IGCSE Business Studies: The Marketing Mix

The Marketing Mix

Price

The choice of a company's pricing strategy frequently determines both the success and failure of the manufactured goods. No matter the state of the market, a company like an airline cannot simply set a high price to achieve high profit margins. Such a plan would probably result in flights taking off with empty seats and little overall profit. The same airline might experience losses or unsatisfactory profit levels if it tried to fill its planes by charging a low price regardless of its production costs.

Pricing Strategies

- Market forces of supply and demand determine price in many markets, particularly in markets where prices are determined through auction such as stock, commodity markets and on line auction sites such as eBay. Where demand for a good is high but the supply of it is low, such as property in high cost of living cities, then the many buyers bid up prices to a high level. If the supply of a product is higher than the number of potential buyers, then prices typically fall. This is why the cheapest time to buy Christmas cards is in January.
- Cost- plus pricing is where a business works out the average cost of the production of each unit of its product, and adds a percentage mark up on top of the cost as profit. It can be a fairly simple way to set a price that ensures a profit is made on each sale, however, the price must be chosen carefully within the competitive market place.
- Penetration pricing is where a low price is chosen to give a product a competitive edge in the market place. This strategy is often used to aid the introduction of a new product. Firms may even use loss leader pricing whereby they make a loss on a product in the short run in return for establishing a sizeable market share, or increasing sales of related products. There has been a lot of controversy about supermarkets in the UK using alcohol sales as a loss leader to attract customers to do their weekly shopping in their stores.

- Competition pricing is where a business prices the product according to what its competitors are charging for their product. This allows them to compete on factors other than the price for market share. Competition pricing is particularly appropriate in a market with small profit margins.
- Skimming pricing is a strategy whereby a firm sets a high price to maximize profits and recover some of the cost of researching and developing the product. This strategy tends to be associated with products that are new innovations in high demand and without competitors. Skimming tends to be a short run strategy because competitors are often quick to launch rival products to compete for market share.
- Promotional pricing is where a business reduces prices to attract extra customers. This might be used to clear stock when a product is being withdrawn or to give a new market segment a reason to try the market. Businesses hope to encourage repeat sales and brand loyalty through this strategy and therefore increase the market share of their product in the long run.

Promotion

Promotion can be defined as anything that a business does which is designed to increase awareness to boost sales of their product or brand. Promotion can be categorized as either above the line or below the line.

Above the line promotion refers to any promotion that is placed in the media and paid for by the business. Primarily, when businesses refer to above the line promotion they are talking about the advertisement, but there are other ways that businesses can pay to have their product highlighted in the media. This might be through sponsoring a TV show. Another increasingly popular above the line technique is product placement where a business pays to have their products used by certain movie stars or in a particular show.

Below the line promotion refers to any other type of promotion other than that of paid for media. Examples include:

- Competitions
- Direct mail or email to customers highlighting products and promotions
- In store point of sale displays
- Free gifts

- Free samples of new products
- Sales promotions such as ‘buy one get on free’
- Loyalty cards
- Social networking websites

Businesses will often use below the line promotion strategies including the above the line marketing campaign to reinforce the message about the product in the media.

Types of advertising

Advertising is used by businesses to inform and persuade a customer. Persuasive advertising is designed to encourage customers of your rival businesses to switch to your brand and to give your existing customers a reason to stay loyal to your brand or increase their consumption of it. Sounds and imagery are often used that appeal to a person’s emotions, aspirations and fears. It will try to align the product with the values, tastes and interests of a particular market segment.

Informative advertising tends to highlight the key aspects of a product rather than try to use advertising techniques that seek to persuade. It is typical for a business to use informative advertising in a product’s development stage so to give consumers an awareness of the need of the product is designed to satisfy.

