

Marketing the Product or Service

Chapter 12

Small Business Marketing: Product

Using Your Marketing Mix

- Marketing Mix
 - The factors that a business can change or control in selling products or services to customers in its target market.
- Marketing Mix Factors (The Four Ps)
 - Product—goods and services
 - Place—distribution channels, location, and layout
 - Price—pricing for selling and profit
 - Promotion—marketing communications

2 Source: Hatten, Small Business Management, 4th Edition

Figure 12.1: Spectrum of Goods and Services

The diagram shows a horizontal spectrum from 'Tangible goods' on the left to 'Intangible goods' on the right. A double-headed arrow spans the width. Below the arrow, various items are listed from left to right: Furniture (assembled, not delivered), Clothing, Automobiles, Fast food, Vacation packages, Fine dining, Advertising, Education, and Lawn mowing. 'Learning' is listed as an intangible good on the far right.

3 Source: Hatten, Small Business Management, 4th Edition

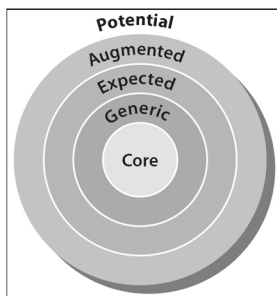
Product: The Heart of the Marketing Mix

- **Product**
 - Is a tangible good, an intangible service, or a combination of these.
 - Is the “bundle of satisfaction” that consumers receive in exchange for their money.
- **Levels of Product Satisfaction**
 - Core benefit—why the product is purchased
 - Generic product—basic product attributes
 - Expected product—assumed product characteristics
 - Augmented product—differentiating characteristics
 - Potential product—anticipated future characteristics

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Source: Hatten, *Small Business Management*, 4th Edition

Figure 12.2: Levels of Products



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Source: Hatten, *Small Business Management*, 4th Edition

The Inventor's Paradox

- **Options For Marketing a New Product**
 - **Startup**
 - Create and operate a new business based on new product.
 - **Licensing**
 - An agreement in which the owner of intellectual property grants another person (or another company) permission to produce that product.
 - **Private label manufacturing**
 - Producing products under another company's name.
 - **Original equipment manufacturer (OEM)**
 - A company that makes component parts or accessories for larger items.

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Source: Hatten, *Small Business Management*, 4th Edition

The Importance of Product Competitive Advantage

- **Obsolescence Factors for Existing Products**
 - New technologies
 - Increasing numbers of substitute products
 - Quickly changing consumer tastes and preferences
 - Shifting consumption patterns
- **Core Competencies That Create Sustainable Competitive Advantage**
 - Must be applicable across a range of products
 - Must be difficult for competitors to duplicate
 - Must provide an important benefit to customers

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Source: Hatten, *Small Business Management*, 4th Edition

Packaging

- **Marketing Functions of Packaging**
 - Catches customers' attention
 - Can make handling or storage more convenient
 - Reduces spoilage or damage
 - Makes the product more identifiable and easier for your customers to find
 - Can help create a new product or market

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Source: Hatten, *Small Business Management*, 4th Edition

Purchasing for Small Business

- **Purchasing Guidelines**
 - Are you using the proper sources of supply?
 - Are you taking advantage of all purchase discounts?
 - How do you determine minimum inventories and reorder points?
 - Have you run out of raw materials or finished goods?
 - What is the record of your current suppliers for quality, service, and price?
 - Are you using minimum quantities or economic ordering quantities?

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Source: Hatten, *Small Business Management*, 4th Edition

Purchasing for Small Business (cont'd)

- Purchasing Guidelines (cont'd)
 - What are your inventory holding costs?
 - Do you know your optimum average inventory? Does it guide your purchasing policy?
 - Could you improve your purchasing to increase profits?
 - What is your inventory turnover ratio? How does it compare with the industry average?

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Source: Hatten, Small Business Management, 4th Edition

Purchasing Basics

- Steps in the Purchasing Process
 - Recognize, describe, and transmit the need.
 - Investigate and select suppliers and prepare a purchase order.
 - Follow up on the order.
 - Receive and inspect the order.
 - Complete the order (pay the invoice).

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Source: Hatten, Small Business Management, 4th Edition

Selecting Suppliers

- Make-or-Buy Decision
 - The choice of whether to purchase parts and components or to produce them
 - Availability and quality of suppliers
 - Specialized needs; or, the more need to hide design features, the more need to make own parts.

