- Explain diminishing marginal utility
- Identify products with elastic and inelastic demand

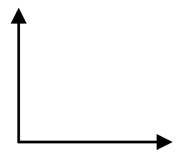
I. The Law of Demand

- A. Demand - consumers' willingness and ability to buy products

- B. Assumption - If price is low, demand will increase

- C. Assumption - If price is high, demand will decrease

- D. Demand Curve - Downward sloping curve representing correlation between different prices and the quantity people will buy at each price
  1. demand schedule - used to prepare the demand curve
  2. draw a demand curve example:



- E. Diminishing Marginal Utility - the fact that people may buy a limited quantity of a product even if price continues to drop
  1. this limits the extent of demand
  2. i.e. if Reeboks go down to $50.00 you may buy 2 pairs - - then they go down to $40 - -you may not buy any more because you have enough for awhile

- F. Elasticity of Demand - the exception to the "law"
  1. The degree to which demand for a product is affected by a change in price
     - a. Elastic demand - slight change in price creates a large change in demand
     - b. Inelastic demand - change in price has very little effect on demand

  2. Four factors that determine if a product will have elastic or inelastic demand

     - a. Are substitutes available if price goes up?
       - * if yes = elastic
         - i.e.: McDonald's prices go up, so you go to Wendy's or Hardees
       - * if no = inelastic
         - i.e.: we will still buy insulin even if the price goes up

     - b. Is price relative to your income?
       - * if the price is a large part of your income = elastic
         - i.e.: vacationing
       - * if the price is small in comparison to your income = inelastic
         - i.e.: potato chips

     - c. Is the product a luxury or necessity?
       - * luxury = elastic
         - i.e.: hot tubs
       - * necessity = inelastic
         - i.e.: insulin

     - d. Is the purchase an emergency?
       - * not emergency = elastic
         - i.e.: gasoline
       - * emergency = inelastic
       - i.e.: gas might be purchased in an emergency at any price

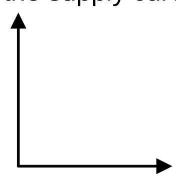
The Free Enterprise System - Supply

Objectives:

Explain the law of supply
Understand how supply and demand affect price
Explain how government is involved in the U.S. economy

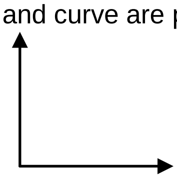
I. Law of Supply

- A. Supply - the amount of goods producers are willing to make and sell
- B. Assumption - at a higher price, producers will offer more products for sale
- C. Assumption - at a lower price, producers will offer fewer products for sale
- D. Supply curve - upward sloping curve representing how much of a certain product a producer will supply at various prices
  1. supply schedule - used to prepare the supply curve
  2. draw a supply curve example:



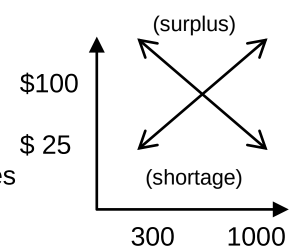
II. Supply and Demand Together

- A. Equilibrium Point - when the supply curve and the demand curve are put together, the place where they intersect is called equilibrium; draw an example and label the equilibrium point, the supply curve and the demand curve



  1. this point corresponds to the price that both the producer and customer are satisfied with
  2. at this point, no shortage or surplus exists
  3. equilibrium will stay consistent until something happens in the economy or otherwise to adjust the supply curve or the demand curve
     a. i.e.: causes of a demand change -

     b. i.e.: causes of a supply change -



- B. Surplus - supply exceeds demand at a given price
  1. suppliers may lower prices to encourage buying
- C. Shortage - demand exceeds supply at a given price
  1. suppliers raise prices and can still sell the goods and services

III. Roles of Government

- A. “Modified” Free Enterprise System – i.e.: United States because of the government intervention in the lives of citizens and business
  1. provider of services - military, police, education, road construction, libraries, etc.
  2. enforcer of rules and regulations -
     a. prevent the formation of monopolies
     b. protect workers and consumers
        1. Equal Employment Opportunity Commission
        2. OSHA – stands for: ________________________________
        3. grants licenses for certain careers
           - hairdressers, lawyers, psychologists
        4. health inspector - restaurants
     c. protects the environment
        - EPA – stands for: ______________________________
        - zoning
     d. monitors our banking system and controls the money supply
        - sets minimum wage

National & International Economics

Objectives:

Describe the four phases in a business cycle
Describe factors that affect business cycles
Explain how we measure the success of our economy
Distinguish between imports and exports
Identify how government and businesses influence international trade

I. Introduction

As you get older you will measure your financial growth yearly. You may compare how much you made this year as opposed to the year before, how much you owe, and how many assets you have acquired. HOW MANY OF YOU ALREADY DO THIS?

ECONOMISTS DO THE SAME TYPE OF COMPARISONS WITH OUR COUNTRY'S ECONOMY.

A. Business Cycles - represent changes in the economy
   1. prosperity - economy is growing
      a. low unemployment
      b. increase in output of goods & services
      c. high consumer spending
   2. recession - slow down in the economy < 6 months
      a. unemployment begins to rise
      b. decrease in output of goods & services
   3. depression - prolonged recession (> 6 months)
      a. high unemployment
      b. production is very slow
      c. consumer spending is very low
   4. recovery
      a. economy starts to grow after a depression or after a recession

B. Healthy economy:
   1. high productivity
   2. high employment
   3. high income
   4. stable prices

C. Factors that disrupt a healthy economy
   1. war
   2. above average inflation
      - inflation - general rise in prices
      - less than 5% = normal
      - double-digit inflation = over 10%
      - high inflation hurts those with fixed incomes
   3. inefficient productivity
   4. unfair competition

D. Groups of People that Affect Business Cycles
   1. Businesses - decisions are formed on forecasts of how well our economy is doing - - if economists say we are booming, naturally business decisions will be made to supply a booming economy - - and vice versa - -
   2. Consumers - saving more money allows banks to lend more money; spending more money on goods & services encourages businesses to produce more - - these two variables are influenced by wages and inflation
   3. Government -
      a. the government also spends more or less to encourage more or less production
      b. the government may tax more to slow spending and tax less to encourage spending
      c. interest rates may also be changed to encourage more or less spending
      d. federally funded programs, such as road construction, may be created to increase employment

II. Measurements of an Economy
   A. Inflation - when prices rise
      1. mild inflation is good (1-5%) - it shows the economy is stable
      2. double digit inflation (> 10%) - hurts economy because the dollar actually buys less-
         Who is hurt the most by high inflation?
   B. Full employment - 96% of total work force is employed
      - the work force is made up of people over 16 and able to work
   C. Productivity = output / input
      - high productivity is the goal of our economy through the effective use of our resources
   D. Stable Prices
      - prices that do not change drastically

   E. GNP – Gross National Product
      1. All goods and services produced in a given period, usually a year. Four components:
         - goods and services bought by the consumer (biggest %); durable and non durable goods
         - private investment (capital goods and inventories)
         - goods and services bought by the government
         - goods and services sold to foreign companies minus what they sold to the U.S.
      2. The GNP helps us identify what business cycle our economy is in and aids in making economic forecasts.
   F. Standard of Living
      - measurement of goods & services that people own
      - identifies their quality of life
      - GNP / population = standard of living
      - Does the U.S. have a high standard of living?
   G. Consumer Price Index
      - approximately 400 goods and services used by the average urban household are tracked and compared each year for price changes
      - also known as the "cost of living" index because the CPI charts the cost of necessities & inflation
   H. Unemployment Figures
      - state and federal government gives out these figures

III. International Trade
   A. Involves the exchange of goods and services between nations
   B. Imports - goods purchased from other countries
   C. Exports - goods sold to other countries
   D. Why do we need to trade with other countries?
      - economic interdependence - the fact that most countries rely on some other countries to supply products that their own country cannot produce economically
   E. Balance of trade - the difference in value between exports and imports of a nation
      - negative balance of trade - imports exceed exports
      - positive balance of trade - exports exceed imports
         - Which does the U.S. have?
         - U.S. is the largest exporter in the world
   F. Governmental influence - the government may be concerned about its balance of trade for defense purposes or because it is concerned with domestic companies and their success. The government may set tariffs or quotas to limit the number of imports.
      - Tariff - tax on imports
      - Quota - limitation on imports

The Marketing Web: Business

This web begins with the term “business.” Business is divided into four main functions which include finance, management, production, and marketing.

Management is necessary in all the other three broad areas of business. Planning involves making decisions about what the business wishes to accomplish. Organizing involves coordinating activities in order to accomplish the goals of the business. Controlling and monitoring is the evaluation of the company’s progress toward its goals.

Finance is the function of business that controls and monitors all money matters of a business. Production is the creation of new products or the improvement of existing ones. Marketing is the coordination of several business activities to provide the goods and services that will meet the wants and needs of the company’s customers.

Production and marketing provide conveniences to customers by adding value to products. The added value can be categorized into five different types of utilities.

The production function of business provides form utility. Form utility adds value by turning raw materials into useful products in all shapes, sizes, and colors.

Marketing can be credited with the other four utilities. Time utility offers convenience to customers by making products available during a particular season of the year or hour of the day. Place utility makes purchasing convenient for customers by providing many choices of locations for distribution. Possession utility expands the options for purchasing beyond “cash only.” Credit cards, layaway, and check writing privileges are a few examples of convenience added through possession utility. Information utility adds value by informing the customer about the product. Information utility is often provided through packaging and labeling.

There are 4 common forms of businesses. The sole proprietorship is a business owned by only one person. Two or more people own a partnership. A corporation is a legal entity and the business that has this legal formation may have many owners known as stockholders. Instead of make a profit, Non-profit organizations, such as a private school, are formed to achieve objectives. A private school for example has the objective of achieving educational goals instead of making a profit. A non-profit organization must still bring in as much money as it spends or it will not survive.

Businesses all experience the economic business cycles due to the local, state, and national economies. Those cycles include:

Prosperity Recession Depression Expansion

Business – 4 Functions

Objectives:

Identify characteristics of business in the United States
Describe production, marketing, and management
Explain various forms of business ownership
Define utility and the five types
Discuss aspects of social responsibility

I. What is a business?

A. An organization that engages in planning, organizing, and controlling resources to produce and market goods or services. Its goal is to create satisfying exchanges while making a profit.
B. The United States encourages business start-up.
C. Thousands of businesses are started every year.
   Why? In hopes of profit!
D. Because the cost of set up for manufacturing businesses is extremely high, most new businesses are retail and/or service based.
E. It is wise to start out small with little cost.
F. 95% of all U.S. businesses are small businesses.
G. Small businesses employ over 50% of the private sector work force (employees who do not work for the government).

