

# Objectives

- Understand the roles of advertising, sales promotion, and public relations in the promotion mix.
- Know the major decisions involved in developing an advertising program.

# Objectives

- Learn how sales promotion campaigns are developed and implemented.
- Learn how companies use public relations to communicate with their publics.

# Definition

- **Advertising**
  - Any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor.

# Advertising

- Signage in ancient times offers evidence of early advertising.
- Modern ad spending tops \$231 billion in U.S. annually, \$500 billion worldwide.
- Business firms, not-for-profit, social agencies, and professionals all advertise.

# Advertising

## Key Decisions

---

- *Setting objectives*
  - *Setting the budget*
  - *Developing the advertising strategy*
  - *Evaluating advertising campaigns*
- Advertising objectives can be classified by primary purpose:
    - Inform
      - ❖ *Introducing new products*
    - Persuade
      - ❖ *Becomes more important as competition increases*
      - ❖ *Comparative advertising*
    - Remind
      - ❖ *Most important for mature products*

# Advertising

## Key Decisions

---

- *Setting objectives*
  - ***Setting the budget***
  - *Developing the advertising strategy*
  - *Evaluating advertising campaigns*
- **Methods of budget setting were listed in chapter 15**
  - **Several factors should be considered when setting the ad budget:**
    - Stage in the PLC
    - Market share
    - Level of competition
    - Ad clutter
    - Degree of brand differentiation

# Advertising

## Key Decisions

---

- *Setting objectives*
  - *Setting the budget*
  - *Developing the advertising strategy*
  - *Evaluating advertising campaigns*
- **Creative challenges**
    - Media fragmentation
    - Soaring media costs
    - Advertising clutter
  - **Creating ad messages**
    - Message strategy
      - ❖ *Creative concept*
      - ❖ *Advertising appeal*
    - Message execution
      - ❖ *Many execution styles*
      - ❖ *Tone, format, illustration, headline, copy*

# Advertising

## Creative Execution Styles

- Slice of Life
- Lifestyle
- Fantasy
- Mood or Image
- Testimonial Evidence or Endorsement
- Musical
- Personality Symbol
- Technical Expertise
- Scientific Evidence



# Advertising

## Key Decisions

---

- *Setting objectives*
  - *Setting the budget*
  - ***Developing the advertising strategy***
  - *Evaluating advertising campaigns*
- **Select advertising media**
    - Decide on level of reach, frequency and impact
    - Choose among the major media types by considering:
      - ❖ *Consumer media habits, nature of the product, types of messages, and costs*
    - Select specific media vehicles
    - Decide on media timing

# Advertising

## Major Media Types

- Newspapers
- Television
- Direct Mail
- Radio
- Magazines
- Outdoor
- Internet

# Advertising

## Key Decisions

---

- *Setting objectives*
  - *Setting the budget*
  - *Developing the advertising strategy*
  - ***Evaluating advertising campaigns***
- **Measuring communications effects**
    - Copy testing
    - Consumer recall
    - Product awareness
    - Product knowledge
    - Product preference
  - **Measuring sales effect**
    - Past vs. current sales comparison
    - Experimentation

# Advertising

- **Organizing the Advertising Function**
  - Small vs. large companies
  - Nature of advertising agencies
    - ❖ *Advantages of advertising agencies*
    - ❖ *Departments*
    - ❖ *Compensation*
    - ❖ *Changes in agency services*

# Advertising

- **Advertising to International Markets**
  - Standardizing worldwide advertising
    - ❖ *Advantages include lower advertising costs, greater global advertising coordination, and consistent global image*
    - ❖ *Drawbacks include ignoring differences in culture, demographics, and economic conditions.*
  - Most marketers think globally but act locally

# Definition

- **Sales Promotion**
  - Sales Promotions are short-term incentives to encourage the purchase or sale of a product or service.

# Sales Promotion

- **Sales Promotions**
  - Can be targeted at final buyers, retailers and wholesalers, business customers, and members of the sales force.
  - The use of sales promotions has been growing rapidly.

# Sales Promotion

- **Objectives -- Consumer Promotions:**
  - Increase short-term sales
  - Generate product trial
- **Objectives -- Trade Promotions:**
  - Obtaining distribution and shelf space
  - Encouraging retailers to advertise the brand
- **Objectives -- Sales Force Promotions:**
  - Signing up new accounts



# Sales Promotion

## Consumer Promotion Tools

- Samples
- Cash Refunds (Rebates)
- Price packs (cents-off deals)
- Advertising Specialties
- Premiums
- Patronage Rewards
- Point-of-Purchase Communications
- Contests, Games, and Sweepstakes

# Sales Promotion

- **Trade Promotion Tools**
  - Discounts ( also called price-off, off-list, and off-invoice)
  - Allowances
    - ❖ *Advertising allowances*
    - ❖ *Display allowances*
  - Free goods
  - Push money
  - Specialty advertising items

# Sales Promotion

- **Business Promotion Tools**
  - Includes many of the same tools used in consumer and trade promotions
  - Two additional tools:
    - ❖ *Conventions and trade shows*
    - ❖ *Sales contests*

# Sales Promotion

- **Key Decisions When Developing the Sales Promotion Program:**
  - Size of the incentive
  - Conditions for participation
  - Promotion and distribution of the actual sales promotion program
  - Length of the promotional program
  - Evaluation
    - ❖ *Surveys and experiments can be used*

