LECTURE OUTLINE FOR

MKTG 25010

“Marketing”

Lecture Packet

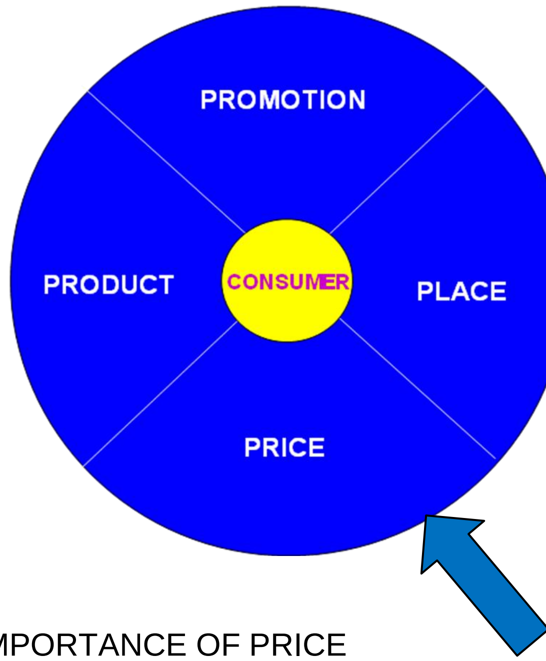
Part 2

2011 FALL

DR. MARKS

8/29/2011

Chapter 13 --Building the Price Foundation



I. NATURE AND IMPORTANCE OF PRICE

a) ______________________________ **--** the money or other considerations (including other goods and services) exchanged for the ownership or use of a good or service.

– The IMPORTANCE of PRICE?

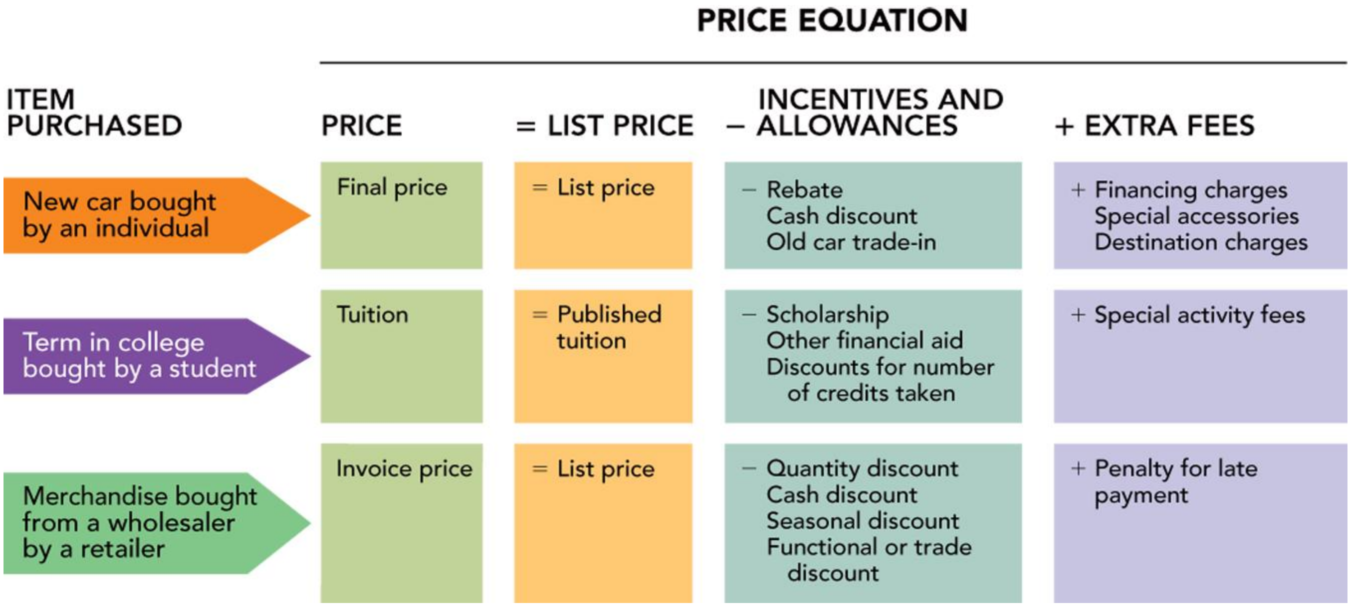
b) _______________________________ **--** the practice of exchanging goods and services for other goods and services rather than for money.

i) Example:

c) Price Equation

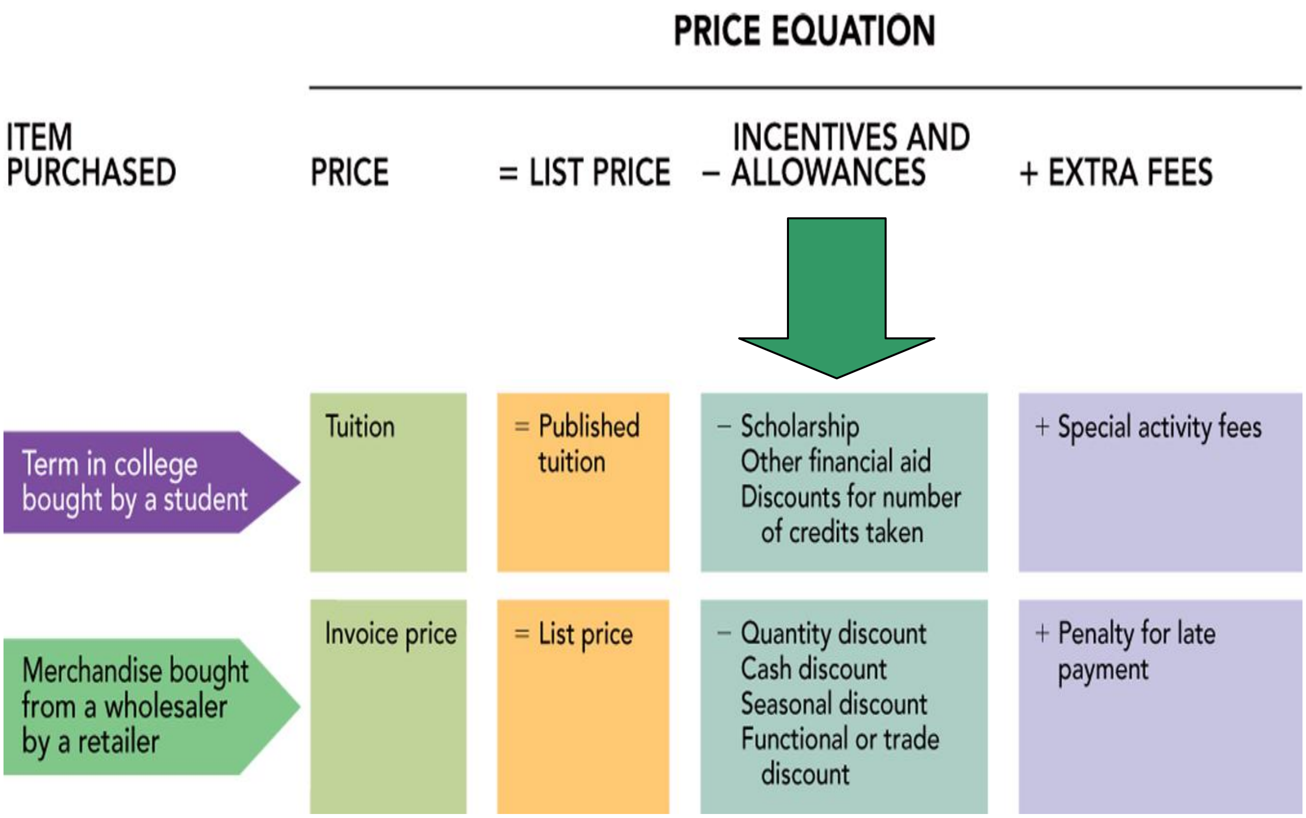
___________________ **= List Price – (Incentives + Allowances) + Extra Fees**

d) The "price" a buyer pays can take different names depending on what is purchased (Figure 13-1, text page 321).



i) KSU Tuition Example:

(1) The "price" for tuition at KSU



For a full-time in-state student at 15 credit hours with a $1000 scholarship and the discount for full-time status	??	$6375	- $1000 - $1702	+ ??

<u>PLUS ANY Miscellaneous Fees:</u>
College of Business U.G. Program Fee...$85
Admissions Service Fee...........................$40
Matriculation Fee....................................$150
Distance Learning Fee..............................$10
Reinstatement Application........................$25
Returned Check..$30
Late Registration....................................$100
Installment Service Charge.......................$35

SO, The “price” for tuition at KSU is:
“Tuition” = Published Tuition - Scholarship – Discount + Special Fees

II. PRICE AS AN INDICATOR OF VALUE

a) Value is the ratio of perceived benefits to price

VALUE = --

And so PRICE cannot ____
____

b) ________________ -- the practice of simultaneously increasing product and service benefits while maintaining or decreasing price.

i) Examples

ii) What if costs rise?

iii) ________________________ is not necessarily “_________________________________”

III. PRICE IN THE MARKETING MIX

a) **Profit Equation**

__________________ **= Total Revenue – Total Cost**

= (Unit price x Quantity sold) – (Fixed cost + Variable Cost)

IV. Six Steps in Setting Price

a) **STEP 1**: IDENTIFY PRICING OBJECTIVES AND CONSTRAINTS

i) IDENTIFYING PRICING OBJECTIVES -- ________________ specify the role of price in an organization's marketing and strategic plans.

(1) ___________________________

(a) Managing for Long-Run Profits

(b) Managing for Current Profit

(c) Target Return (ROI)

(2) ___________________________

(a) Sales Dollars

(b) Market Share (Dollars or Units)

(c) Unit Volume

(d) Survival

(e) Social Responsibility

ii) Pricing Constraints -- factors that ____________________ the range of prices a firm may set.

(1) Constraints caused by DEMAND for the:

(a) Product Class (_______________________),

(b) Product (____________________________),

(c) and Brand (______________________________)

(2) Constraints caused by Newness of the Product: Stage in the Product Life Cycle

(3) Single Product vs. ______________________________

(4) __________________ Producing and Marketing a Product

(5) ______________ Changing Prices and Time Period They Apply

(6) Constraints caused by the type of _____________________

(a) Pure Competition

(b) Monopolistic Competition

(c) Oligopoly

(d) Pure Monopoly

(e) Competitors' Prices

TYPE OF COMPETITIVE MARKET

STRATEGIES AVAILABLE	PURE COMPETITION (Many sellers who follow the market price for identical, commodity products)	MONOPOLISTIC COMPETITION (Many sellers who compete on nonprice factors)	OLIGOPOLY (Few sellers who are sensitive to each other's prices)	PURE MONOPOLY (One seller who sets the price for a unique product)
Extent of price competition	Almost none: market sets price	Some: compete over range of prices	Some: price leader or follower of competitors	None: sole seller sets price
Extent of product differentiation	None: products are identical	Some: differentiate products from competitors	Various: depends on industry	None: no other producers
Extent of advertising	Little: purpose is to inform prospects that seller's products are available	Much: purpose is to differentiate firm's products from competitors	Some: purpose is to inform but avoid price competition	Little: purpose is to increase demand for product class

b) **STEP 2**: ESTIMATE DEMAND AND REVENUE

i) FUNDAMENTALS OF ESTIMATING DEMAND

(1) The ______________________________________ -- a graph relating the quantity sold and price, which shows the maximum number of units that will be sold at a given price.

(a) Influenced by:

(i) Consumer ___________________________

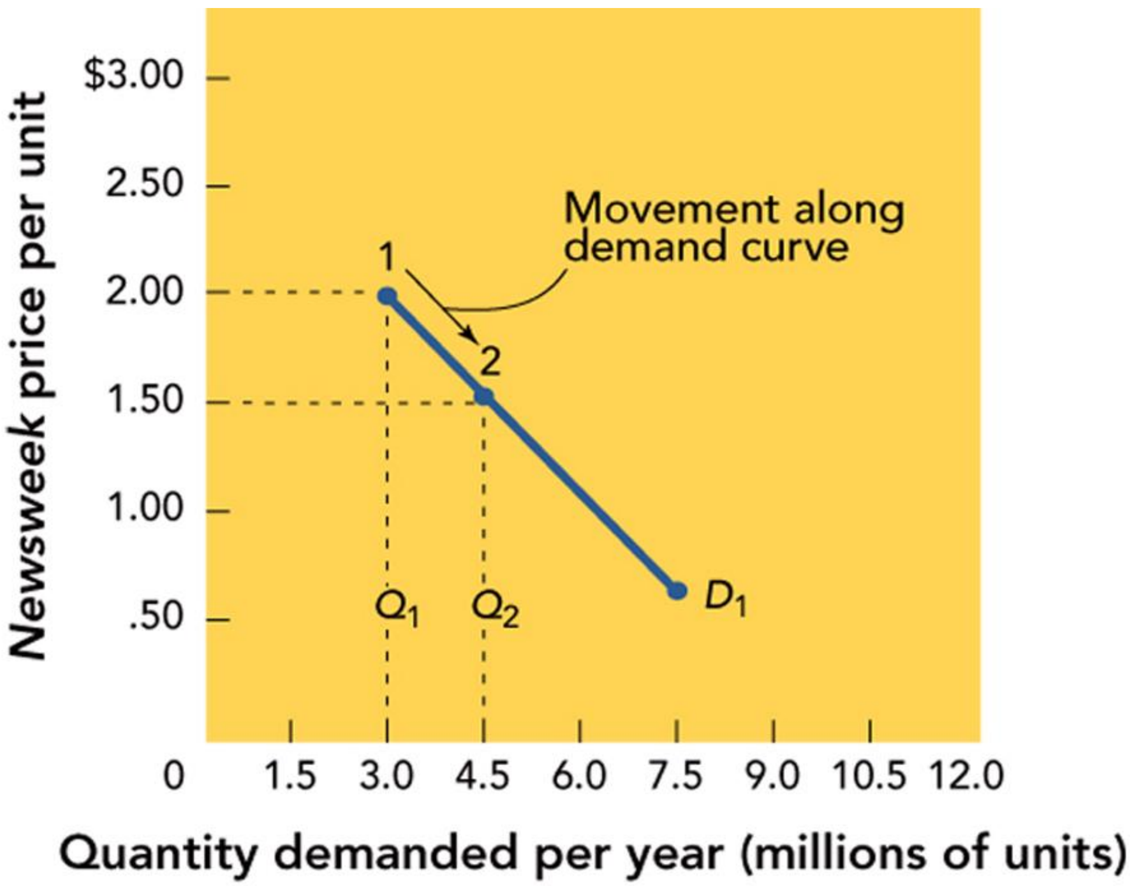
(ii) ______________________ and ____________________ of Similar Products

(iii) ____

(2) _____________________________ -- Factors that determine consumers' willingness and ability to pay for goods and services.

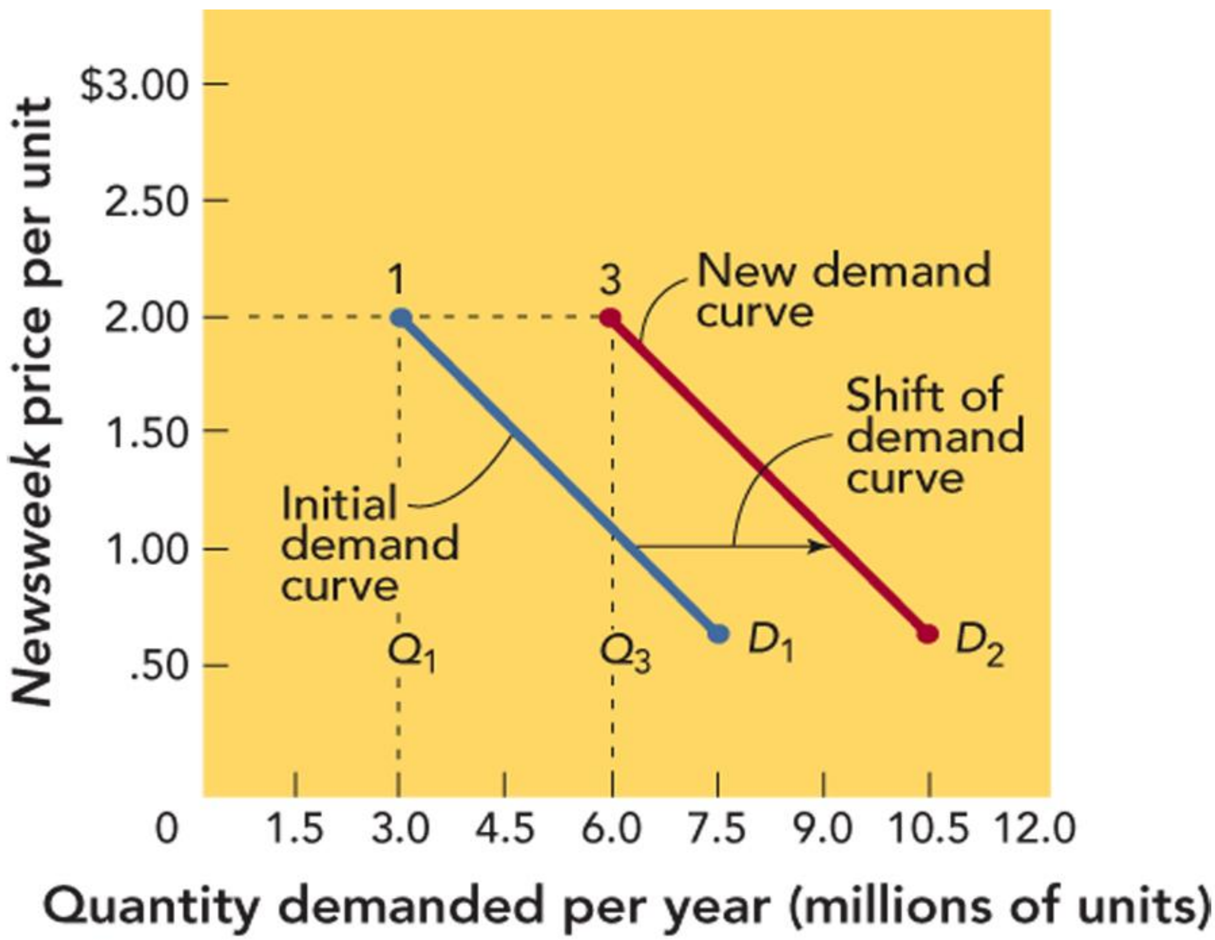
(3) Example (page 330 text)

FIGURE 13-4A **Demand curve for *Newsweek* showing the effect on annual sales by a change in price caused by a movement along the demand curve**



A: Demand curve under inital conditions

FIGURE 13-4B **Demand curve for *Newsweek* showing the effect on annual sales by a change in price caused by a shift of the demand curve**



B: Shift the demand curve with more favorable conditions

ii) FUNDAMENTALS OF ESTIMATING REVENUE

(1) Total Revenue (TR) -- the _______________ received from the sale of a product.

(2) Average Revenue (AR) -- the average amount of money received for selling one unit of product, aka ____________ of that unit

(3) Marginal Revenue (MR) -- the _________ in ________________ that results from producing and marketing one additional unit.

(a) **So, Total Revenue (TR) is the total money received from the sales of a product. Logically, if:**

(i) TR = Total revenue

(ii) P = Price, and

(iii) Q = Quantity sold, *Then*

(iv) Total Revenue = P x Q, and

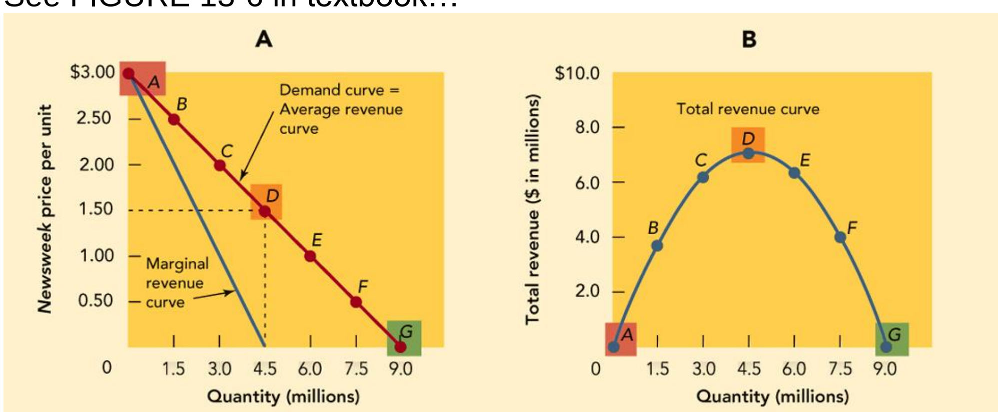
(v) Average Revenue $= \frac{TR}{Q} = P$

(4) AND, if Marginal Revenue (MR) is the CHANGE in the total revenue that results from producing and selling on ADDITIONAL unit of a product:

(5)

$$MR = \frac{\text{Change in TR}}{\text{1 unit increase in Q}}$$ = the SLOPE of the Total Revenue curve

(6) See FIGURE 13-6 in textbook…



Point on Demand Curve	Price (P)	Quantity Sold (Q)	Total Revenue (P × Q)	Average Revenue (TR/Q = P)	Marginal Revenue (ΔTR/ΔQ)
A	$3.00	0	$0	$3.00	$3.00
B	2.50	1,500,000	3,750,000	2.50	2.00
C	2.00	3,000,000	6,000,000	2.00	1.00
D	1.50	4,500,000	6,750,000	1.50	0
E	1.00	6,000,000	6,000,000	1.00	− 1.00*
F	.50	7,500,000	3,750,000	.50	− 2.00*
G	0	9,000,000	0	0	− 3.00*

*Not shown in Figure 13–7A. [Note that the marginal revenue (MR) curve in Figure 13–A is the slope of the total revenue (TR) curve in Figure 13–7B.]

- HOWEVER, For those who REALLY care:
  - The Marginal Revenue formula shown in the text in Figure 13-5 is wrong
    - Try making the numbers work with this formula; they won't

- The formula IS correct when the changes in quantity sold are small (essentially a change of 1 unit).
    - For larger changes (like 1.5 million!!) this formula shows the "average of the change" (more or less).
- To get the value for the changes in large quantities they use, one formula is:
    - Marginal Revenue= Price + (Quantity sold times the *change* in Price divided by the *change* in Quantity)
- Or
    - MR = P + (Q x Change in P/ Change in Q)

(7) Price Elasticity of Demand -- the percentage change in quantity demanded relative to a percentage change in price.

7. Price Elasticity of Demand (E) = $\frac{\text{Percent Change in Quantity Demanded}}{\text{Percent Change in Price}}$

(a) Elastic Demand, occurs when a 1% change in price results in a GREATER than a 1% change in sale (so, E>1)

(i) A _________ decrease in price results in a _______ increase in sales

(b) Inelastic Demand, occurs when a 1% change in price results in a LESS than a 1% change in sale (so, E<1)

(i) A ___________ decrease in price results in ________ than a 1% increase in sales (SO, sales revenues ___________!)

(ii) Note: The Reverse is also true.

(c) Unitary Demand occurs when the percentage change in price is the ____________ as the percentage change in quantity

(d) The Price Elasticity of Demand is Influenced by:

(i)

(ii)

(iii)

1. Example

(iv) The Price Elasticity of Demand is not _______________

Example from Figure 13-6:

c) **Step 3:** DETERMINE COST, VOLUME, AND PROFIT RELATIONSHIPS

i) Controlling COSTS – The basic concepts:

(1) __________________ **(TC)** is the total expense incurred by a firm in producing and marketing a product.

(a) Total cost is the sum of fixed cost and variable cost,

or TC = FC + VC

(2) _______________**(FC)** is the sum of the expenses of the firm that are ________________________________ with the quantity of a product that is produced and sold.

(a) Fixed costs include things like:

(i)

(ii)

(iii)

(iv) These ____________________ as we sell more products.

(3) _________________ **(VC)** is the sum of the expenses of the firm that vary directly with the quantity of a product that is produced and sold.

(a) Examples of variable costs include:

(i) the ________________ that is needed to make the product,

(ii) the _______________ that are needed to make the product,

(iii) _______________________ that are paid on each unit sold.

