**CHAPTER 13: PROMOTION AND PRICING STRATEGIES**

**Chapter Overview**

This chapter begins by explaining the role of integrated marketing communications (IMC) and then discusses the objectives of promotion and the importance of promotional planning. Next, it examines the components of the promotional mix: advertising, sales promotion, personal selling, and public relations. Finally, the chapter addresses pricing strategies for goods and services.

**Glossary of Key Terms**

**Advertising:** paid nonpersonal communication usually targeted at large numbers of potential buyers

**Breakeven analysis:** pricing-related technique used to determine the minimum sales volume a product must generate at a certain price level to cover all costs

**Cause advertising:** form of institutional advertising that promotes a specific viewpoint on a public issue as a way to influence public opinion and the legislative process

**Competitive pricing:** strategy that tries to reduce the emphasis on price competition by matching other firms’ prices and concentrating their own marketing efforts on the product, distribution, and promotional elements of the marketing mix

**Cooperative advertising:** allowances provided by marketers in which they share the cost of local advertising of their firm’s product or product line with channel partners

**Cost-based pricing:** formulas that calculate total costs per unit and then add markups to cover overhead costs and generate profits

**Creative selling:** persuasive type of promotional presentation

**Everyday low pricing (EDLP):** strategy devoted to maintaining continuous low prices rather than relying on short-term price-cutting tactics such as cents-off coupons, rebates, and special sales

**Guerrilla marketing:** innovative, low-cost marketing efforts designed to get consumers’ attention in unusual ways

**Infomercial:** form of broadcast direct marketing; 30-minute programs that resemble regular TV programs, but are devoted to selling goods or services

**Institutional advertising:** involves messages that promote concepts, ideas, philosophies, or goodwill for industries, companies, organizations, or government entities

**Integrated marketing communications (IMC):** coordination of all promotional activities—media advertising, direct mail, personal selling, sales promotion, and public relations—to produce a unified, customer-focused promotional strategy

**Missionary selling:** indirect form of selling in which the representative promotes goodwill for a company or provides technical or operational assistance to the customer

**Nonpersonal selling:** consists of advertising, sales promotion, direct marketing, and public relations

**Odd pricing:** pricing method using uneven amounts, which appear less than they really are to consumers

**Order processing:** form of selling, mostly at the wholesale and retail levels, that involves identifying customer needs, pointing them out to customers, and completing orders

**Penetration pricing:** strategy that sets a low price as a major marketing weapon

**Personal selling:** the most basic form of promotion: a direct person-to-person promotional presentation to a potential buyer

**Point-of-purchase (POP) advertising:** displays or demonstrations that promote products when and where consumers buy them, such as in retail stores

**Positioning:** concept in which marketers attempt to establish their products in the minds of customers by communicating to buyers meaningful distinctions about the attributes, price, quality, or use of a good or service

**Prestige pricing:** establishes a relatively high price to develop and maintain an image of quality and exclusiveness

**Price:** exchange value of a good or service

**Product advertising:** consists of messages designed to sell a particular good or service

**Product placement:** form of promotion in which marketers pay placement fees to have their products showcased in various media, ranging from newspapers and magazines to television and movies

**Profitability objectives:** common objectives included in the strategic plans of most firms

**Promotion:** function of informing, persuading, and influencing a purchase decision

**Promotional mix:** combination of personal and nonpersonal selling components designed to meet the needs of their firm’s target customers and effectively and efficiently communicate its message to them

**Public relations:** organization’s communications and relationships with its various public audiences

**Publicity:** nonpersonal stimulation of demand for a good, service, place, idea, event, person, or organization by unpaid placement of information in print or broadcast media

**Pulling strategy:** promotes a product by generating consumer demand for it, primarily through advertising and sales promotion appeals

**Pushing strategy:** personal selling to market an item to wholesalers and retailers in a company’s distribution channels

**Sales promotion:** consists of forms of promotion such as coupons, product samples, and rebates that support advertising and personal selling

**Skimming pricing:** strategy that sets an intentionally high price relative to the price of competing products

**Specialty advertising:** promotional items that prominently display a firm’s name, logo, or business slogan

**Sponsorship:** involves providing funds for a sporting or cultural event in exchange for a direct association with the event

**Telemarketing:** personal selling conducted entirely by telephone, which provides a firm’s marketers with a high return on their expenditures, an immediate response, and an opportunity for personalized two-way conversation

**Trade promotion:** sales promotion geared to marketing intermediaries rather than to final consumers

**Volume objectives:** bases pricing decisions on market share, the percentage of a market controlled by a certain company or product

**Learning Objective 1:**

**Discuss integrated marketing communications (IMC).**

*In practicing IMC, a firm coordinates promotional activities to produce a unified, customer-focused message. IMC identifies consumer needs and then shows how a company’s products meet them. Marketers select the promotional media that best target and reach customers. Teamwork and careful promotional planning to coordinate IMC strategy components are important elements of these programs.*

*A company’s promotional mix integrates two components: personal selling and nonpersonal selling, which includes advertising, sales promotion, and public relations. By selecting the appropriate combination of promotional mix elements, marketers attempt to achieve the firm’s five major promotional objectives: provide information, differentiate a product, increase demand, stabilize sales, and accentuate the product’s value.*

**Annotated Lecture Outline**

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| **Opening Vignette:**  **Pfizer Faces the Impact of Generic Drug Pricing**  Now that Pfizer’s patent for their drug Lipitor expired, their roughly 9 million customers are seeing generic brands on store shelves. Beforehand, Lipitor accounted for over $100 billion in the company’s revenue. During the first six months of Pfizer’s patent expired, companies that could sell generic brands was limited by the first few that applied through the FDA. Pfizer strategically planned in order to protect profits, signing deals with prescription drug and benefit plans, even manufacturing its own generic version through Watson Pharmaceuticals who gave the company 70% of the profit. Despite lower prices, the new crop of generic drugs also mean that manufacturers have cut budgets generally designated for research and development. |  |
| * 1. *Promotion* is the function of informing, persuading, and influencing a purchase decision. | PowerPoint Slide 3 |
| * 1. Some promotional strategies develop *primary demand*—a desire for a general product category. |  |