# Accounting and finance

## Break-even analysis

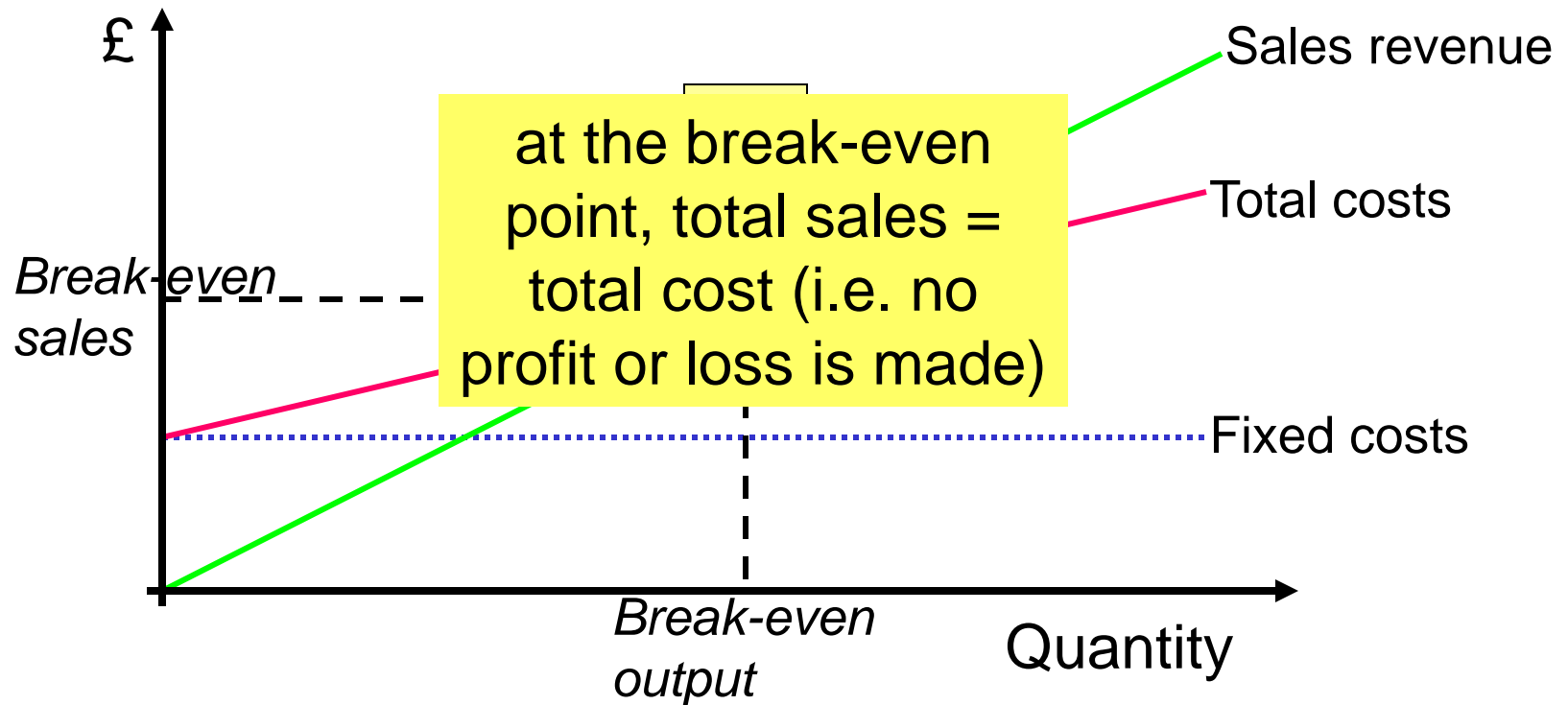


# Break-even analysis

- break-even analysis provides a simple means of measuring profits and losses at different levels of output
- sales revenues and total costs are analysed for each different level of production
- analysis is normally done graphically using a **break-even chart**



# Drawing a break-even chart



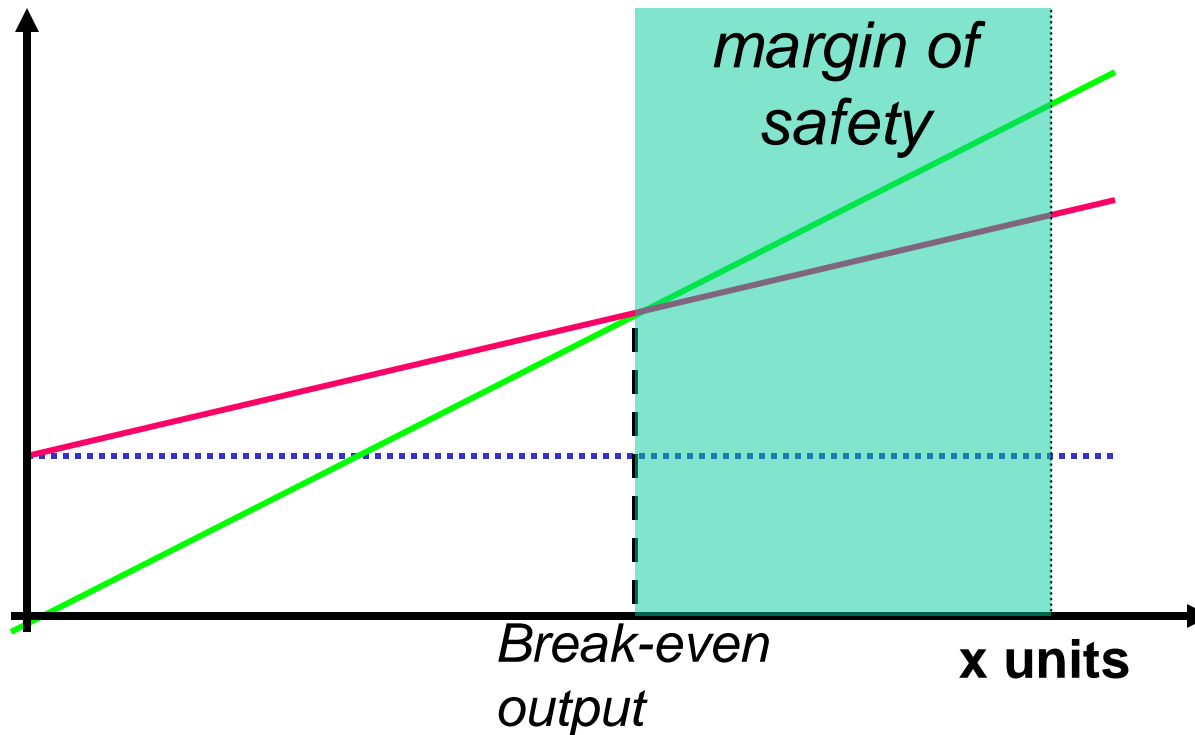
# The margin of safety

- the difference between actual output and the break-even output is known as the **margin of safety**





# The margin of safety



# Break-even point

- the point at which total costs are covered and no profit or loss is made is called the **break-even point**
- the break-even point is where the **total revenue** and **total cost** lines intersect on the chart

$$\text{BEP} = \frac{\text{fixed costs}}{\text{contribution per unit}}$$



# Break-even calculation

- Assuming that a product has a selling price of £6. Variable costs are £1 per unit and fixed costs are £50,000 per year
- Calculate the number of units that a firm must sell in order to break-even
- Answer - 
$$\frac{\text{£50,000}}{\text{£5}} = 1000 \text{ units}$$



# Uses of break-even analysis

- to calculate the minimum amount of sales required in order to be able to break even
- to see how changes in output, selling price or costs will affect profit levels
- to calculate the level of output required to reach a certain level of profit
- to allow various scenarios (what-if) to be tested out
- to aid forecasting and planning



# Limitations of break-even analysis

- it's accuracy depends upon the accuracy of the data used
- forecasting the future is difficult, especially long term
- it assumes there is a simple relationship between variable costs and sales
- sales income does not necessarily rise in a constant relationship to sales volume
- external constraints have to be recognised



