28 Promotion and place (distribution)

This chapter covers syllabus sections 4.5 and 4.6

On completing this chapter you should be able to:

- identify differences between sales promotion and advertising, above-the-line and below-the-line promotion
- analyse different promotional tools and discuss their effectiveness
- prepare an appropriate promotional mix
- discuss different distribution channels and assess their appropriateness in different circumstances
- H evaluate the effectiveness of different distribution channels
- H examine how organisations can increase the efficiency of the supply chain.

SETTING THE SCENE

Nikon Coolpix promotion exceeds targets

The global digital camera market is saturated with many well-recognised brands. Nikon's Coolpix camera had to be promoted in exciting new ways to become the number one choice for retailers to stock and for consumers to buy. Three objectives of Nikon's promotional campaign were:

- encourage consumers to visit camera retailers to try out Coolpix
- give incentives to shop staff to demonstrate and recommend this camera
- meet or exceed sales targets based on a 10% increase from last year.

Promotions focused on a target group of consumers: digital-camera users, of which 58% were men concentrated in the 35–44 age group, 81% married with children and with household incomes greater than \$70 000 a year. The three key features of the promotional campaign were:

- 500 000 leaflets enclosing a photo memory card were posted to target group consumers.
- People receiving the card were invited to a camera retailer to test it in a Nikon Coolpix camera – if the LCD screen showed a 'prize image', the consumer could claim the prize, such as a holiday to Australia.
- Retail shop staff were motivated to sell the cameras by winning the same prize as consumers.

Sales increased by 30% and consumer recognition of the Coolpix brand increased even after the campaign ended. The budget of \$2 million for the prizes was not exceeded and the campaign increased sales by much more than this figure anyway.

Source: Institute of Sales Promotion

Points to think about:

- Explain the importance of aiming a promotional campaign at a clearly defined target audience.
- Why was it important to have both clear objectives and a budget limit for this campaign?
- Nikon sells most of its cameras through traditional retailers. Would there be any benefits for Nikon opening its own chain of shops?

28 Promotion and place (distribution)

Introduction

Promotion is about communicating with actual or potential customers. Effective promotion not only increases awareness of products, but can create images and product 'personalities' that consumers can identify with. Advertising is only one form of promotion and other techniques include direct selling and sales promotion offers. The combination of all forms of promotion used by a business for any product is known as the 'promotion mix'. The amount firms spend on promotion – the promotion budget – is often a key decision, but successful communication is not just about the total amount spent. It is also about how the budget is allocated between the competing forms of promotion available.

KEY TERM

promotion the use of advertising, sales promotion, personal selling, direct mail, trade fairs, sponsorship and public relations to inform consumers and persuade consumers to buy

Promotional objectives

Promotional objectives should aim to:

- increase sales by raising consumer awareness of a new product
- remind consumers of an existing product and its distinctive qualities
- encourage increased purchases by existing consumers or attract new consumers
- demonstrate the superior specification or qualities of a product compared to those of competitors – often used when the product has been updated or adapted in some way
- create or reinforce the brand image or 'personality' of the product
- correct misleading reports about the product or the business and reassure consumers after a 'scare' or an accident involving the product
- develop or adapt the public image of the business – rather than the product
- encourage retailers to stock and actively promote products to the final consumer.

EXAM TIP

When writing about promotion of a product try to consider the marketing objectives of the business. Is the promotion being used likely to help achieve these objectives?

Above-the-line promotion

KEY TERM

above-the-line promotion a form of promotion that is undertaken by a business by paying for communication with consumers, e.g. advertising

Advertising

Advertising is communicating information about a product or business through the media, such as radio, TV and newspapers. These advertisements are usually directed towards the appropriate target market by selecting the right media – but it is possible that many people who are unlikely to purchase the product may see the advertisements too. Successful advertising campaigns have led to substantial increases in consumer awareness and sales, and this effect can last for a considerable length of time if brand loyalty can be established. Advertisements are often classified into two types, but in practice this distinction is often quite blurred.

1. Informative advertising – these are adverts that give information to potential purchasers of a product, rather than just trying to create a brand image. This information could include price, technical specifications or main features and places where the product can be purchased. This style of advertising could be particularly effective when promoting a new product that consumers are unlikely to be aware of or when communicating a substantial change in price, design or specification.
2. Persuasive advertising – this involves trying to create a distinct image or brand identity for the product. It may not contain any details at all about materials or ingredients used, prices or places to buy it. This form of advertising is very common, especially in those markets where there might be little actual difference between products and where advertisers are trying to create a perceived difference in the minds of consumers.

