



DP IB Business Management: HL



Your notes

4.5 The Marketing Mix (7 P's)

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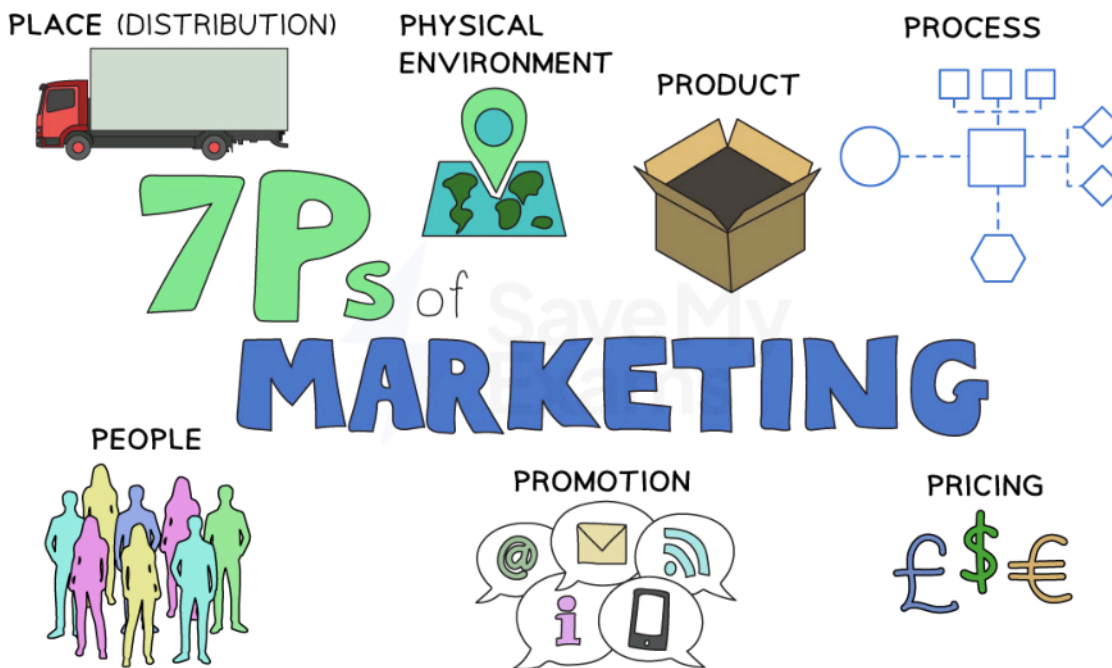
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The Marketing Mix: Product

An Introduction to the Marketing Mix

- The **marketing mix** refers to the seven elements that contribute to the **successful marketing of a product**

Diagram: The Seven P's of the Marketing Mix



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The extended marketing mix includes 7P's

An Explanation of the Seven P's of the Extended Marketing Mix

Element	Explanation
Product	<ul style="list-style-type: none"> This involves identifying the features, design, quality, branding, and packaging of the product/service available for sale and ensuring that they meet the needs and expectations of customers



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	<ul style="list-style-type: none"> E.g. <i>HSBC</i> offers different current accounts to meet a variety of customer needs, with each account having different features <ul style="list-style-type: none"> The <i>Premier Account</i> is a fee-free current account aimed at higher income individuals which includes free worldwide travel insurance, overdraft facilities and preferential interest rates on mortgages
Price	<ul style="list-style-type: none"> This involves identifying the best pricing strategies to use after having considered the amount of money customers are willing to pay, as well as factors such as production costs, competition, demand and perceived value <ul style="list-style-type: none"> E.g. <i>Netflix</i> has recently changed its pricing structure to reflect the different needs of customers and achieve further growth <ul style="list-style-type: none"> Customers choosing the Standard service which includes adverts pay the lowest subscription fee Premium customers pay three times as much as Standard service customers but can enjoy advert-free, ultra-HD programming
Place	<ul style="list-style-type: none"> This refers to the distribution channels and physical location used to make the product/service available to customers <ul style="list-style-type: none"> Place involves decisions related to the selection of sales outlets, logistics and supply chain management Intensive distribution involves targeting the mass market by selling products in as many popular outlets as possible Exclusive distribution involves targeting high end customers by limiting the sales outlets <ul style="list-style-type: none"> E.g. Porsche sports cars are sold through licensed retailers
Promotion	<ul style="list-style-type: none"> This relates to the activities used to communicate and promote the product/service to the target market including advertising, public relations, sales promotions, personal selling etc. <ul style="list-style-type: none"> Promotional strategies are used by firms to make their existing and potential customers aware of their product, build their brand image and encourage loyalty <ul style="list-style-type: none"> E.g. <i>Southwestern Airlines</i> makes extensive use of humorous advertising, as well as offering frequent discounts on tickets and engaging in public relations by sponsorship of several US baseball teams
People	<ul style="list-style-type: none"> This refers to the human resources involved in customer interactions and product/service delivery so as to provide a positive customer experience



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	<ul style="list-style-type: none"> ▪ Employing, training and retaining the right set of employees is especially important for the success of service-focused businesses
Process	<ul style="list-style-type: none"> ▪ This refers to the operational processes and workflows that enable the smooth and efficient execution of marketing strategies ▪ Process is an essential element as it ensures that the customer experience is consistent, streamlined, and meets or exceeds customer expectations <ul style="list-style-type: none"> ▪ E.g travel companies such as Germany's <i>Meier's Weltreisen</i> sell a range of package holidays that provide flights, hotels and full transfer services while providing resort-based representatives that ensure a smooth vacation experience for customers
Physical Evidence	<ul style="list-style-type: none"> ▪ This refers to the tangible elements that customers can perceive when interacting with a product/service such as the physical environment, packaging, and branding <ul style="list-style-type: none"> ▪ E.g. large fast food retailers such as <i>McDonalds</i> and <i>Pizza Hut</i> create almost identical outlets around the world, with highly recognisable logos and even matching furniture and decor in restaurants

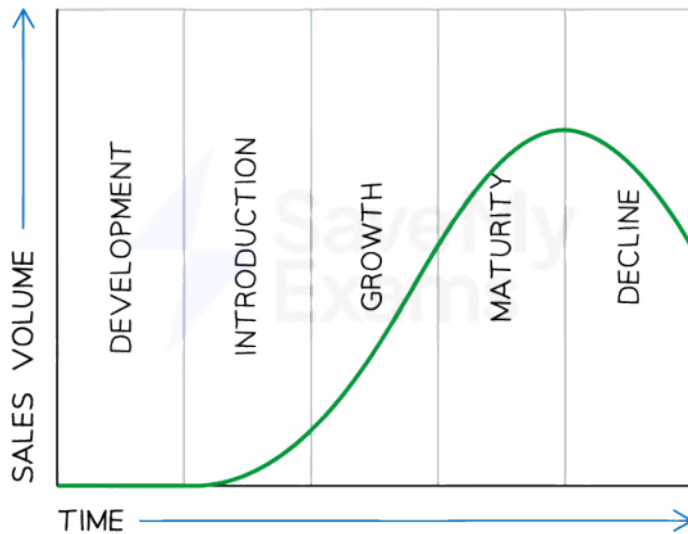
The Product Life Cycle

- The product life cycle describes the **different stages a product goes through** from its conception to its eventual decline in sales
- There are typically **five stages in the product life cycle**: development, introduction, growth, maturity, and decline

Diagram: a typical product life cycle



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The five stages a product goes through over its life span – from development to decline (and ultimately withdrawal from a market)

- The implications for **cash flow** and **marketing** vary at each stage of the product life cycle
- Companies should **tailor their marketing strategies** and manage their cash flow to ensure long-term profitability and success

The Product Life Cycle, Cash Flow and Marketing Strategy

Stage	Explanation	Implications & Strategies
Development	<ul style="list-style-type: none"> ▪ Generating and screening product ideas and then designing and developing the product ▪ The business usually incurs high costs for research and development, market research, and product testing 	<ul style="list-style-type: none"> ▪ Cash flow is usually negative during this stage, as the company is investing heavily in the product without generating any revenue ▪ The marketing strategy during this stage is focused on creating awareness and generating interest in the product
Introduction	<ul style="list-style-type: none"> ▪ The stage begins when the product is launched ▪ Characterised by slow sales growth as the product is still 	<ul style="list-style-type: none"> ▪ Cash flow is usually negative as the business usually incurs high costs for promotion, advertising and distribution



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	<p>new and unknown to most consumers</p>	<ul style="list-style-type: none"> ▪ Promotional efforts are focused on creating awareness and generating interest in the product ▪ Pricing strategies will depend upon the nature of the product and the market <ul style="list-style-type: none"> ▪ Price skimming may be used for innovative or high technology products where little competition exists ▪ Penetration pricing may be more suited to products being introduced to competitive markets
Growth	<ul style="list-style-type: none"> ▪ The product enters this stage when sales begin to increase rapidly ▪ The business focus shifts to building market share and increasing production to meet the growing demand 	<ul style="list-style-type: none"> ▪ Cash flow usually turns positive during this stage as sales revenue increases and costs are spread out over a larger volume of production ▪ Marketing strategies focus on differentiating the product from its competitors and building brand loyalty <ul style="list-style-type: none"> ▪ Price skimming tactics may be dropped in favour of longer-term premium pricing for high-end products ▪ Promotional activity including advertising is likely to increase as customers are encouraged to purchase repeatedly ▪ Further distribution channels will be sought to meet increasing demand
Maturity	<ul style="list-style-type: none"> ▪ Characterised by slowing sales growth as the product reaches its peak in terms of market penetration 	<ul style="list-style-type: none"> ▪ Cash flow is usually positive during this stage as sales revenue continues to come in and costs are reduced through economies of scale and efficient production processes ▪ The marketing strategy aims to maintain market share and increase profitability by cutting costs and finding new markets <ul style="list-style-type: none"> ▪ Promotional pricing tactics may be used



Your notes

		<ul style="list-style-type: none"> ▪ Advertising will focus on reminding customers of product benefits ▪ Further new distribution channels will be sought ▪ Product features may be upgraded
Decline	<ul style="list-style-type: none"> ▪ Starts when sales begin to decline as the product becomes obsolete or is replaced by newer products ▪ The business focus shifts to managing the product's decline and reducing costs 	<ul style="list-style-type: none"> ▪ Cash flow usually turns negative as sales revenue declines and costs associated with the product's decline increase ▪ The marketing strategy may involve discontinuing the product, reducing its price to clear inventory, or finding new uses for the product



Examiner Tips and Tricks

You should be aware that **product life cycles rarely follow this model precisely**

- In some cases the product life cycle is very **short**, lasting just a few months weeks
 - Memorabilia produced and sold for King Charles' coronation in 2023 enjoyed short product life cycles in general, available for sale for just a few months prior to and after the event
- In other cases product life cycles are incredibly **long**, lasting many decades
 - The *Milka* brand of chocolate was introduced in 1901 - more than a century later it remains one of the most popular global brands in its market segment with net sales of almost £2 billion in 2018

Extension Strategies

- Extension strategies refer to the techniques used by businesses to **extend the life of a product beyond its natural life cycle**
- These strategies are **designed to boost sales** and maintain profitability for a product that has **reached the decline stage** of its life cycle
- There are two types of extension strategies:
 - **Product-related** extension strategies
 - **Promotion-related** extension strategies

Product-related extension strategies

- These extension strategies involve **changing or modifying the product** to make it more appealing to customers and extend its life cycle and can be achieved in one of three ways:
 - **Product improvements** e.g. Samsung releases new versions of its Galaxy Smartphone every year with upgraded features and improvements to the previous model
 - **Line extensions** e.g. Coca-Cola introduced Diet Coke and Coke Zero as line extensions of its original Coca-Cola
 - **Repositioning** e.g. when IBM's personal computer division started losing market share to other brands, it repositioned its products as high-end business machines and focused on the enterprise market

Promotion-related extension strategies

- These extension strategies involve changing the promotional aspects to extend a product's life cycle and could include one or more of the following changes:
 - **Changes to advertising** e.g. Kellogg's continues to recreate advertisements for its Corn Flakes cereal, which has been around since 1906
 - **Price promotions** e.g. Cyber Monday occur on the first Monday after Thanksgiving in the USA and electronic firms discount prices significantly to boost sales of their products
 - **Sales promotions** e.g. many coffee shops offer a **loyalty program** where customers can earn a free drink for every six drinks consumed



Examiner Tips and Tricks

Businesses sometimes make the choice to **remove a product from the market** when it reaches the decline stage of the product life cycle, rather than continue to invest in expensive and time-consuming extension strategies.