# Summary

## Key concepts:

Break-even output

Contribution per unit

Fixed costs

Variable costs

Margin of safety

# Buyer Behaviour

- Dominant Family Purchase - Cozenza 1985
- Demographic Factors
- The Consumer Buying Process
- Maslow's hierarchy of needs
- UK socioeconomic classification scheme
- Types of buyer behaviour
- The Buying Decision Process
- Organisational Buyer Behaviour



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# Dominant Family Purchase - Cozenza 1985

<u>PRODUCT</u>	<u>DOMINANT DECISION MAKER</u>	<u>TYPICAL DECISION</u>
Women's casual clothing	Wife	Price, style
Vacations	Syncratic (both)	Whether to go, where
Men's casual clothing	Husband	Type, price, style
Life insurance	Husband	Company, coverage
Homeowner's insurance	Husband	Company, coverage
Household appliances	Wife	Style, brand, price



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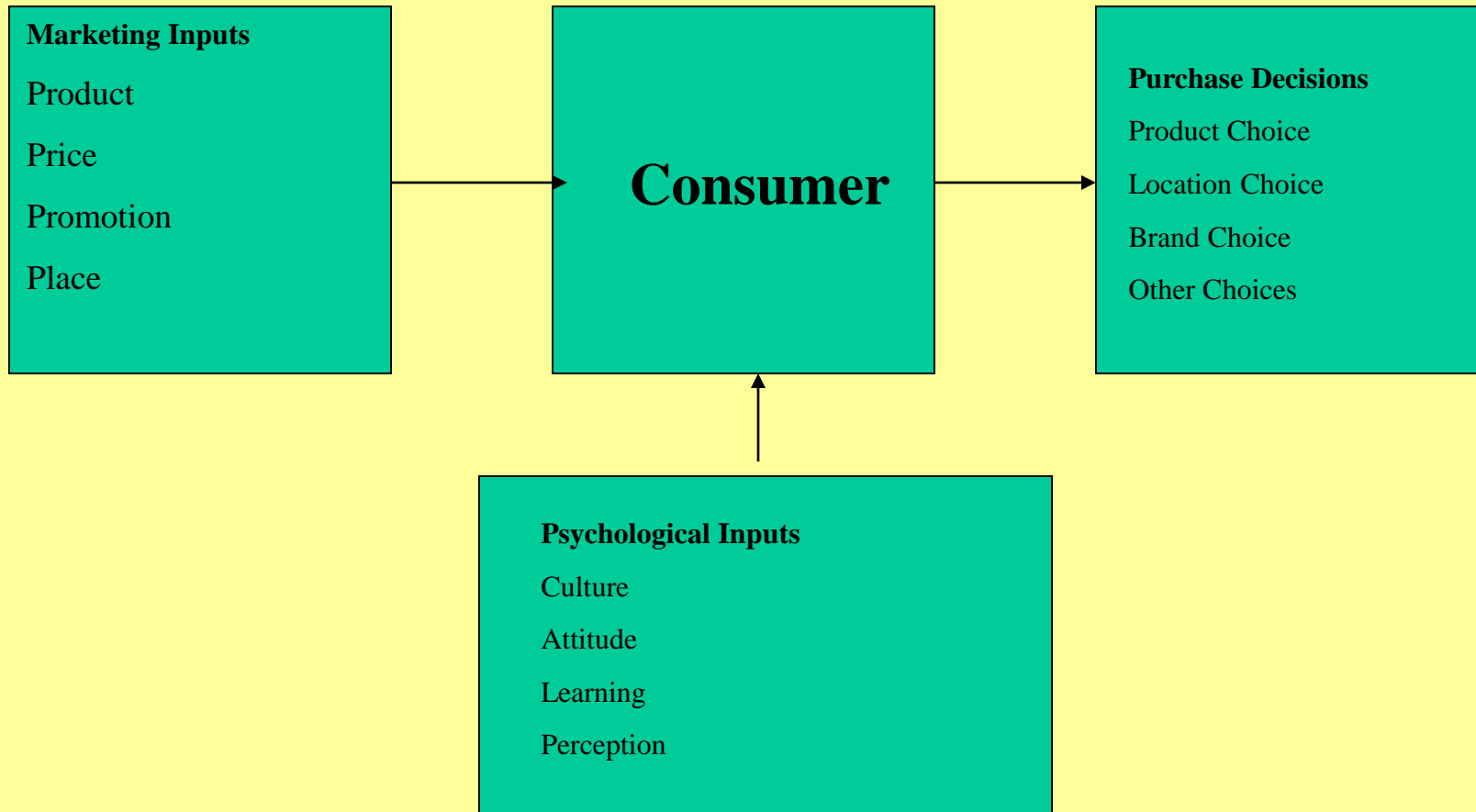
# Demographic Factors

- Age
- Stage in family life cycle
- Occupation
- Economic circumstances
- Lifestyle
- social influence variables
  - family background
  - reference groups
  - roles and status



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# The Consumer Buying Process