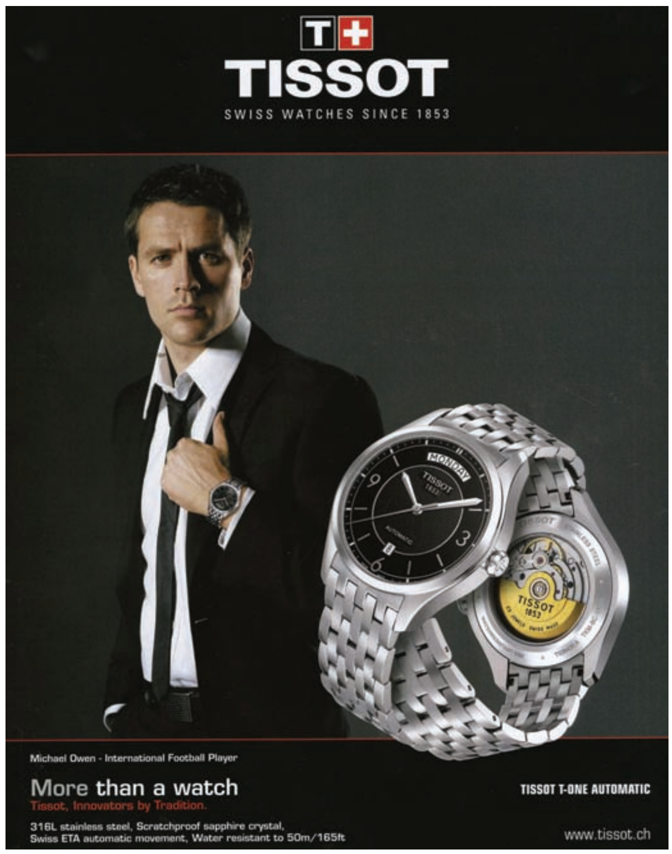
In reality, there is little difference between these two styles of advertising: 'The more informative your advertising, the more persuasive it will be' (David Ogilvy, *Confessions of an Advertising Man*, New York: Ballantine Books, 1971).

Advertising decisions – which media to use?

The bigger the firm and the greater the advertising budget, the more 'media' choice there is. Limited resources will restrict options to the cheaper media. However, the most expensive forms of communication are not always the most effective. Choosing the right media means considering a number of factors:

1. Cost – TV and radio advertising can be very expensive per minute of advert, but the actual cost will depend on the time of day that the advertisements are to be transmitted and the size of the potential audience. National newspapers will be more expensive than local ones. Other media include posters, magazines of general and specific interest and cinema advertising. Marketing managers compare the cost of these media and assess whether they fall within the marketing budget. Buying media time or space is not the only cost. The advert still has to be written and produced and the use of celebrities in TV, radio or cinema adverts can soon increase the total cost greatly.
2. The profile of the target audience in terms of age, income levels, interests and so on – this should reflect as closely as possible the target consumer profile of the market being aimed for. For instance, there is likely to be little point in advertising a new children's toy after 10 p.m. at night. Using a mass-market, low-priced daily newspaper to advertise a new range of exclusive clothing would be aiming at the wrong target.
3. The type of product and the message to be communicated – written forms of communication are likely to be most effective for giving detailed information about a product that needs to be referred to more than once by the potential consumer. However, if an image-creating advert is planned, perhaps for a new range of clothes or sports equipment, then a dynamic and colourful TV advert is possibly more effective.

An example of informative advertising



An example of persuasive advertising

ACTIVITY 28.1

Read the case study below and then answer the questions that follow.

The Cadbury gorilla advertisement

This is one of the most famous and effective advertisement campaigns of recent years. The aims of the campaign were to:

- improve the public's perception of Cadbury and the Dairy Milk chocolate brand after a number of public relations disasters such as the 2006 food poisoning scare at one of the company's factories
- increase annual sales of Dairy Milk, which seemed to have reached market saturation point.

The TV advert featured an actor in a gorilla costume playing a well-known drum solo from the Phil Collins' hit record 'In the air tonight'. The 'gorilla' has a look of concentration and passion on its face – at times closing its eyes and looking skywards. The performance lasts for 90 seconds until fading to a computer-generated shot of a Dairy Milk bar over the slogan 'A glass and a half full of joy' (Cadbury have always claimed that each bar contains a glass and a half of fresh milk).

The production of the advertisement and the TV time slots were budgeted to cost $12 million. One TV advert was timed during the commercial break of the 2007 Rugby World Cup and this cost $1.4 million alone. The campaign was very successful. The advert was uploaded on to the video-sharing website YouTube and was viewed over 500 000 times in the first week alone. Market research reports suggested that the public's view of Cadbury and Dairy Milk had improved and sales rose by 9% in 2007 – higher than the original target.

