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WORLD OF PRODUCT

Учебное пособие

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Пособие предназначено для студентов 2 курса экономических специальностей и направлений.

Chapter 1, 2 – Т.В. Шуйская.

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Введение

Электронное учебное пособие предназначено для студентов второго курса экономических специальностей. Пособие соответствует программе по профессиональному иностранному языку для неязыковых вузов, согласно которой целью обучения является приобретение студентами профессиональной языковой компетенции.

Учебное пособие состоит из 4 тем (chapters), выделенных по тематическому признаку. Каждая тема включает базовый текст и вопросы для проверки понимания основного содержания. Список лексических единиц, несущих ключевую информацию в тексте, следует сразу после упражнений. В пособие включены лексико-грамматические упражнения и тестовые задания, направленные на отработку изучаемых лексических единиц.

Большое внимание уделяется усвоению и закреплению речевых образцов и лексического материала соответствующей темы путем отработки речевых единиц в разнообразных упражнениях. Большинство упражнений носят коммуникативную направленность. В конце блоков приводятся интерактивные задания, развивающие умения студентов пользоваться вэб-сайтами организаций.

Языковой, фактический, видео материал, положенный в основу пособия, отбирался авторами из зарубежной учебной литературы. Многие тексты скомпилированы из двух и более источников.

Авторы выражают благодарность рецензентам за ценные замечания по улучшению пособия.

CHAPTER 1 MARKETING

1. READING What is marketing?

1 Look at the statements on marketing. Decide if they are true or false.

1 Marketing is the same as advertising.

2 Marketing means knowing what your customers want.

3 Marketing is what you do before the product is sold.

4 Marketing is done by both public and private organizations.

2 Now read about the marketing process and find out if you were right.

3 Which stage are these marketing activities part of

1 develop?

2 monitor?

3 research?

4 Which stage of marketing

1 is the most expensive?

2 needs most creativity?

5 Which part of the marketing process do you think you would be good at? Why?

The marketing process in travel and tourism

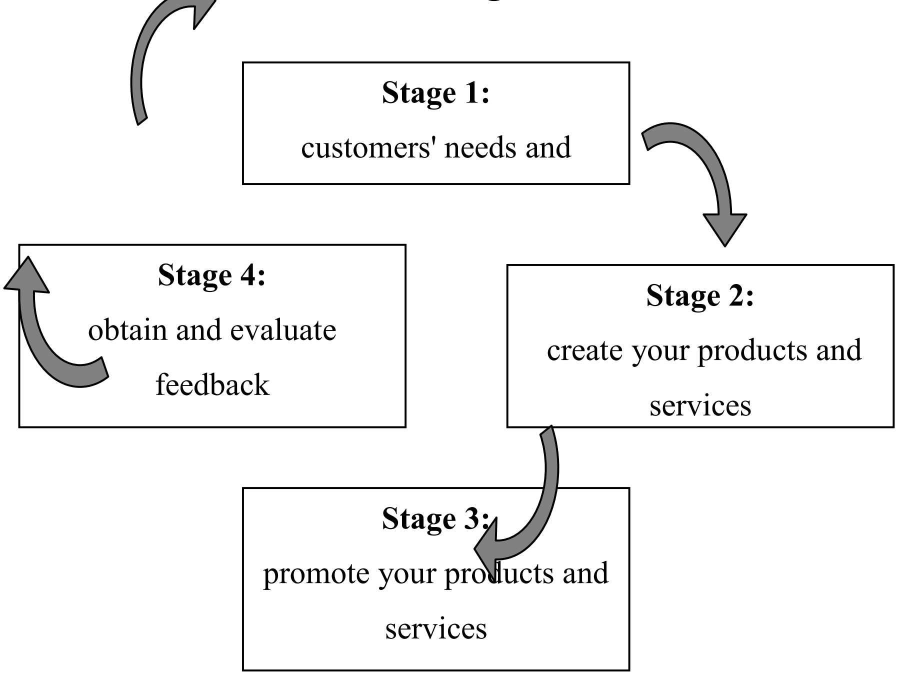
Every day of our lives we can see examples of travel and tourism marketing around us - adverts on TV, adverts in newspapers and magazines, brochures in travel agencies, internet pages, posters in stations, etc. This is because all tourism businesses need to market their products if they hope to be successful. But marketing is not just advertising; it is about researching and identifying the needs of a specific group of customers, and then creating a product that satisfies them.

A large hotel chain, for example, will spend a lot of time and money finding out what its guests want - what kind of services and facilities they need most, which location they prefer, or how much they are prepared to pay. It will then develop a new product, taking care to gear it to the customers' needs. Then, once the company has the right product, it will use different promotional techniques to let its clients know about it.

Private companies are not the only ones that use marketing. Tourist boards and other public sector organizations also have products, and it is important that their customers are aware that these exist. From a museum in a country village to the multiple attractions of a major city like Sydney, all travel and tourism products need
good marketing.

The marketing process does not end after a product has been sold, however. Customers might not be happy with it, and of course people's tastes change with time. Because of this, it is essential to evaluate how customers feel about a product. With the results of the evaluation, it is then possible to improve your product, and in this way continue to meet your customers' expectations.

The Marketing Process



2. WORD POWER Marketing terminology

Match 1-9 with a - i to produce nine marketing tips.

1 **M**onitor...   a and wants are the first thing you must find out.

2 **A**dvertise...   b your customers' preferences by using market research.

3 **R**esearch...   c the effectiveness of your advertising and promotional techniques.

4 **K**nowledge... d uses questionnaires to find out what people want.

5 **E**valuate... e of what your clients want is *essential* in marketing.

6 **T**astes... f the market carefully before you create your product.

7 **I**dentify... g your product in the places where your customers will see it.

8 **N**eeds... h your product towards your clients.

9 **G**ear... i change with time so products must change too.

3. WORD POWER Verb patterns

1 Look at this phrase using the verb *gear.*

to gear it to the customer's needs

Now look at the dictionary entry for the verb *gear.*

gear verb

PHRASAL **VERBS** gear sth to / towards sb / sth (often passive) to make sth suitable for a particular purpose or person: *There is a special course geared towards the older learner.*

2 What do you think *sb* and *sth* mean?

3 Now look at these other verb phrases from the article on marketing.

1 ... if they *hope* to make a profit.

2 *...to let* its clients know about it.

Which verb patterns do they use? Choose from the following

a	hope to do sth	b	hope sth to sb / sth
c	let sb / sth do sth	d	let sb/sth to do sth

4 Complete the sentences using *gear, hope,* or *let.*

1 We_________to have the new product on the market next year.

2 We've decided to_________the hotel to business tourism.

3 They_________to increase their profits by using promotional techniques.

4 If you_________experts do your marketing, you will get better results.

5 A questionnaire in each room_________guests make comments on the room.

6 Tourism providers have to_________their products to what the customer wants.

4. WORD POWER Special Terms

Promotion: Paid advertising and public relations efforts that in the case of tourism encourage recreational travel either generally or on specific carriers and to specific places.

Fringe Benefits: Benefits other than pay raises for workers. The most important fringe benefit in relation to tourism is the paid vacation.

Familiarization: Making something familiar or known. In the tourist industry, the transportation, accommodations, and catering businesses try to familiarize employees, travel agents, and travel writers with the services they offer.

Media: The plural of medium. In current usage, the term refers to the means of spreading information through the print media, like newspapers and magazines, and the broadcast media, like radio and television.

Institutional Advertising: Advertising intended to keep the name of a corporation—such as an airline—in the public eye rather than to give much information about specific services.

Brochure: A pamphlet usually put out for promotional purposes.

Throwaway: In advertising, usually a one-page advertisement that can be widely distributed by mail or by hand.

Direct Mailing: A form of promotion that involves mailing brochures or throwaways to a selected list of people. The mailing list often includes credit card holders, previous customers, members of clubs or organizations, and so on.

Credit Card: A card issued by a company—such as American Express—or a bank to a person with a good credit rating. The card holder can use his card to charge goods or services, among which tourist industry services are especially important.

Destination Advertising: Advertising that stresses a resort area or some other tourist destination.

5. *QUESTIONS*

- What does promotion include? What is the purpose of tourist pro motion?
- What are fringe benefits? Which one is especially important in relation to tourism?
- What is familiarization? What kinds of tourist industry businesses follow a policy of familiarization?
- What are the media? What is the difference between print media and broadcast media?
- What is institutional advertising?
- What is a brochure?
- What does the term throwaway refer to in connection with advertising?
- What is a direct mailing promotion? What are the sources of the mailing lists that are used?
- What is a credit card? What can a card holder use his card for?
- What is destination advertising!

CHAPTER 2 PRODUCT

1. WHAT IS PRODUCT?

Learning objective. Define the term *product*

The product offering, the heart of an organization's marketing program, is usually the starting point in creating a marketing mix. A marketing manager cannot determine a price, design a promotion strategy, or create a distribution channel until the firm has a product to sell. Moreover, an excellent distribution channel, a persuasive promotion campaign, and a fair price have no value with a poor or inadequate product offering.

A **product** may be defined as everything, both favorable and unfavorable, that a person receives in an exchange. A product may be a tangible good like a pair of shoes, a service like a haircut, an idea like "don't litter", or any combination of these three. Just as important are intangibles such as service, the seller's image, the manufacturer's reputation, and the way consumers believe others will view the product.

To most people, the term "product" means a tangible good. However, services and ideas are also products.

2. TYPES OF CONSUMER PRODUCTS

Learning objective. Classify *products*. Classify *consumer products*

Products can be classified as either business (industrial) or consumer products, depending on the buyer's intentions. The key distinction between the two types of products is their intended use. If the intended use is a business purpose, the product is classified as a business or industrial product. A **business product** is used to manufacture other goods or services, to facilitate an organization's operations, or to resell to other costumers. A **consumer product** is bought to satisfy an individual's personal wants. Sometimes the same item can be classified as either a business or consumer product, depending on the intended use. Examples include lightbulbs, pencils and paper, and microcomputers.

We need to know about product classifications because business and consumer products are marketed differently. They are marketed to different target markets and tend to use different distribution, promotion and pricing strategies.

There are seven categories of business products: major equipment, accessory equipment, component parts, processed materials, raw materials, supplies and services.

There are several ways to classify consumer products (See Exhibit 1.). The most popular approach includes these four types: convenience products, shopping products, specialty products, and unsought products. This approach classifies products according to how much effort is normally used to shop for them.

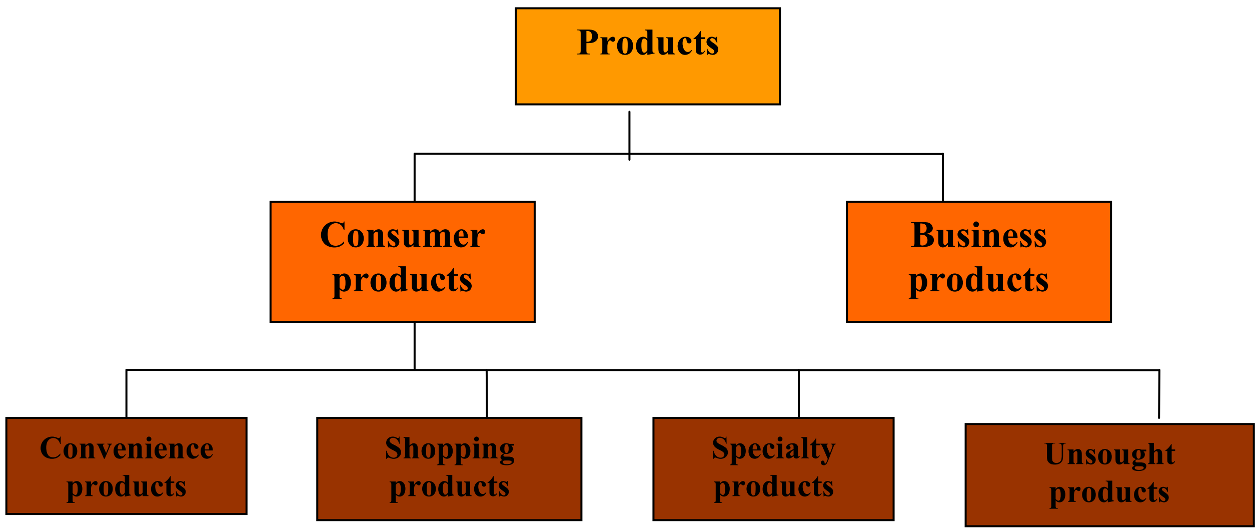
Convenience products

A **convenience product** is a relatively inexpensive item that merits little shopping effort – that is, a consumer is unwilling to shop extensively for such an item. Candy, soft drinks, combs, aspirin, small hardware items, dry cleaning, and car washes fall into the convenience product category.

Consumers buy convenience products regularly, usually without much planning. Nevertheless, consumers do know the brand names of popular convenience products, such as Coca-Cola, Bayer aspirin. Convenience products normally require wide distribution in order to sell sufficient quantities to meet profit goals.

Exhibit 1

Classification of Consumer products



Shopping Products

A **shopping product** is usually more expensive than a convenience product and is found in fewer stores. Consumers usually buy a shopping product only after comparing several brands or stores on style, practicality, price, and lifestyle compatibility. They are willing to invest some effort into this process to get the desired benefits.

There are two types of shopping products: homogeneous and heterogeneous. Consumers perceive *homogeneous* shopping products as basically similar – for example, washers, dryers, refrigerators, and televisions. With homogeneous shopping products, consumers typically look for the lowest-priced brand than has the desired features.

In contracts consumers perceive heterogeneous shopping products as essentially different – for example, furniture, clothing, housing, and universities. Consumers often have trouble comparing heterogeneous shopping products because the prices, quality, and features vary so much. The benefit of comparing heterogeneous shopping products is "finding the best product of brand for me"; this decision is often highly individual.

Specialty Products

When consumers search extensively for a particular item and are very reluctant to accept substitutes, than item is a **specialty product**. Fine watches, Rolls Royce, automobiles, expensive stereo equipment, gourmet restaurants, and highly specialized forms of medical care are generally considered specialty products/

Marketers of specialty products often use selective, status-conscious advertising to maintain their product's exclusive image. Distribution is often limited to one or a very few outlets in a geographic area. Brand names and quality of service are often very important.

Unsought Products

A product unknown to the potential buyer or a known product that the buyer does not actively seek is referred to as an **unsought product**. New products fall into this category until advertising and distribution increase consumers awareness of them.

Some goods are always marketed as unsought items, especially needed products we do not like to think about or care to spend money on. Insurance, burial plots, encyclopedias, and similar items require aggressive personal selling and highly persuasive advertising. Salespeople actively seek leads to potential buyers. Because consumers usually do not seek out this type of product, the company must go directly to them through a salesperson, direct mail, or direct-response advertising.