II. Organizations that operate similar to businesses, but are not motivated by profit

A. Non-profit organizations - function very similar to business because they also have bills and expenses, but money left over is donated or kept within the business structure for the business
B. Public Sector - government agencies, i.e. schools

III. Functions of Business

A. Finance
B. Management
C. Production - goods or services are created, produced, grown, or manufactured
   - the process of creating goods & services

   <u>Four ingredients to production</u>:
   a. natural resources - supply?
   b. labor - 125 million employed in U.S.
   c. capital - tools & money used in production
   d. management/entrepreneurs - the creative minds and the risk takers

B. **Marketing - coordinated business activities,**
   to provide goods and services,
   to meet the customer's needs and wants

   <u>Four ingredients to marketing:</u>
   a. product
   b. price
   c. place
   d. promotion

D. The foundation of the four business functions - - MANAGEMENT - process of achieving company goals by effective use of resources (Why is this important?)

IV. Forms of Business Ownership

A. Sole Proprietor -
   1. owned by: ________________________________
   2. 70 % of all businesses in U.S.
   3. who invests for start up? _____________________
   4. work hours? _______________________________
   5. local examples: ____________________________
B. Partnership -
   1. owned by: ______________________________________
   2. least or most common form of business? _____________
   3. how are profits divided? ___________________________
   4. risks are also shared
   5. partners assume responsibility for other partner's actions

        6. local examples:_______________________________
    C. Corporation - a business organization with many owners that operate under a government charter
        1. what's a charter? - a state or federal document stating rules of operation, how many shares of stock can be sold, etc.
        2. Owned by:__________________________
        3. 90% of the GNP is derived from corporations
        4. corporations employ 70% of the work force
        5. can corporations do business abroad?
           i.e.:____________________________
        6. conglomerate - business organization made up of a group of companies in a variety of industries; advantage - money stays between firms
    D. Non-Profit Organization- mission other than earning a ___________
    E. Cooperative - a business formed by people with the same need for a product in order to benefit from the company's existence
        1. examples:______________________
    F. Franchises - business formed between a well-known corporation and an independent or group
        1. this is one way corporations can expand
        2. many benefits:___________________________________
           ____
        3. any disadvantages?______________________________
           ____

V. Business/Economic Utilities – utilities is an economic term that means value added; the ability of a product to be useful and satisfy the customer
    A. Production Utilities
        1. Form Utility - raw materials are produced into something more useful, form utility is being created
    E. Marketing Utilities
        1. Place Utility--distribution/shipping
            - being able to buy a product where it is convenient
        2. Time Utility--storage/organized buying & ordering
            - being able to buy a product when it is convenient
        3. Information Utility--communication with customer
            - seeing product information as beneficial from its packaging label, nutritional value, etc.
        4. Possession Utility--actual exchange process
            - being able to obtain products through credit, layaway, etc.
        5. All marketing utilities help to get the product into the hands of the consumer/customer.

VI. Additional value added through marketing

    A. Advertising creates large demand
    B. Manufacturers can use mass production - unit cost of each product is less because of fixed costs
    C. Manufacturers sell cheaper if they can sell in larger quantities . . .
    D. . . .Therefore making the cost to the retailer cheaper
    E. Marketing activities (advertising/promotion) can also increase competition. What are benefits to this?
    F. The marketing emphasis is to satisfy customers - marketing research is constantly being done
    G. This tells marketers what the customer wants changed or what the customer wants for a new product
    H. Marketing people inform the manufacturing people about consumer's wants and needs, resulting in better goods and services

VII. Social Responsibility
Businesses are not only profit driven, but need to be community-minded and aware of environmental needs.

    A. Ethics- guidelines for good behavior . . .doing what is "right"
        1. abiding by the law
        2. recycling, conserving natural resources
        3. preventing pollution, EPA
        4. product recall on unsafe products
        5. Consumerism? What is it?

The Marketing Web: Marketing Concepts

Used by successful businesses today, the marketing concept is the practice of clearly identifying who the businesses customers are and finding out what they need and want. Then all activities of the business should be focused on satisfying the customer.

Businesses may focus on providing goods and services to the industrial market or the consumer market. Businesses that sell to the consumer market sell products for personal use. Those that operate in the industrial market sell products for business use. Some markets will be international, and others that stay within the US are domestic.

It is essential to the success of every business to determine the strategy used to identify the target market. Two approaches are market segmentation and mass marketing. Market segmentation is the most common method because few businesses sell products that have global appeal. With growing consumer demands and technology, adaptation and customization are necessities. Customers can be segmented according to the following categories:

> Demographics – age, gender, ethnic background, education, income, and other personal characteristics of the potential customers
>
> Geographics – based on location and other related characteristics
>
> Psychographics – lifestyle, attitudes, and interests of potential customers
>
> Behavioral Variables – segmentation based on various benefits that a product offers and how customers use the product

In rare instances, a company does have a product that has global appeal and market segmentation is not necessary. The company may mass market this type of product. Because consumers' wants and needs are very different, mass marketing is efficient for few products.

Once the target market has been identified, all decisions of the business can be focused on this special group of potential customers. These decisions make up the company's marketing mix. There are four categories to the marketing mix, known as the
"Four P's:" product, price, place, and promotion.

MARKETING CONCEPTS

Objectives: Identify the goals of the marketing concept
Differentiate between the marketing concept and the sales concept
Identify two approaches to selling a product
Explain market segmentation & its components
Identify and explain the four P's and their relationship to the target market

I. The marketing philosophy/marketing concept

A. Two objectives
1. to satisfy customer wants and needs
2. to make a profit

B. Businesses used to focus primarily on sales – known as the "Sales Concept"
1. For example, Henry Ford's first autos were all the same style and were all black -- how many people would that satisfy now?
2. customer preferences were not taken into account
3. little or no $$ was spent on Research and Development

C. Research & Development enables ***marketing oriented*** companies to learn what customers want.
1. convenience is something R & D has found very important to customers
2. quick service is another quality customers want
3. Marketers have found that many people are living longer. What does this type of research tell various marketers?

II. Market for a Product

A. All the potential customers who share common needs and wants and who have the ability and willingness to buy the product

B. Two types of markets
1. consumer market - potential customers who buy for personal use: a home computer
2. industrial market - potential customers who buy for business use: computers for workplace

III. Two Marketing Approaches to Sell a Product

A. Mass marketing
1. using a single marketing plan for one product to reach all customers
2. items with general appeal are mass marketed
3. items with few benefits to distinguish it from another are mass marketed
4. i.e.: chewing gum, household cleaners

B. Market Segmentation
1. identifying a target market (what's a market?) and developing products that appeal
2. items with many features and benefits that make it much different from other brands are marketed through the use of market segmentation
3. How do you segment a market into a ***TARGET market***?
    1. geographics - where a person lives
        - target for ski equipment - where it snows

2. demographics - refers to personal characteristics
    - trendy clothing - 12-25 yr. olds
    - YM for women, GQ for men
    - Lexus for wealthy, GEO for conservative
3. lifestyle - refers to patterns of behavior
    a. psychographics - refers to values & attitudes
        - ATM - fast pace individuals
        - Slim Fast - for weight conscious people
        - Non Alcoholic Beer - health conscious
        - "Working Woman" magazine - career woman
4. product benefits - involves customers' wants & needs
    - jogging, tennis, basketball shoes, all requiring a different design
    - shampoo for dandruff, oily hair, perms
    - caffeine free and diet drinks

C. Segmentation is done similarly for industrial markets.

IV. MARKETING MIX

A. After a company has identified its target market, it is time to develop a marketing plan. The plan can be categorized by the following . . .

B. Marketing Mix also known as the "Four P's"

Decisions about these four areas that make up the marketing mix help to reach the target market and make a profit.

1. ***Product, Place, Price and Promotion***
    a. PRODUCT decisions - what to make, how many, level of quality, packaging, brand name, ingredients, etc
    b. PLACE decisions - where the product will be sold and how it will be distributed
    c. PRICE decisions – what is the target market's income, how does supply meet demand, what are the appropriate terms of payment
    d. PROMOTION decisions - which media should be used, when to advertise, how much money should be allocated for the promotional mix

Marketing Functions & Purpose

I know a lady who grows awesome strawberries. She would like to sell them during the harvest season because she has so many. All of her strawberries are grown pesticide-free and they are delicious as well as good for you. Not having much experience with marketing, she needs your input on how to sell her berries. What are a few suggestions? Think about ways she could sell them at other times during the year, not just the harvesting time. Your suggestions will increase the value of her product!

Objectives:

Define target market, explain how it relates to the marketing concept
Identify forms of utility
Explain the cost and value added by marketing
Define the marketing strategy and relate it to the marketing mix

Without any marketing expertise, the lady wouldn't be able to distribute her strawberries in an efficient manner. She wouldn't know what the customers wanted, or how to let the potential customers know about her awesome strawberries. She first must consider who would actually want to buy her strawberries, in whatever form, during particular seasons.

I. **Target Market**

A. Since most businesses can't serve everyone, the best thing for a business to do is evaluate and decide who it can serve the best. Once the business has determined who wants or needs the good or service the most, the business has determined its **target market.**

B. Determining the target market makes it easy for the business to reach out to its customers . . . because it knows exactly who to reach out to.

C. Market segmentation - dividing customers into various groups because of different characteristics and needs.
For example: single, middle class, female with children - would be interested in day care, house cleaning, reasonable prices

II. **Utility** - usefulness to the customer; an added value

A. 5 types of utility

1. **Form utility** (the only one provided by production)
just like it sounds, simply forming raw material
into something useful to various customers
2. **Time utility** (through marketing)
making the product available at the time we want it
i.e.: time of year, time of day
** accomplished by careful planning of
inventory and ordering & by the business hours
3. **Place utility** (through marketing)
being able to buy a product at a convenient location
** accomplished by physical distribution
i.e.: being able to eat lobster in Missouri and beef in Rhode Island
4. **Possession utility** (through marketing)
helping the customer take ownership of the product
** expensive products can be purchased on credit, layaway, trade-in
5. **Information utility** (through marketing)
making a product more useful through some form of communication with the customer to enhance benefits
** through the use of billboards, labeling, and packaging

III. **Cost of Marketing**

Marketing accounts for approximately 50% of a product's selling price. Wow! That's a lot. Could the customer get the product cheaper without marketing?