23 marks, 40 minutes

1 Was this an example of an informative or a persuasive advertisement? Explain your answer? **[5]**

2 Can the expenditure of $12 million on advertising a chocolate bar ever be justified? Explain your answer. **[12]**

3 Explain why it is important for advertisers to check and monitor the effectiveness of a promotional campaign. **[6]**

4 The other aspects of the marketing mix – the link between the other parts of the mix and the media chosen for adverts could be crucial to success. The use of exclusive and glossy women's magazines to advertise a new 'budget' range of ready-cooked meals could be counterproductive.
5 The law and other constraints – a widespread ban on tobacco advertising in Formula One grand prix racing has forced many sponsors to use other media for presenting their cigarette advertising. In some countries, there are restrictions on the use of TV advertising aimed at children, claiming that it exercises too much influence over young minds.

Advertising expenditure and the trade cycle

The evidence from the advertising industry is that in most countries firms tend to spend more when the economy is booming than when it is in recession.

Below-the-line promotion

KEY TERMS

below-the-line promotion promotion that is not a directly paid-for means of communication but based on short-term incentives to purchase, e.g. sales promotion techniques

sales promotion incentives such as special offers or special deals directed at consumers or retailers to achieve short-term sales increases and repeat purchases by consumers

Sales promotion

Sales promotion generally aims to achieve short-term increases in sales. There is a huge range of incentives and activities that come under the umbrella term 'sales promotion' (see Table 28.1 on page 298). They include:

- price deals – a temporary reduction in price, such as 10% reduction for one week only
- loyalty reward programmes – consumers collect points, airmiles or credits for purchases and redeem them for rewards
- money-off coupons – redeemed when the consumer buys the product
- point-of-sale displays in shops, e.g. 'aisle interrupter' – a sign that juts into the supermarket aisle from a shelf; and 'dump bin' – a free-standing bin centrally placed full of products 'dumped' inside to attract attention
- 'buy one get one free' (BOGOF)
- games and competitions, e.g. on cereal packets
- public relations
- sponsorship.

ACTIVITY 28.2

Read the case study below and then answer the questions that follow.

Ad spending in the USA to rise by 4.8% in 2008 – but could fall in 2009

The weaker US economy will see slow growth in advertising spending in 2008. If it weren't for the Olympics boosting TV adverts, the total amount spent by industry on advertising could fall. Internet display ad spending is forecast to rise by 15% and, for the first time in US history, will exceed radio advertising in importance. Advertising spending in newspapers and trade magazines is expected to fall by 1%.

In 2009, the picture is altogether gloomier. A further decline in the US economy and no Olympic Games could mean that business saves on costs by cutting advertising spending. Is this how firms should react to an economic downturn?

Source: www.forbes.com/advertising (adapted)

18 marks, 23 minutes

1 Why do you think internet advertising is now more important in the USA than radio advertising? **[4]**

2 Explain why the Olympic Games led to a boost in advertising spending by companies, especially on TV. **[4]**

3 Is it a good idea for a business to cut costs during a recession by reducing advertising expenditure? Give reasons for your answer. **[10]**

Sales promotion can either be directed at:

- the final consumer to encourage purchase (pull strategy) or
- the distribution channel, e.g. the retailer, to encourage stocking and display of the product (push strategy).

The possible impact of sales promotions are shown in Table 28.1 on page 298.

The promotion mix

KEY TERM

promotion mix the combination of promotional techniques that a firm uses to communicate the benefits of its products to customers

The promotional mix is part of the wider marketing mix. A successful promotional mix uses a balance of advertising, public relations, sales promotion, direct marketing and personal selling in a planned and structured way. A single 'tool' rarely works well in isolation. There are eight stages in deciding on a promotional mix:

1 Decide on the image of the product.
2 Develop a profile of the target market.
3 Decide on the messages to communicate.
4 Set an appropriate budget.
5 Decide how the messages should be communicated.
6 Establish how the success of the promotional mix is to be assessed.
7 Undertake the promotional plan and the mix elements of it.
8 Measure its success.

EXAM TIP

Don't confuse advertising and sales promotion – they are both forms of promotion, but they are not the same.

PROMOTION AND THE PRODUCT LIFE CYCLE

Table 28.2 (on page 300) summarises some promotion mix options at different stages of a product's life cycle.

'Place' decisions in the marketing mix

'Place' decisions are concerned with how products should pass from manufacturer to the final customer. Several different channels of distribution are available for firms to use.

