

Marketing the Product or Service

Chapter 14

Small Business Marketing:
Price and Promotion

The Economics of Pricing (cont'd)

- What Consumers Want
 - They want the best product for the most reasonable price.
- The “Right” Price
 - A price between what the market will bear and what the product costs.
- The Importance of the Pricing Decision
 - Inappropriately low pricing will not recover product costs.
 - Inappropriately high pricing will drive away consumers.

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

Competing with Big Box Retailers

- Don't compete directly—differentiate.
- Specialize—carry harder-to-get and better-quality goods.
- Emphasize customer service.
- Extend store hours.
- Advertise more—not just products, but also the business itself.
- Work together with other small businesses.

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

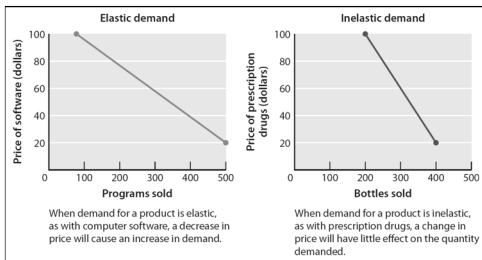
The Economics of Pricing (cont'd)

- Demand
 - How many people want to buy how much of the firm's product.
- Demand Curve
 - The number of units of a product that people would be willing to purchase at different price levels.
- Price Elastic Demand
 - Customers are sensitive to the price of a product.
- Price Inelastic Demand
 - Customers are not sensitive to the price of a product.

4

Source: Hatten, Small Business Management, 4th Edition

Figure 14.1: Demand Curves



5

Source: Hatten, Small Business Management, 4th Edition

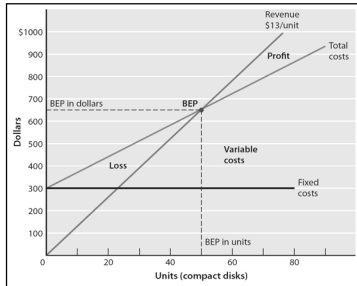
Breakeven Analysis

- Breakeven Point (BEP)
 - The point at which total costs equal total revenue and the business neither makes nor loses money.
 - $$\text{BEP (units)} = \frac{\text{Total fixed costs}}{\text{Unit price} - \text{Average variable cost}}$$
 - where average variable cost equals total variable cost divided by quantity.
 - $$\text{BEP (dollars)} = \frac{\text{Total fixed costs}}{1 - \frac{\text{Average variable cost}}{\text{Unit price}}}$$

6

Source: Hatten, Small Business Management, 4th Edition

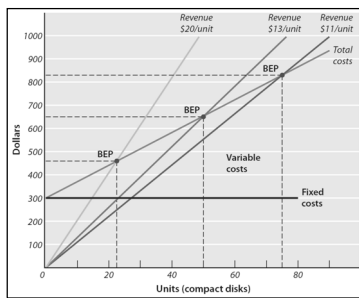
Figure 14.2: Breakeven Analysis



7

Source: Hatten, Small Business Management, 4th Edition

Figure 14.3: How Price Changes Affect Breakeven Point



8

Source: Hatten, Small Business Management, 4th Edition

Internal-Oriented Pricing Strategies

- Cost-plus pricing
 - Markup
 - The amount added to the cost of a product in setting the final price.
 - Markup Formulas
 - Selling price = Cost + Markup
 - Markup = Selling price - Cost
 - Cost = Selling price - Markup
- Target Return Pricing
 - Setting price to product a given rate of return
 - Target return price = [(Fixed costs + Target return) ÷ Unit sales] + Variable cost

9

Source: Hatten, Small Business Management, 4th Edition

Table 14.1: Creative Pricing Primer

Pricing Approach	How It Works	Examples
1. Everyday low pricing	Set products or services together in a package or break them apart and price accordingly.	Amazon books, Home Depot, Best Buy, Wal-Mart, Target, Costco, etc.
2. Time period pricing	Adjust prices up or down during specific times to spur or discourage demand.	Hotel rooms, airline tickets, car rentals, etc.
3. Tier pricing	Make a base and lower tier for a customer to pay more or less on the same item.	Software licenses, subscription services, etc.
4. Lease pricing	Structure the customer wants to pay more, so you price accordingly.	Leasing cars, equipment, etc.
5. A core system pricing	Structure price to make it more valuable when a customer buys additional items.	Software licenses, subscription services, etc.
6. Value added price package	Bundle items, make them more valuable to the customer, without lowering price.	Software licenses, subscription services, etc.
7. Pay for price	Although a "regular" price exists, no one ever pays it.	Software licenses, subscription services, etc.
8. Constant promotional	Always customers are to be convinced by the performance of a product, the features, and the price.	Software licenses, subscription services, etc.
9. Price performance	Always customers are to be convinced by the performance of a product, the features, and the price.	Software licenses, subscription services, etc.
10. Charge for expertise	Make your price as different and higher.	Software licenses, subscription services, etc.
11. Shift costs to your customer	Pass on necessary costs to your customer, and do not include those costs in your price.	Software licenses, subscription services, etc.
12. Variable pricing tied to a variable variable	Set up a "pay for price" pricing structure tied to a variable variable.	Software licenses, subscription services, etc.
13. Different needs for different price segments	Set up a "pay for price" pricing structure tied to a variable variable.	Software licenses, subscription services, etc.
14. Capture pricing	Lock in your customer by selling the system cheap, and then price by selling high consumables.	Software licenses, subscription services, etc.
15. Product line pricing	Establish a range of price points within your line. Structure the price to encourage customers to buy your "highest performance" product.	Software licenses, subscription services, etc.
16. Differentiated pricing	Charge each customer or each customer segment what they will pay.	Software licenses, subscription services, etc.
17. Ready discount	Set up a "pay for price" pricing structure tied to a variable variable.	Software licenses, subscription services, etc.
18. Round, then variable	Include a "pay for price" charge, followed by a variable charge.	Software licenses, subscription services, etc.
19. "Don't break that price point"	Price all items separately, then price the bundle to give a perception of lower price.	Software licenses, subscription services, etc.

