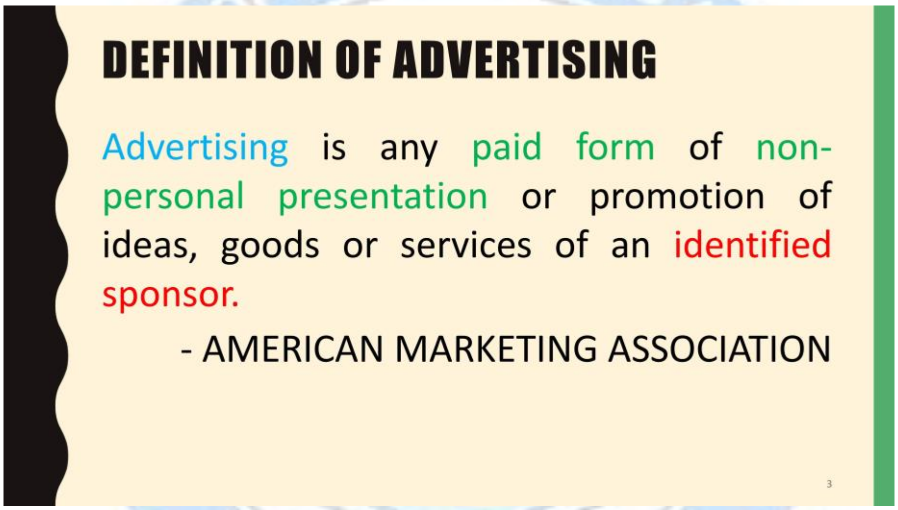
UNIT III

- **Advertising and Sales Promotions**
- **Pricing Objectives, Policies and Methods**

Advertising Defnition

Advertising is an industry used to call the attention of the public to something, typically a product or service. The definition of advertisement is the means of communication in which a product, brand or service is promoted to a viewership in order to attract interest, engagement, and sales.



Advertisement is, thus, the process of spreading product information among the potential buyers through a public medium in order to maximize sales. Such a public medium includes, among others, newspapers, magazines, television and radio.

Definition of Advertising

According to William J. Stanton,

advertising consists of all the activities in presenting to a group a non-personal, oral or visual, openly sponsored message regarding a product, service or idea.

The American Marketing Association defines advertising as

any paid form of non-personal presentation and promotion .of goods, services or ideas by an identified sponsor.

The following points emerge from the above definitions of advertising:

1. Advertising is a paid form of demand creation.

2. It is a non-personal presentation of goods or services.

3. It is done through a medium.

4. Such a medium may be a visual medium like newspapers and magazines or an oral medium like the radio or a visual cum oral medium like the television.

5. The non-personal presentation of goods or services or ideas through a medium should be done by an identified sponsor. Such a sponsor may be the producer himself or a dealer or some other person or organization.

Advertising, unlike personal selling, is not directed at any particular individual. It is directed at a mass audience. Advertising is often used synonymously with publicity. Like advertising, publicity is also a non-personal presentation but it is not paid for like advertising. Advertising is, thus, a commercial transaction whereas publicity is not so.

Objectives of Advertising

The various objectives of advertising may be stated as follows:

1. To announce the introduction of a new product.

2. To motivate the buyers to buy.

3. To create demand for the product.

4. To achieve an immediate sale.

5. To announce certain concessions to buyers like discount, price cut, gift etc.

To popularize the brand name and to secure brand loyalty.

7. To support the activities and efforts of the salesmen.

8. To build up image for the business.

9. To achieve a higher market share.

10. To inform product modifications and alterations to the buyers.

11. To explain how the product works.

12. To counter the competitors’ strategies.

13. To promote sale during off-season.

14. To maximize sale during festival season.

15. To remind the buyers about the company and its product.

Different kinds of Advertising

6 important kinds of advertising are briefly explained as below.

1. Product advertising

Most business houses try to sell their products and services through advertising. The need for product advertising arises mainly because the business has to create demand for its products. This is being done through a public medium like newspapers, television or radio by means of an advertisement.

The advertisement may appear in a visual form with the picture of the product together with its features explained (in the case of newspapers and magazines). It may also appear in the form of oral presentation of the product idea (in the case of radio advertisement) or in both visual and oral forms (as in the case of television advertisement).