(4) **Unit variable cost (UVC)** is __________ expressed on a per unit basis, so

UVC = VC / Q

(5) **Marginal cost (MC)** is the ___________________ that results from producing and marketing one additional unit of a product.

(a) **Marginal cost (MC)**

= <u>Change in Total Cost</u>
1 unit increase in Quantity
= <u>Change in TC</u>
Change in Q
= the slope of the Total Cost curve

(6) ________________________________ is a continuing, concise trade-off of incremental costs against incremental revenues.

ii) Break-Even Analysis – is a technique that analyzes the relationship

between _________________ and _______________ to determine

__________________ at various levels of output.

(1) A Break-Even Point (BEP) is the quantity at which total revenue and total cost are equal, SO…

Break Even Point (in units)

$$= \frac{\text{Fixed Costs}}{\text{Unit Price} - \text{Unit Variable Cost}}$$

$$= \frac{FC}{P - UVC}$$

(2) Example -- FIGURE 13-10 Calculating a break-even point for the picture frame store (textbook page 337).

Quantity of Pictures Sold (Q)	Price Per Picture (P)	Total Revenue (TR) = (P × Q)	Unit Variable Cost (UVC)	Total Variable Cost (VC) = (UVC × Q)	Fixed Cost (FC)	Total Cost (TC) = (FC + VC)	Profit = (TR – TC)
0	$120	$0	$40	$0	$32,000	$32,000	–$32,000
200	120	24,000	40	8,000	32,000	40,000	–16,000
400	120	48,000	40	16,000	32,000	48,000	0
600	120	72,000	40	24,000	32,000	56,000	16,000
800	120	96,000	40	32,000	32,000	64,000	32,000
1,000	120	120,000	40	40,000	32,000	72,000	48,000
1,200	120	144,000	40	48,000	32,000	80,000	64,000

Break Even Point (in units)

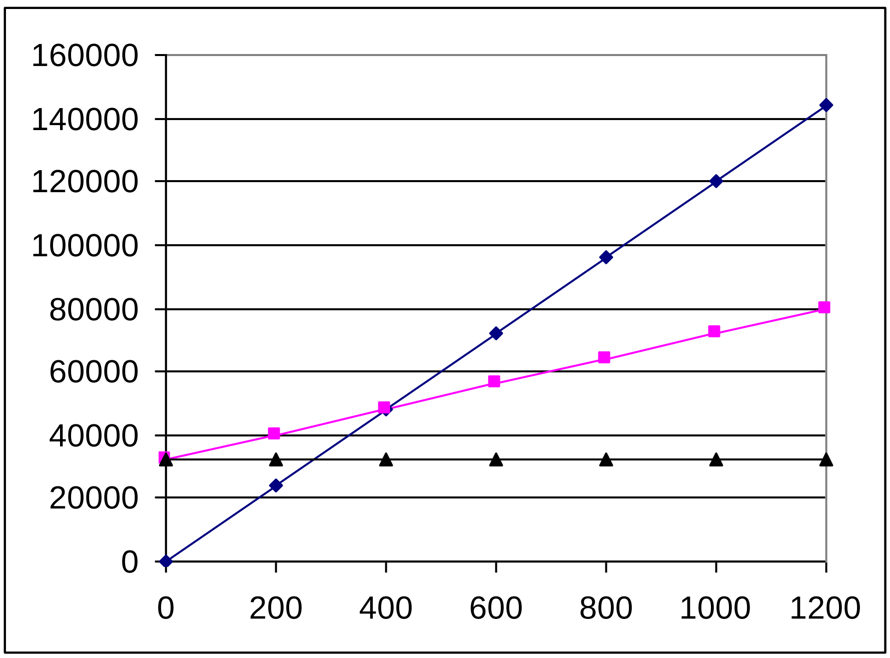
$= \dfrac{\text{Fixed Costs}}{\text{Unit Price – Unit Variable Cost}}$

$= \dfrac{FC}{P - UVC}$

Or ______________/ _____ - _______ = $______/$_____ = _____ units to Break Even

(3) Break-Even Chart -- a graphic presentation of the break-even analysis that shows when ______________ and __________________ intersect to identify profit or loss for a given quantity sold.

(4) Example Break-even analysis



…and at 1000 frames sold….

Video Case 13 (If we have time and in the textbook, page 341) -- **Washburn Guitars: Using Break-even points to make pricing decisions**

i) What factors are most likely to affect the demand for the lines of Washburn guitars (*a*) bought by a first-time guitar buyer and (*b*) bought by a sophisticated musician who wants a signature model?

iii) For Washburn, what are examples of (*a*) shifting the demand curve to the right to get a higher price for a guitar line (movement of the demand curve) and (*b*) pricing decisions involving moving along a demand curve?

iv) In Washburn's factory, what is the break-even point for the new line of guitars if the retail price is (*a*) $349, (*b*) $389, and (*c*) $309? Also, (*d*) if Washburn achieves the sales target of 2,000 units at the $349 retail price, what will its profit be?

ANSWER:

The break-even is calculated as follows:

a. Price (P) = $ _____ ;

b. "Abel estimates one half of the FINAL RETAIL PRICE will be the price NETS when it sells it guitar to…its channel of distribution."

SOOoooo, Retail markup = _________ %;

c. and Net Price = ______________/unit

d. Fixed Costs (FC) =

Rent and taxes _________

+Depreciation ________

+ Mgmt & control _________

= $

e. Unit Variable Costs (UVC) = [($____/unit + (___ hours/unit × $____/hour)]

= $_____ + $_____ = ______/unit

$$\text{BEP} = \frac{\text{Fixed Cost}}{\text{Unit Price} - \text{Unit Variable Cost}}$$

SO, if we charge a retail price of:

(a) $349, we get a break even of ___________ units

(b) $389, we get a break even of ___________ units

(c) $309, we get a break even of ___________ units

(d) What will the profit be if Washburn sell its target of 2000 units?

    a. For the $349 guitar?

    b. For the $309 guitar?

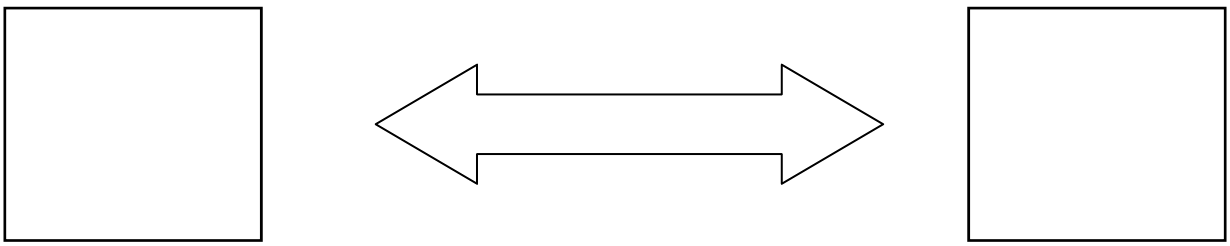
Chapter 14 -- Arriving at the Final Price

I. The Six Steps in Setting Price
   1. Identify Pricing Objectives and Constraints
   2. Estimate Demand and Revenue
   3. Determine cost, volume, and profit relationships
   4. Select a approximate price level
   5. Set the list or quoted price
   6. Make special adjustments to the list/quoted price

Covered in previous material

II. **STEP 4:** How to Select an Approximate Price Level

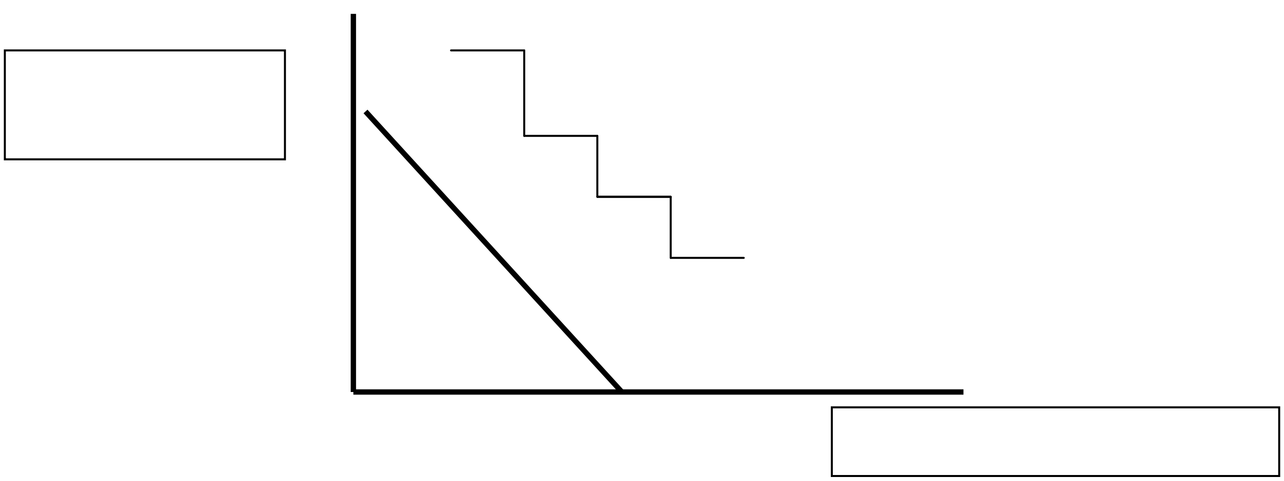
   a) What is the possible "range" of prices?



   b) Demand-oriented Pricing Approaches

   i) ____

   (1) involves setting the highest initial price that customers really desiring the product are willing to pay.
   (2) used when introducing a new or innovative product; so it is seen in the early stage of the PLC
   (3)



   (4) Used to rapidly recover investments in developing a new product

(5) Works because:

(a) consumers ____________________________ the product,

(b) there are _______________________________________ (yet)

(c) We have a protection on the product (copyright; patents; unique process)

(6) And SO we have an ___________________________ demand curve.

(7) Advantages of Price Skimming

(a) Allows us to recover development costs quickly

(b) IF the price is perceived as "too high" by the market, we can easily lower it (RAISING a price is much harder to do)

(i) Example:

(8) Disadvantage of Price Skimming

(a) The major disadvantage is that the large profit margins will _______________________ competition

ii) ___________________________________

(1) involves setting a __________________ price on a new product

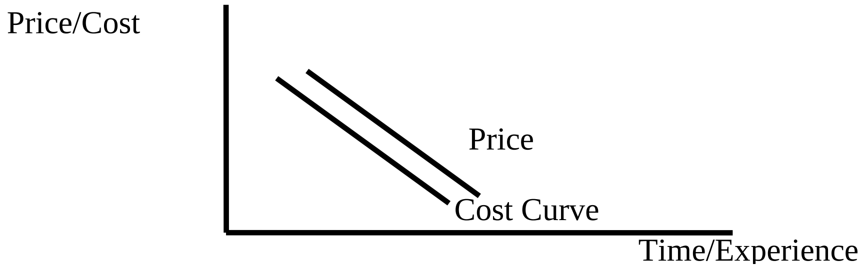
(2) It is used to appeal immediately to the _________________

(3) And so to capture a large share of the market quickly

(4) This is used when there are few barriers to competition entering the market,

(5) When we expect the PLC to be long

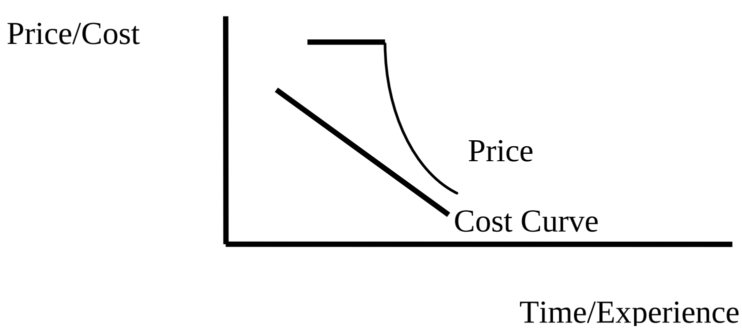
(6) When we expect demand to be _______________________ (so there is a market response to our lower price).



(7) Advantages of Penetration Pricing
  (a) The small margin is likely to ___________________________
  (b) Because we get a large share of the market quickly:
    (i) our volume is larger and our production costs (per unit) drop more quickly
    (ii) And with high volume we still generate good profit
(8) Disadvantages of Penetration Pricing
  (a) A _________________________ strategy
    (i) We must be able to do a good job of forecasting the demand, because we will need to gear up FAST for mass production and distribution/marketing.
    (ii) IF demand does not develop, our production costs stay high and we do not make a profit!

iii) "____"

(1) Involves starting with a Price Skimming approach and then REDUCING price as our costs decline
  (a) This is done to appeal to a wider market once the "premium price" buyers are satisfied or
  (b) To react to an influx of competitors
(2)



(3) Advantages of "slide down the demand curve"
  (a) Allows us to recover ___________________ early in the PLC
  (b) Helps to discourage competition as we drop price (note that OUR costs should be lower than those of the "late entrant" competitors).

(c) assumes a reasonably ______________________

(4) Disadvantages of "slide down the demand curve"

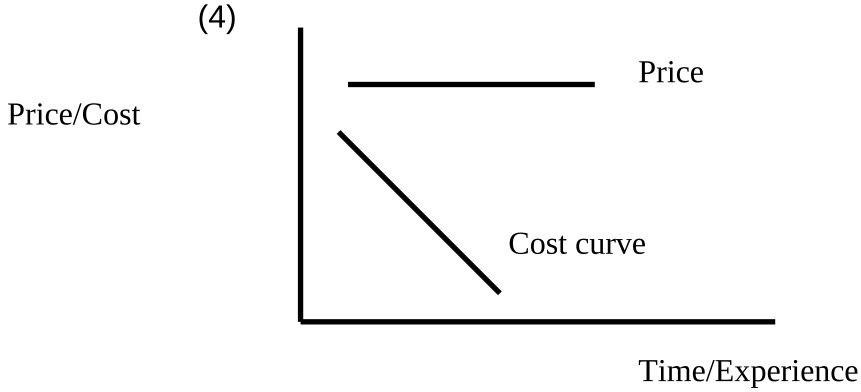
(a) It is very hard to know just when to begin dropping prices

(i) Drop too soon, and ___________________________

(ii) Drop too late and ________________________

iv) ___________________________

(1) involves setting a high price
(2) to attract quality- or status-conscious consumers
(3) This should appeal to high-end consumers and limit it appeal to "others" (which ENHANCES the product's image)
(4)



(5) Advantages and Disadvantages of Prestige Pricing

(a) Because of the high price, we are ____________ to sell in large volume, however,

(b) This is not a problem as __________ can be made with the large markup on each item sold

b) Demand-oriented Pricing Approaches

i) __________________________________

(1) involves setting the price of a line of products at a number of different specific pricing points
(2) even if customers don't know much about a set of products, they may *perceive* difference based on price alone
(3) If the differences in models are not readily apparent or not easily viewed, then price lining helps the customer recognize that differences do exist as (long as the prices are noticeably different).
(4) Examples:

(5) Advantage of Price Lining
   (a) May increase profits if the ____________ of adding the additional features is not significant
      (i) Consumers “buy up” to a higher priced, more feature-rich model which is ALSO more profitable for the marketer
(6) Disadvantages of Price Lining
   (a) A disadvantage to price lining is that by focusing too much on price, we may overlook issues of quality or consumer buying trends.
   (b) If it is used as a regular practice, it may limit our ability of the business to meet competitors' prices.

ii) ____ consists of
   (1) estimating the price that ultimate consumers would be willing to pay for a product,
   (2) working backward through markups taken by retailers and wholesalers to determine what price to charge wholesalers, and then
   (3) deliberately adjusting the composition and features of the product to achieve the target price to consumers.
   (4) SO, Target Price – Markups – Profit = Target COSTS

iii) ____
   (1) involves setting prices a few dollars or cents under an even number
   (2) Use prices that end in 5, 7 and most often 9 for psychological reasons.
      (a) Consumers tend to round down a price of $39.95 to $39, rather than rounding it up to $40.
      (b) However, this is not considered to be as effective today as it was in the past as consumers have become “smarter” about price (but we do still see it used quite a bit).

iv) Bundle pricing
   (1) involves setting prices for two or more products as a single price.
      (a) For buyers, the overall cost of the purchase shows a savings compared to purchasing each product individually.

(b) For marketers this technique avoids making price adjustments on a EACH product if they fear doing so could affect the product's perceived quality level

(c) Example: "Buy our digital camera and you get the how-to photography DVD for 50% less." With this approach we present a price adjustment without

v) Yield Management Pricing

(1) Involves charging a ________________ for the same good/service in different markets

(2) to maximize revenue for a set amount of capacity at any given time

(a) Examples:

(i) Passenger airline seats

(ii) Train seats

(iii) Hotel rooms

(iv) Rental cars

(v) Concert seats

(3) Requires:

(a) That there is a ________________________________of resources available for sale.

(b) That the resources sold are __________________________. This means that there is a time limit to selling the resources, after which they cease to be of value.

(c) That different customers are willing to pay a different price for using the same amount of resources.

(4) Two Approaches:

(a) Airlines often charge ______________________________

(b) The fashion industry often __________________________

c) Cost-oriented Pricing Approaches

i) Standard Markup Pricing

(1) adding a _______________ to the cost of all items in a specific product class; USUALLY refers to setting retail prices.

Examples:

(a) Jewelry

(b) Service

(2) <u>Sometimes</u> is used to refer to the manufacturer setting the wholesale selling price

(a) SO, **Retail price = cost + markup**

(3) Calculating markup percentages:

(a) Percent Markup on SELLING PRICE

Markup on Selling Price (%)

$$= \frac{\text{Markup dollars}}{\text{Selling Price \$}} \quad X \ 100$$

(b) Percent Markup on COST

Markup on COST (%)

$$= \frac{\text{Markup dollars}}{\text{The Cost \$}} \quad X \ 100$$

(c) Example

(i) The cost to me is $36 each for the product I want to sell.

(ii) I want to get the industry *markup of* 122.2% of *cost*, and we know:

$$\text{Markup on cost \%} = \frac{\text{Markup dollars}}{\text{The Cost \$}} \quad X \ 100$$

$$\text{Markup on cost \%} = \frac{\text{Markup dollars}}{\text{The Cost in \$}} \quad X \ 100 \quad \text{(divide both sides by 100)}$$

To get,

$$\frac{\text{Markup on cost \%}}{100} = \frac{\text{Markup Dollars}}{\text{Cost in \$}}$$

$$\frac{122.2\%}{100} = \frac{\text{Markup Dollars}}{\$36} \quad \text{(Divide left by 100 which also eliminates \%)}$$

To get:

1.222 = Markup Dollars / $36 (Multiply both sides by $36)

1.222 x $36 = Markup Dollars = $ ___________

Selling price is $36 + $43.92 = $__________

This gives the industry mark up of ___________

(d) Example 2

(i) The cost to me is $36 each for the product I want to sell.

(ii) I am selling the product for $80, and I want to determine my *markup on the selling price*:

Markup on Selling Price (%)

$$= \frac{\text{Markup dollars}}{\text{Selling Price \$}} \times 100$$

- Selling Price is $80
- Cost to me is $36
- So, mark up is $80 - $36 = $44

(iii) Markup on Selling Price (%) =

$$\frac{\$44}{\$80} \times 100 \quad \text{OR} \quad \_\_\_\_\_\%$$

ii) Cost Plus Pricing

(1) Just as markup pricing arrives at price by adding a certain percentage to the product's cost, cost-plus pricing also adds to the cost

(a) by using a ______________ amount rather than percentage (*cost-plus fixed-fee*) OR

(b) by adding a __________________ to the manufacturing cost.

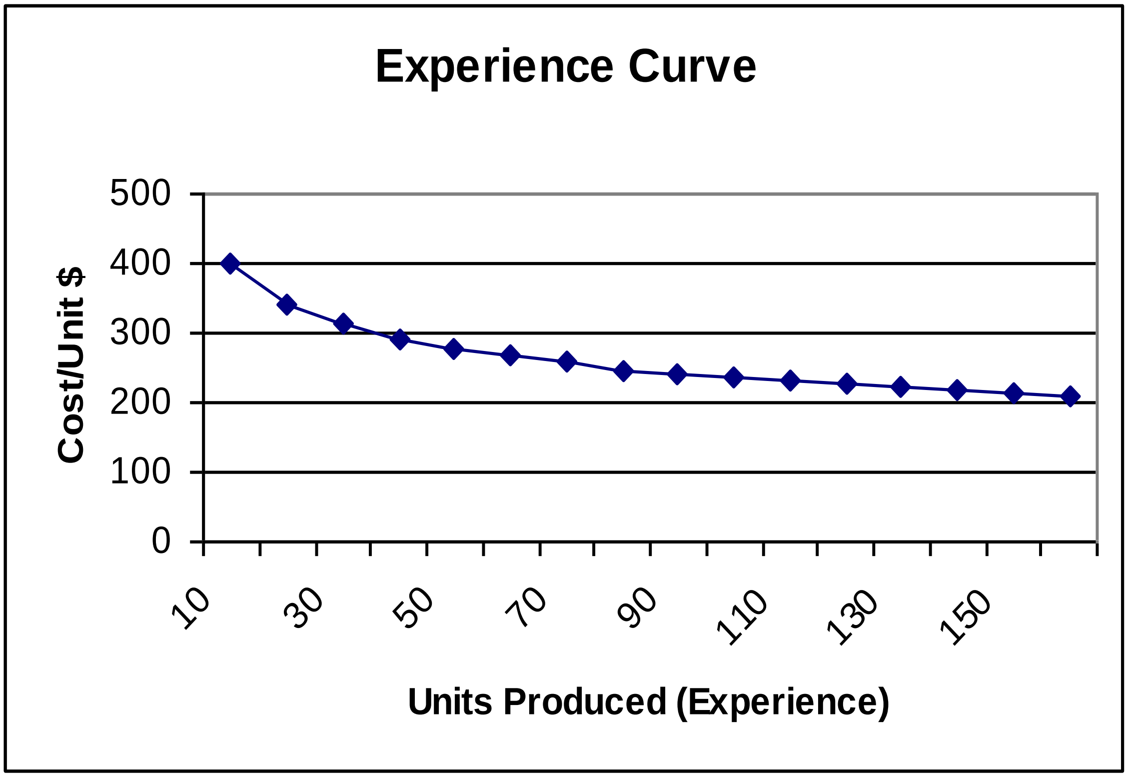
iii) Experience Curve Pricing

(a) a pricing approach that we have already considered.

(b) It is based on the "________________," which says that the unit cost of many products and services declines by 10 percent to 30 percent each time a firm's experience at producing and selling them doubles

(c) This results in the possibility of rapid price reductions; and suggests advantages to market leaders

(d) Example: Unit Costs drop by 15% with each doubling of Production



d) Profit-oriented Pricing Approaches

i) Target Profit Pricing

(1) Set an annual ______________ in dollars

ii) Target return-on-sales Pricing

(1) Set prices to achieve a profit that is a ______________ of the units sold

iii) Target return-on-investment Pricing

(1) Set prices to achieve a specific annual return-on-investment (ROI).

e) Competition-Oriented Pricing

i) Customary Pricing

(1) Set our price based on the ______________ in the channel of distribution or in our market

ii) Above-, At-, or Below-market Pricing

(1) Uses the competition's price as a _______________ and prices relative to them.

iii) Loss-leader Pricing

(1) We set the price ______________ its usual (or profitable) price.

(2) The goal is not to make money on that item, but to attract customers' attention with the hope they will buy other, more profitable products as well.

III. Step 5: Set the List or Quoted Price

a) One-price policy
   i) involves setting one price for all buyers of product or service.
   ii) Also called _________________.

b) Flexible price policy
   i) Involves setting ____________________ for products and services depending on individual buyers and purchase situations.
   ii) Also called *dynamic pricing*.

c) Factors Influencing the List or Quoted Price

   i) ___________________________

      (1)

   ii) ___________________________

      (1) What does our price convey to the consumer?

   iii) ___________________________

      (1) _______________, when we need to cut our price to increase or maintain unit sales or market share against competition, who does the same thing, forcing us to respond!!