What do you think? Is marketing necessary? Name some products that obviously don't have the marketing behind them like Nike, for example.

IV. The eight marketing functions, divided into three groups

A. **Exchange** - action between the buyer and seller
  1. buying
  2. selling

B. **Physical Distribution** - action between producers & marketers, then finally the consumer
  3. transporting
  4. storing

C. **Facilitating Functions** - facilitate means to help along
  5. standardizing and grading
  6. financing
  7. risk bearing
  8. gathering marketing information

*** think of these as elements to the marketing concept ***

V. Marketing Strategy

The company that uses the marketing strategy focuses on a marketing mix that is centered on a certain group of customers, the target market. Therefore, all four P's of the mix are decided upon with the target market in mind. The customer is the focus of all activities within a company that implements a marketing strategy.

A few examples of questions answered when the marketing strategy is used:

A. **Product** – What additional goods or services would the target market buy?
B. **Price** – What is the income of the target market? How much value is added by the company? How much will the target market pay?
C. **Place** – Would two locations be more convenient for the customers?
D. **Promotion** – What type of magazine does the target market read?

Market Segmentation

Objectives:

Describe four variables used to segment a market
Identify marketing segmentation limits and determine when it should be used

I. What is market segmentation?

A. identifying a target market by dividing the market into segments according to customer needs and characteristics

B. Market segmentation helps marketers sell more efficiently. HOW?

II. How is market segmentation accomplished?

A. Demographics - characteristics about the customer

- age
- gender
- education and occupation
- ethnic background

B. Geographic Variables - statistics about where people live

- people who live in the same area have similar needs
- Why would a magazine company make two versions of its magazine?
- Does Campbell's soup advertise differently in different regions? Why?

C. Psychographic Variables - personalities and lifestyles

- used when segmentation by age and gender is not sufficient
- involves family criteria
- focuses on attitudes and values - Have values changed in the past 10 years?
  How has this influenced marketers?
  What are some of the value changes?

D. Behavioristic Variables - based on consumers' behavior about the product and the use of the product

- marketers of baking soda can market to users and nonusers
  Give examples of how?

III. Disadvantages of Market Segmentation

A. Costs more to differentiate packaging, promotion, etc. to more than one market
B. Research and identification is costly
C. Production costs increase when the product is changed to meet the needs of more than one market
D. Only used when the potential sales will exceed sales from marketing to one larger group
E. Risk is involved with smaller diversified markets

Managing the Marketing Mix

Objectives: Explain the purpose of the marketing plan
Explain components of a company's marketing plan/mix
List and explain the functions of management

If you were planning to open a new department within a store that would cater to teenagers, what decisions would you need to make? The following are some questions you would need to answer. How does each one relate to the four P's of the marketing mix? Label each one with one of the four P's.

_________ What brands?
_________ How many brands?
_________ What kinds of related merchandise to carry?
_________ What price ranges will sell?
_________ Which vendors should be used?
_________ Where should the new department be placed?
_________ How should the shoes be displayed?
_________ How should the new department be advertised?
_________ How many additional employees to hire?

Every decision directly relates to one of the four P's in the marketing mix. It is obvious that the management of the marketing mix is extremely important to a company's success.

I. The Marketing Plan

A. The marketing mix, or the four P's, must blend to make a business/department/product successful. The best mix for the target market must be in place.
B. The marketing plan identifies goals and strategies.
C. The marketing plan also identifies the amount of time and the cost of meeting each goal.
D. The marketing plan asks and answers the following:
   1. **Where are we now?**
   2. **Where are we headed?**
   3. **How are we going to get from here to there?**
   4. **How will we know when we've arrived?**
E. The marketing plan allows a company to analyze what the customers want, what the company is doing to meet those wants, what the competitors are offering, and ideas for new or improved products and new ways of doing business.
F. To sum it up, a marketing plan is the best way for a company to coordinate its activities and judge its progress.

II. What does the marketing plan consist of?

A. For a big company:
   1. formal written plan
   2. involves all departments
   3. enables all employees to know exactly the expectations of the company's directions and goals
B. For a small company:
   1. may not be written
   2. key people who make decisions know the company's goals and how they plan to get there through effective communication

C. Components to the plan:

Section 1. SWOT - Strengths, Weaknesses, Opportunities, & Threats in existence at the current time. This is known as the <u>Situational Analysis</u>

Section 2. Statement of Goals - these usually include specific figures and dates for completion

- short range goal - usually covers one year
- long range goal - from five to 10 years

Section 3. Strategies - details duties of individuals or departments; strategies include a completion schedule

Section 4. Evaluation - goals or strategies will either be adjusted or marked as completed and successful. A formal comprehensive and systematic evaluation of the goals is referred to as a <u>marketing audit.</u>

III. The Functions of Marketing Management

A. Management - activities undertaken by one or more to coordinate the activities of others in order to achieve results

1. Goal of management - to meet the goals of the organization

B. **Four Functions of Management** -

1. **Planning** - setting goals and choosing strategies; identifing exactly what the company must do to be successful
2. **Organizing** - assigning tasks developed during planning; deciding when, how, and by whom the activities are to be completed to achieve the goals identified during planning
3. **Directing** - guiding people’s activities to accomplish the goals; leading, motivating, or influencing
4. **Controlling** - measuring the performance and comparing it to the standard; an ongoing process;
5. ***Overall, managers coordinate the activities of others.***

Understanding Consumer Behavior

Objectives:

Explain the importance of understanding consumer behavior
Define and classify buying motives
Identify external and internal influences on buying behavior
Explain why it is so difficult to understand buying behavior

What motivates customers to buy? What makes a customer choose one brand over another?

* Whose opinion influences you most about clothing? hairstyle?
* Are you loyal to certain brands?
* If you had enough money to buy any car, what would it be? Why?
* What was the last impulse purchase you made? Where did you buy it?

I. What do marketers want to know?

A. What causes people to buy
B. How people buy
C. Why they act as they do in a particular buying decision

II. Buying Behavior - the way a person acts in the marketplace

A. To understand buying behavior, a marketer must understand the psychology of human behavior.
B. Like all behaviors, buying behavior is caused by a motive.
C. The consumers' needs and wants is a good place to begin when trying to understand their buying behavior.

III. Stimulus - Motive - Response

A. Stimulus - what makes a person aware of a need or a want
(warm weather . . . swimsuit . . . lose weight)
B. Motive - an internal force that prompts a person to act
(personal goals act as a motivating force: wanting to look slim and trim)
C. Buying Motive - an internal force that prompts a person to buy something
D. Response - action taken to satisfy the need or want (buy diet food !)

- The goal for marketers is to determine the motive.
- Then they can provide the stimulus through ads, etc.
- The marketer's hope is that the stimulus will initiate the buyer's response.

IV. Motivation research experts have identified these categories for motives:

A. Physical or Psychological
1. Physical - basic needs deriving from hunger/thirst, health, safety/protection, comfort/convenience, and entertainment/recreation
   - purchases to fulfill these needs: food/soda, fitness equipment, alarm system/insurance, comfortable lodging/delivery services, movie rentals/video games
2. Psychological - based on the needs for love and affection as well as prestige and recognition
   - purchases to fulfill these needs: greeting cards and gifts (emotional), fancy cars and expensive clothes

B. Rational or Emotional
    1. Rational Motives - based on logical reasoning
        - purchases involve dependability, economy, efficiency
    2. Emotional Motives - based on instincts, personal feeling, and emotions
        - purchases involve romance, appearance, prestige, recognition, and popularity

C. Product and Patronage Motives
    1. Product Motives - based on the choice of a particular product
        - purchases involve specific brand loyalty
    2. Patronage Motives - based on the customer's choice of a particular business
        - purchases reflect business loyalty because of helpful salespeople, reputation of the business, convenient location, etc.

D. FEW CUSTOMERS MAKE A BUYING DECISION BASED ON ONLY ONE MOTIVE

V. The Buying Response: Taking some kind of ACTION

A. When the stimulus and a motive are prevalent, action soon follows. The action begins as a mental process and ends when the purchase is made and the need is satisfied.

B. External and Internal Factors Influence Buying Behavior
    1. External factors -
        - Family, Friends, Reference Groups, Culture
    2. Internal factors -
        - Individual Personalities, Perceptions, Attitude, Motives (Past Experiences Develop All of These)

VI. How does all this apply to Marketing? . . . It's not easy.

A. Marketers would have it made if they could pin point the specific motive that a customer would react on at a given time. This is highly impossible. Why?

The Consumer Market & Its Influences

Objectives

Identify the two types of markets
Describe what makes up the consumer market
Describe demographic factors that affect marketing
Understand the importance of studying income
Identify factors that influence spending

I. Two different types of markets

A. The Industrial Market – businesses or organizations

B. The Consumer Market

1. all potential people for goods and services sold for personal use
2. consumer products - goods & services intended to satisfy needs and wants of the individual consumer
3. **DEMOGRAPHICS** – characteristics of the population dealing with age, gender, ethnic background, income, education, and occupation
    a. Changes in demographics affect the type of goods and services that are produced and how they are marketed
    b. People are generally more educated now - - How has that changed the way products are marketed?
4. The three biggest demographic changes to affect marketing are:
    a. population - size and characteristics
        1. size: U.S.A.: 268 million population projected for the year 2000
            - world: 6 billion for 1998
            - births to older women are up
            - people are living longer
        2. characteristics: how has your neighborhood changed?
            - number of households (social unit consisting of one or more)
            - family - (two or more people who are related living together)
            - sizes of various age groups, i.e. babyboomers & the elderly
        3. geographic distribution**:**
            - movement from central to southwest (Sunbelt)
            - movement from major cities to suburbs
            - cities still growing but slower than usual
            - most crowded states in North and East
            - majority of people live in the South & West
    b. income
        1. income-the money a person receives or earns
            - **personal**- money received before any taxes
            - **disposable**- money left after paying taxes
            - **discretionary-** what's left after paying for the cost of living, $$ spent as you want
        2. What do marketers want to know about income?
            - How much income do people have to spend?
              Interested in trends dealing with discretionary and disposable income. What groups of marketers are most interested in disposable income?
            - Where is the income geographically located?
              Reported by the government by city, region, state, neighborhood
              Highest $$ around Great Lakes and Atlantic areas
            - How is it distributed among the population?
              The middle class is shrinking.
              (Income of target market is defined before
              promotional campaign is designed.)

c. Spending Patterns

1. different ways people spend their money
2. information from surveys in magazines, research & development, government
3. research about patterns and income levels
   * used by big business/manufacturers
4.) patterns in product demand
   * largest demand and spending on housing & food
   * trends point to big spending in the areas of housing, travel, amusement industries, retail stores, and insurance

---

Further discussion on demographics:
For the following products, who would be the probable consumer based on
* gender? * age? * income?