KEY TERM

channel of distribution this refers to the chain of intermediaries a product passes through from producer to final consumer

Method explained	Possible limitations
Price promotions – these are temporary reductions in price, also known as price discounting. They are aimed at encouraging existing customers to buy more and attracting new customers to buy the product.	• Increased sales gained from price reductions will affect gross profit on each item sold. • There might be a negative impact on the brand's reputation from the discounted price.
Money-off coupons – these are a more versatile and better-focused way of offering a price discount. Coupons can appear on the back of receipts, in newspaper adverts or on an existing product pack.	• They may simply encourage consumers to buy what they would have bought anyway. • Retailers may be surprised by the increase in demand and not hold enough stocks, leading to consumer disappointment. • Proportion of consumers using the coupon might be low if the reduction it offers is small.
Customer loyalty schemes, such as airmiles or customer loyalty cards – focused on encouraging repeat purchases and discouraging consumers from shopping with competitors. Information stored through loyalty cards provides a great deal of information about consumers' buying preferences.	• The discount offered by such schemes cuts the gross profit on each purchase. • There are administration costs to inform consumers of loyalty points earned and these may outweigh the benefits from increased consumer loyalty. • Most consumers now have many loyalty cards from different retailers, so their 'loyalty' impact is reduced.
Money refunds – these are offered when the receipt is returned to the manufacturer.	• These involve the consumer filling in and posting off a form and this might be a disincentive. • Delay before a refund is received may act as a disincentive.
BOGOF – 'buy one get one free' – this encourages multiple purchases, which reduces demand for competitors' products too.	• There could be substantial reduction in gross profit margin. • Consumers may consider that if this scheme is able to operate, are they paying a 'normal' price that is too high? • Is the scheme being used to sell off stock that cannot be sold at normal prices – impact on reputation? • Current sales might increase, but future sales could fall as consumers have stocked up on the product.
Point-of-sale displays – maximum impact on consumer behaviour is achieved by attractive, informative and well-positioned displays in stores.	• The best display points are usually offered to the market leaders – products with high market share. • New products may struggle for best positions in stores – unless big discounts are offered to retailers.
Public relations – the use of free publicity provided by newspapers, TV and other media to communicate with and achieve understanding of the public.	• This is not easily controllable as some 'free publicity' might not be positive towards the company or its products, e.g. newspaper reviews.
Sponsorship – payment by a company to team owners or event organisers so that the company name becomes associated with the event.	• The success of the sponsorship is largely out of the company's control. If the team loses every match or the event is a failure, this might reflect badly on the sponsor.

Table 28.1 *Common methods of sales promotion*

ACTIVITY 28.3

Does promotion work?

A survey of over 200 supermarket shoppers in Hong Kong found that some sales promotions worked better than others. Price discounts and buy-one-get-one free offers were felt by consumers to be the most effective promotional tool for encouraging consumers to bring purchases forward (buying this week rather than next week), stockpiling and spending more. In-store displays and demonstrations were felt to be effective in encouraging consumers to try a product for the first time. Loyalty cards and rewards for spending more were effective in encouraging consumers to buy just from one store. Competitions and games, in contrast, were felt to be ineffective in terms of generating all types of consumer response. A super-market manager said, 'We have to be careful with the cost of sales promotions – if they reduce our profits through the cost of them, but they fail to lead to longer-term increases in sales or brand switching, are they really worthwhile?'

20 marks, 30 minutes

1 Explain why it is important for shop managers to compare the cost and effectiveness of sales promotions. [8]

2 Assume you are a supermarket manager. You have been asked by head office to promote one very profitable brand of breakfast cereal. What promotional mix would you use for this product? Explain and justify your answer. [12]

Solo long distance yachtswoman Ellen MacArthur and her Kingfisher-sponsored boat – sponsorship of this boat in a well-publicised race secured 'free' publicity worth $200 million

ACTIVITY 28.4

Read the case study below and then answer the questions that follow.

Can Gap win back lost customers?

Only a few years ago Gap was one of the most rapidly growing retail fashion retailers. Gap Inc sells clothes under the Gap, Banana Republic and Old Navy brand names. Consumers and investors were very excited about the bright and lively store designs, the simple, classic fashion look and the unusual style of advertising. Recently things have gone badly wrong. Its core customer base has aged – and the brand has failed to attract younger shoppers. Some analysts believe that Gap's shops look dated and their fashions are less appealing than those of main rivals Zara and Uniqlo. In fact, in 2008, Zara overtook Gap to become the world's biggest clothing retailer. The table shows how Gap's sales have fallen in recent years.

It is therefore quite surprising that Gap has decided to reduce spending on both design teams and marketing promotions. Surely, the business should be aiming to introduce more cutting-edge fashions and spend more on marketing when sales have stooped expanding? But is Gap in need of a fundamental change in branding rather than just new fashions and more advertising?

	% change in sales in July 2009 compared to July 2008
Total Gap Inc sales	−9
Gap branded stores	−10
Gap stores North America	−10
Banana Republic North America	−20
Old Navy North America	−7
International sales	−5

Source: GAP website.

22 marks, 40 minutes

1 Explain why Gap's managers should be worried about the sales trends shown in the table and the loss of market leadership to Zara. [8]

2 Recommend a new promotional strategy for Gap in your own country that could reverse this decline in sales. Consider advertising campaigns, displays in shops, special offers and the image that you think the business should try to create for its products in your country. [14]

ACTIVITY 28.5

Read the case study below and then answer the questions that follow.