Such advertisements speak not only about the product but also stress the brand. Examples are Gopuram turmeric powder, Cock brand crackers, Double-Deer Basmati rice, etc.

2. Institutional advertising

Here, the focus is on the company and its services. Such an advertisement is not intended for the consumers alone. It may also be meant for various other groups like the shareholders, creditors, suppliers and so on. The goal of such an advertisement is mainly to boost the image of the concern. It may also be used to make an offer or an announcement

Example: There may be an offer to the suppliers of materials to submit price-quotations. The advertisement may also announce the date and time of the Annual General Meeting of the company.

3. Competitive advertising

In this case, the goal of advertisement is to show the superiority of one product over the competing products. Such an approach is resorted to when there is cut-throat competition in the market. The advertisement stresses on brand name, product quality, price and the company image.

4. Comparative Advertising

Here, the marketer highlights the comparative features of the competing products. Such advertisements are quite common these days and also have become a matter of controversy. Car, motorcycle and television manufacturers adopt such an approach.

Example: The comparative features of different car models are often advertised by the manufacturers. In the same way, the comparative advantage of two-wheeler are advertised. The advertiser invariably claims that his product alone is superior.

5. Collective or Cooperative advertising

Certain products are jointly advertised by the manufacturers and dealers together. Such an advertising is what is known as collective or co-operative advertising. The manufacturers of car, motorcycle and TV also use such an approach.

6. Non-commercial advertising

Advertisements for non commercial purpose are brought out by charitable organizations mainly to secure financial help from philanthropists. Organizations like the Sivanandha Gurukulam in Chennai solicit financial help from generous people, particularly during festival times, for the benefit of the inmates.

SALES PROMOTION

Sales Promotion

- All activities that helpful for the development of sales or increasing the demand level for a product very quickly is called sales promotion

Objectives

- To introduce new products
- To attract new customers and retain the existing ones
- To maintain sales of seasonal products
- To meet the challenge of competition

A sales promotion is a marketing strategy where a business will use short-term campaigns to spark interest and create demand for a product, service or other offers.Sales promotions can have many objectives and ideal outcomes, which we will explore in detail throughout this article.Primarily, sales promotions are used to motivate buying behavior or trigger an uptick in purchases in the short term, in order to reach a benchmark or goal. Although the immediate purpose of a sales promotion is an uptick in sales, there are plenty of other benefits to building out a strategic sales promotion technique with your marketing team.

Important Sales Promotion Methods

- Consumer promotion
- Trade promotion
- Sales force promotions
- Product demonstration and conferences
- Displays

Coupons: Coupons such as 50% off, save ₹100 on purchase of 500, buy one get one free are frequently used to attract customers towards the products of your brand.

Premiums: These low-cost items were given to customers at a discount or for free to build loyalty and fascinate customers. Logo pens, keychains and coffee mugs are typical examples of it.

Incentives: Incentives builds the customer's excitement. Thus, marketers conduct contests, lucky draws and provide rebates to their loyal customers to retain them with their product. This also attracts the new customer group toward their product.

Product Samples: Providing samples of your new product with other famous products of your company also increase the sales of your products.

Sponsorship: This is what in which a company pays a fee to put their name and logo on a physical site.

Product Placement: We have seen in many realities shows a mug having a logo of a particular drink name is kept in front of celebrities, that is a product placement method of sales promotion and this method brings recognition for their brand.

Loyalty Programs: It is also known as buyer programs. In these programmes, companies award their customers for the purchases.

Point- of- Purchase Displays: We see almost everywhere particular corner are made displaying the products of a specific brand. They are usually placed in high traffic areas and encourages impulse buying

Produces Immediate Sales

Because of this kind of sales promotion measures, people get very excited to buy more. It generates excitement, and customer again wants to purchase the product.

Prevents Competitor Entry or Promotions

Any competitors who are trying to enter the market and attain your market share cannot do so when you go ahead into sales promotion because if they are already in an established darn, they are doing very well. On top of that, if you come up with your offers in sales promotion measures, then the competitors cannot do anything in this matter.

