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Direct Answers for Direct Marketing

Business Tools—7 May 2008

Product, Price, Place, and Promotion

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Part I. What The Agent Needs To Know

You have met with your clients over a period of time and helped them work through the basics of a marketing plan. This tool, "Product, Price, Place, and Promotion," provides a summary of what you have covered with the exception of promotion, which is only briefly mentioned in this tool since a thorough discussion is found in the *Direct Answers for Direct Marketers*. The worksheet at the end of this tool is a checklist for your clients to be sure they have covered everything you have helped them with in developing their marketing plans. If they cannot check off any part of the worksheet, go back to the tool that deals with that area and have them review it.

The essence of marketing is putting the right product in the right place, at the right price, at the right time. On the surface marketing is easy: your clients just need a product that a sufficient number of customers want, they sell at a place customers visit and at a price that match the customer's perspective of the value of the product. However, the hard part of marketing is knowing what customers want and being able to produce the product at a price the customers are willing to pay. All four elements must fit together. Any one of them being wrong may cause your clients' business to fail. Your clients could have the best product in the world but market the product in the wrong place where no one would buy their great produce. "The 4–Ps of Marketing" or the marketing mix are product, what you have to sell; price, how much it costs the consumer; place, where someone can buy it; and promotion, which tells potential customers about it.

Product

Before your clients begin to produce anything, ask them if they have the resources to do so. These resources include land, labor, equipment, time, knowledge of production, soil type, and so forth. If any of these are missing, your clients need to consider how to compensate for them.

Have your clients describe their products to you in as much detail as possible. They need to answer these questions:

How would you describe your product?
What are its characteristics?
What benefits does it offer to the buyer?
Will your customers recognize those benefits?
What's unique about your product?
When and how can the product be used?
How is it distinctive from your competitor's product?
Can your competitors easily copy your product? (Determan)

Product includes every characteristic of the product (what the clients produce to sell)—both tangible and intangible. The tangible characteristics include quality; appearance; packaging; logo (brand, trademarks, etc.); and guarantees. Intangible characteristics are consumers' ***perceptions*** of your clients' products and operations. These perceptions include taste—every customer likes or dislikes certain tastes—smell—again, every customer likes or dislikes certain smells—image—how your client appears to the consumer. How your clients' employees deal with customers will reflect on the image of their products. Even if customers like the products if they have been treated poorly, they may not come back to buy more.

People purchase products for many different reasons: to fill a need, to fill a desire, to use as a gift or souvenir, and so forth. Where they buy them and how often depend on why they are buying them. Products that meet needs like food are purchased frequently from a grocery store because of price and convenience. Products that fill desires may well be impulse purchases. Specific products purchased as gifts or souvenirs may not be sought, but they are the result of the customer's whim, salesperson's actions, advertising, or special discounts. For example, consider specialty honey. The target customers may be tourists and people looking for a unique gift or souvenir.

If your clients keep in mind who they want to target, it will help them with how to package the product. Packaging is part of the product, too. A package conveys an image to customers. A product has to be packaged according to what the target market expects and wants. For example, if your clients package specialty honey in a non-descript jar with an unimaginative label, they won't catch the eye of the tourist or gift-seeker. Have your clients describe in as much detail as possible, how they plan to package the product.

1. What size will the package be?
2. What will the container look like?
3. What label will be used to identify the product?

For example, consider specialty honey made from a variety of different nectars. Your clients decide to bottle their honey in two sizes. The smaller one is nine ounces in a bee-shaped jar. The larger one is a pound in a multifaceted jar (Figures 1 and 2, respectively).

Figure 1. Bee jar

Figure 2. Multifaceted jar

Your clients describe their specialty honey as being local, all natural, and based on the nectar from which the honey is made—buckwheat, lavender, and orchards. They face competition from the grocery stores, but the grocery stores don't often sell local honey. Your clients have competition from one other apiary in an adjoining county, but they only sell clover and mixed flower honey.

Price

Pricing is always difficult. To calculate a price that covers all production and marketing costs, requires records be kept. Recordkeeping is one of those necessary evils. Besides covering the producer's costs of production, pricing works to help create an image of the product. After calculating the cost of production, several methods are available to calculate the price: breakeven, where **all** costs are covered; mark-up where the total cost is divided by the percent wanted to increase the price; and margin where the price is divided by 1 minus the percent of increase. The selection of the appropriate pricing strategy will help your clients determine which method to use.

The questions to ask your clients when discussing their pricing strategy are

1. How much must you charge to cover your cost of production?
2. How much will consumers be willing to pay for your product if they can buy it elsewhere for the same price or less?
3. What makes your product different enough that you can charge a higher price?
4. Will charging a lower price attract more customers resulting in more revenue than if you sold fewer at a higher price?

How many more jars will your clients need to sell at the lower price so that they can cover their production costs?