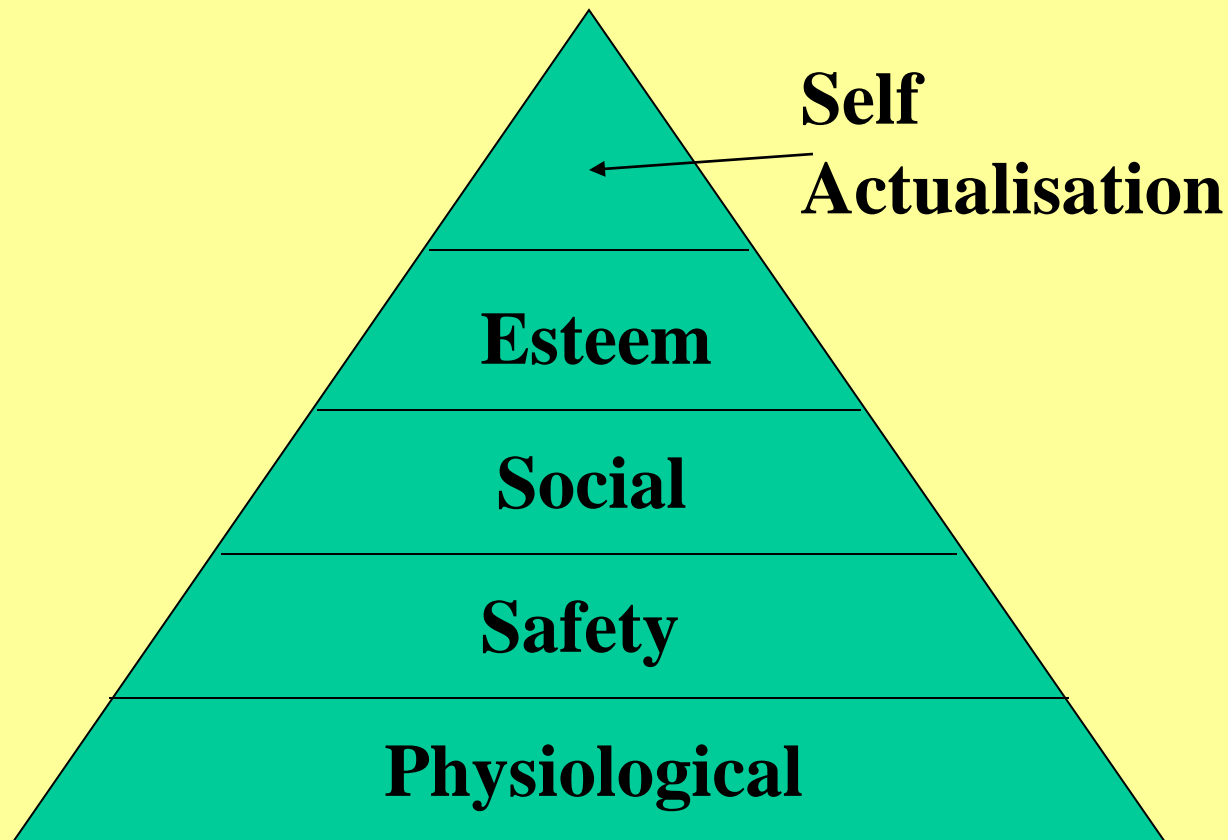


Based on Cohen (1991)



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# Maslow's Hierarchy of Needs



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# UK socioeconomic classification scheme

<u>Class name</u>	<u>Social status</u>	<u>Occupation of head of household</u>	<u>% of population</u>
A	Upper middle	Higher managerial, administrative or professional	3
B	Middle	Intermediate managerial, administrative or professional	14
C1	Lower middle	Supervisors or clerical, junior managerial, administrative or professional	27
C2	Skilled working	Skilled manual workers	25
D	Working	Semiskilled and unskilled workers	19
E	Those at lowest levels of subsistence	Pensioners, widows, casual or lower-grade workers	12



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# Types of buyer behaviour

- Complex buyer behaviour e.g. Intel Pentium Processor
- Dissonance-reducing behaviour (brand reduces after-sales discomfort)
- Habitual buying behaviour e.g. salt - little difference
- variety seeking behaviour - significant brand differences e.g soap powder



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# The Buying Decision Process

- recognition of the need e.g a new PC
- choice of involvement level (time and effort justified) e.g. two week ends
- identification of alternatives e.g. Dell, PC World
- evaluation of alternatives I.e. price, customer service, software support, printer/scanner package
- decision - choice made e.g Epsom
- action e.g buy Epsom model from Comet
- post-purchase behaviour I.e. use, breakdowns, etc



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# Organisational Buyer Behaviour

‘The decision-making process by which formal organisations establish the need for purchased products and services, and identify, evaluate, and choose among alternative brands and suppliers’

Kotler and Armstrong 1989



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# Characteristics of organisational buyer behaviour

- Organisation purpose - Goodyear Tyres
- Derived demand - follows cars and lorries
- Concentrated purchasing - stockholdings of rubber
- Direct dealings - large purchaser of basic rubber - no intermediaries
- Specialist activities - learns about the product
- Multiple purchase influences - DMU - Decision making unit



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# Ch 4: The Balancing of Accounts, The Trial Balance, Income Statement, and Balance Sheet

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## **Introduction:**

In the previous chapters, you have learned the principles of double entry and how to post to the ledger accounts. The next step in our progress towards the financial statements is the trial balance.

Before transferring the relevant balances at the year end to the profit and loss account and putting closing balances carried forward into the balance sheet, it is usual to test the accuracy of the double entry bookkeeping records by preparing a trial balance. This is done by taking all the balances on every account. Due to the nature of double entry, the total of the debit balances will be exactly equal to the total of the credit balances.

# Ch 4: The Balancing of Accounts, The Trial Balance, Income Statement, and Balance Sheet

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## Learning Objectives:

- 1) The balancing of accounts.
- 2) The purpose and preparation of a trial balance.
- 3) Prepare the simple final accounts of a sole trader from the trial balance.

# Ch 4: The Balancing of Accounts, The Trial Balance, Income Statement, and Balance Sheet

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You all know that:

$$\text{Assets} = \text{Capital} + (\text{Revenues} - \text{Expenses}) + \text{Liabilities}$$

For Assets A/C, Capital (including Drawings A/C), and Liabilities A/C, we have to close them as follows:

**Example (1)**: How do we close this account?

## Cash A/C

2005		2005	
	\$		
1.1 Sales Revenue	800	8.1 A/P: Simon	600
5.1 A/R: John	200	9.1 Equipment	50

# Ch 4: The Balancing of Accounts, The Trial Balance, Income Statement, and Balance Sheet

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## Example (2):

### Capital A/C

2005

1.1 Cash 8,000

9.1 Bank 10,550

## Example (3):

### Drawings A/C

2005

18.1 Cash 150

20.1 Bank 230

# Ch 4: The Balancing of Accounts, The Trial Balance, Income Statement, and Balance Sheet

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For all Revenues A/C, Expenses A/C, and Returns Inwards A/C, Returns Outwards A/C, Discount Allowed A/C, Discount Received A/C, Carriage Inwards A/C, and Carriage Outwards, we have to close them as shown below:

## Example:

Salaries A/C			Returns Outwards A/C		
2005		\$	2005		
1.1	Cash	800	20.1	A/P: Mary	100
28.1	Cash	200	25.1	Cash:	250

How do we close these accounts?

# Ch 4: The Balancing of Accounts, The Trial Balance, Income Statement, and Balance Sheet

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**Question:** Once you have closed all the accounts, what would do?

**Answer:** Prepare a **Trial Balance**

**Question:** What is a Trial Balance then? What is it for? How does it look like?

**Answer:** A Trial Balance is a list of nominal ledger account and their balances at a given date. It is usually prepared on the last day of the accounting period. It consists of a Debit and a Credit balance.

## **Its purposes:**

(1) It is prepared to check that the total of debit balances is the same as the total of credit balances and offer reassurance that the double entry recording from day books has been done correctly.

(2) For preparation of Trading and Profit and Loss Accounts and the Balance Sheet

# Ch 4: The Balancing of Accounts, The Trial Balance, Income Statement, and Balance Sheet

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The rules to prepare the Trial Balance:

**Total Debit Entries = Total Credit Entries**

Debit	Credit
Assets	Income/ Revenue
Expenses	Liabilities
Drawings	Capital

# **Ch 4: The Balancing of Accounts, The Trial Balance, Income Statement, and Balance Sheet**

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## **3 Steps to preparing the Trial Balance:**

- 1) Balance ALL the accounts in the books.
- 2) List all the Debit balances and add them up.
- 3) List all the Credit balances and add them up.