1. a cereal made from wheat and rice, coated with chocolate and shaped like teddy bears

2. a hair conditioner that smells like almonds and makes hair soft and tangle free

3. an American made minivan with seating for eight and two built-in child safety seats

4. a high-top athletic shoe with a specially designed sole that will increase the jumping ability of the athlete

---

Is the spending pattern the same between high school seniors who have a job and those who do not? Do parents make up the difference? Does this make a difference to marketers?

Conducting Marketing Research

Objectives: Define primary and secondary resources
Identify various methods of collecting data
Explain what should be done with data once it is collected

I. Collecting the Data – (Data is plural, the word means facts)

A. Primary – doing the research for the first time for a specific research activity

1. external - i.e.:

2. internal - i.e.:

a. Survey - most widely used methods of obtaining primary data; a sample of people are selected to represent a larger population; three types: personal interview, telephone interview, mail questionnaire

* Personal interview - most expensive, but gives the most information
    * Mall intercept - common personal interview method; quick, but many are hurried and is not considered a true random sample
    * Focus group - form of personal interview; made up of 6-10 people who meet with a leader to talk about how they feel about a given product
* Telephone survey - advantage
  ____
  disadvantage ___________________________________
* Mail questionnaire - advantage
  ____
  disadvantage - _________________________________

b. Panel - used when researchers need to study a group of people over a course of time. The sample participates in an ongoing survey. Marketers use this information to judge the effectiveness of their advertising, marketability of their products, strength of the competition, etc.

c. Experimentation - involves real world elements, scaled down to a smaller population to allow the marketer an idea of the possibilities of success with certain products
   *Test marketing - selecting an area to try a product, or to test a new way of doing something

d. Observation - give examples -
   ____
   ____

B. Secondary – using research that has already been gathered and analyzed for other purposes

1. external - i.e.:

2. internal - i.e.:

* Why go to all the trouble and cost of primary data when all this secondary data is available?

* When is secondary data useful? Give an example:

* What are some disadvantages to secondary data?

II. Preparing the Data

* What is "raw" data?

A. Checking for Accuracy
   1. Spot check to see if the raw data was collected properly
   2. Randomly check several figures to see that they were recorded correctly

B. Classifying
   1. Purpose is to categorize data into meaningful categories; this is usually decided at the time of making the survey, etc.
   2. Anticipated categories may be changed during classification stages.

III. Analyzing the Data - at this point the data is no longer raw.

A. This step is enabling the researcher to study various components of the research facts in order to make it useful - to come to a conclusion or to a possible solution

B. What is bias?

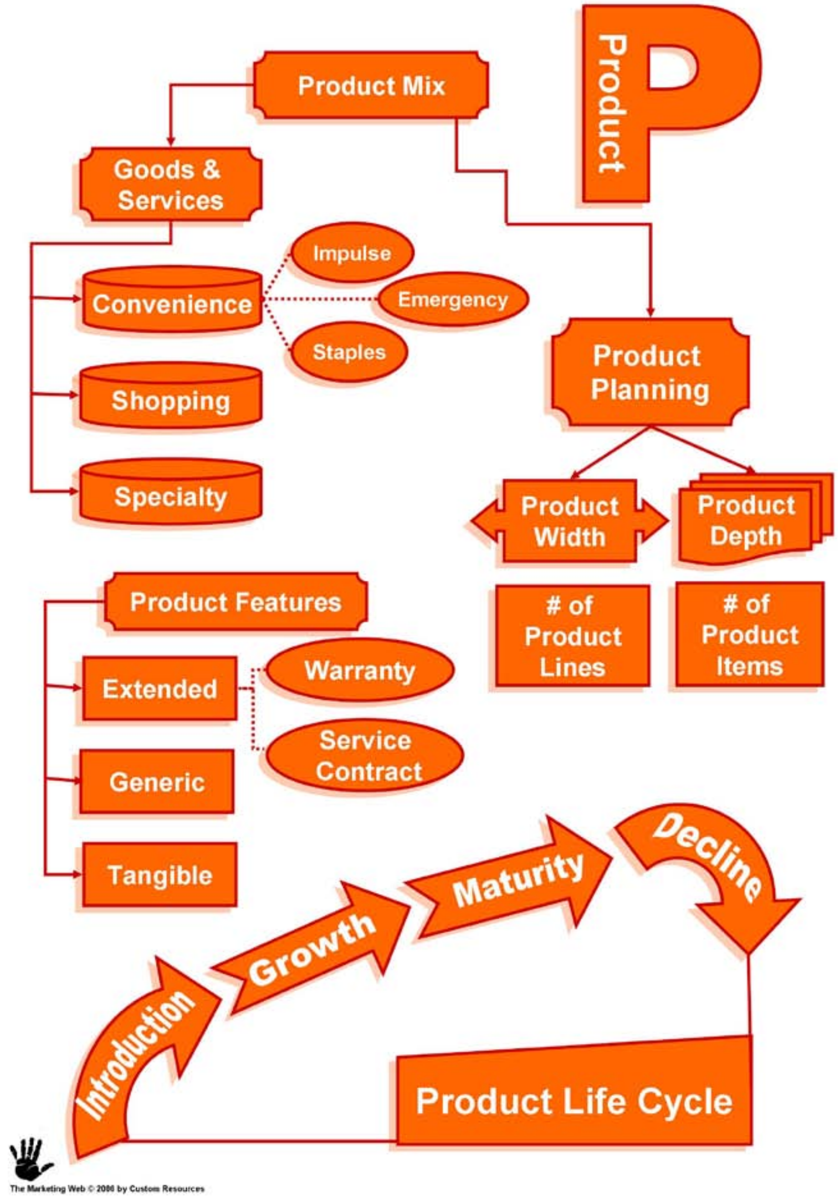
IV. Preparing the research report

A. After the data have been COLLECTED, PREPARED, AND ANALYZED, a report must be made.

B. The reader must judge the usefulness and accuracy of the results.

C. Tables and charts make results easy to understand. HINT: Use them in your competitive written projects!

The Marketing Web: Product



Product decisions made by businesses include what products to produce and what products to sell. The combination of all decisions determines the business's product mix.

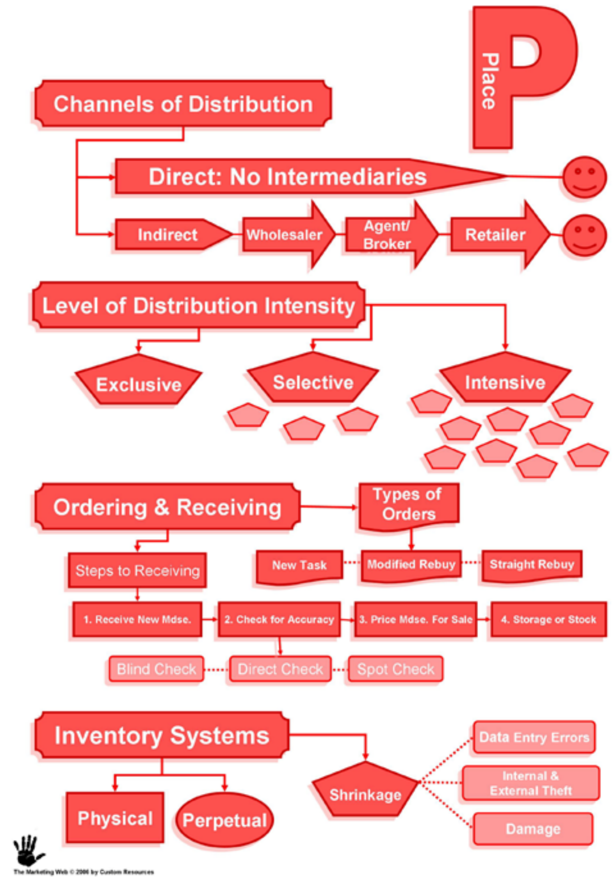
Product planning determines the width of the business's product mix, or the number of different product lines a business carries. The product depth is the number of items within each product line. The product line is a group of similar products such as sporting apparel. The product item is the specific brand or size of a product within the line.

Both goods and services make up a business's product mix. Convenience goods are products shoppers buy with little, if any, planning. Impulse items, such as candy bars, stapes like milk, and eggs, and emergency items (i.e.: gas or aspirin) are categorized as convenience goods. Goods that require more thought and more searching are known as shopping goods. Refrigerators, cars, and other items that require a consumer to shop around are shopping goods. Specialty items are items that consumers buy because of a special brand name or product/service benefit.

Marketers also consider the features of the products they offer. Tangible features are those that describe the product and can be either seen or touched, such as the color or the size. Extended features include warranties and service contracts. Generic features relate to the reasons people buy the product.

The product's life cycle is important for determining changes to the product mix. First a product is introduced, and then it will ideally move into a growth stage. Sales are at their peak during the product's maturity stage, and eventually the product will go into the decline stage. While in the maturity stage, businesses will often offer new features or benefits of the product to prolong the prosperity of the product, before its demand drops. The makers of Campbell's soup continually maximize the maturity of the brands soups by offering various flavors, sizes, nutritional ingredients, and new recipes. This has kept the product life cycle for the company's soups maximized. Marketers promote products differently, depending on the product's life stage.

The Marketing Web: Place



Place, one of the four P's of the marketing mix, involves decisions regarding distribution. The path a product takes from the producer to the customer is known as the product's channel of distribution. The channel will either be direct distribution or indirect distribution.