3. PRODUCT ITEMS, LINES, AND MIXES

Learning objective. Define the terms *product item, product line, and product mix*

Rarely does a company sell a single product. More often, it sells a variety of things. A **product item** is a specific version of a product that can be designated as a distinct offering among an organization's products. Gillette's MACH 3 razor is an example of a product item (See Exhibit 2).

Exhibit 2

Gillette's Product Lines and Product Mix

	Width of the Product Mix			
	Blades and Razors	**Toiletries**	**Writing Instruments**	**Lighters**
Depth of the Product Lines	MACH 3 Sensor Trac II Atra Swivel Double-Edge Lady-Gillette Super Speed Twin Injector Techmatic	Series Adorn Toni Right Guard Silkience Soft and Dry Foamy Dry Look Dry Idea Brush Plus	Paper Mate Flair	Cricket S.T. Dupont

A group of closely related product items is a **product line**. For example the column in Exhibit 2 titled "Blades and Razors" represents one of Gillette's product lines. Different container sizes and shapes also distinguish items in a product line.

Diet Coke, for example, is available in cans and various plastic containers. Each size and each container are separate product items.

An organization's **product mix** includes all the products it sells. All Gillette's products – blades and razors, toiletries, writing instruments, and lighters – constitute its product mix. Each product item in the product mix may require a separate marketing strategy. In some cases, however, product lines and even entire product mixes share some marketing strategy components. Nike promoted all of its product items and lines with the theme "Just Do It".

Organizations derive several benefits from organizing related items into product lines, including the following:

- *Advertising economies:* Product lines provide economies of scale in advertising. Several products can be advertised under the umbrella of the line. Campbell's can talk about its soup being "m-m-good" and promote the entire line.
- *Package uniformity:* A product line can benefit from package uniformity. All packages in the line may have a common look and still keep their individual identities. Again, Campbell's soup is a good example.
- *Standardized components:* Product lines allow firms to standardize components, thus reducing manufacturing and inventory costs. For example, many of the components Samsonite uses in its folding tables and chairs are also used in its patio furniture. General Motors uses the same parts in many automobile makes and models.
- *Efficient sales and distribution:* A product line enables sales personnel for companies like Procter & Gamble to provide a full range of choices to customers. Distributors and retailers are often more inclined to stock the company's products if it offers a full line. Transportation and warehousing costs are likely to be lower for a product line that for a collection of individual items.

- *Equivalent quality:* Purchasers usually expect and believe that all Campbell’s soups and all Mary Kay cosmetics will be of similar quality.

Product Mix Width (or breads) refers to the number of product lines an organization offers. In Exhibit 2, for example, the width of Gillette's product mix is four product lines. Product line depth is the number of product items in a product line. As shown in Exhibit 2, the blades and razors product line consists of ten product items; the toiletries product line also includes ten product items.

Firms increase the width of their product mix to diversify risk. To generate sales and boost profits, firms spread risk across many product lines rather than depend on only one or two. Firms also widen their product mix to capitalize on established reputations. By introducing new product lines, Kodak capitalized on its image as a leader in photographic products. Kodak's product lines now include film, processing, still cameras, movie cameras, paper, and chemicals.

Firms increase the depth of product lines to attract buyers with different preferences, to increase sales and profits by further segmenting the market, to capitalize on economies of scale in production and marketing, and to even out seasonal sales patterns. Marriott International has fourteen different lodging brands that are divided into three groups. The full service group includes flagship Marriott, upscale Renaissance Hotels and Resorts, and Marriott Conference Centers. The select service group includes Courtyard, Spring Hill Suites, and Fairfield Inn. The extended stay group includes Residence Inn and Execu Stay.

Adjustments to Product Items, Lines and Mixes

Over time, firms change product items, lines, and mixes to take advantage of new technical or product developments or to respond to changes in the environment. They may adjust by modifying products, repositioning products, or extending or contracting product lines.

Product Modification Marketing managers must decide if and when to modify existing products. Product modification changes one or more of a product's characteristics:

- *Quality modification:*change in a product's dependability or durability.

Reducing a product's quality may let the manufacturer lower the price and appeal to target markets unable to afford the original product. On the other hand, increasing quality can help the firm compete with rival firms. Increasing quality can also result in increased brand loyalty, greater ability to raise prices, or new opportunities for market segmentation. Inexpensive ink-jet printers have improved in quality to the point that they produce photo-quality images. These printers now compete with camera film.

- *Functional modification:* change in a product's versatility, effectiveness, convenience, or safety. Hostess introduced a line of fruit and grain cereal bars to extend its equity in the snack market beyond the dessert-type products they have traditionally offered. These bars are targeted to higher-income females who want a tastier version of a low-fat, vitamin-fortified breakfast alternative. Lea & Perrins is offering its steak sauce in a value-priced squeeze bottle with a «no mess, stay clean» cap.
- *Style modification*: aesthetic product change, rather than a quality or functional change. Clothing manufacturers commonly use style modifications to motivate customers to replace products before they are worn out.

Repositioning Repositioning is changing consumers' perceptions of a brand. For example, Procter & Gamble has dropped the word «oil» from its Oil of Olay product line. The company hopes that the simpler name «Olay» will make the line of skin-care products and cosmetics more appealing to younger women, who don't like the idea of oil.

Product Line Extensions A **product line extension** occurs when a company's management decides to add products to an existing product line in order to compete more broadly in the industry. Procter & Gamble is extending its shampoo brand Pantene with its first anti-dandruff product — Pro V Anti-Dandruff — positioned distinctly for women.

Product Line Contraction Does the world really need thirty-one varieties of Head & Shoulders shampoo? Or fifty-two versions of Crest? Black & Decker has decided the answer is no. The company has deleted a number of household products –

Dustbusters, SnakeLight flashlights, and toaster ovens – and is concentrating on power tools. Symptoms of product line overextension include the following:

- Some products in the line do not contribute to profits because of low sales, or they cannibalize sales of other items in the line.
- Manufacturing or marketing resources are disproportionately allocated to slow-moving products.
- Some items in the line are obsolete because of new product entries in the line, or new products offered by competitors.

4. BRANDING

Learning objective. Describe marketing uses of *branding*

The success of any business or consumer product depends in part on the target market's ability to distinguish one product from another. Branding is the main tool marketers use to distinguish their products from the competition's

A **brand** is a name, term, symbol, design, or combination thereof that identifies a seller's products and differentiates them from competitors' products. A brand name is the part of a brand that can be spoken, including letters (GM), words (Chevrolet), and numbers (7-Eleven). The elements of a brand that cannot be spoken are called the **brand mark** – for example, the well-known Mercedes-Benz and Delta Airlines symbols.

Branding has three main purposes: product identification, repeat sales, and new-product sales. The most important purpose is product identification. Branding allows marketers to distinguish their products from all others. Many brand names are familiar to consumers and indicate quality.

The term **brand equity** refers to the value of company and bran names. A brand that has high awareness, perceived quality, and brand loyalty among customers has high brand equity. A brand with strong brand equity is a valuable asset.

The term **master brand** has been used to refer to a brand so dominant in consumers' minds that they think of it immediately when a product category, use, attribute, or customer benefit is mentioned. Exhibit 3 lists the master brands in several product categories. Campbell's means soup to consumers; it doesn't mean high-quality food products.

Exhibit 3

Master Brands in Selected Product Categories

Product Category	Master Brand
Baking soda	Arm & Hammer
Adhesive bandages	Band-Aid
Rum	Bacardi
Antacids	Alka-Seltzer
Gelatin	Jell-O
Soup	Campbell's
Salt	Morton
Toy Trains	Lionel
Cream cheese	Philadelphia
Crayons	Crayola
Petroleum jelly	Vaseline

Most effective brand names have several of the following features:

- Is easy to pronounce (both by domestic and foreign buyers)
- Is easy to recognize
- Is easy to remember
- Is short
- Is distinctive, unique
- Describes the product
- Describes product use
- Describes product benefits
- Has a positive connotation
- Reinforces the desired product image
- Is legally protectable in home and foreign markets of interest.

Obviously no brand exhibits all of these characteristics. The most important issue is that the brand can be protected for exclusive use by its owner.

Brand loyalty, a consistent preference for one brand over all others, is quite high in some product categories. Over half the users in product categories such as cigarettes, mayonnaise, toothpaste, coffee, headache remedies, photographic film, bath soap, and ketchup are loyal to one brand. Brand identity is essential to developing brand loyalty.

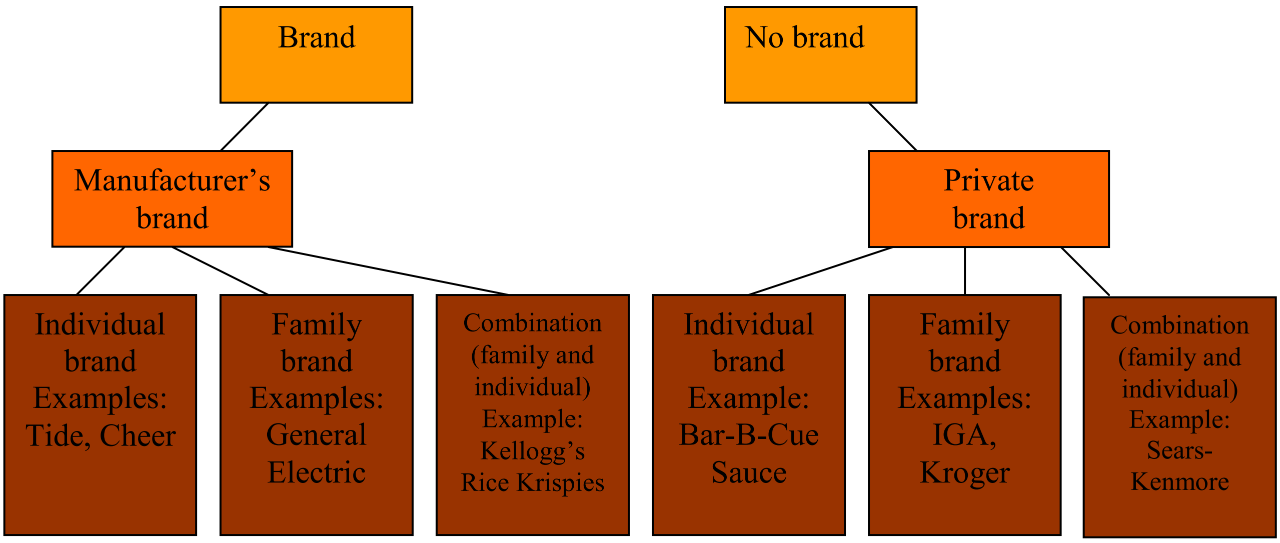
The third main purpose of branding is to facilitate *new-product sales*.

Brand Strategies

Firms face complex branding decisions. As exhibit 4 illustrates, the first decision is whether to brand at all.

Exhibit 4

Major Branding Decisions



Some firms actually use the lack of a brand name as a selling point. These underbranded products are called generic products. Firms that decide to brand their products may choose to follow a policy of using manufacturers' brands, private (distributor) brands, or both. In either case, they must then decide among a policy of individual branding (different brands for different products), family branding (common names for different products), or a combination of individual branding and family branding.

Generic Products Versus Branded Products A **generic product** is typically a no-frills, no-brand-name, low-cost product that is simply identified by its product category. Generic products have captured significant market shares in some product categories, such as canned fruits, canned vegetables, and paper products. These unbranded products are frequently identified only by black stenciled lettering on white packages.

The main appeal of generics is their low price. Generic grocery products are usually 30 to 40 percent less expensive than manufacturers' brands in the same product category and 20 to 25 percent less expensive than retailer-owned brands.

Manufacturers' Brands Versus Private Brands The brand name of a manufacturer – such as Kodak, Lazy Boy – is called a **manufacturer's brand.**

A **private brand** is a brand name owned by a wholesaler or retailer. Sam's American Choice (Wal-Mart), and IGA (Independent Grocer's Association) are all private brands. Private brands now account for over 20 percent of sales at all US mass merchandisers, drugstores, and supermarkets.

Individual Brands versus Family Brands Many companies use different brand names for different products, a practice referred to as **individual branding**. Companies use individual brands when their products vary greatly in use or performance. For instance, it would not make sense to use the same brand name for a pair of dress socks and a baseball bat. Procter & Gamble targets different segments of the laundry detergent market with Bold, Cheer, Dash, Dreft, Era, Gain, Ivory snow, Oxydol, Solo, and Tide.

On the other hand, a company that markets several different products under the same brand name is using a **family brand**. Sony's family brand includes radios, television sets, stereos, and other electronic products.

Cobranding

Cobranding entails placing two or more brand names on a product or its package. There are three types of cobranding. *Ingredient branding* identifies the brand of a part that makes up the product. Examples of ingredient branding are Intel (a microprocessor) in a personal computer. *Cooperative branding* is where two brands receiving equal treatment borrow on each other's brand equity, such as Citybank and American Airlines., or American Express and Sheraton. Finally, there is complementary branding, where products are advertised or marketed together to suggest usage, such as a spirits brand (Seagram's).

Cobranding is a useful strategy when a combination of brand names enhances the prestige or perceived value of a product or when it benefits brand owners and users. Cobranding may also be used when two or more organizations wish to collaborate to offer a product.

European firms have been slower to adopt cobranding that U.S. firms have. One reason is that European customers seem to be more skeptical than U.S. customers in truing new brands.

Trademarks

A **trademark** is the exclusive right to use a brand or part of a brand. Others are prohibited from using the brand without permission. A service mark performs the same function for services, such as H & R Block and Weight Watches.

Parts of a brand or other product identification may qualify for trademark protection. Some examples are

- Shapes, such as the Jeep front grille and the Coca-Cola bottle
- Ornamental color or design, such as the decoration on Nike tennis shoes, the black-and copper color combination of a Duracell battery
- Catchy phrases, such as Budweiser's "The Bud's for you"
- Abbreviations, such as Bud, Coke

The trademark Revision Act of 1988 allows organizations to register trademarks based on a bona fide intention to use them (normally, within six months following the issuance of the trademark) for ten years. To renew the trademark, the company must prove it is using it. Rights to a trademark last as long as the mark is used. Normally, if the firm does not use it for two years, the trademark is considered abandoned, and a new user can claim exclusive ownership of the mark.

Companies that fail to protect their trademarks face the problem of their product names becoming generic. A **generic product name** identifies a product by class or type and cannot be trademarked. Former brand names that were not sufficiently protected by their owners and were subsequently declared to be generic product names in U.S. courts include aspirin, cellophane, linoleum, thermos, kerosene, monopoly, cola.

Companies like Rolls Royce, Cross, Xerox, Levi Strauss, and Mc Donald's aggressively enforce their trademarks. Rolls Royce, Coca-Cola, and Xerox even run newspaper and magazine ads stating that their names are trademarks and should not be used as descriptive or generic terms.

Despite sever penalties for trademarks violations, trademark infringement lawsuits are not uncommon. One of the major battles is over brand names that closely resemble another brand name. Donna Karan filed a lawsuit against Donnkenny Inc., whose Nasdaq trading symbol – DNKY – was too close to Karan's DKNY trademark.