# Ch 4: The Balancing of Accounts, The Trial Balance, Income Statement, and Balance Sheet

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## What if the trial balance shows unequal debit and credit balances?

If the columns of the trial balance are not equal, there must be an error in recording the transaction.

### Errors revealed by the trial balance:

The errors revealed are those errors which cause the Trial Balance totals to disagree. (i.e do not balance)

There are **FOUR** types of errors revealed by a trial balance:

- 1) Posting to the wrong side of an account.
- 2) Errors in calculation and balancing
- 3) Incorrect amounts entered on one entry
- 4) Omission of one entry.

# Ch 4: The Balancing of Accounts, The Trial Balance, Income Statement, and Balance Sheet

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**Question:** How do we locate all of the above errors?

- Answers:**
- 1) Check day-book totals
  - 2) Check additions of Ledger accounts, ensure each balance is correct
  - 3) Check all balances have been recorded in the Trial Balance.
  - 4) Check all balances have been entered in the Trial Balance on the correct side.

# Ch 4: The Balancing of Accounts, The Trial Balance, Income Statement, and Balance Sheet

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**Question:** Once you are sure there is no mistake made in the Trial Balance, what do you have to prepare next step?

**Answers:** You have to prepare the following statements:

- 1) Income Statement (also called Profit and Loss A/C)
- 2) Balance Sheet

In short, these are the steps:

- 1) Trial Balance
- 2) Income Statement
- 3) Balance Sheet

# Ch 4: The Balancing of Accounts, The Trial Balance, Income Statement, and Balance Sheet

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**Question:** What is 'Income Statement'? 'Balance Sheet'?  
What are the purposes of preparing these two statements?

**Answers:**

**Income Statement** shows the revenues generated during a period and the expenditure incurred in earning that revenue. The difference between them is the profit or loss for the period. In short, it shows the '**financial performance**' of a business in a given period.

Two different profits are shown in the Income Statement:

- 1) **Gross profit:** The difference between sales proceeds and the cost of goods sold.
- 2) **Net profit:** The gross profit less the expenses of the business.

# Ch 4: The Balancing of Accounts, The Trial Balance, Income Statement, and Balance Sheet

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## Answers:

**Balance Sheet** is a statement of the ‘financial position’ of a business at a given period of time. It is called a balance sheet because it is a list of the balances in a company’s nominal ledger at a moment in time. The balances are grouped, totalled and presented in a logical and informative format.

The main groupings to remember are:

- 1) Fixed Assets (Non-current assets)
- 2) Current assets
- 3) Current Liabilities
- 4) Long-term Liabilities (Non-current Liabilities)
- 5) Capital

# **Ch 4: The Balancing of Accounts, The Trial Balance, Income Statement, and Balance Sheet**

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**Right now, it's time for us to prepare the Income Statement and the Balance Sheet.**

**Look at the Trial Balance given.**

# Ch 4: The Balancing of Accounts, The Trial Balance, Income Statement, and Balance Sheet

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However, a trial balance **will not disclose** the following types of errors: (Errors not revealed by the trial balance)

## 1) Errors of omission

Complete **omission** of a transaction, because neither a debit nor a credit is made.

## 2) Errors of commission

This happens when **original figure incorrectly entered**. (Correct double entries but incorrect amounts were recorded)

# Ch 4: The Balancing of Accounts, The Trial Balance, Income Statement, and Balance Sheet

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## 3) Compensating errors

This happens where errors cancel out each other. (eg an error of £100 is exactly cancelled by another £100 error elsewhere).

## 4) Errors of principles

This happens when the wrong type of account had been used (eg the purchase of a motor van is debited to a expense account, such as motor expenses, rather than a fixed asset account)

## 5) Complete reversal of entries

This happens when an account should be debited but was credited (and vice versa)



## Corporate versus marketing strategy

### ***Corporate strategy:***

- Allocation of resources within an organisation to achieve the business direction and scope specified within corporate objectives.
- Helps to control and co-ordinate the different areas of the organisation.

### ***Marketing strategy:***

- Defines target markets, direction and requirements in order to create a defensible position compatible with the overall corporate strategy.

## **Marketing plans and programmes**

Marketing plan:

- Turning strategies into implementable actions.
- A detailed written statement specifying target markets, marketing programmes, responsibilities, time scales and resources to be used within the defined budgets.

Marketing programmes:

- Actions, often tactical, using marketing mix variables to gain advantage within target market.
- Means of implementing the marketing strategy.
- Normally detailed in the marketing plan.

# Influences on marketing strategy



Figure 20.2

## Types of growth

Intensive growth:

- Market penetration.
- Market development.
- Product development.

Diversified growth

Integrative growth - backward, forward, horizontal.

No growth - harvesting, entrenchment, withdrawal.

## **Competitor analysis**

A systematic attempt to identify and understand key elements of a competitor's strategy in terms of objectives, strategies, resource allocation and implementation through the marketing mix.

## **Porter's Five Forces Model**

1. Bargaining power of suppliers.
2. Bargaining power of customers.
3. Threat of new entrants.
4. Threat of substitute products or services.
5. Rivalry among current competitors.

## **Concerns of an Org.'s competitive analysis**

1. Who are our competitors?
2. How can our competitors be grouped meaningfully?
3. What are our competitors' strengths and weaknesses?
4. What are our competitors' objectives and strategies?
5. How are our competitors likely to react to changes in the marketing environment?

