CHAPTER 10:
MARKETING MANAGEMENT

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Introduction To Management

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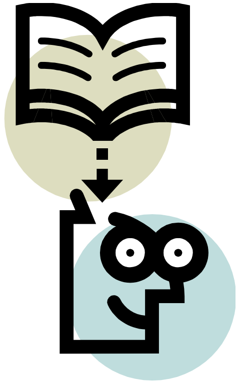
Lecture Outline

- Definition
- Marketing Process
- Marketing Mix: Product, Price, Promotion and Place
- Product Mix
- Pricing Strategy
- Place & Channel of Distribution
- Promotion Mix

DEFINITION

What is Marketing?

Marketing is the business function that directs the flow of goods and services from the producer to the consumer or user.



MARKETING PROCESS

Marketing process undertakes three key roles within an organization:

1) It supports the exchange process through techniques aimed at the consumer
2) It collects and analyses data on both the consumer and the market
3) It acts as a coordinating function for the organization

THE MARKETING MIX

1) ***Product*** *- the type of good and service produced, such as size, quality, design and packaging.*
2) ***Price*** – this include discounts, credit terms and special offers.
3) ***Promotion*** – products have to be advertised and brought to customers' attention.
4) ***Place*** – how and where products are sold, such as through shops or direct to customers; this is often referred to as distribution.

Product Mix

Products are known as *consumer goods*, bought for their own satisfaction.

These goods are categorized as:

1) ***Single-use consumer goods:***

- they have short lives and are income-inelastic: often called FMCGs (‘fast-moving consumer goods), they satisfy physical (food), psychological (cosmetics), or impulse needs (sweets).

Product Mix (con't)

2) ***Consumer durables***

- they have an income elastic demand
- they are long-lasting, espensive, bought infrequently and handle with care
- Example: DVD players, televisions

3) ***Consumer services***

- They are used more often as income grows, tend to satisfy basic physical and safety needs.

Price and its strategy

- Price represents a profit objective to the seller and a measure of value to the buyer.
- Many small retailers simply add a fixed percentage mark-up to the cost they have paid for goods bought for resale.
- Since costs influence price, a firm must calculate their production and other costs before setting their price markup. This is known as cost-based pricing, i.e.:
    - The product’s direct costs are calculated
    - Its share of indirect costs (overheads) are added
    - A percentage (mark-up) is added for profit, to give selling price.

Pricing Strategy

<u>Types of pricing strategy can be:</u>

- ***<u>Psychology pricing</u>***
  - By setting a price below a key figure: e.g, $9.99 rather than $10.00
- ***<u>Premium pricing</u>***
  - Setting a price to reflect the product's image since high price reinforcing the quality image.
  - Consumers expect to pay more for premium brand such as Dior, Mercedes, etc.
- ***<u>Skimming pricing</u>***
  - By setting a high price for new, innovative product to maximise profits in the short-term.
  - Once competitors arrive onto the market, the firm will normally cut the price and focus on the mass market.
- ***<u>Penetration pricing</u>***
  - A useful strategy if brand loyalty can be established, but can result in price war.
  - It is a form pricing where a low price, often below the cost of production, is set in order to drive competitors out of the market.
  - Competitors may respond by cutting their prices, resulting in a price war.

Place & The Channel of Distribution

- Physical distribution involves delivering the correct quantity of goods whilst maintaining the product's quality and security.
- All distribution channels offer a level of effectiveness which must be offset against their cost.
- Choice of channel also depends on the degree of outlet control required: mass-market items such newspapers are not affected by the outlet's image, whereas technically complex or 'exclusive label' products are distributed with the manufacturer exerting much greater control over the number and quality of the outlets.

Promotion Mix

Firms promote their products to:

- Sell them in the existing (or a different) market or,
- Introduce new products onto the market, and
- Compete with others to maintain or increase market share.

A firm may also advertise to improve its corporate image, which can positively boost its whole product range, or counter negative publicity or image problems.

Promotion Mix (con't)

Promotion mix is the mix chosen of promotions used for promoting a product/brand depending on relative cost and effectiveness.

<u>Promotion mix consists of:</u>

1) Advertising
2) Personal Selling
3) Sales Promotion
4) Direct Marketing

Promotion Mix (con’t)

1) <u>Advertising</u>

- It is a media-delivered message paid for a sponsor where it provides factual information about the product.
- Main target is to: retain ‘loyal customer’, retrieve ‘lost’ customer, recruit ‘new’ customer, and reassure ‘old’ & ‘new’ customer that they have made the right decision by buying.

2) <u>Personal Selling</u>

- By employing sales-force staff and appointing agents to sell and promote brand/product.
- A benefit from personal selling is that the firm can target its message to suit the recipient.
- Examples: car salespeople, cosmetics salespeople, etc.

Promotion Mix (con't)

3) <u>Sales Promotion</u>

- It is a short-term incentive to encourage new consumers to try their products, and/or to reinforce existing customers' brand loyalty.
- It comprises a wide variety of tactical promotion tools designed to stimulate earlier and stronger target market response such as:
  - free samples to encourage the customers to try the product, and help establish brand loyalty.
  - Price reductions and premium offers, e.g. the use of free gifts, discount or money-off coupons, to encourage customers to repeat the purchase.
  - Loyalty cards to encourage consumers to build up company loyalty in boosting own brand and overall sales.
  - Competitions which act as an inducement to buy the product.
  - After sales service to persuade customers to buy a particular brand.

Promotion Mix (con't)

4) <u>Direct Marketing</u>

- It is one of major promotion strategy to create brand loyalty to customers
- Many firms are adapting to this type of strategy to gain market share.
- These techniques include:
  - Mail order
  - Electronic mailing
  - Telephone marketing
  - Direct response advertising