IV. Step 6: Special Adjustments to the List or Quoted

a) Quantity Discounts

   i) We offer reductions in unit costs for larger orders; the assumption is that we get "_______________________" savings and we pass some on to our customers.
   ii) In non-cumulative quantity discounts, the price reduction is based on a ______________________. The larger order is expected to reduce our billing, order filling, shipping, and sales costs.
   iii) cumulative quantity discounts, the price reduction is based on the total quantity purchased over some period of time (often a year). The goal is to encourage the customers to _________________ for their reorders.

iv) Seasonal Discounts
   (1) Reductions based on the time that the purchase is made.
   (2) Attempts to reduce time variations (seasonal variations) in sales.
   (3) The Travel Industry offer much lower off-season rates
   (4) These can also be based on the day of the week or the time of day.
      (a) For example,

v) Trade (Functional) Discounts
   (1) These are reduction in ____________ we offer to our distribution channel members for performing some function for us in the future.
      (a) Examples of these functions are warehousing and shelf stocking.
      (b) Trade discounts can be combined to include a series of functions for a channel member
      (c) For example 20/12/5 could indicate a 20% discount for warehousing the product, an additional 12% discount for shipping the product, and an additional 5% discount for keeping the shelves stocked.

The 20/12/5 example

$200.00	MSRP (manufacturer's suggested retail price)
-20%	less 20%
$	profit to the retailer
$	Retailer cost
-12%	less 12 %
$	profit to the wholesaler
$	Wholesaler cost
- 5%	less 5%
$	profit to the jobber
$	Jobber's cost = manufacturer's selling price

   (2) See the text example (page 361) also for a series of channel members.
      (a) In that example 30/10/5 would be based on the manufacturer's suggest retail price.
      (b) It indicates a 30% discount for the retailer, an additional 10% discount the wholesaler, and an 5% discount for the jobber

   (3) Cash Discounts

(4) Allowances
    (a) Trade-In Allowances
    (b) Promotional Allowances

(5) Geographic Adjustments

(a) FOB origin (Free on Board origin) –
   (i) The shipping cost from the ________________is paid by the _____________; so different buyers will pay different shipping costs.
   (ii) _______________ of the goods is transferred to the buyer as soon as it leaves the point of origin. Either the buyer or seller arranges for the transportation.

(b) Uniform Delivery Pricing – The shipping cost from the factory or warehouse is included in the selling price. Ownership of the goods is not transferred to the buyer until it is delivered. The seller arranges for the transportation.

   (i) Single Zone Pricing - The same price is charged to all buyers regardless of their location.

   (ii) Multiple Zone Pricing –
      1. Prices increase as shipping distances increase.
      2. This is sometimes done by drawing concentric circles on a map with the plant or warehouse at the center and each circle defining the boundary of a price zone.
      3. Instead of using circles, irregularly shaped price boundaries can be drawn that reflect geography, population density, transportation infrastructure, and shipping cost.
      4. Map Example of Multiple-zone Pricing

   (iii) Basing point pricing - Certain cities are designated as basing points. All goods shipped from a given basis point are charged the same amount.
      1. Map revisited:

(iv) Freight-absorption pricing - The seller absorbs all (or part of the cost of transportation). This can be used as a promotional tactic.

(6) How to get into LEGAL TROUBLE with your pricing:

(a) ____________________________

(i) Agree with competitor what price everyone will charge

(ii) Enforce specific prices within the channel

(b) _____________________________

(i) Charge different prices to buyers when there are NO differences in the grade, quality, or cost of the goods, that results in substantial lessening of competition

(c) _______________________________

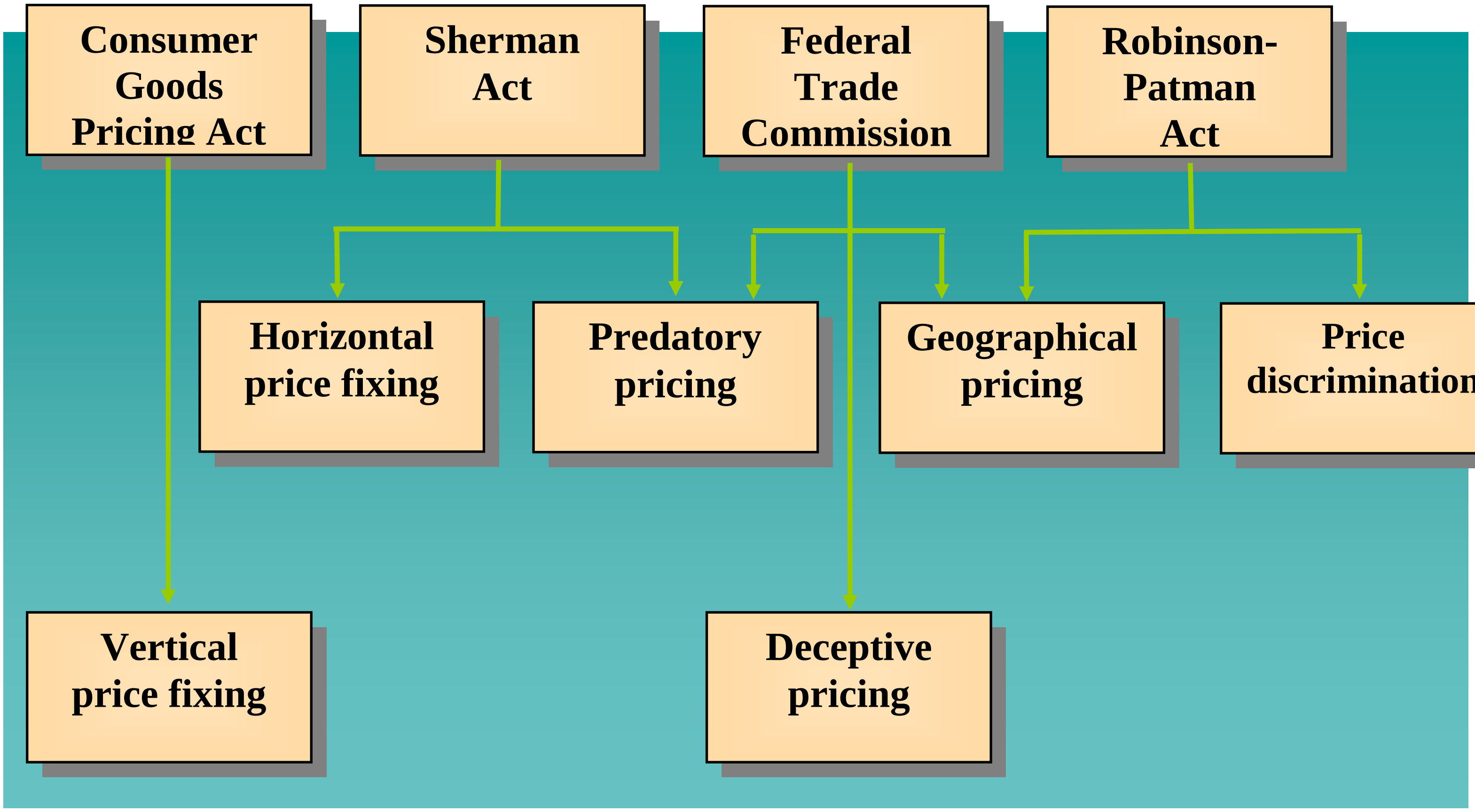
(i) Bait and switch

(ii) Bargains conditioned on purchased of overpriced products

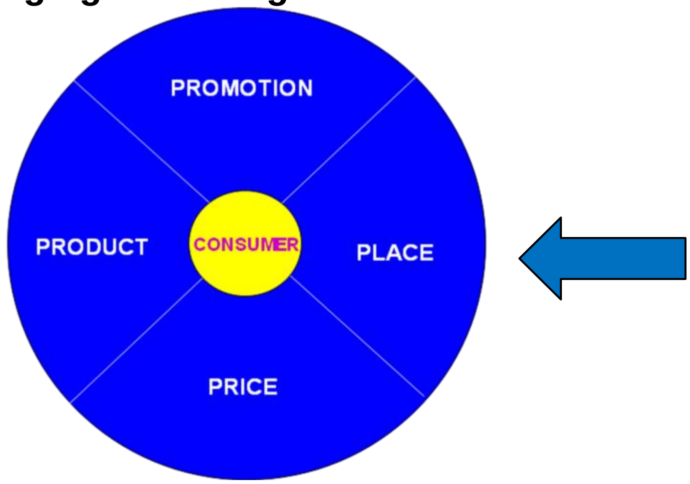
(iii) Fake "sales" off of prices never really offered

(d) Engage in Predatory pricing = low prices to drive out competition and then raise prices.

(7) **Pricing practices affected by legal restrictions**



Chapter 15: Managing Marketing Channels and Wholesaling



I. Introduction Example – Toys “R” Us
   a. Founded by Charles Lazarus
      i. Create the world’s largest toy chain!
      ii. Founded in 1978, it average a growth rate of ______________________________
   b. And, as we might expect it then attracted
      i. Of both ________________________________
      ii. The result, Toys “R” Us Market share fell from 25% to 17%
   c. Wal-Mart over took Toys “R” Us to become the largest volume seller of toys in the U.S.
   d. Toys “R” Us reacted by renovating its stores, increasing it toy assortment, and changed its SUPPLY CHAIN arrangements to reduce inventory.
      i. For the toy manufacturers this meant
      ii. To boost their profits, they reacted in two ways
         1. Some reduced the flow of “hot toys” to
         2. Others gave Toys “R” Us exclusive

II. The Nature and Importance of Marketing Channels
   a. ________________________
      i. Consists of Individuals and firms involved in the process of making a product or service available for use or consumption by consumers or industrial users.
   b. Middlemen (aka ________________________________)

i. Middlemen are ________________________ in a ____________________ that render <u>services</u> directly related to the sale/purchase of a product as it flows ____

   1. Distribution's role within a marketing mix is getting the product to its target market.

ii. Middlemen can promote the product, store it, ship it and assume some of the financial risk during the distribution process

   1. Merchant Middlemen & Agent Middlemen

      a) Middlemen are commonly classified on the basis of whether or not they ________________ _____________ to the products being distributed.

      b) Merchant middlemen take title to the products they help to market

iii. As a "RULE" you can eliminate middlemen, but NOT ____

   1. (well…that's ALMOST always true; the [RADIOHEAD] experiment)

iv. Middlemen Activities

   1. Transactional Functions
   2. Logistical Functions
   3. Facilitating Functions
   4. Example – A Sales specialist for producers can:

      a) Provide market information (**Facilitating)**
      b) Interpret consumers' wants (**Facilitating)**
      c) Promote producers' products (**Transactional)**
      d) Create assortments (**Logistical)**
      e) Store products (**Logistical)**
      f) Negotiate with customers (**Transactional)**
      g) Provide financing (**Facilitating)**
      h) Own the product (**Transactional)**

i) Share the risks (**Transactional)**

5. Example – A Purchasing agent for buyers can:
    a) Anticipate wants (**Facilitating)**
    b) Subdivide large quantities (**Logistical)**
    c) Store the product (**Logistical)**
    d) Transport the product (**Logistical)**
    e) Create assortment (**Logistical)**
    f) Provide financing (**Facilitating)**
    g) Make products readily available (**Logistical)**
    h) Guarantee the product (**Transactional)**
    i) Share the risks (**Transactional)**
6. Example – The Kent Stage

c. Distribution Channels

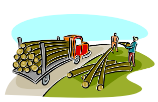
i. Distribution Channels include people and firms involved in the ______________________________________ to a product as the product moves from a producer to the ultimate consumer or business user

Producers → Middlemen → Final Consumer or Business User

ii. The channel for a product only extends to ______________________________ that buys it without making any significant change in its form

1. When the ______________________is altered, another product emerges and a new channel is started.

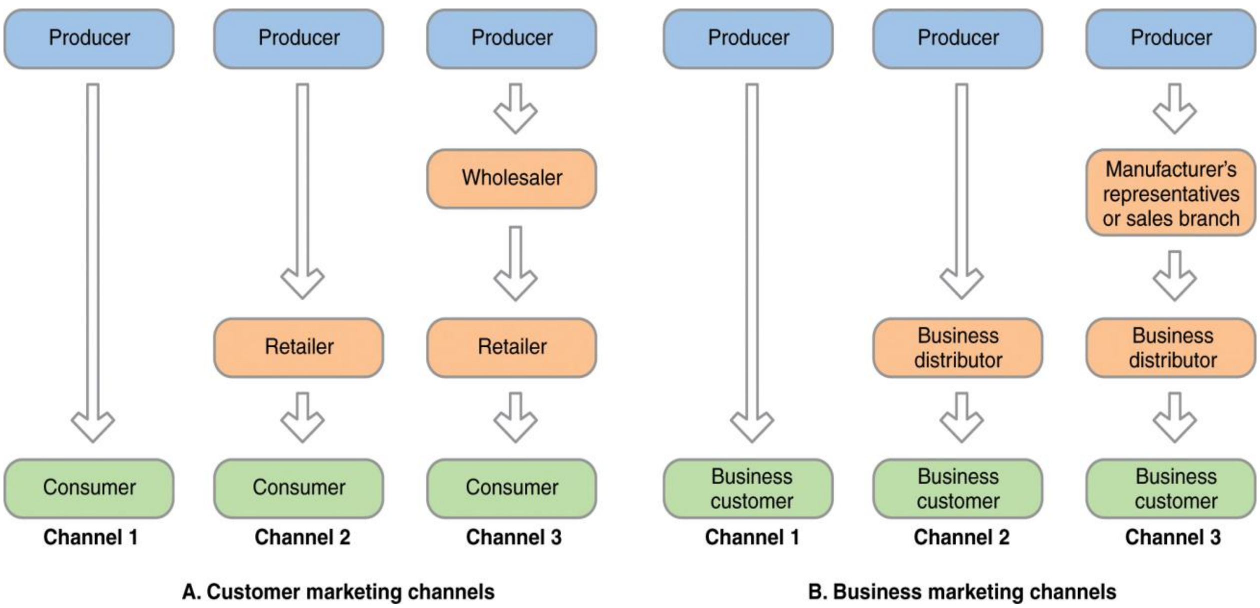
iii. Example (supply channel for Lumber and for Finished Furniture)



iv. Other intermediaries include:

1. Banks
2. Insurance companies
3. Transportation companies

d. Consumer and Business Distribution Channels



i. All of the institutions in the channel are connected by several types of flows, including the flow of:
   1. ownership,
   2. payment,
   3. information and
   4. promotion.

ii. Channels MUST contain at least a __________ AND a __________. This would be a "direct channel" of distribution.
   1. Consumer Marketing Example
   2. Business Marketing Example

iii. A channel of producer, final customer, and at least one ____________________ is an indirect channel.

iv. <u>Customer Marketing Channels</u>

1. Producer → Consumer is a __________

Dell Example

2. Producer → Retailer → Consumer

WalMart; Toys R Us

3. Producer → Wholesaler → Retailer → Consumer

Small retailers

v. <u>Business Marketing Channels</u>

1. Producer → Business Customer

Direct accounts for a _________________ than any other channel.

i. ___________________ installations such as jet engines, helicopters and elevators, are usually sold directly to users.

2. Producer → Business Distributor → Business Customer

(a) Often used for _______________________________

3. Producer → Manufacturer's Representative / Sales Branch → Business Distributor → Business Customer

a) _________________ who cannot afford to call on customers directly may use this "more indirect" approach.

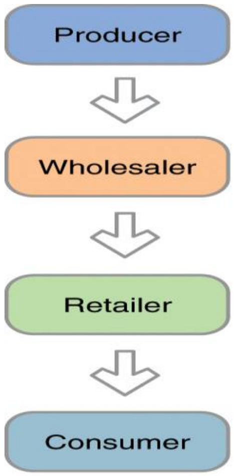
vi. Multiple Distribution Channels

1. Used to reach two or more target markets or
2. avoid total dependence on a single arrangement.

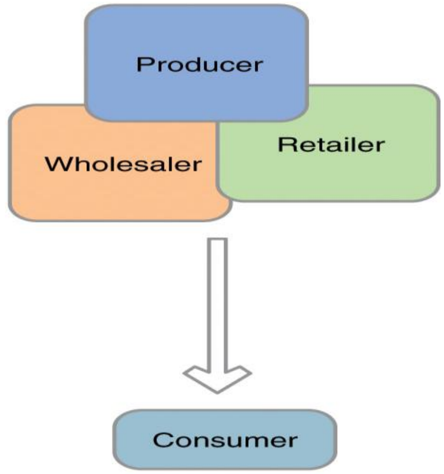
e. Conventional and Vertical Marketing Systems

i. Historically, in conventional marketing channels, there was

1. _________________ for the individual channel members
2. with a focus on their ___________ needs and objectives



Conventional marketing channel



Vertical marketing system

ii. Vertical Marketing Systems are tightly ____________________ to improve operating and marketing efficiency of the members

iii. Examples of Vertical Marketing Systems:
1. Corporate Ownership –

2. Contractual Vertical Marketing System –

3. Administered Vertical Marketing System –

f. Intensity of Distribution

i. How MANY do we want? What is the "optimal intensity" for us?

1. Just enough middlemen to ___________________________

2. Because anything else simply ___________________

ii. While the decision is sometimes seen as a single one, often

1. For example, intensive retail coverage but selective (rather than intensive), wholesale distribution

2. Examples (Hagen-Dazs, IAMs, Luxottica)

iii. Intensity of Distribution Reminders:

1. For convenience goods we want distribution through ____

Example

2. For shopping goods, we want distribution ____

Example

3. And for specialty products, we want distribution ____

Example

g. Conflicts in Channels

i. Distribution SHOULD be based on ___________________ and cooperative actions

1. BUT, conflicts and struggle for control of the channel DO occur

ii. We need to understand issues related to conflict and control AND manage them.

iii. Channel conflict exists when one channel member perceives another channel member to be acting in a way that prevent the first member from achieving its distribution objectives.

1. Examples:

iv. Horizontal Conflict involves firms on the “same level” of distribution

    1. middlemen of the same type

    2. Different types of middlemen on the same level:

    3. “Scrambled merchandising” is a key conflict area.

        a) middlemen diversify by adding product lines not traditionally carried by their type of business

            i. Examples

        b) This can cause conflict with other channel members

        c) SO, why do it?

            i. The Middleman gets_________________

            ii. The Consumer gets _________________

            iii. The Producer gets an _____________ _______________________

v. Vertical Conflict involve firms at different levels of the ________ __________________________

    1. Producer versus Wholesaler

        a) Anheuser-Busch Example:

        b) Conflict here occur because _______________ ____

        c) A major conflict occurs when producers try to bypass wholesalers and deal directly with retailers or customers. To BYPASS their wholesalers, producers might:

i. Sell directly to customers by establishing their own retail stores. This is often a supplemental rather than sole, form of distribution.

ii. Sell directly to retailers

1. Coleman Example:

2. Producer vs. Retailers -- Goodyear Example:

a) To avoid being bypassed, wholesalers have several options:

1.

2.

h. Disintermediation

i. The ________________________ in the supply chain, also referred to as "cutting out the middlemen."

1. Disintermediation creates ___________________

2. Black & Decker Example:

i. Channel Control

i. ______________________ is the ability to influence or determine the behavior of a channel member.

ii. Main sources of power in Distribution Channels

1. Expertise –

2. Rewards –

3. Sanctions—

iii. Historically, manufacturers were viewed as controlling channels

1. They create new products and they need volume sales.

- This point of view is one-sided and outdated.

iv. However, it is the RETAILERS who are closest to the customer and who know what is needed to satisfy them

j. Channel as ______________________

i. When viewed as a partnership the channel focuses on satisfying the end users' _____________________.

- It is no longer viewed as something that is ______

____

1. Wal-Mart Example:

a) Some Advantages

b) Some Risks

ii. ___________________________ (a type of partnering)

1. Partnering in which a retailer allows a large supplier to manage an entire product category

2. Boosting store selling power is the key to discussions between trading partners today, according to Joe Beier, vice president at Interscope, a Southport, Conn.-based consultancy.

3. Retailers are looking to manufacturers for leadership in such areas as retail concepts, merchandising and

category management, and promotional design and execution.

4. Examples:

iii. ______________________________

1. Channel members work closely together to better understand and satisfy their needs and develop long-term, mutually beneficial business practices.

iv. Pricing and the Relationship with Channel Members

a. Recall that Gary Trinetti and his partner (graduates of KSU) set up a corporation, Garick, which markets a variety of lawn care products, composting, top soil, mulch, bark, turf, stone and aggregate for home and recreational areas.
    i. Garick is doing line reviews with their retailers (Wal-Mart, Home Depot, and Lowe's).
    ii. How do you price in advance these days?
    iii. Created a fuel surcharge for the first time
    iv. This creates a problem in planning for the retailer
    v. Gary recalls there being 4P's (which has NOT changed!)…AND he remembers them!!
    vi. Price was viewed as being "easy," cost-plus pricing.
    vii. But it is more complicated when you think about your relationship with a retailer.
    viii. Will it be used as a loss leader, for a promotion, part of a two for one deal.
    ix. SO, pricing IS a marketing decision. What is our "appropriate price" for our customer, given OUR costs.
    x. Then you need to consider YOUR strategy.
    xi. Do we want intensive and fast distribution? So we set a low price.
    xii. Do we have a competitive advantage, for a year or two or six months, so that we can set a high price and get a great profit margin until our competitors catch on?
    xiii. OR do we need to consider how our customer wants to price it?

Chapter 16
Customer Driven Supply Chain and Logistics Management

I) The P&G-Wal-Mart Example

a) Traditionally, the relationship between supplier and merchant has been "___________________."
b) Wal-Mart recognized that the traditional relationship had become outmoded and was often hurting BOTH parties!
c) Wal-Mart "invited" its major suppliers to jointly develop powerful supply chain partnerships
    i) to increase product flow efficiency and, consequently, profitability for both firms
d) The Wal-Mart/Procter & Gamble alliance, incorporated vendor-managed inventory, category management, and other intercompany innovations
e) P&G had a dedicated account team…
f) The team members represented key P&G functions:
    i) sales/marketing, distribution/supply chain management, IT, and finance.
    ii) Wal-Mart's CFO became a "key customer" as P&G's objective became maximizing Wal-Mart's internal profitability.

II) Logistics
a) involves those activities that focus on getting the right amount of the right products to the right place at the right time at the lowest possible cost.

III) Logistics Management
a) is the practice of organizing the _________________ of
    i) raw materials,
    ii) in-process inventory,
    iii) finished goods, and
    iv) related information
    v) from the point of origin to point of consumption to satisfy customer requirements.

IV) ______________________________
a) is a sequence of firms that perform activities required to create and deliver a good or service to consumers or industrial users.
    i) It includes **suppliers** that provide raw material inputs, the **manufacturer**, the **wholesalers** and **retailers** that deliver finished goods.

V) Trinetti on Supply Chain Management

a) Supply Chain Management is a “new” term, working with __________ and ____________

b) Think about retailers like Home Depot and Wal-Mart and all the things that need to happen ____________________________________!

c) A truck has to deliver it to the store, of course.

d) But peel back the layers of what happened before that

e) The items all come from different raw materials with different manufacturing processes, coming from _____________________!

f) The opportunity for managing all of these processes is _____________.

g) Think of the opportunities from the time the material is grown, harvested, manufactured, all the way to _____________________!

h) There are opportunities for ____________, _______________, and firms to facilitate these.

i) Wal-Mart has developed expertise in _____________ and ___________

j) Supply chain crosses over from raw materials, to manufacturing production, to airplanes, barges, trucks and rails, to getting the item on the shelf!