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| * 1. Most promotional strategies stimulate *selective demand*—a desire for a specific brand. |  |
| * 1. *Integrated marketing communications* (IMC) is the coordination of all promotional activities—media advertising, direct mail, personal selling, sales promotion, and public relations—to produce a unified, customer-focused promotional strategy. |  |
| **INTEGRATED MARKETING COMMUNICATIONS** | PowerPoint Slide 4 |
| * 1. An IMC strategy focuses on customer needs to create a unified promotional message in the firm’s ads, in-store displays, product samples, and presentations by company sales representatives. | *Lecture Enhancer:*  *What challenges do companies face in trying to reach consumers?* |
| * 1. Marketers that implement IMC need a broad view of promotion. |  |
| * 1. Plans must include all forms of customer contact. | *Lecture Enhancer: How do you prefer that advertisers reach you? TV? Online? Other?* |
| * 1. Marketers create a unified personality and message for the good or service through IMC. |  |
| * + - 1. **The *Promotional Mix*** is the combination of personal and nonpersonal selling components designed to meet the needs of a firm’s target customers and effectively and efficiently communicate its message to them. | PowerPoint Slide 5 |
| * 1. *Personal selling* is the most basic form of promotion: a direct person-to-person promotional presentation to a potential buyer. |  |
| * 1. *Nonpersonal selling* consists of advertising, sales promotion, direct marketing, and public relations. |  |
| * 1. Each component in the promotional mix has advantages and disadvantages. | PowerPoint Slide 6  Table 13.1 Comparing the Components of the Promotional Mix  *Lecture Enhancer: Choose a component and think of a product that has been marketed through this strategy.* |
| * + 1. B2B manufacturers spend more on personal selling. | *Class Activity:*  *Lead a discussion to obtain student ideas of the personality traits and skills needed for a person to excel in personal selling.* |
| * + 1. B2C businesses focus on advertising and sponsorships. |  |
| 1. **Objectives of Promotional Strategy** | PowerPoint Slide 7  Figure 13.1 Comparing the Components of the Promotional Mix |
| * 1. Marketers often pursue multiple objectives at the same time. Common objectives include providing information, differentiating a product, increasing sales, stabilizing sales, and accentuating a product’s value. |  |

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| * 1. **Providing Information**—major portion of U.S. advertising provides information about a product. | *Class Activity:*  *In viewing pharmaceutical television product ads, do students perceive the information provided regarding benefits and risks of the medicine as fair or biased?* |
| * 1. **Differentiating a Product**─ communicate to buyers meaningful distinctions about the attributes, price, quality, or use of a good or service. |  |
| i. *Positioning* is a concept in which marketers attempt to establish their products in the minds of customers by communicating to buyers meaningful distinctions about the attributes, price, quality, or use of a good or service. |  |
| * 1. **Increasing Sales**─the most common objective of a promotional strategy. |  |
| * 1. **Stabilizing Sales**─evens out the production cycle, reduces some management and production costs, and simplifies financial, purchasing, and marketing planning. | *Class Activity:*  *Ask students for their ideas on how a local CPA firm might attract more summer business.* |
| * 1. **Accentuating the Product’s Value**─explaining hidden benefits of ownership. |  |
| 1. **Promotional Planning** | PowerPoint Slide 8 |
| * 1. *Product placement* is a form of promotion in which marketers pay placement fees to have their products showcased in various media, ranging from newspapers and magazines to television and movies. | *Lecture Enhancer: Provide an example of a company or product that uses this promotional strategy as its primary promotional method.* |
| * 1. *Guerrilla marketing* is innovative, low-cost marketing efforts designed to get consumers’ attention in unusual ways. |  |

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Assessment Check Answers

**1.1 What is the objective of an integrated marketing communications program?**

*An IMC strategy focuses on customer needs to create a unified promotional message about a firm’s goods or services.*

**1.2 Why do firms pursue multiple promotional objectives at the same time?**

*Firms pursue multiple promotional objectives because they may need to convey different messages to different audiences.*

**1.3 What are product placement and guerrilla marketing?**

*Product placement involves paying a fee to have a product showcased in certain media. Guerrilla marketing is innovative, low-cost marketing efforts designed to get consumers’ attention in unusual ways.*

**Learning Objective 2: Summarize the different types of advertising.**

*Advertising, the most visible form of nonpersonal promotion, is designed to inform, persuade, or remind. Product advertising promotes a good or service, while institutional advertising promotes a concept, idea, organization, or philosophy. Television, newspapers, and magazines are the largest advertising media categories. Others include direct mail, radio, and outdoor advertising. Interactive advertising directly involves the consumer, who controls the flow of information.*

**Annotated Lecture Outline**

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| **ADVERTISING** | PowerPoint Slide 9 |
| * 1. *Advertising* refers to paid nonpersonal communication usually targeted at large numbers of potential buyers. | *Lecture Enhancer:* *Does this number surprise you? Why or why not? As a consumer, are you conscious of this bombardment of marketing messages?* |
| * 1. Consumers receive 4,000 to 5,000 marketing messages each day. | *Lecture Enhancer*  *For each category, think of a good or service that uses that method of advertising and discuss why.* |
| 1. **Types of Advertising** | PowerPoint Slide 10 |
| * 1. *Product advertising* consists of messages designed to sell a particular good or service. |  |
| * 1. Institutional advertising involves messages that promote concepts, ideas, philosophies, or goodwill for industries, companies, organizations, or government entities. |  |

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| * + 1. *Cause advertising* is a form of institutional advertising that promotes a specific viewpoint on a public issue as a way to influence public opinion and the legislative process. |  |
| 1. **Advertising and the Product Life Cycle** | PowerPoint Slide 11 |
| * 1. There are three categories of advertising: inform, persuade, remind. |  |
| * 1. *Informative advertising* builds initial demand for a product in the introductory phase of the product life cycle. |  |
| * 1. *Persuasive advertising* attempts to improve the competitive status of a product, institution, or concept in the growth and maturity stages of the product life cycle. | *Class Activity:*  *Lead a discussion regarding which comparative advertising campaigns have been the most memorable with students.* |
| * 1. *Reminder-oriented advertising* appears in the late maturity or decline stages of the product life cycle to maintain awareness of the importance and usefulness of a product, concept, or institution. |  |
| 1. **Advertising Media** | PowerPoint Slide 12 |
| * 1. All media have advantages and disadvantages. |  |

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| * 1. Cost is a key factor, but the media best suited for communicating the message are also important. |  |
| * 1. The three leading outlets for advertising are television, newspapers, and magazines, but Internet advertising is growing fast. | Figure 13.2 Carving Up the Advertising Media Pie |
| * 1. Firms need to rethink traditional ad campaigns to incorporate new media as well as updated uses of traditional media. | PowerPoint Slide 13 |
| 1. **Television** |  |
| * 1. Television is still one of America’s leading advertising media. |  |
| * 1. Network television remains the easiest way for advertisers to reach large numbers of viewers—10 million to 20 million with a single commercial. |  |
| * 1. About 58 percent of U.S. households with TVs now subscribe to cable. |  |
| * 1. DVR has not significantly affected the number of people watching TV ads. |  |
| * 1. TV is the most expensive advertising medium. | *Class Activity:*  *Ask students which television ads they think have been most powerful during the Super Bowl.* |
| 1. **Newspapers** |  |
| * 1. Daily and weekly newspapers continue to dominate local advertising. |  |
| * 1. Pros: Newspapers are easy to coordinate with other promotional efforts. |  |
| * 1. Cons: Short life span of ad. |  |
| * 1. Most newspapers now maintain Web sites to complement their print editions. |  |
| 1. **Radio** |  |
| * 1. The average U.S. household owns five radios (including those in cars). |  |
| * 1. Advertisers like the captive audience of listeners in cars. |  |
| * 1. Internet and satellite radio offer new opportunities. |  |
| 1. **Magazines** |  |
| * 1. Magazines include consumer publications and business trade journals. | *Lecture Enhancer: What are some possible threats to the continued effectiveness of magazine sales?* |
| * 1. Magazines may customize their publications and target advertising messages to different regions of the country. |  |
| 1. **Direct Mail** |  |
| * 1. An average American receives 550 pieces of direct mail annually, including 100 catalogs. |  |
| * 1. Cons: Expensive per person |  |
| * 1. Pros: A small business can afford a limited direct-mail campaign, unlike a TV or radio ad. |  |

