

**Unit 8**

# Variables of the Marketing-mix

**Subject: Business I**

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**Operational Marketing** 1

*Marketing Mix 4P's* 2

Product 3


Price 4

Promotion 5

Place 6

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## 1 Operational Marketing

What is **Operational Marketing**?


Its purpose is to **design and implement** the **marketing plan** that is adequate for the selected commercial strategy (*defined by the chosen segmentation and positioning*).

**Functions of the Operational Marketing**

1. Establish detailed business **commercial objectives**.  
*(Ex.: Product sales, number of new clients in area A.)*
2. Determine actions related to **marketing mix** to implement the strategy.  
*(Ex.: launch new product models to discount the price to advertise on the Internet, expanding dealer network.)*
3. Prepare the **budget** of the actions to take.
4. **Execute** the planned actions.
5. **Check** the correct execution of the marketing plan

Marketing Plan

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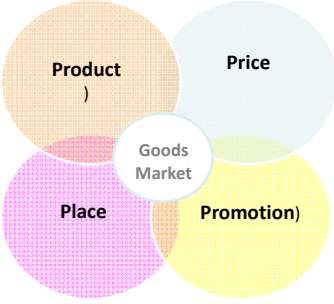


## 2 Marketing Mix

What is **Marketing Mix**?


**Combination of elements** on which decisions must be made to define Marketing actions necessary to achieve the stated goals.

**Elements of Marketing**



**4 P's**

4



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## Product

### Product

Group of **attributes** whose purpose is to satisfy the **needs** of the customer by means of the **benefits** it provides to the customer.


**What do I sell?**

- What does the customer want from the product\_
- What features cover those needs?
- How and where will it be used by the client?
- How will the product be as?
- What size, color, .. does it have?
- How will the product be called?
- What sets it apart from the ones from competitors?
- How will the brand be?


➔

- Quality
- Aspects
- Options
- Style
- Brand
- Packing
- Sizes
- Services
- Guarantees
- Utilities


Products




Goods




Services



Software



Ideas




3


## Product


### THE PRODUCT IN MARKETING TERMS

**A product is not a thing!**

- Do not offer me things.
- Do not offer me **glasses**, offer me ways to see well.
- Do not offer me **shoes**, offer me comfort for my feet, pleasure when walking.
- Do not offer me a **house**, offer me safety, comfort and a clean and pleasant place.
- Do not offer me **books**, offer me hours of pleasure and the advantages of knowledge.
- Do not offer me **records**, offer me the joy and the sound of music.
- Do not offer me **tools**, offer me the advantages and pleasure of making beautiful objects.
- Do not offer me **furniture**, offer me comfort and the calmness of a cosy place.
- Do not offer me things, offer me **ideas, emotions, feelings** and **advantages**.
- **Please, do not offer me things.**









**3 Product**

**CLASSIFICATION OF PRODUCTS**

- **Consumer products:** for consumption.
- **Industrial products:** Used in order to produce other products
  - Equipment goods (eg.: lathe, turbine)
  - Raw materials (eg.: oil, sand)
  - Components (eg.: bearings, photoelectric cell)
  - Materials (eg.: wooden board, PVC panel)
  - Installations (eg.: compressed air, water)
  - Supplies and services (eg.: water, maintenance)

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**3 Product**

**PRODUCT ATTRIBUTES**


The attributes of a product are classified into three levels and are part of the “**value proposal**” of the business to the market. Some **examples** are:

The diagram illustrates three levels of product attributes as concentric ovals:

- Basic product (innermost, dark yellow):** Contains 'Basic benefit or service'.
- Real product (middle, light orange):** Contains 'Brand', 'Quality', 'Fashion', and 'Style'.
- Extended product (outermost, pale yellow):** Contains 'Delivery', 'Financing', 'Warranty', 'Installation', 'Packaging', 'Characteristics', and 'After-sales service'.

A **fourth level** is starting to be recognised: social and environmental contribution (eg. Devote part of the price to support a charity institution).

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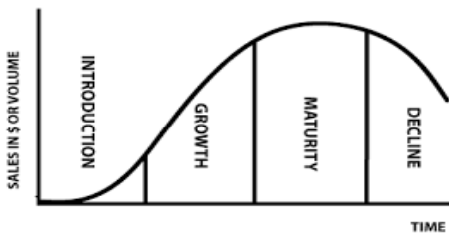


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## Product


### PRODUCT LIFE-CYCLE

The sales of a product go through a process that is similar to the life cycle of living beings.