VI) Significance of Supply Chain and Logistics Management

a) _________________________

i) the integration and organization of information and logistic activities *across firms* in a supply chain for the purpose of creating and delivering goods and services that provide value to consumers.

ii) Requires the application of ________________ to allow companies to share and/or operate systems for order processing, transportation scheduling, and inventory and facility management.

b) Supply Chain management does NOT…..

i) A chain is

ii) BEFORE attempting to deal with “supply chain issues,” the firm must be able to provide
(1)

(2)

(3)

c) SCM usually requires significant changes in the firm's organizational structure,
   i) because it cuts across functional areas and even across different firms
      (1) SO, the responsibility and authority for implementing SCM must be ______________________________

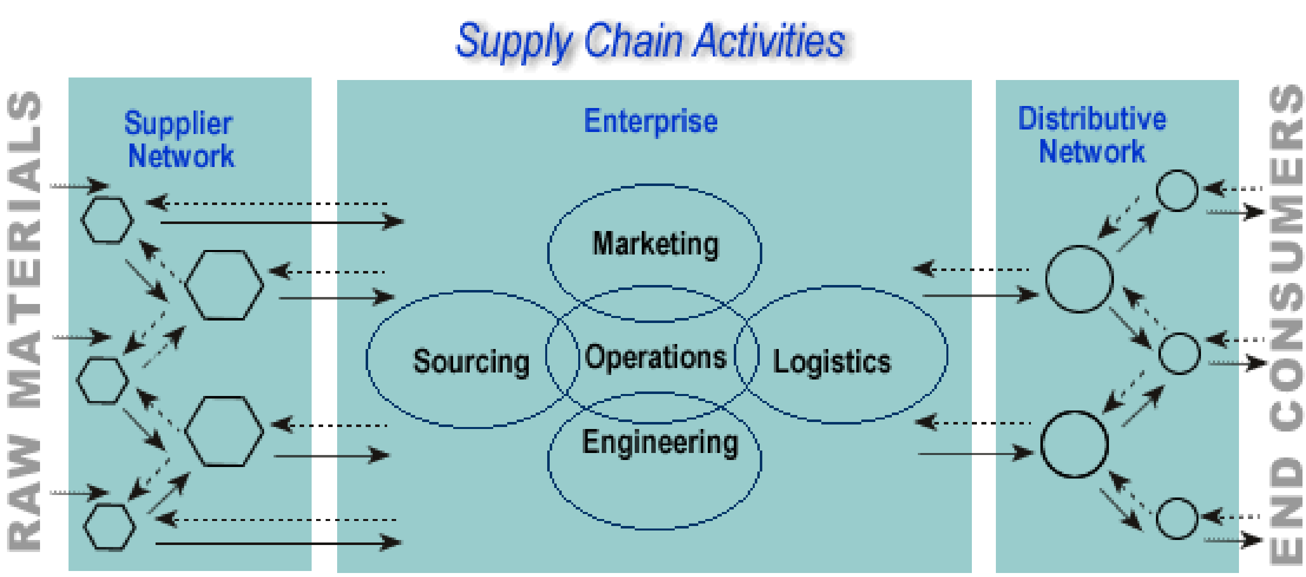
d) SCM requires firms to put in place information systems and metrics that focus on performance across the *entire* supply chain.
   i) WHY? Because …

      (1) This can cause ________________________________

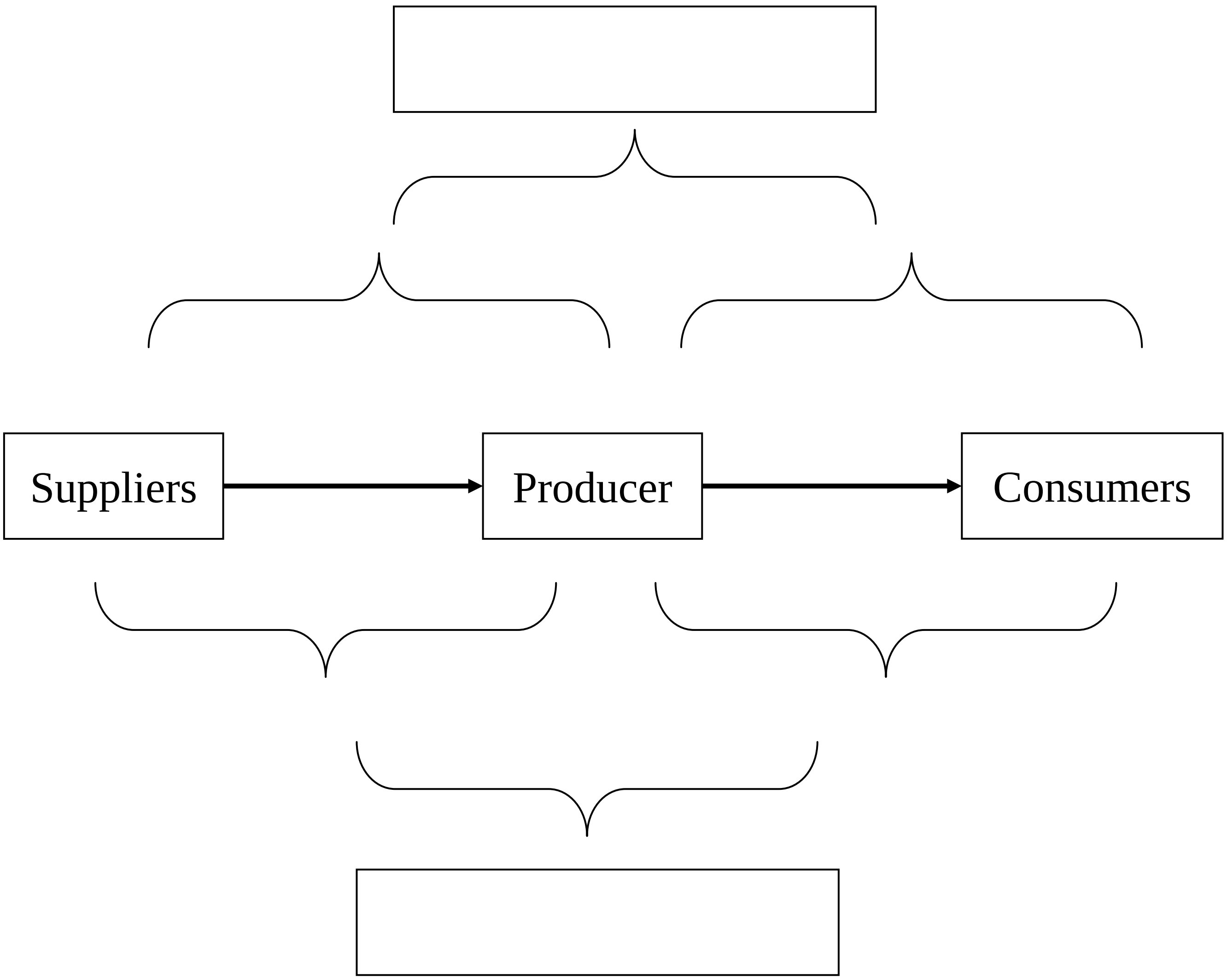
e) SCM means that you not only need to do better than your competition to succeed, but you actually need to compete against…

f) SO, you need to not only work better among the functional areas of your firm, but think about …

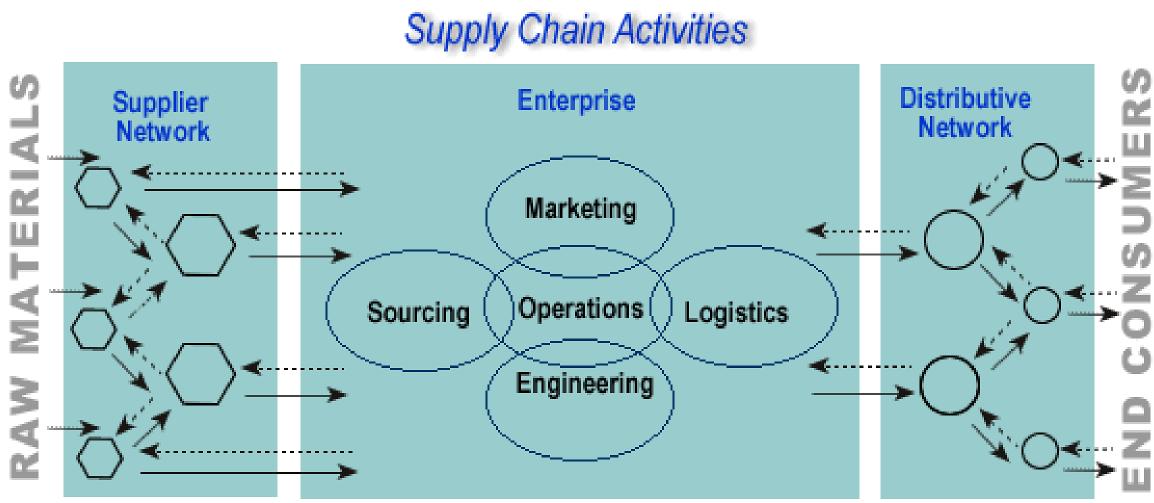
VII) Supply Chain Activities

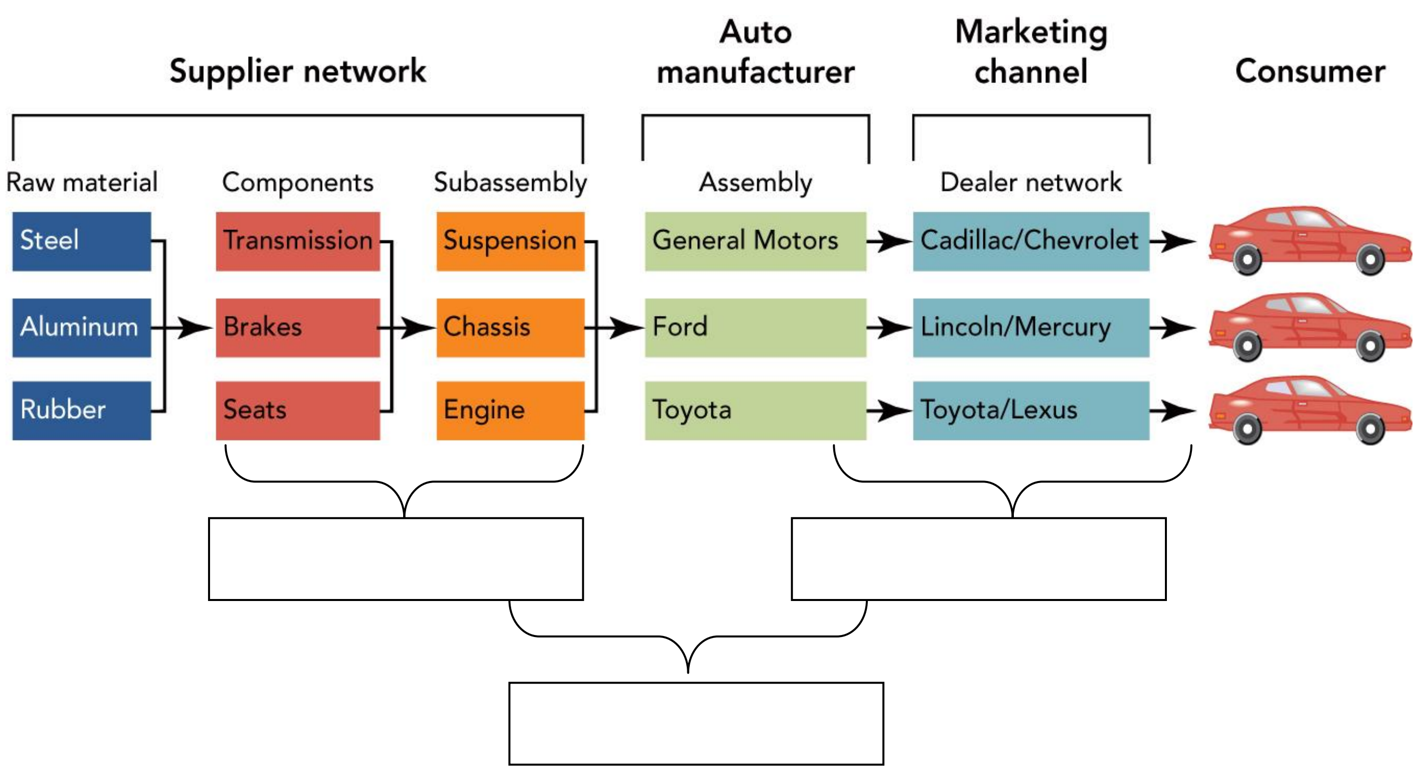


a) Relating logistics management and supply chain management (Figure 16-1, text page 407).



b) Here we see that: it is no longer enough





VIII) Supply Chain Management and Marketing Strategy

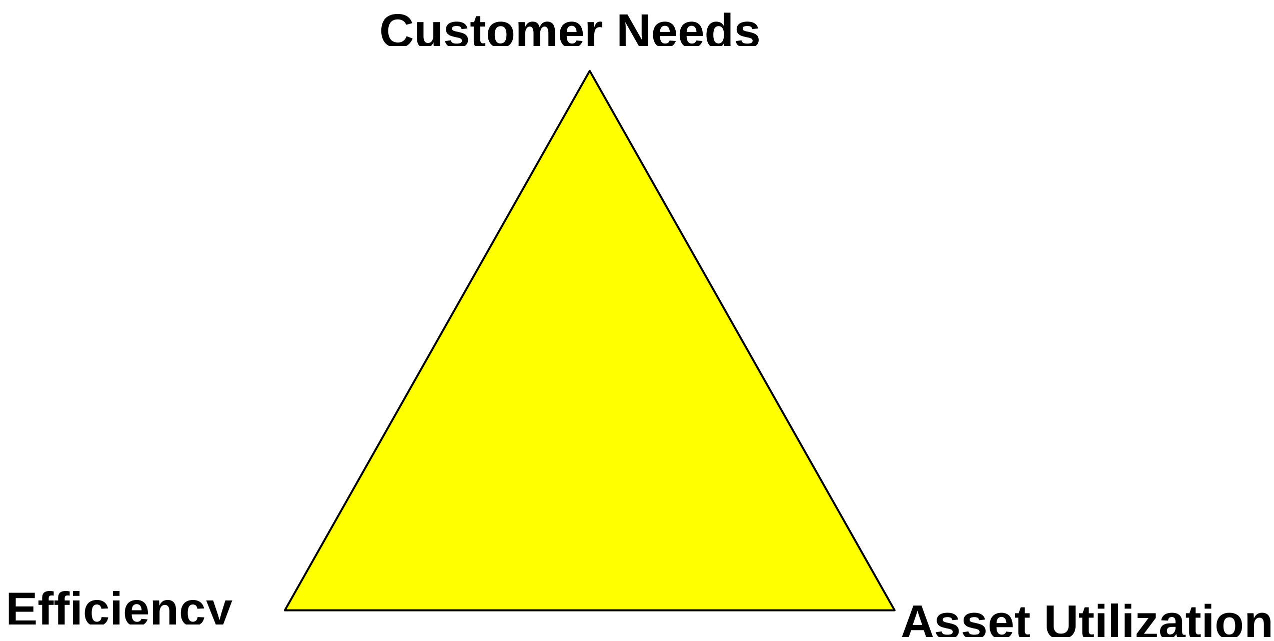
a) Aligning a Supply Chain with Marketing Strategy

b) The PROBLEM:

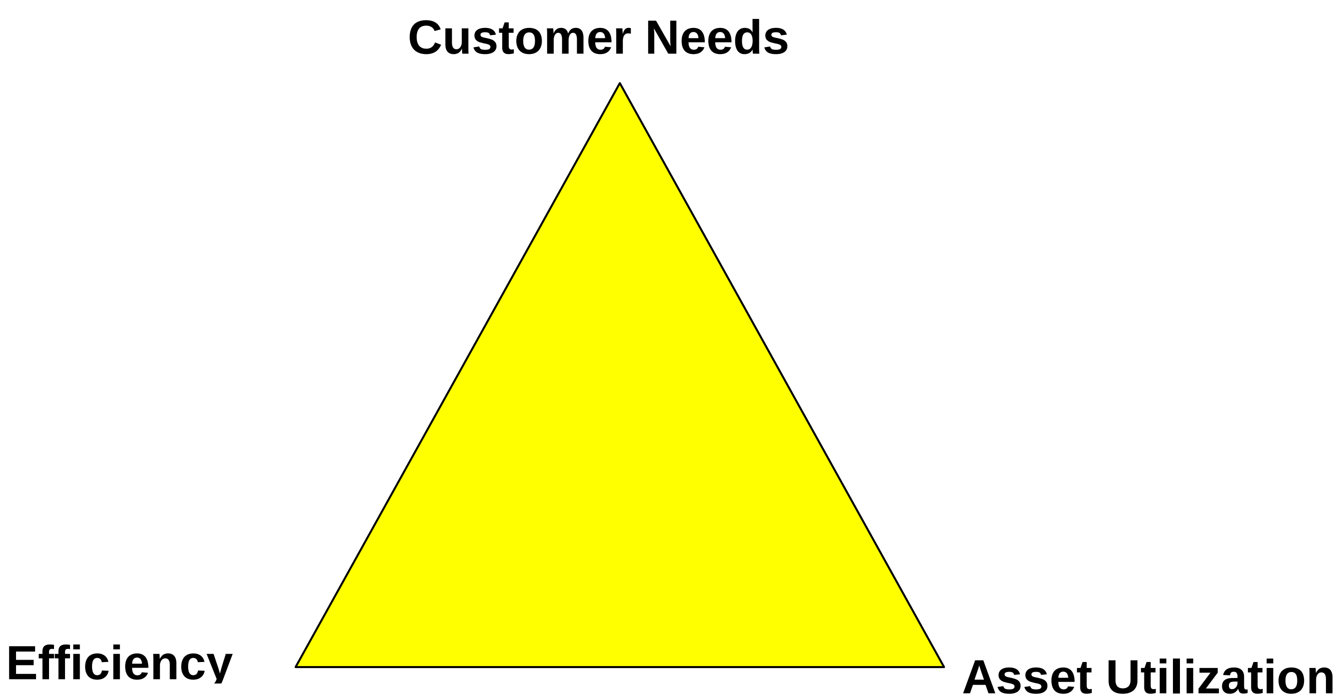
i) In "real life" our supply chain team may focus on___________________

ii) This focus does not produce ______________________________

c) An Example of Non-Aligned SCM Objectives and Marketing Strategies



d) An Example of Aligned SCM Objectives and Marketing Strategies



e) Curing the PROBLEM:

i) Understand our customer's needs

(1) How important (and what VALUE) do our customers put on:

(a) Lead Time
(b) Quick Response
(c) Efficient Consumer Response
(d) Dependability
(e) Communication
(f) Convenience

ii) Understand our supply chain and its strengths and weaknesses

iii) Harmonize the supply chain strengths with our marketing strategies!

(1) Redesign the supply chain if necessary

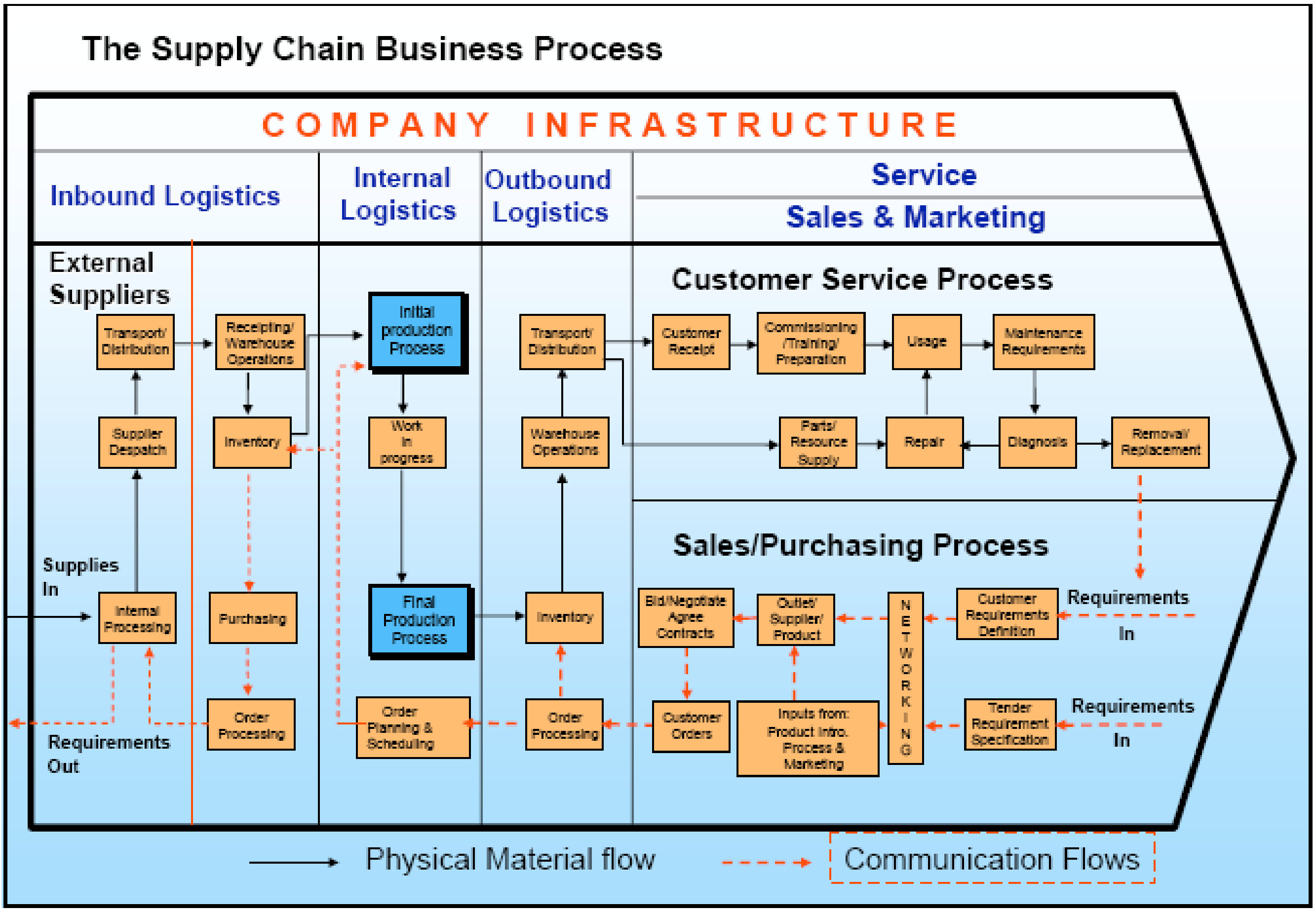
IX) Information's Role in Supply Chain Responsiveness and Efficiency

a) Electronic Data Interchanges (EDIs)

i) combine proprietary computer and telecommunication technologies to exchange electronic invoices, payments, and information among suppliers, manufacturers, and retailers.

ii) Easily said____

b) The Need for Information in a Customer-Driven Supply Chain



c) We not only need information to Manage the Supply Chain, but to allow us to balance the ________________of our logistics efforts with the _________ we provide to our customers!

X) Key Logistics Functions in a Supply Chain – Transportation

a) ________________________________

i) firms that perform most or all of the logistics functions that manufacturers, suppliers, and distributors would normally perform themselves
(1) http://outsourced-logistics.com/logistics_services/index.html

ii) Outsourcing RISKS:

(1) Outsourcing "_______________" functions, instead of the ones that give you the greatest competitive advantage

(2) Not having clear goals and objective for the outsourcing

(3) Not having an ______________ to measure outsourcing against

(4) Underestimating the _______________

(5) Inadequate planning for the Information Systems Interface

- Source: The Supply Chain Handbook (Tompkins Press, 2004) edited by James A. Tompkins, Ph.D. and Dale Marmelink (www.tompkinsinc.com)

b) The Major Modes of Transportation

i) Rail
ii) Water
iii) Highway
iv) Pipeline
v) Air

c) Intermodal Transportation

i) Piggyback, Trailer on a Flatcar
ii) Containers

d) Freight Forwarders

i) Less than

ii)

e) Package Delivery

i) Due to

f) Advantages and disadvantages of five modes of transportation (Figure 16-5, text page 428

TRANSPORTATION MODE	RELATIVE ADVANTAGES	RELATIVE DISADVANTAGES
Rail	• Full capability • Extensive routes • Low cost	• Some reliability, damage problems • Not always complete pickup and delivery • Sometimes slow
Truck	• Complete pickup and delivery • Extensive routes • Fairly fast	• Size and weight restrictions • Higher cost • More weather sensitive
Air	• Fast • Low damage • Frequent departures	• High cost • Limited capabilities
Pipeline	• Low cost • Very reliable • Frequent departures	• Limited routes (accessibility) • Slow
Water	• Low cost • Huge capacities	• Slow • Limited routes and schedules • More weather sensitive

XI. Warehousing and Materials Handling
- a) Storage Warehouses
- b) Distribution Centers
- c) Materials Handling

XII. Order Processing
- a) Backorders
- b) EDI/EFT

XIII. Inventory Management

- a) Reasons for Inventory
- b) Inventory Costs
    - i) Capital Costs
    - ii) Inventory Service Costs
    - iii) Storage Costs
    - iv) Risk Costs

XIV. Supply Chain Inventory Strategies

a) ____Concept
   i) an inventory supply system that operates with __________ inventories and requires ________, on-time delivery.

b) ______________________________ (VMI)
   i) an inventory-management system in which the _____________ determines the product amount and assortment a customer (such as a retailer) needs and automatically delivers the appropriate items.
      (1) Talk about TRUST!

c) AND what happens when the "_____________________________"!

