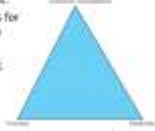


# Topic 2.2 Knowledge Organiser – How the marketing mix informs decisions.

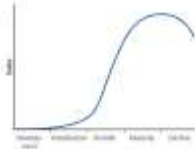
## Design and the design mix

- The product or service needs to match the needs and wants of the customer to be successful.
- The design mix tries to balance the three main design priorities to ensure the right product is created – see the diagram.
- Economic manufacture means making the product cheaply enough to make it profitable. In 2017 AnadolMittal, a steel producer announced a car door that is 34% lighter and cheaper to make.
- Function is how well the product or service works for the customer. Dyson vacuum cleaners do not lose suction even if it is getting full of rubbish.
- Aesthetics is how things appeal to the senses, e.g. the wrap-around screen of the Samsung Galaxy edge appeals to the luxury mobile customer as it is unique.



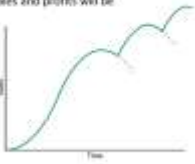
## What is the product life cycle?

- Product life cycle is the theory that every product goes through the same four stages of introduction, growth, maturity and decline.
- The product life cycle is a prediction of how long a product can continue to make a profit.
- Some products have very short life cycles, e.g. pop music – songs become popular very quickly before we get tired of hearing them!
- Other products have many years of profitable life. Lego has been made with the same blocks since 1947.
- Can you think of another product with a short product life cycle?



## Product life cycle

- Introduction** is where the business spends a lot of time and money researching the product and what the customer needs and wants, using market research.
- Growth** is where the market begins to see the product across a wider number of outlets. Price will be high and sales and profits will be rising.
- Maturity** is where the market is full of the product and sales are no longer growing. Cash is flowing into the company and profits are high.
- Decline** is where the sales and profits of the product start to decline as new or improved products are taking customer sales. Products are eventually withdrawn from the market.



## What is an extension strategy?

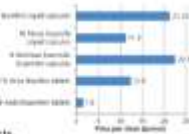
- An extension strategy is an attempt to prolong sales of a product to prevent it from entering its decline stage.
- It might be about finding new uses for a product. Play-Doh started life as a wallpaper cleaner in 1930.
- It might be about changing the appearance, format or packaging of a product, e.g. Coke bottles becoming plastic with different labels.
- It might be about encouraging use of the product on more occasions, such as eating Viennetta for pudding as well as treats and hot days.
- It might be about adapting the product, e.g. Apple iPad to iPad Pro.



Product

## The importance of price

- Price is amount of money given in payment for a product or service.
- A low price can be set in order to try and sell a large amount of the product, normally with low profit margins, e.g. value baked beans.
- A high price can be set which will normally result in low sales but higher profit margins, e.g. Ferrari sports cars.
- Where a product has a strong brand image they can often charge a higher price for the same product.
- Example:** See the chart showing prices of ibuprofen tablets with the same contents.
- Give a reason why Waitrose can charge much more than Asda for the same products.



## Pricing strategy – mass market

- Mass market price is likely to be low as businesses try and compete for as many customers as possible, i.e. large sales and smaller profits per sale.
- Mass markets suffer from little seasonal effects, e.g. toilet rolls sell equally well in January as at Christmas.
- Mass markets are not based on one region of the country alone, sales are high everywhere.
- There are high levels of consumption on a regular basis. Milk is used most days by most people.

## Pricing strategy – niche markets

- A niche market is based on the wants and needs of customers who want a product that is different to most other people.
- The number of products sold in a niche market are comparatively small.
- The business makes a profit by having higher profit margins on every product it sells.
- Example:** Bentley, the luxury car maker, now make an SUV for those customers who can afford £135,000 price tag.

Example

## Pricing strategies and product life cycle

- Introduction:** where new products start with lower introductory prices to encourage customers to try out a product, e.g. when Japanese cars were first brought to the UK market pricing was lower than UK cars.
- Growth:** where established products can have a price increase as customers have more loyalty to the product, e.g. once Japanese manufacturers had gained customer loyalty prices increased.
- Maturity:** is the opportunity for the business to raise the price of successful products to make maximum profits without losing much demand, e.g. Toyota cars sell at a premium as they have gained many loyal customers.
- Decline:** where sales are starting to dwindle.
- If the product is outdated lower prices may gain more sales.
- If the product has loyal customers the price may increase to increase profits even as sales drop.

