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 their marketing plans. This tool, “Product, Price, Place and Promotion,” summarizes what you have covered with the exception of promotion, which is only briefly mentioned in this tool since a thorough discussion is found in another resource: Direct Answers for Direct Marketers (available by sending an e-mail request to gary_bullen@ncsu.edu). 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 a client cannot check off any part of the worksheet, advise him or her to review the tool that deals with that subject and 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. Each client just needs a product that a sufficient number of customers want, sold at a place those customers visit and at a price that matches a customer's perspective of the product’s value. The hard part of marketing, however, is knowing what customers want and being able to produce the product at a price they are willing to pay. All four elements must fit together. Any one of them being wrong may cause a client’s business to fail. A client could have the best product in the world but market the product in the wrong place. “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 other production requirements. 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. Each client needs to answer these questions:

1. How would you describe your product?
2. What are its characteristics?
3. What benefits does it offer to the buyer?
4. Will your customers recognize those benefits?
5. What’s unique about your product?
6. When and how can the product be used?
7. How is it distinctive from your competitor’s product?
8. Can your competitors easily copy your product?

Product includes every characteristic of the product (what each client produces to sell)—both tangible and intangible. The tangible characteristics include quality, appearance, packaging, logo (brand and trademarks, for example), and guarantees. Intangible characteristics involve consumers' perceptions of a client's products and operations. These perceptions include taste (every customer likes or dislikes certain tastes), smell (again, every customer likes or dislikes certain smells), and image (how your client appears to the consumer). How a client's employees deal with customers will reflect on a product's image. 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, including to fill a need, to fill a desire or to use as a gift or souvenir. Where and how often people buy often depend on why they are buying products. Products, such as food, that meet physical needs 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.
The Business Development Files

Product, Price, Place and Promotion

Keeping the target customers in mind will help your clients with deciding how to package their products. 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 a client packages specialty honey in a nondescript jar with an unimaginative label, the product won’t catch the eye of a 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?

Example—Specialty Honey
Consider specialty honey made from a variety of different nectars. Your client decides to bottle her honey in two sizes. The smaller size is 9 ounces in a bee-shaped jar. The larger one is a pound in a multifaceted jar (Figures 1 and 2).

Figure 1. Bee jar Figure 2. Multifaceted jar

Your client describes the specialty honey as being local, all natural and based on the nectar from which it is made—buckwheat, lavender and orchards. The client faces competition from grocery stores, but the stores don’t often sell local honey. Your client also has competition from one other apiary in an adjoining county, but it only sells clover and mixed-flower honey.

Price
Pricing is always difficult. Calculating a price that covers all production and marketing costs requires that records be kept. Recordkeeping is a necessary evil. 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. The break-even method covers all cost. The mark-up method relies on dividing the total cost by the percentage of desired mark-up. The margin method involves dividing the price by 1 minus the percentage of desired increase. The selection of an appropriate pricing strategy will help each client determine which method to use.

Ask each client these questions when discussing his or her pricing strategy:

1. How much must you charge to cover your production costs?
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?
5. How many more jars will you need to sell at the lower price to cover your production costs?
6. What are other producers in the market charging?

Example—Specialty Honey
Consider very high-quality specialty honey: Your client needs 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 evident in the adage, “You get what you pay for.” Pricing is a balancing act between charging too much, which may lead customers to believe a client’s prices are out of line, and not charging enough, which may lead them to believe the product is of lower quality. Your client will have to set a price that will generate sufficient revenue to cover all the production costs and create real value for consumers. Ask these questions:

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

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

Putting a low price on a product, one that just covers the cost of production, may expand a client's market, but it may also create an image of poor quality. If the product is new and 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 the client's honey rather than a competitor's. A low price is basically a price floor—a price below which a producer cannot afford to sell the product without hurting the business, its image and other producers.

A high price, while implying something of good quality, may mean pricing a product out of the market. A totally unique product can be priced higher than a product that many producers sell.

**Example—Fingerling Potatoes**

At a farmers’ market with 20 farmers, 15 of them sell Yukon Gold potatoes. Your client is the only producer to sell fingerlings—a gourmet type potato, and these fingerlings are yellow, red and blue. Your client can charge a higher price than the producers selling Yukon Gold. The risk the client runs, however, is making the price so high that the product is priced beyond the buyers’ willingness 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 client cannot offer anything better than or different from anyone else.