**Four phases:** Market Introduction, Growth, Maturity, Decline.

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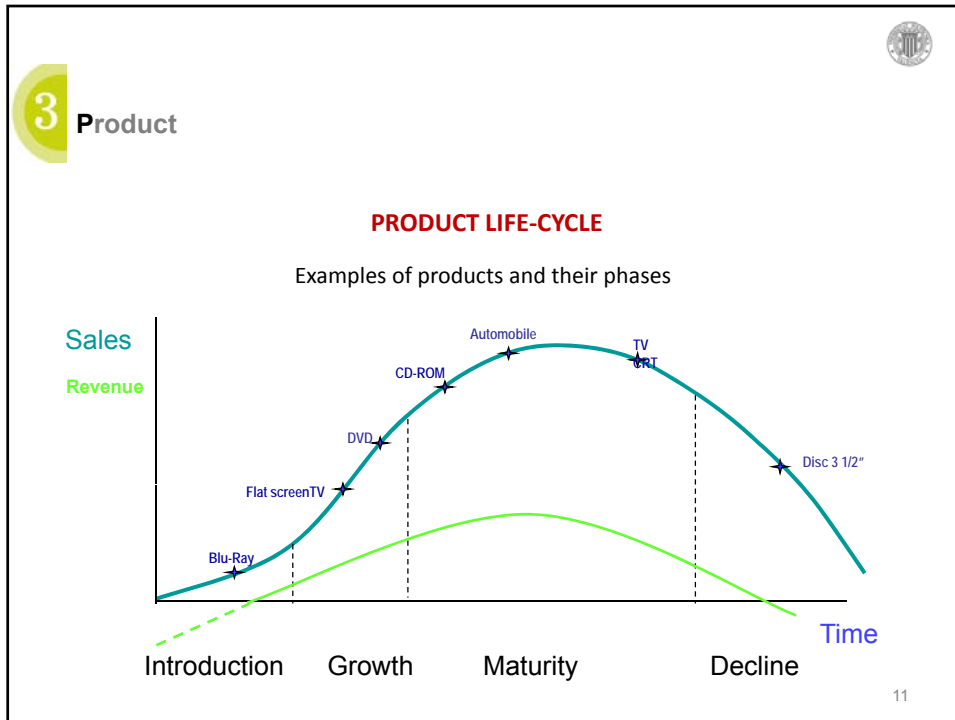
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## Product

### PRODUCT LIFE-CYCLE

Introduction	Growth	Maturity	Decline
<ul style="list-style-type: none"> <li>■ Slow evolution of sales</li> <li>■ Uncertainty: acceptance, competitors' reaction</li> <li>■ High costs</li> <li>■ Few accessories and variations</li> <li>■ High retail price</li> <li>■ Communication: achieve the highest knowledge about product</li> <li>■ Few selected wholesalers</li> </ul>	<ul style="list-style-type: none"> <li>■ Sales increase significantly</li> <li>■ Competition's reaction</li> <li>■ Incorporate improvements to the product</li> <li>■ Segment the market</li> <li>■ Important to establish the adequate price policy</li> <li>■ Communication: differentiate</li> </ul>	<ul style="list-style-type: none"> <li>■ Sales at a standstill</li> <li>■ Growth by replacement or vegetative</li> <li>■ Differentiate the product and communicate it in order to:                             <ul style="list-style-type: none"> <li>■ Justify a higher price</li> <li>■ Attract new clients</li> <li>■ Take clients from competitors</li> <li>■ Achieve a more frequent use</li> <li>■ Intense price competition</li> <li>■ Costs reduction</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Significant decrease in sales</li> <li>■ Low prices</li> <li>■ Competitors take off</li> <li>■ Get rid of stocks</li> <li>■ Stand in the last position</li> </ul>

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**4 Price**


**What is Price?**

Monetary expression of the product's value.


**How much will they pay for it?**

- What is the value of the goods or services for the buyer?
- What are the prices of similar goods or services?
- Is buyer sensitive to price ?
- What discounts should be offered to buyers or distributors?
- How is your price compared to the price of your competition?