# Concerns of an Org.'s competitive analysis (1)

## Competitor identification

### 1. Who are our competitors?

Similar specific-same product, technology and target market

Similar general-same product area, but different segments

e.g. Haagen daze vs. Wall's

Different specific-same need satisfied by different means

e.g. Eurostar vs. British airway

Different general-competing for discretionary spend

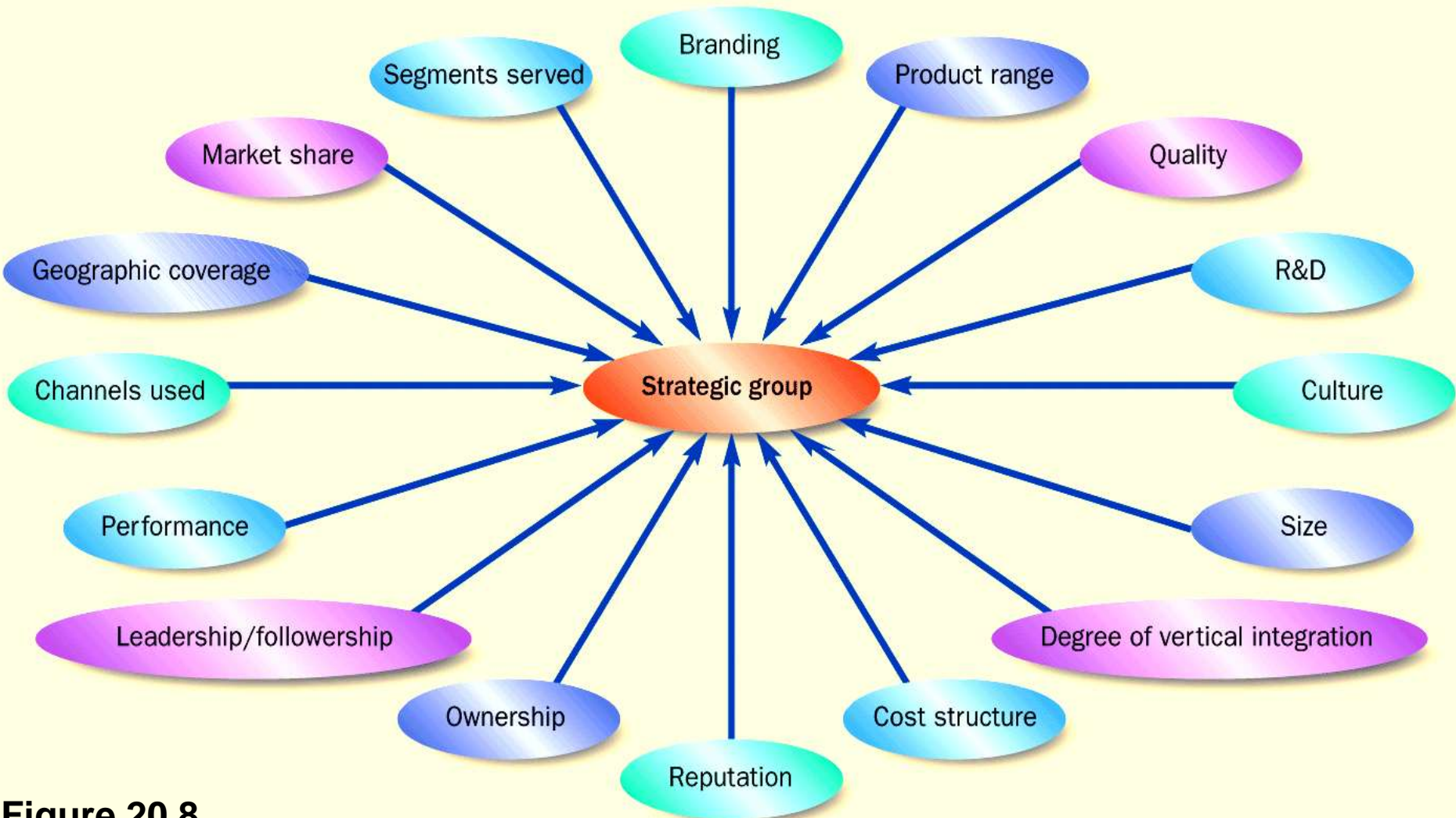
e.g. holiday vs. new car



# Concerns of an Org.'s competitive analysis (2)

## 2. How can our competitors be grouped meaningfully?

Different characteristics for identifying **Strategic groupings**



**Figure 20.8**

Source: Adapted from Wilson *et al.* (1992).

## **Concerns of an Org.'s competitive analysis (3)**

### **3. What are competitive strengths and weaknesses**

- Requires use of various information sources.
- Consider in terms of critical success factors:  
e.g. manufacturing, technical and financial strength, relationships with supplier and customer, its market and segment, product range, its volume, cash and profits etc.
- Information can be used to plan and launch attack.

## **Concerns of an Org.'s competitive analysis (4)**

4. What are our competitors' objectives and strategies?

Objectives – related to cash generation, market share, technological leadership, quality recognition etc.

Find clues in product portfolio.

Strategy - related to its positioning, marketing mix etc.

## **Concerns of an Org.'s competitive analysis (5)**

5. How are our competitors likely to react to changes in the marketing environment?

Learn by experience

Not easy to predict its reaction due to: its cost structures, relative market positions, product life cycle, industrial position etc.