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Source: Hatten, Small Business Management, 4th Edition

Managing Inventory (cont'd)

- How Much Inventory Do you Need?
 - Retail Business
 - The time required to get fresh inventory
 - The cost of reordering
 - Service Industry
 - Supplies to perform services and meet needs of customers
 - Manufacturing Business
 - Production rate considering lead time to get in new stock
 - Optimum economic quantity to order
 - Inventory techniques:
 - Just-in-time (JIT) inventory control
 - Materials Requirement Planning (MRP)

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Source: Hatten, Small Business Management, 4th Edition

Managing Inventory (cont'd)

- Controlling Inventory
 - The process of establishing and maintaining the supply of goods to keep on hand.
- Techniques for Controlling Inventory
 - Reorder Point and Quantity
 - Visual Control
 - Economic Order Quantity (EOQ)
 - ABC Classification
 - Electronic Data Interchange (EDI)
 - Just-in-Time (JIT)
 - Materials Requirements Planning (MRP)

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Source: Hatten, Small Business Management, 4th Edition

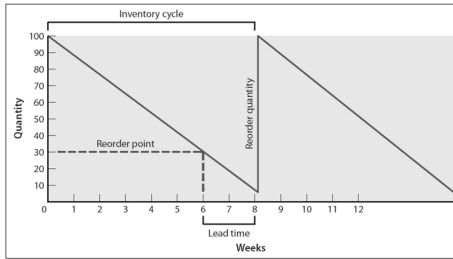
Controlling Inventory (cont'd)

- Reorder Point and Quantity
 - The process of determining when to restock inventory and how much to reorder
- Inventory Cycle
 - The period of time from the point when inventory is at its highest until it is replenished
- Lead Time
 - The period of time from order placement until the goods are received

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Source: Hatten, Small Business Management, 4th Edition

Figure 12.4: Inventory Cycles



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Source: Hatten, Small Business Management, 4th Edition

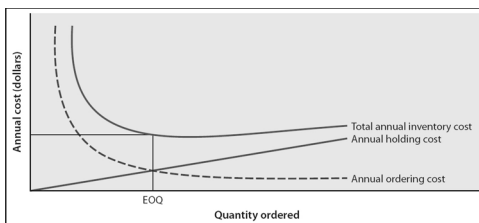
Controlling Inventory (cont'd)

- Economic Order Quantity (EOQ)
 - A method to minimize total inventory costs by balancing annual ordering costs with annual holding costs for an item.
- EOQ Assumptions:
 - No volume discounts
 - Accurate prediction of annual demand
 - The average inventory level is equal to the maximum inventory level minus the minimum inventory level divided by two.

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Source: Hatten, Small Business Management, 4th Edition

Figure 12.5: Economic Order Quantity (EOQ)



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Source: Hatten, Small Business Management, 4th Edition

Controlling Inventory (cont'd)

- ABC Classification
 - An inventory control system that classifies items based on the total dollar volume of sales each item generates
- Calculating ABC Items
 - Calculate the total dollar volume for an item by multiplying the cost of an item by units sold annually.
 - The greater the weighted dollar volume generated by an item, the more attention you will want to give it in your inventory control

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Source: Hatten, Small Business Management, 4th Edition

Table 12.1: ABC Inventory Investment Classification

Classification	Percentage of Total Inventory Investment
A. High dollar volume	60-80
B. Moderate dollar volume	10-40
C. Low dollar volume	5-15

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Source: Hatten, Small Business Management, 4th Edition

Controlling Inventory (cont'd)

- Electronic Data Interchange (EDI)
 - Is a computerized application-to-application exchange used to track inventory in a standard data format.
 - Utilizes UPC bar code scanning to record sales, determine orders, and transmits data to suppliers.
- Perpetual Inventory System
 - An inventory system that indicates how many units of an item are on hand at any given time.
- RFID
 - Radio-frequency identification inventory tags

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Source: Hatten, Small Business Management, 4th Edition

Controlling Inventory (cont'd)

- Just-in-Time (JIT)
 - Is a Japanese approach to inventory management that reduces order sizes and times orders so that goods arrive as close to the time they are needed as possible.
 - Minimizes a business's dependence on inventory and cuts the costs of moving and storing goods.
 - Is used more by producers than by retailers.
 - Requires that everyone involved must be able to do what they say they can, when they say they can do it.

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Source: Hatten, Small Business Management, 4th Edition

Table 12.2: JIT and Traditional Inventory Comparison

JIT Inventory	Traditional Inventory
Small orders and frequent deliveries	Large orders and infrequent deliveries
Single-source supplier for a given part with a long-term contract	Multiple sources of suppliers for the same part with partial or short-term contracts
Suppliers expected to deliver product quality, delivery performance, and price; no rejects acceptable	Suppliers expected to deliver an acceptable level of product quality, delivery performance, and price
Objective of bidding is to secure the highest-quality product through a long-term contract	Objective of bidding is to find the lowest possible price
Less emphasis on paperwork	Requires more time and formal paperwork
Delivery time and quantity can be changed with direct communication	Changes in delivery time and quantity require new purchase orders

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Source: Hatten, Small Business Management, 4th Edition

Controlling Inventory (cont'd)

- Materials Requirements Planning (MRP)
 - Depends on computers to coordinate a master schedule of product orders, raw materials, and the sequence of production.
 - Is useful when demand for some materials depends on the demand for others.
- MRPII
 - Is a more advanced control system that coordinates inventory management with all other functions of a business.
 - Is used mainly in large businesses.

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Source: Hatten, Small Business Management, 4th Edition
