



Marketing's Four P's: First Steps for New Entrepreneurs

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Marketing your business is about how you position it to satisfy your market's needs. There are four critical elements in marketing your products and business. They are the four P's of marketing.

1. **Product.** The right product to satisfy the needs of your target customer.
2. **Price.** The right product offered at the right price.
3. **Place.** The right product at the right price available in the right place to be bought by customers.
4. **Promotion.** Informing potential customers of the availability of the product, its price and its place.

Each of the four P's is a variable you control in creating the marketing mix that will attract customers to your business. Your marketing mix should be something you pay careful attention to because the success of your business depends on it. As a business manager, you determine how to use these variables to achieve your profit potential. This publication introduces the four P's of marketing and includes worksheets that will help you determine the most effective marketing mix for your business.

Product

"Product" refers to the goods and services you offer to your customers. Apart from the physical product itself, there are elements associated with your product that customers may be

Audience: Business managers

Content: Presents the four elements of marketing your products and business

Outcome: Readers will be aware of the range of marketing decisions they need to make

attracted to, such as the way it is packaged. Other product attributes include quality, features, options, services, warranties, and brand name. Thus, you might think of what you offer as a bundle of goods and services. Your product's appearance, function, and support make up what the customer is actually buying. Successful managers pay close attention to the needs their product bundles address for customers.

Your product bundle should meet the needs of a particular target market. For example, a luxury product should create just the right image for "customers who have everything," while many basic products must be positioned for price-conscious consumers. Other important aspects of product may include an appropriate product range, design, warranties, or a brand name.

Customer research is a key element in building an effective marketing mix. Your knowledge of your target market and your competitors will allow you to offer a product that will appeal to customers and avoid costly mistakes.

If you are considering starting a new business or adding a new product, then make sure the product bundle will fit your business's strengths and weaknesses, and that it will provide an acceptable risk/return tradeoff. For instance, if your business is very good at timely response to customers, then timely service should be an important part of your product bundle.

Think long term about your venture by planning for the ways you can deepen and broaden your product bundle. For instance, you may be able to take advantage of opportunities to add value through processing, packaging, and customer service. Other future growth may allow you to offer your product to different customers. Start-up businesses are most successful when they concentrate their efforts on one product or one market, like a restaurant or a car service center does. Later growth may occur in the same location or may be in different geographic regions.

A different type of growth would be a diversification of products, with your business offering related products. Offering a whole range of products is most successful if the raw materials, production processes, and distribution methods are similar, which means you do not have to acquire new suppliers, skills and equipment, and distribution methods.

Price

"Price" refers to how much you charge for your product or service. Determining your product's price can be tricky and even frightening. Many small business owners feel they must absolutely have the lowest price around. So they begin their business by creating an impression of bargain pricing. However, this may be a signal of low quality and not part of the image you want to portray. Your pricing approach should reflect the appropriate positioning of your product in the market and result in a price that covers your cost per item and includes a profit margin. The result should neither be greedy nor timid. The former will price you out of the market; pricing too low will make it impossible to grow.

As a manager, you can follow a number of alternative pricing strategies. In the next column are eight common pricing strategies. Some price decisions may involve complex calculation methods, while others are intuitive judgments. Your selection of a pricing strategy should be based on your product, customer demand, the competitive environment, and the other products you will offer.

