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Small Business Marketing: Product and Pricing Strategies

Source: Entrepreneurial Small Business, Katz & Green, 2e
McGraw-Hill/Irwin

Chapter 9

Product

- Goods versus services: differentiated in several ways

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graph LR; A[Pure Good] --- B[A Good-Dominated Product]; B --- C[Hybrid]; C --- D[A Service-Dominated Product]; D --- E[Pure Service]
```

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- **Differentiations:**
 - **Tangibility:** capability to be touched, seen, tasted, or felt
 - **Inseparability:** service cannot be disconnected from the provider
 - **Heterogeneity:** each time the service is provided, it will be slightly different
 - **Perishability:** cannot be saved for later use

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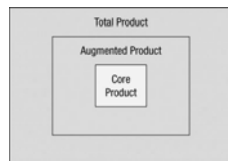
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- **Total product approach:**
 - **Core product:** basic description of what a product is
 - **Augmented product:** core product, plus features that tend to differentiate it from the competition
 - Includes: brand names, quality levels, packaging, and specific features of your product

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Total Product Approach



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- **Total product:** entire bundle of products and services that you offer
 - There are often components that you are not aware of, or that change over time
 - Delivery, installation, warranty, repair, spare parts, instruction, and training
 - Legal, cultural, and economic environment may force changes

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- Why is this important?
 - Your product means more to the consumer than just the core product
 - Don't waste time and money designing features for your product or service that your target market doesn't want
 - Knowing what your product "means" to consumers will help you set an appropriate price

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- Branding
 - Guidelines for naming a business:
 - Entrepreneur's name:
 - Not very clear to customers what you do
 - How to handle name if you sell the company
 - Is your name appropriate: i.e. Payne for a dentist

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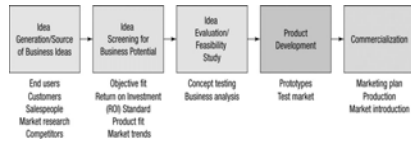
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- Branding: (con't.)
 - Guidelines for naming a business:
 - Be careful about **infringing** on trademarks
 - Describes firm or product and is easy to remember: "Discount Furniture"
 - Creative spellings are eye-catching; don't go overboard
 - Beware of selecting a name too narrow to allow the firm to grow

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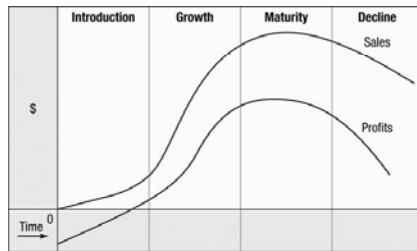
New Product Development Process



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Product Life Cycle



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Product Life Cycle

- Stage 1: Introduction
 - Sales slowly take off and then begin to grow
 - Very important to build brand awareness
 - Speak to the **relative advantage** your product has
 - Also need to market to any middlemen
 - Heavy introductory marketing expenses will suppress profits
 - Competition is generally low

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- **Stage 2: Growth**
 - Acceptance of the product increases rapidly
 - Advertising and promotion are much less critical
 - Goal in this time is to maximize market share
 - Prices tend to drop as production becomes more efficient

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- **Stage 3: Maturity**
 - Sales will level off and start to decline
 - Profits follow suit
 - Competition becomes fierce; price competition begins to rise
 - Advertising will suggest new uses for the product
 - Product can stay in the maturity stage for a long period of time (i.e. Murphy's Oil soap)

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- **Stage 4: Decline**
 - Decline can be slow or fast, steady or unsteady
 - May come from introduction of new technology
 - May also be caused by a shift in consumer preferences
 - Sales and profits fall during this stage
 - Advertising and promotion expenses are usually nearly eliminated at this point

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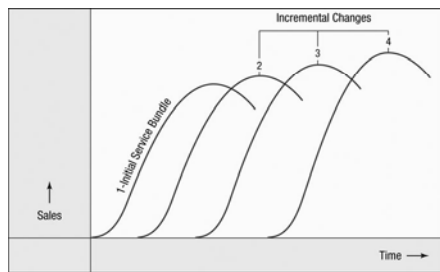
Service Life Cycle

- Services go through same four stages:
 - Easier to extend life cycle, and virtually eliminate the decline stage of a service
 - Services are often much easier to change “on the run”
- Services, in effect, begin **new life cycles** with each tweaking

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Service Life Cycle



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Pricing

- Pricing Basics:
 - 4 main reasons why owners of small businesses pay so much attention to pricing
 - Major factor in determining perceptions of quality and desirability
 - Price is directly related to gross revenue and to volume you can attain