When a product is distributed directly to the customer, no intermediaries are involved. The product goes from the producer directly to the customer. When indirect distribution is used, there is at least one intermediary that intervenes between the producer and the customer. The one or more intermediaries that might be included in the channel are:

- wholesaler – business that buys large quantities of products and resells them to other businesses for resale or use in the business
- agent – one who negotiates the sale of products
- retailer – business that sells products to the ultimate customer

In addition to selecting the appropriate channel of distribution for a product, businesses must decide on the intensity of the distribution. Intensity refers to how much of the product will be distributed and what locations will offer the product. The different levels of intensity are:

- Intensive – distributing a product in every convenient location for the target market; soft drinks are an example
- Selective – some restrictions are implemented regarding the number and types of locations where a product will be distributed; computers are an example
- Exclusive – using one or a select few outlets for a product; a Mercedes is an example

Ordering merchandise and receiving the merchandise also falls into this category of marketing. Steps to receiving include:

1. Receive the new merchandise
2. Check for accuracy – this can be done 3 ways: by blind check, direct check, or spot checking
3. Inventory and price the merchandise for sale
4. Store it or stock it on the shelves for sale

Types of Orders are classified as: New Task, Modified Rebuy, and Straight Rebuy.
Once merchandise is received, inventory of that merchandise must be kept to track important information to the business. Physical inventory is an actual count of items and is usually done once or twice per year by a company. Perpetual inventory is done on an on-going basis and may be accomplished by computer or done manually. Every sale, every item, every return, etc. is logged. A physical count of inventory is still used with perpetual systems. Shrinkage is the reduction of inventory from data entry errors, internal and external theft, and damaged merchandise. Inventory systems track shrinkage so the business can deduct this as an expense.

PLACE: Channels of Distribution, Wholesaling

Objectives: Explain the role wholesalers have in the distribution of products
Identify different types of wholesalers and their functions
Compare and describe merchant wholesalers and agent wholesalers
Compare brokers and agents

I. What Wholesalers Do

- act as intermediaries between producers and their customers
- sell mainly to other businesses, not usually to final end customers
- speed the marketing process

II. The <u>Functions</u> of Wholesaling – not all wholesalers engage in each of the following

A. Selling – In order to provide retailers with products, the wholesaler must have a well-trained sales force to visit the retailers and potential buyers to establish business relationships.
   - Wholesaler's sales representative - make regular visits to retail store buyers, industrial firms, schools, hospitals, etc. They carry samples, catalogs, and displays that show the wholesaler's complete line of products.

B. Providing Marketing Information - Wholesalers are in contact with many retailers/buyers and can be a valuable resource of information to the retail industry about trends in each industry

C. Buying – To be able to stock the products that the retailers/buyers want, the wholesaler studies fashion trends, consumer demand, and retail prices. This research enables the wholesaler to buy the product that the retailer will most likely want and in the right quantities.

D. Warehousing - This is the process of storing goods in one place. The wholesaler provides the service of warehousing the product that the retailer wants. The retailer does not have the space for storage and can order product from the wholesaler as needed.

E. Bulk-Breaking - This is the process of dividing large shipments into smaller ones. This is a service provided by the wholesaler that is advantageous to the manufacturer and the retailer. Manufacturers don't want to deal with small deliveries, and retailers can't afford big orders. The wholesaler is the perfect middleman in this instance.

F. Transporting – Large, frequent deliveries can be made to wholesalers from the manufacturers. If the manufacturer had to deliver to all surrounding retailers who purchased its goods, it would be very costly and the delivery would be unpredictable. Wholesalers pass along the savings of the transportation costs to retailers in smaller shipments.

G. Extending Credit - Retailers may pay wholesalers for merchandise with the money earned from the sale of that same merchandise. An example of this would be a retailer ordering Easter decorations in January, and not paying for them until May. This is known as extending "terms" for payment, such as 2/10, net 30.

H. Providing Promotional Assistance - A variety of promotional assistance ranging from help in designing the store layout to sharing in the costs of local advertising may be offered by the wholesaler. This is called cooperative advertising.

III. Types of Wholesalers - They are classified by whether or not they take ownership of the goods they offer

A. Merchant Wholesalers - They do take ownership.

1. Full-service wholesaler - provides all of the wholesaling functions
2. Limited-service wholesaler - provides some of the wholesaling functions

   a. cash & carry wholesaler - maintains warehouse where retailers use their own trucks to pick up merchandise. Neither transportation nor credit is provided. Lower prices are offered because of the limited services.

   b. drop shipper - takes the order from retailers and arranges for delivery of goods directly from the producer. They take ownership but not possession. Freight costs are minimal. Sometimes they operate with a small office and phone. They deal with bulky items such as lumber and coal.

   c. rack jobber - sells specialized lines of merchandise to retailers. Common in the food industry, the rack jobber supplies non-food items, such as greeting cards. They assume ownership, order the merchandise, set up displays, remove old merchandise, and mark prices. Sometimes the retailer pays the rack jobber in cash for the items sold.

   d. truck jobber - uses trucks for storage, selling, delivery, and collection. Both sales and delivery are made to the retailer on the same trip. The truck jobber sells for cash and limits stock to nationally advertised specialties and fast moving items, such as candy, cheese, and potato chips. Their costs are usually high.

B. Agent Wholesalers - do not take title to the goods. Their main function is to assist the manufacturers and the retailers in the buying and selling process.

1. broker - can represent the buyer or seller. They do not physically handle the goods or take ownership. Only brings the buyer and seller together.
   Usually specializes in one type of product such as real estate, securities, or some food items that are seasonal and don't have long before they spoil - the distribution must be fast and short.
   They may not continue relationships with the buyer after a transaction.

2. selling agent - product specialist of only one product from one manufacturer, such as sound systems for a sports complex;
   they have authority to make deals for the manufacturer and usually maintain an educated sales force regarding the product;
   the goods they sell usually are not kept in a warehouse but are shipped directly from the manufacturer to the final end customer.

3. manufacturer's agent - handles part or all of the output of one or more manufacturers within a given sales territory. They do not have the authority like the selling agent to make deals to the customers. They are bound by prices and conditions set by the manufacturers.

PLACE: Channels of Distribution, Retailing Businesses

I. Retailing - all forms of selling to the final consumer. Some industrial sales may take place in a retail setting, but it is still considered a retail store if <u>over half</u> of the sales are made to the final consumer market.

A. Retailing and our economy

1. Retailing adds economic value: time, place, possession, and information utility
2. Retailing is a large portion of the overall marketing costs of products
3. Retailing holds many opportunities for work
4. Retailing dollars make up a large portion of the gross national product

B. Retailing Terms

1. Retail Stores - specialize in providing goods and services to the final customer
2. Dealer – another term for retailer
3. Wholesaler - known as a distributor

C. Retailing Functions

1. Determine customer's needs and wants and supply the appropriate goods and services
2. Provide customers with a variety of merchandise
3. Make sure supply meets demand
4. Provide time and place utility
5. Provide possession utility - credit; other convenient services such as parking, gift wrapping, delivery
6. Sell at fair competitive prices

II. Classifying Retailers

A. General Merchandise Stores

1. Department Stores - Retail store employing at least 25 people. Carry clothing, gifts, and other goods and services. Products are moderate to high priced.

2. Mass Merchandisers - Sells many consumer items at reasonable prices. These stores are large, plain, and offer less than department stores. Products tend to be conservative and low priced.

a. ***Quality Mass Retailers*** - Optimize low prices by carrying private brands. **Sears

b. ***Discount Retailers*** - Makes a policy of selling at reduced prices. To maintain the low prices and offer a fashionable image, discount retailers also carry private brands.
**Wal-Mart (the nation's largest retailer)

c. ***Off-Price Stores*** - Sells brand name and designer fashion goods at 20-70% below other retail prices. Carries manufacturer's overruns, stocks left from cancelled orders, closeouts or discontinued styles, seconds and irregulars, goods manufactured out of season to keep factory workers employed, and importer's unsold merchandise. No private brands are carried. ** T.J. Max, Hit or Miss

d. ***Outlet Stores*** - Usually operated by the manufacturer and carry only that brand of merchandise. Products offered are manufacturer's overruns, seconds, and discontinued items at lower prices. Channels of distribution are shortened and marketing prices are reduced. **Tommy Hilfiger

3. Variety Store - Carries a wide assortment of goods in the low price range. Woolworth's was the first in 1879. Variety stores are becoming obsolete, due to competing discount stores that carry a wider selection of merchandise. **Ben Franklin

B. **Limited-Line Retailers** - A retailer that sells only one kind of merchandise, or several closely related lines. *Specialty shops* have a limited line of merchandise and a unique image.

1. ***Apparel & Accessories Stores*** **Express
2. ***Automotive Dealers***
3. ***Hardware & Building Materials Stores*** **Ace Hardware
4. ***Home Furnishings Stores*** **Pier 1
4. ***Food Stores aka "Supermarkets"***

    a. ***Specialty and Convenience Stores*** - Sole proprietorships that feature ethnic or gourmet foods.

    b. ***Combination Stores & Superstores*** - Combination stores combine food and drugs. Superstores aim to be a one-stop shopping center.

    c. ***Hypermarkets*** - These store are 200,000 sq. ft. or more and carry groceries and general merchandise. They carry more products than superstores.

6. ***Warehouse Stores*** - A self-serve store featuring convenience goods in bulk quantities at low prices.