If you are asked to weigh up options to extend the life cycle of a product, a useful **evaluative point** could be the possibility of adopting none of the options - and considering the benefits of removing the product from sale.

These benefits may include reduced promotional and R&D spending as well as providing the opportunity for a business to focus on remaining products in its portfolio.



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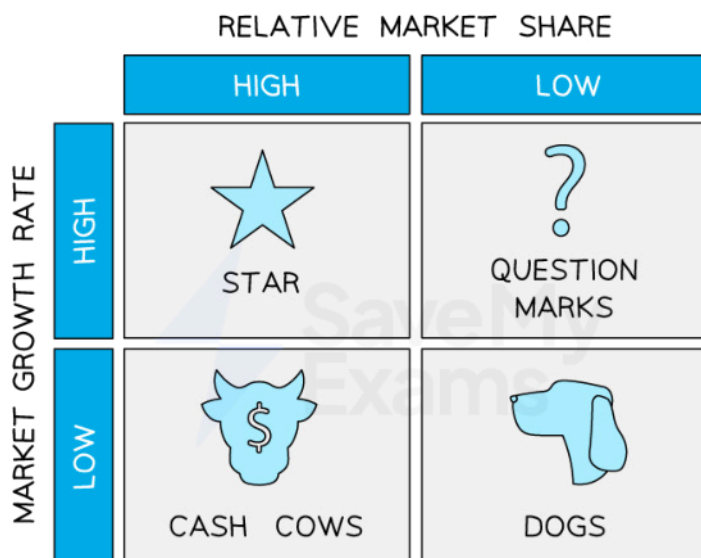
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Product Portfolio Analysis

The Boston Consulting Group (BCG) Matrix

- The Boston Matrix is a tool used by businesses to **analyse their product portfolio** and make **strategic decisions** about each product
- The matrix **classifies products into four categories** based on their **market share** and the **market growth rate**
 - Cash Cow
 - Problem Child/Question Mark
 - Star
 - Dog

Diagram: the Boston matrix



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The classification of products in the Boston Matrix according to their market share and the growth rate in the market as a whole

- By categorising products into these categories, businesses can **allocate resources more effectively**, optimising their cash flow and developing marketing strategies that align with the product's potential

The Boston Matrix, Cash Flow and Marketing Strategy



Your notes

Product Type	Explanation	Implications
Cash Cow	<ul style="list-style-type: none"> Cash cows are products with a high market share in a mature market (the entire market is no longer growing) 	<ul style="list-style-type: none"> They generate significant positive cash flow but have low growth potential The business invests minimal resources in cash cows as they are seen as stable sources of income Marketing efforts focus on maintaining their market share and profitability Cash cows are valuable assets and can be used to fund the development of new products
Problem Child/Question Mark	<ul style="list-style-type: none"> Problem child or question mark products have a low market share in a high-growth market These products have the potential to become stars if the company invests in their development 	<ul style="list-style-type: none"> There is often a negative cash flow as businesses usually invest in problem child products to increase their market share and turn them into stars <ul style="list-style-type: none"> If the investment does not result in growth the business may discontinue the product Marketing efforts focus on increasing their market share and brand recognition
Star	<ul style="list-style-type: none"> Star products have a high market share in a high-growth market The company typically invests in stars to maintain or increase their market share 	<ul style="list-style-type: none"> They generate significant positive cash flow and have the potential for continued growth Marketing efforts focus on building brand recognition and increasing market share Stars are valuable assets and the business should focus on maximising their potential
Dog	<ul style="list-style-type: none"> Dog products have a low market share in a low-growth market 	<ul style="list-style-type: none"> They generate little revenue for the company and have no growth potential



Your notes

- Businesses often **move away (divest)** from these to focus on more profitable products
- Marketing efforts for dog products are minimal or zero



Examiner Tips and Tricks

In paper 2 you may be asked to apply the BCG matrix to a given product portfolio.

To achieve full marks you will need to demonstrate both **knowledge** and **application** skills.

- To demonstrate **knowledge** it's a good idea to **draw the matrix**, ensuring that both the axes and headings are **accurately labelled**
- **Application** is demonstrated through the **correct placement of products** within the four quadrants and by **explaining why** you have chosen to place individual products in each quadrant
 - Refer to each product's relative **market share** and the rate of **market growth**
 - Look for clues in the **stimulus material** to help you with this.

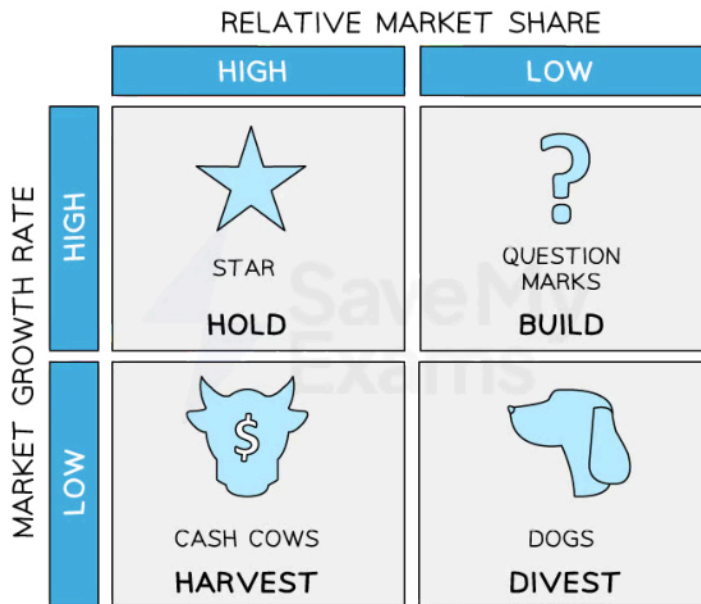
Boston Consulting Group (BCG) Matrix Strategies

- **Marketing strategies** for products in a business portfolio vary depending on the **BCG Matrix quadrant** in which they sit

Diagram: Boston matrix strategies



Your notes



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Four different marketing strategies based on the BCG Matrix

1. Hold strategies for stars

- Allocate more resources to **support further growth**
- Build market share** through continuous investment in product development, marketing and innovation to maintain a strong market position
- Capture additional market segments by **expanding the product's reach** into new geographical markets

2. Harvest strategies for cash cows

- Maintain market dominance by protecting existing market share through branding, quality and customer loyalty
- Optimise profitability by streamlining operations**, reducing costs, and maximising efficiencies to maximise profits
- Extract cash flows to invest in other products or new ventures

3. Build strategies for question marks

- Conduct market research and analysis to determine the **potential for growth and profitability**



Your notes

- Invest selectively and **allocate resources strategically to question marks with the highest potential** and withdraw resources from those with low potential
- Invest in marketing, research and development to increase market share and convert them into stars

4. Divest strategies for dogs

- Sell off the product** or business unit if it no longer fits with the company's overall strategy or long-term objectives
- Harvest or maintain if the product can still **generate some cash flows**
- If the product has no future prospects **plan for an orderly exit** from the market



Examiner Tips and Tricks

Before suggesting divestment for 'dog' products, consider whether remaining in a low-growth market may provide the potential to develop a specialised, **niche market** where little large-scale competition remains. It may mean that **a dog may make the unusual step of becoming a cash cow** in the future.

- For example, when mass-market electronics brands such as Toshiba and Sony divested their portfolios of record players in the 1990s, smaller-scale manufacturers such as Denon and Technics continued to sell a small range of these devices alongside more technologically advanced audio equipment.
- The recent **vinyl revival** has meant that these brands now generate significant sales revenue and have become market leaders.

Limitations of the BCG Matrix

- While the BCG Matrix provides **valuable insights for marketing managers** and serves as a useful **starting point for portfolio analysis**, there are some limitations to its usefulness

Limitations of the BCG Matrix

Limitation	Explanation
Simplistic approach	<ul style="list-style-type: none"> The BCG matrix relies on a simple framework which classifies products solely based on market growth rate and relative market share <ul style="list-style-type: none"> Other important factors, such as competition, technological advancements, customer preferences and other industry trends, are ignored



Your notes

	<ul style="list-style-type: none"> ▪ Lack of consideration of these factors may lead to poor strategic decisions ▪ A high market share does not guarantee profitability when the market is highly competitive or if the company incurs significant costs to maintain its share <ul style="list-style-type: none"> ▪ E.g. despite controlling market share of around 50% between them, the three largest airlines in the USA achieve average annual profit margins of less than 5 per cent
Lack of focus on the future	<ul style="list-style-type: none"> ▪ The BCG matrix is based on current market conditions and historical data and does not consider changes in the competitive environment ▪ It may not identify emerging trends which are crucial for long-term marketing planning
Ignores interdependencies	<ul style="list-style-type: none"> ▪ The BCG matrix treats each product in isolation and does not account for potential synergies or interdependencies among them ▪ In reality, some products may complement each other or benefit from shared resources, which can affect the marketing decisions that may be made
Time consuming	<ul style="list-style-type: none"> ▪ Identifying market growth rates and market share for each product within a businesses portfolio is likely to take expertise and time ▪ If market conditions are changing rapidly regular changes will need to be made to the positioning of products within the matrix to ensure that appropriate marketing decisions are made



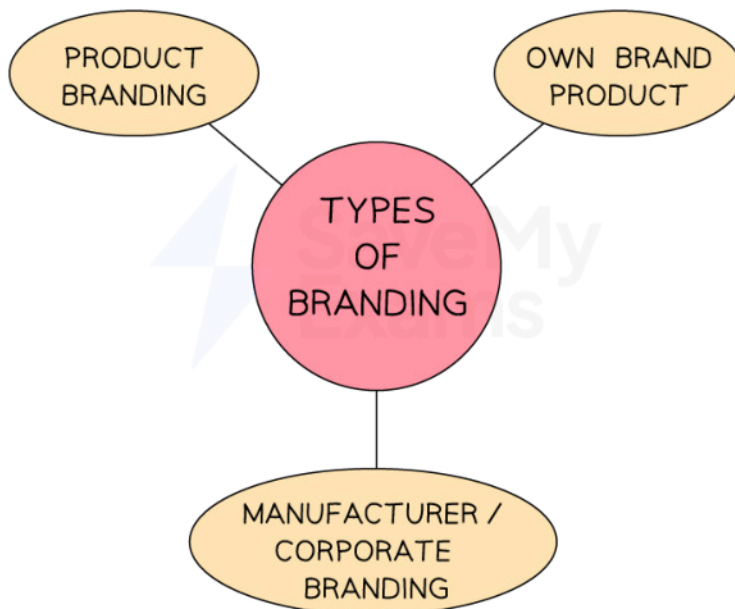
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Product Branding

Aspects of Branding

- Branding is the process of **creating a unique and identifiable** name, design, symbol, or other feature that **differentiates a product/service** or company from its competitors
- Branding is a **strategic tool** that helps businesses **create awareness, develop strong customer relationships, generate loyalty, and establish a perceived value** that sets them apart from competitors

Diagram: types of branding



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The three different types of branding available to businesses

- Through **consistent and effective branding efforts**, companies can build a strong brand presence, cultivate customer loyalty, and achieve sustainable business growth

Manufacturer/corporate branding

- This refers to the use of a company name or logo to **promote all the products or services offered by the company**
- This type of branding is used by companies like Nestlé, Nike, and Apple

Evaluation of Corporate Branding



Your notes

Advantages	Disadvantages
<ul style="list-style-type: none"> Creates a strong brand recognition and reputation for the company, which can increase customer loyalty and trust Allows the company to leverage its existing reputation and customer base to introduce new products more easily Helps to build economies of scale by promoting multiple products under one brand, which can reduce marketing costs and increase profitability 	<ul style="list-style-type: none"> If a company's reputation is damaged by a product it can have a negative impact on all the products offered under that brand If the company faces intense competition in one market (e.g smartphones), it may affect the sales of all the products offered across other markets (e.g laptops and desktops)