 - Easiest of all marketing variables for a business owner to change
 - Essential part of competitive strategy

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- **Pricing from the Seller's Point of View**
 - Seller's wish to obtain highest price possible for whatever they are selling
 - Rather than highest price, try to determine optimum price
 - Optimum price is a function of 4 things:
 - Demand for the product or service
 - Value delivered to the customer
 - Prices set by competing firms
 - Your business strategy and product placement

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- **Price elasticity:**
 - **Inelastic product:** product for which there are few substitutes and for which a change in price makes very little difference in quantity purchased
 - **Elastic product:** product for which there are any number of substitutes and for which a change in price makes a difference in quantity purchased

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- **Pricing psychology:**
 - **Internal reference price:** a consumer's mental image of what a product's price should be
 - **External reference price:** an estimation of what a price should be based on advice, advertisements, or comparison shopping
 - Consumers also have a price range of acceptability

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- **Price setting:**
 - Decide what is the right price
 - Examine existing market prices for similar products and services
 - Consider your business costs

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- **Considerations for pricing:**
 - Company objectives
 - Marketing strategy
 - Channels of distribution
 - Competition
 - Legal and regulatory issues

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- **Pricing strategies:**
 - **Skimming:** charging the highest price the market will bear
 - First product or service of your type
 - Something people really want
 - Truly innovative
 - This method will attract competition

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- Pricing strategies: (con't.)
 - Premium pricing: high price can signal great quality
 - Impression that more expensive **has to be better** than less expensive
 - Item that could be considered a status symbol
 - Odd-even pricing: price that ends with 9, 7, or 5, getting over the **psychological hurdle** of prices that are multiples of 10

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- Pricing strategy: (con't.)
 - Partitioned pricing: setting the price for a base item and then charging extra for each additional component
 - Computer for \$999, printer for another \$100, cables for \$29.95, extended warranty for \$79.95, et al

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- Pricing strategy: (con't.)
 - Captive pricing: selling a base system at a relatively low price, but expendable items are relatively expensive
 - Replacement ink cartridges for printers
 - Price lining: practice of setting three price points – **good quality, better quality, and best quality**
 - Appeals to customers with different budgets and needs

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- **Price-lowering techniques:**
 - **Periodic discounting:** sales that happen once a month, or year, etc.
 - Back to school sales
 - After Christmas sales
 - **Random discounting:** running a sale without a definite pattern
 - Sales shouldn't be too often

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- **Price-lowering techniques: (con't.)**
 - **Off-peak pricing:** lower prices at certain times to encourage customers to come during slack times
 - A business version of Happy Hour
 - **Bundling:** combining two or more products in one unit and pricing less than if the units were sold separately
 - Three for price of two, or complementary products

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- **Price-lowering techniques: (con't.)**
 - **Coupons, rebates, and loyalty programs:**
 - **Coupons** are usually delivered in newspapers
 - Redemption is about 2% in the United States
 - Great way to get people to try new products
 - Serve an advertising purpose: subconscious remembers the product favorably

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- Price-lowering techniques: (con't.)
 - Coupons, rebates, and loyalty programs:
 - Rebates are great tools for small business because the redemption rate is extremely low
 - Think favorably about the product
 - Incentive to buy something

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- Price-lowering techniques: (con't.)
 - Coupons, rebates, and loyalty programs:
 - Loyalty programs are good for getting customers to return to your business
 - People may lose their cards
 - 45% of customers spend more money in stores with loyalty programs

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- Pricing strategy wrap-up:
 - Temporary reduction in price won't tarnish your product image
 - Consumers also feel smart about buying something at a better price
 - They will feel they got a great deal

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Chapter 3

Summary

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