Olympus targets youth with i-snap

Olympus, the camera maker, made its first venture into the youth market with the launch of a colourful kids' camera, the i-snap. Olympus did not actively advertise the camera, which is white with green or pink trim, until several months after it was launched. Marketing director Sara Cubitt hoped that the camera's unusual design, high-profile packaging and point-of-sale displays would set it apart from its rivals. As well as window and in-store displays, point-of-sale promotions included floor stickers directing customers to the cameras, which were priced at around $40.

22 marks, 40 minutes

1 Explain the term 'point-of-sale displays'. **[2]**

2 Do you think it was a good idea not to use 'above-the-line' promotion in the first few months after the launch of this product? Explain your answer. **[10]**

3 Assume that a similar camera is launched in your own country. Prepare a fully justified recommendation to Olympus for the promotional mix it should use. **[10]**

Stage of the cycle	Promotional options
Introduction	• Informative advertising and PR to make consumers aware of the product. • Sales promotion offering free samples or trial periods to encourage consumers to test the product.
Growth	• Focus shifts to 'brand' building and persuasive advertising. • Sales promotion to encourage repeat purchases. • Attempt to develop brand loyalty.
Maturity	• Advertising to emphasise the differences between this product and competitors. • Sales promotion incentives to encourage brand development and loyalty.
Decline – assuming no extension strategy	• Minimal advertising. • Sales promotion – there may be little additional support for the product if the intention is to withdraw it.

Table 28.2 *How promotional mix may vary over the life cycle of a product*

Below are some reasons why the choice of distribution channel is important:

- Consumers may need easy access to a firm's products to allow them to see and try them before they buy, to make purchasing easy and to allow, if necessary, for the return of goods.
- Manufacturers need outlets for their products that give as wide a market coverage as possible, but with the desired image of the product appropriately promoted.
- Retailers – firms that sell goods to the final consumer – will sell producers' goods but will demand a mark-up to cover their costs and make a profit, so, if price is very important, using few or no intermediaries would be an advantage.

CHANNEL STRATEGY

In deciding on an appropriate channel strategy, a business must answer these questions:

- Should the product be sold directly to consumers?
- Should the product be sold through retailers?
- How long should the channel be (how many intermediaries)?
- Where should the product be made available?
- Should electronic methods of distribution be used?
- How much will it cost to keep the stock of products on store shelves and in channel warehouses?
- How much control does the business want to have over the marketing mix?
- How will the distribution channel selected support the other components of the marketing mix?

Factors influencing choice of distribution channel include the following:

- Industrial products tend to be sold more directly with fewer intermediaries than consumer goods.
- Geographical dispersion of the target market – if the target market is large but widely dispersed throughout the country, then the use of intermediaries is more likely.

- The level of service expected by consumers, e.g. after-sales servicing of a car means that internet selling is not appropriate for most manufacturers.
- Technical complexity of the product, e.g. business computers are sold directly as they require a great deal of technical sales staff know-how and a supporting service team.
- Unit value of the product – it may be worth employing sales staff to sell directly to customers if the unit cost of, for example, a luxury yacht is $5 million, but not worthwhile if items of jewellery are being sold for $5.
- Number of potential customers – if the number of potential customers is few, as with commercial aircraft, direct selling might be used, but Nike, Inc. or Reebok with their millions of customers for sports shoes worldwide would use intermediate channels to distribute their products.

The channel strategy must be integrated with the marketing objectives of the business. For example, if the aim is to secure a niche market with a high-quality image product (e.g. branded cosmetics), then selling it through street vendors will not achieve this objective. If, however, the marketing aim is to achieve maximum sales and distribution coverage (e.g. sweets), then selling through a few carefully selected and exclusive food retailers will not be successful. As with all components of the marketing mix, distribution channel strategy must be clearly linked to marketing objectives and to the other components of the mix for an effective and convincing overall marketing strategy to be developed.

EXAM TIP

Do not confuse 'place' or 'distribution' decisions with transportation methods. Place is about how and where the product is to be sold to a customer – transportation is about how the product is to be physically delivered.

Distribution channels

The most commonly used distribution channels are shown in Figures 28.1–28.3. Figure 28.1 shows the direct route which gives the producer full control over marketing of products. This is sometimes known as direct selling or direct marketing. The growth of the internet has led to a rapid rise in the popularity of this channel of distribution.

With the increasing size of many modern retailers, the 'single-intermediary channel' depicted in Figure 28.2 is becoming more common. These huge retailers have great purchasing power. They are able to arrange their own storage and distribution systems to individual stores.