- **Cost-plus:** Adds a standard percentage of profit above the cost of producing a product. Accurately assessing fixed and variable costs is an important part of this pricing method.
- **Value-based:** Based on the buyer's perception of value (rather than on your costs). The buyer's perception depends on all aspects of the product, including non-price factors such as quality, healthfulness, and prestige.
- **Competitive:** Based on prices charged by competing firms for competing products. This pricing structure is relatively simple to follow because you maintain your price relative to your competitors' prices. In some cases, you can directly observe your competitors' prices and respond to any price changes. In other cases, customers will select vendors based on bids submitted simultaneously. In those cases, gathering information will be more difficult.
- **Going-rate:** A price charged that is the common or going-rate in the marketplace. Going-rate pricing is common in markets where most firms have little or no control over the market price.
- **Skimming:** Involves the introduction of a product at a high price for affluent consumers. Later, the price is decreased as the market becomes saturated.
- **Discount:** Based on a reduction in the advertised price. A coupon is an example of a discounted price.
- **Loss-leader:** Based on selling at a price lower than the cost of production to attract customers to the store to buy other products.
- **Psychological:** Based on a price that looks better, for example, \$4.99 per pound instead of \$5.00 per pound.

After you decide on your pricing strategy, the amount of money you will actually receive may be complicated by other pricing aspects that will decrease (or increase) the actual amount of money you receive. You will also have to decide how to determine:

- **Payment period:** Length of time before payment is received.
- **Allowance:** Price reductions given when a retailer

agrees to undertake some promotional activity for you, such as maintaining an in-store display.

- **Seasonal allowances:** Reductions given when an order is placed during seasons that typically have low sales volumes to entice customers to buy during slow times.
- **Bundling of products/services:** Offering an array of products together.
- **Trade discounts** (also called “functional discounts”): Payments to distribution channel members for performing some function such as warehousing and shelf stocking.
- **Price flexibility:** Ability of salesperson or reseller to modify price.
- **Price differences among target customer groups:** Pricing variance among target markets.
- **Price differences among geographic areas:** Pricing variance among geographic regions.
- **Volume discounts and wholesale pricing:** Price reductions given for large purchases.
- **Cash and early payment discounts:** Policies to speed payment and thereby provide liquidity.
- **Credit terms:** Policies that allow customers to pay for products at a later date.

The methods discussed here should be a base from which to construct your price. Your options will vary depending on how you choose to sell your product. For instance, if you make a product but don’t sell it directly to the customer, then you will want to know who sets the retail price and what margin they will require. Tracing the path of your product from production to final purchase is a useful exercise to discover this information. The research needed to understand the pricing along the distribution path will be more than worth the time it takes.

Whatever your price may be, ultimately it must cover your costs, contribute to your image by communicating the perceived value of your product, counter the competition’s offer, and avoid deadly price wars. Remember, price is the one “P” that generates revenue, while the other three “P’s” incur costs. Effective pricing is important to the success of your business.

Place

“Place” refers to the distribution channels used to get your product to your customers. What your product is will greatly influence how you distribute it. If, for example, you own a small retail store or offer a service to your local community, then you are at the end of the distribution chain, and so you will be supplying directly to the customer. Businesses that create or assemble a product will have two options: selling directly to consumers or selling to a vendor.

Direct Sales

As a producer, you must decide if supplying direct is appropriate for your product, whether it be sales through retail, door-to-door, mail order, e-commerce, on-site, or some other method. An advantage of direct sales would be the contact you gain by meeting customers face to face. With this contact you can easily detect market changes that occur and adapt to them. You also have complete control over your product range, how it is sold, and at what price.

Direct sales may be a good place to start when the supply of your product is limited or seasonal. For example, direct sales for many home-produced products can occur through home-based sales, markets, and stands.

However, direct sales require that you have an effective retail interface with your customers, which may be in person or electronic. If developing and maintaining this retail interface is not of interest to you or you are not good at it, you should consider selling through an intermediary.

Reseller Sales (Sales Through an Intermediary)

Instead of selling directly to the consumer, you may decide to sell through an intermediary such as a wholesaler or retailer who will resell your product. Doing this may provide you with a wider distribution than selling direct while decreasing the pressure of managing your own distribution system. Additionally, you may also reduce the storage space necessary for inventory. One of the most important reasons for selling through an intermediary is access to customers. In many situations, wholesalers and retailers have customer connections that would not be possible to obtain on your own.