- Price List
- Discounts
- Grant
- Payment period
- Credit Conditions



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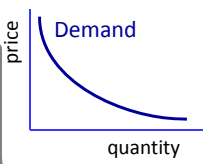
## Price

### Price


Denominations: price, fee, rental, interest, cost, charge, expense, rate, face value, toll, premium, value, etc



**Why is it important to choose a good price?**



- ✓ Determines the **profitability** of the activity.
- ✓ Influences the **demand** level.
- ✓ Contributes to the product's **positioning**.
- ✓ (eg.: a high price is associated to high quality).
- ✓ It enables to easily make **comparisons** with the competition.
- ✓ It has to be **compatible** with the rest of the elements of the marketing-mix (eg.: it has to allow enough margin to the wholesaler).



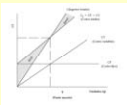
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## Price

### METHODS FOR PRICING

**Based on costs**

- Add a **mark-up**, or profit margin (in %) to the cost.
- Achieve a profitability aim (**break-even point**).
- It contributes to fix the minimum price.



**Based on competition**

- According to the competition's current **price level**.
- Tendering prices (in tenders or auctions).
- It contributes to fix the price between the limits.

**Based on the market**

- **Flexibility of the demand:**
  - Elastic (>1); Inelastic (<1); Unitary (=1)
  - Q: quantity demanded; p: price
  - If elastic demand: a decrease in prices X% will increase the quantity demanded by a higher X%. If inelastic demand: the opposite happens.
- **"Perceived value"** of the product by purchasers according to the usefulness for them (contributes to fix the maximum price). Depends on each person and his/her circumstances (eg.: a bottle of water in the desert).

$$|E_d| = \frac{\Delta Q(\%)}{\Delta p(\%)}$$

*It is advisable to use a **combination** of various methods.*

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4 Price

PRICING STRATEGIES

Differentials

Competitive

Psychological Prices

Product Lines

New Products

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4 Price

PRICING STRATEGIES

- **Differential strategies:** exploit the heterogeneity of consumers. Same product, different prices according to the purchasers.
  - **Fixed prices strategy** (same for everyone) or variable (the price is traded on each transaction.)
  - **Quantity discounts:** Reduction in price by quantity purchased.
  - **Cash Discount:** Bonus for paying at the moment
  - **Deferral of the payment:** Deferring full or partial payment amount.
  - **Random discounts (offers):** reduced price in times or places. (direct discounts, as much product for the same price, delivery of an additional unit of output, ...)
  - **Newspapers discounts (discounts):** Unlike the deals, these previously known by the consumer. Attract customers with different elasticity. Those who buy in normal period are willing to pay a higher price (inelastic demand) and those who shop sales, however, are more sensitive to price.
  - **Second market discount:** price reductions that affect only a portion of its differentiating consumers and demographic conditions (discounts for large families), geographic or socioeconomic (VPO).
  - **Professionals prices:** standardized prices (doctors).
  - **Ethical prices:** prices differ according to the social order of the good (a medicine).






**4 Price**

### PRICING STRATEGIES

■ **Competitive Strategies:** taking advantage of potential competitive situations establishing equal, higher or lower prices than the ones in the sector, according to the technological advantages, costs, production or distribution that is available to us.

- **Primates prices:** offers superior products to the rest of the competitors or provides complementary services, may set higher prices
- **Discounted prices:** inferior product quality or minor benefit, but not necessarily, because the company can take advantage of any technological advantage, manufacturing ... that allows it to sell at a lower prices.

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**4 Price**

### PRICING STRATEGIES

■ **Psychological Price Strategies:** the way in which the market perceives the level of prices and the consumer association makes of them with the characteristics of the product.

- **Customary or usual price:** frequent consumption product.
- **Prestigious price:** A high price is associated with a product or service quality and allow consumers to perceive somehow superiority.
- **Rounded price:** generally above, gives the impression that it is a superior product or service category or prestige.
- **Odd price:** is associated with a lower price and to a lesser product. It is assumed that more units of a product will sell if the price is set to € 99.90 than € 100.
- **Price according to the perceived value:** utility that reports to the consumer satisfaction provided by a good or service.
- **Reference price:** price standard against which consumers compare. It may be based on previous prices or other brands.