Product branding

- This refers to the use of a **unique name, design, or symbol** to promote a **specific product**
 - E.g. KitKat, Coca-Cola, and McDonald's Big Mac

Evaluation of Product Branding

Advantages	Disadvantages
<ul style="list-style-type: none"> Creates a distinct identity for the product which can help to differentiate it from competitors and increase brand loyalty Allows the company to market different products to different segments of the market e.g. Coco Cola and Coke Zero Can help to build customer loyalty and trust by associating the product with a specific quality and benefits e.g Dyson Vacuum Cleaners 	<ul style="list-style-type: none"> The cost of creating and promoting a new brand for each product can be expensive Introducing new products under different brands is difficult as the business must build a new brand for each product from scratch Different products within the brand may have different levels of quality which can affect customer satisfaction

Own brand product

- Own brand or private label branding** refers to the use of a retailer's name to promote a specific product or service and is often used by supermarkets

- E.g. ASDA chocolate, Tesco's Finest range, and Sainsbury's Basics range

Evaluation of Own Brand Products



Your notes

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ It can help retailers to differentiate themselves from their competitors by offering unique products ▪ It allows retailers to offer products at a lower cost than branded products which can help to increase sales and profitability ▪ It can help to build customer loyalty by offering exclusive products that are not available elsewhere 	<ul style="list-style-type: none"> ▪ Own brand products may have a lower perceived quality than branded products which can affect customer loyalty and trust

- Brands can be built using **any one, or a combination** of the following methods:
 - By developing unique selling points (USPs)
 - Through advertising
 - Through sponsorship
 - Through the use of social media

Examples of the way Brands have been Built

Method	Explanation	Example
Unique selling points (USPs)	<ul style="list-style-type: none"> ▪ USPs are the features that make a product/service stand out from its competitors ▪ Brands can build their reputation by emphasising these unique qualities in their marketing efforts 	<ul style="list-style-type: none"> ▪ Apple is known for its innovative and sleek design and use of quality materials, which sets its products apart from its competitors ▪ The company has built its brand around this USP and is recognised worldwide for its premium design
Advertising	<ul style="list-style-type: none"> ▪ Brands can create compelling ads that resonate with their target audience, raise brand awareness, and communicate their value proposition 	<ul style="list-style-type: none"> ▪ Coca-Cola has successfully built its brand through advertising ▪ Iconic ads over the years have become synonymous with the brand



Your notes

	With the right advertising strategy , brands create a strong emotional connection with their audience and inspire brand loyalty	<ul style="list-style-type: none"> E.g. The "Share a Coke" campaign encouraged people to buy Coca-Cola bottles with their friends' names on them and was a massive success
Sponsorship	<ul style="list-style-type: none"> Partnering with events, organisations, or individuals can help brands gain exposure and build their reputation by aligning themselves with positive associations or values 	<ul style="list-style-type: none"> Nike has sponsored many high-profile athletes and sports events, such as the Olympics and the World Cup The business has built a reputation for being a brand that champions excellence and inspires people to be their best
Social Media	<ul style="list-style-type: none"> With the right social media strategy, brands can build a loyal following and create a community around their brand 	<ul style="list-style-type: none"> Glossier has a strong presence on platforms like Instagram and it engages with its audience and shares user-generated content Glossier's social media strategy has helped the brand build a loyal following
Emotional Branding	<ul style="list-style-type: none"> A strategy where companies build strong emotional connections with their customers by appealing to their values, beliefs, and emotions 	<ul style="list-style-type: none"> Brands like Patagonia and TOMS have built their entire brand identities around their commitments to environmental and social causes, which resonates with customers who prioritise these values

The Importance of Branding

- Strong branding can provide several benefits to a business, including:
 - Added value**
 - Strong branding can **add value** to a product by creating a perception of quality, reliability and reputation
 - Ability to charge premium prices**
 - Customers may be **willing to pay more** for a product that is associated with a **well-established brand**, as they perceive products with strong branding to be of higher quality and

therefore worth the extra cost

- **Reduced price elasticity of demand**

- Customers are **less sensitive to price changes** of products with strong and appealing branding because customers who are **loyal to a brand** are more likely to continue purchasing the product even if the price increases

- **Recognition & identity**

- This helps to build trust and credibility and create an emotional connection with customers, which helps to **generate repeat purchases**

- **Business differentiation**

- Branding **differentiates** a business from its competitors and **supports marketing and advertising** efforts, which can use key elements to build memorable promotional materials and campaigns



Examiner Tips and Tricks

Strong brands also strengthen a businesses **balance sheet**.

Brands are considered **intangible assets** on a company's balance sheet. A strong brand adds to the overall value of these intangible assets, which may be an important part of a company's **net worth** and **make it more attractive to investors**.



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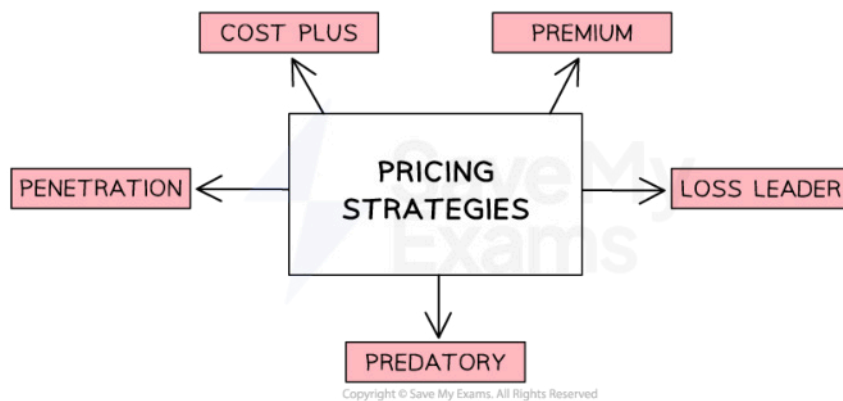
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The Marketing Mix: Common Pricing Strategies

Types of Pricing Strategies

- Choosing the right **pricing strategy** is essential for a business to be **profitable, competitive, and successful in the long run**
 - By understanding their customers, competitors, and costs, businesses can set prices that **maximise revenue** and profitability
 - Pricing can play a significant role in **positioning the brand** in the market and help a firm to compete effectively

Diagram: the names of common pricing strategies



Different Types of Pricing Strategies

- Price** is the only element of the marketing mix that **relates directly to sales revenue** and is vital to a business achieving its sales and marketing objectives
- Businesses need to select the most appropriate methods of pricing to ensure that they are able to **make a profit whilst meeting the needs and expectations of customers**
 - A business may use **more than one method** of pricing across its product range
 - E.g. a large supermarket may offer **premium-priced product ranges alongside a selection of loss leaders**

Explanation of Pricing Strategies

Cost plus



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- The business calculates the **cost of production** and then adds a markup to determine the final price
- The markup covers the cost of production **plus the business's desired profit margin**
- This pricing strategy is commonly **used by manufacturers** that produce standardised goods, e.g. washing machines

Advantages and disadvantages of cost plus pricing

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ A simple and quick method of calculating a price for a product ▪ It ensures that a profit is made on each item sold 	<ul style="list-style-type: none"> ▪ It does not consider the needs of the market ▪ The pricing approach of competitors is ignored

Penetration

- The business sets a **low price for a new product/service** when it is first introduced
- This is effective when a business wants to quickly **capture market share** and attract price-sensitive customers, e.g. many new perfumes launch using penetration pricing
- Once they have enough customers, the business will start to **raise the price**

Advantages and disadvantages of penetration pricing

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ Customers are attracted to buy the product at a low price, leading to high sales volume and market share ▪ Competitors unable to match or beat the low price may be forced out the market, leading to less competition 	<ul style="list-style-type: none"> ▪ Customers may perceive that the product is of low quality if the product is sold at a low price ▪ Selling at a low price will limit the amount of profit made

Loss Leader

- Charging a price **below the average cost** for a product
- The aim of this method is to **attract customers to buy other profitable products** at the same time, making up for losses on the low-priced product
- It is frequently used by **large supermarkets** that operate in competitive markets



Your notes

Advantages and disadvantages of loss leader pricing

Advantages	Disadvantages
<ul style="list-style-type: none"> This is an effective way to attract customers to switch brands Losses may be minimised for businesses that have high levels of stock turnover for loss leader products 	<ul style="list-style-type: none"> Smaller rivals may accuse businesses using this method of behaving unfairly If customers do not purchase other goods, the business will make a loss

Predatory

- The business **sets prices so low** that it drives its competitors out of the market
- This strategy is illegal in many countries as it is considered **anti-competitive** and harms customers by reducing choice in the market

Advantages and disadvantages of predatory pricing

Advantages	Disadvantages
<ul style="list-style-type: none"> This method allows a business to gain a dominant position in the market It acts as a barrier to entry for firms considering selling in the market 	<ul style="list-style-type: none"> Use of this strategy may have a negative impact on a businesses reputation It is an expensive strategy for which a business needs sufficient finance to fund

Premium

- The business sets a **high price** for its product, which gives customers an impression of **high quality** and luxury
- This is effective for **designer brands** such as *Chanel* and *Ritz Carlton Hotels*
- The high price helps the business differentiate its products from competitors and make high levels of profit
- Premium pricing should not be confused with **price skimming**, where a high price is set for a short period at a product's launch

Advantages and disadvantages of premium pricing

Advantages	Disadvantages

- | | |
|--|---|
| <ul style="list-style-type: none">▪ This method emphasises exclusivity and improves the value of a brand▪ Premium-priced goods often attract favourable attention from celebrities and the media, reducing the need for promotional activity | <ul style="list-style-type: none">▪ Large numbers of more price-conscious customers are ignored, which limits sales revenue▪ Premium-priced products require high quality raw materials and components so variable production costs are usually high |
|--|---|



Your notes



Examiner Tips and Tricks

Exam questions frequently ask you to justify the most appropriate pricing strategy. When studying the data provided, consider the points above and then make a recommendation. For example, in launching a new product into a competitive market, it may be appropriate to use a penetration pricing strategy to attract customers and encourage them to switch brand in order to gain sales and market share quickly.




Your notes

The Marketing Mix: Advanced Pricing Strategies

Dynamic Pricing Strategy

- Dynamic pricing involves charging **different prices to match demand patterns**
- It aims to **maximise revenue** whilst making **full use of capacity** available
 - Prices are **raised** if demand is high and limited capacity remains
 - Prices are **lowered** if demand is low and needs to be stimulated to maximise **capacity utilisation**

Examples of Dynamic Pricing

Disneyland Paris Resort	American Airlines
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<ul style="list-style-type: none"> ▪ Disneyland Paris Resort charges more for school holiday getaways than term-time breaks 	<ul style="list-style-type: none"> ▪ American Airlines' fares are lower the further in advance they are booked

- Dynamic pricing can be used very effectively online
 - **Demand is tracked in real time** and prices can be **programmed to change** accordingly
 - Using **artificial intelligence (AI) Amazon** can change prices on products several times a day according to market demands
 - Advanced **algorithms** analyse sales data, detect patterns and make price changes at a fraction of the speed of competitors
 - This allows Amazon to nearly always have the most compelling offers **faster than other retailers**

The Advantages & Disadvantages of Dynamic Pricing



Your notes

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ Maximises revenue <ul style="list-style-type: none"> ▪ Charge higher prices during peak times when demand is high ▪ Lower prices during off-peak times to attract more customers ▪ Revenue that might be lost with a fixed pricing strategy is captured 	<ul style="list-style-type: none"> ▪ Customer backlash <ul style="list-style-type: none"> ▪ Can lead to customer dissatisfaction if customers perceive it as unfair ▪ Price changes may erode customer trust and loyalty if they feel they are being taken advantage of
<ul style="list-style-type: none"> ▪ Optimal use of resources <ul style="list-style-type: none"> ▪ Airlines can fill empty seats during off-peak times by offering lower prices ▪ Hotels can maximise room occupancy by adjusting rates based on demand 	<ul style="list-style-type: none"> ▪ Complex <ul style="list-style-type: none"> ▪ Dynamic pricing systems may require sophisticated algorithms and technology ▪ Small businesses may lack finance to invest in and manage these effectively
<ul style="list-style-type: none"> ▪ Competitive advantage <ul style="list-style-type: none"> ▪ Can respond quickly to changes in the market ▪ Particularly important when prices are highly variable and experience supply and demand fluctuations 	<ul style="list-style-type: none"> ▪ Ethical concerns <ul style="list-style-type: none"> ▪ If prices are increased significantly during emergencies or crises a business may be accused of price gouging which can harm its reputation.
<ul style="list-style-type: none"> ▪ Consumer behaviour insights <ul style="list-style-type: none"> ▪ Analysing how consumers respond to price changes can inform future pricing strategies and marketing tactics 	<ul style="list-style-type: none"> ▪ Lack of transparency <ul style="list-style-type: none"> ▪ Secret pricing algorithms can create distrust among customers who are uncertain about the fairness of the pricing strategy



Examiner Tips and Tricks



Your notes

Students often confuse the negative sign of the answer to PED questions. Do not assume that the negative is mathematical such that an elasticity of -1 is smaller than, for example, -0.3 . It is larger (more price elastic).