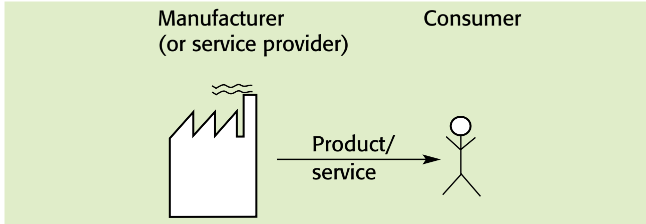


Figure 28.1 Direct selling to consumer

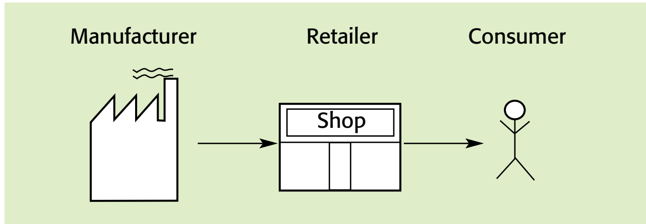


Figure 28.2 Single-intermediary channel

In Figure 28.3 we see what is often known as the traditional two-intermediaries channel as, until recent developments in retailing and the internet, it was the most common of all channels of distribution.

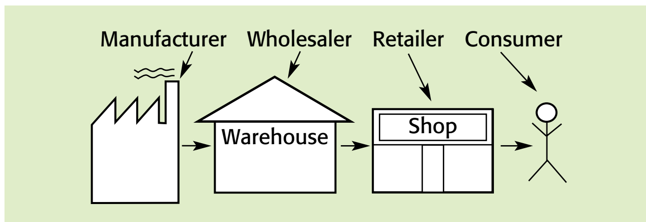


Figure 28.3 Two-intermediaries channel

H HIGHER LEVEL

Effectiveness of distribution channels

See Table 28.3 on page 302 for the benefits and limitations of distribution channels.

KEY TERM

agent business with the authority to act on behalf of another firm, e.g. to market its products

Appropriate distribution channels

Recent trends in distribution channels in recent years include:

- The increased use of the internet for direct selling of goods and services. In the service sector this can be seen with internet banking and direct selling of insurance policies online.

HIGHER LEVEL

Type and main features	Examples of products or services often using this channel	Possible benefits	Possible drawbacks
Direct selling: no intermediaries. Sometimes referred to as 'zero intermediary' channel.	• Mail order from manufacturer. • Airline tickets and hotel accommodation sold over the internet by the service providers. • Farmers' markets – selling produce directly to consumers.	• No intermediaries, so no mark-up or profit margin taken by other businesses. • Producer has complete control over the marketing mix – how the product is sold, promoted and priced to consumers. • Quicker than other channels. • May lead to fresher food products. • Direct contact with consumers offers useful market research.	• All storage and stock costs have to be paid for by producer. • No retail outlets limits the chances for consumers to 'see and try' before they buy. • May not be convenient for consumer. • No advertising or promotion paid for by intermediaries and no after-sales service offered by shops. • Can be expensive to deliver each item sold to consumers.
One-intermediary channel. Usually used for consumer goods but could also be an agent for selling industrial products to businesses.	• Holiday companies selling holidays via travel agents. • Large supermarkets that hold their own stocks rather than using wholesalers. • Where the whole country can be reached using the one-level route, e.g. a single agent in a small country.	• Retailer holds stocks and pays for cost of this. • Retailer has product displays and offers after-sales service. • Retailers often in locations that are convenient to consumers. • Producers can focus on production – not on selling the products to consumers.	• Intermediary takes a profit mark-up and this could make the product more expensive to final consumers. • Producers lose some control over marketing mix. • Retailers may sell products from competitors too, so there is no exclusive outlet. • Producer has delivery costs to retailer.
Two-intermediaries channel. Wholesaler buys goods from producer and sells to retailer.	• In a large country with great distances to each retailer, many consumer goods are distributed this way, e.g. soft drinks, electrical goods and books.	• Wholesaler holds goods and buys in bulk from producer. • Reduces stock-holding costs of producer. • Wholesaler pays for transport costs to retailer. • Wholesaler 'breaks bulk' by buying in large quantities and selling to retailers in small quantities. • Maybe the best way to enter foreign markets where producer has no direct contact with retailers.	• Another intermediary takes a profit mark-up – may make final goods more expensive to consumer. • Producer loses further control over marketing mix. • Slows down the distribution chain.

Table 28.3 *Distribution channels – main benefits and potential limitations*

- Large supermarket chains perform the function of wholesalers as well as retailers, as they hold large stocks in their own central warehouses. By owning another link in the distribution chain, the business is engaging in vertical marketing.
- Businesses are increasingly using a variety of different channels, e.g. an ice-cream manufacturer may have its own ice-cream vans to sell directly to consumers as well as supplying retailers. Hotels may sell room accommodation directly as well as through travel agents and holiday companies.
- There is increasing integration of services where a complete package is sold to consumers, e.g. air flights, car hire, hotel accommodation all sold or distributed to consumers at same time.