Companies must also contend with fake or unauthorized brands, such as fake Levi's jeans, Microsoft software, Rolex watches, Reebok and Nike footwear.

5. PACKAGING

<u>Learning objective. Describe marketing uses of packaging and labeling</u>

Packages have always served a practical function – that is, they hold contents together and protect goods as they move through the distribution channel. Today, however, packaging is also a container for promoting the product and making it easier and safer to use.

Packaging functions

The three most important functions of packaging are to contain and protect products, promote products, and facilitate the storage, use, and convenience of products. A fourth function of packaging that is becoming increasingly important is to facilitate recycling and reduce environmental damage.

Containing and Protecting Products The most obvious function of packaging is to contain products that are liquid, granular, or otherwise divisible. Packaging also enables manufacturers, wholesalers, and retailers to market products in specific quantities, such as ounces.

Physical protection is another obvious function of packaging. Most products are handled several times between the time they are manufactured, harvested, or otherwise produced and the time they are consumed or used. Many products are shipped, stored, and inspected several times between production and consumption. Some, like milk, need to be refrigerated. Others, like beer, are sensitive to light. Still others, like medicines and bandages, need to be kept sterile. Packages protect products from breaking, evaporation, spillage, spoilage, light, heat, cold and many other conditions.

Promoting Products Packaging does more than identify the brand, list the ingredients, specify features, and give directions. A package differentiates a product from competing products and may associate a new product with a family of other products from the same manufacturer. Packaging has measurable effect on sales.

Packages use designs, colors, shapes, and materials to try to influence consumers' perceptions and buying behavior. For example, marketing research shows that health-conscious consumers are likely to think that any food is probably good for them as long as it comes in green packaging.

Facilitating Storage, Use, and Convenience Wholesalers and retailers prefer packages that are easy to ship, store, and stock on shelves. They also like packages that protect products, prevent spoilage or breakage, and extend the product's shelf life.

Consumers' requirements for convenience cover many dimensions. Con summers are constantly seeking items that are easy to handle, open, or recluse, although some consumers want packages that are tamperproof or childproof. Consumers also want reusable and disposable packages. Surveys conducted by Sales & Marketing Management magazine revealed that consumers dislike – and avoid buying – leaky ice cream boxes, overly heavy or fat vinegar bottles, immovable pry-up lids on glass bottles, key-opener sardine cans, and hard-to-pour cereal boxes. Such packaging innovations as zipper tear strips, hinged lids, tab slots, screw-on tops were introduced to solve these and other problems.

Facilitating Recycling and Reducing Environmental Damage

One of the most important packaging issues in the twenty-first century is compatibility with the environment.

Some firms use their packaging to target environmentally concerned market segments. Brocato International markets shampoo and hair conditioner in bottles that are biodegradable in landfills. Procter & Gamble markets Sure Pro and Old Spice in "eco-friendly" pump-spray packages that do not rely on aerosol propellants.

Labeling

An integral part of any packaging is its label. Labeling generally takes one of two forms: persuasive or informational. **Persuasive labeling** focuses on a promotional theme or logo, and consumer information is secondary. Price Pfister developed a new, persuasive label – featuring a picture of faucet, the brand name, and the logo – with the goal of strengthening brand identity and becoming known as a brand instead of as a manufacturer.

Informational labeling, in contrast, is designed to help consumers make proper product selections and lower their cognitive dissonance after the purchase. Sears attaches a "label of confidence" to all its floor coverings. This label gives such product information as durability, color, features, such as type of frame, number of coils, and fabric characteristics.

Universal Product Codes (UPCs)

The universal product codes that appear on most items in supermarkets and other high-volume outlets were first introduced in 1974. Because the numerical codes appear as a series of thick and thin vertical lines, they are often called *bar codes*. The lines are read by computerized optical scanners that match codes with brand names, package sizes, and prices. They also print information on cash register tapes and help retailers rapidly and accurately prepare records of customer purchases, control inventories, and track sales.

6. PRODUCT WARRANTIES

Learning objective. Describe how and why product warranties are important marketing tools

Just as a package is designed to protect the product, a **warranty** protects the buyer and gives essential information about the product. A warranty confirms the quality or performance of a good or service. An **express warranty** is a written guaranty. Express warranties range from simple statements – such as “100 percent cotton” (a guaranty of quality) and “complete satisfaction guarantied” (a statement of performance) – to extensive documents written in technical language. In contrast, an **implied warranty** is an unwritten guaranty that the good or service is fit for the purpose for which it was sold.

Congress passed the Magnuson-Moss Warranty-Federal Trade Commission Improvement Act in 1975 to help consumers understand warranties and get action from manufacturers and dealers. A manufacturer that promises a full warranty must meet certain minimum standards, including repair “within a reasonable time and without charge” of any defects and replacement of the merchandise or a full refund if the product doesn’t work “after a reasonable number of attempts” at repair.

Key Terms

1. brand
2. brand equity
3. brand loyalty
4. brand mark
5. brand name
6. business product (industrial product)
7. cobranding
8. consumer product
9. convenience product
10. express warranty
11. family brand
12. generic product
13. heterogeneity
14. implied warranty
15. individual branding
16. informational labeling
17. inseparability
18. intangibility
19. manufacturer’s brand
20. master brand
21. perishability
22. persuasive labeling

23.private brand
24.product
25.product item
26.product line
27.product line depth
28.product line extension
29.product mix
30.product mix width
31.product modification
32.search quality
33.shopping product
34.specialty product
35.trademark
36.universal product code (UPC; bar code)
37.unsought product
38.warranty

Discussion and Writing Questions

1. A local civic organization has asked you to give a luncheon presentation about planned obsolescence. Rather than pursuing a negative approach by talking how businesses exploit customers through planned obsolescence, you have decided to talk about benefits of producing products that do not last forever. Prepare a one-page outline of your presentation.
2. A local supermarket would like to introduce their own brand of paper goods (e.g., paper towels, facial tissue, etc.) to sell alongside their current inventory. The company has hired you to generate a report outlining the advantages and disadvantages of doing so. Write the report.
3. Identify five outstanding brand names, and explain why each is included in your list.
4. Find a product at home that has a distinctive package. Write a paragraph evaluating that package based on the four functions of packaging discussed in the unit.
5. How have several snack food companies modified their product to serve the emerging needs of their customers?
6. What is the product mix offered at Web site **http://www.marriot.com**?

7. Learn more about how product warranties are handled worldwide. Using InfoTrac (**http://www.infotrac-college.com**) run a keyword search for "warranty" or "guarantee" and a country of interest to you. For example, search for "warranty" and "Germany" or "guarantee" and "Mexico". Write a paragraph on what you discover.

Review Quiz

1. A relatively inexpensive item that merits little shopping effort is a(n):
   a. Convenience product
   b. Shopping product
   c. Specialty product
   d. Unsought product

2. An item that consumers will search extensively for and are very reluctant to accept substitutes for is a(n):
   a. Convenience product
   b. Shopping product
   c. Specialty product
   d. Unsought product

3. Because of their_____, services cannot be touched, seen, tasted, heard, or felt in the same manner as goods.
   a. intangibility
   b. inseparability
   c. heterogeneity
   d. perishability

4. The quality of a meal at a restaurant can only be assessed after it has been consumed. This suggests that such a service is high in the following:
   a. Assessment qualities
   b. Search qualities
   c. Experience qualities
   d. Credence qualities

5. Which of the following qualities is a characteristic of many services that consumers often have difficulty judging even after a purchase because they do not have enough knowledge or experience?
   a. Assessment qualities
   b. Search qualities
   c. Experience qualities
   d. Credence qualities

6. A specific and distinct version of a product offered by an organization is defined as a

a. Product item
b. Product category
c. Product line
d. Product mix

7. A modification of an existing product in which there is a change in the _product's versatility or effectiveness is a

a. Line modification
b. Quality modification
c. Functional modification
d. Style modification

8. A brand name that is owned by a wholesaler or a retailer is known as a:

a. Distributor's brand
b. Private brand
c. Cobrand
d. Family brand

9. An exclusive right to use a brand is a:

a. Brand mark
b. Copyright
c. Trademark
d. Private brand

10. _____ labeling focuses on a promotional theme or logo.

a. Positioning
b. Persuasive
c. Informational
b. Functional

11. Organizing related items into product lines often results in advertising efficiencies for the producer of these goods.

a. True
b. False

12. When a firm increases the width of a product line, it is generally also increasing risk in the marketplace.

a. True
b. False

13. Identify and describe the four unique characteristics that distinguish services from goods.

14. Identify the three most important functions of product packaging.

CHAPTER 3 PRICE

1. THE IMPORTANCE OF PRICE

Learning objective. Discuss the importance of pricing decisions to the economy and to the individual firm

Price means one thing to the customer and something else to the seller. To the consumer, it is the cost of something. To the seller, price is revenue, the primary source of profits. In the broadest sense, price allocates resources in a free-market economy. With so many ways of looking at price, it's no wonder that marketing managers find the task of setting prices a challenge.

What is price?

Price is that which is given up in an exchange to acquire a good or service. Price is typically the money exchanged for the good or service. It may also be time lost while waiting to acquire the good or service. For example, many people waited all day at Southwest Airlines' ticket counters during the company's twenty-fifth anniversary sale. Even then, some people didn't get the deeply discounted tickets that they had been hoping for. Price also might include "lost dignity" for an individual who loses his job and must rely on charity to obtain food and clothing.

Consumers are interested in obtaining a "reasonable price". "Reasonable price" really means "perceived reasonable value" at the time of the transaction. Remember, the price paid is based on the satisfaction consumers *expect* to receive from a product and not necessarily the satisfaction they *actually* receive.

Price can be related to anything with perceived value, not just money. When goods and services are exchanged, the trade is called *barter*. For example, if you exchange this book for a chemistry book at the end of the term, you have engaged in barter. The price you paid for the chemistry book was this textbook.

The Importance of Price to the Marketing Managers

Prices are the key to revenues, which in turn are the key to profits for an organization. **Revenue** is the price charged to customers multiplied by the number of units sold. Revenue is what pays for every activity of the company: production, finance, sales, distribution and so on. What's left over (if anything) is **profit**. Managers usually strive to charge a price that will earn a fair profit.

To earn a profit, managers must choose a price that is not too high or too low, a price that equals the perceived value to target consumers. If a price is set too high in consumers' minds, the perceived value will be less than the cost, and sales opportunities will be lost.

Lost sales mean lost revenue. Conversely, if a price is too low, it may be perceived as a great value for the consumer, but the firm loses revenue it could have earned. Setting prices too low may not even attract as many buyers as managers might think. One study surveyed over two thousand shoppers at national chains around the country and found that over 60 percent intended to buy full-price items only. Retailers that place too much emphasis on discounts may not be able to meet the expectations of full-price customers.

Trying to set the right price is one of the most stressful and pressure-filled tasks of the marketing manager, as trends in the consumer market attest:

- Confronting a flood of new products, potential buyers carefully evaluate the price of each one against the value of existing products.
- The increased availability of bargain-priced private and generic brands has put downward pressure on overall prices.
- Many firms are trying to maintain or regain their market share by cutting prices.

In the organizational market, where customers include both governments and businesses, buyers are also becoming more price sensitive and better informed. In the consumer market, consumers are using the Internet to make wiser purchasing decisions.

2. PRICING OBJECTIVES

<u>Learning objective. List and explain a variety of pricing objectives</u>

To survive in today's highly competitive marketplace, companies need pricing objectives that are specific, attainable, and measurable. Realistic pricing goals then require periodic monitoring to determine the effectiveness of the company's strategy. For convenience, pricing objectives can be divided into three categories: profit oriented, sales oriented, and status quo.

Profit-oriented Pricing Objectives

Profit-oriented objectives include profit maximization, satisfactory profits, and target return on investment.

Profit maximization means setting prices so that total revenue is as large as possible relative to total costs. Profit maximization does not always signify unreasonably high prices, however. Both price and profits depend on the type of competitive environment a firm faces, such as being in a monopoly position or selling in a much more competitive situation. Also, remember, that a firm cannot charge a price higher than the product's perceived value. It is often hard to set up an accurate accounting system to determine the point of profit maximization.

Sometimes managers say that their company is trying to maximize profits – in other words, trying to make as much money as possible. Although this goal may sound impressive to stockholders, it is not good enough for planning. The statement "We want to make all the money we can" is vague and lacks focus. It gives management license to do just about anything it wants to do.

Satisfactory profits are a reasonable level of profits. Rather than maximizing profits, many organizations strive for profits that are satisfactory to the stockholders and management – in other words, a level of profits consistent with the level of risk an organization faces. In a risky industry, a satisfactory profit may be 35 percent. In a low-risk industry, it might be 7 percent. To maximize profits, a small-business owner might have to keep his or her store open seven days a week. However, the owner might not want to work that hard and might be satisfied with less profit.

Target Return on Investment The most common profit objective is a target return on investment (ROI), sometimes called the firm's return on total assets. ROI measures the overall effectiveness of management in generating profits with its available assets. The higher the firm's return on investment, the better off the firm is.

Many companies – including Du Pont, General Motors – use target return investment as their main pricing goal.

Return on investment is calculated as follows:

Return on investment = Net profits after taxes/Total assets.

Sales-Oriented Pricing Objectives

Sales-oriented pricing objectives are based either on market share or on dollar or unit sales. The effective marketing manager should be familiar with these pricing objectives.

Market Share is a company's product sales as a percentage of total sales for that industry. Sales can be reported in dollars or in units of product. Many companies believe that maintaining or increasing market share is an indicator of the effectiveness of their marketing mix. Larger market shares have indeed often meant higher profits, thanks to greater economies of scale, market power, and ability to compensate top-quality management. However, many companies with low market share survive and even prosper. To succeed with a low market share, companies need to compete in industries with slow growth and few product changes – for instance, industrial component parts and supplies.

Sales Maximization

Rather than strive for market share, sometimes companies try to maximize sales. The objective of maximizing sales ignores profits, competition, and the marketing environment as long as sales are rising.

If a company is strapped for funds or faces an uncertain future, it may try to generate a maximum amount of cash in the short run. Management's task when using this objective is to calculate which price-quantity relationship generates the greatest cash revenue. Sales maximization can also be effectively used on a temporary basis to sell off excess inventory. It is not uncommon to find Christmas cards, ornaments, and so on discounted at 50 to 70 percent off retail prices after the holiday season.

Maximization of cash should never be a long-run objective, because cash maximization may mean little or no profitability. Without profits, a company cannot survive.

Status Quo Pricing Objectives

Status Quo pricing seeks to maintain existing prices or to meet the competition's prices. This third category of pricing objectives has the major advantage of requiring little planning. It is essentially a passive policy.

Often, firms competing in an industry with an established price leader simply meet the competition's prices. These industries typically have fewer price wars than those with direct price competition. In other cases, managers regularly shop competitors' stores to ensure that their prices are comparable.