When interpreting the value of PED do not say that 'the product is elastic or inelastic', it is better to say that 'demand for the product is price elastic or price inelastic'.

Competitive Pricing Strategy

- Competitive pricing involves **matching** or **undercutting** the prices charged by **competitors** in order to **increase sales**
- Businesses can use a range of pricing **tactics**
 - Price matching** is commonly used by UK supermarkets to highlight products that are sold at a lower price than rivals
 - Refund the difference** matches the price of rivals if customers find a product at a lower price in a comparable retail outlet
 - Discounts for new customers** attract sales away from rivals

Diagram: supermarket price matching



Tesco and Sainsbury's match some prices with budget retailer Aldi

- The above image illustrates how businesses engage in a **competitive pricing strategy**
 - Businesses with many products may price some competitively while raising prices on others
 - E.g. supermarkets will often **use competitively priced alcohol** to bring customers in but then raise the prices on other products, such as deli meat

Advantages & Disadvantages of Competitive Pricing



Your notes

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ Consumer familiarity <ul style="list-style-type: none"> ▪ Customers may be more likely to accept products because they align with their expectations ▪ Seen as fair and reasonable, which can improve brand image and increase customer loyalty 	<ul style="list-style-type: none"> ▪ Lower profit margins <ul style="list-style-type: none"> ▪ If prices are constantly pushed down to match/beat competitors, it is difficult to maintain healthy profits ▪ Challenging to increase prices even if there are increases in production costs
<ul style="list-style-type: none"> ▪ Market share <ul style="list-style-type: none"> ▪ Helps gain or maintain market share by offering prices that are in line with or slightly below those of rivals ▪ Particularly important in price-sensitive markets 	<ul style="list-style-type: none"> ▪ Brand differentiation <ul style="list-style-type: none"> ▪ May not allow for differentiation based on features or quality ▪ If products are perceived as similar, consumers make purchasing decisions solely based on price
<ul style="list-style-type: none"> ▪ Flexibility <ul style="list-style-type: none"> ▪ If a competitor lowers prices, a business can adjust its own prices accordingly ▪ Avoids losing market share whilst waiting for the pricing strategy to be changed 	<ul style="list-style-type: none"> ▪ Race to the bottom <ul style="list-style-type: none"> ▪ Constantly adjusting prices can lead to a situation where prices keep dropping regardless of the actual value of the product ▪ Limits a businesses ability to set prices based on costs or USP

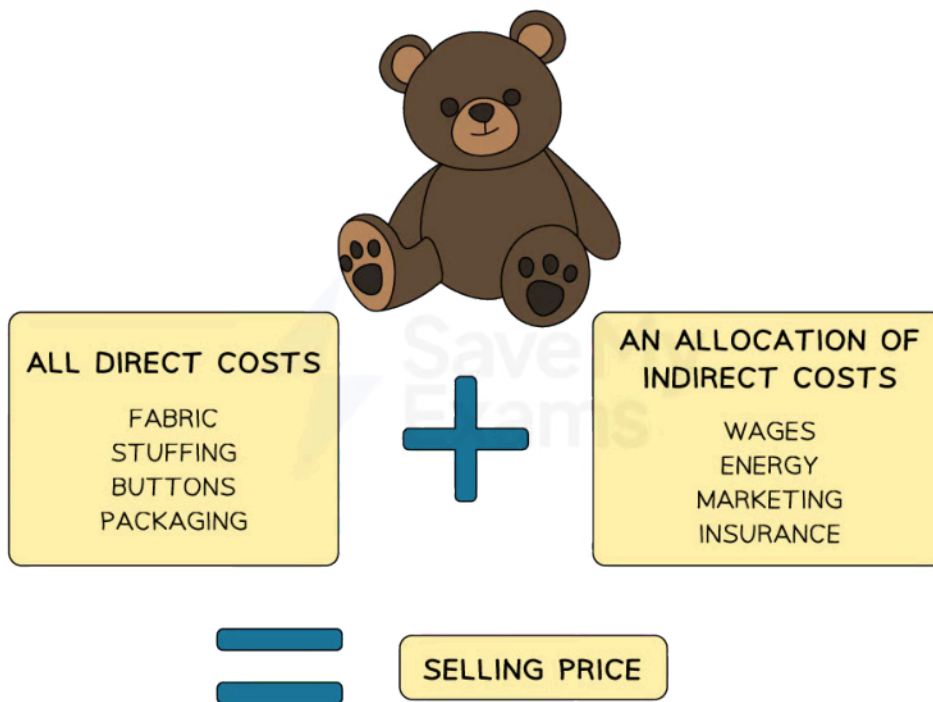
Contribution Pricing

- Contribution pricing involves setting **prices that cover direct costs** associated with producing a product and also **contribute to covering indirect costs**
 - This method ensures that a business **does not make a loss** on each product sold
 - It requires a business to be able to accurately **allocate indirect costs** to products in its range
 - Care must be taken to ensure that the price set is **competitive** and meets **market expectations**

Diagram: illustrating contribution pricing



Your notes



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The toy's selling price is determined by adding total indirect costs to an appropriate allocation of direct costs

Price Elasticity of Demand's Influence on Pricing

- Understanding **price elasticity of demand** helps a business to know when to raise its prices - and when to lower them
- **Price elasticity of demand** calculates **how responsive the change in quantity demanded of a product will be to a change in its price**
 - For most products, when there is an **increase in price**, there will be a **fall in the quantity demanded**
 - Similarly when there is a **decrease in price** there will be an **increase in the quantity demanded**
 - Businesses want to know **by how much the demand will change as this can impact their pricing strategy**
- **The responsiveness of demand to a change in price determines if the product is price elastic or price inelastic in nature**
 - **Where the quantity demanded changes more than the change in price, demand is price elastic**
 - Businesses should **avoid raising the price** of these products

- A 10% increase in price would lead to a greater than 10% decrease in the quantity demanded
- **Where the quantity demanded changes less than the change in price demand is price inelastic**
- Businesses should **avoid cutting the price** of these products
- A 10% increase in price would lead to a less than 10% decrease in the quantity demanded



Your notes

Calculation of PED

- **The PED value is always negative** because of the **inverse relationship between price and demand** (one goes up when the other goes down)
- **PED can be calculated** using the following formula

$$\text{PED} = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}} = \frac{\% \Delta \text{ in QD}}{\% \Delta \text{ in P}}$$

Interpretation of PED Values

Numerical Value	Explanation	Examples
> 1 ELASTIC	<ul style="list-style-type: none"> ▪ Demand is more responsive to a change in price ▪ The %Δ in QD is more than proportional to the %Δ in P ▪ An increase in selling price reduces the total amount of revenue generated from sales ▪ A reduction in selling price increases the total amount of revenue generated from sales 	<ul style="list-style-type: none"> ▪ Luxury products such as cars, smart watches, foreign holidays, cinema visits, jewellery, and branded goods
Between 0 & 1 INELASTIC	<ul style="list-style-type: none"> ▪ Demand is less responsive to a change in price ▪ The %Δ in QD is more than proportional to the %Δ in P ▪ An increase in selling price increases the total amount of revenue generated from sales ▪ A reduction in selling price reduces the total amount of revenue 	<ul style="list-style-type: none"> ▪ Necessities such as bread, milk, eggs, and potatoes; fuel; rent; toothpaste, etc. ▪ Addictive products such as cigarettes and sugary foods

	generated from sales	
--	----------------------	--



Your notes

PED and pricing strategy

- Businesses need to understand the responsiveness of demand to a change in price **before setting or changing their pricing strategy to maximise their revenue**
 - If the demand for their products is relatively **price inelastic (PED < -1)**, raising the price will lead to an **increase in total revenue**. However, lowering the price will lead to a **fall in total revenue**
 - **Price skimming strategies** are best employed for products that are price inelastic in demand
 - If demand for their products is relatively **price elastic (PED > -1)**, raising the price will lead to a **fall in total revenue**. However, lowering the price will lead to a **rise in total revenue**
 - **Competitive pricing strategies** are best employed for products that are price inelastic in demand

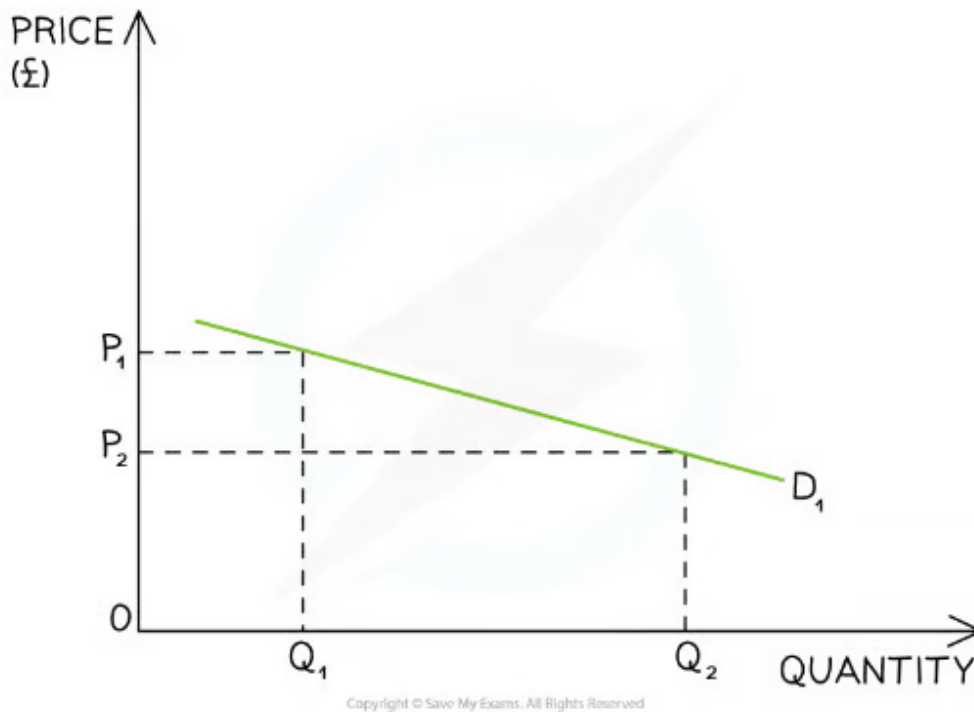
The Relationship Between Price Elasticity of Demand and Total Revenue

Price elastic demand

- The ratio outcome is **greater than 1 (Between 1 and ∞)**
- An **increase in price** will lead to a **decrease in revenue**
- A **decrease in price** will lead to an **increase in revenue**