Measurable Results can be Produced

Measurable results can be produced because it is a short-term event. Thus, the sales volume generated during your sales promotion period can be easily measured.

Helps to Gain Distribution Channel Support

A distribution channel is nothing but the people involved in distributing your product. It could be a dealer, retailer, etc. Thus, you get to put your product by using sales promotion tools as well. If you give discounts or deals to your dealers, then they help you to sell your product, and this could benefit and increase your sales.

Easy to Design and Implement

In advertising, there are so many costs involved, so many competitors are involved, so it becomes challenging to decide what kind of advertisement should you come up with and how it should be. Out in the case of sales promotion, it is relatively easier to design and implement your activities; you can calculate your costs and their effects on the sales accordingly.

Disadvantages of Sales Promotion

It has the following disadvantages:

It is for the short-term.

Excessive use of it can also harm the brand value.

It may create confusion in the customer’s mind.

It attracts only price switches.

Forward buying.

Sometimes it gets mistreated by both merchant and customers

PRICING OBJECTIVES, POLICIES AND METHODS

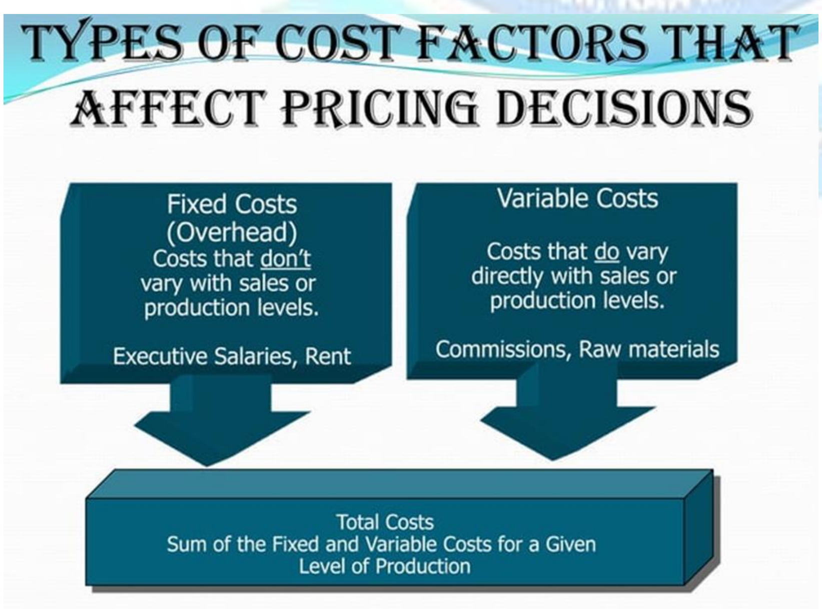
- **The only component of marketing mix that generates returns is called price, however, others only generate costs.**
- **Price can be easily altered, whereas, other product aspects like channel obligations and product attributes cannot be changed so easily.**
- Pricing is a process of fixing the value that a manufacturer will receive in the exchange of services and goods. Pricing method is exercised to adjust the cost of the producer's offerings suitable to both the manufacturer and the customer. The pricing depends on the company's average prices, and the buyer's perceived value of an item, as compared to the perceived value of competitors product.
- Every businessperson starts a business with a motive and intention of earning profits. This ambition can be acquired by the pricing method of a firm. While fixing the cost of a product and services the following point should be considered:
- The identity of the goods and services
- The cost of similar goods and services in the market
- The target audience for whom the goods and services are produces
- The total cost of production (raw material, labour cost, machinery cost, transit, inventory cost etc).
- External elements like government rules and regulations**, policies, economy, etc.,**
- Therefore, price is the most flexible component of the marketing mix. For a manufacturer, price is that amount of money (or in case of barter trade, goods or services). which he will receive from the buyer for his product. For a customer, price is something he sacrifices for owning the product or service and therefore, it displays his perception for the product value. It can conceptually be defined as :