XV. Reverse Logistics

a) a process of reclaiming recyclable and reusable materials, returns, and reworks from the point of consumption or use for repair, remanufacturing, redistribution, or disposal.
   i) You may remember that we said this was a virtual impossibility today in some areas of the world (e.g., Russia).

Chapter 17
Retailing

I. Top Trends in Retail

1. Online Convergence

Online and offline shopping convergence has been predicted since the early 2000s and is finally ___________________________. You now can:

a) See or hear ad on TV/radio, reminding you that you need something from a particular store
b) Search through email in-box or online forums for the latest deal or coupon
c) Visit store to check-out the merchandise
d) Buy item at home because the store didn't have the color, size, or specific item you needed
e) Have item shipped to store to save on shipping
f) Visit store, pick-up another item while you're there

- Retailers need to carefully think through __________________________ or risk confusing (with different prices or poorly integrated services) and alienating customers (through poor service somewhere in this chain of events).
- The idea that different channels need to be managed independently is defunct.

2. "In-store" Technology

a) Retailers target consumers with location based ads and offers that show up on ________________________________.
b) More use of 2D barcodes (e.g. QR Code) that link in-store merchandise to online information.
c) Consumers will become increasingly competitive and disloyal as their smart phones allow them to inspect in-store and then buy from the cheapest place online. Brick-and-mortar retailers will never be able to match Amazon's basket of prices. So, how will traditional retailers fight back?

3. **Group Buying**

a) e.g., Groupon

b) participation in Group Buying programs is only sensible for ______________________________________

c) This is really about the availability of ____

4. **Price/Portion –** Can retailers offer more value while protecting margins AND satisfying consumer's wants?

5. **Flash Sales/Pop-up retailing –** Retailers need to move beyond simple price-based promotions.

   a) On the one hand, store-based retailers can learn from ___________________________ who have created huge businesses by tapping into consumers' deep-rooted desires for ____.

   b) On the other hand, the ____________________, Woot, has created a legion of fans who snap up gadgets, t-shirt, wine, and occasionally, a paper bag filled with miscellaneous junk.

   c) _______________________ retailing is in its infancy.

6. **Exclusive Lines –** valuable if done properly. Are there new ways for retailers to connect with manufacturers to provide exclusive value?

II. Retailing and Retailers

a) ____________________________
   i) All activities related to the sale or rental of goods and services to the ultimate consumers for personal, non-business use

b) ______________________________
   i) Lots of firms can sell to the final consumer, but a Retailer is a firm engaged primarily in retailing

c) Retailing -- Economic Justification and Realities

   i) Retailers serve as Purchasing Agents for you and as Sales Specialists for their suppliers

      (1) They do this by:

         (a) anticipating _______________________,

         (b) developing __________________________,

         (c) acquiring _________________________, and

         (d) providing _________________________.

      (2) So, retailers offer the utilities of:

(a)

(b)

(c)

(d)

ii) It is relatively easy to become a retailer

(1) No large investment in ________________ is required,

(2) merchandise can often be purchased __________, and

(3) _____________ can be leased with no down payment, or

(4) a simple _______________ can be set up at a modest costs.

iii) BUT, ___________________________________

(1) A successful retailer is a "merchant who sells goods that won't come back to customers who will."
(2) Of course, a retail firm also must fulfill its other role of serving producers and wholesalers.
(3) This dual role is both the justification for retailing and the key …

d) Retail Operating Costs and Profits

i) Retail Operating costs are about ___________________

ii) This is _____________ than that for wholesalers, which is only about __________.

iii) Retailers Costs are ______________ due to:

(1) Dealing with ___________________

(2) Meeting their _____________________!

iv) Net Profits for retailers vary quite a bit.

(1) Supermarkets have huge volume, but only earn _________

(2) Specialized retailers can earn 10% or more.

(3) An average net after tax profit for retailers would be __________ of sales.

(4) Retail Pro: a retail point of sale software system

(a) http://www.onestepretail.com/email/articles/article-09-13-07.php

e) Four Factors Related to Physical Facilities:

i) Location

(1) Central Business District
(2) Regional Shopping Centers
(a) Anchor Stores
(3) Community Shopping Center
(4) Strip Location
(5) Power Center

ii) Size

iii) Store Design

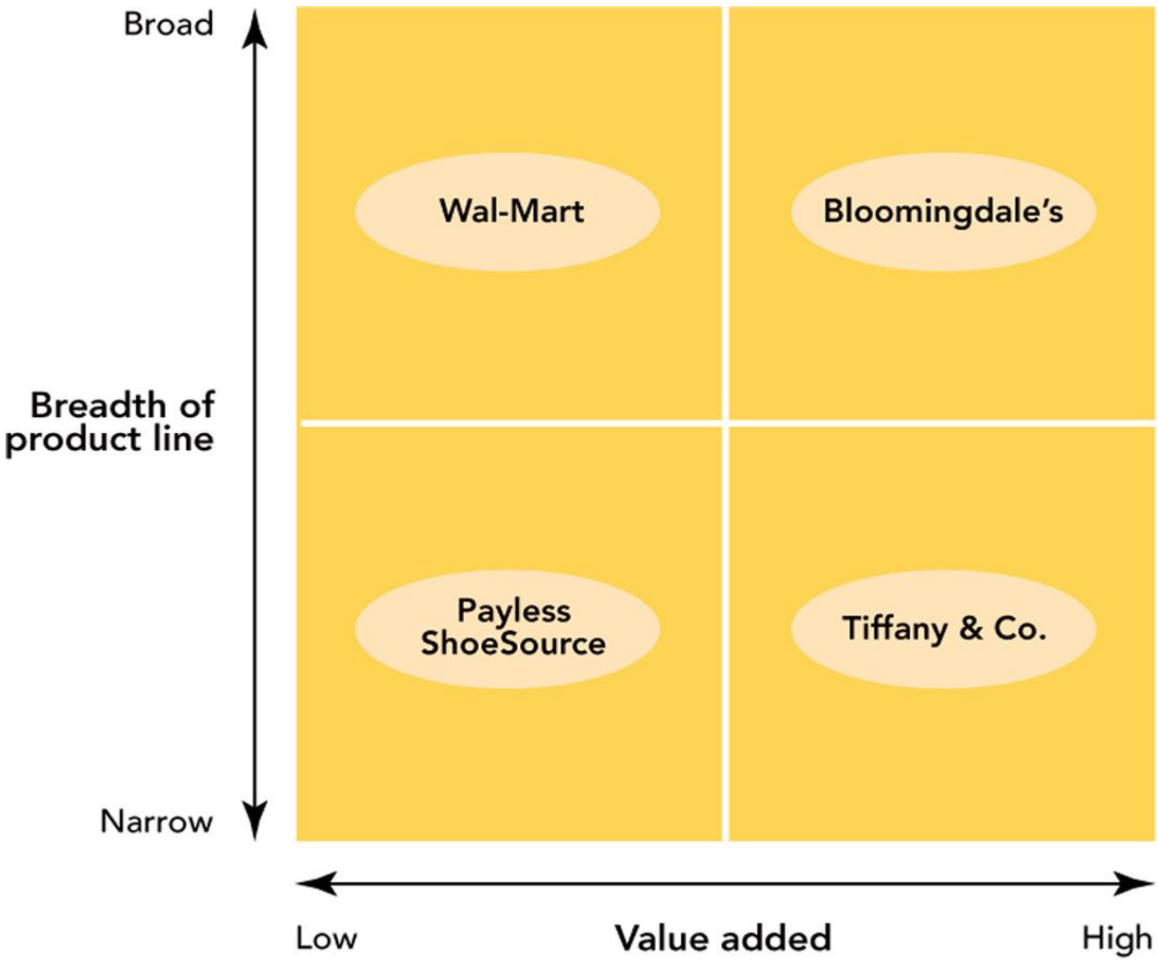
iv) Product Layout

f) Classification of Retailers

i) Based on _________________________ and _____________________

(1) Sears Example:

g) **Figure 17-8 The four positioning strategies for retailers**



h) Retailers Classified by Ownership

i) Corporate Chains

(1) organization of two or more centrally owned and centrally managed stores that generally handle the same lines of products.

(2) Three factors differentiate a chain from an independent store and the contractual form of VMS:

(a) Size

(i) technically two or more stores constitute a chain (an independent retailer opening another store on the west side may think of themselves as owning a chain) but the US Bureau of the Census considers ___________to be the minimum size for a chain.

(b) A corporate chain has _________________, and ___________

(c) Because of centralized management, individual units in a chain typically have little ________________________.

(i) Corporate chains are tremendously significant in retailing, accounting for about _________of the total retail trade.

ii) Independent Stores

(1) A single store that is not affiliated

(2)

(3)

(4) Often they are ______________ but offer more ___________

(5) WHY? Many customers are willing to pay extra for

__________________, such as

(a) credit,
(b) delivery,
(c) alterations,
(d) installation,
(e) a liberal return policy, and
(f) friendly, knowledgeable personal service.

iii) Contractual Vertical Marketing Systems

(1) __________________________
(a) Formed by a group of small ____________________
(b) Who agree to establish and operate a __________________
(c) May then purchase and advertise together to achieve
____
Examples:

(2) __________________________

(a) sponsored by a wholesaler that enters into a contract with interested retailers
(b) Retailer coops and voluntary chains differ in terms of who organizes them.
(c) But BOTH have been created for "defensive" reasons, to allow independent retailers to _________________with larger, stronger chains

Examples:

(3) Franchise Systems

(a) a _______________________

(b) in which a parent company provides management assistance and the right to use its trademark

(c) in return for _________________ of the individual business unit.

(d) The_________________ is the parent company

(e) The __________________is the owner of the business unit

(f) and the "franchise system" is the combination of the franchisor and franchisee.
   (i) This type of contractual VMS generates 1 trillion in annual sales and accounts for as much as 2/5 of retail sales.

iv) Top 5 Franchises for 2010

2010 Rank	Franchise	Type	Startup Costs
1	Subway	Sandwich	$84,300 - $258,300
2	McDonald's	Fast Food	$995,900 - $1,842,700
3	7-Eleven Inc.	Convenience Store	$40,500 - $775,300
4	Hampton Inn/Hampton Inn & Suites	Mid-price hotels	$3,716,000 - $13,148,800
5	Supercuts	Hair Salon	$111,000 - $239,700

http://www.entrepreneur.com/franchises/franchise500/index.html

i) Non-store Retailing

i) Direct Selling

(1) ___________________ between a sales person and a consumer away from a store that results in a sale
(2) Door-to-door, in-house or in-office party plans
Examples:

(3) Advantages:

(a)

(b)

(4) Disadvantages

(a)

(b)

ii) Telemarketing

(1) sometimes called telephone selling refers to a sales person initiating contact with a prospective customer and closing a sale over the phone
   •

1. Advantages: Some people like the convenience

2. Disadvantages: ____

iii) Automatic Vending

(1) sale of products through a machine with no personal contact between buyer and seller
•

(2) Advantages: Convenient, Expand Reach, Efficiencies (machines report when stock is low)
(3) Disadvantages: Expensive to service, stock, update
(4) What's NEW in Vending?
•

iv) Online retailing

(1) Firm uses a website to offer products for sale.
(2) Find many new enterprises using this form of retailing, but more than __________ of brick-and-mortars have adopted it!

j) Direct Marketing

i) All "other" types of non-store retailing

(1) Direct Mail
   (a) letter, brochures and even product samples to consumers and ask them to purchase by mail or telephone.
(2) Catalog Sales

(a) expanded at a rate of 10% in 1980s, flattened out in 1990s and is now taking off again

(3) Televised Shopping

(a) From 1 minute spots to Informercials (30 minutes are longer) often found on dedicated TV channels (e.g., Home Shopping Network).

(4) Direct Marketing Drawbacks

(a) Consumers must place orders without viewing or touching the actual product (can see picture of it though).

(b) To offset this difficulty, Direct Marketers must offer liberal return policies.

(c) Catalogs and some direct mail can be costly.

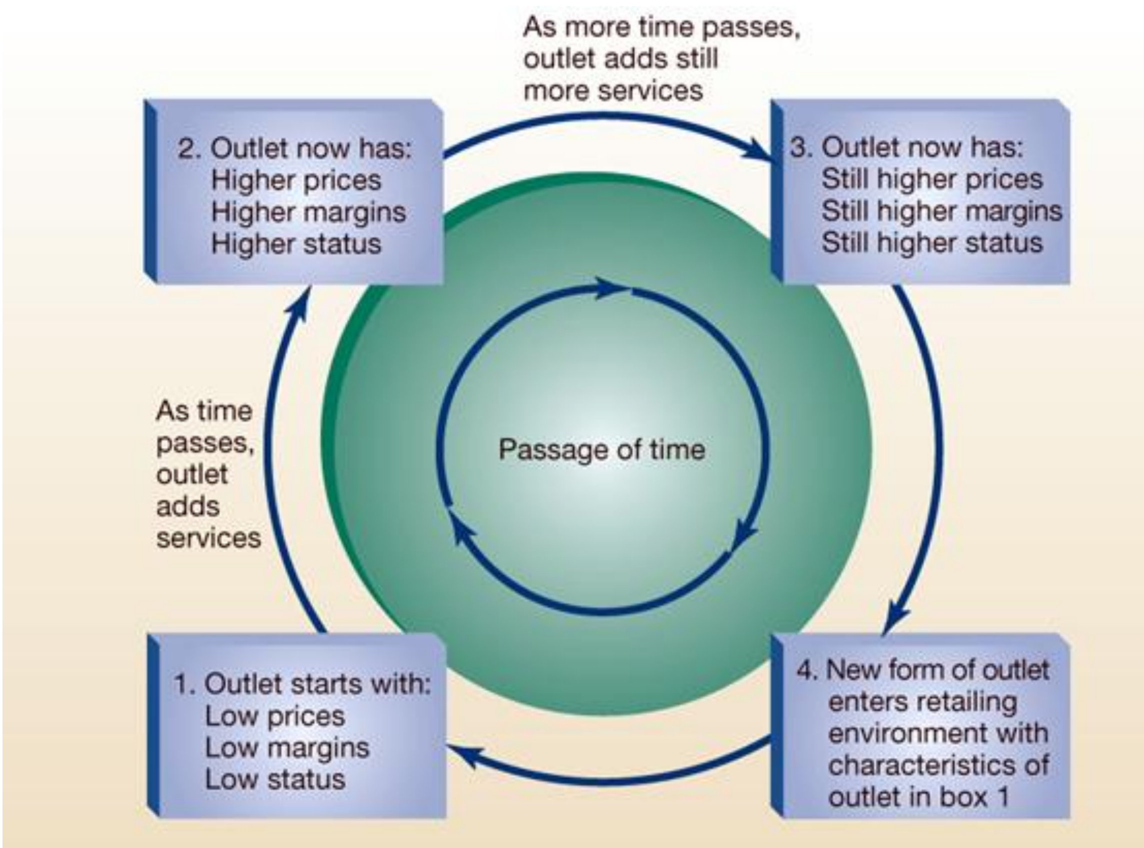
(i) they have to be prepared long in advance of their use and

(ii) any adjustments to price or new product additions can be announced only through supplementary catalogs or brochures.

(5) Direct Marketing Advantages

(a) can provide shopping convenience in addition to low prices

k) The Wheel of Retailing (Figure 17-9, text page 448)



III. Institutional Change in Retailing

a) Shakeout from overbuilding (especially in THIS economic environment)
b) Adapting to Consumer Trends
c) “Bricks and Clicks”
   i) Website
   ii) Kiosks

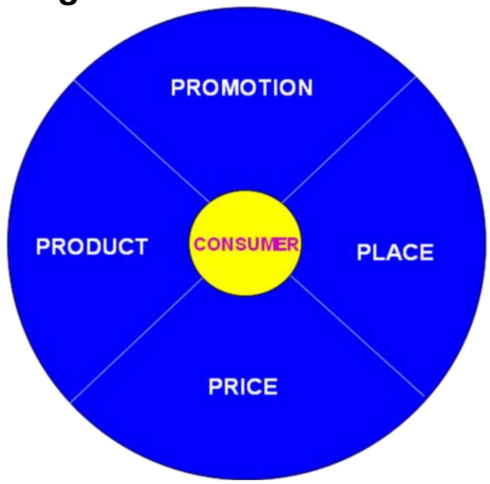
IV. MALL OF AMERICA: SHOPPING AND A WHOLE LOT MORE (time permitting)

a) Mall of America Facts
   i) Contributes more than $1.8 billion in economic impact activity annually to the state of Minnesota
   ii) Gross leasable space - 2.5 million square feet
   iii) Gross building area - 4.2 million square feet
   iv) Number of stores - More than 520
   v) Sit-down restaurants - 20
   vi) Fast food restaurants - 30
   vii) Specialty food stores - 36
   viii) Employees - 11,000 (year-round) 13,000 (holidays)
   ix) Parking spaces - 12,550 on-site
   x) Walking distance around one level - .57 miles
   xi) Total store front footage - 4.3 miles

b) Questions:

   i) Why has Mall of America been such a marketing success so far?
   ii) What (*a*) retail and (*b*) consumer trends have occurred since Mall of America was opened in 1992 that it should consider when making future plans?
   iii) What criteria should Mall of America use in adding new facilities to its complex?
      (1) Evaluate:
         (a) retail stores,
         (b) entertainment offerings, and
         (c) hotels on these criteria.

Chapter 18
Integrated Marketing Communications and Direct Marketing



I. Introduction – Effective Promotion

a. The GEICO example
   i. Founded ________________
   ii. Targeted ___________________________
   iii. Used "direct marketing" with no _______________
      -
   iv. 1994-95 decided to ___________________

   v. 1995 spent ___________ on national TV, radio, & print

   vi. 1996 _____________ bought the company

   vii. By 2006 the ad budget was more than _______________

   viii. The Problem

   ix. The "Fix"

      1. The original ad
         a. Ad ran in 1999
         b. Was to be a temporary campaign
         c. It did not fit with the traditional, serous insurance ads of the time
         d. The company was flooded with calls and letters asking to see more of the gecko!!
         e. GIECO, a 15 minute call could save you 15% or more on car insurance
      2. The "next" campaign..using GIECO is so easy that…..

II. What is Promotion?

a. Promotion is ______________

i. Recall that one criteria for a good market segment is that it is

____

ii. Promotion is one way that we reach the segment.

III. The Promotional Mix

a. Promotion is one of the P's in the Marketing Mix
    i. We also use the term "mix" to refer to the elements used by marketers
    ii. The Promotional Mix consists of the tools marketers use to accomplish the organization's communications objectives
b. The traditional roles of the promotion mix include:
    i.
    ii.
    iii.

    To which we add:

    iv.
c. ___________ goals include to:
    i. Communicate customer value
    ii. Build a brand/company image
    iii. Explain how the product works
    iv. Suggest new uses for a product
    v. Inform the market of a price change
    vi. Describe services and support
    vii. Correct false or misleading statements
        1. Example
d. ___________ goals include to:
    i. Build ________________________
    ii. Encourage switching to your brand
    iii. Change consumers' perception of _________________
    iv. Get consumer to purchase "now"
    v. Convince consumers to tell others about the brand
        1. Example
e. For "mature" products, _______ them – goals include:

i. _______________ customer relationships

ii. Remind consumers they may need the product soon

iii. _____________ consumers where the product is available

iv. Keep the brand in the consumers' minds during the off-season

1. Coke Example
2. Pine Sol Example

IV. Tools in the Promotional Mix

a. Advertising
b. Public Relations
c. Sales Promotion
d. Personal Selling
e. Direct Marketing

V. ____ **(IMC) --** the concept of designing marketing communications programs that coordinate all promotional activities—advertising, personal selling, sales promotion, public relations, and direct marketing—to provide a consistent message across all audiences.

a. The "need" for Integrated Marketing Communications

i. Consumers are bombarded with ______________________

ii. To consumers, these become "one" message about the company

iii. If not integrated, the various messages create a confusing and mixed image in the consumer's mind

- Sterling Jewlers, Inc example
    - Welcome to Sterling Jewelers
    - Dealing with an Economic Slowdown

    - Most Important Initiative was the _________________
    - Focused on a _______________________________

VI. Communication -- The process of conveying a message to others

Example:

a. Key elements of communication
    i. The SOURCE of the communication
        1. ______ ______ ________ with a meaning it intends to share with an audience.
        2. Could be a __________ wanting to communicate with a customer, or
        3. An ___________ wanting to communicate with thousands of people
    ii. The RECEIVER of the communication
        1. The person, group, or organization which receives (and decodes) a communication.
        2. It may be that the ____________ (audience) and the ____________one are not identical
        3. That is, our message may NOT reach our ______________OR it may be received by our audience AND by others we _________________________!
    iii. ENCODING of the message
        1. The coding of a message into ___________________that represent the ideas and concepts of the communication.
        2. Uses sensory stimuli, including visual (words, symbols, images), sounds (spoken word, sound effects, music), and scents (e.g., fragrance) to convey the message.
    iv. THE MESSAGE
        1. The message is what is sent (via a channel of communication) from a source to a receiver
    v. The CHANNEL OF COMMUNICATION
        1. This is the _________ used to convey the message from the source to the audience.

2. Examples include internet, television, radio, print in magazines and newspapers, mail, billboards, salespeople.
3. The “wrong” channel will ________________________

vi. DECODING of the message

1. The decoding process is used by the _________________ the signs and symbols into concepts, ideas, and meaning.
2. Rarely does the audience ________________________ as the sender intended.

vii. Field of Experience

1. Effective communication requires that the sender and the receiver have shared knowledge and understanding of words, symbols, culture, and their meaning
2. Without overlapping fields of experience, communication is likely to be _________________________________.

b. Other Elements of Communication

i. NOISE

1. Anything that reduces the clarity, accuracy, and effectiveness of the communication is considered noise.
2. There are MANY sources of noise:
    a. Problems with the medium include--
        i. Radio static
        ii. Internet or website down
        iii. Faulty printing of the ad
    b. Problems with encoding
        i. occur when the concept is not well understood by the ______________
        ii. when ________________________ are selected (wrong word, inappropriate

music, poor choice of spokesperson, language that is too technical or too simple)

c. Problems with the **receiver**

i. occur if the message is ______________________ and so the receiver consciously or unconsciously blocks all or part of the message

ii. RESPONSE

1. the impact the message has on the receiver's

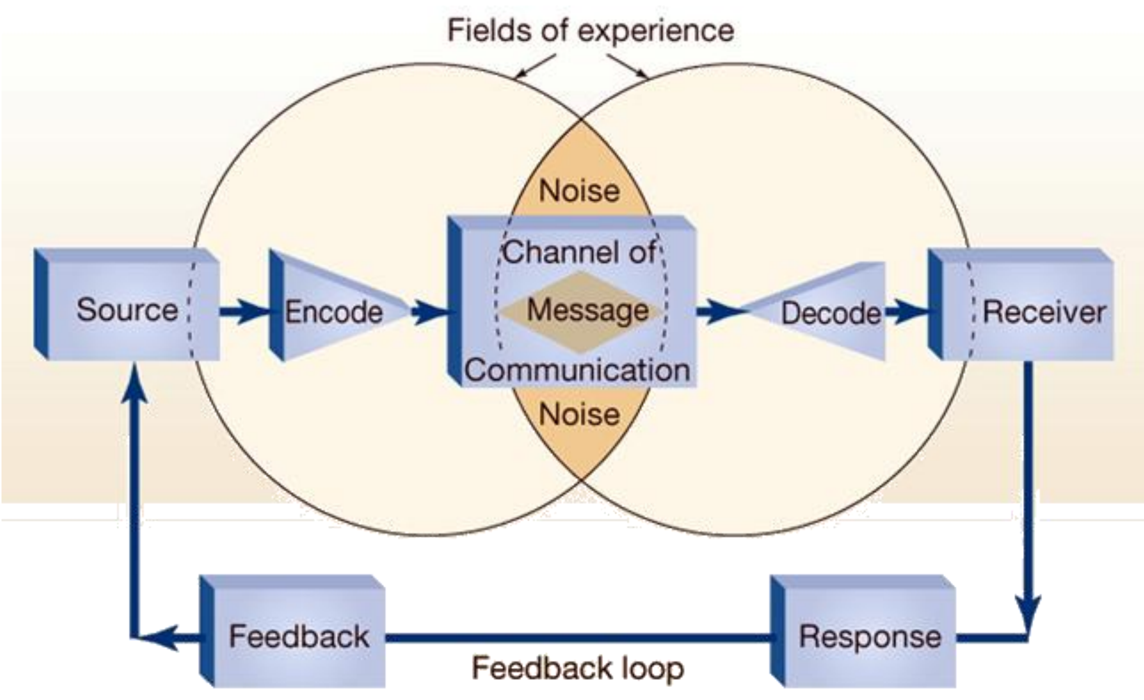
a. _____________,

b. ______________, or

c. ______________ (e.g., _____________________!)

iii. FEEDBACK

1. the sender's interpretation of the response, which indicates whether a message was decoded and understood by the receiver as intended.