**Example—Specialty Honey**

Your client needs to cover production costs, but not make the price so high that no one will buy the honey, even as a gift. Some products have published prices. Honey is one of these products. What the prices represent varies by product. Your client must understand what these prices represent. For example, honey is defined as follows: “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” (NASS, 2007)


The price varies from year to year, but in 2006, it averaged $1.94 for North Carolina. Because the price is an average for all types of honey marketed through both wholesale and retail outlets, your client decides, based on the production cost and these prices, to sell the buckwheat and orchard honey 9-ounce jar for $5.99 and the 16-ounce jar for $8.99. The lavender honey will sell for $6.99 and $9.99 because it is harder to find enough lavender to produce the honey. Although an even number for price would make it easier to calculate change and require fewer coins for change, 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 products 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 and their advantages, disadvantages and legal requirements are found in Direct Answers for Direct Marketing (Bullen, 2006).
The clients have many market outlets from which to choose:

- On-farm markets
- Pick-your-own fields
- Roadside markets
- Community Supported Agriculture (CSA) groups
- Farmers’ markets
- Restaurants
- Internet
- Specialty shops

Ask each client to consider the possible market outlet for a product by answering these 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 directly to 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?
5. What are the costs of supplying a particular market, including time, travel, equipment and fees?

Example—Specialty Honey
Your client decides to sell the honey at a Saturday farmers’ market in Oldtown because she wants to interest tourists in buying it and tourists often visit the farmers’ market. She decides to use a combination of a table and crates to make the display attractive. The honey is packed in glass jars, and your client knows the jars can’t be stacked more than two or three high or someone may knock the jars over. Your client also decides to take a display of a hive section to show how the bees work and to attract customers. She creates an educational poster that describes the nectar sources and tells about the nutritional value of the different kinds of honey.

Promotion (and Advertising)
Generally, in marketing terms, advertising is any form of paid nonpersonal 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 with small businesses, most forms of advertising do not work. Your clients need to look carefully at their promotion options so 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 their marketing budgets, 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 the honey 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 reporters 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. Customer service takes time. If your clients succeed in setting things right, they will have happy customers who will return.

Example—Customer Service
A customer buys a client’s product and finds something wrong with it. She brings it back and complains. Because your client wants the customer to view the products as high-end, he spends time talking to the dissatisfied customer to find out exactly what the problem is. Your client wants to correct the problem for future sales, but, more importantly, he wants the customer to leave feeling good about the product and service. If the customer leaves feeling dissatisfied, she will tell all her friends how bad the product is. If the customer leaves satisfied with the solution, others will know your client stands behind his product. In addition to discovering the source of the dissatisfaction, your client might offer to replace the product or refund the customer’s money.
Promotion and advertising and the related topics of customer and public relations are a huge topic: For a more detailed description of them, see Bullen, 2006.

Advertising can be inexpensive or very costly depending on the method used. Television advertising is probably one of the most costly methods, whereas a classified ad is one of the least expensive. Word-of-mouth advertising costs nothing in dollars but requires time spent to make it effective. Customer service and quality products are what make word-of-mouth advertising effective. One unhappy customer will complain to at least 10 other people, while one satisfied customer will tell only one or two other people. Other methods include fliers, brochures, magazines, radio ads, the Internet and roadside signs. (Have your clients check with local zoning or state department of transportation about regulations for signs.) All of these methods of advertising and promotion have a cost to them. Make sure your clients understand the cost of each.

Example—Specialty Honey
A display can also be a form of promotion. Consider the hive section display that your client has set up at the market. It serves to educate people. Furthermore, because the honey’s flavor probably isn’t familiar to people, the client decides to put out samples of each kind. Your client has signs telling people about the honey. The label on each jar of honey includes the farm name and address, the type of specialty honey and the weight. The price signs are created on an enlargement of the product label with the type of honey shown and the different prices.

<table>
<thead>
<tr>
<th>Honey type</th>
<th>8 ounce</th>
<th>1 pound</th>
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<tbody>
<tr>
<td>Lavender</td>
<td>$6.99</td>
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<td>Buckwheat</td>
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<td>Orchard</td>
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Your client plans to use word of mouth, samples and a Web site to advertise. She also plans to participate in local festivals to get the word out.
Part 2. Client Checklist

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

PRODUCT DESCRIPTION

- Product described
- Package size described
- Characteristics described

Product Features

- [ ]
- [ ]
- [ ]
- [ ]

Product Benefits

- [ ]
- [ ]
- [ ]
- [ ]

- Benefits
  - Quality described
  - Healthy living characteristics described
  - Production practices (such as organic, IPM) 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 reasons why each 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 it 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 this question: “What promotion and advertising outlets might you use?”

- Identified sources of information potential customers might use

<table>
<thead>
<tr>
<th>Promotion and Advertising Outlet</th>
<th>Pros</th>
<th>Cons</th>
<th>Cost</th>
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- Have you developed a method to evaluate the effectiveness of your marketing and promotion efforts?
References

Bullen, Gary. *Direct Answers for Direct Marketers.* Marketing resource CD developed as part of a Southern Region Sustainable Agriculture Research and Education (SARE) grant. Raleigh: Department of Agricultural and Resource Economics, N.C. State University. See http://www.ag-econ.ncsu.edu/faculty/bullen/bullen.htm