- **Quantity of money received by the seller**

Price = --

- **Quantity of goods and services rendered/**

  received by the buyer



Cost based pricing

- **Cost-based pricing refers to a pricing method in which some percentage of desired profit margins is added to the cost of the product to obtain the final price.**
- **In other words, cost-based pricing can be defined as a pricing method in which a certain percentage of the total cost of production is added to the cost of the product to determine its selling price.**
- **Cost-based pricing can be of two types, namely,**
- **COST-PLUS PRICING AND**
- **MARKUP PRICING.**
- **Cost-plus pricing is also known as markup pricing. It's a pricing method where a fixed percentage is added on top of the cost it takes to produce one unit of a product (unit cost). The resulting number is the selling price of the product.**
- **COST-PLUS PRICING**
- **The calculation or computing of the cost-plus pricing takes into consideration the average variable and average fixed costs as well as the quantity, which is assumed based on an evaluation of the firm's production capacity.**
- **Therefore, we have the average cost derived from the multiplication of average variable cost and average fixed cost. The average variable cost is calculated by dividing the total variable cost by quantity. This is the initial phase in computing the cost-plus pricing.**

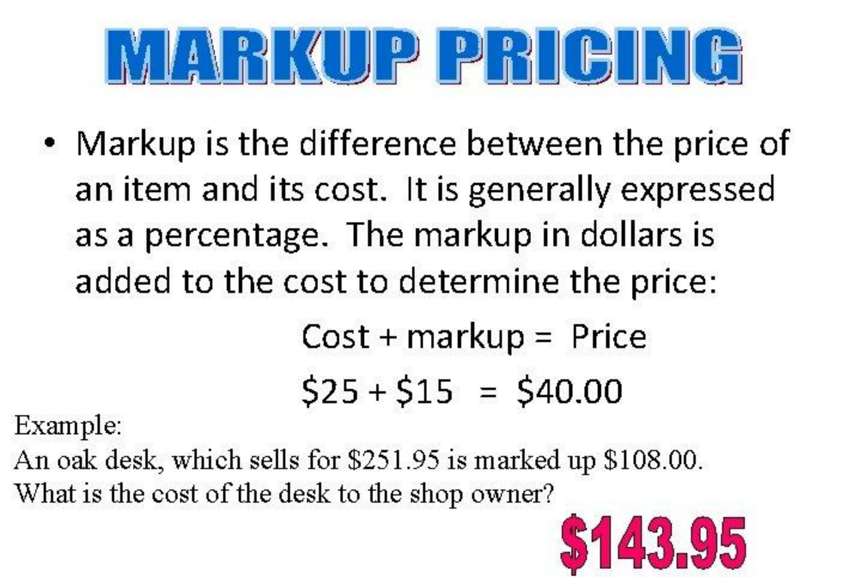
  AVC= TVC/Q

  AFC= TFC/Q

  AC= AVC+AFC

- **Where – AC is Average cost.**
- **AVC is average variable cost**
- **AFC is average fixedcost**
- **TVC is total variable cost**
- **TFC is total fixed cost**
- **Q is total quantity**

- **Cost-plus pricing is also known as markup pricing. It's a pricing method where a fixed percentage is added on top of the cost it takes to produce one unit of a product (unit cost). The resulting number is the selling price of the product.**
- **The following and last step consists in identifying the mark-up over costs. Here we introduce a target rate of return, which is a ratio of the respective share of total profit. If the target rate of return is x, then the equation of the unit of output would be:**
- **Unit of output = X/Q**
- **Where – X is rate of return and Q is total quantity.**
- **The final price through the cost-plus pricing strategy will be:**
- **P= AVC+AFC+X/Q.**
- **This pricing has been considered the most rational approach to maximizing profits due to the ease of its calculation and lack of need to any additional information. Therefore, compared to competitive pricing, the cost up pricing strategy tends to ignore the competitors completely when establishing the price.**