# Concerns of an Org.'s competitive analysis (1)

## 1. Who are our competitors?

Similar specific-same product, technology and target market

Similar general-same product area, but different segments

e.g. Haagen daze vs. Wall's

Different specific-same need satisfied by different means

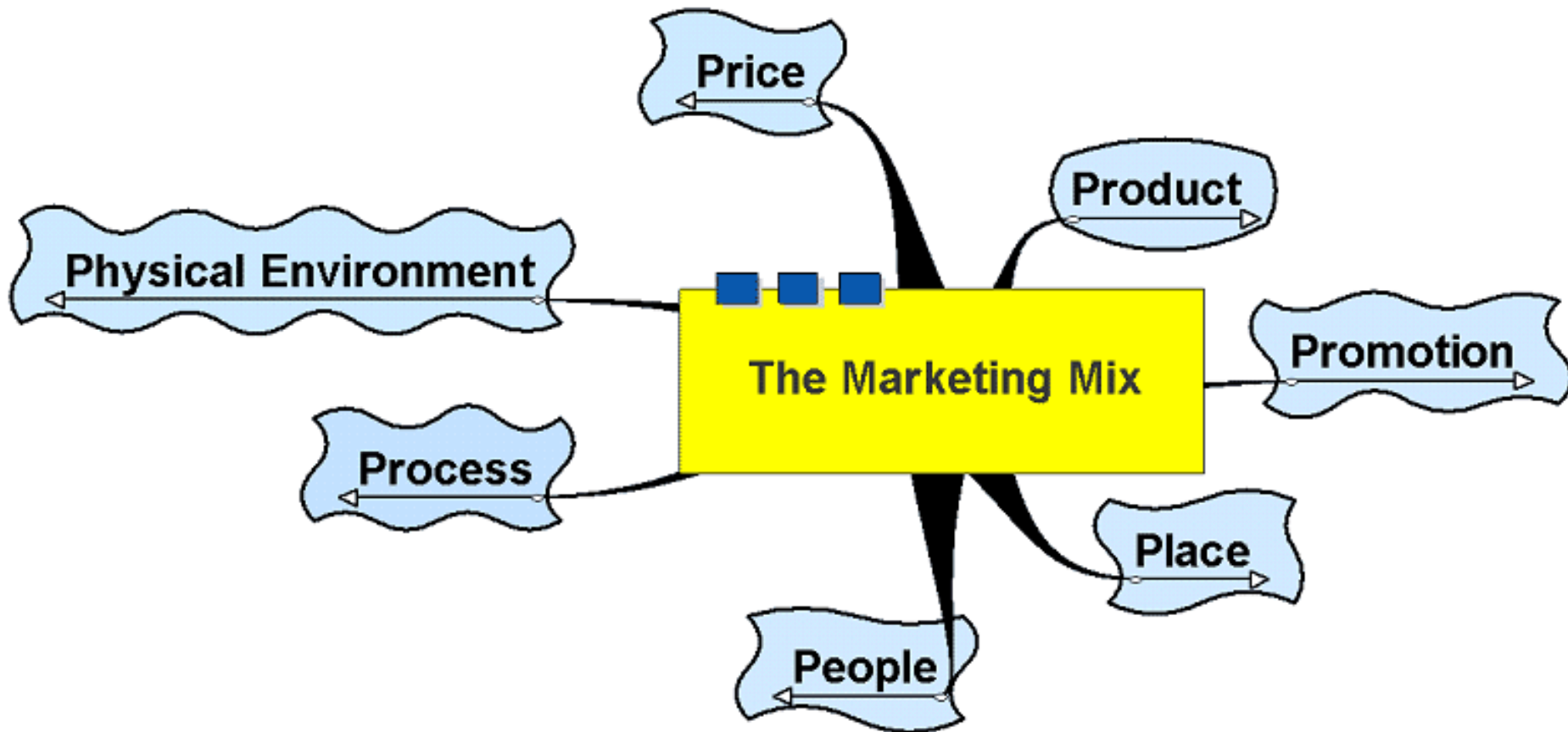
e.g. Eurostar vs. British airway

Different general-competing for discretionary spend

e.g. holiday vs. new car

# The Marketing Mix

# The Marketing Mix



# The Marketing Mix

- The tools available to a business to gain the reaction it is seeking from its target market in relation to its marketing objectives
- 7Ps – Price, Product, Promotion, Place, People, Process, Physical Environment
- Traditional 4Ps extended to encompass growth of service industry



# Price



# Price



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- Pricing Strategy
- Importance of:
  - knowing the market
  - elasticity
  - keeping an eye on rivals

# Product



# Product

- Methods used to improve/differentiate the product and increase sales or target sales more effectively to gain a competitive advantage e.g.
  - Extension strategies
  - Specialised versions
  - New editions
  - Improvements – real or otherwise!
  - Changed packaging
  - Technology, etc.



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# Promotion



# Promotion



- Strategies to make the consumer aware of the existence of a product or service
- NOT just advertising

# Place

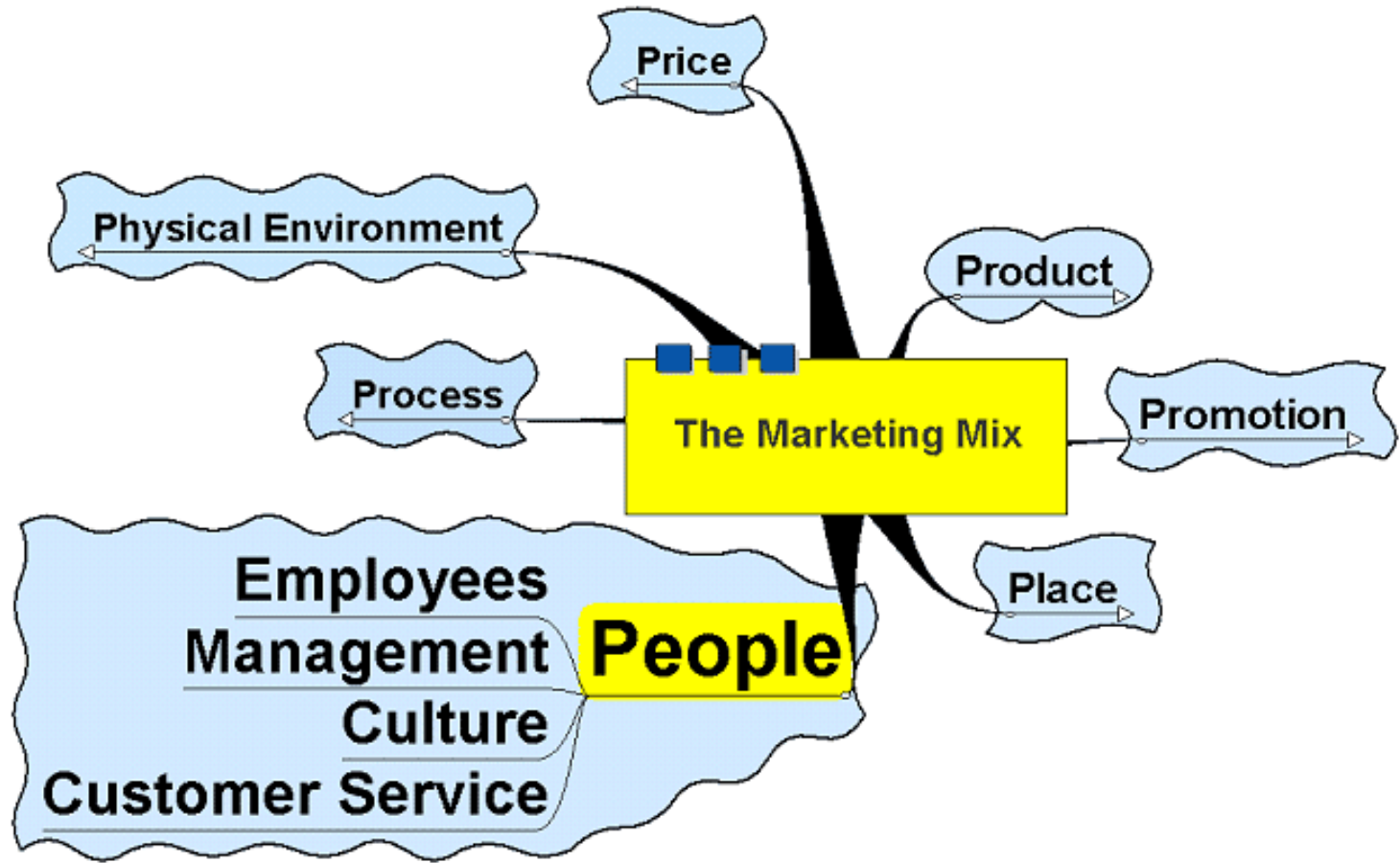


# Place

- The means by which products and services get from producer to consumer and where they can be accessed by the consumer
  - The more places to buy the product and the easier it is made to buy it, the better for the business (and the consumer?)