C. **Nonstore Retailing** - Selling to the consumer without the use of stores.

1. ***Direct-to-the-Consumer Retailing***
    a. ***On the Street Selling***
    b. ***Door-to-Door Selling***
    c. ***Party-Plan Selling***
    d. ***Vending Machines***

2. ***Direct Marketing*** - (This method is becoming more and more popular because consumers are too busy to shop.)
    a. ***Direct Mail***
        Merchandise can be kept in an inexpensive place, rather than an expensive store. No sales people are needed and delivery costs are usually paid by the customer. Producing and mailing catalogs can be expensive. Paperwork or computer tracking is a necessity. Returns are frequent.
    b. ***Telemarketing***
    c. ***Electronic Marketing with Computers (cyber media) and/or Television***

III. Forms of Retail Ownership

A. **Independent Stores** - Stores owned or controlled by one person or family.

B. **Corporate Chains** – More than one store of a similar type, owned by stockholders and managed through a central organization. **Wal-Mart, The Limited

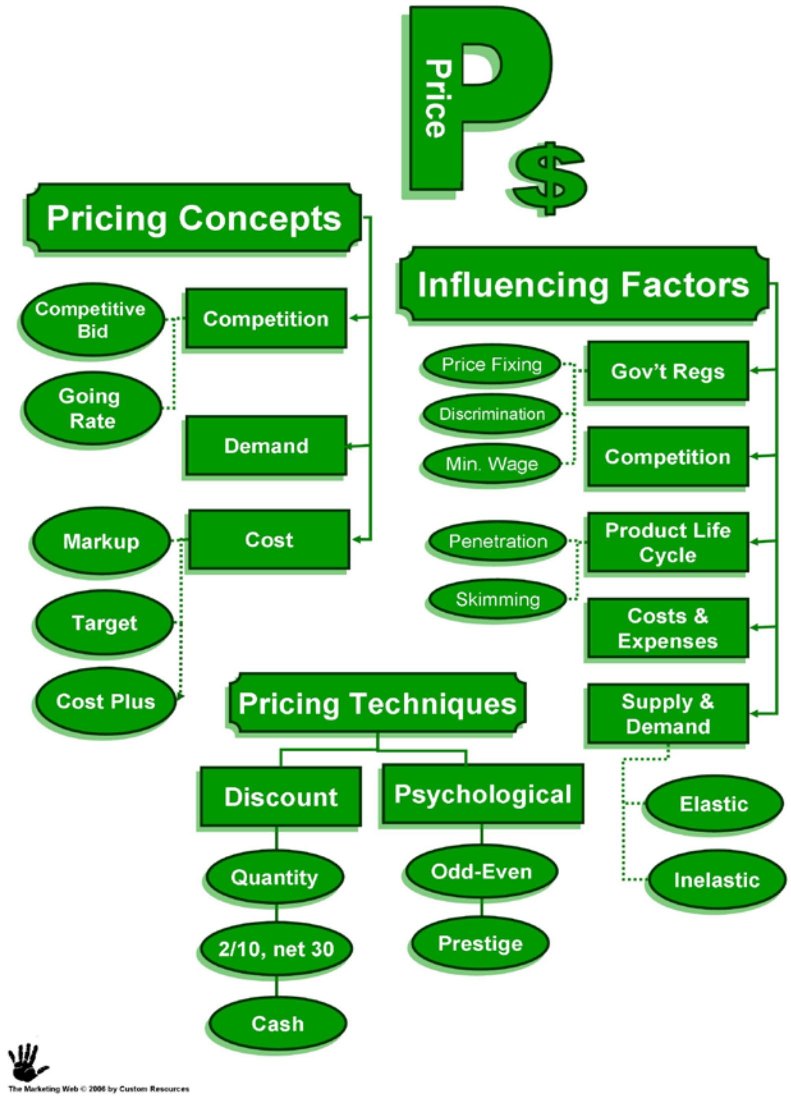
C. **Voluntary Chains -** A group of independently owned stores that share some or all of their buying.

D. **Franchise** - A group of independently owned local businesses that are run under an agreement with a corporation. **McDonald's

E. **Leased Business** - A business owned by a particular company but leased to someone else to operate.

F. **Manufacturer-Owned Store** - Manufacturers take on the responsibility of retailing as well as manufacturing. This is known as integrated distribution. **Sherwin Williams

The Marketing Web: Price



Price is the amount set by a business for its product. The goal of the business, regarding price, is to set a price equal to the value placed on the product by the customer and to make that price high enough to make a profit. Price not only affects a business's profit, but also affects its image.

Businesses use three different concepts to price products, depending on what the product is, what the competition is like, and who the target market is.

The pricing concept that is used when businesses are concerned with the competitors' prices is known as the competition oriented approach. Using this method, no direct relation to the price and the cost of the product is evident. Additionally, there is no relation to the cost and the desired amount of profit. Competitive bid pricing is used by businesses that estimate the cost of the "job" that will be done for the customer. This is a highly competitive approach to pricing because each business wants to get the "bid" for the work. Another method of pricing relating to the competition is going-rate pricing. Companies who sell similar products such as gasoline use this method.

When demand is high for a product, or no similar products are offered, a demand-oriented strategy might be used. The price is relative to the demand: high demand, high price.

Cost oriented strategies may be effective when a business needs to attain a certain return in relation to the expense. Markup pricing is expressed in terms of a percentage and is a common strategy among retailers and wholesalers. When a business needs to make a specific profit on products sold, the target return method is used. This method relies on a calculation of the break-even point. Using cost plus, all expenses are added, then the amount of profit desired is tacked on to arrive at the price. Many service businesses, such as consulting companies, use cost plus.

Two specific techniques businesses use to price products are psychological and discount pricing. Odd-even and prestige techniques are two methods of psychological pricing. When customers see products that are priced with odd numbers at the end, such as $19.99, a bargain is implied. On the other hand, a price of $35 represents a product with quality. These are examples of odd-even pricing. Prestige pricing involves giving products higher-than-average prices to create a prestigious image.

Several discount methods of pricing may be used. Quantity discounts are offered to customers who place large orders for products. Cash discounts are offered to customers to encourage early payment for the product. A specific example of a cash discount is 2/10, net 30. This means if the bill is paid within 10 days, a 2% cash discount is given. If this incentive is not taken, the entire bill must be paid within 30 days of the invoice date.

Marketers must be familiar with the factors that may influence price. Government regulations have an influence on prices. The government guards the customer against unfair pricing strategies such as price fixing. Price fixing occurs when competitors get together and agree on a high, low, or stable price to charge the customer. Price discrimination interferes with competition by selling the same products to different customers at different prices. Paying fair wages set by the government will also have an effect on prices due to labor expenses.
To what extent competition will influence price depends on the target market and how important price and non-price competition is.

Additionally, the product life cycle will influence price. At the introduction stage of a product's life, either price penetration or pricing skimming will be used. The goal of a penetration pricing policy is to sell to the entire market at a low price. The skimming price policy attempts to feel out the demand at a high price. During the product's growth, maturity, and decline stages, other pricing techniques will be applied, depending on the product.

Most of these factors are obvious, but may not receive the attention they deserve from marketers. Often, costs and expenses go up. When prices don't reflect these increases, profits will decrease.

Changes in supply and demand have a definite impact on price. When supply decreases, the price may go up because there may be a limited supply. When demand increases, chances are the price will go up, and vice versa. Additionally, price has an impact on supply and demand. If price goes down, suppliers may not want to supply many products. If a product has elastic demand, that means the demand for the product changes when the price of it changes. If the demand for a product is inelastic, this means that the demand changes very little regardless of the price. Necessities are an example of products with inelastic demand.

Pricing Strategies

I. Three Basic Strategies Businesses Use to Price Products

A. Cost Oriented Pricing

1. Calculate costs and expenses, then add projected profit
   a. **markup pricing**- used by wholesalers and retailers;
   usually expressed as a percentage either by the retail method or cost method
   b. **cost plus pricing-** used by manufacturers and service-based companies;
   price varies with orders for the product or service;
   all costs and expenses are combined, then desired profit added to reach a price

B. Demand Oriented

1. How much value does the customer place on the product?
2. Inelastic demand? Brand loyalty?
3. Price is determined by the demand for the product.

C. Competition-Oriented Pricing

1. Price above, price in line, or price under the competition?
2. no relation to cost of the product or supply and demand
3. prices based solely on competitors' price
   - **competitive bid pricing**
   - **going-rate pricing**

II. Pricing and the Product Life Cycle

A. Introduction

1. **Skimming pricing** – setting a high price during the product's introductory stage; large profit margin
   - Trend setters-willing to pay the high price to be first to own the product; when price is lowered trend setters don't mind
   - Disadvantage-high profits attract competition
   - Disadvantage-profit maximization is short term
   - Problematic if initial price is way too high
   - Marketers have to be ready to lower the price at the right time

2. **Penetration Pricing**-setting a low price during the product's introductory stage; goal is to create a large demand for the product
   - Most effective for products with elastic demand (price sensitive)
   - Advantage-large amount of product is sold to a wide range of customers

B. Growth - Sales increase quickly (marketers want to keep the product at this stage for a long time)
   - Cost per item drops due to increased sales
   - Price changes depend on how the price was set in the introductory stage
     - if skimming pricing was used in the introductory stage, the price and sales should be closely monitored for a decline in sales; then price will fall
     - when penetration pricing is used, the price usually remains unchanged but promotion is used to continue the high sales

C. Maturity - Sales begin to fall
   - Marketers search for other target markets by introducing new uses for products, trying to stretch the life of the product

D. **Decline** - Sales decrease and profit margins decline

III. To Bargain or Not to Bargain?

A. One Price – this pricing policy is used in most retail stores; the price is set and there is no need for the customer to try to bargain for a better deal

B. Flexible Price – a store that uses the flexible pricing policy may allow customers to make offers on the merchandise; many times, price is set based on the bargaining power of the customer