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| * 1. E-mail is a low-cost form of direct marketing. |  |
| * 1. Direct-mail marketers create profiles that show the traits of consumers who are likely to buy their products or donate to their organizations. | *Lecture Enhancer: Discuss how accurate direct-mail profiles may be. Have you ever received direct mail that drastically differed from your interests?* |
| * 1. The Direct Marketing Association (DMA) helps marketers combat negative attitudes by offering its members guidelines on ethical business practices. |  |
| 1. **Outdoor Advertising** |  |
| * 1. In one year, outdoor advertising accounted for $5.9 billion in advertising expenditures. |  |
| * 1. The majority of spending on outdoor advertising is for billboards. |  |
| * 1. Other types of outdoor advertising, such as signs in transit stations, stores, airports, and sports stadiums, is growing fast. | *Class Activity: Discuss products or services in the local community for which outdoor advertising might be most effective.* |
| * 1. Advances in technology have created new options for digital outdoor advertising. |  |
| * 1. Cons: | *Lecture Enhancer: Discuss some additional drawbacks to outdoor advertising.* |
| i. It requires brief messages. |  |
| ii. Often opposed by preservation and conservation groups. |  |
| 1. **Internet Advertising** | PowerPoint Slide 14 |
| * 1. Sales from online advertising and marketing now surpass sales from print media. |  |
| * 1. Internet advertising has become much more complex and sophisticated. |  |
| i. Widgets, gadgets, pop-ups | *Lecture Enhancer: What are the most common drawbacks to Internet ads, particularly pop-ups?* |
| ii. Social media, YouTube |  |
| iii. *Viral advertising* creates a message or video that’s novel or entertaining enough for viewers to forward it to others, spreading it like a virus. |  |
| 1. **Sponsorship** |  |
| * 1. Sponsorship involves providing funds for a sporting or cultural event in exchange for a direct association with the event. |  |
| * 1. Sports sponsorships attract two-thirds of total sponsorship dollars in the United States alone. | *Class Activity: Discuss what types of companies might sponsor a golf tournament and why.* |
| * 1. Entertainment, festivals, causes, and the arts divide up the remaining third of sponsorship dollars. |  |
| * 1. Two major ways sponsors benefit: |  |
| * + 1. Exposure to the event’s audience, |  |
| * + 1. Association with the image of the activity, |  |
| 1. **Other Media Options** | **Case 13.2: Marketing to the Teenage Crowd** |
| * 1. An *infomercial* or *direct response television (DRTV)* is a form of broadcast direct marketing that resembles regular TV programs, but are devoted to selling goods or services. | *Lecture Enhancer: Discuss the type of consumer who might best be reached by infomercials.* |
| * 1. Ads are now printed in unusual formats such as subway tickets or toll receipts. |  |
| * 1. A new development is use of ATMs for advertising. |  |

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**Hit & Miss:**

**Daily Deal Sites Crowd a Brand-New Market**

**Summary**

After being crowned with Forbes’ title of fastest-growing company of all time, Groupon strategically narrowed its promotions by catering particular coupons based on where people live and their lifestyles. Unfortunately, this can become costly without an available employee pool who specialize in this type of work. Nonetheless, targeting locals and partnering with small businesses to offer specialized deals proves to keep drawing more customers.

**Questions for Critical Thinking**

1. **Some daily deal sites publicize subscribers’ deal sign-ups on Facebook. Do you think a discount or freebie is worth a loss of privacy? Why or why not?**

*Answers will vary, but it can be argued that the discounts are still worth a minor loss of privacy considering that the deals are catered to what you publicly share as your interests.*

1. **What factors might motivate small businesses to sign up with daily deal sites?**

*Small businesses may be more motivated to sign up with daily deal sites if there was a greater chance at making profit while drawing customers who may keep returning. For example, the coupon could feature a deal that required the consumer to buy something before they got the discount, which would encourage them to shop at least more than once at that particular small business.*

Assessment Check Answers

**2.1 What are the two basic types of advertising? Into what three categories do they fall?**

*The two basic types of advertising are product and institutional. They fall into the categories of informative, persuasive, and reminder-oriented advertising.*

**2.2 What is the leading advertising medium in the United States?**

*According to the most recent statistics listed in Figure 13.2, television is the leading advertising medium in the United States.*

**2.3 In what two major ways do firms benefit from sponsorship?**

*Firms benefit from sponsorship in two ways: they gain exposure to the event’s audience and are associated with the image of the activity.*

**Learning Objective 3: Outline sales promotion.***Sales promotion accounts for greater expenditures than does advertising. Consumer-oriented sales promotions such as coupons, games, rebates, samples, premiums, contests, sweepstakes, and promotional products offer an extra incentive to buy a product. Point-of-purchase advertising displays and trade shows are sales promotions directed to the trade markets. Personal selling involves face-to-face interactions between seller and buyer. The primary sales tasks are order processing, creative selling, and missionary selling. The seven-step sales process entails prospecting and qualifying, approach, presentation, demonstration, handling objections, closing, and follow-up. Public relations is nonpaid promotion that seeks to enhance a company’s public image through press releases, news conferences, articles, and news broadcasts.*

**Annotated Lecture Outline**

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| **SALES PROMOTION** | PowerPoint Slide 15 |
| * 1. *Sales promotion* consists of forms of promotion such as coupons, product samples, and rebates that support advertising and personal selling. |  |
| * 1. Promotion now accounts for more than half as many marketing dollars as are spent on advertising. |  |
| 1. **Consumer-Oriented Promotions** | PowerPoint Slide 16  Figure 13.3 Spending on Consumer-Oriented Promotions  *Lecture Enhancer:*  *Which is the most commonly used form of consumer-oriented promotion?* |

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| * 1. The goal of a consumer-oriented sales promotion is to get new and existing customers to try or buy products. | Going Green:  Green Seal Certification for the Hotel Industry |
| * 1. Marketers want to encourage repeat purchases and boost impulse purchases. |  |
| * 1. **Premiums, Coupons, Rebates, and Samples** |  |
| * + 1. *Premiums* are items given free or at a reduced price with the purchase of another product, accounting for two of every five sales promotion dollars. |  |
| * + 1. *Coupons* attract new customers but focus on price rather than brand loyalty. |  |
| * + 1. *Rebates* increase purchase rates, promote multiple purchases, and reward product users. |  |
| * + 1. A sample is a gift of a product distributed by mail, door to door, in a demonstration, or inside packages of another product. | *Lecture Enhancer: What are some possible drawbacks or risks involved with relying on samples as a product’s primary method of promotion?* |
| * 1. **Games, Contest, and Sweepstakes** |  |
| * + 1. Firms often sponsor these activities to introduce new goods and services and to attract additional customers. |  |