5. What are others in the market charging?

Again, consider a very high quality, specialty honey. Your clients need to price it accordingly to help enhance the perception that it is a high quality product. Consumers have a perception that expensive products are of higher quality than less expensive, competing products. This perception is evidenced in the adage, "you get what you pay for." Pricing is a balancing act between charging too much, which may lead customers to believing your clients' prices are out of line, and not charging enough, which may lead them to believe the product is of lower quality. Your clients will have to set a price that will generate sufficient revenue to cover all their costs of production and create real value for consumers. The questions to ask are

Is your product a high end or low end product?
Is it the same as everyone else's?
How do you perceive your products?
Will customers perceive them the same way?

The answers become your clients' pricing objective.

In addition to creating an image, pricing strategy can cause a reaction from competitors. If your clients price their products too low compared to their competition, they risks having others lower their prices. With profits from farming already low, it doesn't make sense to price below the competition and reduce everyone's revenue. However, if the price is high, competitors may see your clients making a profit and enter the market to take advantage of the high price. The result of that strategy is to drive your clients' price down as well as the competitors'. Your clients need to know their competitions' prices, even if they don't know their competitions' costs. Only if your clients' products are different in some significant way, will they be able to obtain and sustain a higher price for their products.

Putting a low price on a product, one that just covers the cost of production, may expand your clients' market, but it may also create an image of poor quality. If it's a new product, one unfamiliar to many people such as lavender honey, a low price may create a willingness in people to try it. If, however, it's a product that several others have such as mixed flower honey, a low price relative to the competition may attract people to your clients' honey rather than someone else's. A low price is basically a price floor—a price below which producers cannot afford to sell the product without hurting their operation, image, and other producers.

A high price, while implying something of good quality, may mean pricing themselves out of the market. A totally unique product can be priced higher than a product that many producers sell. For example, at a farmers' market with 20 farmers, 15 of them sell Yukon Gold potatoes. Your clients are the only producers to sell fingerlings—a gourmet type potato, and these fingerlings are yellow, red, and blue. Your clients can charge a higher price than the producers selling Yukon Gold. However, the risk they run is that they make the price so high that they have priced their product beyond the willingness of buyers to pay. Putting a high price on a product to increase profits may be a goal, but caution your clients that they may not sell enough at that price to make any difference in their total revenue from that product.

Setting a high price that still encourages customers to buy is putting a ceiling on what the market will accept at that price.

The third pricing strategy is to simply price at the same level as everyone else because your clients cannot offer anything better than or different from anyone else.

Continuing the honey example, your clients need to cover their costs, but they don't want to make their price so high that no one will buy their product, even as a gift. Some products have published prices. Honey is one of these products. What the prices represent varies by product. Your clients need to be sure they understand what these prices represent. For example, honey is defined as, "Prices are based on retail sales by producers and sales to private processors and cooperatives. State level honey prices reflect the portions of honey sold through retail, co-op, and private channels" (March 2007, NY Honey Production, NASS)

Your clients can find prices over time for honey on the USDA website at (*http://www.nass.usda.gov/Statistics_by_State/New_York/Publications/Statistical_Reports/honey.htm*). They find that the price varies from year to year, but in 2006, it averaged $1.94 for North Carolina. Since the price is an average for all types of honey marketed through both wholesale and retail outlets, your clients decide, based on their cost of production and these prices, that they will sell their buckwheat and orchard honey 9 oz. jar for $5.99 and the 16 oz. jar for $8.99. The lavender honey they decide to sell for $6.99 and $9.99 because it is harder to find sufficient lavender to produce the honey. While an even number for price would make it easier to calculate change and require your clients keep fewer coins, studies show that psychologically $5.99 seems to be a lot less than $6.00.

Place

Place refers to where and how your clients make their product available to customers. Place involves communicating with prospective customers. Place also plays an important role in determining a product's overall image. Descriptions of different market outlets, their advantages, disadvantages, and legal requirements are found in *Direct Answers for Direct Marketing*.

The clients have many market outlets from which to choose:

- On-farm market
- Pick-your-own
- Roadside market
- Community Supported Agriculture (CSA)
- Farmers' market
- Restaurant
- Internet
- Specialty shop

Ask your clients to consider the possible market outlet for their product by answering the following questions:

1. Is the market the right one for the product? Can you sell your product at a farmers' market or would it sell better at a specialty shop in a tourist area?
2. How will you get it to the market? Do you have to provide the transportation or shipping? Can potential customers come to directly you for the product?
3. Do you like to deal with people? Do you have someone working for you who does? Can you afford to pay someone to sell your product if you don't sell it on the farm?
4. What are the legal issues associated with the market you choose? What is your liability at that market? Do you have any fees to pay to use the market? What do they cover?

What is the cost of supplying a particular market—time, travel, equipment, fees, etc.?

In the honey example, your clients decide to sell their honey at a Saturday farmers' market in Oldtown because they want to interest tourists in buying it and they think they will have better success attracting tourists at a farmers' market. Your clients decide to use a combination of a table and crates to make their display attractive. Since they are using glass jars, they know they can't stack them more than two or three high or someone will knock the jars over. Your clients also decide to take a display hive section to show how the bees work and to attract customers. They create an educational poster that describes their nectar sources and tells about the nutritional value of the different kinds of honey.