Absorbption pricing/Full –cost pricing

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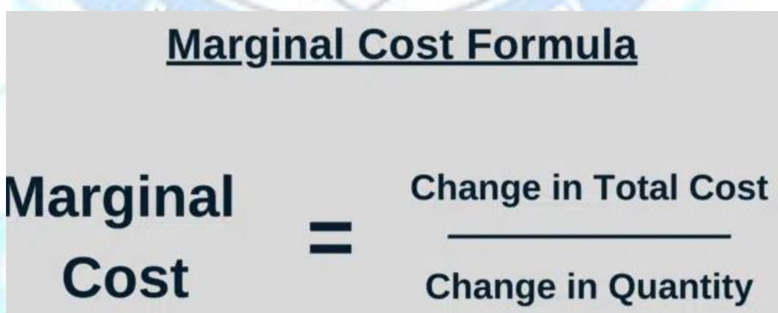
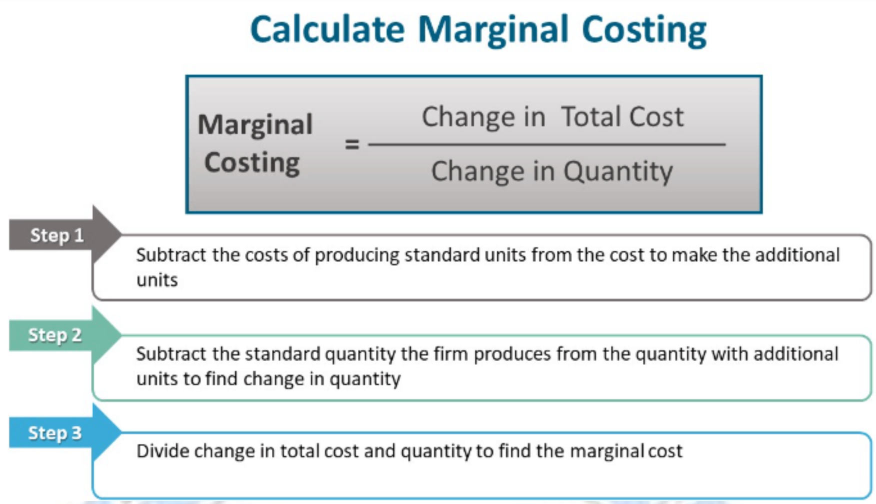
Marginal cost

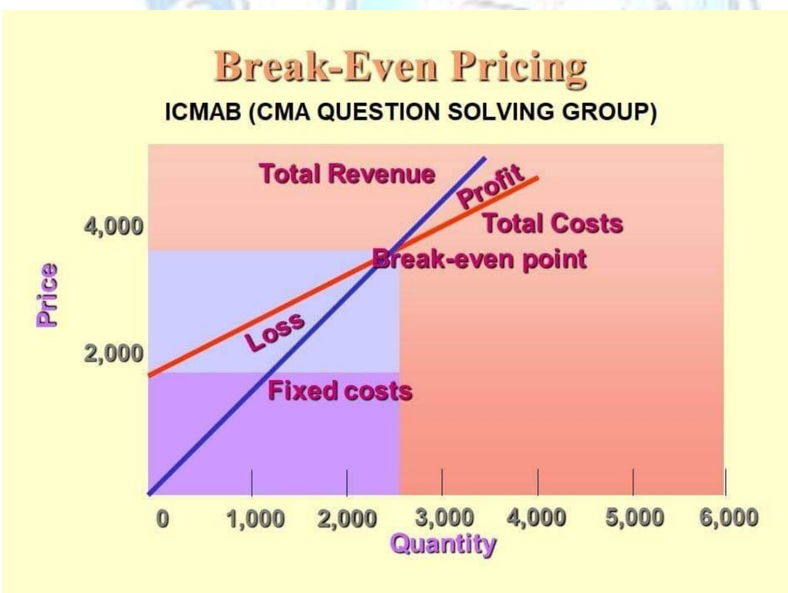
- **Marginal cost is the cost required to make one additional unit of a product. The marginal cost formula is the change in total production costs—including fixed costs and variable costs—divided by the change in output.**