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| * + 1. Pros: Sweepstakes, games, and contests can reinforce a company’s image and advertising message |  |
| * + 1. Cons: Consumer attention may focus on the promotion rather than the product. |  |
| * 1. **Specialty Advertising** |  |
| * + 1. *Specialty advertising* refers to promotional items that prominently display a firm’s name, logo, or business slogan. |  |
| * + 1. People tend to keep and use them, giving advertisers repeated exposure. |  |
| * + 1. Should reinforce the brand’s image and its relationship with the recipient. | *Lecture Enhancer: Have you ever encountered a promotional item that seemed to be inconsistent with the image of the advertiser?* |
| * 1. **Trade-Oriented Promotions** |  |
| * + 1. *Trade promotion* is sales promotion geared to marketing intermediaries rather than to final consumers. | PowerPoint Slide 17 |
| * + 1. Marketers use trade promotion to encourage retailers to stock new products, continue carrying existing ones, and promote both new and existing products effectively to consumers. |  |

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| * + 1. Major trade promotions include point-of-purchase advertising and trade shows. |  |
| * + 1. *Point-of-purchase advertising* displays or demonstrations that promote products when and where consumers buy them, such as in retail stores. |  |
| * + 1. Manufacturers and other sellers often exhibit at trade shows to promote goods or services to members of their distribution channels. |  |
| 1. **Personal Selling** | PowerPoint Slide 18 |
| * 1. Personal selling refers to a person-to-person promotional presentation to a potential buyer, considered the key to effective marketing by many companies. |  |
| * 1. Personal selling should be the primary component of a firm’s marketing mix under four conditions: |  |
| * + 1. Customers are few in number and geographically concentrated. |  |
| * + 1. The product is technically complex, involves trade-ins, or requires special handling. |  |
| * + 1. The product carries a relatively high price. |  |
| * + 1. It moves through direct-distribution channels. |  |
| * 1. Personal selling can occur in several environments, each of which can involve B2B or B2C selling. |  |
| * + 1. Sales reps that make sales calls on prospective customers at their businesses are involved in field selling. |  |
| * + 1. Over-the-counter selling describes sales activities where customers visit the seller’s facility to purchase items. |  |
| * + 1. Telemarketing sales representatives make their presentations over the phone. |  |
| * 1. **Sales Tasks** | PowerPoint Slide 19 |
| * + 1. Sales tasks usually include a mix of order processing, creative selling, and missionary selling. |  |
| * + 1. ***Order Processing***—a form of selling, mostly at the wholesale and retail levels, that involves identifying customer needs, pointing them out to customers, and completing orders. |  |
| * + 1. ***Creative selling***—a persuasive type of promotional presentation. |  |
| * + 1. ***Missionary selling***—an indirect form of selling in which the representative promotes goodwill for a company or provides technical or operational assistance to the customer. |  |

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| * 1. **Telemarketing** |  |
| * + 1. *Telemarketing* is personal selling conducted entirely by telephone, which provides a firm’s marketers a high return on their expenditures, an immediate response, and an opportunity for personalized two-way conversation. | *Lecture Enhancer: Think of some products or services that may benefit significantly from telemarketing.* |
| * + 1. A sales representative who calls you is practicing outbound telemarketing. |  |
| * + 1. Inbound telemarketing occurs when you call a toll-free phone number to get product information or place an order. |  |
| * 1. **The Sales Process** | PowerPoint Slide 20 |
| * + 1. The sales process typically follows a seven-step sequence: | Figure 13.4 Seven Steps in the Sales Process  *Lecture Enhancer: Which step in the sequence do you feel is the most crucial? Why?* |
| * + 1. ***Prospecting, Qualifying, and Approaching*—**identify potential customers, follow leads and referrals, qualify those with financial ability and buying authority, analyze data, and plan the initial contact. | PowerPoint Slide 21 |

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| * + 1. ***Presentation and Demonstration*—**communicate promotional messages, describe product features and advantages, and reinforce the message through demonstrations. | PowerPoint Slide 22 |
| * + 1. ***Handling Objections*—**use complaints as opportunities to answer questions and explain the product’s benefits. | PowerPoint Slide 23 |
| * + 1. ***Closing*—**ask the prospect to buy, close the sale and start a relationship, or offer alternatives. |  |
| * + 1. ***Follow-Up*—**process the order, contact the buyer to reassure the purchase and correct problems. | PowerPoint Slide 24  *Class Activity:*  *Ask students how they might follow up after selling a car to a customer.* |
| 1. **Public Relations** | PowerPoint Slide 25 |
| * 1. *Public relations* (PR) refers to an organization’s communications and relationships with its various public audiences. |  |
| * 1. Through PR, companies attempt to improve their prestige and image with the public by distributing specific messages or ideas to target audiences. |  |
| * 1. PR helps a firm establish awareness of goods and services and builds a positive image of them. |  |

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| * 1. ***Publicity*** is the nonpersonal stimulation of demand for a good, service, place, idea, event, person, or organization by unpaid placement of information in print or broadcast media. |  |

**Notes:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Going Green**

Green Seal Certification for the Hotel Industry

**Summary**

According to an Expedia survey, 75% of travelers value a hotel’s sustainability efforts. One of the primary certifications for measuring eco-friendliness is the non-profit organization Green Seal. Green Seal currently certifies 40 categories of goods and services along with science-based criteria used for determining acceptable sustainability standards in the hotel industry.

**Questions for Critical Thinking**

1. **What advantages can a hotel chain expect from “green” certification?**

*Green certification can be advantageous to a hotel chain because customers will value their level of commitment to the environment, earning the hotels more guests and therefore more revenue. Also, sustainable practices often save money in the long run in areas like energy costs.*

1. **How might Kimpton Hotels promote its Green Seal certification to prospective guests?**

*Kimpton Hotels could promote its Green Seal certification to prospective guests by teaming up with a company like Groupon in order to offer discount promotions to prospective guests who, based on social media information and interest surveys, are interested in and committed to sustainability.*

Assessment Check Answers

**3.1 Why do retailers and manufacturers use sales promotions?**

*Retailers and manufacturers use sales promotions to offer consumers extra incentives to buy their products.*

**3.2 When does a firm use personal selling instead of nonpersonal selling?**

*Personal selling is generally used when customers are few and geographically concentrated, the product is technically complex or requires special handling, the price is high, or the product moves through direct-distribution channels.*

**3.3 How does public relations serve a marketing purpose?**

*Public relations can be an efficient, indirect communications channel for promoting products. It can publicize products and help create and maintain a positive image of the company.*

**Learning Objective 4: Describe pushing and pulling strategies.**

*A pushing strategy relies on personal selling to market a product to wholesalers and retailers in a company’s distribution channels. A pulling strategy promotes the product by generating consumer demand for it, through advertising and sales promotion.*