However, in selling to a reseller you may lose contact with

your end consumer. In some cases, you may also lose some of your company identity. For example, your distributor may request that your product be sold under the reseller's brand name.

One factor that may influence whether you can find an intermediary to handle your product is production flow. Wholesalers want a steady year-round supply of product to distribute. If you can deliver a steady year-round supply that is of consistent quality, then selling through an intermediary may be a good strategy for you.

Market Coverage

No matter whether you sell your product direct or through a reseller, you must decide what your coverage will be in distributing your product. Will you pursue intensive, selective, or exclusive coverage?

Intensive distribution is widespread placement in as many places as possible, often at low prices. Large businesses often market on a nationwide level with this method.

Convenience products—ones that consumers buy regularly and spend little time shopping for, like chewing gum—do better with intensive (widespread) distribution.

Selective distribution narrows distribution to a few businesses. Often, upscale products are sold through retailers that only sell high-quality products. With this option, it may be easier to establish relationships with customers. Products that people shop around for sell better with selective distribution.

Exclusive distribution restricts distribution to a single reseller. You may become the sole supplier to a reseller who, in turn, might sell only your product. You may be able to promote your product as prestigious with this method, though you might sacrifice sales volume. Specialty products tend to perform better with exclusive distribution.

Other Place Decisions

Product characteristics and your sales volumes will dictate what inventories to maintain and how best to transport your products. Additionally, the logistics associated with acquiring raw materials and ensuring that your final product is in the right place at the right time for the right customers can comprise a large percentage of your total costs and needs careful monitoring.

You may decide to have a combination of all the distribution methods. Whatever you decide, choose the method which you believe will work best for you.

Promotion

“Promotion” refers to the advertising and selling part of marketing. It is how you let people know what you've got for sale. The purpose of promotion is to get people to understand what your product is, what they can use it for, and why they should want it. You want the customers who are looking for a product to know that your product satisfies their needs.

To be effective, your promotional efforts should contain a clear message targeted to a specific audience reached via an appropriate channel. Your target audience will be the people who use or influence the purchase of your product. You should focus your market research efforts on identifying these individuals. Your message must be consistent with your overall marketing image, get your target audience's attention, and elicit the response you desire, whether it is to purchase your product or to form an opinion. The channel you select for your message will likely involve use of a few key marketing channels. Promotion may involve advertising, public relations, personal selling, and sales promotions.

A key channel is advertising. Advertising methods to promote your product or service include the following.

- **Radio:** Radio advertisements are relatively inexpensive ways to inform potential local customers about your business. Mid-to-late week is generally the best time to run your radio ad.
- **Television:** Television allows access to regional or national audiences, but may be more expensive than other options.
- **Print:** Direct mail and printed materials, including newspapers, consumer and trade magazines, flyers, and a logo, allow you to explain what, when, where, and why people should buy from you. You can send letters, fact sheets, contests, coupons, and brochures directly to new or old customers on local, regional, or national levels.
- **Electronic:** Company Web sites provide useful information to interested consumers and clients. Password-protected areas allow users to more

intimately interact with you. Advertisements allow broad promotion of your products. Direct e-mail contact is possible if you have collected detailed customer information.

- **Word of Mouth:** Word of mouth depends on satisfied customers (or dissatisfied customers) telling their acquaintances about the effectiveness of your products.
- **Generic:** Generic promotion occurs when no specific brand of product is promoted, but rather a whole industry is advertised. For instance, generic advertising is commonly found for milk, beef, and pork.

Public relations (PR) usually focuses on creating a favorable business image. Important components of a good public relations program include being a good neighbor, being involved in the community, and providing open house days. News stories, often initiated through press releases, can be good sources of publicity.

Personal selling focuses on the role of a salesperson in your communication plans. Salespeople can tailor communication to customers and are very important in building relationships. While personal selling is an important tool, it is costly. So you should make efforts to target personal selling carefully.

