



It Pays to Advertise!

Advertising and Pricing for Profit



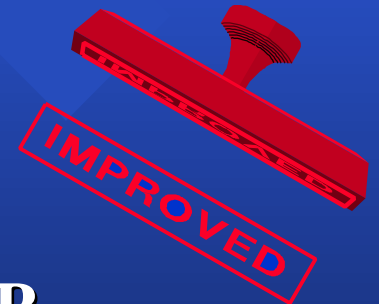
Developing an Advertising Plan

- **Step 1: Create specific, measurable objectives.**
- **Step 2: Identify and analyze the target audience.**
- **Step 3: Design an advertising message and choose the media for transmitting it.**



Build Ads Around a Unique Selling Proposition (USP)

- USP – A key customer benefit of a product or service that answers the critical question that *every* customer asks: “*What's in it for me?*”
- Identify your product or service’s USP by describing the primary benefit it offers customers and then list other secondary benefits it provides.
- Briefly list a few facts that support this USP.
- Then, focus your ads to stress these top benefits and the facts supporting them!



A Six-Sentence Advertising Strategy

- What is the purpose of this ad?
- What USP can you offer customers?
- What other key benefits support your USP?
- At whom are you aiming the ad?
- What response do you want from your target audience?
- What image do you want to convey in our ads?

Five Fundamentals of a Successful Advertisement

It should attract attention.

It should emphasize a key benefit of the product or service to the customer.

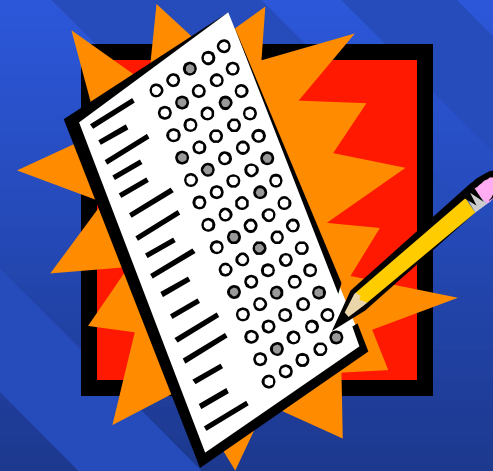
It should communicate the company's Unique Selling Proposition (USP).

It should prove the USP and benefits to the customer with facts, statistics, or testimonials.

It should motivate customers to take action *immediately*.

Can Your Ad Pass These 7 Tests?

- Scan test
- Comprehension test
- Differentiation test
- Puffery test
- Believability test
- Immediate clarity test
- USP test



Promotion Includes...

- Publicity – any commercial news covered by the media that boosts sales but for which the small business does not pay.
- Personal selling – the personal contact between sales personnel and potential customers resulting from sales efforts.
- Advertising – any sales presentation that is nonpersonal in nature and is paid for by an identified sponsor.

Tips for Stimulating Publicity

- Write an article of interest to customers.
- Sponsor an off-beat event
- Involve celebrities “on the cheap.”
- Offer to be interviewed on TV and radio stations.
- Publish a newsletter.
- Speak to local organizations.
- Sponsor a seminar.
- Write news releases and fax or e-mail them to the media.
- Serve on community and industry boards and committees.
- Sponsor a community project or support a nonprofit organization.
- Promote a cause.

Top Salespeople...

(continued)

- **Work from the customer's perspective.**
- **Use past success stories.**
- **Leave sales material with clients.**
- **See themselves as problem solvers, not just vendors.**
- **Measure their success not just by sales volume but by customer satisfaction.**

Successful Personal Selling Requires a Selling System

- Approach - Establish rapport with prospect.
- Interview - Let the prospect talk.
- Demonstrate, explain, and show – Make clear the benefits of your product or service.
- Validate - Prove the claims about your product or service.
- Negotiate - Listen for objections and try to overcome them.
- Close - Stop talking and ask for the order.



Selecting Advertising Media: Key Questions

- How large is my firm's trading area?
- Who are my customers and what are their characteristics?
- Which media are my target customers most likely to watch, listen to, or read?



Selecting Advertising Media: Key Questions

(continued)

- **What budget limitations do I face?**
- **Which media do my competitors use?**
- **How important are repetition and continuity of my advertising message?**
- **What does the advertising medium cost?**



Advertising Media Options

- **Word-of-Mouth**
- **Newspapers**
- **Radio**
- **Television**
- **Magazines**
- **Direct mail**
- **World Wide Web**
- **Outdoor ads**
- **Transit advertising**
- **Directories**
- **Trade shows**
- **Sponsorships and special events**
- **Point-of-purchase ads**

Snappy Radio Copy Should....

- Stress benefits to the listener.
- Use attention-grabbers.
- Zero in on a particular audience.
- Be simple and to the point.
- Sell early and often.
- Be written for the ear.
- Be rehearsed before presentation.
- Use positive action words.
- Put the listener in the picture.
- Mention the advertiser often.
- Focus on getting a response.

Creating Direct Mail Ads That Really Work

- Promise benefits in the headline.
- Use short “action” words.
- Leave lots of white space.
- Use eye-catching words.
- Forget grammatical rules.
- Repeat the offer at least three times.
- Offer proof of claims and endorsements.
- Ask for the order.