Product Life Cycle

Price

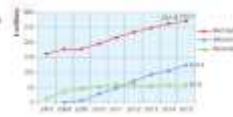
## Promotional strategy – branding

- Branding is giving your product or service a name that helps recall and recognition, and gives a sense of personality.
- Example:** the Heinz baked beans started with a tag 'Heinz Means Heinz' in 1967 and, 50 years later, the brand has its own personality in the minds of consumers.
- Creating a brand can be done in a number of ways, including the quality and uniqueness of the product, or customer service or celebrity endorsement.
- Benefits of a strong brand include customer loyalty, the ability to charge higher prices without losing demand and the long life of the product.



## Promotional strategy – sponsorship

- Sponsorship is when companies pay to have a brand associated with an event, individual or event.
- Example:** Red Bull, the energy drink, wanted to create a well-known brand image that customers related to excitement and risk.
- This included paying the costs of a Formula 1 team and Air race championships.
- Look at the graph – by how many millions are Red Bull ahead of competitor Mosler?
- Sponsorship can cost a lot of money so businesses have to be sure of the benefits to sales.
- Example:** Chevrolet's sponsorship deal of Manchester United costs £25m per year and will last until 2021.



## Promotional strategy – special offers

- Special offers** are normally only used where the business is finding it difficult to sell products to customers, e.g. Buy one get one half price offers.
- Special offers can increase sales but may damage the brand if used for a long period.
- In some situations special offers may help sales, e.g. January sales or trial sizes of new products.

Special offers

## Promotional strategy – product trials

- A product trial means giving potential customers a **free taste** of a new product.
- A product trial can test a small portion of the target market to gain further customer feedback on the product.
- This could allow the business to make slight improvements to the product before releasing it to the whole market.
- Product trials can also help reduce risks where the business is not confident with the ability of the product to be sold in the larger market.

J. Johnson

Promotion

## Promotional strategy – advertising

- A strategy is a medium- or long-term plan for meeting business objectives.
- A promotional strategy is a plan of how the business will communicate with customers to gain sales revenue.
- Mass market products rely on advertising strategies to inform customers of the name and basic details of the product.
- Products aimed at a smaller area of the market may use different methods, such as targeting a smaller range of customers using cheaper forms of advertising.
- Example:** GoPro, the sports camera maker, have 10 million followers on Instagram and use customer content to advertise their products.

Social media

## Technology – viral advertising

- Viral advertising is when people start to spread your message for you through social means, be it word of mouth or via social media.
- Viral advertising can help businesses cut the costs of advertising. Twitter and Facebook campaigns can be free.
- Viral advertising can engage with potential customers in a way advertising by traditional methods cannot achieve, such as instant feedback from customers extremely quickly.
- Example:** Sportswear brand Under Armour ran a social media campaign starring model Gisele Bündchen.
- Women were invited to comment on short messages and video clips which resulted in 5 billion views and comments, with 42% more traffic on the Under Armour website and 29% increase in sales.
- The problem is that success is not always guaranteed, with some research suggesting that only 15% of viral advertising works.

Source

## Technology – targeted advertising online

- Online adverts are adverts which appear on websites or through the internet, such as the adverts you have to watch before a YouTube clip.
- Businesses can keep an accurate record of everything you buy, the websites you visit and even what you talk about on social media websites by using 'cookies', a record of your browsing history.
- Advertising online is becoming increasingly targeted at customers' browsing habits. If you spend a long time looking at fashion, adverts will appear offering you the latest styles.
- Advertising on line for 2016 is forecast to be over half of all advertising done by businesses.

Forecast

## Technology – E-newsletters

- E-newsletters are the emails that are sent out to people who have subscribed to a business's regular product updates.
- E-newsletters are normally triggered when a customer is looking at a business website or buys a product, both of which require an email address.
- The benefits of e-newsletters are they are inexpensive and it allows the business to build up a database of potential customers.
- However, many of these type of newspapers are unread and fail to create sales.



## Methods of retail distribution

- Distribution is how ownership changes as a product goes from producer to consumer.
- Choosing the correct approach is key to the success of a product. There are three main methods – see the diagram.
- The traditional channel means producers sell in bulk to wholesalers, who then sell smaller amounts to retailers.
- The modern channel is where the producer sells directly to the retailer – such as supermarkets buying milk directly from farmers.
- Finally, the direct channel is where the producer sells straight to the customer, e.g. Apple store or Next mail order.
- Can you name one advantage and disadvantage of selling through each method of distribution?



## Gaining retail distribution

- A retailer is a shop or chain of shops, usually selling from a building in a high street or shopping centre.
- In order to distribute, a business needs to:
  - show their brands are unique to the customer
  - have strong marketing support behind the brand, e.g. a good sales team that can show customers the benefits of buying the product over competitors
  - make a profit acceptable to the retailer.
- To keep stock over a period of years:
  - promotional offers need to be offered, such as half price sales
  - customers need to be persuaded to try products at full price.