Your notes

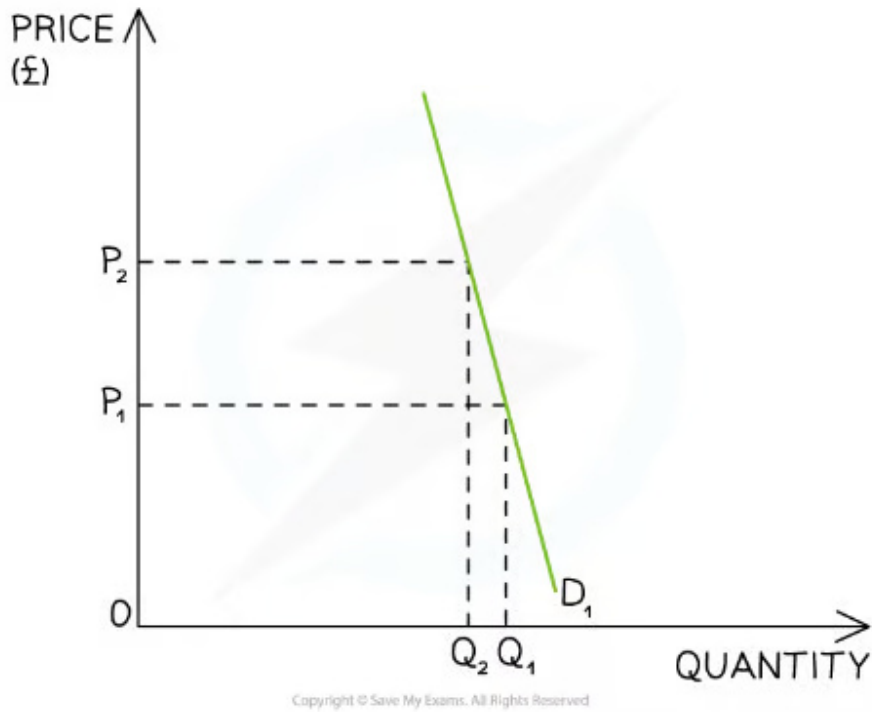


Price inelastic demand

- The ratio outcome is **between 0 and 1**
- An **increase in price** will lead to an **increase in revenue**
- A **decrease in price** will lead to a **decrease in revenue**



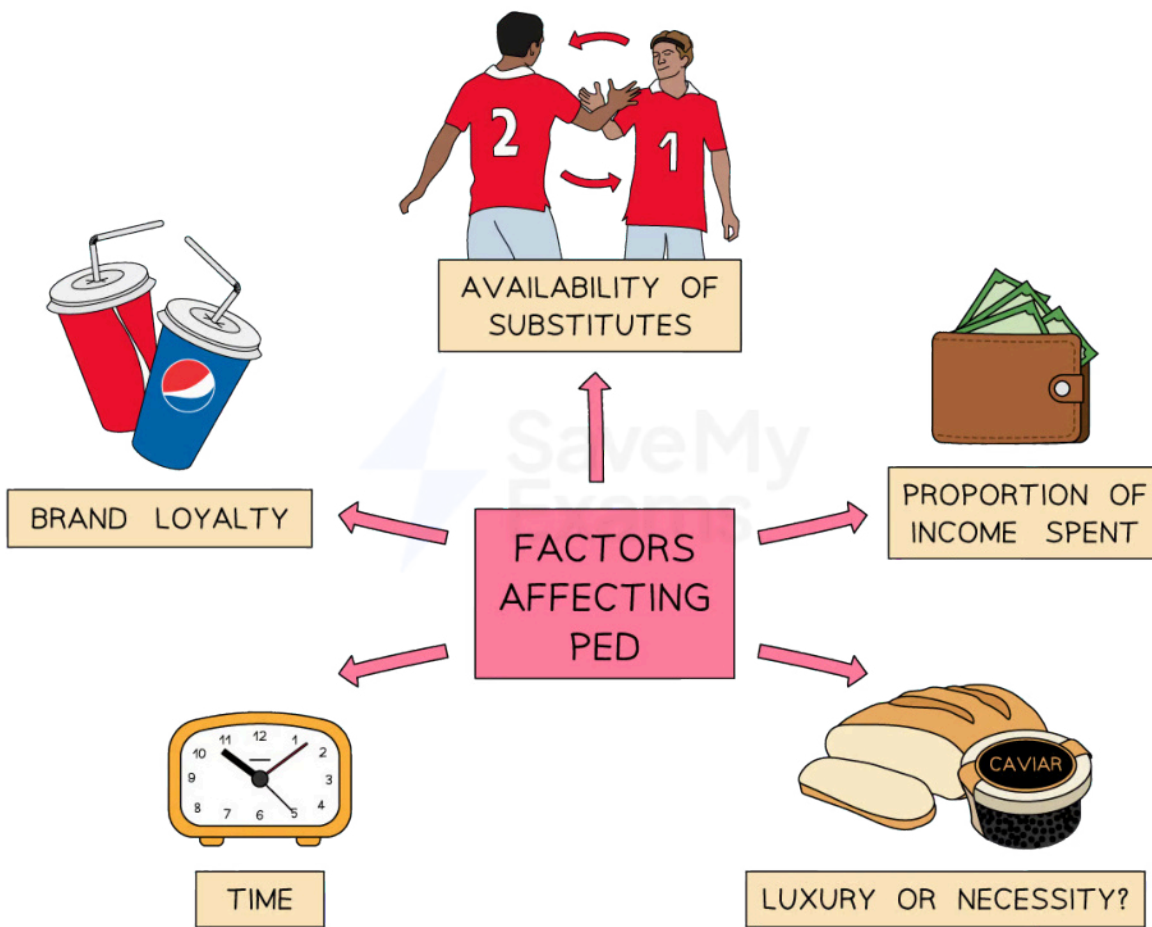
Your notes



Factors Influencing Price Elasticity of Demand



Your notes



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The factors which determine if a product is more price elastic or price inelastic in demand

Brand loyalty

- The aim of advertising and marketing expenditure by a business is to shift the demand curve to the right **and make the demand more price inelastic**
 - E.g. Coke consumers are more brand loyal to Coke and refuse to buy Pepsi, even though their taste is very similar

Availability of substitutes

- PED will be more price inelastic (lower) for goods that have **fewer substitutes**
 - E.g. Petrol has fewer substitutes and is more price inelastic, whereas chocolate bars have more substitutes and are more price elastic



Your notes

The proportion of income taken up by the product

- The **smaller the proportion of income** we spend on a product, the **more price inelastic** the demand will be
 - E.g. A small amount of income is spent on salt and so the demand for salt will be more price inelastic, whereas buying a new car takes up a **bigger proportion** of consumer income and so is **more price elastic in demand**

Luxury or necessity

- **Necessities** are required as part of consumers' daily needs and are therefore **more price inelastic** in demand
 - E.g. Bread, milk, petrol, gas and electricity might be considered necessities
- **Luxuries** are not essential and are therefore **more price elastic** in demand
 - E.g. Smoked salmon, Nike Air Jordans, and foreign holidays might be considered to be luxuries

Time period to adjust

- The **longer the time period** under consideration, the more price elastic the demand for a good or service is likely to be (consumers have more time to search for substitutes)
- The **shorter the time period** under consideration, the more price inelastic the demand for a good or service is likely to be
 - E.g. If the price of petrol increases, making driving more expensive, there is little that consumers can do in the short term. However, they may switch to alternatives such as public transport or bicycles in the long term



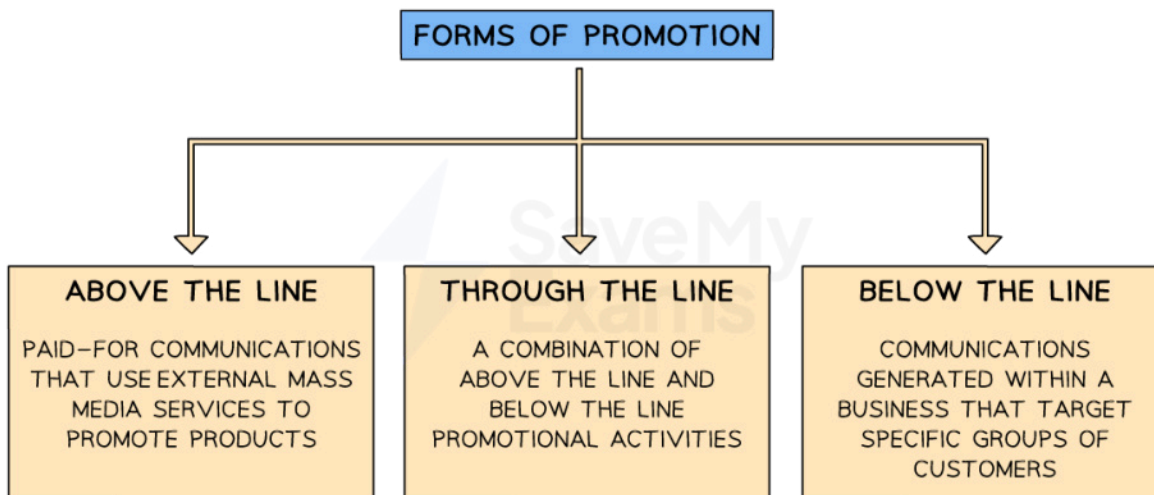
Your notes

The Marketing Mix: Promotion

An Introduction to Promotion

- Promotion plays a crucial role in **generating customer awareness, interest and desire** for a product/service
 - A business uses promotional activities to communicate its **value proposition** to potential customers and **differentiate** itself from competitors
 - Promotion helps to **build brand awareness** and **loyalty** which can lead to repeat purchases and referrals
- Promotion can be classified into three forms
 - Above the line
 - Below the line
 - Through the line

Diagram: forms of promotion



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There are three main forms of promotion which are frequently combined by businesses to achieve a coherent promotional mix

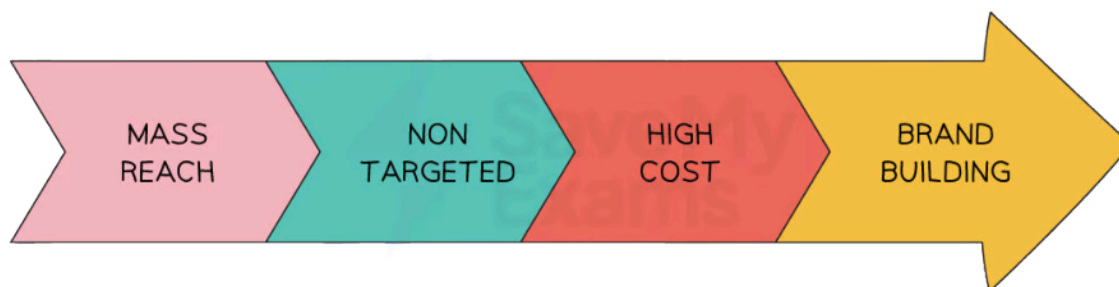
Above the Line Promotion

- Above the line promotion refers to **advertising** activities that are aimed at **reaching a wide audience** through traditional **mass media** channels to **create awareness** about a product, service, or brand.
 - These channels typically include **television, radio, newspapers, magazines** and **outdoor advertising** such as billboards



Your notes

Characteristics of above the line promotion



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Above the line promotion has a range of characteristics

1. Mass reach

- Above the line promotion aims to **reach a large number of people** often through broadcasting media and is designed to **create brand awareness** and **generate interest** among a wide audience

2. Non-targeted

- It is generally **not tailored to a specific customer segment** and aims to capture the attention of **as many people as possible**

3. High cost

- Traditional above the line promotion methods require **significant budgets** due to the costs associated with advertising on television, radio or print media

4. Brand building

- Above the line promotion plays a crucial role in brand building by establishing brand **recognition** and **familiarity** among consumers

Types of above the line promotion

- Above the line promotion can be classified as being informative, persuasive or reassuring

Types of Above the Line Promotion



Your notes

Classification	Explanation	Examples
Informative	<ul style="list-style-type: none"> Informative advertising focuses on providing factual information about a product, service or brand Its goal is to educate and inform consumers about the features, benefits and value of a product, enabling them to make well-informed purchasing decisions 	<ul style="list-style-type: none"> Pharmaceutical companies such as <i>Bayer</i> when releasing a new drug may decide to make an informative television advertisement that provides information on the medication's proven benefits and lists mandatory information at the end
Persuasive	<ul style="list-style-type: none"> Persuasive advertising is designed to influence consumers' attitudes and behaviours towards products or services It aims to convince customers that a particular product or service is desirable, necessary or superior to alternatives in the market 	<ul style="list-style-type: none"> A company selling luxury cosmetics such as <i>Elizabeth Arden</i> is likely to use well-known attractive celebrities in its magazine advertisements Package holiday companies that aim their services at families such as <i>Eurocamp</i> emphasise excellent weather and use images of children having fun in printed advertisements
Reassuring	<ul style="list-style-type: none"> Reassuring advertising aims to remind existing customers that they made the right decision when choosing a particular product over those of rivals It encourages customers to remain loyal and continue to purchase the product and others within the range 	<ul style="list-style-type: none"> <i>Coca Cola</i> reassures its customers through the use of television advertising that promote a 'feel-good' response