3. THE DEMAND DETERMINANT OF PRICE

Learning objective. Explain the role of demand in price determination

After marketing managers establish pricing goals, they must set specific prices to reach those goals. The price they set for each product depends mostly on two factors: the demand for the good or service and the cost to the seller for that good or service.

The nature of Demand

Demand is the quantity of a product that will be sold in the market at various prices for a specified period. The quantity of a product that people will buy depends on its price. The higher the price, the fewer goods or services consumers will demand. Conversely, the lower the price, the more goods or services they will demand.

Supply is the quantity of a product that will be offered to the market by a supplier or suppliers at various prices for a specified period. At higher prices, suppliers will obtain more resources and offer more goods.

Elasticity of Demand

To appreciate demand analysis, you should understand the concept of elasticity. **Elasticity of demand** refers to consumers' responsiveness or sensitivity to changes in price. **Elastic demand** occurs when consumers buy more or less of a product when the price changes. Conversely, **inelastic demand** means that an increase or decrease in price will not significantly affect demand for the product.

Factors that Affect Elasticity Several factors affect elasticity of demand, including the following:

- *Availability of substitutes:* When many substitute products are available, the consumer can easily switch from one product to another, making demand elastic. The same is true in reverse.
- *Price relative to purchasing power:* If a price is so low that it is an inconsequential part of an individual's budget, demand will be inelastic. For example, if the price of salt doubles, consumers will not stop putting salt in their soup, because salt is cheap anyway.
- *Product durability:* Consumers often have an option of repairing durable products rather than replacing them, thus prolonging their useful life. If a person had planned to buy a new car and the prices suddenly began to rise, he or she might elect to fix the old car and drive it for another year. In other words, people are sensitive to price increase, and demand is elastic.
- *A product's other uses:* The greater the number of different uses for a product, the more elastic demand tends to be. If a product has only one use, as may be true of a new medicine, the quantity purchased will not vary as price varies.

4. THE COST DETERMINENT OF PTICE

Learning objective. Describe cost-oriented pricing strategies

The idea of cost may seem simple, but it is actually a multifaceted concept, especially for producers of goods and services. A **variable cost** is a cost that deviates with changes in the level of output; the example of a variable cost is the cost of materials. In contrast, a **fixed cost** does not change as output is increased or decreased. Examples include rent and executives' salaries.

Markup Pricing

Markup pricing, the most popular method used by wholesalers and retailers to establish a selling price, does not directly analyze the cost of production. Instead, **markup pricing** is the cost of buying the product from the producer, plus amounts for profit and for expenses not otherwise accounted for. The total determines the selling price.

The biggest advantage of markup pricing is its simplicity. The primary disadvantage is that it ignores demand and may result in overpricing or underpricing the merchandize.

Break-Even Pricing

Break-even analysis determines what sales volume must be reached before the company breaks even and no profits are earned. The typical beak-even model assumes a given fixed cost and a constant average variable cost.

The advantage of break-even analysis is that it provides a quick estimate of how much the firm must sell to break even and how much profit can be earned if a higher sales volume is obtained. If a firm is operating close to the break-even point, it may want to see what can be done to reduce costs or increase sales.

Break-even analysis is not without several important limitations. Sometimes it is hard to know whether a cost is fixed or variable.

5. OTHER DETERMINANTS OF PRICE

Learning objective. Demonstrate how the product life cycle, competition, distribution, the Internet and extranets, promotion, demands of large customers, and perceptions of quality can affect price

Other factors besides demand and costs can influence price. For example, the stages in the product life cycle, the competition, and the product distribution strategy, promotion strategy, and perceived quality can all affect pricing.

Stages in the Product Life Cycle

As a product moves through its life cycle, the demand for the product and the competitive conditions tend to change:

- *Introductory stage:* Management usually sets prices high during the introductory stage. One reason is that it hopes to recover its development costs quickly. On the other hand, if the target market is highly price sensitive, management often finds it better to price the product at the market level or lower.

- *Growth stage:* Prices generally begin to stabilize as the product enters the growth stage. There are several reasons. First, competitors have entered the market, increasing the available supply. Second, the product has begun to appeal to a broader market, often lower income groups.
- *Maturity stage:* Maturity usually bring further price decreases as competition increases and inefficient, high-cost firms are eliminated. Distribution channels become a significant cost factor, however, because of the need to offer wide product lines for highly segmented markets, extensive service requirements, and the sheer number of dealers necessary to absorb high-volume production.
- *Decline stage:* The final stage of the life cycle may see further price decreases as the few remaining competitors try to salvage the last vestiges of demand. When only one firm is left in the market, prices begin to stabilize.

The competition

The competition varies during the product life cycle, and so at times it may strongly affect pricing decisions. Although a firm may not have any competitors at first, the high prices it charges may induce another firm to enter the market.

Distribution Strategy

An effective distribution network can often overcome other minor flaws in the marketing mix. For example, although consumers may perceive a price as being slightly higher than normal, they may buy the product anyway if it is being sold at a convenient retail outlet. Adequate distribution for a new product can often be attained by offering a larger-than-usual profit margin to distributors.

The impact on the Internet and Extranets

The Internet, corporate networks, and wireless setups are linking people, machines, and companies around the globe – and connecting sellers and buyers as never before. This link is enabling buyers to quickly and easily compare products and prices, putting them in a better bargaining position. At the same time, the technology allows sellers to collect detailed data about customers' buying habits, preferences, even spending limits, so they can tailor their products and prices – all of which raises hopes of a more efficient marketplace.

Prices are already coming down as a result of the Internet. Although e-commerce is still only a small part of total retail sales, the Web is a haven for people looking for a bargain. The percentage difference from ordinary retail outlets, including shipping costs from e-retailers are prescription drugs (-28%), apparel (-38%), alcohol and cigarettes (-28%), and home electronics (-4%).

The pricing revolution, though, goes beyond the Net. Companies also are creating private networks, or **extranets**, that link them with their suppliers and customers. These systems make it possible to get a precise handle on inventory, costs, and demand at any given moment – and adjust prices instantly.

Internet Auctions

The Internet auction business is huge. EBay alone has ten million customers and a market value of $21 billion. The auto-parts auctioneer planned by General Motors, Ford, and Daimler Chrysler is expected to handle $250 billion in transactions a year. Bidders can indeed save money at e-auctions. One study compared prices in 473 on-line auctions with prices of identical goods bought from on-line catalogs. The average auction discount was 25 percent for goods bought from a retailer with both an auction and a catalogue site. Plus, bidding itself can be fun and exciting. A few of the most popular auction sites are the following:

- **http://www.auctions.amazon.com:** Link to Sotheby's for qualified sellers of high-end items.
- **http://www.ebay.com:** Most popular auction site.
- **http://www.fairmarket.com:** Network of one hundred sites that share listing.
- **http://www.auctions.yahoo.com:** Free listing and numerous selling categories.

Promotion Strategy

Price is often used as a promotional tool to increase consumer interest. The weekly flyers sent out by grocery stores in the Sunday newspaper, for instance, advertise many products with special low prices. Crested Butte Ski Resort in Colorado tried a unique twist on price promotions. It made the unusual offer of free skiing between Thanksgiving and Christmas. Its only revenues were voluntary contributions from lodging and restaurant owners who benefited from the droves of skiers taking advantage of the promotion. Crested Butte Resort no longer loses money during this time of the year.

The Relationship of Price and Quality

Consumers tend to rely on a high price as a predictor of good quality when there is great uncertainty involved in the purchase decision. In the absence of other information, people typically assume that prices are higher because the products contain better materials, because they are made more carefully, or, in case of professional services, because the provider has more expertise. In other words, consumers assume that "You get what you pay for." Knowledgeable merchants take these consumer attitudes into account when devising their pricing strategies. Prestige pricing is charging a high price to help promote a high-quality image.

6. HOW TO SET A PRICE ON A PRODUCT

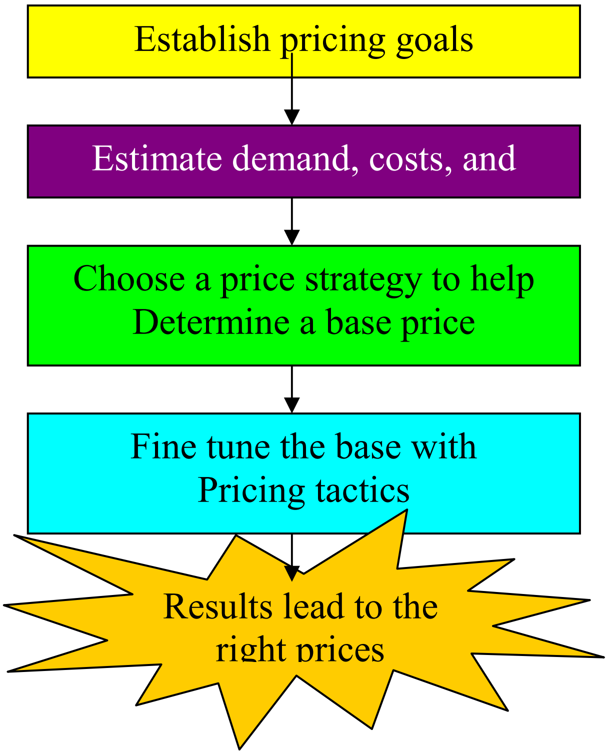
Learning objective. Describe the procedure for setting the right price

Setting the right price on a product is a four-step process (see Exhibit 5):

1. Establish pricing goals.
2. Estimate demand, costs, and profits.
3. Choose a price strategy to help determine a base price.
4. Fine tune the base price with pricing tactics.

Exhibit 5

Steps in Setting the Right Price on a Product



Establish Pricing Goals

The first step in setting the right price is to establish pricing goals. Recall that pricing objectives fall into three categories: profit oriented, sales oriented, and status quo. These goals are derived from the firm's overall objectives.

Estimate Demand, Costs, and Profits

After establishing pricing goals, managers should estimate total revenue at a variety of prices. Next, they should determine corresponding costs for each price. They are then ready to estimate how much profit, if any, and how much market share can be earned at each possible price. These data become the heart of the developing price policy.

Choose a Price Strategy

The marketing manager's chosen price strategy defines the initial price and gives direction for price movements over the product life cycle.

The price strategy sets a competitive price in a specific market segment, based on a well-defined positioning strategy. Changing a price level from premium to superpremium may require a change in the product itself, the target customers served, the promotional strategy, or the distribution channels. Thus, changing a price strategy can require dramatic alterations in the marketing mix. A carmaker cannot successfully compete in the superpremium category if the car looks and drives like an economy car.

Price skimming

Price skimming is sometimes called a "market-plus" approach to pricing, because it denotes a high price relative to the prices of competing products. The term **price skimming** is derived from the phrase "skimming the cream off the top". Companies often use this strategy for new products when the product is perceived by the target market as having unique advantages. For example, Caterpillar sets premium prices on its construction equipment to support and capture its high perceived value. Price skimming works best when the market is willing to buy the product even though it carries an above-average price. If, for example, some purchasing agents feel that Caterpillar equipment is far superior to competitors' products, then Caterpillar can charge premium prices successfully. Firms can also effectively use price skimming when a product is well protected legally, when it represents a technological breakthrough, or when it has in some other way blocked entry to competitors.

Penetration Pricing

Penetration pricing is at the end of the spectrum. Penetration pricing means charging a relatively low price for a product as a way to reach the mass market. The low price is designed to capture a large share of a substantial market, resulting in lower production costs.

The big advantage of penetration pricing is that it typically discourages or blocks competition from entering a market. The disadvantage is that penetration means gearing up for mass production to sell a large volume at a low price. What if the volume fails to materialize? The company is faced with huge losses from building or converting a factory to the failed product. Skimming, in contrast, lets a firm "stick its toe in the water" and see if the limited demand exists at the high price.

Status Quo Pricing

The third basic price strategy a firm may choose is status quo pricing, or meeting the competition. It means charging a price identical to or very close to the competition's price.

Although status quo pricing has the advantage of simplicity, its disadvantage is that the strategy may ignore demand or cost or both. However, meeting the competition may be the safest route to long-term survival if the firm is comparatively small.

7. THE LEGALITY AND ETHICS OF PRICE STRATEGY

Learning objective. Identify the legal and ethical constraints on pricing decisions

Before marketing managers establish any price strategy, they should know the laws that limit their decision making. Among the issues that fall into this category are unfair trade practices, price fixing, price discrimination, and predatory pricing.

Unfair Trade Practices

In over half the states, unfair trade practice acts put a floor under wholesale and retail prices. Selling below cost in these states is illegal. Wholesalers and retailers must usually take a certain minimum percentage mark up on their combined merchandise cost and transportation cost. The most common markup figures are 6 percent at the retail level and 2 percent at the wholesale level.

The intent of unfair trade practice acts is to protect small local firms from giants like Wal-Mart and Target, which operate very efficiently on razor-thin prift margins.

Price Fixing

Price fixing is an agreement between two or more firms on the price they will charge for a product. Suppose two or more executives from competing firms meet to decide how much to charge for a product or to decide which of them will submit the lowest bid on a certain contract. Such practices are illegal under the Sherman Act and the Federal Trade Commission Act. Offenders have received fines and sometimes prison terms. Price fixing is one area where the law is quite clear, and the Justice Department's enforcement Act.

Price Discrimination

The Robinson-Patman Act of 1936 prohibits any firm from selling to two or more different buyers, within a reasonably short time, commodities (not services) of like grade and quality at different prices where the result would be to substantially lessen competition. The act also makes it illegal for a seller to offer two buyers different supplementary services and for buyers to use their purchasing power to force sellers into granting discriminatory prices and services.

The Robinson-Patman Act provides three defenses for the seller charged with price discrimination:

- Cost: A firm can charge different prices to different customers if the prices represent manufacturing or quantity discount savings.
- Market conditions: Price variations are justified if designed to meet fluid product or market conditions. Examples include the deterioration of perishable goods, the obsolescence of seasonal products, a distress sale under court order.
- Competition: A reduction in price may be necessary to stay even with the competition. Specifically, if a competitor undercuts the price quoted by a seller to a buyer, the law authorizes the seller to lower the price charged to the buyer for the product in question.

Predatory Pricing

Predatory pricing is the practice of charging a very low price for a product with the intent of driving competitors out of business or out of the market. Once competitors have been driven out, the firm raises its prices. The practice is illegal under the Sherman Act and the Federal Trade Commission Act.

8. TACTICS FOR FINE-TUNING THE BASE PRICE

Learning objective. Explain how discounts, geographic pricing, and other special tactics can be used to fine-tune the base price

After managers understand both the legal and the marketing consequences of price strategies, they should set a base price, the general price level at which the company expects to sell the good or service. The general price level is correlated with the pricing policy: above the market (price skimming), at the market (status quo pricing), or below the market (penetration pricing). The final step, the, is to fine-tune the base price.