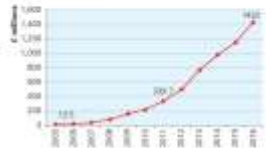
## E-tail distribution or e-commerce? 1

- An e-tailer is an electronic retailer such as Amazon. There are two types of e-commerce:
  - direct sales that go straight from the producer to the customer, such as Dyson vacuum cleaners from their website.
  - sales through an e-tailer. Amazon sells Dyson vacuum cleaners to customers, so it goes from producer to e-tailer to customer.
- A benefit of direct sales is that the producer receives all the profits from the customer instead of having to receive a reduced profit for sales in bulk to the e-tailer.
- Benefits of the e-tailer approach is there are no costs for a physical shop and they can buy in bulk, undercutting high street stores.
- The table shows some of the benefits and disadvantages of online retail.

Advantages	Disadvantages
Customers can search, find, view and even purchase before buying, making it easy to compare with rival products.	Online shopping is time consuming, especially when it is necessary to make full comparisons (e.g., seeing size of shoes).
You can choose a best price of item or a variety of sizes of fruit, accessories and so on.	Online can be unauthoritative, leading to incorrect items being sent.
You can take it away instantly, not even open-day delivery can match that.	You have to carry everything, especially hard for those without a car (50 per cent of households).

## E-tail distribution or e-commerce? 2

- E-tailers are increasingly becoming the first method of buying products due to their ease of use and accessibility. For example, Amazon reviews are unbiased and pull no punches on products.
- Look at the graph showing clothing e-tailer ASOS sales.
- If you were starting a business selling clothes would you be a retailer or an e-tailer? Explain why.



Place

## Elements of the marketing mix

- Business decisions are about the future direction of the business.
- The marketing mix will therefore be a forecast of what will influence customers to purchase a product from the business. Let's take Nissan as an example.
- **Product:** Nissan are looking at making a mid-range **electric vehicle** that can charge itself.
- **Promotion:** A video and website showing the convenience of self-charging and electric cars together with an environmentally friendly vehicle that make customers feel good about themselves.
- **Place:** Launch at Nissan dealerships or via Nissan website.
- **Price:** £20,790 which is similar to the average priced saloon to ensure the car is adopted by customer who previously bought petrol cars.

## Marketing mix informing decisions

- Successful businesses know and anticipate future customer needs for products. They do ongoing market research and get customer feedback.
- Once new products have been formulated factories, warehouses, shops and staff need to be set up.
- The marketing mix ensures that all this investment results in enough sales to recover costs and make a profit.
- The marketing mix helps 'inform' decisions, which means evidence that can be used to make a better decision.
- This can include understanding the impact of price changes, evidence of a strong brand image that encourages the launch of a new product, and anticipating when customers purchasing habits change.

## Marketing mix implementing decisions

- Once a business decision has been made the marketing mix is used to help make it a successful one.
- It is a three-part approach.
  - What are the objectives of the decision? Subway's objective is to open **100,000 stores** globally by 2030.
  - Agree how the 4Ps will help achieve this, such as setting a budget for marketing. Subway spent \$500m on advertising in 2016.
  - Carry out the plan. In 2016 Subway, started a two-year process of setting up a team of 150 staff to develop online technology.



Decision making

## Tier 3 words

### Aesthetics

How things appeal to the senses: do they look great, smell good, feel nice, sound solid (the 'kerplunk' of a BMW door shutting) or taste great?

### Economic manufacture

Making the product cheaply enough to make it profitable

### Extension strategy

An attempt to prolong sales of a product for the medium to long term, to prevent it from entering its decline stage

### Function

How well the product or service works for the customer. For example, are the beds comfortable at a hotel, does the smartphone take sharp photos?

### Product differentiation

The extent to which consumers see your product as being distinct from its rivals

### Product life cycle

The theory that every product goes through the same four stages of introduction, growth, maturity and decline

### Profit margins

Profit as a percentage of the selling price (one unit) or as a percentage of total sales revenue (for the business as a whole)

### Price

Amount of money given in payment for a product or service

### Branding

Giving your product or service a name that helps recall and recognition, and gives a sense of personality

### E-newsletters

Regular updates on the activities of a business sent electronically to actual or potential customers

### Promotional strategy

A medium- to long-term plan for communicating with your target customers

### Sponsorship

When companies pay to have a brand associated with an iconic individual or event

### Viral advertising

When people start to spread your message for you, be it word of mouth or via social media

### Distribution

How ownership changes as a product goes from producer to consumer

### E-tailer

An electronic retailer; in other words purchasing electronically, either by e-commerce or, more likely these days, mobile commerce (m-commerce)

### Retailer

A shop or chain of shops, usually selling from a building in a high street or shopping centre