Advertising media

The choice of media a business chooses for is crucial. There is a wide range of media that a business can choose for advertising their products. These include the TV, radio, newspapers, magazines, cinema, Internet and billboards. The choice of advertising media depends on a number of factors:

- The marketing objectives the business has- if the objective is the raise awareness of a brand then a billboard poster advert in a busy street might achieve this.
- The target market a business is aiming at is important, as certain market segments may not view particular media in large numbers.
- The coverage required is a key consideration as a business looking for mass market appeal may naturally prefer mass media, e.g. TV.

- The type of product in question is important. If a sleek design is a key selling point for a product then radio advertising might not be a sensible choice, as visual factors cannot be easily communicated.
- The marketing budget available might be the most important factor in choosing media. For a start- up business with little finance advertising on the TV might not be the best option, given that their budget will be constraint.

Public relations

The way a business presents itself to the outside world is a very important aspect of building its brand and promoting its products. The process of projecting a positive image of the business to the outside world is known as public relations, PR. There are many ways a business can improve their PR including sending out press releases to newspapers about positive news related to the business, making donations to charities and sponsoring sporting events. In addition, business are now increasingly embracing technology to aid their PR through maintaining an on line persona on media, e.g. facebook.

Place

The place aspect of the marketing mix refers to how and where the consumer is able to purchase the product. The manner in which the product gets to the final consumer can be a key competitive edge for a business. For a business to find food manufacturers, it is essential that their products are carried out by retailers like supermarket chains to ensure high sales volumes.

Channels of distribution

The channel of distribution refers to the number of intermediaries that a product goes through after production until it reaches the final consumer. A typical distribution channel is:

Producer – Wholesaler – Retailer -> Consumer

The length of the distribution channel will depend on the type of product and the objectives of the business. Using a wholesaler and then retailers will allow large companies to focus on making and marketing their product and allow the businesses further along in the supply chain to share some of the costs of storage and distribution. It also allows them to take advantage of trading economies of dealing with fewer customers that place very large orders. In turn, the wholesaler will sell the product in smaller quantities to retailers which will act as a 'breaker of bulk' and sell the cereal individually to the consumer, who will then benefit from not having to purchase large quantities at one time.

Methods of distribution

Businesses can use a combination of the following methods to distribute their product to their customers:

- Department stores sell products of a wide range of businesses in their store.
- Chain stores are established by businesses as a platform to sell their goods without going as an intermediary.
- Discount stores are stores which buy up large quantities of branded goods, such as out of season clothing and sell them at a discounted price.
- Superstores are large stores where customers can buy a wide range of goods from computers to kitchen utensils.
- Supermarkets primarily sell groceries but in recent years have started selling a wider range of goods such as kitchenware, clothes and gardening equipment.
- Direct sales involve the producer selling directly to the consumer. This might take place through door to door, or over the phone using an agent.
- Mail order selling is becoming less and less frequent as the Internet has become a much more popular way of buying products. However, many firms still earn high revenues by sending out a catalogue of products, taking orders by post and then delivering the goods to the customer.
- E- business has become almost as important in some markets as shopping in a retail outlet. Particularly in markets like books, music and videos where iTunes, and DVD rental services like Netflix have made shopping more interactive and convenient.

Advantages and disadvantages of using a distribution channel

Method of distribution	Advantages	Disadvantages
Wholesalers	-Allows large producers to	-Take a share of profits-Do

	supply small businesses through their breaking of bulk-Supply goods to smaller retailers on credit -Take on some of the storage and distribution costs for both the producer and the smaller retailer	not have a good picture of consumer needs and wants, so may be slow to react to market changes
Superstore/ Supermarket/ Department store	-Knowledge of local markets-Place large orders -May be skilled in marketing and promotional activity	-They will add a mark-up to the price which may make the producer's product uncompetitve-They might market products in a way the producer does not like
Chain store	-A company like Apple has more control of the marketing and promotions of its products when sold at its own stores-Sale assistants are likely to be more knowledgeable -Profit stays within the company and not passed on to a third party retailer	-High overheads may be incurred to maintain a town centre presence-Consumers may prefer to shop in stores with a greater variety of products than in a chain store offering only one brand
Direct selling	-Agents can build relationships with customers, and may have well developed sales skills and knowledge of the local market	-Sales agents for the business need to be paid and take a commission-Agents that are too persistent or use unethical tactics can damage the business' brand
Mail order	-Businesses may allow customers the flexibility of paying for goods in installments and on credit-Convenient for consumers who find it difficult to go shopping	-It is not convenient to sell some goods through mail order-Problems with delivery can damage the reputation of the business
Internet	-Customers can learn more about the product through reading the previews-Simple, quick and convenient for consumers -can reduce business overheads such as rent on retail space	-Some market segments may not typically purchase on the internet-Some consumers may want to help and advice of a shop assistant