**4 Price**

### PRICING STRATEGIES

■ **Strategies for product lines:** must consider the overall benefit of it and not just the one of each of the products within it.

- **Lost leader:** is to have one or two products that do not benefit us, or give us losses, to launch other more profitable products and higher price (basic version of the car).
- **Package price:** price that is lower than the sum of the partial prices of components to encourage greater consumption of complementary products.
- **Captives products prices:** set a low price to the principal to stimulate your purchase and thus ensure the demand for complementary products.
- **Two parts price:** Have a fixed part (monthly fee) and a variable, depending on use.
- **Single price:** single price for all kinds of products.



**4 Price**

### PRICING STRATEGIES


■ **Price Strategies for new products:**

■ **New imitator product :** must decide how will set a position to your product from the competition in terms of quality and price. strategies:

- **Strategy One:** high quality product at a high price.
- **Strategy great value:** high quality product at an affordable price.
- **Strategy Overcharge:** products with a quality that does not justify its price.
- **Strategy economy** hosiery products at affordable prices qualities.

■ **Innovative product:**

- **Selection or "skimming": high prices**
  - For highly innovative products: it seeks to attract buyers who want "to be trendy".
  - Viable with inelastic demand (no replacement product).
  - Possibility to lower the price later.
  - Short-term profitability is sought.
- **Introduction: low prices**
  - Maximize market share reaching as many buyers as possible.
  - Viable with elastic demand (you can easily change product).
  - The long-term profitability is sought.



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## Promotion

Activities that communicate the benefits of the product and persuade target customers to buy it.

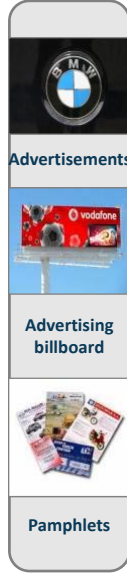
### How will they know it?

- ¿Where and when to throw the advertising to reach the target audience?
- What by what means we reach our target market: press, radio, ...?
- What is the best time to start promoting?
- When your competitors do their promotions?
- What influence has your promotion?


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**Communication Methods:**

1. Advertising
2. Sales Staff
3. Sales Promotion
4. Public Relations
5. Direct Marketing



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## Promotion


### COMMUNICATION METHODS

**1. Advertising:** Mass communication paid by the advertiser.

**Types:**

- **Informative:** Make the product (*eg.: new car*) or the business (*eg: start on the stock market*) known.
- **Image-based:** Achieve a favorable attitude towards the product or business. *Eg.: Social activities of savings banks.*
- **Promotional:** Achieve sales. *Eg.: Leaflet with shop offers.*
- **Reminder:** Keep the product present in the clients' minds. *Eg.: Coca Cola, Iberia.*

**Media:** TV, press, radio, billboards, selling points, Internet, etc..



The company has to deliver to the agency *the briefing*, which is the document which clearly defines the position to achieve with the campaign.


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**5 Promotion**

**COMMUNICATION METHODS**

**Advertisement example AIDA model**  
 “modelo clásico que describe los efectos que produce secuencialmente un mensaje publicitario”.

**Phases of an efficient message:**  
 attract **Attention** (aimed at the senses), raise **Interest** (rational or emotional), promote **Desire** to own it, enjoy it, use it, etc. and encourage **Action** (phone, purchase, etc.).



**ATTENTION**  
Advertisement size, red colour, typography, logo, image.

**INTEREST**  
Rental, price, description.

**DESIRE**  
is it promoted?

**ACTION**  
Dial a phone number.

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**5 Promotion**

**MÉTODOS DE COMUNICACIÓN**

**2. Personal sales:** Personal communication with the customer before, during and after sales. Crucial in industrial products  
 (eg.: technical-salespeople, sales engineers).


**3. Sales promotion:** Incentives to encourage purchase  
 (eg.: tastings, demos, awards, discounts).

**4. Public relations:** Activities to achieve an understanding atmosphere towards the business  
 (eg.: sponsorship, press releases, attendance at events).  
 ♦ Applied in combination with informative media they can enable free advertising: *publicity* (eg.: launching of Apple's i-phone).

**5. Direct marketing:** Activities to achieve a response from customers, a visit or sales by using different media  
 (eg.: mailing, mail-order shopping, tele-marketing, e-mailing).  
 Other media: Shows, fairs, exhibitions


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**6 Place**



### Place or Distribution

Place the product at the customer's disposal at the required time, place and quantity.