- Cars
- Jewelry
- Furniture

IV. Specific Pricing Techniques

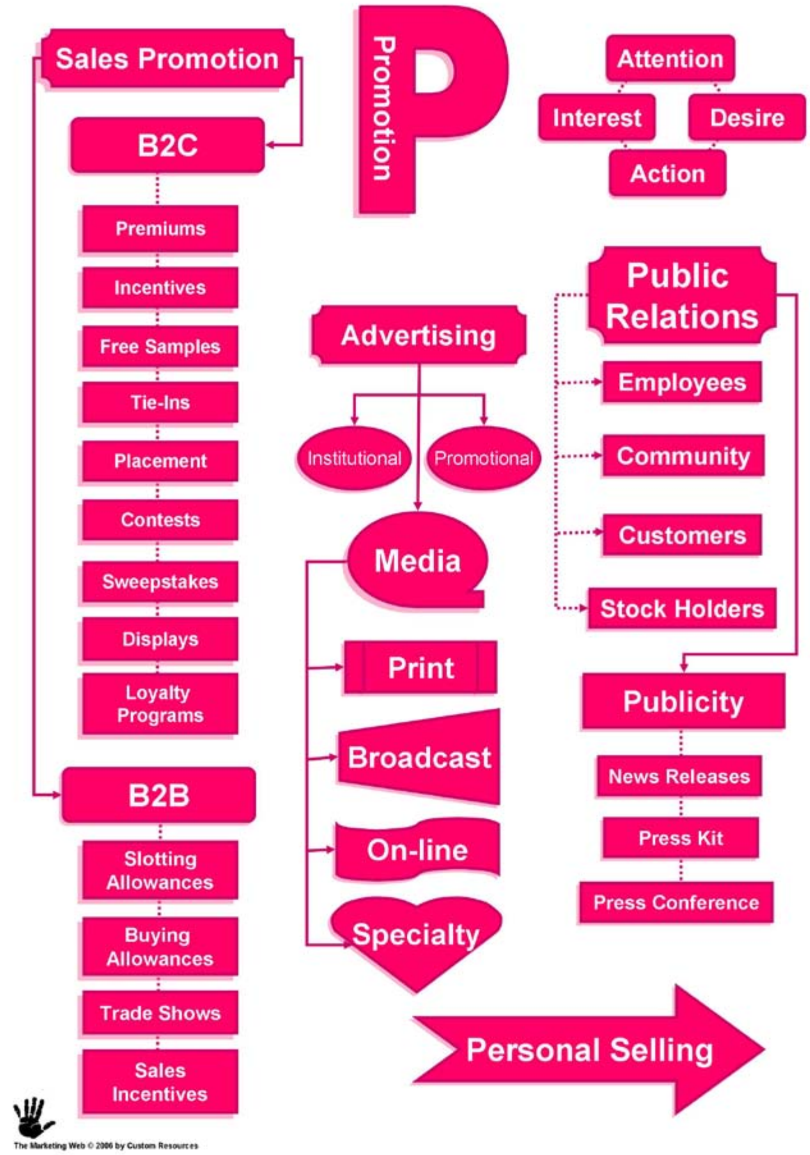
A. **Psychological Pricing** – certain pricing creates an image in the customer's mind of either a quality product or one that seems to be a real bargain

1. **Odd – Even Pricing**
    - Odd = bargain
    - Even = quality
2. **Prestige Pricing**- when a business wants the image of carrying elite, high quality, unique products, they may set prices higher than average; marketers must be cautious because everyone has limits of what they will pay for an item
3. **Promotional Pricing**-
    - loss leader pricing – brings customers in due to the low-low price of an item
    - special event pricing – offering popular products for a low price for a limited time
4. **Price Lining**- low, middle, and high categories of priced merchandise

B. Discounts -

1. Cash Discount – **2/10, net 30** What does this mean?
2. Quantity Discounts - cumulative or non-cumulative
3. Trade Discounts
4. Seasonal Discounts
5. Promotional Discounts and allowances

The Marketing Web: Promotion – Public Relations, Advertising, and Sales Promotion



Promotion includes four forms of communication between the business and its target market. Personal selling is the only personalized form of promotion that exists. It can be customized for the individual because it is a one-on-one exchange between the salesperson and the potential customer. The other three forms of promotion cannot be tailored to suit each individual.

Public relations refer to the activities of a business to enhance its image. These actions may be targeted internally at the employees, such as a company picnic or Christmas bonus, or may be externally targeted at the community and customers. Additional activities may target the owners of the business, the stockholders. Public relations activities are designed to bring good publicity to the business. Publicity is free. Companies may try to obtain publicity through the use of news releases and press kits sent to the media. A press conference may also be held to announce a new product or an award the business has received. The disadvantage of publicity is not having control over it. For example, a big charitable contribution may be printed on the back page of a newspaper, instead of the front page, like the business would have liked.

Advertising, on the other hand, does give the business control over its content, frequency, and placement. Advertising is a paid form of communication to the public. It may be promotional in nature and relate to the product, or it may be institutional and focus on the image and goodwill of the business. Various media are the tools businesses use to communicate to their target market. Types of media available include:

1. print, such as newspapers and magazines
2. broadcast, which include radio and television
3. on-line, which is Internet and e-mail, and
4. specialty media, including calendars, pens, and key chains.

The strategy that many professional advertising campaigns use is found in the acronym, AIDA… get the markets attention, create interest, build desire, and ask for action!

Sales promotion includes strategies used by a business to stimulate sales. These tactics may be targeted at retailers and wholesalers, known as business to business (aka-B2B) or to the customer (aka-B2C). When targeted at other businesses, the strategy is termed trade promotion. Allowances may be offered, trade shows and conventions held, and sales incentives offered to “push” the product into the marketplace, encouraging marketers to sell the product to the public. When the focus of the sales promotion is on the customers, marketers are trying to develop a “pull strategy.” This strategy attempts to create an interest and desire in the customer for the product. The customer will “pull” the product into and through the market by asking retailers for the product. Premiums, incentives, free samples, and tie-ins are all used to develop an incentive for the customer to make a purchase. Special product placement in a store, contests and sweepstakes, visual merchandising or displays, and many loyalty programs are used to create an interest among potential customers.

The combination of the four forms of promotion that a business uses forms the promotional mix for that company. All decisions regarding the mix must keep the identified target market in mind. The four forms of promotion combine to enhance the buying and selling process.

Promotion

I. Promotion - **various forms of communication from the seller to potential customers concerning the business's products or image**

II. Four Types of Promotion

A. ***Advertising*** - nonpersonal form of promotion by a business or sponsor about a product or idea

* objective: to create awareness

- advertising costs money
- it has a non-flexible format; it cannot be personalized
- the sponsor is identified

1. advantages:
   - large audience may see the message
   - cost per person is usually low, although the overall cost may seem expensive
   - business may select the media for identifying the target market
   - business has control over the content
   - audiences may view or hear the advertisement over and over
   - advertising may "pre-sell" the product by creating awareness

2. disadvantages:
   - nonpersonal; the advertisement cannot focus on an individual's needs
   - too expensive for some businesses
   - may be wasteful and inefficient in some instances
   - advertising messages must be brief

B. ***Publicity*** - creating interest in a business or product by placing news about it in various media

* objective: to create a favorable IMAGE
(image - the way a business is viewed in our mind)

1. advantages:
   - it is free!
   - audiences for the "news" are large
   - the "news" is held in high regard by the public
   - public may be more likely to listen to the "news" over advertisements

2. disadvantages:
   - no control over publicity or how it is aired/printed
   - publicity can be negative
   - the business does not have the "final say" in what is aired/printed

3. public relations activities:
   - awarding scholarships
   - sponsoring events
   - donating items to schools or other non-profit organizations

4. What is a news release? Information sent to the media from a business about a particular event or product. It is up to the media whether they choose to use it or not.

5. What is a press kit? An entire package prepared by the public relations department and sent to the media about an event or product.
   It includes information about the business, event, pictures, etc.

C. ***Sales Promotion*** - marketing through visual merchandising (displays), premiums (coupons), contests and other unique strategies to stimulate purchases
* objective: to increase customer traffic within a store and increase sales

1. advantage:
   - each form of sales promotion is UNIQUE
   - customers are entertained by some strategies such as fashion shows and displays
   - sales promotion is viewed as more favorable by customers than advertising

2. disadvantage:
   - difficult to end some promotions (contests) without customers getting upset

3. examples of sales promotion
   a. displays - all forms of visual displays
   b. premiums - prizes or rewards offered as an incentive to buy
      * coupons - most popular type of premium
      * factory packs – prizes included in packaging; Cracker Jacks
   c. contests, sweepstakes, and rebates
      * contest - requires skill
      * sweepstake - based on luck
      * rebate - discounts offered by manufacturer for purchasing an item
   d. product samples - used most often with new products

D. ***Personal Selling*** - promotion to at least one potential buyer by a salesperson
* objective: to complete the sale after the customer has been attracted by advertising, publicity, or sales promotion

1. advantages:
   - flexible form of promotion
   - individualized form of promotion; a good salesperson will be able to focus on the customer's needs and wants

2. disadvantages -
   - salesperson's time is limited to only one or a few customers at one time
   - businesses must be sure salespeople are competent
   - paying salespersons is expensive

3. two types of sales personnel
   a. a person who simply takes an order
   b. a person who searches for orders

III. Promotional Mix - based on a business's target market, the promotional mix is the ideal combination and coordination of the various forms of promotion to communicate with potential customers

A. First, a promotional budget is designed . . .

B. Then, the mix is created with the target market in mind
   - each type of promotion will complement one another
     - advertising creates awareness
     - publicity hopefully creates a favorable image
     - sales promotion stimulates sales
     - personal selling builds on efforts of other forms of promotion by completing the sale

Advertising – Types and Media

I. Advertising – nonpersonal promotion of ideas and/or products, paid for by the identified sponsor

A. Two types of advertising

1. **Promotional** – the goal is to increase sales
2. **Institutional** – the goal is to enhance the business's image

B. Types of Media - method used to convey messages

1. **Print Media** - oldest and most effective
    a. newspaper ads –
        - ♦ shoppers: contain little or no news and are delivered free
          How can shoppers be distributed for free?
        1) advantages:
            - large readership
            - the business is able to target its market
            - cost is low because quality of the print is low
            - ads are timely and can be changed on fairly short notice
        2) disadvantages:
            - wasted circulation
            - ad life is limited
            - quality of reproduction is poor in relation to other media

    b. magazine ads - many have regional editions and rates
        - ♦ national weekly – <u>Time</u>
        - ♦ special interest - <u>Sports Illustrated</u>
        - ♦ trade journals – <u>Handy Man</u>
        1) advantages:
            - business can select its audience
            - magazines are read slowly and thoroughly
            - print quality is better than newspapers
            - ad life is long because magazines are kept
        2) disadvantages:
            - less mass appeal compared to newspapers
            - more expensive than newspapers
            - not as timely to change because of early deadlines

    c. direct mail advertising - sent directly to prospective customers
        1) advantages:
            - business can easily target the audience with selective mailings
            - the timing of the mailing can be selected
            - a wide choice of forms is available (fliers, coupons, letters, etc.)
            - competitors will not see the advertisement
        2) disadvantages:
            - mailing lists can become outdated
            - mailing costs are expensive
            - many people consider direct mail to be "junk mail"

2. **Broadcast Media**
    a. radio – over 95% of people, age 10 years and older, are reached by radio in any given week
        1) advantages
            - target audience is easily selected
            - very flexible and timely if change is necessary
            - radio can cover a large geographical area
            - it is mobile
        2) disadvantages:
            - ad life is limited
            - target audiences may listen to more than one radio station so selection of a station may be difficult
            - listeners tune out advertisements
    b. television – infomercials are becoming a new trend; prime time = 7 – 11 p.m.
        1) advantages:
            - “catchy” advertisements are created
            - seeing is believing when compared to only hearing or reading
            - reaches millions of people at once, yet somehow may seem more personal than other forms of advertising
        2) disadvantages:
            - very expensive to produce and air
            - size of audience is uncertain
            - viewers change the channel during advertisements

3. **Specialty Media**
    a. novelty items: inexpensive items distributed with the business name or logo
        1) advantages:
            - some items are in the users’ sight on a daily basis
        2) disadvantages:
            - size of items limits message to customer
            - distribution is limited
            - difficult to select potential customers to receive items
            - can be costly

4. **Cyber Media**
    a. Internet – the “net” is growing with millions of advertisements
        1) advantages:
            - new form of advertising prompts customers to read messages
            - somewhat easy to place advertisements targeting customers
            - potential customers actively search for information on products
            - cost is affordable
        2) disadvantages:
            - not everyone has convenient access to the Internet
            - some users bypass advertisements on the Internet
            - the use of “spamming” is not favorable on e-mail
              *spamming is the act of targeting a large group of people with unwanted messages through e-mail

Planning Visual Merchandising for a Store

1. The three major visual merchandising categories of retailers are
    - those who have in-store visual departments
    - those who use centralized display staffs that set the pace for all units to follow
    - those who employ freelancers to trim the windows

2. In order to make best use of visual merchandisers, many large department stores prepare planning books that emphasize each department's role in visual presentations.