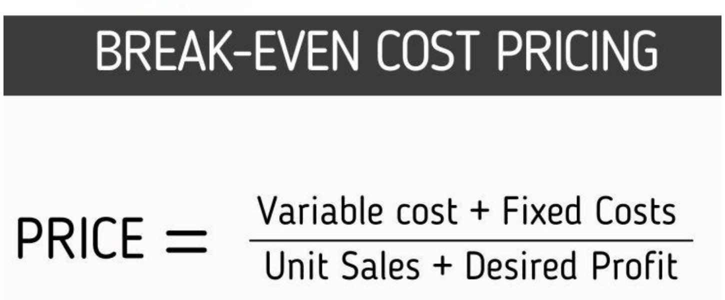




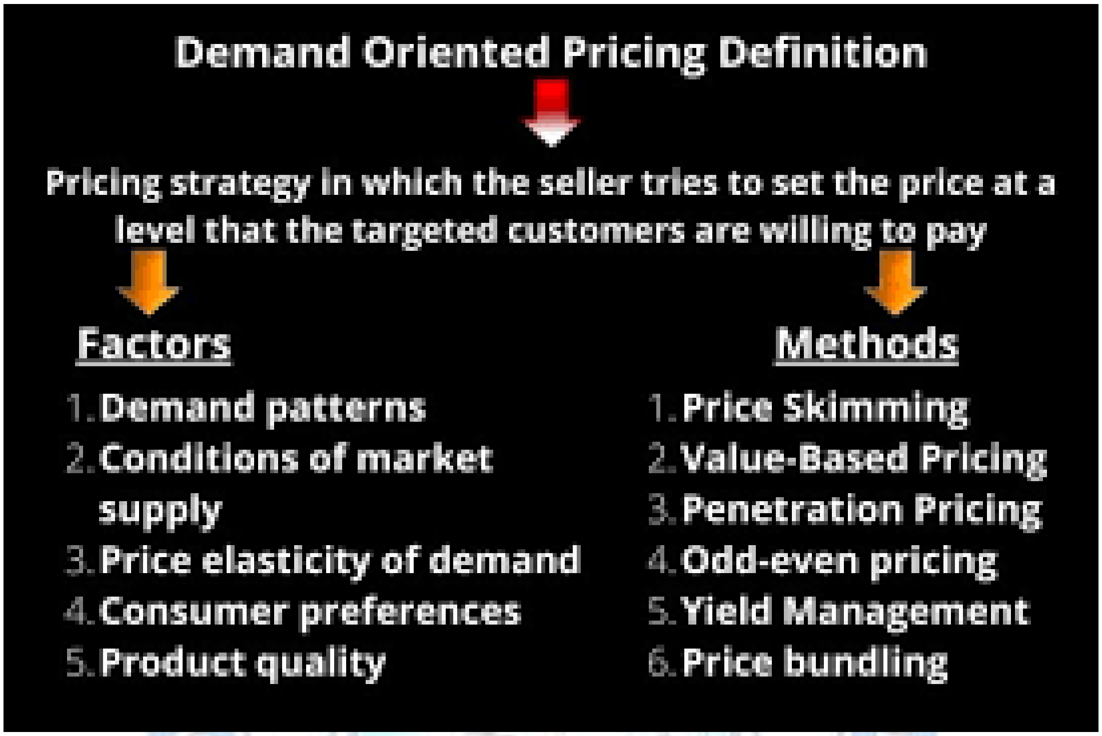
Break Even pricing

The break-even cost pricing approach, the company's main objective is to cover its fixed cost. Industries with high fixed costs resort to such pricing strategies. This is the level where a company breaks even or the point where there are no profits or losses. Industries like the aviation industry have extremely high fixed costs and hence, use this pricing strategy.