Sales promotions are special offerings designed to encourage purchases. Promotions might include free samples, coupons, contests, incentives, loyalty programs, prizes, and rebates. Other programs might focus on educating customers through seminars or reaching them through trade shows. Your target audience may be more receptive to one method than another. Additional sources of promotion may be attending or participating in trade shows, setting up displays at public events, and networking socially at civic and business organizations.

Final Comment

The four P's—product, price, place, and promotion—should work together in your marketing mix. Often, decisions on one element will influence the choices available in others. Selecting an effective mix for your market will take time and effort, but these will pay off as you satisfy customers and create a profitable business. The worksheets that follow will help you construct your marketing plans.

Once you have a good marketing mix—the right product at the right price, offered in the right place and promoted in the right way—you will need to continue to stay on top of market changes and adopt your marketing mix as necessary. Marketing is a part of your venture that will never end.

Four P's Worksheets

The following set of worksheets will help you understand and tailor your marketing mix to your customers' needs. The four sections relate to the four P's of product, price, place, and promotion. In the first part of each section, you will complete a table to help you gain a better understanding of what you are offering and what your competitors are offering. In the "Further Assessment" part of each section, you will answer questions to help you tailor your marketing mix to your customers' needs.

Product

Describe your product's characteristics in the first column and the characteristics of your competitors' product in the second column.

	Your Product	Your Competitors' Product
Product (e.g., fresh fruit beverage)		
Product Variety		
Product Appearance		
Product Quality		
Product Features		
Product Functionality		
Services		
Brand Name		
Packaging		
Warranties		

Further Assessment

1. What features are considered basic features by your customers (ones that must be offered)?	
2. What features are missing from the existing product/service choices in the market place? How can your product/service address this gap?	
3. What are the key features/benefits of your product and service, especially as they compare to what your competitors are supplying?	
4. How can your product give you an advantage in the marketplace?	

Price

For each of the following pricing strategies, describe the advantages and disadvantages of using that method for your product. Which is the best one for you to use?

	Advantages and Disadvantages for Your Product
Cost-Plus	
Value-Based	
Competitive	
Going-Rate	
Skimming	
Discount	
Loss-Leader	
Psychological	

For each of the following pricing aspects, describe the advantages and disadvantages for your product in the first column.
 In the second column, describe to what extent your competitors are following that approach.

	Advantages and Disadvantages for Your Product	To What Extent Are Your Competitors Using This Policy for Their Products?
Payment Period		
Allowance		
Seasonal Allowances		
Bundling of Products/Services		
Trade Discounts		
Price Flexibility		
Price Differences Among Target Customer Groups		
Price Differences Among Geographic Areas		
Volume Discounts and Wholesale Pricing		
Cash and Early Payment Discounts		
Credit Terms		

Further Assessment

1. How sensitive is your target market to changes in prices?	
2. How does your expected pricing compare to your competition's pricing?	
3. Will pricing make your business special?	
4. How will your products/services provide a better price-performance balance than your competitors' products/services?	

Place

In the first column, describe how your product is distributed. Describe your competitors' product distribution in the second column.

	Your Product	Your Competitors' Product
Direct Sales		
Reseller Sales		
Market Coverage		
Inventory		
Transportation		
Logistics		

Further Assessment

<p>1. What is the best way to sell your product? Direct selling? Through a reseller? Will this be a competitive advantage or disadvantage?</p>	
<p>2. How will your plan for coverage and other place decisions compare to those of your competitors? Will this be a competitive advantage or disadvantage?</p>	

Promotion

Describe your product's promotion in the first column and your competitors' promotion in the second.

	Your Product	Your Competitors' Product
Advertising		
Radio		
Television		
Print		
Electronic		
Word of Mouth		
Generic		
Public Relations		
Personal Selling		
Sales Promotion		

Further Assessment

1. What promotion efforts are most effective for your target market?	
2. How can your promotion strategy give you an advantage in the marketplace?	