3. Using the centralized merchandising concept, a large chain prepares its visual presentations centrally, and through written direction, drawings, and photographs, indicates to the various units how the display should be carried out.

4. Most chains, especially those of significant size, use store personnel, rather than trained visual merchandisers, to dress their windows and interiors using company-provided guidelines. Some chains use traveling display crews to visually merchandise the stores.

5. Freelancers are employed by small chains and independent retailers to execute displays. These trimmers are paid either on a per window basis or by annual contract.

6. The visual merchandiser's efforts are based on the merchandise and directions initiated by the merchandise managers and buyers.

7. Visual presentations should coordinate with advertising and other sales promotional devices for maximum sales effectiveness.

Marketing & Promotion Review Sheet

Let's take time out and review some basic concepts:

***<u>Marketing</u>* - a coordination of business activities**
to provide goods and services
to meet customer's needs and wants

(That's the bottom line for marketing. Everything a successful business does is designed to meet the customer's needs and wants. This is called the MARKETING CONCEPT. If a business keeps the customer in mind, it will be in business much longer than one that ignores the customer. If the only objective of a business is to make money, troubled times will soon lie ahead! Naturally, profit is the incentive, but the customer is the one who makes or breaks it.)

<u>Marketing Mix</u> - every business is faced with decisions regarding:

Product	**Price**
Place	**Promotion**

The key is to formulate a coordination of business decisions that will <u>target a market</u> and make a profit.

Now let's review what we know so far about one of the 4 P's in the marketing mix, PROMOTION

<u>Promotion</u> - this is simply communication with the public

It is designed to inform, persuade, or remind people about a product or a business . . . or to improve its public image. There are four types of promotion:

Personal Selling	**Advertising**
Sales Promotion	**Public Relations/Publicity**

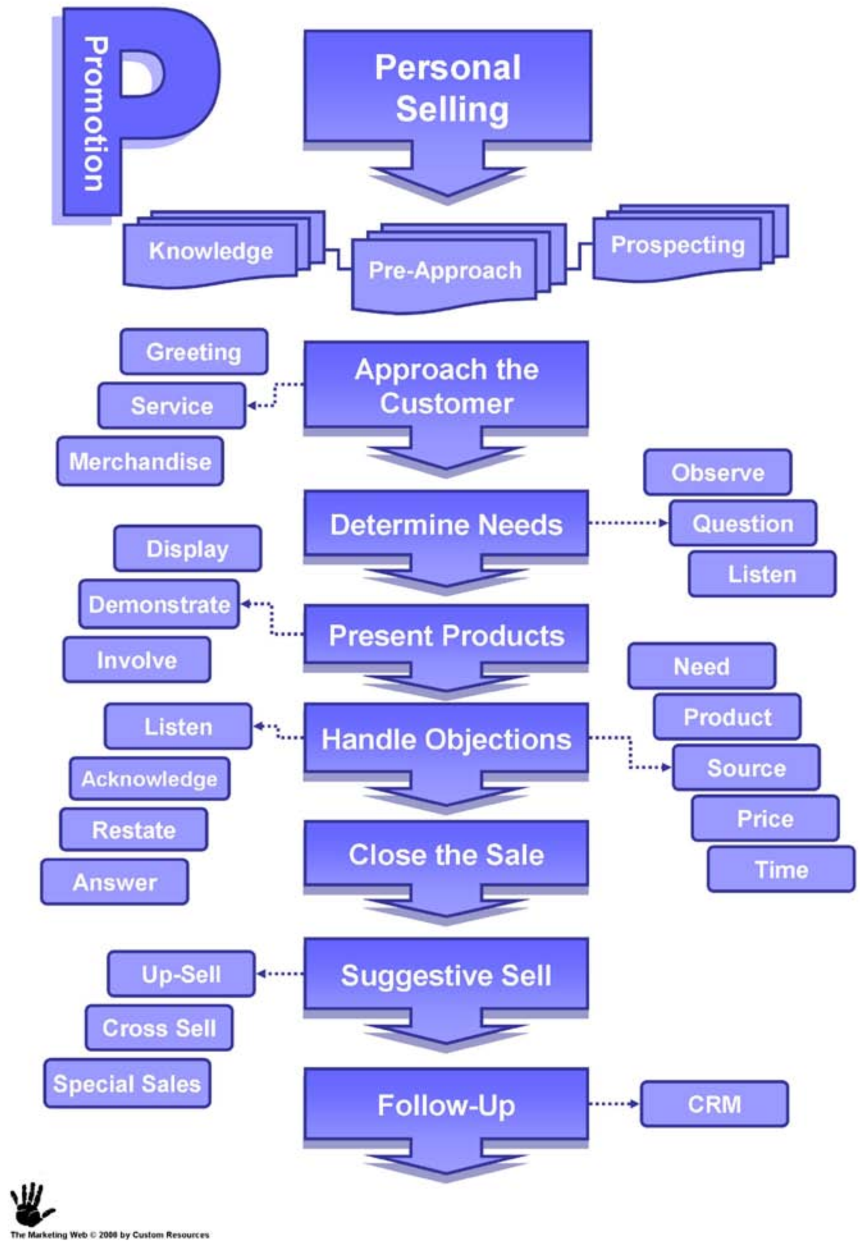
<u>Promotional Mix</u> - a business must decide on the combination of promotional strategies it will use to reach the target market. A combination of the four different types of promotion are decided on, based on the business's promotional budget.

<u>Advertising</u>: it is nonpersonal and has an identified sponsor

<u>Media</u> - the way communication is delivered to the public through one of the following mediums:

Print - Broadcast - Specialty - Cyber

The Marketing Web: Promotion – Personal Selling



Promotion, one of the four P's of the marketing mix, is communication to the public about a product, service, or idea. The only form of promotion that is personalized is personal selling. Personal selling is a one-on-one interaction between the sales person and the customer.

During the pre-approach stage, sales people spend time prospecting, which is looking for someone to actually approach! Some salespeople may use referrals and this is relying on current customers suggesting others who may be interested in the product. Cold calling or cold canvassing involves approaching people without any presumption of interest in the product.

The sales person must be knowledgeable about his/her company's products and how they can meet the needs and wants of the prospective customer. In industrial selling, the pre-approach may involve studying the customer's needs and getting to know about the company or person who will be making the decision to buy. In retail sales, often the pre-approach is no more than sweeping, dusting, and arranging the merchandise for a neat appearance.

The first actual contact with the potential customer is known as the initial approach. Three initial approaches are common in retail sales. The least effective, if used alone, is the service approach; "May I help you?" It may be effective if the salesperson senses the customer is in a hurry. The greeting approach is suggested to help establish conversation with the customer and build rapport. The merchandise approach method focuses attention on the merchandise. This method is suggested when the customer has immediately shown an interest in a particular item upon entering the store. For example, "Those shirts are wash-and-wear and are also 25% off today."

The next step is the primary focus of the marketing concept (vs. the sales concept) and that is determining the customer’s needs. The salesperson needs to be observant, question the customer, and then listen to the customer.

After the customer’s needs and wants are established, the salesperson may begin presenting the appropriate products to the customer. The salesperson should not ask about the customer’s intended price range. The middle priced product should be displayed first. It should be demonstrated if necessary, with the opportunity for the customer to be involved. To keep the customer interested and not confused, no more than three items should be presented at once. While describing the product's features and benefits, the salesperson should always use words the customer can easily understand, known as layman’s terms.

Usually the customer will have questions or objections. The person may question their <u>need</u> for the product, the <u>product</u> itself, the <u>source</u> of the product, the <u>price</u> of the product, or the convenience and <u>timing</u> of the purchase. The salesperson must be equipped to answer the customer. The salesperson must know facts about the product they are selling, such as care instructions and warranty information.

Salespeople should <u>listen</u> to and welcome objections, seeing them as an interest in the product. The customer’s questions or concerns should be <u>acknowledged,</u> the objection should be <u>restated</u> and <u>answered</u>. The boomerang, third party, and direct denial are all methods of handling real objections from the customer. The salesperson must be able to tell the difference between an excuse and an objection.

Once the salesperson notices signs of buying from the customer, the close should be attempted. The trial close is a method of trying to close the sale. This can give the salesperson a checkpoint in the sales process, or determine if the customer is ready to buy. The “which method” is used when the customer needs to decide between two products. When the customer shows strong signs of buying, the direct close may be used. For example, “Can I ring this up for you?”

Suggestive selling can increase the amount of the sale, or up-sell, if related merchandise interests the customer. The related items should be suggested as a benefit to the customer, after the customer has confirmed buying the main item, but before the sale is written or rung into the register. Cross selling introduces a related item and special sales introduces a special savings if more is purchased.

Follow-up, the final step in the sale, is as important as all other steps. The salesperson should check to make sure all promises of the sale are kept. It may involve additional contact with the customer, such as a thank you letter. Effective follow-up will keep a good relationship with the customer for future sales. This is sometimes referred to as customer relationship marketing (CRM), a worthy investment in today’s competitive marketplace.