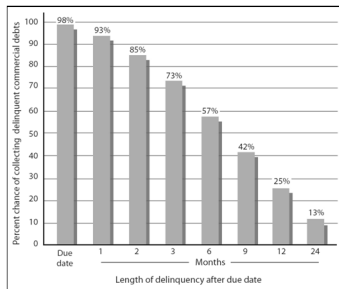
Source: Hatten, Small Business Management, 4th Edition

Credit Policies

- Online Credit Checks
- Databases help you look into a customer's financial past to determine if the customer might have trouble paying you.
- Collecting Overdue Accounts
 - A letter service
 - An attorney
 - Small claims court
 - A collection agency
 - Writing off as bad debt

Source: Hatten, Small Business Management, 4th Edition

Figure 14.4: Show Me the Money



Source: Hatten, Small Business Management, 4th Edition

Table 14.2: Advertising Costs by Business Type

Industry	Ad Dollars as % of Operating Income
New and Used Car Dealers	1.1%
Furniture and Home Furnishing Stores	4.1%
Electronics and Appliance Stores	2.1%
Hardware Stores	1.6%
Food and Beverage Retail Stores	0.8%
Beer, Wine, and Liquor Stores	0.6%
Nonstore Retailers	3.4%
Software Publishers	6.1%
Commercial Banking	0.5%
Advertising and Related Services	5.1%
Food Services and Drinking Places	2.7%
Motor Vehicle Manufacturers	1.8%
Breweries	8.1%
Soft Drink Companies	3.1%

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

13

Personal Selling

- Personal Selling
 - A personal presentation by a salesperson for the purpose of making sales and building relationships with customers.
- Purpose of Personal Selling
 - Identify customer needs
 - Match those needs with your products
 - Show the customers the match between their need and your product.

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

14

Personal Selling

- Personal Selling Advantage
 - Flexibility of the presentation—a trained salesperson can tailor a presentation to the prospect.
- Product Aspects
 - Features: What the product is.
 - Advantages: Why product is better than alternatives.
 - Benefits: What the product will do for the customer.

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

15

Promotion (cont'd)

- Public Relations (PR)
 - Involves promotional activities designed to build and sustain goodwill between a business and its customers, employees, suppliers, investors, government agencies, and the general public.
- Publicity
 - Consists of any message about the company communicated through the mass media that the company does not pay for.

16

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

Table 14.3: The Relationship Between Marketing and Public Relations

Target	PR Activities	Benefits to Marketing
Customers	Press releases	Increase name awareness
	Event sponsorship	Increase credibility
Employees	Newsletters	Improve communications
	Social activities	Decrease absenteeism and product defects
		Increase morale
Suppliers	Articles in trade publications	Improve image
	Promotional incentives	Improve delivery schedule
General public	News releases	Attract better employees
	Plant tours	Improve image to customers
	Support for community activities	Improve local relations
Government	Lobbying	Favorable legislation
	Direct mail	Less regulation
	Personal calls	

17

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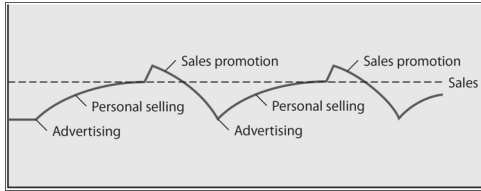
Promotion (cont'd)

- Sales Promotion
 - An activity that stimulates sales and is not strictly advertising or personal selling.
- Sales Promotions
 - Enhance but do not replace advertising or personal selling efforts.
 - Are most effective when used in intervals, because customer response decreases over time as customers become familiar with the promotions.
- Examples
 - In-store displays
 - Free samples
 - Contests
 - Trade show booths
 - Distribution of coupons, premiums, and rebates

18

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

Figure 14.5: Short-Term Ratchet Effect of Sales Promotion



19

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

The Promotional Mix

- Advertising
 - Is good for creating awareness, but its power to stimulate action decreases quickly.
- Personnel Selling
 - Is an effective tool for building customer desire for the product and prompting customers to take action.
 - Requires one-on-one contact, making it less useful in creating awareness.

20

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

The Promotional Mix

- Sales Promotions
 - Are most effective with customers who are already interested in the product, but who may need prompting to make the purchase.
- Public Relations
 - Builds awareness, though it results in few immediate sales.

21

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