Fine-tuning techniques are short-run approaches that do not change the general price level. They do, however, result in changes within a general price level. These pricing tactics allow the firm to adjust for competition in certain markets, meet ever-changing government regulations, take advantage of unique demand situations, and meet promotional and positioning goals. Fine-tuning pricing tactics include various sorts of discounts, geographic pricing and special pricing tactics.

Discounts, Allowances, Rebates, and Value Pricing

A base price can be lowered through the use of discounts and the related tactics of allowance, rebates, and value pricing. Managers use the various forms of discounts to encourage customers to do what they would not ordinary do, such as paying cash rather than using credit, taking delivery out of season, or performing certain functions within a distribution channel. A summary of the most common tactics is as follows:

- Quantity discounts: When buyers get a lower price for buying in multiple units or above a specified dollar amount, they are receiving a **quantity discount**. A **cumulative quantity discount** is a deduction from list price that applies to the buyer's total purchases made during a specific period; it is intended to encourage customer's loyalty. In contrast, a **noncumulative quantity discount** is a deduction from list price that applies to a single order than to the total volume of orders placed during a certain period. It is intended to encourage orders in large quantities.
- Cash discounts: A **cash discount** is a price reduction offered to a consumer, an industrial user, or a marketing intermediary in return for prompt payment of a bill. Prompt payment saves the seller carrying charges and billing expenses and allows the seller to avoid bad debt.
- Functional discounts: When distribution channel intermediates, such as wholesalers or retailers, perform a service or function for the manufacturer,

they must be compensated. This compensation, typically a percentage discount from the base price, is called a **functional discount** (a **trade discount**).

- Seasonal discounts: A **seasonal discount** is a price reduction for buying merchandise out of season. It shifts the storage function to the purchaser. Seasonal discounts also enable manufacturers to maintain a steady production schedule year-round.
- Promotional allowances: A **promotional allowance** is a payment to a dealer for promoting the manufacturer's products. It is both a pricing tool and a promotional device.
- Rebates: A **rebate** is a cash refund given for the purchase of a product during a specific period. The advantage of a rebate over a simple price reduction for stimulating demand is that a rebate is a temporary inducement that can be taken away without altering the basic price structure. A manufacturer that uses a simple price reduction for a short time may meet resistance when trying to restore the price to its original, higher level.

Value-Based Pricing

Value-based pricing is a pricing strategy that has grown out of the quality movement. Instead of figuring prices based on costs or competitors' prices, it starts with the customer, considers the competition, and then determines the appropriate price. The basic assumption is that the firm is customer driven, seeking to understand the attributes customers want in the goods and services they buy and the value of that bundle of attributes to customers.

An important type of value pricing is everyday low prices, which has evolved because of trade loading. Trade load occurs when a manufacturer temporarily lowers the price to induce wholesalers and retailers to buy more goods that can be sold in a reasonable time.

Geographic Pricing

Because many sellers ship their wares to a nationwide or even a worldwide market, the cost of freight can greatly affect the total cost of a product. Sellers may use several different geographic pricing tactics to moderate the impact of freight costs on distant customers. The following methods of geographic pricing are the most common:

- FOB origin pricing: **FOB origin pricing**, also called FOB factory or FOB shipping point, is a price tactic that requires the buyer to absorb the freight costs from the shipping point.
- Uniform delivered pricing: If the marketing manager wants total costs, including freight, to be equal for all purchases of identical products, the firm will adopt uniform delivered pricing. With **uniform delivered pricing**, the seller pays the actual freight charges and bills every purchaser an identical, flat freight charge.
- Zone pricing: A marketing manager who wants to equalize total costs among buyers within large geographic areas – but not necessarily all of the seller's market area – may modify the base price with a zone-pricing tactic. **Zone pricing** is a modification of uniform delivered pricing. Rather than placing the entire United States under a uniform freight rate, the firm divides it into segments or zones and charges a flat freight rate to all customers in a given zone. The U.S. Postal Service's parcel post rate structure is probably the best known zone-pricing system in the country.
- Freight absorption pricing: In **freight absorption pricing**, the seller pays all or part of the actual freight charges and does not pass them on to the buyer. The manager may use this tactics in intensively competitive areas or as a way to break into new market areas.
- Basing-point pricing: With **basing-point pricing**, the seller designates a location as a basing point and charges all buyers the freight cost from that point, regardless of the city from which the goods are shipped. Thanks to several adverse court rulings, basing-point pricing has waned in popularity. Freight fees charged when none were actually incurred, called *phantom freight*, have been declared illegal.

Special Pricing Tactics

Unlike geographic pricing, special pricing tactics are unique and defy neat categorization. Managers use these tactics for various reasons – for example, to stimulate demand for specific products, to increase store patronage, and to offer a wider variety of merchandise at a specific price point. Special pricing tactics include a single-price tactic, flexible pricing, professional services pricing, price lining, leader pricing, bait pricing, odd-even pricing, price bundling, and two –part pricing.

Single-Price Tactic A merchant using a single-price tactic offers all goods and services at the same price (or perhaps two or three prices). Retailers using this tactic include One Price Clothing Stores, Dre$$ to the NineS, Your $110 Store. One Price Stores, for example, tend to be small, about three thousand square feet. Their goal is to offer merchandise that would sell for at least $15 to $18 in other stores. The stores carry pants, shirts, blouses, sweaters, and shorts for juniors, misses, and large-sized women. The stores do not feature any seconds or irregular items, and everything is sold for $6.

Flexible Pricing means that different customers pay different prices for essentially the same merchandise bought in equal quantities. This tactic is often found in the sale of shopping goods, specialty merchandise, and most industrial goods except supply items. Car dealers, many appliance retailers, and manufacturers of industrial installations, accessories, and component parts commonly follow the practice. It allows the seller to adjust for competition by meeting another seller's price.

The obvious disadvantages of flexible pricing are the lack of consistent profit margins, the potential ill will of high-paying purchasers, the tendency for salespeople to automatically lower the price to make a sale, and the possibility of a price war among sellers.

Professional Service Pricing is used by people with lengthy experience, training, and often certification by a licensing board – for example, lawyers, physicians, and family counselors. Professionals sometimes charge customers at an hourly rate, but sometimes fees are based on the solution of a problem or performance of an act (such as an eye examination) rather than on the actual time involved. A surgeon may perform a heart operation and charge a flat fee of $5,000.The operation itself may require only four hours, resulting in a hefty $1,250 hourly rate. Lawyers also sometimes use flat-rate pricing, such as $500 for competing a divorce and $50 for handling a traffic ticket.

Those who use professional pricing have an ethical responsibility not to overcharge a customer. Because demand is sometimes highly inelastic, such as when a person requires heart surgery or a daily insulin shot to survive, there may be a temptation to charge "all the traffic will bear".

Leader Pricing (loss-leader pricing) is an attempt by the marketing manager to attract customers by selling a product near or even below cost, hoping that shoppers will buy other items once they are in the store. This type of pricing appears weekly in the newspaper advertising of supermarkets, specialty stores, and department stores. Leader pricing is normally used on well-known items that consumers can easily recognize as bargains at the special price. The goal is not necessarily to sell large quantities of leader items, but to try to appeal to customers who might shop elsewhere.

Leader pricing is not limited to products. Health clubs offer a one-month free trial as a loss leader. Lawyers give free initial consultation. And restaurants distribute two-for-one coupons and "welcome to the neighborhood" free meal coupons.

Bait Pricing In contrast to leader pricing, which is a genuine attempt to give the consumer a reduced price, bait pricing is deceptive. Bait pricing tries to get the consumer into a store through false or misleading price advertising and then uses high-pressure selling to persuade the consumer to buy more expensive merchandise.

REPOSSESSED … Singer slant-needle sewing machine … take over 8 payments of $5.10 per month … ABC Sewing Center.

This is bait. When a customer goes in to see the machine, a salesperson says that it has just been sold or else shows the prospective buyer a piece of junk no one would buy. Then the salesperson says, "But I've got a really good deal on this fine new model". This is the switch that may cause a susceptible consumer to walk out with a $400 machine. The Federal Trade Commission considers bait pricing a deceptive act and has banned its use in interstate commerce. Most states also ban bait pricing, but sometimes enforcement is tax.

Odd-Even Pricing (or **psychological pricing**) means pricing at odd-numbered prices to connote a bargain and pricing at even-numbered prices to imply quality. For years, many retailers have used this tactic to price their products in odd numbers – for example, $99.95 or $49.95 – in order to make consumers feel that they are paying a lower price for the product.

Price Bundling is marketing two or more products in a single package for a special price. Examples include the sale of maintenance contracts with computer hardware and other office equipment, weekend hotel packages that include a room and several meals, and airline vacation packages.

Two-Part Pricing means establishing two separate charges to consume a single good or service. Tennis clubs and health clubs charge a membership fee and a flat fee each time a person uses certain equipment or facilities. In other cases they charge a base rate for a certain level of usage, such as ten racquetball games per month, and a surcharge for anything over the mount.

Consumers sometimes prefer two-part pricing because they are uncertain about the number and the types of activities they might use at places like an amusement park.

Consumer Penalties

More and more businesses are adopting **consumer penalties** – extra fees paid by consumers for violating the terms of a purchase agreement.

Businesses impose consumer penalties for two reasons: They will allegedly (1) suffer an irrevocable revenue loss and/or (2) incur significant additional transaction costs should customers be unable or unwilling to complete their purchase obligations. For the company, these customer payments are part of doing business in a highly competitive marketplace.

Key Terms

Bait pricing
Base price
Basing-point pricing
Break-even analysis
Cash discount
Consumer penalty
Cumulative quantity discount
Demand
Elastic demand
Elasticity of demand
Everyday low prices
Extranet
Fixed cost
Flexible pricing (variable pricing)
Freight absorption pricing
Functional discount (trade discount)
Inelastic demand
Leader pricing (loss-leader pricing)
Market share
Markup pricing
Noncumulative quantity discount
Odd-even pricing (psychological pricing)
Penetration pricing
Predatory pricing
Prestige pricing
Price
Price bundling
Price fixing
Price skimming
Price strategy
Profit
Promotional allowance
Quantity discount
Rebate
Return on investment
Revenue
Seasonal discount
Single-price tactic
Status-quo pricing
Supply
Trade loading
Two-part pricing

Discussion and Writing Questions

1. Why is pricing so important to the marketing manager?
2. Explain the role of demand and supply in determining price.
3. Explain the concepts of elastic and inelastic demand. Why should managers understand these concepts?
4. Your firm has based its pricing strictly on the cost of the past. As the newly hired marketing manager, you believe this policy should change. Write the president a memo explaining your reasons.
5. Why is it important for managers to understand the concept of break-even points? Are there any drawbacks?
6. Why are so many companies adopting yield management systems?
7. Divide into two teams. Each team will be assigned a different grocery store from a different chain. Appoint a group leader. The group leaders should meet as a group and pick fifteen nationally branded grocery items. Each item should be specifically described as to brand name and size of the package. Each team will then proceed to its assigned store and collect price data on the fifteen items. The team should also gather price data on fifteen similar store brands, and generics, if possible.

   Each team should present its results to the class and discuss why there are price variations between stores, national brands, store brands, and generics.

As a next step, go back to your assigned store and share the overall results with the store manager. Bring back the manager's comments and share them with the class.

8. You are contemplating a price change for an established product sold by your firm. Write a memo analyzing the factors you need to consider in your decision.
9. Columnist Dave Barry jokes that federal law requires this message under the sticker price of new cars: "Warning to stupid people: Do not pay this amount." Discuss why the sticker price is generally higher than the actual selling price of a car. Tell how you think car dealers set the actual prices of the cars they sell.
10. What is the difference between a price policy and a price tactic? Give an example.
11. Go to one of the Internet auction sites listed in this chapter. Report to the class on how the auction process works and the items being auctioned.
12. What pricing strategy does Microsoft seem to be using for the software offered via **http://www.microsoft.com/msdownload**.
13. What pricing advantages does the Auto Connection (http://www.autoconnection.com) seem to offer compared to traditional auto dealers?
14. Price a flight on Southwest Airlines (http:// www.iflyswa.com) and price the same flight on American Airlines (http://www.americanair.com). Describe the kinds of price strategies used by each company.
15. What kind of pricing strategies are being offered by the following four telecommunication competitors?

http://www.att.com
http://www.mci.com
http://www.sprint.com
http://www.gte.com

Review Quiz

1. The price charged on a product multiplied by the number of units sold is _____.
   a. profit
   b. cost of goods sold
   c. gross margin
   d. revenue

2. Target return on investment is best classified as a _____ pricing objective.
   a. Profit-oriented
   b. Demand-oriented
   c. Sales-oriented
   d. Status quo

3. Which of the following pricing objectives requires the least planning and is considered a passive policy?
   a. Profit oriented
   b. Demand oriented
   c. Sales oriented
   d. Status quo

4. ______ occurs when total revenue increases in response to a decrease in price.
   a. Profit
   b. Unitary elasticity
   c. Inelastic demand
   d. Elastic demand

5. During which stage of the product life cycle do prices decline as competition intensifies and high-cost firms are eliminated?
   a. Introduction
   b. Growth
   c. Maturity
   d. Decline

6. In general, it can be said that output tends to increase at higher-price levels because manufacturers can sell more products and earn greater profits.
   a. True
   b. False

7. When many substitute products are available in the marketplace for customers, demand for an individual product in that category tends to be elastic.
   a. True
   b. False

8. The purpose of break-even analysis is to provide managers with an estimate of how much a firm must sell to break even between cost and revenues.
   a. True
   b. False

9. A consumer perceives a product's price as being higher than other offerings in the market. However, the customer may buy the product anyway if he or she feels it is being sold in a more convenient outlet.
   a. True
   b. False

10. Identify and briefly describe the three basic pricing objectives used by marketers.

11. The first step in setting the right price for a product is always to
   a. Estimate demand, costs, and profits
   b. Fine tune base prices with pricing tactics
   c. Establish pricing goals
   d. Choose a price strategy to help determine a base price

12. When a firm charges a high introductory price on a new product, frequently coupled with heavy promotion, it is practicing a _____ policy.
   a. Price skimming
   b. Penetration pricing
   c. Status quo
   d. Price fixing

13. Which of the following is not a defense for price discrimination under the Robinson-Patman Act of 1936?
   a. The product is a commodity, not a specialty good.
   b. There are cost differences in dealing with different customers.
   c. Market conditions cause price variations to occur.
   d. Competitors have lowered prices.

14. A price reduction offered in return for prompt payment of a bill is a _____.
   a. Quantity discount
   b. Cash discount
   c. Functional discount
   d. Promotional allowance

15. A pricing tactic used by marketers to attract customers to a store by selling products near or below cost is called:

a. Price bundling
b. Bait pricing
c. Leader pricing
d. Everyday low pricing (EDLP)

16. In many states, selling below cost is illegal for wholesalers and retailers.
a. True
b. False

17. Functional or trade discounts do not vary among different channel members.
a. True
b. False

18. The tactic of everyday low prices (EDLP) typically means permanently lower prices as an alternative to trade loading.
a. True
b. False

19. Identify the five most common geographic pricing tactics associated with assigning freight costs.

CHAPTER 4 PROMOTION

1. *READING* Tourist Promotion

There have been three aims of most tourist promotion in the last few years. The first has been to retain the established market of people for whom travel is a normal form of recreation. It is impossible to characterize them exactly, but generally they are likely to be between thirty and fifty years of age, well educated, residents of urban centers, and prosperous, with incomes of $25,000 a year or more.