#### How will it reach our customers?


- Where do our clients find our product?
- What kind of store are we going for?
- How I can access the main distribution channels?
- Do I need to use an own sales team?

➔

- Channels
- Covers
- Location
- Inventory
- Transport

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**6 Place**



### DISTRIBUTION CHANNEL

**Supply/distribution network:** group of companies that make the product arrive from production to consumers.

#### Functions of supply networks:

- ✦ **Decrease** the contacts of the manufacturer with the customers.
- ✦ **Create supply:** grouping products from different manufacturers.
- ✦ **Match** supply with demand: they have a buffer stock .
- ✦ **Logistics:** store, handle, transport, etc.
- ✦ **Selling:** show, advise, explain, etc.
- ✦ **After-sales service:** attention to warranties, maintenance, etc.
- ✦ **Inform** about the market: they are related to the customers and to the competition.

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**6 Place**

**TYPES OF DISTRIBUTION CHANNELS**

According to their nature

Direct	Indirect
<ul style="list-style-type: none"> <li>From the manufacturer to the customer.</li> <li>Market control and direct contact with the customer.</li> <li>Requires its own sales management.</li> <li>Used in: industrial companies, banks, etc.</li> <li>Gaining in importance through Internet.</li> </ul>	<ul style="list-style-type: none"> <li>Intermediaries: wholesalers, retailers and sales representatives (eg.: exports).</li> <li>Short: 2 levels.</li> <li>Long: 3 or more levels.</li> <li>Advantages: Wide market coverage, lower cost.</li> <li>Disadvantages: Contact with customer is lost, the power shifts to the distribution wholesaler.</li> </ul>

**6 Place**

**TYPES OF DISTRIBUTION CHANNELS**

According to their nature

Direct ← → Indirect

Level

4 Representative


3 Wholesaler

2 Retailer

1 CUSTOMER

STARTING POINT

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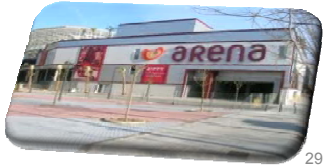
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## Place


### TYPES OF DISTRIBUTION CHANNELS

By organizational link

Vertical Relationships:	Horizontal Relationships:
<p>“relation between members at different levels”</p> <ul style="list-style-type: none"> <li>✦ <b>Vertical integration:</b> a member of the network is the owner of the distribution network. <i>Eg. Inditex (manufacturer) and Zara (shops).</i></li> <li>✦ <b>Contractual integration:</b> coordination based on a contract. <i>For instance, retailer cooperative, franchises (eg.: Coca Cola).</i></li> <li>✦ <b>Administered system:</b> Coordination based on power and dimension <i>Eg.: supermarkets/manufacturers.</i></li> </ul>	<p>“relation between members at the same level”</p> <ul style="list-style-type: none"> <li>✦ Agreements to share premises and services, promote products, etc. <i>Eg.: shopping centre, commercial street</i></li> </ul>



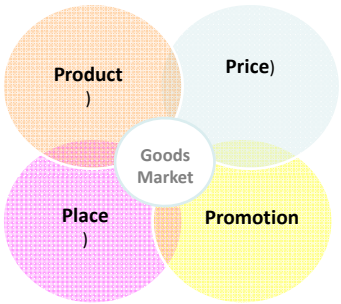
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## Trends: Extended Marketing

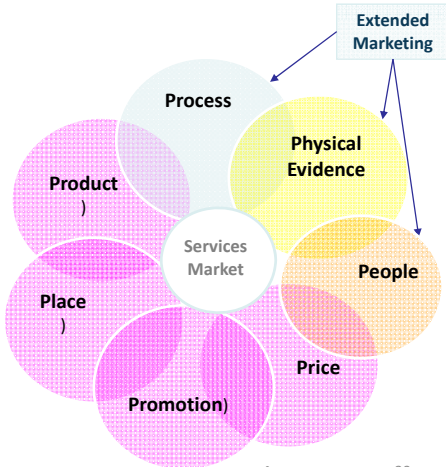
### GOODS MARKET



**4 P's**

➔

### SERVICES MARKET



**7 P's**

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## 7 Trends: Extended Marketing

### Staff

**Who will sell it?**




- Staff
- Management
- Culture
- Customer service

**Consultancy**

- People are **essential** both in production and delivery of most services.
- The staff is important in all organizations, but is particularly important in circumstances where, there is no evidence of **tangible products**, the customer's impression of the company is formed based on the behavior and attitudes of its staff.
- Increasingly, people are part of **differentiation** in which companies create **value-added** services and gain **competitive advantage**.