VII. Tools in the Promotional Mix Non-Personal vs. Personal (or Customized

a. There are three "Non-Personal forms" of promotion or "__________________ "

i.

ii.

iii.

b. There are two "Personal" or "Customized" forms of promotion

i.

ii.

c. Promotional Tools -- Advertising

i. any paid form of nonpersonal communication about an organization, good, service, or idea by an identified sponsor.
   1. Examples

ii. Can be a very _______________ way to reach large numbers of people at a low cost per person.
   1. TIME magazine example:
      a. The 2011 cost of a 4 color, one-page ad in *TIME* magazine is $301,900
      b. With a circulation of 3,250,000 the cost per thousand (cpm) readers is only $92.29

iii. The message can be _________________, in various media

iv. However, while the cost per person is relatively low, the actual cash outlay is ______________

v. The feedback from advertising is relatively __________

vi. It may be less _______________ than more personal forms of promotion

vii. Depending on the format, consumers may only be exposed to the ad for a ______________

d. Promotional Tools -- Publicity

i. A form of "public relations" that uses a ________________l, indirectly paid presentation of an organization, good, or service

ii. Publicity can include news stories presented in radio, television, magazines, newspapers, or the internet.
iii. Most often, in order to get publicity, the topic has to have a degree of ________________________
iv. So, publicity is often about ________________
____

v. To encourage media personnel to broadcast or print the item, marketers produce

1.

2.

3. web pages targeted to the media of interest.

vi. SO, while there is not a direct cost to run the news item, there IS a cost to the marketing organization.

vii. Publicity supports the other elements of the promotion mix.

viii. It is very ____________

ix. It can reach ____________ People

1. Social networking web sites and Blogs

a. Public Relations people now need to know about it, monitor it, report it, and, when appropriate, get involved in it!

x. The down-side

1. since we don't actually control the message, it may

____

e. Promotional Tools -- Sales Promotion

i. a short-term inducement of value offered to arouse interest in buying a good or service.

ii. Can be used for

1. ____________ (wholesalers, retailer)

a. Discounts off of invoice, merchandise allowances, promotional allowances

2. ___________________________

3. ___________________________

iii. Typical ____________ Sales Promotions include

1. Free Samples
2. Sweepstakes
3. Contests
4. Premiums

5. Coupons

iv. Sales promotions can increase the effectiveness of other promotion mix tools

v. Important because:

1. Powerful _____________ "demand" them
2. Consumers are quite ___________
3. Price deals are very ______________
4. Advertising clutter requires "different" ways of getting ____________________
5. Pressure on businesses for short-term results

vi. They are used on an occasional bases; otherwise consumers come to ___________________________

vii. They are often used in "off-peak" seasons to generate sales

1. Example

f. Promotional Tools -- Personal Selling

i. A ________________ of communication between a buyer and seller, often in a face-to-face encounter, designed to influence a person's or group's purchase decision.

1. "Customizable"

ii. Because it is personal, customers get a high degree of ____________________

iii. The sales message can be _______________ to the customer's needs

iv. Questions and concerns can be __________________ and _________________

v. It is good for large amounts of information and for technical information

vi. It is easy to demonstrate the product and its benefits to the consumer

vii. It gives an opportunity to build long-term customer relations.

viii. BUT

1. It is very _____________

a. Basic pay,
b. Commission
c. Equipment and money to engage in travel
d. Can only reach one customer at a time (not very ____________________)

g. **Promotional Tools -- Direct Marketing**

i. a promotion alternative that uses direct communication with consumers to generate a response in the form of an order, a request for further information, or a visit to a retail outlet.

ii. Direct marketing is

1. Non-public (directed to a __________________)
2. Immediate (can be prepared ______________)
3. Customized (____________ to a specific customer)
4. Interactive (allows a ___________________)

iii. Direct marketing is usually done through:

1. Telephone
2. Direct Mail (catalogs, flyers)
3. Direct response ads (TV or radio)
4. Online computer shopping

iv. For Consumers:

1. Can be convenient
2. Can be done privately (e.g., via a computer)
3. Can allow for comparison shopping
4. Can allow for customization of the order
5. Can be immediate

v. For Marketers

1. Builds customer relationship
2. Can gather information about customers
   a. To create valued new products and service
3. Can minimize other costs (e.g., retail space)

VIII. Developing the Promotion Mix

a. The _____________ you have will influence the promotional mix.

i. A limited budget suggests ______________

1. Easier to measure effectiveness
2. Less cost than a major ad campaign

ii. A sizable budget means you need to decide which tools are "best" for your situation

b. **OBJECTIVES** will influence the mix:

   i. Creating mass awareness for a breakfast cereal likely requires:

      1. Advertising
      2. Sales Promotions
      3. Publicity

   ii. Educating consumers about a new mobile phone

      1. Moderate advertising
      2. Some sales promotion
      3. Significant personal selling

   iii. Produce Immediate sales

      1. Advertising
      2. Sales Promotions

c. Target Audience will influence the mix

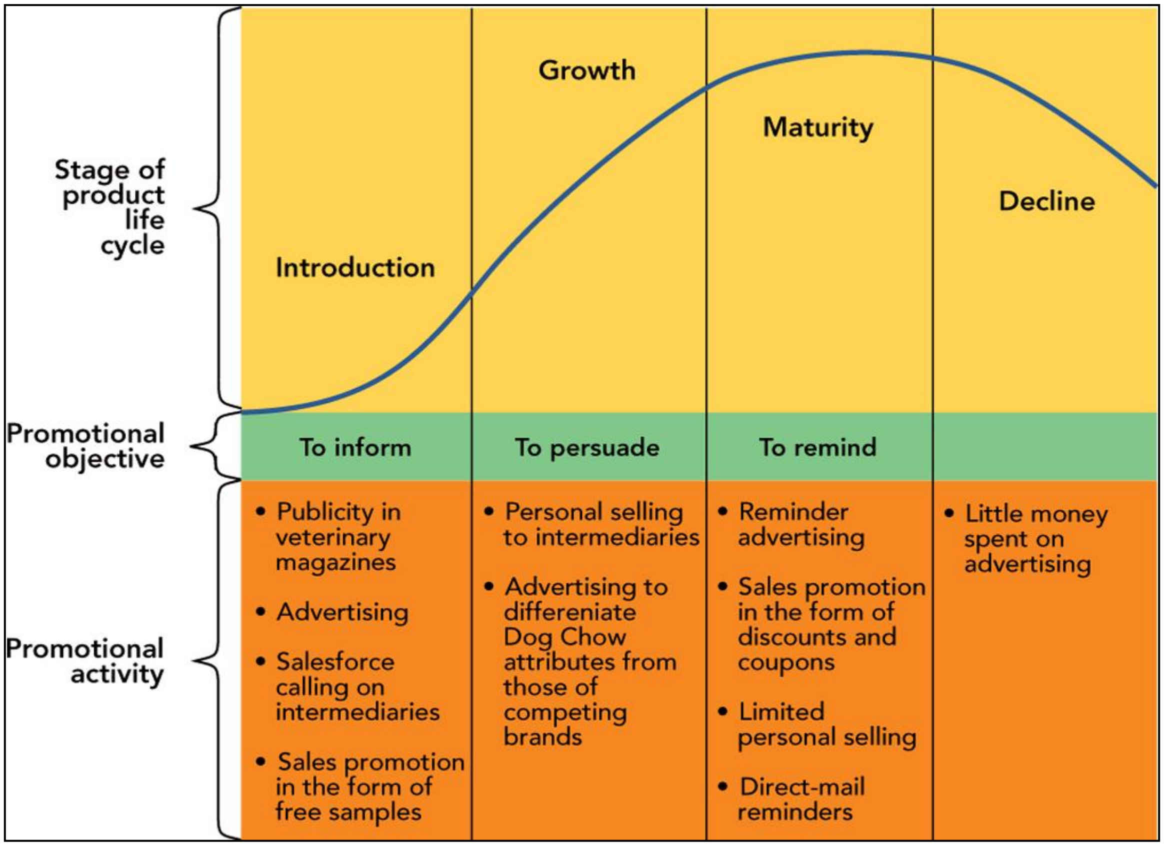
   i. Size?

      1. Bigger suggests _______________ and _____________________ to reach masses
      2. More limited (for example industrial) suggests ___________________

   ii. Geographic Distribution?

      1. Concentrated = Personal Selling
      2. Dispersed = Advertising

d. Stage of the Product Life Cycle (PLC)

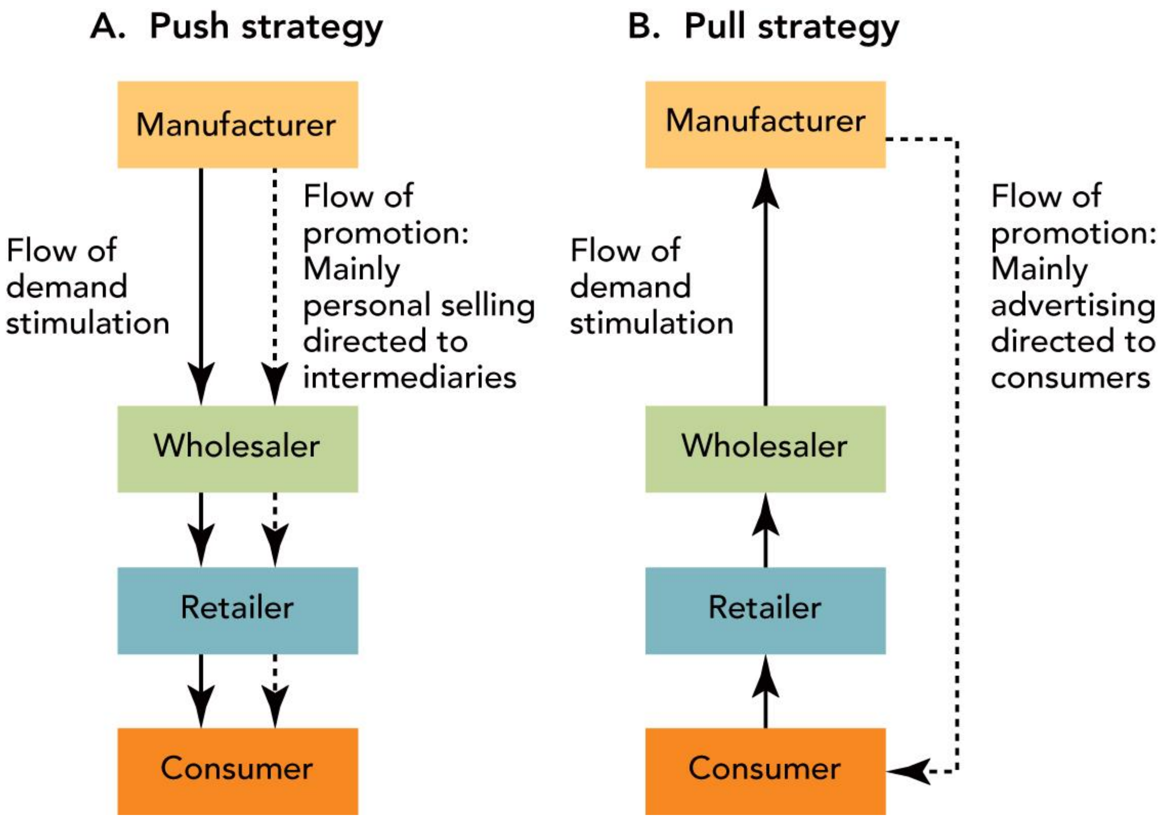


e. The Product will influence the mix
   i. Industrial products tend to use personal selling, with support from ads and some sales promotions
   ii. Consumer products will vary depending on their complexity
      1. Durable goods tend to use ________________
      2. Convenience goods tend to use ______________ and ________________
   iii. Both types use public relations
   iv. Seasonal products use advertising and sale promotion
   v. Higher priced products usually need personal selling because of the __________ consumers associate with the purchase

f. Push and Pull Channel Strategies

i. A **pull strategy** involves directing the promotional mix at ultimate consumers to encourage them
to ask the retailer for a product.

ii. A **push strategy** involves directing the promotional mix to channel members to gain their cooperation in ordering and stocking the product.



IX. Developing an Integrated Marketing Communications Program

a. Identify the Target Audience

b. Specify the Promotion Objectives

i. The **hierarchy of effects** is the sequence of stages a prospective buyer goes through from initial awareness of a product to eventual action (either trial or adoption of the product).

1. The stages include awareness, interest, evaluation, trial, and adoption.

c. Set The Promotion Budget

i. Percentage of Sales Budgeting – allocate the budget as a percent of past sales or as a percent of forecasted sales

ii. Competitive Parity Budgeting – allocate funds based on the competition. Either by matching their actual promotion dollars or by setting your budget to be the same proportion of market share. So, also called:

1.

2.

iii. All-You-Can-Afford Budgeting – allocate as much as you can, once all other budget items are covered

iv. Objective and Task Budgeting allocate funds to promotion by:

1. determining the promotion objectives;

2. deciding on the tasks to accomplish these objectives; and

3. determining the promotion cost of performing these tasks.

Advertising expenditure by region

Major media (newspapers, magazines, television, radio, cinema, outdoor, internet)

US$ million, current prices. *Currency conversion at 2010 average rates.*

	2009	2010	2011	2012	2013
North America	157,499	161,556	165,315	171,232	176,919
Western Europe	97,121	102,717	106,059	109,909	113,529
Asia/Pacific	106,372	116,466	123,330	133,470	142,724
Central & Eastern Europe	23,928	25,406	27,705	31,463	35,854
Latin America	27,063	31,320	33,409	36,116	39,466
Middle East & North Africa	4,633	5,085	4,469	4,867	5,095
Rest of world	9,380	10,139	11,015	12,119	13,389
World	**425,996**	**452,689**	**471,302**	**499,177**	**526,977**

Source: ZenithOptimedia

Advertising expenditure by medium
US$ million, current prices *Currency conversion at 2010 average rates.*

	2009	2010	2011	2012	2013
Newspapers	97,354	95,945	93,750	93,253	92,892
Magazines	43,776	43,810	43,201	43,094	42,992
Television	163,484	179,601	189,412	202,712	214,968
Radio	31,917	32,259	33,025	34,397	35,604
Cinema	2,099	2,310	2,440	2,593	2,746
Outdoor	27,830	29,926	31,721	34,042	35,689
Internet	54,700	63,690	72,176	82,818	94,967
Total *	**421,161**	**447,541**	**465,724**	**492,910**	**519,857**

Source: ZenithOptimedia
** The totals here are lower than the totals in the 'Advertising expenditure by region' table above, since that table includes total adspend figures for a few countries for which spend is not itemised by medium.*

http://www.zenithoptimedia.com/files/media/Press%20releases/Adspend%20forecasts%20July%202011.pdf

Top Ten Advertisers: 2010 vs. 2009

Rank	Company	Full Year 2010 (Millions)	Full Year 2009 (Millions)	% Change
1	Procter & Gamble Co	$3,123.9	$2,653.8	17.7%
2	General Motors Corp	$2,130.7	$2,157.9	-1.3%
3	AT&T Inc	$2,092.8	$1,867.0	12.1%
4	Verizon Communications	$1,623,2	$2,149.7	-15.2%
5	News Corp	$1,368.4	$1,238.8	10.5%
6	Pfizer, Inc.	$1,228.7	$1,391.5	-11.7%
7	Time Warner Inc	$1,193.6	$1,200.0	-0.5%
8	Johnson & Johnson	$1,139.7	$1,232.6	-7.5%
9	Ford Motor Co.	$1,132.2	$1,019.0	11.1%
10	L'Oreal Sa	$1,112.4	$852.0	30.6%
	Total	$16,345.8	$15,762.3	3.7%

Source: http://www.marketingcharts.com/television/tv-net-outdoor-drive-2010-ad-expenditure-rise-16682/kantar-top-advertisers-2010-mar-2011jpg/

d. **How Much Should You Spend on IMC?**

i. **The Promotion-to-sales Ratio**

$$\text{Promotion-to-Sales Ratio (\%)} = \left[\frac{\text{Total Promotion Expenditures (\$)}}{\text{Total Sales (\$)}} \right] \times 100$$

1. Compare your ratio result to …….
2. The ___________ the ratio the _________ you are doing _____________________________
3. A _______________ means that you are getting MORE bang (i.e., more sales) for your promotional bucks than is the competition!

X. Developing an Integrated Marketing Communications Program

a. Select the appropriate mix of Advertising, Personal Selling, Sales Promotion, Public Relations, and Direct Marketing
b. How you integrate these elements depends on what you're promoting, the expectations and preferences of your potential customers, general market conditions, and your promotional budget.
   i. There is _______________________________________
c. Design and Schedule the Promotion
d. Execute and Assess the Program

XI. Example Promotional Mix

http://www.esmalloffice.com/SBR_template.cfm?DocNumber=PL12_3600.htm#whatknow

Company:

"Pampered Pets Pet Sitting Service" -- Employees go into people's homes to feed pets, take them for walks, change litter boxes

Target Market:

– People who work long hours and don't have enough time to take care of their pets
– People who are going on vacation and don't want to put their pets in a kennel and don't have anyone who could stay at their house
– Elderly people who are unable to care for their pets but want to keep them

Communication Objectives:

We need to:

– introduce our service to the public

    - create awareness of our service
    - get people to use our service, not our competitor's
    - get veterinarians to recommend our service
    - have at least one veterinarian agree to treat our clients' pets on an emergency basis, a feature that competitors don't offer
- **Design Message Content:** “If you care about your pet's welfare when you aren't home, then you will use our services. It's so convenient and reasonably priced that you can't afford not to use our services.“
- **Format:** Fliers, brochure, ads in local newspapers and Yellow Pages

Promotional Tools:

Advertising

Yellow Pages, local newspapers

Sales Promotions

Coupons that can be punched out 1 punch per day, after 20 punches, get one day free or at discounted rate

Public Relations

Not applicable at this time. As business grows, we plan to offer to contribute part of customers' payments to an animal shelter.

Direct Marketing

Fliers in mailboxes throughout local neighborhoods, to veterinarians, apartment complexes where elderly live, to pet shops. As business grows, we will send a newsletter to customers.

Personal Selling

To veterinarians, pet shop owners, travel agents, apartment/condominium management to refer people to our services. This only requires existing personnel time, no added budget cost incurred here.

Promotion Budget:

Five hundred brochures for display in pet shops and veterinarian offices will cost $150. As business grows, we will expand to two-color pieces.

Fliers can also be created inexpensively. Two hundred fliers will cost $20 to copy on colored paper (distribute in spring and summer).

Yellow Pages ad will be limited to an informational in-column listing, 1 inch for $300 for the year in the local book. This book is sufficient.

Small ads in the local newspaper will cost $300 for two placements.

Rolodex cards will cost $160 for 500.

Five hundred punch-out cards will cost $27.

Total promotional budget: $977

Promotional Mix:

• Advertising	61%	$600
• Sales Promotions	3%	$27
• Public Relations	0%	$0
• Direct Marketing	36%	$350
• Personal Selling	0%	$0

Measuring Results It's now one year later and Pampered Pets is evaluating its promotional mix:

Communication Objectives:

- We successfully introduced our service to the target markets and have a steady base of customers.
- We have the support of several veterinarians and were able to form an emergency services agreement with two in the area.
- This year, we will expand into certain areas of the neighboring county while enlarging the current customer base.

The New Plan Based on our Evaluation

Advertising:

- **Yellow Pages:** Response is slow but steady. We will renew as is ($350).

- **Local Newspapers:** Steady advertising will be put on hold as word-of-mouth referrals are fairly strong. We will place two small ads before the summer and Christmas holiday seasons ($425).

Sales Promotions: Punch-out Cards: These have proven a success. This year we will add a special discount coupon to attract new customers and to thank customers for their referrals (one free day for every five referrals who become customers) to replace last year's 21st day free program. ($55)

Public Relations: When a pet we cared for died, a small donation was sent to the local branch of the ASPCA. The owners were touched and sent a thank-you note. They also told their friends, which resulted in more referrals. We will continue to do this and also send cards when client's pets have surgery. During the holidays, food and supplies were donated to the ASPCA, and our picture was in the newspaper, which generated more referrals for the holiday season ($100).

Direct Marketing: The fliers were successful, so we will continue to use them and increase the number of mailings from two to four. The Rolodex cards and letters were successful; but because we ordered such a large quantity last year, we don't need to order more. We also have brochures left from last year, so we don't need more. We plan to launch a newsletter on our Web site in six months ($180).

Personal Selling: no added cost

Total Budget: $1,110

XII. Direct Marketing --Reminder:

a. Direct marketing is a promotion alternative that uses direct communication with consumers to generate a response in the form of an order, a request for further information, or a visit to a retail outlet.
   i. The a key element of this approach is the call for a ___________(or a "_____________") that is trackable and _____________.

b. The Growth of Direct Marketing

c. According to the Direct Marketing Association's *"The Power Of Direct Marketing,"* in 2008 and in 2009 direct marketing expenditures OUTPACED general advertising, representing about 53% of total U.S. advertising expenditures!
   i. 2008 expenditure on direct marketing was $176.9 Billion.
   ii. 2009 marked the fifth year in which direct marketing captured more than half of all advertising spend nationwide -- $149.3 billion.
   iii. In 2010, total direct marketing ad spending increased 2.7 percent, yielding $154.4 billion overall.

d. Direct Marketing Response Rates

Medium	Average Response Rate	Cost Per Thousand	Revenue Per Thousand	Cost Per Order	Average Order Value	Promo Cost Percent
Direct Mail	2.15%	$428	$ 4,157	$ 19.90	$ 256	10.3%
Catalogs	2.24%	$633	$ 2,358	$ 28.27	$ 105	26.8%
Email	0.48%	$19	$ 408	$ 3.88	$ 85	4.7%
Telephone	2.53%	$1,107	$ 5,742	$ 43.70	$ 244	19.3%
Inserts	0.11%	$29	$ 171	$ 26.62	$ 155	17.0%
Newspaper/Magazine	0.13%	$32	$ 586	$ 25.18	$ 462	5.5%
source: http://www.opubco.com/direct/pdf/TheDMA_ResponseRateTrends2007.pdf						

i. Direct Marketing Response Rates –Take Aways

1. Direct Media's Average Promotional Cost is less than 27%
2. Email marketing provides significant profits for many marketers, despite it low response rates.

ii. Direct Marketing can result in:

1. Actual Orders ("direct orders")
2. Lead Generation
   a. Email is the "winner" for lead generation. It produces the highest response rate at a fraction of the cost.
   b. Inserts and direct mail have the lowest rate of conversion of leads to sales.
3. Traffic Generation
   a. Direct mail is best at generating traffic.