Promotion (and Advertising)

Generally, in marketing terms, advertising is any paid form of non-personal communication for a good or service by an identified sponsor. Promotion is an incentive or activity to get the customer to buy the product or service NOW. For direct marketers whose business is small, most forms of advertising do not work. Your clients need to look carefully at their options so that they don't waste money. Having made that observation, your clients may still find some advertising is useful. Obviously, some methods are more costly than others. Your clients will need to choose very carefully and learn what works and what doesn't work. If they have set up a marketing budget, they will be better prepared to determine how much they are willing and able to spend on any specific type of advertising.

Promotion can take many forms. For example, promotion could be writing articles for the local newspaper about honey, taking a hive display section to the local schools and explaining how honey is made, inviting newspaper writers to visit and write about the operation, and making samples available. Advertising can be as simple as well designed and placed signs or as complex as television spots. The internet is always a good option even if your clients don't use it for selling.

Service goes a long way toward creating the image of a high-end product. That service also has a cost to it—the time and perhaps money your clients invest. For example, a customer buys their products and finds something wrong with it. She brings it back and complains. Because your clients want their customers to view their products as high end, they spend the time talking to the dissatisfied customer to find out exactly what the problem is. Your clients want to be able to correct the problem for future sales, but, more importantly, they want their customer to leave feeling good about the products and service. If the customer leaves felling dissatisfied, she will tell all her friends how bad the product is. If the customer leaves satisfied with the solution, others will know your clients stand behind their product. In addition to discovering the source of the dissatisfaction, your clients might offer to replace the product or refund the customer's money. These actions take time. If your clients succeed in setting things right, they will have a happy customer who will return.

Promotion and advertising and the related topics of customer and public relations are a huge topic: For a more detailed description of them, go to *Direct Answers for Direct Marketing*.

Advertising can be inexpensive or very costly depending on the method used. Television advertizing is probably one of the most costly methods while a classified ad is one of the least expensive. Word-of-mouth advertizing is costless in terms of dollars but not time spent to make it effective. Customer service and quality products are what make word-of-mouth advertizing effective. One unhappy customer will tell at least 10 other people while one satisfied customer will tell only one or two other people. Other methods include flyers, brochures, magazines, radio, internet, and roadside signs (have your clients check with local zoning or state department of transportation about regulations for these).

Back to the honey example: A display can also be a form of promotion. Consider the hive section that your clients have set up at the market. It serves to educated people. Furthermore, since the flavor of their honey probably isn't familiar to people, they decide to put out samples of each kind. Your clients have their signs telling people about the honey. They include on their label their farm name and address, the type of specialty honey, and the weight. Their price signs are done on a blow-up of their label with the type of honey shown and the different prices.

Honey jar label

Honey type	Price	
	8 ounce	1 pound
Lavender	$6.99	$9.99
Buckwheat	$5.99	$8.99
Orchard	$5.99	$8.99

Price sign

Your clients plan to use word of mouth, samples, and their web page to advertise. They also plan to participate in local festivals to get the word out. All of these methods of advertising and promotion have a cost to them. Make sure your clients understand the cost of each.

Part 2. Clients Checklist

Since this tool is the last one and basically a review, your clients should just be able to check off boxes for what has already been done. If they cannot, take them back to the worksheet for the tool that they have not completed.

Product description

- ☐ Product described
- ☐ Package size described
- ☐ Characteristics described
- ☐ Add space to described
- ☐ Benefits
  - Quality described
  - Healthy living characteristics described
  - Production practices (organic, IPM, etc.) described
- ☐ Uniqueness described
- ☐ Use of product described
- ☐ Why someone will buy your product rather than your competitors' described

Price

You clients might have more than one strategy and they might have more than one pricing plan. Remind them that they MUST cover all their costs or ultimately their businesses will fail.

- ☐ Variable costs calculated
- ☐ Total costs calculated
- ☐ Pricing goals identified
  - High price—what do you expect to accomplish using a high price?
  - Low price—what do you expect to accomplish using a low price?
  - Same as everyone else—what do you expect to accomplish using the same price as everyone else?
- ☐ Pricing method selected
  - Break-even
  - Margin
  - Markup

Place

List possible market outlets you might use and suggest for each reasons why they would or would not work by answering the following questions.

- ☐ Where do you live—primarily an urban or a rural area?

- ☐ Does your product need to be in a specialty store?

- ☐ Can it be sold on the farm?

- ☐ Will you sell at a farmers' market?

- ☐ Do you want to interact with your customers?
- ☐ What legal or inspection services are needed for the market?
- ☐ Will your potential customers look for your product at this market?

Promotion and advertising

If your clients have not completed a table like the one below, have them do so. They should be answering the question, "What promotion and advertising outlets might you use?"

- ☐ Identified sources of information potential customers might use

Promotion and Advertising Outlet	Pros	Cons	Cost

- ☐ Developed method to evaluate the effectiveness of your marketing and promotion efforts?

References

Produce Handling for Direct Marketing. Found at http://www.nraes.org/publications/nraes51.html

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