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## 7 Trends: Extended Marketing

### Processes


**How will we do it?**



Process management is a key issue in improving service quality.

Are the **procedures, mechanisms and routines** through which a service is created and delivered to a customer, including policy decisions regarding certain matters of customer intervention and exercise of discretion by employees.

- Especially relevant in industrial service companies.
- How are services qualified by consumers.



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## 7 Trends: Extended Marketing

**Presentation**


**How will we present it?**

- Elegance
- Comfort
- Interface
- Facilities

The "environment" and the "atmosphere" in which a service is bought or performed helps to shape perceptions of the service that customers have.

- Customers impressions are formed partly by physical evidence such as buildings, fixtures, layout, color and assets associated with the service such as briefcases, labels, flyers, banners, etc. make tangible the service.





### Business Plan– 3rd Entrega. Exercises Unit 7 and 8

*Fill in the word you have in Task 3 with the exercise we propose here about what you just studied :*

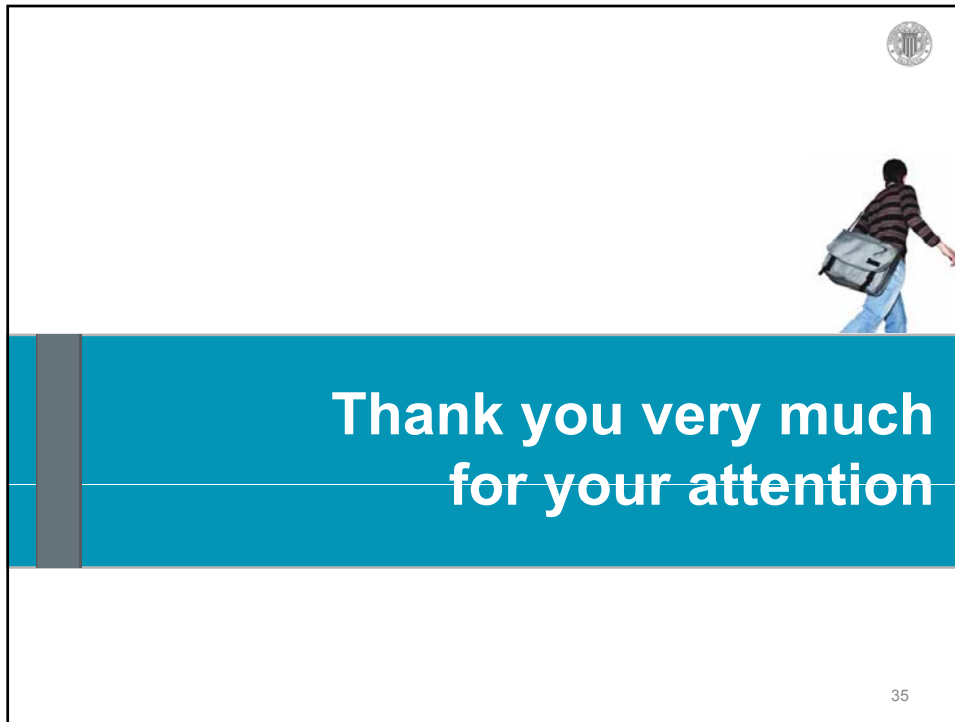
#### 4. Tactical level and functional areas implications


##### 4.2 Marketing Policy


*A solid Marketing Plan is considered to be the key to the success of companies.*

- a. Marketing Strategies** (Unit 7)
- b. Product Policy**  
*What stage of life is your product? What marketing activities would be appropriate? Say why.*
- c. Pricing Policy**  
*What methods of pricing and pricing strategy would you use?*
- d. Promotion Policy**  
*Determinar los métodos de comunicación más adecuados.*
- e. Place Policy**  
*Determine the most appropriate distribution channels.*

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**Thank you very much  
for your attention**

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