Examples

The Power of Direct Marketing
The Power of Direct Marketing: ROI, Sales, Expenditures, and Employment in the US, 2009-2010
https://imis.the-dma.org/bookstore/ProductSingle.cfm?p=0D440979|13129F63F480B12CBC5B448193E960F1

For those who want to know more:
David Ogilvy, was born in England, and in 1948 founded an agency in New York that led the world of advertising with his scientific research on the market and consumers, says in a forceful way:
"In the advertising community today, there are two worlds; the Direct Response Advertising (the Direct Marketing), and the world of General Advertising. These two worlds are on a collision course. The general advertisers and their agencies know almost nothing for sure. **In Direct Response Advertising, I see knowledge and reality. In General Advertising, I see ignorance**".
http://www.youtube.com/watch?v=Br2KSsaTzUc
and The Direct Marketing Association
http://www.the-dma.org/

Chapter 19
Advertising, Sales Promotion, and Public Relations

I. Advertising -- Recap

a) Advertising is any paid form of nonpersonal communication about an organization, good, service, or idea by an identified sponsor.

II. Product Advertisements

a) used to promote a product or service's uses, features, and/or benefits.

b) ____________________ (or Informational) Advertising

i) Used in the __________________of the PLC

ii) "Informs" the target market about:

(1) The existence of a new brand
(2) What it is
(3) What it does
(4) Where it can be found

iii) Examples

c) __________________________________

i) Points out a brand's special features, advantages, and benefits relative to competing brands

(1) Example

ii) ____________________ Advertising is a common form of competitive advertising.

(1) The ad shows a brand's strengths relative to another brand.

(a) e.g., the MAC vs. PC ads

(b) Or the Coke vs. Pepsi battle

(c) Example

d) ___________________________Advertising

   i) Used to remind consumers about an established brand's uses, characteristics, benefits

   ii) Common in the ____________ stage of the PLC

e) _________________________ Advertising

   i) Consumers often have "__________________" about their purchases or "post-purchase dissonance"

   ii) This advertising assures them they have made the right choice and tells them how get the most satisfaction from it

   iii) Example

III. ________________ Advertisements

a) Advocacy

b) Pioneering Institutional

c) Competitive Institutional

d) Reminder Institutional

   i) Example

IV. Developing the Advertising Program

a) Identifying the Target Audience

   i) To communicate effectively, we must have overlapping __________________ with the target audience

   ii) To be SURE we understand the audience, we must know who they are and what their values, attitudes, beliefs, and lifestyles are.

   iii) SO, understanding the consumer is ___________to developing a successful ad program

b) Specifying Advertising Objectives

i) Two main schools of thought:

(1) The Sales School

(a) The objective of advertising is to sell products or services. SO, the objective is to prompt direct action.

(2) The Communications School

(a) There are other objectives for advertising, including enhancing the image or reputation of a product or organization.

(b) <u>General Advertising Objectives from the Communications School</u>

(i) To encourage information search
(ii) To relate product benefits to consumer's needs
(iii) To encourage recall of past satisfaction
(iv) To modify attitudes
(v) To reinforce attitudes

c) Setting the Advertising Budget -- recap

i) Percentage of Sales Budgeting
ii) Competitive Parity Budgeting
(1) Matching Competitors
(2) Share of Market
iii) All-You-Can-Afford Budgeting
iv) Objective and Task Budgeting

d) Designing the Advertisement

i) Elements must get target's audience's attention

(1)

(2)

(3) Be ___________ with brand image, objectives, and target audience

ii) Types of Appeals

(1) Fear
(2) Sex
(3) Humor
(4) Examples

e) Create the Actual Message

i) General Message Factors

(1) Characteristics of the Target Audience

(2) Type of Media Used

(3) Product Factors

(a) How complex?

(b) How familiar to target audience?

(4) Overall Promotion/Advertising Objectives

(a) Inform? Persuade? Remind?

ii) Message Structure

(1) The Appeal –The underlying idea that captures the attention of a message receiver
(a) Emotional, Fear, humorous, sexual

(2) The Value Proposition

(a) The reason for customers to be interested in the product

(b) Often an emphasis on the benefits obtained

V. Selecting the Right Media

a) Television

i) Advantages

(1) Combines sight, sound, and motion
(2) So, it appeals to multiple senses
(3) It offers mass audience coverage
(4) It has the potential of grabbing viewers' attention

ii) Disadvantages

(1) It is not very selective (wasted coverage)
(2) The impressions are fleeting

(3) It has a short life (viewed and then gone)
(4) Its overall cost is high

b) Radio

i) Advantages

(1) It is widely used (over 25 million radios are sold annually)

(2) Low cost (per unit of time)

(3) Geographic flexibility

(4) There is audience selectivity via station format

Station	Format	Gender	Age	Race	Children	In come	Education
WDOK 102.1	Adult Contemporary	Female	Older	Caucasian	No children	Middle income	No College
WGAR 99.5	Country	Female	Middle Aged	Caucasian	No Children	Middle Income	College Graduates
WKSU 89.7	KSU NPR	Female	Middle Aged	Other Ethnicities	No Children	Less Affluent	Grads & Post Grads
WTAM 1100AM	News Radio	Male	Older	Caucasian	No Children	More Affluent	No College
WONE 97.5	Rock & Roll	Male	Young Adults	Other Ethnicities	No Children	Middle Income	College Grads
WSTB 88.9	Alternative	Female	Middle Aged	Asian	Has Children	Less Affluent	No College
WFHM 95.5	Christian Contemporary	Female	Middle Aged	African American	No Children	Middle Income	College Grads

http://www.quantcast.com/

ii) Disadvantages

(1) Audio only
(2) Less attention than TV
(3) Nonstandarized rate structure
(4) Message has a short life

c) Magazines

i) Advantages

(1) High Geographic and Demographic Selectivity
(2) Has the psychology of attention
(3) Excellent quality of reproduction
(4) Pass-along readership

ii) Disadvantages

(1) Long lead time (6 to 8 weeks before publication)
(2) Some waste circulation
(3) No guarantee of position in the magazine (unless a premium is paid)

d) Newspapers

i) Advantages

(1) Flexible and Timely
(2) Intense coverage of local markets
(3) Broadly accepted and used
(4) High believability (printed word)

ii) Disadvantages

(1) Short life
(2) It is often read quickly
(3) Not much “pass along” audience

e) Yellow Pages

i) Advantages

(1) Excellent geographic coverage
(2) Long use period
(3) Always available

ii) Disadvantages

(1) Many other directories compete for attention
(2) Hard to keep up to date

f) Internet

i) Advantages

(1) Interactive

(2) Low cost per exposure
(3) Ads can be targeted to interest sections
(4) Timely
(5) High information content possible
(6) Positive attitudes as a new medium

ii) Disadvantages

(1) Does not “grab” attention

(2) Short message life

(3) Reader selects exposure

(4) May be viewed as intrusive

(5) Affected by download speeds

g) Outdoor

i) Advantages

(1) Flexible
(2) Relative absence of competing ads
(3) Repeat exposure
(4) Relatively inexpensive

ii) Disadvantages

(1) Creative Limitations
(2) Many distractions for viewers
(3) Not in favor with some environmentalists
(4) No audience selectivity

- Examples

h) Direct Mail

i) Advantages

(1) Audience Selectivity

(2) Flexible

(3) No competition from another ad

(4) Personalized

ii) Disadvantages

(1) Relatively high cost

(2) Consumer attention – often it just gets tossed out!

MEDIUM	ADVANTAGES	DISADVANTAGES
Television	Reaches extremely large audience; uses picture, print, sound, and motion for effect; can target specific audiences	High cost to prepare and run ads; short exposure time and perishable message; difficult to convey complex information
Radio	Low cost; can target specific local audiences; ads can be placed quickly; can use sound, humor, and intimacy effectively	No visual element; short exposure time and perishable message; difficult to convey complex information
Magazines	Can target specific audiences; high-quality color; long life of ad; ads can be clipped and saved; can convey complex information	Long time needed to place ad; relatively high cost; competes for attention with other magazine features
Newspapers	Excellent coverage of local markets; ads can be placed and changed quickly; ads can be saved; quick consumer response; low cost	Ads compete for attention with other newspaper features; short life span; poor color
Yellow Pages	Excellent coverage of geographic segments; long use period; available 24 hours/365 days	Proliferation of competitive directories in many markets; difficult to keep up-to-date
Internet	Video and audio capabilities; animation can capture attention; ads can be interactive and link to advertiser	Animation and interactivity require large files and more time to load; effectiveness is still uncertain
Outdoor	Low cost; local market focus; high visibility; opportunity for repeat exposures	Message must be short and simple; low selectivity of audience; criticized as a traffic hazard
Direct mail	High selectivity of audience; can contain complex information and personalized messages; high-quality graphics	High cost per contact; poor image (junk mail)

VI. Scheduling the Advertising

a) Factors to Consider
   i) What is your objective?
      (1) Reach 60% of our target audience during the next 6 months with the message KSU is listed in the Best Business Schools by The Princeton Review?
         (a) Disperse ads in various media over the months
      (2) H&R Block's ads on electronic tax filing?
         (a) 3 months prior to deadline, building frequency
      (3) Pizza Hut?
         (a) Weekly newspaper ads
         (b) Local cable ads and inserts during special promotions

And book factors of buyer turnover, purchase frequency, and forgetting

b) Approaches
   i) Continuous (steady) Schedule
   ii) Flighting (intermittent) Schedule
   iii) Pulse (burst) Schedule

VII. Pretesting the Advertising

a) Pretests
b) Before running an ad, it would be good to pretest it to understand:
   i) The ad's ______________________________
   ii) The _____________ obtained by the viewer of the brand and the product
   iii) The ________________________ associations triggered by viewing the ad
   iv) Whether the viewer understands the _________________

b. Pretest Techniques
   i. Textbook techniques (portfolio, jury, and theatre tests),
   ii. Other, such as Eye Tracking

(e.g., http://www.konzept-und-markt.com/Docs/ad_score_EN.pdf)

(1) Can provide:
   (a) Recall analysis
   (b) Spontaneous brand and product recall
   (c) Recall for our ad (unprompted and prompted)
   (d) Likes and dislikes for the ad
   (e) Impact on the brand image
(2) Comparisons to "ideal ad" on:
   (a) Perceptions
   (b) Emotional attachment
   (c) Cognitive performance
   (d) Persuasiveness
(3) And allow us to _______________ the ad before it runs

c. Structures of advertising agencies used to Carry Out the Advertising Program

TYPE OF AGENCY	SERVICES PROVIDED
Full-service agency	Does research, selects media, develops copy, and produces artwork; also coordinates integrated campaigns with all marketing efforts
Limited-service (specialty) agency	Specializes in one aspect of creative process; usually provides creative production work; buys previously unpurchased media space
In-house agency	Provides range of services, depending on company needs

VIII. Post testing the Advertising

a. Post testing measures how ____________________

i) Conditions of exposure and purchase are

ii) This makes post testing more accurate, less difficult and less expensive than pretesting (which asks a narrower range of questions).

b. Post testing is capable of answering a broad range of questions:

i. "Does the advertising have attention getting power? Did people notice it or ignore it?"
ii. "Will it get the name across?" (Most pretesting does not answer either of these.)
iii. "Did the campaign as a whole work? Was there synergy between the elements?"
iv. "What were the strong spots and the weak spots in the campaign?"
v. "Was it cost efficient? How many were reached and affected per dollar invested?"
vi. "What was the most cost efficient? TV, radio, print, web advertising, store displays?"
vii. "What happened when the competition started their big campaign?"
viii. "What approaches usually work best in this market?"
ix. "In the future, what should we do more of? What should we avoid?"

IX. Sales Promotions

a) Sales promotions are short-term inducements of value, offered to arouse interest in buying a good or service.
   i) They are offered to both end users and intermediaries.

b) Sales promotions can be used to achieve many objectives for both the ultimate consumer and for channel members

c) Consumer-oriented Sales Promotions

KIND OF SALES PROMOTION	OBJECTIVES	ADVANTAGES	DISADVANTAGES
Coupons	Stimulate demand	Encourage retailer support	Consumers delay purchases
Deals	Increase trial; retaliate against competitor's actions	Reduce consumer risk	Consumers delay purchases; reduce perceived product value
Premiums	Build goodwill	Consumers like free or reduced-price merchandise	Consumers buy for premium, not product
Contests	Increase consumer purchases; build business inventory	Encourage consumer involvement with product	Require creative or analytical thinking
Sweepstakes	Encourage present customers to buy more; minimize brand switching	Get customer to use product and store more often	Sales drop after sweepstakes
Samples	Encourage new product trial	Low risk for consumer	High cost for company
Loyalty programs	Encourage repeat purchases	Help create loyalty	High cost for company
Point-of-purchase displays	Increase product trial; provide in-store support for other promotions	Provide good product visibility	Hard to get retailer to allocate high-traffic space
Rebates	Encourage customers to purchase; stop sales decline	Effective at stimulating demand	Easily copied; steal sales from future; reduce perceived product value
Product placement	Introduce new products; demonstrate product use	Positive message in a noncommercial setting	Little control over presentation of product

d) Trade-Oriented Sales Promotion
   i) Allowances and Discounts
      (1) Merchandise Allowance
      (2) Case Allowance
      (3) Finance Allowance
   ii) Cooperative Advertising
   iii) Training of the Distributor's Salesforce

X. Public Relations

a) Public Relations (recap) --a form of communication management that seeks to influence the feelings, opinions, or beliefs held by customers, prospective customers, stockholders, suppliers, employees, and other publics about a company and its products or services.

b) Publicity Tools
   i) News Releases
   ii) News Conferences
   iii) Public Service Announcements (PSAs)

XI. AdAge Top Slogans of the Century
   a) Diamonds are forever
   b) Just do it
   c) The pause that refreshes
   d) Tastes great, less filling
   e) We try harder
   f) Good to the last drop
   g) Breakfast of champions
   h) Does she…or doesn't she?
   i) When it rains, it pours
   j) Where's the beef
   k) Look Ma, no cavities!
   l) Let your fingers do the walking
   m) Loose lips sink ships
   n) M&M melt in you mouth, not in your hand
   o) We bring good things to life
   p) And, of course…….

Chapter 20 -- Personal Selling and Sales Management

I. Scope And Significance Of Personal Selling And Sales Management

a. Personal selling is

   i. A_____________ method

   ii. in which one party (the salesperson)

   iii. uses skills and techniques for building personal relationships with another party (those involved in a purchase decision)

   iv. that results in ____________________________.

b. Personal selling is the two-way flow of communication between a buyer and seller, often in a face-to-face encounter, designed to influence a person's or group's purchase decision.

c. In the U.S. alone, the U.S. Department of Labor estimates that over 13 million of the overall labor force are directly involved in selling and sales-related positions

   i. Examples

      1. All Sales

Employment ALL types of sales	Annual Wage (Mean)	75%	90%
13,437,980		$41,990	$71,830

      2. Sales Representatives, Wholesale and Manufacturing, Technical and Scientific Products

Employment	Annual Wage (Mean)	75%	90%
381,080		$104,820	$144,420

      3. Sales Representatives, Wholesale and Manufacturing, Except Technical and Scientific Products

Employment ALL types of sales	Annual Wage (Median)	75%	90%
1,367,210		$75,980	$108,750

d. **Sales management** consists of planning the selling program and implementing and controlling the personal selling effort of the firm.

II. Salespeople create customer value

a. Identify Customers' Problems and Creative Solutions to them

b. Assist the Customer with the Buying Process

c. Provided follow-up after the sale is made

d. Build long term customer relations

  i. ________________ is the practice of building ties to customers based on a salesperson's attention and commitment to customer needs over time.

  ii. _________________ **(or** *enterprise selling)* occurs when salespeople work with customers to combine their expertise and resources to create customized solutions, commit to joint planning, and share customer, competitive, and company information for their mutual benefit, and ultimately provide value for the customer.

e. Major types of Sales Roles

  i. Order Takers

    1. Primarily assist customers with a purchase
    2. The greatest number of people engaged in selling
    3. Compensation for order takers is generally lower

      a. Retail Clerks
      b. Industrial Distributor Clerks
      c. Some Customer Service

  ii. Order Getters

    1. a position in which the salesperson is actively engaged in using skills to obtain orders from customers.
    2. New Business Development

      a. Highly _____________

b. Potentially _____________ sales position

c. Main objective is to find _____________.

d. Sales jobs in this category are often in fields that are very competitive, but offer high rewards for those that are successful.

3. Business Equipment Sales

    a. Used in industries where a company's main profits come from the sale of supplies and services that come after an initial equipment purchase

    b. The goal is to get buyers to purchase the main piece of equipment for which supplies and service are needed in order for the equipment to function.

        - Done right by Xerox

4. Outgoing Telemarketing –

    a. Product sales over the phone, either to businesses or consumers.

    b. US laws restrict unsolicited phone selling to consumers

    c. The practice is still widely used in the business market.

5. Consumer Selling -- Some companies use salespeople to build new consumer business. These include:

    a. retailers selling certain high priced consumer products including furniture, electronics and clothing;

    b. housing products including real estate, security services, building replacement products (e.g., windows);

    c. and in-home product sellers including those selling door-to-door and products sold at "home party" events such as cosmetics, kitchenware and decorative products.

6. Account Management

    a. building customer relationships from initial sale to follow-up account servicing

    b. Business-to-Business Selling

- These salespeople sell products for business use with an emphasis on follow-up sales
- May have many different items available for sale (i.e., broad and/or deep product line)
- After the initial sale, the potential exists for the buyer to purchase many other products as the buyer-seller relationship grows.

c. Trade Selling (A “push” approach)

- Sales professionals working for consumer products companies normally do not sell to the final consumer.
- Their role is focused on first getting distributors, such wholesalers and retailers, to handle their products
- Then they help distributors sell their product by offering ideas for product advertising, in-store display and sales promotions.

iii. Sales Support Personnel

1. Order Influencers (Missionary Sales)

a. Do not engage in direct selling activities

b. Concentrate on selling activity that targets those who influence purchases made by the final customer

- Examples:
- pharmaceuticals, where salespeople (known as product detailers) discuss products with doctors (influencers) who then write prescriptions for their patients (final customer)
- higher education, where salespeople call on college professors (influencers) who make requirements to students (final customer) for specific textbooks.

2. Technical Specialists

a. Used for sale of technical products, particularly in business markets

b. Salespeople may need to draw on the expertise of others to assist with the process.

c. This is particularly the case when the buying party consists of a buying center.

3. Office Support

a. Salespeople receive assistance from their company's office staff in the form of

- creating promotional materials,
- setting up sales appointments,
- finding sales leads,
- arranging meeting space
- organizing trade shows exhibits.

III. Trends in Personal Selling

a. Controlled Word-of-Mouth Promotion

i. A version of Buzz Marketing

ii. Individuals are hired to spread positive information about a product but in a way that does not make it obvious to others that they are being paid to do so.

iii. useful when building awareness of new products

iv. Some concern that paying people to "act" as if they are interested in a product without any indication of their relationship with the product breaches ethical standards.

b. Customer Relationship Management (CRM)

i. need for all customer contact points (e.g., salespeople, customer service, websites) to gather information so that this can be shared with others in the company

ii. BUT, salespeople must share their information.

1. Salespeople are good at developing relationships and learning about customers,

2. Salespeople do not like sharing since this information is what makes them important.

3. For some salespeople, letting go of the information reduces their importance to the company.

iii. It is NOT going away!

c. Mobile Technology and Web-Based Computing
    i. Wireless internet (WiFi) and cellular Internet access allow salespeople to retrieve needed information at any time.
        1. At a lunch, the salesperson can quickly access company material to respond to questions such as how long it may take to receive product if an order is placed.
    ii. Web-based CRM systems
        1. Salespeople enter and retrieve CRM information using a browser
d. Electronic Sales Presentations
    i. Online Video Conferencing
    ii. Web/Phone Conferencing
    iii. Online Text Chat

IV. The Personal Selling Process

a. The personal selling process consists of sales activities that occur before and after the sale itself, consisting of six stages:
    i. prospecting,
    ii. preapproach,
    iii. approach,
    iv. presentation,
    v. close, and
    vi. follow-up.
b. Prospecting
    i. Prospecting involves identifying and developing a list of potential clients.
    ii. Sources include:
        1. Trade shows, commercially-available databases or mail lists, company sales records and in-house databases, website registrations, public records, referrals, directories and a wide variety of other sources.
        2. Prospecting activities should be structured so that they identify only potential clients who fit the profile and are able, willing and authorized to buy the product or service.
c. Preapproach

i. Analysis of all the information about a prospect

ii. To understand as much about the prospect as possible:

1. understand the prospect's current needs,
2. current use of brands and feelings about all available brands,
3. identify key decision makers,
4. review account histories, and
5. assess product needs

iii. This should provide good information to create and plan a sales presentation to address the identified and likely concerns of the prospect, and set call objectives.

iv. The Preapproach process results in a preliminary overall strategy for the sales process

v. The strategy may have to be refined as more is learned more about the prospect.

d. Approach

i. The Approach is the actual contact the sales professional has with the prospect.

ii. This is the point of the selling process where the sales professional meets and greets the prospect, provides an introduction, establishes rapport that sets the foundation of the relationship, and asks open-ended questions to learn more about the prospect and his or her needs.

e. Presentation

i. In the Presentation, the salesperson tells the product "story" in a way that speaks directly to the identified needs and wants of the prospect.

ii. A highly customized presentation is the key component of this step.

iii. At this point in the process, prospects are often allowed to hold and/or inspect the product.

iv. The sales professional may also actually demonstrate the product.

v. Audio visual presentations and/or slide presentations may be incorporated at this stage and this is usually when sales brochures or booklets are presented to the prospect.

vi. Sales professionals should strive to **let the prospect do most of the talking** during the presentation and address the needs of the prospect as fully as possible by showing that he or she *truly understands and cares about the needs* of the prospect.

vii. Handling Objections

1. Salespeople MUST seek out prospects' objections in order to try to address and overcome them.
2. When prospects offer objections, it often signals that they need and want to hear more in order to make a fully-informed decision.
3. If objections are not uncovered and identified, then sales professionals cannot effectively manage them.
4. Uncovering objections, asking clarifying questions, and overcoming objections is a critical part of training for professional sellers
5. It is a skill area that must be continually developed because there will always be objections.

viii. Methods of Handling Objections

1. Acknowledge and Convert
2. Postpone
3. Agree and Neutralize
4. Acceptance
5. Denial
6. Ignore

f. Close

i. Closing is asking for the order and adequately addressing any final objections or obstacles.

ii. There are many closing techniques as well as many ways to ask trial closing questions

1. Trial Close
    a. e.g., "Now that I've addressed your concerns, what other questions do you have that might impact your decision to purchase?"
2. Assumptive Close
    a. Closing does not always mean literally asking for the order. Using the assumptive close, ask the prospect how many they would like, what color they would prefer, when they would like to take delivery, etc.

3. Urgency Close
4. Final Close

iii. NOTE: Sales professions can be either weak or too aggressive when it comes to closing. If you are closing a sale, be sure to ask for the order. If the prospect gives an answer other than "yes", it may be a good opportunity to identify new objections and continue selling.

g. Follow-up

i. After the sale, follow-up with the prospect to make sure:

1. the product was received in the proper condition,
2. at the right time,
3. installed properly,
4. proper training delivered, and
5. that the entire process was acceptable to the customer.

ii. A critical step in creating customer satisfaction and building long-term relationships with customers.

iii. If the customer experienced any problems, the sales professional can intervene and become a customer advocate to ensure 100% satisfaction.

iv. Diligent follow-up can also lead to uncovering new needs, additional purchases, and referrals and testimonials which can be used as sales tools.

V. How to Sell in a Down Economy

By Geoffrey James, November 20th, 2008; http://blogs.bnet.com/salesmachine/?p=616&tag=nl.e808

1. Go on the offensive. This isn't the time to hunker down. If you get on the defensive you're dead. Get aggressive, set aggressive goals.

2. Select better targets. Improve your methodology so that you don't waste time on customers who aren't going to buy.

3. Don't lower prices. Find new and innovative ways to lower the risk of purchase. Make it an easy entry and a better customer experience.

4. Focus on the customer. If sales people get nervous, they're cooked. Don't go into high-pressure mode. Ask the customers how can we help YOU to win?