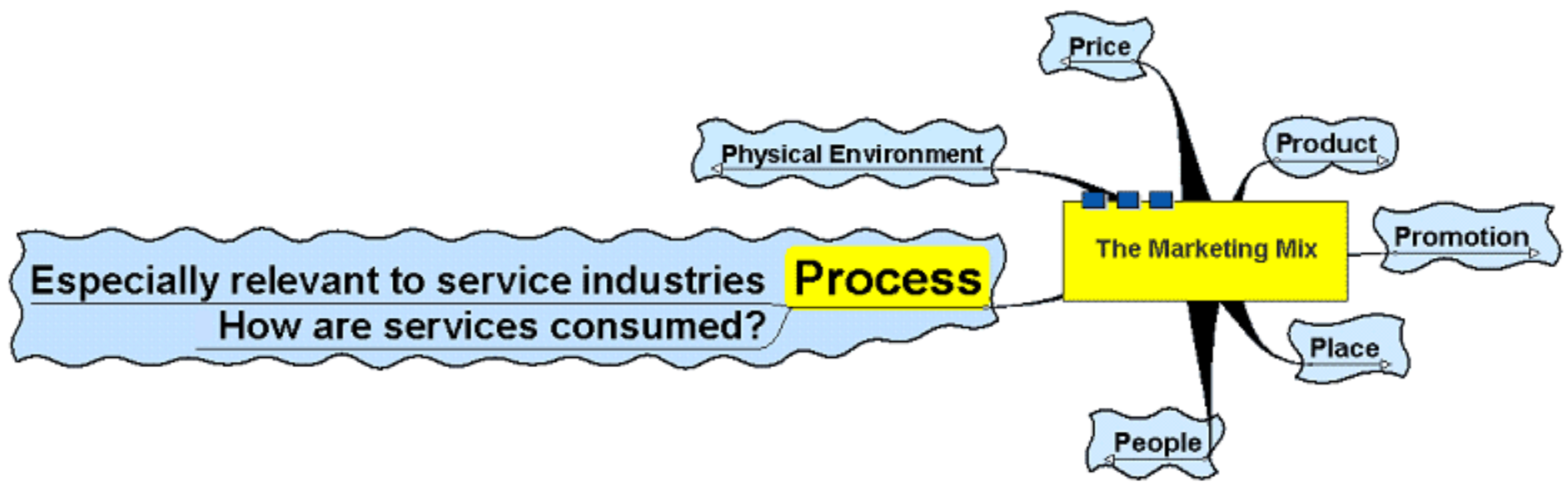
# People



# People

- People represent the business
  - The image they present can be important
  - First contact often human – what is the lasting image they provide to the customer?
  - Extent of training and knowledge of the product/service concerned
  - Mission statement – how relevant?
  - Do staff represent the desired culture of the business?

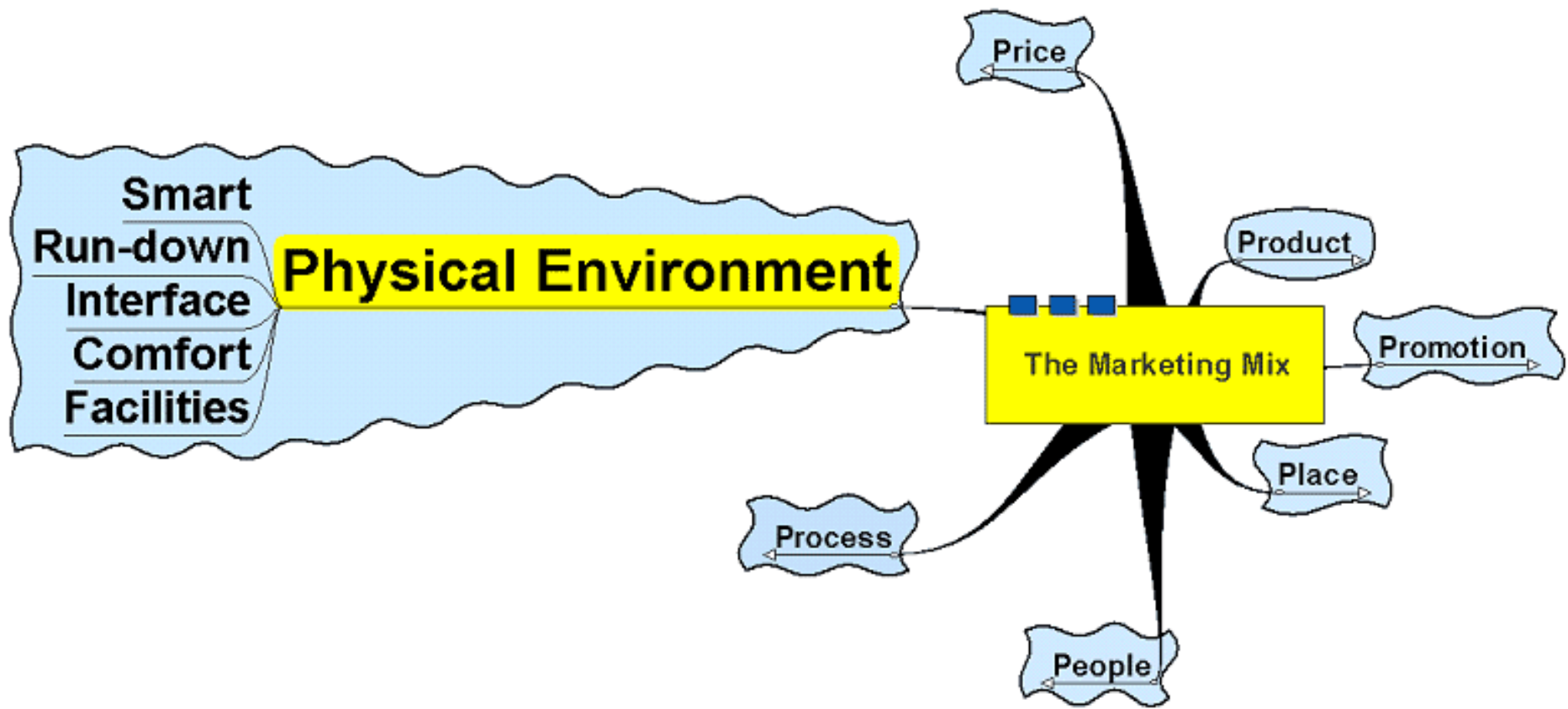
# Process



# Process

- How do people consume services?
- What processes do they have to go through to acquire the services?
- Where do they find the availability of the service?
  - Contact
  - Reminders
  - Registration
  - Subscription
  - Form filling
  - Degree of technology

# Physical Environment



# Physical Environment

- The ambience, mood or physical presentation of the environment
  - Smart/shabby?
  - Trendy/retro/modern/old fashioned?
  - Light/dark/bright/subdued?
  - Romantic/chic/loud?
  - Clean/dirty/unkept/neat?
  - Music?
  - Smell?

# The Marketing Mix

- **Blend of the mix depends upon:**
- Marketing objectives
- Type of product
- Target market
- Market structure
- Rivals' behaviour
- Global issues – culture/religion, etc.
- Marketing position
- Product portfolio
  - Product lifecycle
  - Boston Matrix