Product- types of product

The product decision is usually the first marketing decision made by a business when it decides what it is going to sell. Businesses sell goods, services or a mixture of both. Goods are tangible items that the consumer buys, e.g. mobile phone. Services provided to consumers are intangible and can range from financial advice to pet grooming.

Product range and product mix

It is rare for a business to just sell a single product. Most will sell either a product range or a product mix. A business' product range is the different designs and specifications of a product that they sell. The product mix is the mix of different products a firm sells in different markets.

Product differentiation

Businesses want their products to be easily identifiable. They also want to distinguish their products from that of the competition. This is mostly done through the use of branding which is where they give a name or symbol to their product or their business as a whole.

Differentiating a product through branding can be very beneficial for a business as it allows them more freedom to set price, encourages brand loyalty and makes expanding into new markets much more easier.

The product life cycle

From their initial conception and development to when they are withdrawn, all products go through four distinct stages: birth, growth, maturity and decline. This process is known as the product life cycle.

1. Birth (Introduction). During this phase most businesses will be spending large sums on developing, testing, launching and marketing the product. It may begin with a small batch of the products and carry out some test marketing on a small sample of consumers in order to establish whether the product is likely to thrive. The product may be adapted or aimed at a new market segment as a result of the feedback from

consumers of the initial model or it may be dropped completely. Even the products that do will eventually go on the be successful and will experience low profits and losses, cash flow problems during this phase due to the low sales and high costs incurred.

2. Growth. This phase is characterized by increased sales as the product starts to take off due to effective marketing such as successful advertising campaign and sales promotion. If the test marketing was successful then the product may be rolled out nationally, which again should bring steady sales growth. Cash flow pressures should be eased as sales revenue rises.
3. Maturity. During the maturity stage the sales of the product will peak, due to the increased awareness of the product and the establishment of consumer loyalty. Sales revenue should be high and profits will be at their highest. Successful products strive to remain in this phase as long as possible due to the high profits.
4. Decline. During the final stage of the life cycle, sales are falling. The product may have gone out of fashion or competitors may have launched superior products. Generally, businesses will try to sell off remaining stock at a low price and so the profits made during this phase is low. Businesses are then faced with a decision as to whether to update and reinvent the product, or to withdraw it.

If a business can see that its product is in decline, then they may use an extension strategy to prolong the maturity phase. These include:

- Producing a new or improved version
- Finding new uses for the product
- Adapting marketing strategies to raise awareness of the product and sell it more efficiently
- Targeting new market segments

Boston Matrix

The Boston Matrix is a way that businesses can analyze and evaluate their product range/ mix according to where it is in a market with strong growth potential. The four categories are characterized like this:

- Star. Products here are market leading products in growth markets.

- Cash cow. Products are in low growth markets that have a large market share.
- Problem child. Products that have a low share of the market with high growth potential.
- Dogs. Products that have low market share in a market which is not growing. These are usually not worth producing any more due to small profit levels and are dropped from a company's portfolio.

Categorizing the products can help a business to manage its products. Cash cows are big earners for the company and the revenue that they generate can be used to help a problem child grow into a star product. In turn, star products become cash cows once their market as matured. It is important to remove the Dogs from the product portfolio as they can be a drain on profits and might be better employed elsewhere.