5. Send the CEO out to sell. If the CEO hasn't spoken with ten customers in the past week, he isn't doing his job.

6. Improve everything. You can't sell the way you sold two month ago. You need to improve people, process, and technology.

….and a "real world" response:

Excellent tips. We provide car sharing services to large corporations and councils. Although we are not lowering prices of existing products, we are about to launch a new entry level product to make our services easily feasible for smaller organizations, who we currently don't deal with directly. No barriers for them to upgrade in the future. Shall also be taking on board some of the other points.

VI. What We Can Learn from “Sales Gods” By Geoffrey James

http://blogs.bnet.com/salesmachine/?p=611&tag=nl.e808

a. They make other people feel important.
b. They are all unbelievably upbeat. Talk about positive.
c. They obviously love their customers. Not just like them. Love them. Think of them as friend and family. Cared if they were happy. Cared about their lives. Cared about how the product or service fit into their customer’s life goals. Really.
d. They all have fabulous product knowledge. They know what they are selling up, down and sideways. They know everything there is to know about their products. And they aren’t afraid to point out what their product won’t do. No exaggeration or lying here.
e. They KNOW they are changing the world. All of these “sales gods” felt they were in the business of making people happy.
f. More than technique, more than skills, more than business acumen, more than brand, and more than anything else…it’s your professionalism and how you see the world that determines whether you’ll reach the pinnacle of sales success.

- Tim Apel on Personal Selling

i. Personalized Service
ii. People want 100% of your time
iii. Personalized Sales and Service is KEY
iv. Find out what they need and what you can do for them
v. A CONSULTATIVE sales approach
vi. LISTEN to their needs and fulfill them!
vii. Help people into what they need!

VII. The Sales Management Process

a. **Sales management** consists of planning the selling program and implementing and controlling the personal selling effort of the firm.
    i. Managing the sales process is typically the job of the Sales Manager.
    ii. Good sales managers usually exhibit the characteristics of: organization, a good personal sales record, enthusiasm,

ambition, product knowledge, trustworthiness, mentoring skills, and is somebody who is respected by others.

b. Sales Plan Formulation

    i. A **sales plan** is a statement describing what is to be achieved and where and how the selling effort of salespeople is to be deployed.

    ii. The questions you should answer in your sales plan are:

        1. What are you going to focus on?

        2. What are you going to change?

        3. In practical terms, what steps are involved?

        4. What territories and targets are you going to give each salesperson or team?

    iii. The sales plan will start with some strategic objectives.

        1. For example:

            a. break into the local market by adapting your product for this market

            b. open a store in an area that you believe has the potential for generating lots of sales

            c. boost the average dollar or unit sales per customer

    iv. Use objectives which are SMART - Specific, Measurable, Achievable, Realistic, Time-bound.

        1. Using the example of breaking into the local authority market, the stepping stones might be to:

            a. hire a sales person with experience of the local market on a salary of $43,000 by the beginning of February

            b. fully train the sales person by mid April

            c. ensure that any changes the product development team has agreed to make are ready to pilot by the beginning of April

    v. As well as planning for new products and new markets, explain how you're going to improve sales and profit margins for your existing products and markets.

    vi. It is often helpful to identify how you will remove barriers to sales:

1. Can you increase the activity levels of the sales team - more telephone calls per day, or more customer visits per week?
2. Can you increase the conversion rate of calls into sales - through better sales training, better sales support materials or improved sales incentives?

c. Structure of the Sales Force
   i. Based on Geography (or territory)
      1. Could be based on cities (for a Regional company), on states (for a National company), or by country (for an International company)
      2. Advantage—Simplicity
         a. The salesperson or sales team sells the products to all consumers in the territory
      3. Disadvantage – Potential Lack of Product Knowledge
         a. If the firm carries many product lines.
   ii. Based on Customers
      1. Different salespeople call on different types of customers, often based on industry
         a. For example, consumer goods, high tech, manufacturing, services
         b. OR, by other characteristics, such as growth potential, high net worth, product usage
      2. Advantages – Sales people can be "experts" on the customers' special needs
      3. Disadvantage – Duplication of coverage; multiple people call on the same customer account
   iii. Based on Product
      1. Each person or sales team specialized in a product or product line.
         a. An office supply company might have one team focused on general office equipment, another on office furniture, and a third on computers.
      2. Advantages – Sales people can be "experts" on the products being sold.
      3. Disadvantage – Duplication of coverage; multiple people call on the same customer account

iv. Size of the Salesforce

1. A “top-down” approach
    a. Considers the total salesforce budget in terms of the ____________________
    b. Attempts to constrain the salesforce budget to a certain “cost-of-sales” percentage.
        - Often set at 7% or less of total sales
    c. Advantage: _________________
    d. Disadvantage: Ignores that the salesforce actually can _____________________
2. A “Bottom-up” approach (the textbook’s “workload method”)
    a. Considers the workload needed to make a sale to each “type” of customer.
    b. Considers the “reach” desired for each segment (how many of each type of customers should be called on)
    c. Determines the “frequency” of calls for each segment
    d. Uses these to decide how large the salesforce should be

d. Account Management Policies (Step 3)

i. Account management policies specify whom salespeople should contact, what kinds of selling and customer service activities should be engaged in, and how these activities should be carried out.

1. An Account Management Policy Grid

VIII. Sales Plan Implementation

a. Salesforce Recruitment and Selection

i. Problems associated with inadequate recruitment and selection:

1. Inadequate sales coverage and lack of customer follow-up
2. Increased training costs to overcome deficiencies
3. More supervisory issues
4. Difficulty in establishing enduring relationships with customers

b. The Recruitment and Selection Process

Step 1 Planning for Recruitment & Selection	Step 2 Recruitment: Locating Prospective Candidates	Step 3 Selection: Evaluation and Hiring
• Job Analysis • Job Qualifications • Job Description • Recruitment & Selection Objectives • Recruitment & Selection Strategy	• Internal Sources • External Sources	• Screening Resumes and Applications • Initial Interview • Intensive Interview • Testing • Assessment Centers • Background Invest. • Physical Exam • Selection Decision and Job Offer

c. Planning for Recruitment & Selection

   i. Job Analysis -- an <u>investigation</u> of the tasks, duties, and responsibilities of the job.

   ii. Job Qualifications -- Refers to the <u>aptitude, skills, knowledge, personal traits, and willingness to accept occupational conditions</u> necessary to perform the job.

      1. An effective method to use in determining job qualifications

         a. PROFILING THE SUCCESSFUL CANDIDATE

            i. Success in a company may include the following:

               1. Intelligence
               2. Prospecting ability
               3. Ability to create a follow-up system

4. Ability to influence people's decisions and opinions
5. Ability to cultivate long-term client relationships
6. Ability to negotiate contracts and prices
7. Ability to determine prospects'/customers' needs (hot buttons).
8. Computer skills.
9. Selling ability.
10. Conceptual ability.

iii. Job Description -- A written summary of the job containing the job title, duties, administrative relationships, types of products sold, customer types, and other significant requirements.

1. EXAMPLE of a Formal Job Description for a Sales Rep

Position: **Sales Rep.** **AUTOMOTIVE SUPPLY CORPORATION** Reports to: District Manager		Organizational Unit: replacement Parts Date: (When Job Was Described)
NATURE OF JOB		
Responsible for developing new accounts and reaching profitable sales goals in assigned territory.		
PRINCIPAL RESPONSIBILITIES		
Meeting total sales goals for product lines and individual products.		
Maintaining an average of six daily sales calls.		
Maintaining an average of one monthly product presentation to wholesalers.		
DIMENSIONS		
Develop strong promotional support from retail and wholesale customers.		

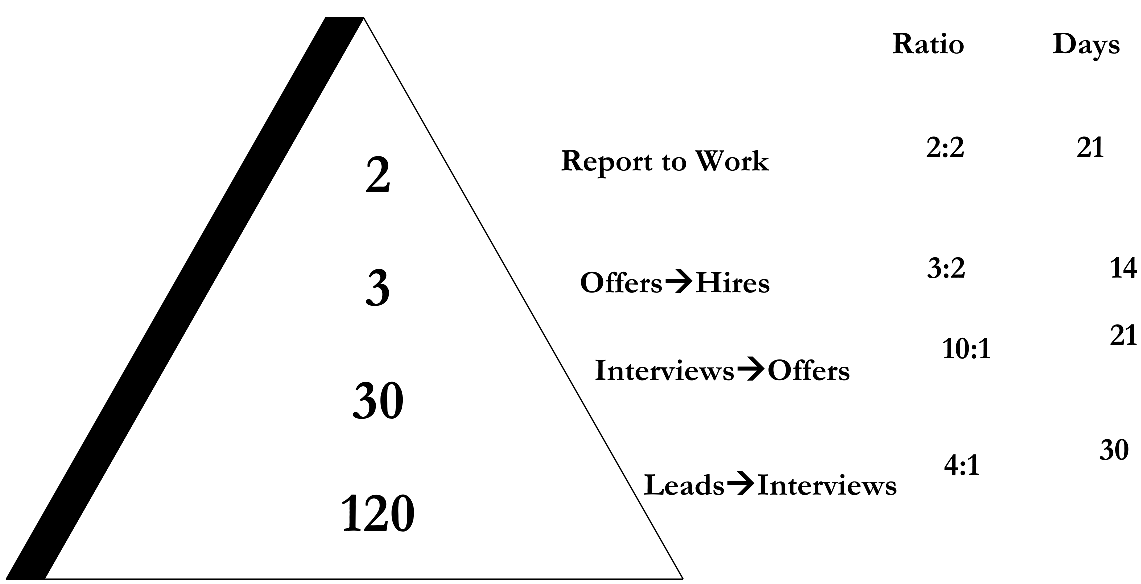
Plan effective territorial coverage resulting in high sales/call ratio.	
Inform management of activities by submitting daily and weekly call and sales reports to district manager.	
SUPERVISION RECEIVED	
General and specific tasks are assigned for each sales period. Every two months work with supervisor for a minimum of one day.	
SUPERVISION EXERCISED	
None	

iv. Recruitment and Selection Objectives -- What the organization hopes to accomplish as a result of the recruitment and selection process. The objectives should be specifically stated for a given period.

v. Recruitment and Selection Strategy -- The game plan the company will implement to accomplish the recruitment and selection objectives. The sales managers should consider the scope and timing of recruitment and selection.

1. Ratio And Days From Sales Job Announcement To Reporting To Work

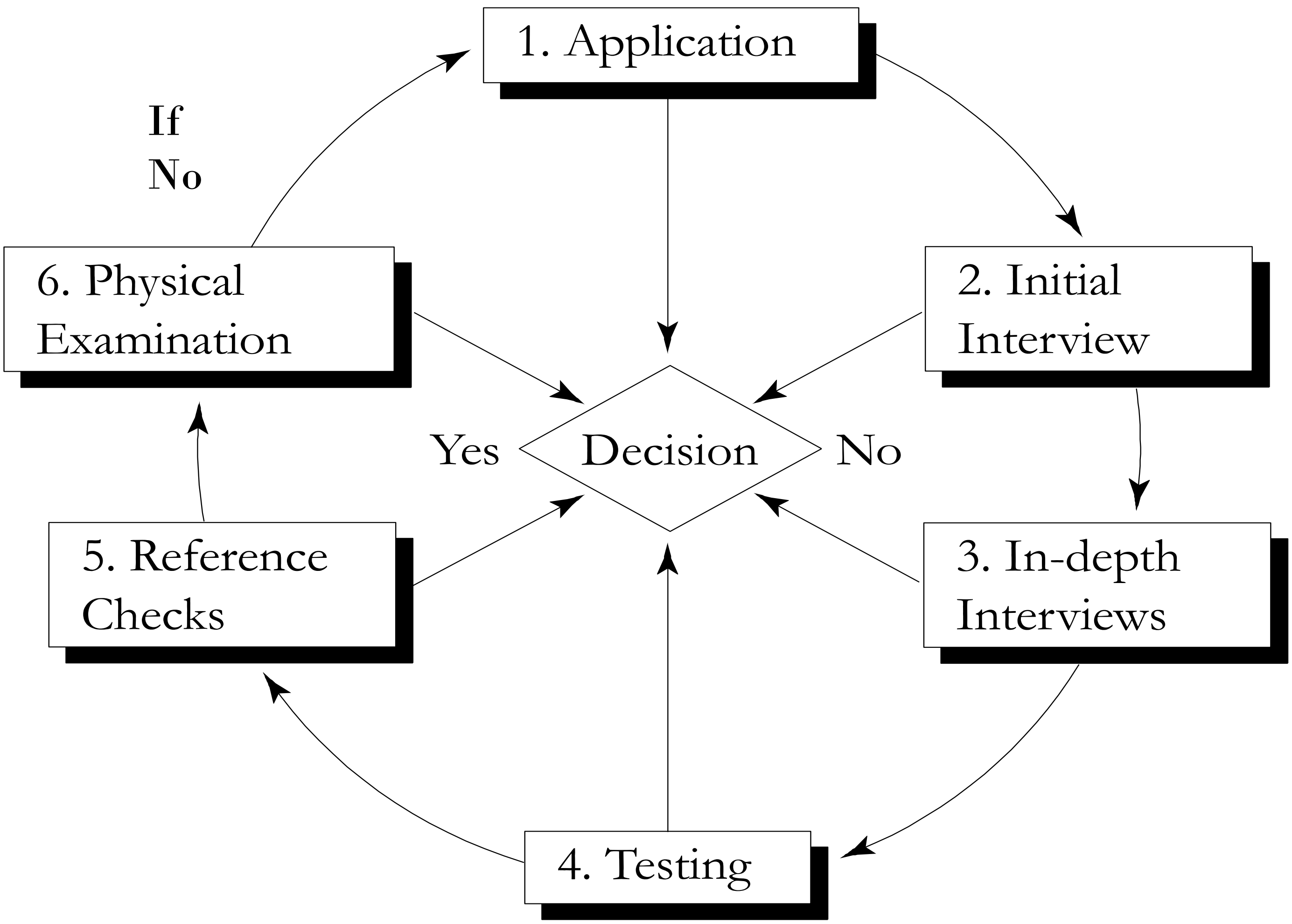
Recruitment Pyramid



d. The Recruitment and Selection Process – Step 2, Locating Prospective Candidates
    i. Internal Sources
        1.
        2.
    ii. External Sources
        1.
        2. _______________ agencies
        3.
        4.
        5. Professional societies
        6. Computer rosters

e. The Recruitment and Selection Process – Step 3, Selection: Evaluation and Hiring
    i. Screening Resumes and Applications
    ii. Initial Interview
    iii. Intensive Interview
    iv. Testing
    v. Assessment Centers
    vi. Background Investigation
    vii. Physical Exam
    viii. Selection Decision and Job Offer

Major Steps In Sales Personnel Selection Process



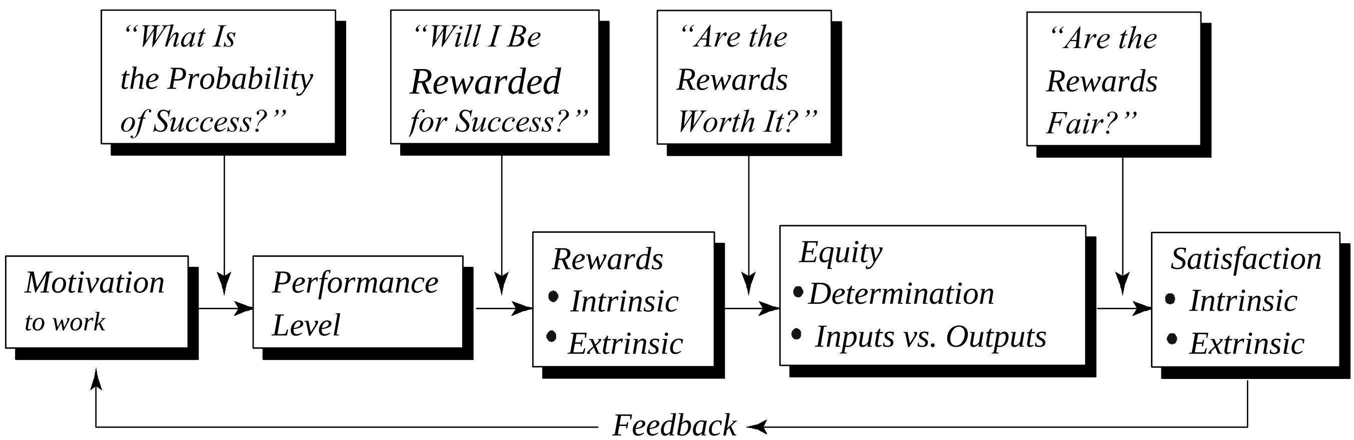
f. Managing the Sales Training Process

i. Assess the Sales Training Needs

ii. Set Training Objectives
iii. Evaluate Training Alternatives
iv. Design the Sales Training Program
v. Perform Sales Training
vi. Conduct Follow-up and Evaluation

g. Salesforce Motivation And Compensation

i. Four Questions Salespeople Ask To Determine How Much Effort They Will Devote To Their Jobs



ii. Major Types of Sales Force Compensation

1. Straight Salary
   a. Paying salespeople a specific amount per time period
   b. Most useful when compensating new salesperson, moving into new territories or customers, sales requiring many services for customers
   c. Salary remains the same until pay increase
   d. Provides salespeople with more security but less incentive
2. Straight Commission
   a. Paying salespeople according to the amount of their sales in given time period

b. Commission may be based on percentage of sales or on a sliding scale

c. Requires highly aggressive selling and minimal nonselling tasks

d. Provides salespeople with maximum incentive but little financial security

3. Combination

    a. Paying salespeople a fixed salary plus a commission based on sales volume

    b. Most popular compensation method

    c. Provides level of security and some incentive

    d. Can require that salesperson exceeds a certain sales level before earning a commission

4. Straight Salary

    a. Advantages

        i. Salaries are simple to administer

        ii. Planned earnings are easy to project

        iii. Salaries can provide control over salespeople's activities, and reassignments are less of a problem.

        iv. Salaries are useful when substantial development work is required.

    b. Disadvantages

        i. Salaries offer little incentive for better performance.

        ii. Salary compression could cause perceptions of inequity among experiences salespeople.

        iii. Salaries represent fixed overhead.

5. Straight Commission

    a. Advantages

        i. Income is linked directly to desired results.

        ii. Straight commission plans offer cost-control benefits.

    b. Disadvantages

i. Straight commission plans contribute little to company loyalty.

ii. Problems may also arise if commissions are not limited by an earnings cap.

6. Combination Plans

   a. Advantages

      i. Combination pay plans are flexible.

      ii. They are also useful when the skill levels of the salesforce vary.

      iii. Combination pay plans are attractive to high-potential but unproven candidates for sales jobs.

   b. Disadvantages

      i. Combination pay plans are more complex and difficult to administer.

      ii. A common criticism of combination pay plans is that they tend to produce too many salesforce objectives.

Median Salaries for Some Sales Positions

	2009 US Median		
	Base Salary	Bonuses and Benefits	Total
Top Sales Executives	$193,962	$134,730	$328,692
Sales and Marketing Director	$134,131	$72,490	$206,621
Sales Manager	$101,652	$75,978	$177,630
Sales Representative	$53,507	$36,196	$89,703
Source: www.salary.com			

iii. Nonmonetary rewards
   1. Plaques 30%
   2. Dinners 26%
   3. Trips 26%
   4. Merchandise 24%

IX. Salesforce Evaluation

a. Behavioral Evaluation -- Consists of criteria related to activities performed by individual salespeople, for example:

   i.
   ii.
   iii. Required reports ____________
   iv. Training meetings attended
   v. Letters and calls completed
   vi. Should not only address activities related to _____________ generation but should also include _________________ needed to ensure long-term customer satisfaction.

b. Professional Development Performance Evaluation
   i. Assess improvements in certain characteristics of salespeople that are related to successful performance in the sales job
   ii. Characteristics include - Attitude, product knowledge, initiative and aggressiveness, communication skills, ethical behavior

c. Results-based Performance Evaluation

   i. Salespeople measured objectively based on results such as – sales, market share, and accounts
   ii. A sales quota represents a reasonable sales objective for a territory, district, region, or zone
   iii. Some research shows that rewards for achieving results have a negative effect on performance and satisfaction
   iv. Quantitative Performance Criteria

1. Sales volume
2. Percentage of increase
3. Market share
4. Quotas obtained
5. Average sales calls per day
6. New customers obtained
7. Gross profit by product, customer, and order size
8. Ratio of selling costs to sales
9. Sales orders
10. Daily number of orders
11. Total
12. By size, customer classification, and product
13. Order to sales-call ratio
14. Goods returned

d. Profit Performance Evaluation

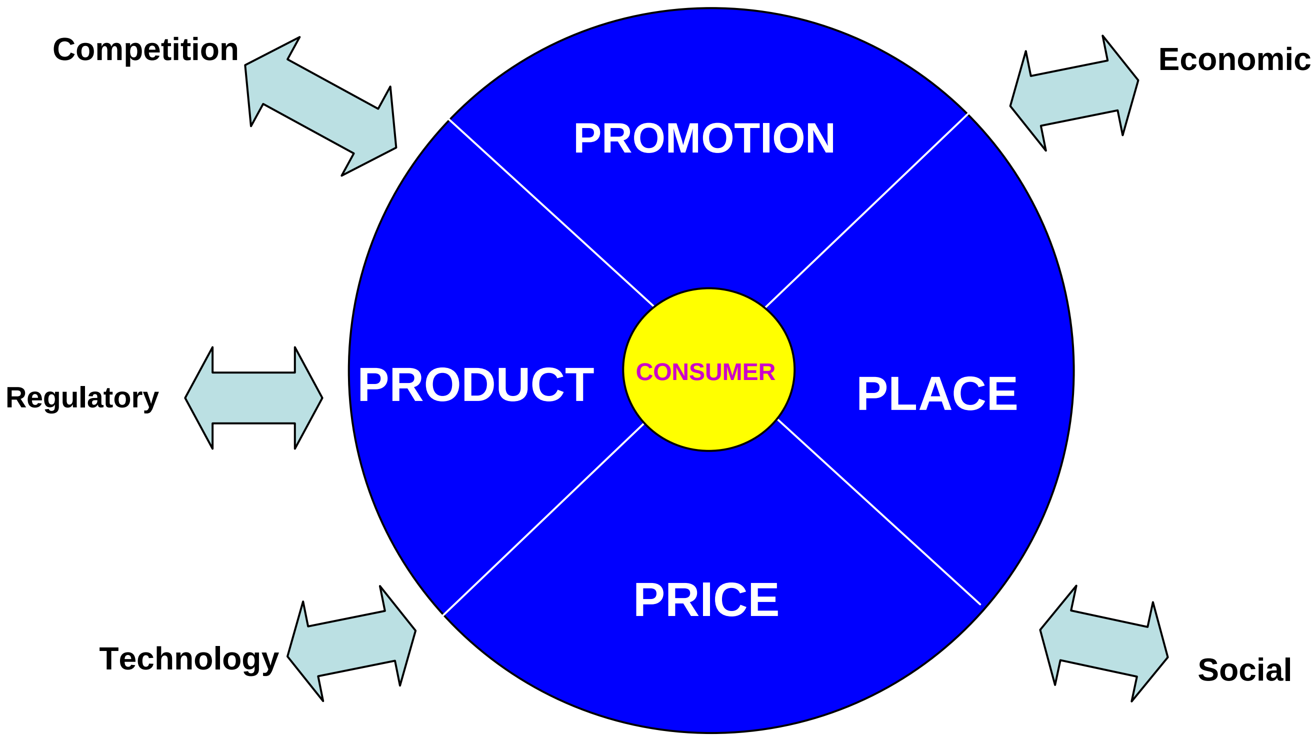
i. Salespeople have an impact on gross profits through the specific products they sell and/or through the prices they negotiate for final sale.

ii. Salespeople affect net profits by the expenses they incur in generating sales.

iii. Criteria Examples

1. Net profit dollars
2. Gross margin per sale
3. Return on investment
4. Selling expenses versus budget

X. Recap: "MARKETING"



The GOAL:

Satisfaction of consumers' needs, wants, and desires,

at a profit (or to attain organizational goals),

through an integrated effort within the firm.