**Annotated Lecture Outline**

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| **PUSHING AND PULLING STRATEGIES** | PowerPoint Slide 26 |
| 1. A *pushing strategy* relies on personal selling to market a product to wholesalers and retailers in a company’s distribution channels. | *Lecture Enhancer: Which of these two strategies do you believe is the most powerful? Why?* |
| * 1. Companies promote a product to members of the marketing channel, not to end users. |  |
| * 1. Marketers also provide *cooperative advertising*allowances, in which they share the cost of local advertising of their firm’s product or line with channel partners. |  |
| 2. A *pulling strategy* promotes a product by generating consumer demand for it, through advertising and sales promotion appeals. |  |
| * 1. Potential buyers will then request that their suppliers—retailers or local distributors—carry the product, thereby pulling it through the distribution channel. |  |
| * 1. Most markets require both pulling and pushing strategies, though primary emphasis varies. |  |

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Assessment Check Answers

**4.1 Give an example of a pushing strategy.**

*An example of a pushing strategy is that used by drug manufacturers, who used to market solely to physicians and hospitals. Today, they also use a pulling strategy by marketing directly to patients through advertising, which encourages patients to ask their doctors about medications.*

**4.2 Give an example of a pulling strategy.**

*Pulling strategies are used by retailers and by manufacturers of consumer goods like cosmetics, automobiles, and clothing.*

**Learning Objective 5: Discuss the pricing objectives in the marketing mix.***Pricing objectives can be classified as profitability, volume, meeting competition, and prestige. Profitability objectives are the most common. Volume objectives base pricing decisions on market share. Meeting competitors’ prices makes price a nonissue in competition. Prestige pricing establishes a high price to develop and maintain an image of quality or exclusiveness.*

**Annotated Lecture Outline**

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| **PRICING OBJECTIVES IN THE MARKETING MIX** | PowerPoint Slide 27  *Lecture Enhancer*  *When should a company cut the price of a new product?* |
| * 1. *Price* is the exchange value of a good or service; may become a major factor in consumer buying decisions. | PowerPoint Slide 28 |
| * 1. Some firms try to improve profits with high prices; others try to attract new business through lower prices. |  |
| * 1. Four categories of pricing objectives: profitability, volume, meeting competition, prestige. | Figure 13.5 Pricing Objectives |
| 1. **Profitability Objectives** |  |
| * 1. *Profitability objectives*—the most common in most firms’ strategic plans—focus on maximizing profits. |  |
| * + 1. Some firms maximize profits by reducing costs rather than by increasing prices. |  |
| * + 1. Some maintain price while reducing package size or amount of product. | *Lecture Enhancer:*  *Can you think of a specific example of this method that you have witnessed at the grocery store?* |

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| 1. **Volume Objectives** |  |
| a. *Volume objectives* base pricing decisions on market share goals. |  |
| b. As a market becomes saturated, firms need to find ways to get consumers to upgrade or try new products. |  |
| 1. **Pricing to Meet Competition** |  |
| a. Pricing to meet competition refers to meeting competitors’ prices so that price becomes a nonissue in the buying  decision. |  |
| * + 1. Competitors cannot legally work together to set prices. |  |
| * + 1. Competition can result in a *price war*. | *Lecture Enhancer: Share a recent example of how consumers have benefited from a price war.*  **Solving an Ethical Controversy**  Free E-Books: Good or Bad for Business? |
| 1. **Prestige Objectives** |  |
| * 1. *Prestige pricing* establishes a relatively high price to develop and maintain an image of quality and exclusiveness. |  |
| * + 1. Marketers use prestige pricing when they recognize the role of price in communicating an overall image for the firm and its products. |  |

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| * + 1. Scarcity can create prestige, allowing firms to charge more for popular products that have limited distribution. |  |

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Assessment Check Answers

**5.1** **Define *price*.**

*Price is the exchange value of a good or service.*

5.2 What is a second approach to pricing strategy?

*A second approach to pricing strategy is volume objectives, which bases pricing decisions on market share.*

**Learning Objective 6: Outline pricing strategies.***Although economic theory determines prices by the law of demand and supply, most firms use cost-based pricing, which adds a markup after costs. They usually conduct a breakeven analysis to determine the minimum sales volume a product must generate at a certain price in order to cover costs. The four alternative pricing strategies are skimming, penetration, everyday low pricing and discounting, and competitive pricing. A skimming strategy sets a high price initially to recover costs and then lowers it; a penetration strategy sets a lower price to attract customers and then raises it later. Everyday low pricing and discounting offers a lower price for a period of time. Competitive pricing matches other firms’ prices and emphasizes nonprice benefits of a product.*

**Annotated Lecture Outline**

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| **PRICING STRATEGIES** | PowerPoint Slide 29 |
| 1. **Pricing** |  |
| a. Pricing is influenced by people in different areas of a company. |  |
| * 1. Prices are determined according to supply and demand, and cost-oriented analyses. |  |
| * 1. In theory, price is set at the point where the quantity demanded equals the quantity supplied. |  |
| 1. **Price Determination in Practice** |  |
| a. Most businesses use *cost-based pricing* formulas that calculate total costs per unit and then add markups to cover overhead costs and generate profits. | **Case 13.1: Brand Names Versus Store Brands** |

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| b. Cost-based pricing totals all costs associated with offering a product in the market; this total is the price. | PowerPoint Slide 30  *Lecture Enhancer: Provide an example of cost-based pricing for a fast-food cheeseburger.* |
| 1. **Breakeven Analysis** | PowerPoint Slide 31 |
| * 1. Businesses often conduct a breakeven analysis to determine the minimum sales volume a product must generate at a certain price level to cover all costs. |  |
| * 1. *Breakeven analysis* is a pricing-related technique used to determine the minimum sales volume a product must generate at a certain price level to cover all costs. |  |
| 1. *Total cost* is the sum of total variable costs and total fixed costs. |  |
| 1. *Variable costs* change with the level of production, as labor and raw materials do. |  |
| 1. *Fixed costs* remain stable regardless of the production level (e.g., insurance premiums). |  |
| 1. *Total revenue* is determined by multiplying price by the number of units sold. |  |

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| * 1. **Finding the Breakeven Point** | PowerPoint Slide 32 |
| * + 1. The *breakeven point* is the point at which total revenue equals total costs. | Figure 13.6 Breakeven Analysis  *Lecture Enhancer*: *Consider a lemonade stand. What are the fixed and variable costs?* |
| ii. Marketers use breakeven analysis to determine the profits or losses that would result from different prices. |  |
| iii. This comparison can identify the best price—one that would attract enough customers to go beyond the breakeven point and earn profits. | *Class Activity:*  *Lead a discussion of ways in which a company can lower the breakeven point.* |
| iv. In *modified breakeven analysis,* marketers review consumer demand through customer surveys, interviews with retailers, and checking competitors’ prices. |  |
| **4. Alternative Pricing Strategies** | PowerPoint Slide 33 |
| * 1. Firms can choose from four alternative pricing strategies: skimming, penetration, discount or everyday low pricing, and competitive pricing. |  |
| * 1. ***Skimming Pricing*** strategy sets an intentionally high price relative to the prices of competing products. | *Lecture Enhancer: Can you think of a recent product that used this strategy?* |
| i. It helps marketers set a price that distinguishes a firm’s high-end product from those of competitors. |  |
| ii. It helps a firm recover its product development costs before competitors enter the field. |  |
| * 1. ***Penetration Pricing*** strategy sets an intentionally low price as a major marketing weapon. |  |
| * + 1. It is often used with new products. |  |
| * + 1. Once the product earns market recognition, the firm raises the price to match the competition. |  |
| * + 1. Stiff competition might prevent this price increase. |  |
| * 1. **Everyday Low Pricing and Discount Pricing** | *Lecture Enhancer: Identify retailers that primarily use EDLP and those that primarily use discount pricing. What are some differences within the retail shopping environment of each?* |
| * + 1. *Everyday low pricing (EDLP)* is a strategy devoted to maintaining continuous low prices rather than relying on short-term, price-cutting tactics such as cents-off coupons, rebates, and special sales. |  |
| * + 1. *Discount pricing* attracts customers by dropping prices for a set period of time. |  |