Evaluation of Above the Line Promotion

Advantages	Disadvantages



Your notes

<ul style="list-style-type: none"> Businesses can reach a large and diverse audience because mass media channels provide a high level of visibility It is effective for creating a strong brand image, enhancing brand recognition and establishing a sense of credibility and trust among consumers The marketing message can be communicated in an impactful manner using sound, images and graphics 	<ul style="list-style-type: none"> Above the line promotion can be expensive, especially for small businesses with limited budgets As it focuses on reaching a wide audience rather than specific target segments, advertising may not effectively reach the intended audience Advertising typically offers limited interaction or direct engagement with consumers With the rise of digital media traditional media consumption has decreased and consumers can easily filter out or ignore advertisements.
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Below the Line Promotion

- Below the line promotion includes marketing communications over which **a business has direct control** and which **do not make use of mass media**

The Use of Below the Line Promotions

Direct marketing

- Involves **communicating directly with customers** through email, text message, social media or post
- E.g. Takeaway restaurants distribute menus to households in the local community

Advantages and disadvantages of direct marketing

Advantages	Disadvantages
<ul style="list-style-type: none"> Businesses can target specific audiences and personalise the message to individual customers Direct marketing is measurable, which enables businesses to track their results and adjust strategy accordingly 	<ul style="list-style-type: none"> Can be intrusive, as customers may perceive it as spam Can also be costly, especially if businesses do not have an established customer database or need to purchase leads

Sales promotions

- Techniques that encourage the purchase of a product or service by offering **temporary incentives or discounts**

- Examples include free samples, buy one get one free (bogof), discount coupons, loyalty cards, point-of-sale materials and rebates (customers have to mail in to receive money back)

Advantages and disadvantages of sales promotions

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ Can quickly boost sales or customer engagement ▪ Can help to clear out stock or promote a new product ▪ Can encourage impulse purchases ▪ Can be targeted to specific segments of customers 	<ul style="list-style-type: none"> ▪ Can be expensive, especially if the promotion requires a heavy discount ▪ Can attract deal-seeking customers who may not be loyal to the brand ▪ May reduce the sales of full-priced products



Your notes

Personal selling

- Where a salesperson interacts with **customers one-on-one**, either in person or through digital communication channels
- E.g. Luxury skincare products are often sold by brand representatives at concession stands in department stores

Advantages and disadvantages of personal selling

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ Allows businesses to build relationships with their customers and understand their specific needs ▪ Enables businesses to provide personalised advice and guidance to customers 	<ul style="list-style-type: none"> ▪ Can be expensive due to the cost of hiring and training sales staff ▪ Limited impact as it is difficult to scale to large audiences

Public relations (PR)

- The business seeks to build relationships with the public and manage their reputation
- Public relations activities can include **sponsorship, media relations, public events and community outreach** activities
- Public relations can also involve eye-catching **publicity stunts**, such as SpaceX's 2018 launch of a Tesla Roadster car into space

Advantages and disadvantages of public relations



Your notes

Advantages	Disadvantages
<ul style="list-style-type: none"> Can enhance a business's reputation and credibility Often cost-effective when compared to advertising or personal selling May achieve a wide reach as imaginative PR activity is frequently shared on social media 	<ul style="list-style-type: none"> PR can be time-consuming and is difficult to measure the direct impact of PR activities on profits Specialist and expensive PR companies can often achieve the best results

Through the Line Promotion

- Through-the-line promotion **combines both above the line** and **below the line** techniques to create a **comprehensive** promotional campaign
 - It allows for a **holistic approach** to reach customers through both mass media and personalised communications
 - A through the line promotion campaign might involve running a **television commercial** to create brand awareness, followed by **social media advertising** and **targeted email marketing** to reach specific customer segments and encourage them to take action

Evaluation of Through the Line Promotion

Advantages	Disadvantages
<ul style="list-style-type: none"> It combines the broad reach of advertising with the personal touch of below the line techniques which is likely to lead to increased customer engagement The integrated approach can lead to better brand recognition as customers receive promotional messages in a variety of ways 	<ul style="list-style-type: none"> Coordinating a multi-channel through-the-line campaign requires marketing expertise for which a business may need to employ an expensive specialist marketing agency Careful planning is needed to ensure that all elements present a coherent message



Examiner Tips and Tricks



Your notes

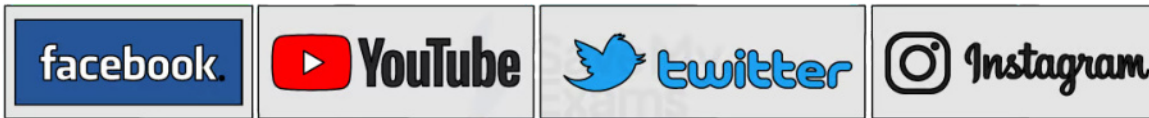
For most businesses, their choice of promotional techniques is limited by the budget available.

Take care to consider the costs involved in the promotional methods you recommend and ensure that you have carefully considered the financial position of the business. Low-cost methods such as social media and short-term sales promotions may be the only methods a business can afford and so considering how these may be put to best use is far more convincing than comparing them to methods that are beyond their reach.

Social Media Promotion

- Social media marketing targets promotional activity at users of **online communities** such as Facebook, Twitter and YouTube

Diagram: social media platforms



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Examples of social media platforms

- Interacting with customers in this way builds **relationships**, drives **repeat business** from existing customers and **attracts new customers** as content is shared with other users

Evaluation of Social Media Marketing

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ Social media platforms have billions of active users, which allows businesses to reach a vast audience across different demographics and locations ▪ Social media platforms enable businesses to deliver promotional content to specific groups based on demographics, interests and behaviours, increasing the chances of reaching the right audience ▪ Businesses can create and share content easily, increasing brand visibility and exposure, which helps generate brand awareness 	<ul style="list-style-type: none"> ▪ Effective social media marketing requires consistent effort and time to create quality content, manage multiple platforms, and engage with the audience, which can be time-consuming, especially for small businesses with limited resources ▪ Social media opens up channels for public feedback and reviews. This can include negative comments or complaints, which can be viewed by all other users ▪ Social media platforms frequently update their algorithms, which may affect the visibility and reach of content

- | | |
|---|--|
| <ul style="list-style-type: none">▪ Social media marketing can achieve organic reach and engagement without a large budget | <ul style="list-style-type: none">▪ Businesses face the challenge of breaking through the noise and capturing users' attention amidst the large volume of competing content |
|---|--|
- As social media platforms evolve, businesses must also **adapt their social media strategies** to keep up with the latest trends
 - E.g. **Instagram** has been a popular platform for businesses to promote their products through influencer partnerships.
 - More recently, many businesses have shifted their focus to promoting their brands through **short-form video** content on platforms like **TikTok**



Your notes



Examiner Tips and Tricks

Currently, even the smallest of businesses make extensive use of social media to control their own below the line promotions.

In your responses, you should acknowledge that these platforms are not below-the-line promotional methods themselves, rather vehicles through which below-the-line promotional activity can be shared widely with specific target markets at little - or no - cost and encourage interactivity with customers.



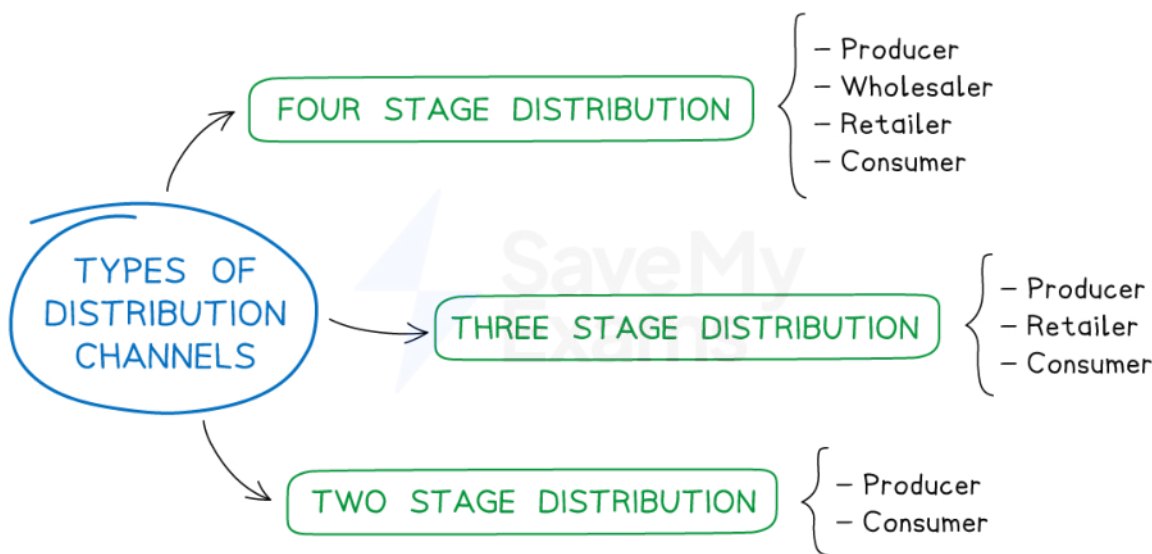
Your notes

The Marketing Mix: Place

Types of Distribution Channels

- Distribution channels refer to the chain of **intermediaries** through which goods/services move **from the manufacturer to the end customer**

Diagram: types of distribution channels



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The three different types of distribution channels businesses can use to move products from the manufacturer to the end consumer

Four Stage Distribution Channel

- A **traditional** channel consists of four stages: producer, wholesaler, retailer, and consumer
- This channel is commonly used for products such as groceries, clothing, and electronics
 - E.g. The Coca-Cola Company produces the soft drink and then sells it to a **wholesaler**, who in turn sells it to a retailer
 - The retailer then sells the soft drink to the customer

Three stage distribution channel

- The three stage distribution channel **eliminates the wholesaler stage**, with the producer selling directly to the retailer



Your notes

- This channel is often used for **products with high demand** or where the cost of distribution is high
- It is also frequently used for products with high **profit margins**, where the manufacturer can afford to sell directly to the retailer and still make a profit
 - Eg Toshiba produces laptops and sells them directly to retailers like Currys, who then sell them to the end customer

Two stage distribution channel

- The two stage distribution channel **eliminates both the wholesaler and retailer** stages, with the manufacturer selling directly to the end consumer
- This channel is commonly used for **products that are sold online** or through direct sales channels
 - E.g. RyanAir sells its service (passenger tickets) directly to the end customer on their website

Evaluation of Different Distribution Channels

Distribution Channel	Advantages	Disadvantages
Four Stage	<ul style="list-style-type: none"> ▪ Storage costs are absorbed by the wholesaler ▪ The wholesaler takes on responsibility for breaking a large quantity of products into smaller batches for retailers to purchase 	<ul style="list-style-type: none"> ▪ The wholesaler and retailer each demand a mark-up, reducing profit for the producer or increasing prices for consumers ▪ Control over below-the-line promotional activity is no longer under the control of the producer
Three Stage	<ul style="list-style-type: none"> ▪ Customer service and some promotional activities are carried out by the retailer ▪ Storage and display costs are absorbed by the retailer 	<ul style="list-style-type: none"> ▪ The retailer's mark-up will reduce the profit of the producer or make the product more expensive for consumers ▪ Promotional activity by the retailer may not be communicated with the producer, potentially causing production shortfalls



Your notes

<p>Two Stage</p>	<ul style="list-style-type: none"> ▪ A low-cost and fast way to get products to consumers ▪ The producer has full control over promotional activity, merchandising and customer service 	<ul style="list-style-type: none"> ▪ All storage and distribution costs are the responsibility of the producer ▪ Resolving customer service issues can take a lot of time and take attention away from production
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- Changes in distribution have been impacted by social trends such as the **growth of e-commerce** and the **shift from product-based businesses to service-based businesses**
- By understanding these trends, businesses can **adjust their distribution strategies** to meet the needs of their customers better and **stay competitive** in the marketplace

The Growth of E-commerce

Explanation	Example
<ul style="list-style-type: none"> ▪ Online distribution has become increasingly popular due to the convenience and accessibility it offers to consumers ▪ Many businesses now use drop-shipping, which allows them to sell products without holding stock <ul style="list-style-type: none"> ▪ Once the business has sold the products, they are shipped directly from the producer to the customer ▪ This reduces the cost and complexity of distribution, making it easier for businesses to sell online 	<ul style="list-style-type: none"> ▪ Amazon is known as a third-party logistics provider (3PLs) ▪ It provides businesses with the infrastructure and online marketplace which allow them to reach a wide audience and increase sales without having to invest in their distribution infrastructure ▪ Many businesses now generate the bulk of their sales on Amazon



Examiner Tips and Tricks

In some cases, customers are also able to **purchase directly from wholesalers**.