ACTIVITY 28.6

Read the case study below and then answer the questions that follow.

Coke chief's latest Daft idea – a cola tap in every house

It may be just a pipe dream, but Douglas Daft, the chief executive of Coca-Cola, is planning to compete with water by channelling Coke through taps in customers' homes. The business has created a system to mix carbonated water with Coke's secret syrup and pipe it around houses. It would be mixed inside homes rather than pumped in from an external source. Daft does not see Pepsi as his main competitor and will be happy only when people are turning on taps in their homes to drink Coke rather than water. This idea is not yet ready to be launched, Mr Daft said. The syrup would be sold as a concentrate in sealed containers directly by Coca-Cola, over the internet.

'You would have water mixing automatically with the concentrate and then connect it all up so that when you turn on your tap you have Coke at home. There's a lot more to it than that to ensure quality and it has to be a sealed unit so people can't alter the formula to destroy the value of the brand,' he said. Businesses already have closed systems. Cafés and branches of McDonald's, the burger chain, have stored the raw materials in basements and produced Coke on the spot for years.

22 marks, 40 minutes

1 Explain the importance of the Coca-Cola brand name to the company. **[6]**

2 This is an example of direct selling from the manufacturer to the consumer. Discuss the advantages and disadvantages of this channel of distributing Coca-Cola from the point of view of both the company and consumers. **[10]**

3 Outline **three** other methods Coca-Cola could use to 'place' or distribute its product to more consumers more often. **[6]**

H HIGHER LEVEL

Supply chain management (SCM)

KEY TERM

supply chain management (SCM) managing the network of businesses that are involved in the provision of products to the final consumers

Managing and co-ordinating all of the separate businesses involved in supplying a car or computer to the end consumer is a complex process that is now aided by specialised software. The purpose of SCM is to ensure that products are consistently made available on time to consumers by integrating supply and demand management across all of the companies involved.

This logistical process involves many activities. SCM can increase the efficiency of a firm's supply chain by:

- ensuring all supply companies are kept well informed of the changing material needs of the business
- making appropriate transport arrangements for materials and for finished goods
- reducing the total number of suppliers
- planning production to meet consumer demand
- ensuring adequate supplies are delivered, on time, to retailers or other intermediaries.

H

THEORY OF KNOWLEDGE

Luciano Benetton's clothing retail business, Benetton, has always chosen to shock and even outrage people with its advertising. The picture above is typical of the images used to promote their brand. Other images used include a newborn baby, an anorexic girl and a black woman breast feeding a white baby.

a Find **five** examples of the images Benetton has used to advertise its brand.

b Do businesses such as Benetton have a moral obligation to promote their products in a responsible way?

ACTIVITY 28.7

Why the marketing mix must be integrated
Here are four examples of marketing mix decisions:

	Product	Price	Place	Promotion
Mix A	Six-year-old design of family car made in low-wage-cost country – few additional extras or features	Skimming strategy to try to develop exclusive image	Car showrooms in town centre with personal selling by experienced sales staff	Advertised in high-income segment magazines only
Mix B	Range of furniture for mid-income families with unique, modern designs	Low – low prices to be set below competitors to establish high market share	Sold over the internet and in some well-known department stores	Advertised on TV at times of most popular programmes
Mix C	Ladies' fashion hairdressing salon with cutting by well-known stylists	High prices to create top market image	Salon located in out-of-town shopping centre	Advertised in fashion and beauty magazines
Mix D	High-technology computer games with advanced interactivity functions	Skimming price strategy	Sold exclusively through the internet	Advertised on commercial radio stations at times most likely to be heard by young listeners

20 marks, 35 minutes

1 In each case, identify which marketing mix decision is not integrated with the other decisions. **[4]**

2 In each case, recommend a change to one of the marketing decisions to create an integrated mix. Explain and justify your recommendations. **[16]**

OVER TO YOU

REVISION CHECKLIST

1 Explain the differences between advertising and sales promotion.
2 State **three** reasons why a business might advertise an existing product.
3 Explain **one** example of how a sports show manufacturer might use both above- and below-the-line promotion to support the launch of a new product.
4 Outline **three** reasons why spending more money on advertising might fail to increase sales to the expected level.
5 Explain why it is important to assess whether a promotional campaign has achieved its objectives or not.
6 State **three** ways, other than an increase in sales, that a business might use to assess the effectiveness of a promotional campaign.
7 How can promotion be used to extend a product's life cycle?
8 For which products might point-of-sale displays be a useful form of promotion?
9 What is meant by 'public relations' and why is this important to a business?
10 Outline **two** functions performed by wholesalers in a traditional channel of communication.
11 Compare the promotional mix of two large stores in your area. Consider advertising, sales promotion, own-branded goods and public relations. Analyse the differences between the two promotional mixes and suggest how effective they might be in attracting customers to the stores.
H 12 State **two** channels of distribution that could be used by a manufacturer of mountain bikes. Compare the advantages to the business and consumers of these two channels.