The second purpose of tourist promotion has been to increase the size of the market. In order for tourism to grow, it is necessary to attract people who would not have traveled much until the last few years. These include not only office workers, but also industrial workers with much larger disposable incomes than ever before. It is significant for tourism that labor unions, having achieved high wage levels for workers in the industrialized countries, now fight for fringe benefits such as longer paid vacations and shorter work weeks. A three-day weekend, a distinct possibility in the not-too-distant future, would almost certainly cause an increase at least in domestic tourism.

The third goal of tourist promotion has been to overcome what might best be called its seasonal bias. In many countries, summer was the traditional vacation season. In the United States, for example, people went off to a resort in the mountains or at the seashore during the hot months. Businessmen sometimes sent their families off for the entire summer and joined them for weekends at such resorts as Newport or Lake George. In France, the summer vacation has extended even to the shutting down of many stores and small businesses. Hundreds of thousands of Frenchmen leave Paris in August for the south of France or for destinations outside the country.

Winter vacations have been heavily promoted to spread tourism more evenly throughout the year. There has been a big increase in facilities for winter sports.

Ski resorts have sprung up which attract not just the wealthy to resorts like St. Moritz in Switzerland, but also the office or factory workers who want to get out on the ski slopes for a winter weekend. The biggest attraction of sill, especially to people who must endure a cold and gloomy northern winter, is a vacation in the sun. Some areas have been able to combine both attractions. The winter sunshine of Marrakech in Morocco, for example, has long made it an attractive resort, and now ski facilities have been developed in the nearby Atlas Mountains for winter sports enthusiasts.

Many different organizations are involved in tourist promotion. They include official and semiofficial tourist bureaus, the transportation companies, tour operators, retail travel agents, and individual hotels or hotel chains. Through their tourist offices, governments do a great deal of travel promotion, both in the form of advertising and publicity. Even the United States government, which has not been notable for encouraging tourism, launched an advertising campaign to attract foreign visitors and thereby help overcome its huge tourist deficit.

There are two major kinds of promotion—publicity and advertising. Publicity might well be termed free advertising. It consists of stories placed in newspapers and magazines about travel, accommodations, restaurants, and other parts of the whole tourist industry. Many newspapers and magazines carry such stories regularly as features. Indeed, professional travel writers journey from resort area to resort area to report on the facilities and amenities that are available. Much of this travel writing is highly specialized. An American magazine called Gourmet, for example, appeals to lovers of good food. It carries several travel pieces in each issue, all of them placing special emphasis on the food that a traveler will find in one place or another.

News events that apparently have nothing to do with tourism frequently provide a great deal of indirect publicity for the industry. The Olympic Games are an excellent example. Stories about the Olympics appear on the sports pages, but a desire to see the Games is generated in many people by all the publicity. Some news events, on the other hand, discourage tourism—the bombing of luxury hotels in San Juan, for example.

Another kind of tourist-connected public relations conies under the heading of familiarization. People in the industry, especially those involved in sales—notably travel agents—are frequently provided with free trips to tourist destinations. At best, they may be so impressed by what they see that they will push that area or resort. And at least, they will be able to answer questions from their own experience. Familiarization trips are often extended to other people in the tourist industry, especially tour operators and employees of the transportation companies and government bureaus.

Tourist advertising is a large business in itself. Most of the advertising is directed toward the large tourist-generating regions—Canada and the United States, Western Europe, and Japan. Within those regions, advertising is concentrated in particular areas. In the United States and Canada, the cities of the northeast and of the Pacific coast produce more travelers than other areas, so they receive a great deal more advertising. In Europe and Japan, travel and tour advertising is concentrated in urban conglomerations like Paris, London, Tokyo, and Osaka.

Media, the plural of medium, is a term that is used for the different means of spreading information in the form of news and advertising. Newspapers and magazines—the print media—and radio and television—the broadcast media—are usually included in the term. Once the market area has been pinpointed, the advertiser tries to select the particular medium that will reach those people who are likely to purchase the services that he is promoting.

Television reaches the largest market, one that generally cuts across different social and income groups. TV time is also very expensive, so it is used principally by transportation companies and government tourist agencies for institutional advertising, keeping the name of the company or the region in the public view without giving many specific details about services. Radio serves a more limited audience. For one thing, it cannot transmit the beautiful pictures and colors of television. For another, the area and audience that can be reached by many radio stations is quite small. Radio, however, is unique in that it can reach people driving their automobiles.

Of the print media, newspapers reach the broadest group of people. Many papers in big tourist markets—the New York Times, for instance—have a weekly travel section. In addition to feature stories, the travel section carries many ads for particular tours and particular resorts. A person who has been intrigued by a general destination because of the colorful pictures on TV or travel posters could then find in the newspaper specific details about accommodations, tours, and prices.

Most magazines nowadays are directed to special-interest groups. Gourmet, which we mentioned previously, is a good example. Some institutional advertising appears in magazines, but for the most part they carry advertising directed to the groups who read the magazines. Advertisements for archeological tours or guided tours to the great museums of Europe appear in art magazines; tours that are built around opera performances are advertised by magazines intended for music lovers. Magazines that are read by higher income families with good education often carry advertising for tours that might attract the traveler who has been everywhere—special tours to the Galapagos Islands, for instance, or through the Strait of Magellan. Several magazines are also intended specifically for the travel trade. Among them are magazines distributed to holders of credit cards or to passengers on the airlines.

Another form of advertising is the brochure. It can be an elaborate pamphlet on glossy paper with beautiful color photographs, or a simple throwaway with a page of details for a tour. Tour operators distribute brochures and throwaways in large numbers to travel agents in the market area they are trying to reach. In addition, many of them are sent out by direct mailing to selected lists of customers by tour operators and travel agents. The names and addresses are gathered from those who have been on previous tours, from customers of the travel agencies, from people who hold credit cards, or from similar sources. Many lists are sold by one organization to another, usually for a few cents a name.

A great deal of tourist advertising, especially of the institutional variety, stresses the destination, and in fact this is known as destination advertising. The transportation companies, in particular, once tried to emphasize the services that they offered on the way. Getting there, according to one campaign, was supposed to be half the fun. It is now generally accepted, however, that the public does not really differentiate between one airline and another, no matter how pretty the stewardesses, how elaborate the meal service, or how brightly painted the aircraft. What the public is buying is essentially a destination, and that is what most of the airlines are emphasizing in their current campaigns. Being there is almost all the fun, as most travelers can assure the transportation companies.

Perhaps the most effective kind of tourist promotion is the one that cannot be manipulated by the industry. This is word of mouth, what one person says to another about his vacation. And this is indeed a major topic of conversation among people who travel. Like news stories, the results of word of mouth can be good or bad. A recommendation of a resort or hotel by one family to another can significantly influence the choice people are likely to make. On the other hand, a bad report spread around by disgruntled tourists may sharply cut tourism.

Among other things, word of mouth guarantees that the tourist industry will provide more or less what it promises. One might say that it is a powerful force in keeping the industry honest.

2. *QUESTIONS*

1. What has been the first aim of most tourist promotion in the last few years? What kind of people is this promotion directed toward?
2. What has been the second purpose of tourist promotion?
3. In what way is the effort by unions to obtain more fringe benefits for workers significant to the tourist industry?

4. What has been the third aim of recent tourist promotion?
5. What used to be the traditional vacation season? Give examples.
6. What has been done to spread tourism more evenly during the year?
7. What kinds of organizations are involved in tourist promotion?
8. What can publicity considered to be? What are some types of publicity in tourist promotion?
9. How do professional travel writers provide publicity for tourism?
10. How can news events provide publicity, both good and bad, for tourism?
11. What is another kind of tourist-connected public relations? What does this involve?
12. Where is most tourist advertising directed? Is the advertising concentrated equally throughout these areas?
13. When the market area has been pinpointed, what does the advertiser then try to do?
14. What kind of market does television reach? What kind of advertising is it used for?
15. Why does radio serve a more limited audience?
16. What kind of promotion and advertising are carried by the news papers?
17. To what kind of market is most magazine advertising for tourism directed?
18. What kinds of brochures are used in travel advertising?
19. How are brochures and throwaways distributed?
20. What kind of tourist advertising stresses the destination?
21. Why does much of the advertising of the transportation companies now stress destination? How does this differ from advertising that was sometimes done in the past?
22. What is an effective form of tourist promotion that cannot be controlled by the industry?
23. What does word of mouth guarantee concerning the tourist industry?

3. *WORD POWER*

A. Indicate whether the following statements are true or false.

1. Very little advertising is carried on by the tourist industry.
2. The only group within the tourist industry that carries on promotion is made up of the transportation companies.
3. Fringe benefits such as paid vacations and longer weekends are an important factor in the growth of tourism.
4. Tourist promotion has only tried to retain the existing market of well-to-do, middle-aged people who travel anyway.
5. There has been a great deal of effort by the tourist industry to spread recreational travel more evenly throughout the year.
6. Newspapers and magazines never carry stories or articles about tourism or travel.
7. People who read the sports pages or other sections of a newspaper often see stories that may make them want to travel.
8. Travel agents, airline employees, and other tourist industry personnel often receive free trips to resort areas so that they can get to know different tourist places.
9. Tourist promotion is spread equally throughout the world since all places generate a large volume of tourist traffic.
10. Tourist statistics are never used to find out where travelers come from.
11. The different information media reach different groups of people.
12. Television time is cheap; thus, it is frequently used to advertise the details of specific tours.

13. __________ Magazines are used to reach special-interest groups with both institutional advertising and information about particular tours.

14. __________ Brochures about tours are frequently mailed to people who are credit card holders.

15. __________ All current airline advertising emphasizes in flight services since it has been determined that this is what makes people want to fly.

16. Word of mouth from tourists has no influence on decisions that other people make about where to go on their vacations.

17. Word of mouth is helpful to the tourist because it helps to make the industry live up to its own advertising claims.

B. Work out and describe a promotional campaign to attract tourists to your country or region. You should consider the following factors:

1. The reasons people might want to visit your area.
2. The tourist facilities witches are available there.
3. The means of transportation to reach the area.
4. The part the government, the transportation companies, and individual tourist businesses would play in the promotional campaign.
5. The market or markets that generate tourism to your area.
6. The special-interest groups to whom travel to your area would be attractive.
7. The mixture of publicity and advertising you believe would be most effective.
8. The media in which you would try to place your advertising and publicity in the market area.

4. *QUESTIONS*

1. Make a list of five different products from the tourism industry.

example *a package holiday*

2 Think of different ways you could advertise them. Which ones are the most effective?

5. *READING* Where in the world?

Read about tourism in Newcastle Gateshead and answer the questions.

1. What sort of cities are they?
2. What sort of tourism will they attract?
3. What sort of things will tourists be able to do there?

Newcastle Gateshead`s Tourist Top 10

Here is an ultimate list of the top 10 'must see' sights in NewcastleGateshead (in no particular order!), to make sure you get the most out of a visit to the city.

1 Newcastle Quayside and Gateshead Quays - some of the city's most contemporary and stylish cultural and leisure attractions can be found along the River Tyne. You shouldn't miss the curved building of the Sage Gateshead music centre designed by the architect Sir Norman Foster.

2 Gateshead Millennium Bridge - the world's first tilting bridge situated on the banks of the River Tyne, linking Newcastle Quayside and Gateshead Quays.

3 Newcastle Castle Keep - the site of the 'New Castle' built in 1080 which gave the city its name and was founded by Robert Curthose, eldest son of William the Conqueror.

4 The Biscuit Factory - the biggest commercial arts space in Europe based in a beautifully restored Victorian building that was once a biscuit factory.

5 The Angel of the North - a multi-award-winning sculpture created by artist Antony Gormley. Standing 20 m high, it is seen by more than 33 million people every year.

6 Grey Street-in the heart of Newcastle's historic Grainger Town and voted the Best Street in Britain by listeners of national station Radio 4.

7 BALTIC Centre for Contemporary Art - one of Europe's largest centres for contemporary art. An art factory based in a converted 1950s grain warehouse on Gateshead Quays. Entry is free.

8 Centre for Life - a wildly exciting visitor attraction for all the family. Discover just how truly extraordinary life is - meet your four-billion-year-old family, explore what makes us all different, and test your brainpower.

9 MetroCentre, Gateshead - once again the largest indoor shopping centre in Europe following completion of the new Red Mall. MetroCentre offers a huge array of department stores and speciality shops - all under one roof.

10 Laing Art Gallery -renowned for its stunning array of watercolours, costume, silver, glass, pottery, and sculpture and home to major works by leading pre-Raphaelite artists. The gallery also hosts stunning touring exhibitions in the newly refurbished gallery space.

6. *READING* Great marketing disasters

A When you decide to promote a product, it is possible to make mistakes without realizing it. Read the following incomplete texts. Then look at B.

B Below are the continuations of the texts in A. Match the two halves of each story.

Text A

When Braniff Airlines changed the seat covers in their aeroplanes and used leather rather than man-made fabrics, they launched a new advertising slogan- 'Fly in leather'.

a

A new airline company decided to call itself 'EMU', and had some success until it tried to market its services in Australia. It took some time before they realized that name wasn't appropriate.

b

When an American food company launched a new range of baby food in Africa, they put a picture of a smiling baby on each tin so that it could be identified. They were a little surprised when the product did not seem to be selling well.

c

The vacuum cleaner company Hoover had a marketing disaster from a campaign that went too well. They offered customers two free flights to America (worth £400) if they bought any product worth over f100.

d

Brand names can cause problems for international companies. When the car company Chevrolet produced a new model, they decided to call it the 'Nova'.

e

Text B

1	2	3	4	5
They realized their mistake when it was explained to them that in many areas where people cannot read or write people assumed that the picture on the label showed what was in the tin.	An emu is a native Australia bird, but unfortunately, rather like an ostrich, it can't fly.	This slogan was translated into different languages, but raised a few laughs in Spain, where the translation meant 'Fly naked'.	People soon realized that this was a very good deal indeed. The company sold vast quantities of appliances and ended up with a loss of f48 million.	It was fine in most countries except in Spain, where *no* means *doesn't* and *va* means *go*.

7. *FOCUS ON GRAMMAR* First second conditionals

Read through the following sentences.

A *If where are any seats available, I'll book you a ticket for the 21st.*
B *If where were any seats available, I would book you a ticket for the 21st.*

In which sentence is the speaker talking about a real possibility?
In which sentence is the speaker talking about an imaginary situation?