Costco is a global business which operates a chain of membership-only warehouse outlets that allow both small retailers and consumer members to shop in its stores and online.

In 2022, Costco was the fifth largest global retailer and the world's largest retailer of choice for prime beef, organic foods, rotisserie chicken and wine.



Your notes



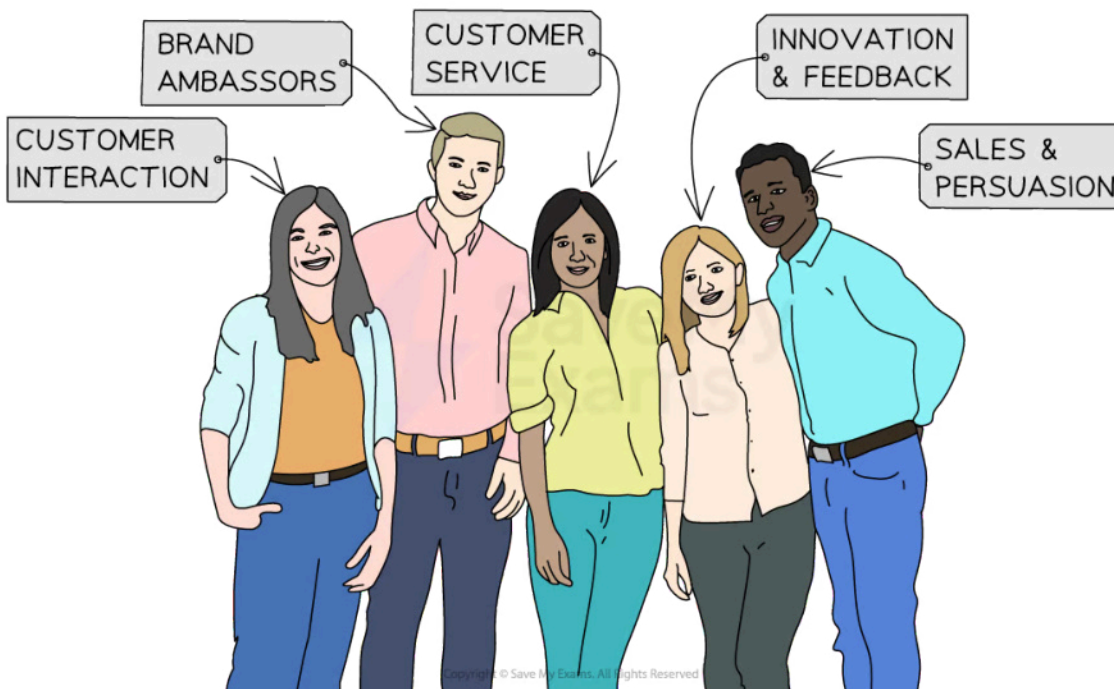
Your notes

The Marketing Mix: People

The Importance of People in the Marketing Mix

- People play a crucial role in the marketing mix, as they are **responsible for designing and carrying out marketing activities, interacting with customers, selling products** and delivering a **positive customer experience**
- People can also **provide valuable feedback** and propose **innovative marketing solutions**
- Careful **recruitment and training of workers**, especially those in customer-facing roles, is increasingly recognised as the **key determinant of marketing success**

Diagram: people and the marketing mix



The importance of people is acknowledged in the extended marketing mix

The Importance of People in the Marketing Mix

Reason	Explanation
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Your notes

<p>Customer Interactions</p>	<ul style="list-style-type: none"> ▪ Salespeople, customer service representatives or employees in a retail outlet have direct contact with customers ▪ These interactions can influence customer perceptions, build relationships and shape the overall customer experience
<p>Brand Ambassadors</p>	<ul style="list-style-type: none"> ▪ Employees' knowledge, enthusiasm and passion for the brand can have a significant impact on how customers perceive and connect with the brand ▪ Positive interactions with knowledgeable and helpful employees can enhance brand loyalty
<p>Customer Service</p>	<ul style="list-style-type: none"> ▪ Skilled customer service employees can address customer inquiries, resolve issues and provide personalised support ▪ Positive customer experiences contribute to customer satisfaction, repeat business and positive word-of-mouth recommendations
<p>Innovation and Feedback</p>	<ul style="list-style-type: none"> ▪ Employees' observations and feedback can help identify emerging trends, customer preferences and areas for improvement ▪ This information is crucial for refining marketing strategies, developing new products and enhancing the overall customer experience
<p>Sales and Persuasion</p>	<ul style="list-style-type: none"> ▪ Skilled sales employees can understand customer needs, provide tailored solutions and effectively communicate the benefits of a product or service ▪ Their ability to build relationships, address objections and close sales is essential in achieving marketing objectives

- In order to gain these benefits, businesses need to foster a **culture of unity**, particularly amongst customer-facing employees and take steps to ensure that they are **well-motivated**
- A satisfied workforce is more likely to provide excellent customer service, work hard to close sales and act as brand ambassadors



Examiner Tips and Tricks

A useful evaluative point in exam questions that require you to weigh up marketing strategies is the **extent to which people have the skills, training and motivation** to implement them effectively.

Even the most imaginative advertising campaign or the most enticing sales promotion can be undermined by negative interactions with staff members.



Your notes

The Marketing Mix: Processes



Your notes

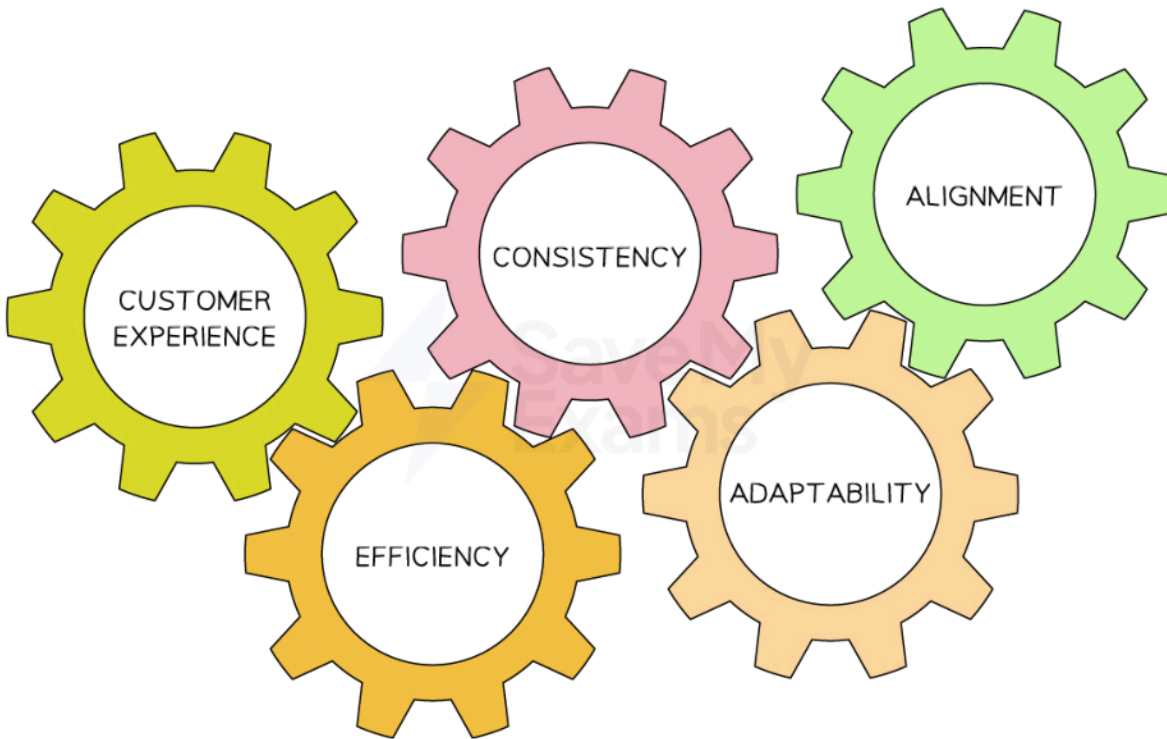
The Importance of Processes in the Marketing Mix

- Processes refer to the **activities, procedures and systems** a company employs to deliver a product or service to its customers and create a **competitive advantage**
- Businesses develop a set of processes that allow for a product or service to be **delivered effectively** to their customers
 - E.g. from the moment **cruise** passengers book their trip, a series of process are engaged
 - Online **booking and customer service processes** provide for smooth organisation and preparation for the trip
 - When they arrive at the dockside, customers are greeted; their baggage is taken to their assigned cabin
 - Two weeks of services from restaurants and evening entertainment, casinos and shopping are organised and provided
 - Specialist services and facilities are available to those with particular needs
 - When customers arrive at their destination, baggage is delivered to them and onward transportation arranged

Diagram: the importance of processes



Your notes



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Effective processes form an important part of the extended marketing mix

The Importance of Processes

Reason for Importance	Explanation	Example
<p>Customer Experience</p>	<ul style="list-style-type: none"> Processes directly impact the overall customer experience as they involve everything from how customers discover a product or service to how they make a purchase, receive support and interact with the brand Well-designed processes provide a seamless and positive customer journey, enhancing customer satisfaction and loyalty 	<ul style="list-style-type: none"> L'Oréal uses artificial intelligence to improve the customer experience Face-scanning sensors measure a customer's skin, which allows appropriate skincare products to be recommended to customers



Your notes

<p>Efficiency</p>	<ul style="list-style-type: none"> Effective processes improve efficiency, streamlining operations and reducing costs By carefully designing and planning marketing processes, businesses can eliminate redundancies, automate repetitive tasks and improve the use of resources This leads to reduced timescales, increased productivity and profitability 	<ul style="list-style-type: none"> <i>Air BnB</i> hosts are encouraged to provide self check-in facilities, removing the need for the host to be present when guests arrive at their property
<p>Consistency</p>	<ul style="list-style-type: none"> Processes help to maintain consistency because they provide a framework for delivering consistent messages, branding and experiences whenever an interaction with customers occurs Consistency builds trust, reinforces the brand identity and helps to develop long-term relationships with customers 	<ul style="list-style-type: none"> <i>The Economist</i> uses its established brand 'tone of voice' consistently across all of its social media channels Its posts are informative and factual, and its language is brief, clear and using everyday speech
<p>Adaptability</p>	<ul style="list-style-type: none"> Marketing processes need to be flexible and adaptable to changing customer preferences By continuously monitoring processes, businesses can identify areas for improvement and respond to emerging trends and challenges, including the actions of competitors 	<ul style="list-style-type: none"> Passengers travelling with the airline <i>Lufthansa</i> no longer need a boarding pass or passport on the airline's route from Miami International Airport to Munich following the opening of America's first all-biometric terminal, reducing check-in time to less than two seconds



Alignment	<ul style="list-style-type: none">Processes help different departments work together effectively to meet objectivesWhen teams work together within defined processes it improves communication and coordination	<ul style="list-style-type: none">At <i>HubSpot</i>, a leading business software company, cross-functional teams use a variety of collaboration tools which allow for the rapid approval of promotional activitiesThe business also keeps a full recorded timeline of task completion so that anyone involved in the project can instantly see the status of a project
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Examiner Tips and Tricks

When businesses change their processes it is crucial that they are carefully **tested in advance** to ensure that customers can continue to access products or services seamlessly. IT-based processes are particularly prone to problems and a number of high-profile disasters have hit well-known brands.