REVISION ACTIVITY

Read the case study below and then answer the questions that follow.

Promoting golf equipment

Penang Golf Kit Ltd produces golfing equipment. The product range includes clubs, bags, golfing shoes and clothing. Sales have grown steadily in recent years, but no more rapidly than the expansion of the overall market for golf and golfing equipment. The firm's products are well known for their quality and relatively high prices. Promotion is based around sponsorship of one major championship each year and three famous golfers. This helps provide some public relations exposure when golf is being televised. A limited amount of advertising is paid for in the country's best-known golfing magazine. The firm has recently started designing a new range of golfing equipment and clothing aimed at the youth market (under 21 years). The number of young people playing golf has increased by 50% over the last ten years compared to an overall growth of 20% in the total number of players. The business has yet to decide how this new range of goods should be promoted. A total marketing budget of $1 million has been allocated for this purpose. The aim is not to lower the image of the brand name with these new products. The following data have been gathered – use them to advise the firm on an appropriate promotional strategy.

TV advertising – $0.5 million is the minimum promotion budget required for buying TV time. This purchases five minutes of TV time in 10–30 second slots. Two times are suggested:

- During the interval of the Saturday evening football match on TV. The audience is forecast to be 5 million – 25% of whom are likely to be under 21. The average income of viewers is around $10 000 per year.
- Friday evenings after a popular sports quiz show. Audience figures suggest an average number of 6 million viewers, 25% under 21. The average income of viewers is around $8000 The cost of producing the advertisement for TV will be a further $400 000.

National newspaper advertising – one popular paper will offer ten full-page adverts for $0.5 million. This paper has a circulation of 2 million and, on average, three people read each edition. Another paper, a quality daily usually bought by high-income groups, offers six pages for the same price. The readership is 1 million but four people on average read this paper. The cost of producing a newspaper advert will be $20 000, but a colour magazine advert will cost $50 000.

A monthly golfing magazine – aimed at all ages it will offer one full page in the next ten editions for $300 000. Circulation is only 30 000 but an estimated ten people read each edition.

Other options include radio advertising and street posters.

22 marks, 30 minutes

1 Explain **two** ways in which the company could have decided on the size of the total marketing budget of $1 million. [6]

2 Using all of the data and any other information you have, prepare a fully supported recommendation to the marketing manager concerning the promotional mix that could be adopted for this range of products. [12]

3 Explain **two** other pieces of information that would help you in coming to your recommendation. [4]

EXAM PRACTICE QUESTION

Read the case study below and then answer the questions that follow.

APPLE OPENS MORE OF ITS OWN STORES

Apple computers has announced plans to open more of its own branded stores in the USA and China as it continues to develop this distribution channel. Just a few years ago, the Silicon Valley company, famous for the first popular personal computer in the 1970s and more recently the iPod, always relied on other retailers and its website to sell its ever-growing range of products. The new retail stores are likely to be well received by consumers if recent reports from London and New York are any guide.

Some business analysts believe that Apple runs a real risk of coming into conflict with its existing retail partners – including the US chain CompUSA. 'Why should other retail stores bother to sell and promote Apple products if the company is going to compete directly with them on the high street?' said one investment specialist. There are also fears that Apple could fall into the same trap as Gateway, another PC maker focused on the consumer market. Gateway had to close about 40% of its North American stores, saying it had over-extended itself at a time of slowing sales of PCs. Apple is investing heavily in property and there is always the risk of stock build-up at a time of slower world economic growth.

Apple plans to open its two new stores in high-profile shopping centres near Las Vegas in the USA and in the Chaoyang district of China. Apart from selling the usual Apple products – computers, iPods, Apple TV and the like – the main draw in the shops will be the Genius Bar – a counter where shoppers will find several highly trained Mac Geniuses ready to advise on any technical questions. There will be a hands-on Apple Retail Store Experience giving consumers the chance to test drive Apple's entire product mix. The stores will also run a series of daily creative workshops to teach customers how to make the most of the programs available.

Sources: www.timeout.com and http://uk.reuters.com (adapted)

25 marks, 45 minutes

1 Define the following terms:
  a distribution channel
  b product mix. [4]

2 Outline the different distribution channels Apple could use to distribute its products. [6]

3 Analyse the effects on existing retailers of Apple products of the opening of new Apple stores. [6]

4 Evaluate Apple's decision to open new Apple stores as a way of distributing its products. [9]