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| * + 1. Businesses should offer discounts only for a specified period of time and with a clear understanding of what they are trying to accomplish with the strategy. | Hit & Miss:  JC Penney Eliminates Sales |
| * 1. ***Competitive Pricing*** tries to reduce the emphasis on price competition by matching other firms’ prices and concentrating their own marketing efforts on the product, distribution, and promotional elements of the marketing mix. |  |

**Notes:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Hit & Miss:**

**JC Penney Eliminates Sales**

**Summary**

After generating 75% of its revenue from items on sale, JC Penney has decided to do away with sales, aside from selected holidays like Valentines and Christmas, and automatically assign bargain prices to merchandise. Penney is also adopting exclusively whole numbers on price tags. For example, a top that formerly cost $14.99 will not cost only $7 at wholesale price. CEO Ron Johnson believes this will ultimately benefit the company since customers will appreciate not paying a penny more than an item’s true value.

**Questions for Critical Thinking**

**1. Do you agree that pricing is “a pretty simple and straightforward thing”? Why or why not?**

*Answers will vary. However, it can be argued that pricing is not necessarily straightforward. Although there is a fixed cost based on factors like making and transporting the merchandise, it is important to also consider supply and demand, which may vary with customer’s needs and preferences.*

**2. Do you think shoppers prefer “every day” pricing to sales? Why or why not?**

*Answers will vary. However, it can be argued that most customers will prefer everyday low prices while other swho associate a higher price tag with higher quality merchandise may not.*

Assessment Check Answers

**6.1 What is a cost-based pricing formula?**

*A cost-based pricing formula calculates the total costs per unit and then adds markups to cover overhead costs and generate profits.*

**6.2 Why do companies implement competitive pricing strategies?**

*Companies use competitive pricing strategies to reduce the emphasis on price competition by matching other firms’ prices and concentrating their own marketing efforts on the product, distribution, and promotional elements of the marketing mix.*

**Learning Objective 7:**

**Discuss consumer perceptions of prices.**

*Marketers must consider how consumers perceive the price–quality relationship of their products. Consumers may be willing to pay a higher price if they perceive a product to be of superior quality. Marketers often use odd pricing to convey a message to consumers.*

**Annotated Lecture Outline**

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| **CONSUMER PERCEPTIONS OF PRICES** | PowerPoint Slide 34 |
| * 1. If large numbers of potential buyers consider a price too high or too low, businesses must correct the situation. |  |
| **1. Price–Quality Relationships** |  |
| * 1. Research shows that a consumer’s perception of product quality is closely related to an item’s price. |  |
| * 1. Many consumers associate prestige, quality, and high price together. | *Lecture Enhancer:* *Discuss some specific examples of products or services that rely on this price–quality relationship.* |
| * 1. Conversely, consumers may view an extremely low price as an indication that corners have been cut and quality will suffer. |  |
| **2. Odd Pricing** |  |
| * 1. *Odd pricing* is a pricing method using uneven amounts, which appear less than they really are to consumers. |  |
| * 1. Before the age of cash registers and sales taxes, retailers reportedly followed this practice to force clerks to make correct change as part of their cash control efforts. |  |
| * 1. Now odd pricing is commonly used because many retailers believe that consumers favor uneven amounts or amounts that sound less than they really are. | *Lecture Enhancer: Do you feel that odd pricing is an effective selling strategy? Why or why not?* |

**Notes:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

Assessment Check Answers

**7.1 How does the price–quality relationship affect a firm’s pricing strategy?**

*Consumers must believe that the price of an item reflects its quality, except in extreme cases. So a firm must try to set its prices accordingly.*

**7.2 Why is odd pricing used?**

*Retailers believe that consumers favor uneven amounts or amounts that sound like less than they really are. Odd pricing may also be used to indicate a sale item.*

**Answers to Review Questions**

**1. What is the purpose of integrated marketing communications?**

*IMC has as its goal the coordination of all promotional activities to produce a unified, customer-focused strategy. It takes a broad view, focusing on the message, reaching and serving the target market, and creating a solid personality for the product or brand. It encompasses advertising, sales promotion, personal sales presentations, and public relations, and takes in traditional broadcast, print media, direct mail, traditional packaging, store displays, sales promotions, sales presentations, and online media.*

**2. What are the five major objectives of a promotional strategy?**

* *Providing information: giving details about benefits, price, or features.*
* *Differentiating the product: separating the item from that of the competition, often by establishing the product in consumers’ minds, called positioning.*
* *Increasing sales: broadening the appeal of a product or releasing a slightly different product to target a new market, the most common of objectives.*
* *Stabilizing sales: simulating sales during slow periods, often through contests, prizes, or promotional efforts.*
* *Accentuating the product’s value: explaining unrecognized benefits, often through brand awareness and brand loyalty.*

**3. Identify and define each of the three categories of advertising based on their purpose. Which type of advertising might marketers use for the following products*?***

* *Informative advertising is designed to give details and facts, building initial demand for a product, concept, or institution (usually in the introductory phase of the product life cycle).*
* *Persuasive advertising is designed to persuade, improving the competitive status of a product, institution, or concept (usually in the growth and maturity stages of the product life cycle).*
* *Reminder-oriented advertising is designed to remind, maintaining awareness of the importance and usefulness of a product, concept, or institution (usually in the late maturity or decline stages of the product life cycle)*.