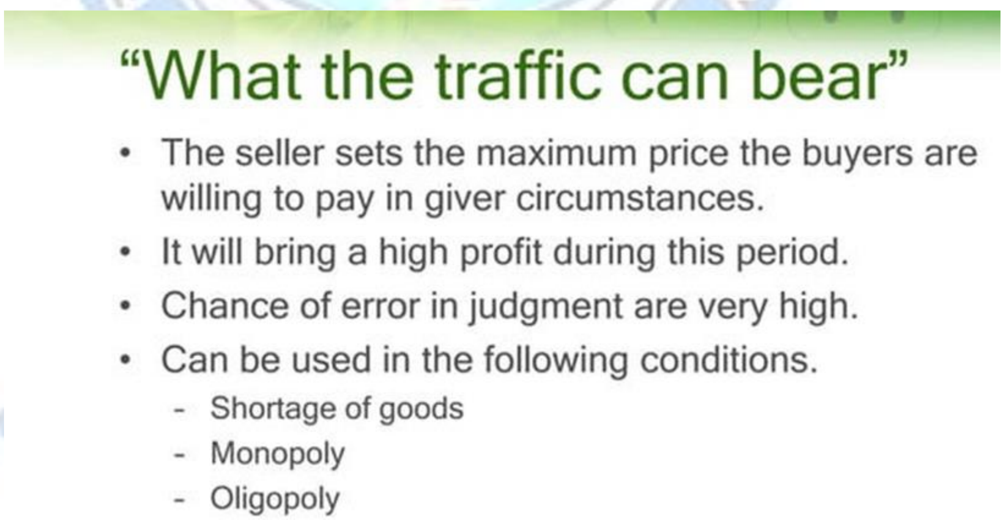




Demand based pricing



Demand based Pricing



2. Demand Based Pricing

- The pricing decision is also depending on Demand and supply of the commodity.
- More realistic .

Types of cost based pricing are:
- What the traffic can bear pricing
- Skimming pricing
- Penetration pricing

Demand-based pricing refers to a pricing method in which the price of a product is finalized according to its demand. If the demand of a product is more, an organization prefers to set high prices for products to gain profit; whereas, if the demand of a product is less, the low prices are charged to attract the customers.

The success of demand-based pricing depends on the ability of marketers to analyze the demand. This type of pricing can be seen in the hospitality and travel industries. For instance, airlines during the period of low demand charge less rates as compared to the period of high demand. Demand-based pricing helps the organization to earn more profit if the customers accept the product at the price more than its cost.

Skimming-based Pricing :

Skimming pricing is the commonest pricing method. In this method. the companies by selling at premium prices fulfill their desire of skimming the market. The results are obtained in the below mentioned situations :

When high price is supposed to be a testimony of high product quality, especially in an environment, where target market relates product quality with its price.

When a customer willingly purchase the product at higher price, just in order to become the opinion leader.

When the customers status is believed to be increased by product.

When the entry as well as exit barriers are so low that there is almost no competition in the industry or the industry fears a threat from potential competition.

When a visible technological advancement is displayed by the product, which makes the product a high technology product.

When the firm adopts skimming pricing technique, it aims to attain its break-even point at an early stage and takes lesser time to maximize its profits (or find a niche to earn profits).

2. **Value-based pricing is** a strategy of setting prices primarily based on a consumer's perceived value of a product or service. Value-based pricing is customer-focused, meaning companies base their pricing on how much the customer believes a product is worth.

The fundamental aspect of the demand oriented costing is that the cost involved does not have an impact on the profits but on the demand. This method, contrary to cost-based pricing, begins by finding out the price that the consumer market intends to pay for the product. Then, a backward estimation of the level of cost and profit (that the organisation can afford due to that price) is undertaken. Following methods are used to determine the customer demand-based pricing :

3) Penetration-based Pricing :

Contrary to skimming pricing, penetration-based pricing focuses on keeping the prices low as compared to current competitors. Market penetration or gaining initial market share in an intensely competitive market, is the main objective of this pricing method. Below mentioned are the situations in which this method gives results :

When the market is large in size and is still growing.

When the brands are bought by the customers not because of some definite inclinations but because of habit, i.e., customer loyalty is low.

When a stiff competition dominates the market.

When an entry strategy is employed by the firm.

When the company has weak price-quality coordination.

Odd-even pricing is a pricing strategy involving the last digit of a product or service price. Prices ending in an odd number, such as $1.99 or $78.25, use an odd pricing strategy, whereas prices ending in an even number, such as $200.00 or 18.50, use an even strategy

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Skimming Pricing

- Initially the products will be introduced in a high price and subsequently settle down for a lower price.
- Example: Mobile Phones, Televisions etc.. Most of the electronic items.

Competition-based Pricing:

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Competition-based pricing refers to a method in which an organization considers the prices of competitors' products to set the prices of its own products. The organization may charge higher, lower, or equal prices as compared to the prices of its competitors.

The aviation industry is the best example of competition-based pricing where airlines charge the same or fewer prices for same routes as charged by their competitors. In addition, the introductory prices charged by publishing organizations for textbooks are determined according to the competitors' prices.