Remember that we use the first conditional to talk about future events and their results when the future event is reasonably likely to happen. For example:
If I have to stay late this evening, I will give you a ring.

We use the second conditional to talk about the results of imaginary present situations or unlikely future events. For example:

If I had a yacht, I would spend the summer in the West Indies.

A Complete the sentences using either the first conditional or the second conditional.

1. If the economy________________________ (not/be) in such a bad state, it________________(be) much easier to sell holidays.
2. If I__________________ (have) more money I___________ (spend) the summer in the South of France, but unfortunately I have to stay here.
3. Nobody_____________ (mind) if the plane____________ (be) a few minutes late.
4. I'm expecting the ticket any time now - I ________________________(phone) you if they_________________(some) tomorrow.
5. If I_________________ (be) you, I _________________________(complain) to the tour operator.
6. It's a shame we haven't got anything to spend on promotion. If we_____________ (have) a little spare cash, we_____________________ (be able) to advertise and get a lot of customers.
7. It's a pity I don't speak Turkish. If I _______________________ (do), I_____________ (apply) for that job in Istanbul.
8. If you ________________ (have) any problems, our local representative ___________ (do) her best to help you and can be contacted at any time.

B Read the following questions, and write a suitable reply. Choose the first conditional to talk about the suggestion you support, and the second conditional to talk about the suggestion you do not support. The first one has been done for you.

1. We're opening a new chain of hotels for business travelers all over Europe. Do you think we should promote them by giving out leaflets in the street or by setting up an Internet web site?

I think a web site would be better - if me set one up we will be able to reach customers all over the world, but if we just handed out leaflets we wouldn't get the right sort of customers.

2. We have a lot of late availability flights to sell - do you think we should put an advertisement in the paper or get some posters put up in the underground?

___

___

3. We're trying to get some publicity for our 18-30 adventure holidays. Do you think we should think about sponsoring a sports or take out advertisements in a theatre programme?

___

___

4. We're opening a new branch in West Street- do you think we should organize a TV campaign or get some leaflets printed to hand out in the street?

___

___

8 Planning a promotional campaign

Divide into groups to plan a campaign to promote tourism in the region where you are studying.

There are your main aims.

- to promote the region in general as a destination for potential tourists.
- to promote a particular annual event, such as a festival, a sporting tournament, or an anniversary of a local building or institution

You will need to research and plan your campaign very carefully. Follow the guidelines below.

1. Define exactly what it is that your region offers to tourists and visitors. Decide which annual event you are going to promote in particular (you can invent one if necessary).

2. Identify your target market and describe likely market segments. Who are your potential customers? What are their common characteristics?
3. Set detailed objectives for the campaign. Are you trying to attract new customers, maintain existing ones, raise awareness in general? What areas are you particularly aiming to increase?
4. Identify the best way to reach your target markets. Which promotional activities and methods are you going to use?
5. Identify the resources you will need to carry out your campaign.
6. Set a schedule for the next twelve months for both (a) the general campaign to promote your region, and (b) the promotion of the annual event you have chosen.
7. Prepare your opinions and plans in the form of a report that can be shown to the rest of the class

Vocabulary			
advertising	desktop	home page	press release
billboard	direct mailing	jacuzzi	print-run
agro-holiday	download	mailshot	rambling holiday
browse	expedition	market research	secluded
centenary	extraordinary	market segment	slogan
challenging	familiarization trip	mountain lodge	snowboarding
click on	fiesta	mouse	sponsorship
climate	game reserve	neon sign	target
cosy	glacier	online	tele-sales
cut-price	heliskiing	point-of-sale	well-stocked

9. DISCUSSION

1. How is tourism promoted in your local area?

1. By a government organization like the Newcastle Gateshead Initiative

2. By the private sector - Chamber of Commerce, local tourism associations, etc.

3. By both

2. What promotional techniques do your local tourism authorities normally use?

10. WORD POWER **The language of advertising**

1. Look at adjectives 1-7. For each adjective, find two 'publicity'-style adjectives from a - n.

1 beautiful	a ancient	h innovative
2 big	b diminutive	i large
3 cheap	c economical	j low-cost
4 expensive	d enormous	k luxury
5 new	e exclusive	1 modern
6 old	f gorgeous	m picturesque
7 small	g historic	n tiny

2. Choose the best adjective for these advertising texts.

1 The region has a lot of *exclusive / historic/ picturesque* monuments.

2 Europe's best and biggest *economical / low-cost / modern* airline.

3 The new bridge is one of the most innovative / *modern /picturesque* pieces of engineering in the country.

4 Make yourself feel really special - take a short break in one of our *economical / exclusive / modern* country hotels.

5 Go online and search for what your family needs from our database of hundreds of *enormous / economical / tiny* campsites in Europe.

6 *Diminuitive / Gorgeous /Large* beaches, luxury accommodation, ...

3. Choose the two adjectives that you like the most and use them to write tourism slogans for your country.

11. WRITI NG

How would you promote tourism in the area where you live (or any other area you like and know well)?

1 Make a list of the different aspects of the region that make it attractive to tourists.

2 Prepare a web page advertising the region. It will need images as well as text. Which images can you use?

3 If you can, make a 'mock-up' of how you would like your web page to appear in real life.

12. READING **Promotional techniques**

1. Look at these different sales promotion techniques.

1. adverts in the media
2. brochures and leaflets
3. competitions
4. discount coupons (in newspapers, etc.)
5. discounted prices
6. displays and exhibitions
7. give-aways (free gifts)
8. lotteries and prize draws
9. posters
10. reports in the media
11. websites

Which techniques are used in the four activities below? Are there any other activities in the four campaigns?

2. Judge each activity in terms of cost (C), logistics (L), impact (I), and originality (O). Award each activity a score from 1 (very poor) to 10 (excellent).

		C	L	I	O	Total
1	North-east England					
2	Hong Kong					
3	Rio de Janeiro					
4	Languedoc					

13. Add up the scores for each campaign from the scores for the whole class. Which was the best campaign in each category? Which was the best campaign overall?

North-east England

The Days Out Campaign was launched in July and was aimed at enticing people to get out and about within the region, visiting both paying and non-paying attractions.

The campaign got a 'flying start' with 500 balloons released from Durham Cathedral on Monday 19 July 2004. The lucky person finding the balloon which had travelled the furthest was rewarded with a free day out visiting some of the region's best attractions.

Hong Kong

The Hong Kong Tourism Board announced a new tourism promotion plan on Sunday.

Selina Chow Liang Shuk-Yee, chairwoman of Hong Kong Tourism Board, said in a press release on Sunday that Hong Kong is to launch a two-month 'hospitality month', during which discounted air tickets and hotel charges will be offered to tourists.

Rio de Janeiro

Indians from Brazil's Amazon region painted an Indian logo on visitors' arms at the Brazilian International Tourism Promotional Campaign held in Rio de Janeiro, Brazil, 26 May, 2004. The tourism promotional campaign attracted several hundred people from more than 40 countries.

Languedoc

The Languedoc Regional Committee ran a campaign to draw people's attention to the Languedoc's sunny, wide-open spaces. An American company, Prolitec, suggested giving the message more impact by using outdoor smells. Prolitec created a fragrance that would remind people of the typical regional scent ol brush land. The scent was then used in a seven-day advertising campaign run in winter in major train stations in Paris and the south of France.

14. GRAMMAR FOCUS Superlatives

1 Use the words in brackets to complete these statements.

1 The Brazilian campaign was the_________(cheap).

2 The Languedoc campaign had the _ (high) impact.

3 The_________(original) campaign was the one by the Languedoc Regional Committee.

2 Look at the results in your table for the four campaigns. Make sentences to describe what your group voted.

15. ROLE PLAY Presenting a campaign

1 **Work in groups of three or four. Design a campaign for a tourism area you know well. Think about the four factors that make a good campaign.**

2 Present your campaign. Award marks for the campaigns of other groups.

16. WRITING Promotional campaign news

1 Write a news item for a web page or a travel magazine describing your campaign. Use the web pages from *Reading* to help you. Think about how you can

illustrate the page, and about which links you would put to other useful web pages.

2 Make a 'mock-up' of your page as you would like it to appenr in real life Better still, if you can, upload your page on to a suitable server and invite colleagues and friends to visit it.

Media Types

Advertising media are channels that advertisers use in mass communication. The seven major advertising media are newspapers, magazines, radio, television, outdoor media, Yellow Pages, and the Internet.

Newspapers The advantages of newspapers advertising include geographic flexibility and timeliness. Because copywriters can usually prepare newspaper ads quickly and at a reasonable cost, local merchants can reach their target market almost daily. However, because newspapers are generally a mass-market medium, they may not be the best vehicle for marketers trying to reach a very narrow market. For example, local newspapers are not the best media vehicles for reaching purchasers of specialty steel products or even tropical fish. These target consumers a lot of distractions from competing ads news stories; thus one company’s ad may not be particularly visible.

The largest source of newspaper ad revenue is local retailers, classified ads, and cooperative advertising. In cooperative advertising, the manufacturer and the retailer split the costs of advertising the manufacturer’s brand. One reason manufacturers use cooperative advertising is the impracticality of listing all their dealers in national advertising. Also, co-op advertising encourages retailer to devote more effort to the manufacturer’s lines.

Magazines Compared to the cost of other media, the cost per contact in magazine advertising is usually high. However, the cost per potential customer may be much lower, because magazines are often targeted to specialized audiences and thus reach more potential customers. The most frequent types of products advertised in magazines include automobiles, apparel, computers, and cigarettes.

One of the main advantages of magazine advertising is its market selectivity. Magazines are published for virtually every market segment. For instance, PC Week is a leading computer magazine; Working Mother targets growing consumer segments; Sport Illustrated is a successful all-ground sporting publication; Marketing News is a trade magazine for the marketing professional; The Source is a niche publication geared to young urbanites with a passion for hip-hop music.

Medium	Advantages	Disadvantages
Newspapers	Geographic selectivity and flexibility; short-term advertiser commitments; news value and immediacy; year-round reader-ship; high individual market converge; co-op and local tie-in availability; short lead time	Little demographic selectivity; limited color capabilities; low pass-along rate; may be expensive
Magazines	Good reproduction, especially for color; demographic selectivity; regional selectivity; local market selectivity; relatively long advertising life; high pass-along rate	Long-term advertiser commitments; slow audience buildup; limited demonstration capabilities; lack of urgency; long lead time
Radio	Low cost; immediacy of message; can be scheduled on short notice; relatively no seasonal change in audience; highly portable; short-term advertiser commitments; entertainment carryover	No visual treatment; short advertising life of message; high frequency required to generate comprehension and retention; distractions from background sound; commercial clutter
Television	Ability to rich a wide, diverse audience; low cost per thousand; creative opportunities for demonstration; immediacy of messages; entertainment carryover; demographic	Short life of message; some consumer skepticism about claims; high campaign cost; little demographic selectivity with network stations; long-term advertiser commitments; long lead times required for

	selectivity with cable stations	production; commercial clutter
Outdoor media	Repetition; moderate cost; flexibility; geographic selectivity	Short message; lack of demographic selectivity; high "noise" level distracting audience
Internet	Fast growing medium; ability to reach narrow target audience; relatively short lead time required for creating Web-based advertising; moderate cost	Difficult to measure ad effectiveness and return on investment; ad exposure relies on "click-though" from banner ads; not all consumers have access to the internet

17. READING

The impact of the internet

Many holidays are now sold on the internet. Travel agencies around the world are worried about this and are trying to explain why they are still important. The *American Society of Travel Agents* (ASTA) is using the internet to do this.

1. Here are five popular myths about travel agencies.
2. All travel agencies are the same so it does not matter which one a client uses
3. Because of the internet people will use travel agencies in the future
4. Travel agencies are against travel products being on the internet
5. Travel agencies are just shops that sell tickets for planes
6. Young people do not use travel agents
7. Four of these myths are discussed in the ASTA article. Which four?
8. What is the reality for each myth according to ASTA?
9. How would you answer the fifth from ASTA's point of view?

Travel agency

Myths and realities

Myth: Travel agents are just glorified sellers of airline tickets.

Reality: Travel agents are professionals who provide value by helping same time and money. They act as travel consultants, offering personal service for their clients. Clients who turn to an ASTA travel agent want the advice and expertise of a professional who

1. Analyses current promotions
2. Explains the small print, such as consolation charge and restrictions
3. Makes recommendations on travel options
4. Get problem solved

Myth: The internet will replace the need for travel agents.

Reality: When it comes to booking travel, travel agents are experienced professional. Travel agents sell

1. 87% of all cruises
2. 81% of tours and packages
3. 51% all airline tickets
4. 45% of all car rentals

The internet is a valuable resource, but it cannot replace the expertise, guidance, and personal service of a travel agent.

Myth: Travel agents do not support use of the internet.

Reality: Both consumers and travel professional benefit from the internet. The internet gives travelers the ability to shop for attractive offers or packages. It has also helped many travel agencies, hotels, resorts, and other travel-related suppliers to grow by bringing in business through websites.

Myth: Young people do not understand or value the services of a travel agent.

Reality: Yes, they do. Of the people who use travel agents

- 43% are age 35-54
- 33% are Generation X and Y travelers, age 18-34

One of the winners of ASTA's and Hyatt Hotel's Best Practices Program' has made a point to educate students about the adventure of travel and of being a travel agent as a career. This process has made young people aware of the expertise required to be a professional travel agent.

The relationship of Price to Quality

When a purchase decision involves great uncertainty, consumers tend to rely on a high price as a predictor of good quality. Reliance on price as an indicator of quality seems to occur for all products that benefit from this phenomenon are coffee, stockings, aspirin, salt, floor wax, shampoo, clothing, furniture, perfume, whiskey, and many services. If the consumer obtains additional information – for instance, about the brand or the store – then reliance on price as an indicator of quality decreases. In the absence of the information, people typically assume that prices are higher because the products contain better materials, because they are made more carefully, or, in the case of professional services, because it provider has more expertise. In the words, consumers assume that “You get what you pay for.” One study has shown that same people believe “You get what you pay for” much more strongly than others; that is, some consumer tend to rely much more heavily on price as a quality indicator than other do. In general, consumers tend to be more accurate in their price-quality assessments for nondurable goods (such as ice cream, frozen pizza, or oven cleaner) than for durable goods (such a coffeemakers, gas grills, or ten-speed bikes). Knowledgeable merchants take these consumer attitudes into account when devising their pricing strategies. Prestige pricing is charging a high price to help promote a high-quality image. A successful prestige pricing strategy requires a retail price that is reasonably consistent with consumer’s expectations. No one goes shopping at a Gucci’s shop in the New York and expects to pay $9.95 for a pair of loafers. In fact, demand would fall drastically at such a low price. Bayer aspirin would probably lose market share over the long run if it lowered its prices. A new mustard packaged in a crockery jar was not successful until its price was doubled.