*There may be some variation in interpreting this question, but you can start with answers below:*

* 1. **cars** – *reminder-oriented*
  2. **e-reader** – *informative, persuasive*
  3. **organic produce** – *persuasive*
  4. **healthcare insurance** – *reminder-oriented, informative*

**4. What are the benefits of online and interactive advertising? What might be some drawbacks?**

*From simple banner ads to sophisticated technology, benefits of online advertising include cost, timeliness, and flexibility. Online ads can be instant, up-to-the-minute ways to deliver quick messages to a target audience, changing frequently. Interactive ads allow users to participate, play a game, or take part in some way. Both allow novel ideas to catch consumer interest, such as virtual advertising designed to entertain and hopefully be forwarded by users.*

*Many Internet and e-mail users get tired of ads that interrupt or delay them, either clicking off the site or leaving a negative association with the product instead of a positive one. Pop-up ads, which are often difficult to ignore or pass by, are blocked by new technology or banned by servers as a benefit to their members.*

**5. For each of the following, describe potential benefits and drawbacks of a sponsorship relationship:**

**a. LG and the Snowboard FIS World Cup**

*This relationship would focus on and attract young customers who may be likely to spend a significant amount on electronic devices. It would build the reputation of LG as a “hip” brand. However, the risk is it might distance older affluent potential consumers who may view the sport as too edgy for their tastes.*

**b. ING Bank and the New York City Marathon**

*ING offers retirement, investment, and insurance products and services. Therefore, it needs to convey the theme of conservatism in its messages and images to potential consumers. Many of its potential consumers live in New York. The event highlights are also covered nationally on television. This event is well suited to target and appeal to older and health-conscious consumers. Drawbacks might be that the event might not be of interest to many sports enthusiasts who follow more action-oriented and competitive team sports.*

**c. Mattel Corporation and the Special Olympics**

*A toy company could benefit from sponsoring the Special Olympics because it would show consumers that they support a good cause. A drawback would be that consumers or competing brands might start analyzing all of Mattel’s products for whether or not they are appropriate for children who have special needs.*

**6. If you were a marketer for Rolex, what kind of sales promotion might you use for high-end watches?**

*Rolex is a luxury item, so the promotion needs to focus on its unique, affluent consumers and their tastes and especially, a male-based audience. Promotions featuring golf giveaways for registering for e-mails might be a good idea. Contests offering luxury cruises would also appeal to the same consumers.*

**7. Under what circumstances are firms likely to emphasize personal selling?**

*This person-to-person promotional presentation to a potential buyer, often considered the key to effective marketing, can be used in the field, in retail stores, and on the phone. It works best when the goods or services are higher priced, technically complex, distributed directly, or aimed at smaller numbers of customers in concentrated geographic areas.*

**8. Describe the seven-step sales process.**

Steps 1 & 2:

* *Prospecting, qualifying, and approaching—targeting potential customers, following leads and referrals, identifying those who have financial ability and authority to buy, analyzing data, and planning the initial contact.*

Steps 3 & 4:

* *Presentation and demonstration—communicating the features and advantages of the product, then reinforcing the message by allowing the customer to see it, test it, or view detailed presentations.*

Step 5:

* *Handling objections—using concerns or complaints as opportunities to answer questions and explain the product’s benefits.*

Step 6:

* *Closing—actually asking the prospect to buy, then ideally closing the sale and starting a relationship, or at least building toward one.*

Step 7:

* *Follow-up—processing the order and contacting the buyer afterwards to reassure the purchaser and answer questions.*

1. **Identify and define the four basic categories of pricing objectives*.***

* *Profitability objectives—focuses on maximizing profits, and are the most common of strategic plans.*
* *Volume objectives focuses on market share—the percentage of a market controlled by a certain company or product—when deciding on pricing.*
* *Pricing to meet competition—focuses on matching prices of established industry leaders, so that price becomes a nonissue.*
* *Prestige pricing—focuses on establishing a relatively high price to create and maintain an image of quality and exclusiveness.*

**10. What are the four alternative pricing strategies used by marketers? Give an example of the circumstances under which each might be selected.**

* *A skimming pricing strategy sets an intentionally high price compared to those of competing products.*
* *A penetration pricing strategy sets an intentionally low price as a major marketing weapon.*
* *Everyday low pricing (EDLP) maintains continuous low prices rather than relying on short-term price cutting tactics, and one version of this, discount pricing, attracts customers to a new product with dropped prices for a set period of time.*
* *Competitive pricing matches other firms’ prices, and then shifts the focus to concentrate marketing efforts on the product, distribution, and promotional elements*.

*Skimming is used when introducing a distinctive product with little or no competition. Penetration is used when entering a new industry characterized by dozens of competing brands. EDLP works well when large retailers and discount stores set prices to attract customer traffic into their stores, and discount pricing can be effective but only for short-term periods. Competitive pricing is used when focusing on differentiating a product and eliminating price as a variable.*

**Projects and Teamwork Applications**

1. Ask students to share the products they purchased recently, the various media used to promote them, and the promotional mix. Did they agree with the current marketing strategy? Did they recommend changes to the mix? Have them share their print ads for the products chosen.

2. Start a discussion by asking students about the pricing strategies used by the manufacturers of the products chosen and whether the prices were fair or not. Have them share the new strategies created and the new prices for the chosen products. Ask the class to vote on whether they would buy these goods.

3. Have the class discuss the pros and cons of commercial promotion and advertising in schools. How do they feel about the distinction between companies doing promotions in public schools and on college campuses? Have they ever taken part in one of these campaigns? Was it a positive experience, or a negative one?

4. Ask students to share what they found about an organization or agency and its dealings with bad publicity. Have them discuss the programs they created in outlining steps for getting better publicity and building stronger public relations.

5. Direct the students to share their marketing approaches for the new line of video games. How did they calculate their overhead expenses and cost of supplies? How did they estimate their revenue?

# **Web Assignments**

1. **Top advertisers.** *Advertising Age* compiles data annually on the top national advertisers. Visit the Web site listed here and access the most recent year. Answer the following questions:
   1. Who were the top ten advertisers in that year?
   2. How much did they spend on advertising?
   3. What was the most advertised brand that year?

<http://adage.com/datacenter/article?article_id=106348>

1. **Online coupon fraud.** Go to the Web sites listed below to learn more about online coupon fraud. Prepare a brief report. Make sure to answer the following questions: How big a problem is online coupon fraud? What are some of the changes marketers have made in an attempt to reduce online coupon fraud?  
   <http://www.newser.com/story/35962/hackers-spread-coupon-scam.html>  
   http://online.wsj.com/article/SB124641121217977575SB10001424052748703862704575099971939458554.html
2. **Yield management.** Assume you’re interested in flying between Baltimore and Chicago. Visit some travel sites. Search for fares, varying such factors as advance purchase, day of the week, time of departure, and so forth. What did this exercise teach you about yield management?  
   <http://www.expedia.com>  
   <http://www.kayak.com>  
   <http://www.travelocity.com>

*Note: Internet Web addresses change frequently. If you don’t find the exact sites listed, you may need to access the organization’s home page and search from there or use a search engine such as Bing or Google.*

**Case 13.1:** **Brand Names versus Store Brands**

**Answers to Questions for Critical Thinking:**

**1. Why do you think chain stores carry brand-name items alongside their own in-house brands?**

*This pricing practice provides consumers with a stark reminder of the premium price they are paying for the brand name over the in-house brands. This practice may be particularly effective for price-sensitive items (such as cereal, macaroni and cheese, etc.) and also in difficult economic times when consumers are looking to reduce their expenses.*

**2. What are some of the ways that stores such as Target are able to keep their prices so low?**

*Target negotiates prices with suppliers on large quantities of basic goods and offers a limited assortment. This keeps prices low. For example, to buy gift bags or reading glasses at the lower prices offered by Target, a shopper has to be willing to pick from a limited number of choices.*

**Case 13.2: Marketing to the Teenage Crowd**

**Answers to Questions for Critical Thinking:**

**1. Do you think marketers can reach teens with specially tailored promotional campaigns for such goods and services as video games, smartphone apps, concert tickets, and so on? Why or why not?**

*Yes, marketers are likely to reach the millennial generation with specially tailored promotional campaigns because this generation sees itself as uniquely independent from the others, and thus responds to ads that are clearly intended to target them.*

**2. How can marketers best target teens so as to appeal to them without making them feel talked down to? Suggest a marketing or promotional theme for one product that you think would appeal to a teen.**

*Answers will vary. Students can offer ideas on marketing products and services to teens. Many ads already show teens as being unique, creative, and relevant.*

**CHAPTER 13: COLLABORATIVE LEARNING EXERCISES**

## 1 – Guerilla Marketing

Learning Objective: 1

Purpose:

To raise student awareness of guerilla marketing

Background:

As competition intensifies across virtually every category, guerilla marketing has gained momentum as a technique to grab consumer attention with unconventional, often lower cost tactics. This exercise is designed to familiarize students with guerilla marketing, and to give them a chance to demonstrate their thinking by developing new guerilla tactics.

