

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.

Source: Hatten, Small Business Management, 4th Edition

Competing with Big Box Retailers

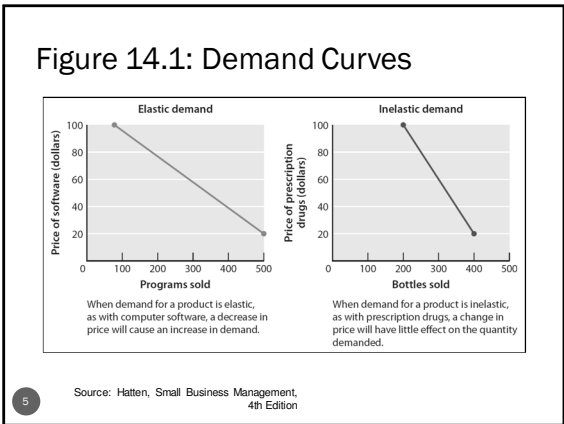
- Don't compete directly—differentiate.
- Specialize—carry harder-to-get and better-quality goods.
- Emphasize customer service.
- Extend store hours.
- Advertise more—not just products, but also the business itself.
- Work together with other small businesses.

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.

Source: Hatten, Small Business Management, 4th Edition

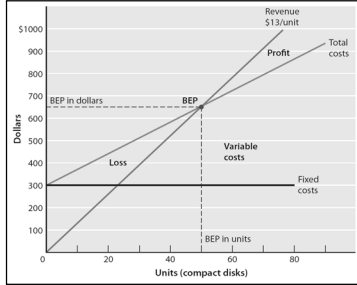


Breakeven Analysis

- 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.
 - $$\text{BEP (dollars)} = \frac{\text{Total fixed costs}}{1 - \frac{\text{Average variable cost}}{\text{Unit price}}}$$

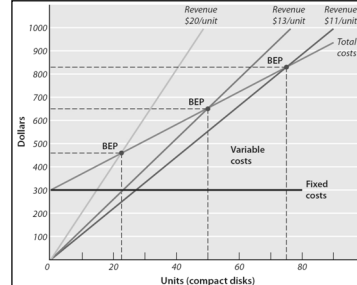
Source: Hatten, Small Business Management, 4th Edition

Figure 14.2: Breakeven Analysis



Source: Hatten, Small Business Management, 4th Edition

Figure 14.3: How Price Changes Affect Breakeven Point



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

Source: Hatten, Small Business Management, 4th Edition

Table 14.1: Creative Pricing Primer

Pricing Approach	How It Works	Examples
1. Bundling or unbundling	Sell products or services together as packages or bundle them apart and price accordingly.	Season tickets, tennis equipment, car rental charging for air conditioning.
2. Time-period pricing	Adjust price up or down during specific times to spur or discourage purchases or behavior.	Off-season travel fares for hotel, demand peak period fare on buses (KLM's "low fares").
3. Tier pricing	Make a buy and cover the risk for a customer to get what they want.	Three-month length lock order membership, low manufacturing "pre-sale" price for Boeing.
4. Image pricing	Encourage the customer wants to pay more, so that it can be perceived as a premium.	Mark expensive hotel rooms to stay, a private club owner's use in price to increase and status for quantity quality of champagne.
5. Accounting system pricing	Use a computer system to track and adjust prices within a customer's buying system.	BEP prices in an eight-hour retail store at different times, based on daily inventory to place get caught to other the store.
6. Value-added price packages	Include the "free" value of services to appear to bargain shapers, without lowering price.	A company offering a membership that includes benefits for its when they buy of space and price.
7. Pay-as-you-go	Allow customers pay as they go, so that they can pay as they go.	Discounted movie tickets, offering a "pay-as-you-go" rate for movie tickets.
8. Cost-plus pricing	Set price based on cost plus a markup.	Movie theater charging for parking, offering a movie theater price for \$50 and allowing buyers to add for other services later on.
9. Price performance	Adjust customer pay as determined by the performance or value the receive.	A company offering a "pay-as-you-go" rate for movie tickets.
10. Change the breakeven	Make your price more different (or better).	Assessing the value of a product, for example, for a car.
11. Risk costs to your customer	Make the risk of purchase, adjust the customer to make your price more different (or better).	Customer who buys a product, for example, for a car.
12. Variable pricing tied to a customer's choice	Adjust price based on customer's choice.	Customer who buys a product, for example, for a car.
13. Different costs for different price segments	Set essentially the same product, under different costs, to appear to different price segments.	Customer who buys a product, for example, for a car.
14. Captive pricing	Look to your customer to selling the system cheap, and then sell the parts at high margin components.	Customer who buys a product, for example, for a car.
15. Product-line pricing	Structure the price to encourage customers to buy your higher priced product or service.	Customer who buys a product, for example, for a car.
16. Differential pricing	Charge each customer or each customer segment a different price for the same product.	Customer who buys a product, for example, for a car.
17. Quality discount	Set up a product pricing system, which can be used to encourage customers to buy a higher quality product.	Customer who buys a product, for example, for a car.
18. Round-down strategy	Use a "round-down" strategy, where the price is rounded down to a variable charge.	Customer who buys a product, for example, for a car.
19. "Don't break the price point"	Don't let a price increase threaten the buyer to give a percentage of lower price.	Customer who buys a product, for example, for a car.

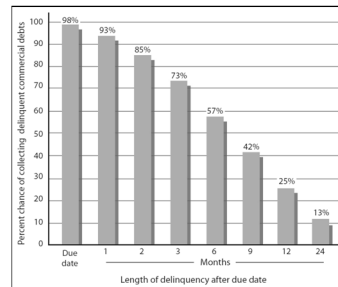
Source: Hatten, Small Business Management, 4th Edition

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

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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

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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

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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.

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

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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	

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

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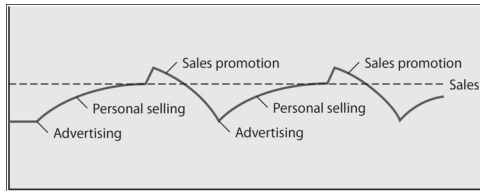
Promotion (cont'd)

- **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

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

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Figure 14.5: Short-Term Ratchet Effect of Sales Promotion



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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.

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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.

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Source: Hatten, Small Business Management, 4th Edition