Consumers also expect private or store brands to be cheaper than national brand. However, if the price difference between a private brand and a nationally distributed manufacturer’s brand is too great, consumers tend to believe that the private brand is inferior. One the other hand, if the saving aren't big enough, there is little incentive to buy the private brand. One study of scanner data found that if the price difference between the national brand and the private brand was less than 10 percent, people tended not to buy the private brand. If the price difference was greater than 20 percent, consumers perceived the private brand to the inferior.

The latest research on price-quality relationships focused on summer durable goods. The researchers first conducted a study to ascertain the dimensions of quality. These are (1) ease of use; (2) versatility (the ability of a product to perform more functions, e.g., special stitch types on sewing machines, or be more flexible, e.g., continuous temperature controls on microwave ovens); (3) durability; (4) serviceability (ease of obtaining quality repairs); (5) performance; and (6) prestige. The researchers found that when consumers focused on prestige and/or perceived overall quality. Price was less important as an indicator of quality if the consumer was focusing on one of the other found dimensions of quality.

Hair-care products benefit from the customer perception that higher prices mean higher quality. Salon products, like Bed Head and Paul Mitchell, convey the message of quality through high prices and exclusive distribution. In fact, customers may assume that the products are better because of the expertise of the hairdresser in whose salon the products are sold.

Connect it

Look back at the store at the beginning of this chapter on how Major League Baseball is charging fees for internet video clips. Costs, revenues, and profits are directly related. Revenue minus costs equals profits. Profits can be increased by increasing revenues, lowering costs, or both. The internet is already having a major impact on pricing. Consumers are finding better deals and making better decision by comparing prices. Old-line manufacturers face the dilemma of competing directly with their channel members if the manufacturer sells through its own Web site.

Yield management systems will help boost revenues of not only service businesses but old-line manufacturers as well. This in turn will mean increased profits for the organization.

Price can have an impact on perceived quality, depending on number of issues, such as the type of product, advertising, and the consumer's personality. For durable goods, price plays a key role in determining quality if consumers are focusing on prestige and/or durability as determinants of quality.

18. Review it

1. Discuss the importance of pricing decision to the economy and to the individual firm. Pricing plays an integral role in the U.S. economy by allocating goods and services among consumers, governments, and businesses. Pricing is essential in business because it creates revenue, which is the basis of all business activity. In setting prices marketing manager strive to find a level high enough to produce a satisfactory profit.
2. Why is pricing so important to the marketing manager?
3. List and explain a variety of pricing objectives. Establishing realistic and measurable pricing objectives is a critical part of any firm's marketing strategy. Pricing objectives are commonly classified into three categories: profit oriented, sales oriented, and status quo. Profit-oriented pricing is based on profit maximization, a satisfactory level of profit, or a target return on investment. The goal of profit maximization is to generate as much revenue as possible in relation to cost. Often, a more practical approach than profit maximization is setting prices to produce profits that will satisfy management and stock-holders. The most common profit-oriented strategy is pricing for a specific return on investment relative to a firm's assets. The second type of pricing objective is sales oriented, and it focuses on either maintaining a percentage share of the market or maximization dollar or unit sales. The third type of pricing objective aims to maintain the status quo by matching competitor's prices.
4. Give an example of each major type of pricing objective.
5. Explain the role of demand in price determination. Demand is a key determinant of price. When establishing prices, a firm must first determine demand for its product. A typical demand schedule shows an inverse relationship between quantity demanded and price: When price is lowered, sales increase; and when price is increased, the

quantity demanded falls. For prestige products, however, there may be a direct relationship between demand and price: The quantity demanded will increase as price increases.

Marketing managers must also consider demand elasticity when setting prices. Elasticity of demand is the degree to which the quantity demanded fluctuates with changes in price. If consumers are sensitive to changes in price, demand is elastic: if they are invective to price changes, demand is inelastic. Thus, an increase in price will result in lower sales for an elastic product and little or no loss in sales an inelastic product.

6. Explain the role of supply and demand in determining price.
7. If a firm can increase its total revenue by raising its price, shouldn't do so?
8. Explain the concepts of elastic and inelastic demand. Why should managers understand these concepts?
9. Understand the concept of yield management systems. Yield management systems use complex mathematical software to profitably fill unused capacity. The software uses techniques such as discounting early purchases, limiting early sales at these discounted prices, and overbooking capacity. These systems are primarily used in service businesses and are substantially raising revenues.
10. Why are so many companies adopting yield management system?
11. Describe cost-oriented pricing strategies. The other major determinant of price is cost. Marketers use several cost-oriented pricing strategies. To cover their own expenses and obtain a profit, wholesalers and retailers commonly use markup pricing: They tack an extra amount onto the manufacturer's original price. Another pricing technique is to maximize profits by setting price where marginal revenue equals marginal cost. Still another pricing strategy determines how much a firm must sell to break even and uses this amount as a reference point for adjusting price.
12. Demonstrate how product life cycle, competition and promotion strategies, customer demands, the internet and extranets, and perceptions of quality can affect price. The price of a product normally changes as it moves though the life cycle

and as demand for the product and competitive condition change. Management often sets a high price at the introductory stage, and the high price tends to attract competition. The competition usually driver prices down because individual competitor lower prices to gain market share.

Adequate distribution for new product can sometimes be obtained by offering a larger-than-usual profit margin to wholesalers and retailers. The internet enables consumers to compare products and prices quickly and efficiently. Extranets help control costs and lower prices. Price is also used as a promotional tool to attract customers. Special low prices often attract new customer and entice existing customers to by more. Demands of large customers can squeeze the profit margins of suppliers.

Perception of quality can also influence pricing strategies. A firm trying to project a prestigious image often charges a premium price for a product. Consumers tend to equate high prices with high quality.

13. Divide the class into teams of five. Each team will be assigned a different grocery store from different chain. (An independent is fine). Appoint a group leader. The group leaders should meet as a group and pick fifteen nationally branded grocery items. Each item should be specifically described as to brand name and size of the package. Each team will then proceed to its assigned store and collect price data on fifteen similar store brands and fifteen generics, possible.

Each team should present its results to the class and discuss why there are price variations between stores, national brands, and generics.

As a next step, go back to your assigned store and share the overall results with the store manager. Bring back the manager’s comments and share them with the class.

FILE 1

Enterprise Rent-A-Car

[View the video]

Case Objectives and Use

This case illustrates Enterprise Rent-A-Car's pursuit of a focused strategy that uses the operational excellence value discipline. Enterprise's successful implementation of this strategy has resulted in its becoming the largest rent-a-car company in the U.S. in terms of number of rental cars and number of office locations. The case allows students to apply marketing concepts to develop recruitment programs that will "sell" Enterprise to college graduates who are looking for employment. One of Enterprise's major challenges in continuing its growth is recruiting a steady supply of quality employees. The case also allows the discussion and development of marketing strategies to continue the firm's rapid growth.

The case is based on field research. Enterprise officials cooperated in the development of the case. Because Enterprise is privately owned, the case does not include specific company financial data. Officials at *Auto Rental News*, an industry trade publication, also provided data for the case.

Synopsis

This case presents an overview of a simple yet very effective strategy that has catapulted Enterprise Rent-A-Car into position as the largest rent-a-car company in the United States in terms of number of cars and locations. As of early 1997, when the case is set, Enterprise had $3.1 billion in revenue, $5 billion in assets, 330,000 vehicles, more than 3,000 locations, and more than 30,000 full-time and part-time employees.

The company's founder, Jack Taylor, began leasing cars in 1957 while working with a car dealer in St. Louis, Missouri. When his customers lost the use of their cars due to accidents or the need for repairs. Jack saw the opportunity to rent them replacement vehicles. Thus, he founded Enterprise Rent-A-Car in 1962, focusing on the "home-city" rental replacement market and leaving competitors such as Hertz and Avis to slug it out in the airport market.

As it grew, Enterprise crafted a simple strategy based on a simple philosophy. Jack Taylor believed that by taking care of the customer first and then his employees, profits would take care of themselves. Taylor focused on doing "whatever it took" to satisfy customers. He hired primarily college graduates and promoted them rapidly, putting them in charge of branch offices that they ran basically as independent businesses.

Managers earned most of their compensation based on the profitability of the branch or branches for which they were responsible. This combination of customer orientation, local-market focus, profit-based incentive, and educated employees, proved to be a powerful formula for success in the local market. Enterprise also kept its costs low by staying away from expensive airport locations and by keeping its cars a little longer than the airport-based companies.

Enterprise grew slowly until the 1970s, when courts ruled that insurance companies had to offer coverage to allow their customers to replace their cars following accidents. This change jump-started Enterprise's growth. The company established relationships with insurance companies and their agents and with local auto dealers and repair shops. These referral agents became Enterprise's key sources of business.

By early 1997, Enterprise was riding a string of 11 years of growth at a compound annual rate of 25 percent and had overtaken the more well-known rent-a-car companies that still primarily compete in the airport market.

This rapid growth raises two general issues. First, to grow this rapidly, Enterprise must develop a steady supply of college graduates. The case indicates that Enterprise must hire more than 5,000 college grads in 1997 alone. Yet, because of the company's low-key nature, many college grads do not know about Enterprise, or they have the general feeling that the rent-a-car industry does not offer attractive careers that require a college education. Enterprise must compete with other large companies for these candidates 'in a strong economy where unemployment is low. How can it improve its image and attract the interest of college graduates?

Second, due to its rapid growth, Enterprise controls more than 50 percent of the home-city market and has achieved nationwide coverage in the U.S. What options are open to the company to continue to fuel its growth and to allow it to continue to provide the opportunity for rapid advancement that its employees want?

Discussion Questions

1. Outline Enterprise's marketing strategy. Why has this strategy been successful?
2. How do the nature and characteristics of a service affect Enterprise's strategy?
3. What opportunities and threats does Enterprise face?
4. How can Enterprise use marketing concepts to improve its recruitment program? What specific recommendations would you make to Enterprise to improve its recruitment program?
5. What marketing recommendations would you make to Enterprise to guide its growth?

File 2

Celestial Seasonings

View the video

When Mo Siegel was first inspired to create his own blend of herbal tea - Mo's 36 - little did he know how impressively his start-up would grow. At the age of 19, Siegel first realized that he could pick herbs during his Rocky Mountain hikes and blend them into tea. In 1970, Siegel partnered with John Hay, and Celestial Seasonings was born. Siegel and Hay produced five hundred pounds of Mo's 36 from herbs they hand-picked in the fields around Boulder, Colorado. They packaged the tea in muslin bags and wrote the ingredients on the bags with a meat marker. The U.S. herb tea industry was born.

Soon Siegel and Hay switched to purchasing herbs from growers around the world. The company's success attracted the attention of food industry giant Kraft, who bought the company in the mid-1980s. Kraft's involvement helped the company gain the attention of new consumers, but in 1988 Kraft sold the company back to its management. Celestial Seasonings remained under independent ownership until its merger with the Hain Food Group (renamed the Hain Celestial Group) in 2000.

Leveraging the rand

In 1997, Siegel brought Stephen Hughes on board as CEO and President of Celestial Seasonings. Hughes captained the company's attempt to extend its brand by entering the herbal supplements market, rolling out a line of Celestial Seasonings herbal dietary supplements in 1998. Since herbal supplements seemed to play on the company's core competitive advantage, the move was more than promising. Celestial Seasonings could leverage its expertise in herbal technology, capitalize on its already-established distribution channel, and expand its already ubiquitous presence in retailers across the United States and abroad.

In the process of leveraging its brand, Celestial Seasonings learned many valuable lessons, among them not to oversell the story behind the brand and not to rely entirely on core users to help leverage your equity. Michele Karrasch, the company's senior manager for consumer and marketing research, noted that the key to successful leveraging would be to use "customers' feelings about and emotional connection to the brand."

But it only took one year for the bottom to fall out from the company's product line expansion strategy. The growth of the herbal supplement market came to near halt by 1999, and Hughes' strategy of entering the market at the high end was not reaping the benefits he had anticipated. Celestial Seasonings started at a price point twice that of the competition, and promotional efforts relied ads directed at the mass-market. In an attempt to save the flailing line, Hughes cut prices nearly in half to generate sales and refocused promotions on in-store displays. Despite serious losses in this new market, however, the core business of herbal teas remains strong and growing.

Opening the Doors to the Consumer

It wasn't long after Celestial Seasonings' auspicious beginning in the early 1970s that Steve Spencer began working at the company in operations. It was his idea to open a company store where local consumers could buy tea at a discount. The store soon became popular, and in the early 1990s, Spencer convinced management to open the factory to the public. By 1998, over 80,000 people were touring the Celestial Seasonings manufacturing plant per year.

The tour is not just a simple look at the manufacturing operations of the company: It is a full-fledged marketing event. Visitors are indeed guided through the 155,000 square-foot facility where they see the tea being cut, sifted, blended, bagged, and boxed. They are also, however, invited to spend time in the Mint Room, a mind- and sinus-clearing experience, to visit the company's vast on-site herb gardens, and to sample over fifty varieties of herbal tea. Visitors that taste-test can also complete a short survey that records their preferences on computer. An Art Gallery showcases the evolution of Celestial Seasonings packaging over the history of the company and also highlights the differences in packaging for various global markets.

In addition to the tour, the company has a gift shop - the Celestial Teashop and Emporium - and a café - the Celestial Café. The gift shop has expanded beyond Spencer's original model of selling tea at a discount. Today visitors can purchase apparel, gourmet treats, aromatherapy candles, bath salts, body lotions, and of course tea, teacups, tea mugs, teapots, and tea tins. The café offers breakfast and lunch Monday through Friday, and like the gift shop, it serves more than just tea.

The comprehensive tour provides an in-depth look at the marketing and operations of Celestial Seasonings and helps the company build relationships with its consumers beyond the consumption of tea. Tours encourage an involvement on the part of the consumer that surpasses the mere consumption of the product. Steve Spencer knew this, so as part of his factory tour idea, he signed the company up in the Guest Relations Management Association. Celestial Seasonings even hosted the annual meeting of this consortium of U.S. companies that offer factory tours. Its seventy-member roster includes the likes of Nike, Hershey's, Ben & Jerry's, and Coca-Cola.

The move to open the doors of Celestial Seasonings has been a good one. Repeatedly, the company tour is cited among the Best of Denver, and it has even been heralded by the Washington Post as a must-see for tourists visiting Colorado. Best.citysearch.com ranks it among the Best in its Tourist Fun category for the Denver area. The intersection of entertainment, tourism, and manufacturing has been a positive development for Celestial Seasonings. It's not just a tea, it's a destination.

Questions

1. How has Celestial Seasonings leveraged its brand?
2. Why do you think the company's move into herbal supplements had yielded less than optimal results while the company store strategy has blossomed into a successful venture?

3. What role can factory tours play in the marketing mix?

Extension

Use the Internet to find factory tours for companies in your area. Take one of the tours and list all of the activities and features of the tour. If there is no tour in your area, then locate a virtual tour (or check out http://www.m-ms.com/factory/tour/index.html to see how M & Ms are made). How is the tour - virtual or real - a marketing tool?

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Content

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