Relationship to Text:

Learning Objective 1 – Guerilla Marketing

Estimated Class Time:

About 15 minutes

Preparation/Materials:

None needed

Exercise:

Discuss with your class the definition of guerilla marketing and how it differs from conventional tactics. The text has several excellent examples, and you may want to throw in a few of your own (e.g., Red Bull apparently built buzz for its brand by distributing empty cans on the counters of popular pubs, or a local pizza parlor built its delivery service by placing UPS-like sticky coupons on every door in its delivery radius).

Divide your class into groups of 3 to 5 students, and challenge them to develop creative, compelling, nontraditional tactics to market each of the following products to 18- to 24-year-olds (developing the right brand name could certainly be part of the process).

* Peanut butter
* A new kind of printer paper
* A fruit-flavored energy drink
* A digital camera
* A new candy bar
* An on-campus health clinic
* A compact car

After about 10 minutes of brainstorming, assign each group one of the products to share with the class. Encourage the others to use their own results to build on the ideas of the group that presents for each product.

## 2 - Promotional Mix

Learning Objective: 1

Purpose:

To give students hands-on experience creating a promotional mix

Background:

A surprising number of students are interested in nightclubs as a business opportunity. This exercise is designed to give them a chance to create a promotional mix for a hypothetical nightclub, using both their own experience and the tools that they learned in class.

Relationship to Text:

Learning Objective 1 – Promotional Mix

Estimated Class Time:

About 30 minutes

Preparation/Materials:

None needed

Exercise:

Divide your class into groups of 3 to 7 students. Announce that the goal for each group is to develop the promotional plan for a new nightclub opening in their community. Before they begin, they must decide the name of the club, the musical style, the location, and the target audience. Their challenge is to develop the promotional mix for the opening night, which will be three months from today. Their goal is to create a full house and positive buzz among club-goers.

Each team has a hypothetical $100,000 at its disposal. The costs for key promotional tactics are listed here. You may want to write the tactics on the board, and ask your class what other tactics might be applicable. Assign a price to each (and feel free to change the prices on any of the tactics, as long as the whole class is working from the same numbers.)

* Newspaper advertising: $10,000 per ad
* Radio advertising: $50,000 for 3-week campaign
* DJ promotion: $10,000 (only available with campaign)
* Flyers: $500 per 1,000 high-quality 4-color flyers
* Personal Promoters: $10.00 per hour
* Celebrity Appearances: $10,000 per celebrity (includes PR costs)
* Premiums (e.g., t-shirts) $10.00 each

Give your class about 20 minutes to determine how they would allocate their limited dollars and to develop a rationale for their decisions. Ask each group to present its plans to the class, and then vote on which concept is most likely to succeed. Discuss why.

## 3 - Internet Marketing

Learning Objective: 2

Purpose:

To explore how the Internet can help build brands

Background:

Some products simply don’t lend themselves to B2C e-commerce (examples include most low-cost convenience goods). This exercise is designed to explore how even those products can build their brands by using the Internet.

Relationship to Text:

Learning Objective 2 – Internet Advertising

Estimated Class Time:

About 15 minutes

Preparation/Materials:

None needed

Exercise:

Ask your class to identify goods and services that do not lend themselves to B2C e-commerce. What would be the potential Web site objectives for these brands?

Divide your students into seven groups. Ask each group to determine how they would use the Web for each of the following products. Remind them that the best ideas add value for their consumers, create community, and support the brand image (e.g., interactive games for kids on a site for crayons).

* Presliced deli cheese
* A new brand of soda
* Novelty pencils and erasers
* Dry cleaners
* Diapers
* Dishwasher detergent
* Beer

Give them about 10 minutes, and then assign each group one of the products for presentation to the class. Ask the others to contribute their ideas after each presentation. How do these ideas add value to the brand? Are they likely to be cost effective? Why or why not?

## 4 - Pricing

Learning Objectives: 5, 6, and 7

Purpose:

To underscore the wide range of real-world pricing strategies and tactics

Background:

Explaining pricing strategies and tactics can be somewhat dry and complicated by the real-world issue that many marketers do not actually use a strategic framework when creating prices. This exercise is designed to highlight the range of strategies and tactics in a way that hooks student attention.

Relationship to Text:

Learning Objectives 5, 6, and 7 – Pricing Strategies

Estimated Class Time:

About 15 minutes

Preparation/Materials:

Bring to class (or borrow from a student) a wristwatch that looks nice and is not a well-known brand such as Timex or Rolex.

Exercise:\*

At the beginning of class, pass the wristwatch around the room and ask each student to write on a slip of paper the price that he or she would write on the price tag if selling this watch new in their store.

Gather the papers, and ask a student to write the prices on the board as you read them aloud. The prices are sure to vary widely from unbelievably cheap to highly overpriced and will likely include several examples of odd pricing.

Ask for volunteers to share their prices and the reasons for them. Use their comments to demonstrate pricing strategies and tactics from cost-plus pricing, to odd-even pricing, to competitive pricing, to loss leader pricing, to pulling-a-price-out-of-thin-air pricing, etc. You could also use their assumptions to highlight the importance of store type and store image.

\* Source: Adapted from Lewellen, Bob, “The Wristwatch Approach to Pricing,” *Great Ideas for Teaching Marketing*, South-Western, 2003.

## 5 - Promotional Strategy

Learning Objective: 3

Purpose:

To outline the roles of sales promotion, personal selling, and public relations in a promotional strategy

Background:

Office furniture is sold globally and involves all of the elements necessary for a thorough discussion of promotional strategy.

Relationship to Text:

Learning Objective 3 – Promotional Strategy

Estimated Class Time:

About 30 minutes

Preparation/Materials:

None needed

Exercise:

Creating an effective promotional strategy for selling office furniture (ergonomic chairs, desks, etc.) involves sales promotion, personal selling, and public relations. The industry has customers in widely varying commercial organizations (such as colleges, banks, libraries, etc.).

Break the students into teams of 4–5 each and assign each team sales promotion, personal selling, and public relations as their area. They should consider, discuss, and list their ideas. Then,

each group should discuss its ideas with the entire class.