- In the early 2000's, *Hershey's* tried to squeeze a complex IT upgrade project into an **unrealistic timeline** and launched it during the busy Halloween season **before its employees had been adequately trained** on the new system
 - As a result, the business could not process **\$100 million** worth of confectionery orders and suffered a 12% drop in sales



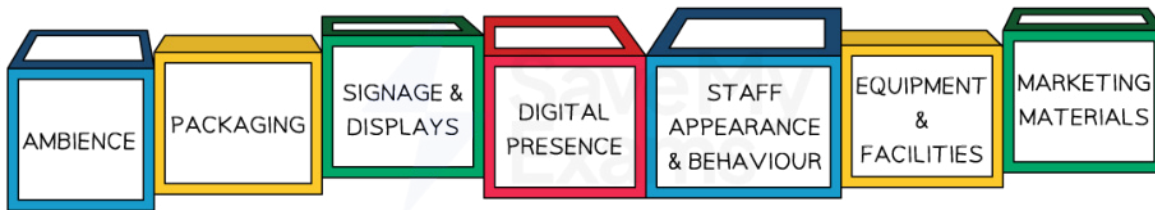
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The Marketing Mix: Physical Evidence

The Importance of Physical Evidence in the Marketing Mix

- Physical evidence refers to the **tangible** and **visible signs** of a product/service that customers interact with and perceive during their buying experience

Diagram: visible and tangible signs



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Physical evidence can take many forms in the extended marketing mix

- It is a particularly **important element for services** as it helps to shape customer perceptions and build trust in a process where the intangible product cannot be viewed or touched by potential customers
 - Businesses use these physical aspects to **delight customers** and **set themselves apart** from competitors

Key Aspects & Examples of Physical Evidence in the Marketing Mix

Aspect	Explanation	Example
Store/Office Ambiance	<ul style="list-style-type: none"> The physical environment in which a business operates greatly impacts customer perceptions This includes factors such as store layout, interior design, lighting, colours, music and overall ambiance 	<ul style="list-style-type: none"> Celine's high-end fashion boutique in London uses elegant decor, soft lighting and soothing music to create a luxurious and exclusive atmosphere
Packaging	<ul style="list-style-type: none"> The design, quality and functionality of product packaging contribute to the overall impression customers have of a brand 	<ul style="list-style-type: none"> Each product sold by beauty retailer Lush displays its simple business logo prominently on the



Your notes

	<ul style="list-style-type: none"> ▪ Packaging should be visually appealing, informative and aligned with the brand identity so as to differentiate a product from competitors 	<p>front, ensuring that the brand is immediately identifiable</p> <ul style="list-style-type: none"> ▪ In line with its CSR concerns, all pots and bottles are made from BPA-free 100% recycled plastic and all containers are recyclable via an in-store programme
Signage and Displays	<ul style="list-style-type: none"> ▪ Clear and attractive signage helps customers navigate and locate products or services within a physical space ▪ Effective signage can provide important information, promotions or branding messages ▪ Eye-catching displays can draw attention to specific products or offers, influencing purchase decisions 	<ul style="list-style-type: none"> ▪ The Adidas flagship London store is full of innovative, informative displays and flexible design ▪ The store includes movable cabinets and displays that allow staff to easily adapt merchandising activity ▪ A dedicated 'Marley' sneaker display explains how the product is made using ocean plastics and augmented reality displays adding an extra visual layer to in-store promotional activity
Digital Presence	<ul style="list-style-type: none"> ▪ A well-designed and user-friendly website, social media profiles, online reviews and customer testimonials can act as virtual physical evidence which provides customers with information and reassurance about the brand 	<ul style="list-style-type: none"> ▪ In 2018, KFC showed how digital marketing is done with its response to the now infamous chicken shortage which happened when the company switched to a new supplier and was unable to meet demand ▪ Instead of shifting blame KFC took it in good humour, launching a "find my chicken" bot on Twitter, allowing customers to locate their nearest fully-stocked branch
Staff Appearance and Behaviour	<ul style="list-style-type: none"> ▪ The appearance, professionalism and behaviour of employees representing a business contribute to the physical evidence ▪ Uniforms, grooming standards, and courteous behaviour impact customer 	<ul style="list-style-type: none"> ▪ Legoland identified that all staff needed to be easily identified in each of the three theme parks they operate in Europe ▪ All staff wear the same vibrant, consistent, comfortable and



Your notes

	<p>perceptions and the overall experience</p> <ul style="list-style-type: none"> ▪ Friendly and knowledgeable staff can instil confidence and build trust 	<p>sustainable uniform that meets <i>Legoland's</i> branding requirements</p>
Equipment and Facilities	<ul style="list-style-type: none"> ▪ The quality and condition of equipment and facilities in a business also form part of the physical evidence 	<ul style="list-style-type: none"> ▪ The Yooma Urban Lodge in Brussels has modern and well-maintained amenities and innovative rooms aimed at families that create a positive impression on guests
Marketing Materials	<ul style="list-style-type: none"> ▪ Printed materials such as brochures, catalogues, business cards and product samples are physical evidence that customers can touch and take away to serve as a physical reminder of the business and influence purchase decisions 	<ul style="list-style-type: none"> ▪ Independent schools and universities produce glossy informative brochures that are often distributed during open events or are available on request



Examiner Tips and Tricks

Physical evidence can support and embed a businesses **unique selling point** as it **reinforces values** and provides **visual cues** with which customers may align.

For example, my local café thrives and defines itself with being a local, eco-friendly business among the mass of coffee chains with which it competes in the area. Everything is local – the ingredients, the plates and mugs and the decor (which includes pieces produced by local artists) comes from the surrounding area – and that's visible evidence of how it stands out from the chain outlets and maintains a loyal following.

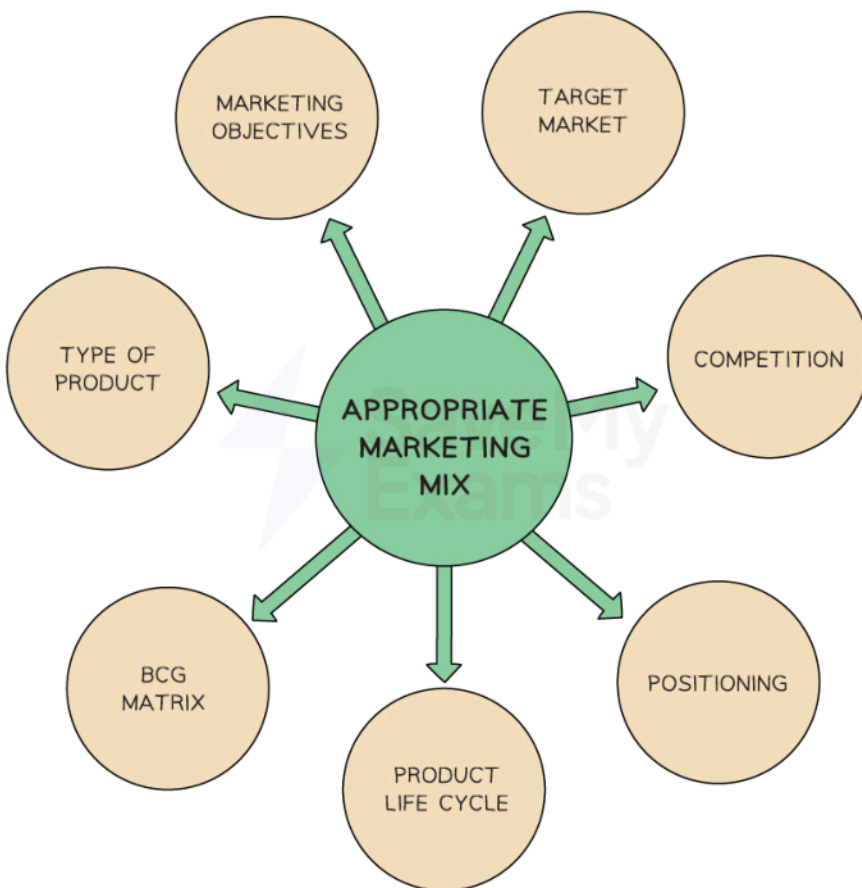
Appropriate Marketing Mixes

- The different elements of the extended **marketing mix** must **complement each other** and be **appropriate for the business context**, taking into account a range of factors

Diagram: factors in an appropriate marketing mix



Your notes



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Businesses should consider a range of factors when developing an appropriate marketing mix

- The stage of the product in its **product life cycle** is likely to affect several elements of the marketing mix
 - **Promotional activity** for a product in the maturity stage may need to be increased in order to differentiate the product from rivals
 - Low **pricing tactics** may be required during the introduction stage to persuade customers to purchase the product for the first time
- The balance of products in the **Boston Consulting Group (BCG) Matrix** will inform the marketing mix chosen
 - Investment in seeking new **distribution channels** may be needed for star products
 - Improved **staff sales training** may be useful for question marks to increase market share over rivals



Your notes

- The **type of product**, including whether it is aimed at a mass or a specialised niche market is likely to affect the marketing strategies and tactics selected
 - In a competitive mass market extensive **promotional activity** and **low prices** may be required to maintain market share
 - A business that sells specialised products may make extensive use of **personal selling** and **informative advertising** to support its niche products
- The businesses **marketing objectives** will have a direct impact on the marketing mix
 - A growth objective may require a business seeking new **distribution channels**
 - An objective to increase market share may require increased investment in **promotional activity**
- The **target market** is also an important factor in determining the marketing mix
 - Where the target market is relatively young **digital promotional tactics** may be effective
 - Older target markets may respond better to more traditional promotional activities and **physical evidence** such as brochures and direct mailings
- The marketing activities of **competitors** is a key factor to be considered
 - If a significant competitor launches a new product, a business may need to invest in **product or packaging upgrades** or **reduce prices** to maintain market share
- Market **positioning** will also inform the marketing mix
 - A business that positions its products as luxury items is likely to focus heavily on **personal selling**, high quality **packaging** and other **physical evidence**
 - Quality-focused businesses may use **premium pricing** and **streamlining processes** to ensure customers are fully satisfied with the purchasing process



Examiner Tips and Tricks

Evaluation by businesses of these factors should be a **continuous process** as their relative importance is likely to change over time, sometimes **without warning**.

How the Elements of the Marketing Mix work Together

- The interaction between the elements of the marketing mix is crucial for the success of any marketing campaign
- A **change in one element** can have a significant **impact on the others**

- The **marketing mix will change** as a product moves through different stages of its product life cycle
How Changes to one Element can Change the Entire Mix



Your notes

Changes to Product	Changes to Price
<ul style="list-style-type: none"> ▪ The product/service is the heart of the marketing mix as it is what the customer is buying and all other elements are based on it <ul style="list-style-type: none"> ▪ The product determines the price, the target audience, and the promotion strategy ▪ If the product changes then all other elements of the mix will likely need to change <ul style="list-style-type: none"> ▪ E.g. if a business decides to launch a premium version of its product, it may need to increase the price, target a different audience and use a different promotion strategy to reflect the new product's value 	<ul style="list-style-type: none"> ▪ The price of a product is closely linked to its perceived brand value <ul style="list-style-type: none"> ▪ If a product is priced too high it may be perceived as too expensive by the target audience leading to lower sales ▪ If a product is priced too low it may be perceived as low quality leading to lower sales ▪ Increasing the price may require changes to the promotion strategy which are aimed at convincing consumers of the products value
Changes to Promotion	Changes to Place
<ul style="list-style-type: none"> ▪ The promotion strategy can affect the price and distribution channels <ul style="list-style-type: none"> ▪ E.g. If a business decides to launch a high-end promotion strategy, it may need to increase the price to reflect the product's value 	<ul style="list-style-type: none"> ▪ The distribution/sales channels can affect the price and promotion strategy <ul style="list-style-type: none"> ▪ E.g. if a business decides to use exclusive distribution channels, it may need to increase the price to reflect the exclusivity of the product