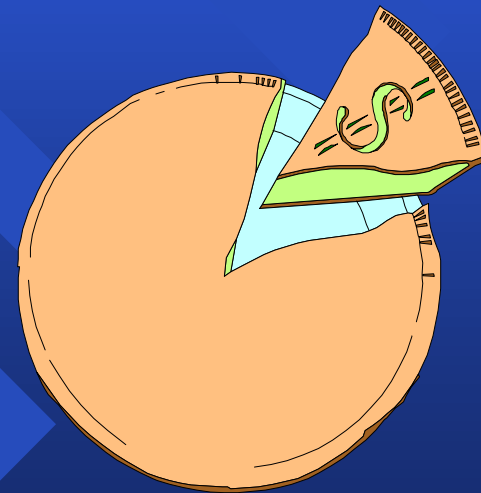
Creating Direct Mail Ads That Really Work

(continued)

- Ask the reader questions in the copy.
- Use high-quality paper and envelopes.
- People usually open envelopes that resemble bills.
- Address envelopes to a particular person.
- Use stamps if possible.
- Use a “P.S.” because recipients almost always read them.
- Make the order form easy to fill out.

Preparing An Advertising Budget

- What is affordable
- Matching competitor's advertising expenditures
- Percentage of Sales
 - ◆ Past Sales
 - ◆ Forecasted Sales
- Objective-and-Task



How To Advertise “Big” On A Small Budget

- Hire “freelance” copywriters and artists.
- Use cooperative advertising.
- Participate in shared advertising.
- Maximize publicity with techniques such as cause marketing.

Introducing A New Product

3 Goals:

- Getting the product accepted
- Maintaining market share as competition grows
- Earning a profit

3 Basic Strategies:

- Penetration
- Skimming
- Sliding-down-the-demand-curve



Pricing for Retailers: Markup

Dollar Markup = Retail Price - Cost of Merchandise

Percentage (of Retail Price) Markup = $\frac{\text{Dollar Markup}}{\text{Retail Price}}$

Percentage (of Cost) Markup = $\frac{\text{Dollar Markup}}{\text{Cost of Unit}}$

Example:

Dollar Markup = \$25 - \$15 = \$10

Percentage (of Retail Price) Markup = $\frac{\$10}{\$25} = 40\%$

Percentage (of Cost) Markup = $\frac{\$10}{\$15} = 67\%$

PRICING YOUR GOODS AND SERVICES

■ General guidelines

- ◆ 1. Price should be sufficient to cover your cost of goods and expenses and provide reasonable profit.
- ◆ 2. Prices should be competitive with those of similar competing businesses.
- ◆ 3. Prices should be in a range that a majority of your target market is willing to pay.

PRICING YOUR GOODS AND SERVICES

- Cost-based pricing
 - ◆ Considers fixed costs
 - ◆ Considers variable costs
 - ◆ Considers number of units produced
 - ◆ Considers number of hours of service charged
 - ◆ Builds in profit

COST-BASED PRICING

■ Fixed costs

- ◆ Payments or rent on building
- ◆ Payments or rent on equipment & tools
- ◆ Insurance
- ◆ Basic phone
- ◆ Wages & salaries of key people
- ◆ Contracted services

COST-BASED PRICING

- Variable costs
 - ◆ Supplies
 - ◆ Utilities
 - ◆ Supplemental labor
 - ◆ Repairs and maintenance
 - ◆ Outsourcing

COST-BASED PRICING EXAMPLE

- **100 unit storage facility**
 - ◆ **100 sq. ft. per unit**
 - ◆ **10,000 sq. ft. building**
 - ◆ **\$20 per sq. ft. building costs = \$200,000**
 - ◆ **20 year finance @ 10% = \$20,000 per year**
 - ◆ **Utilities = \$10,000 per year**
 - ◆ **Maintenance = \$20,000 per year**
 - ◆ **Insurance & taxes = \$10,000 per year**
 - ◆ **Miscellaneous = \$10,000 per year**

COST-BASED PRICING EXAMPLE

- **100 unit storage facility**
 - ◆ **\$20,000 payments**
 - ◆ **\$10,000 utilities**
 - ◆ **\$20,000 maintenance**
 - ◆ **\$10,000 taxes and insurance**
 - ◆ **\$10,000 miscellaneous**
 - ◆ **\$30,000 profit**
 - ◆ **\$100,000 TOTAL COSTS + PROFIT**

COST-BASED PRICING EXAMPLE

- **100 unit storage facility**
 - ◆ **\$100,000 per year**
 - ◆ **=\$1,000 per unit per year**
 - ◆ **=\$83.33 per month per unit**
 - » **Is this comparable to competition?**
 - » **Do you need to cut costs or profits?**
 - » **Can you charge even more because of no competition?**

COST-BASED PRICING SERVICE EXAMPLE

■ Ken's Repair Shop

- ◆ \$30,000 rent
- ◆ \$15,000 Equip. & tool amortization
- ◆ \$10,000 utilities
- ◆ \$10,000 taxes & insurance
- ◆ \$5,000 supplies
- ◆ \$60,000 wages
- ◆ \$20,000 maintenance & repair
- ◆ \$50,000 profit
- ◆ \$200,000 TOTAL COSTS + PROFIT

COST-BASED PRICING SERVICE EXAMPLE

■ Ken's Repair Shop

- ◆ **\$200,000 total costs + profit**
- ◆ **4,000 estimated chargeable hours**
- ◆ **\$200,000 divided by 4,000 hours = \$50 per hr.**
 - » **Is this competitive?**
 - » **If not can you reduce costs?**
 - » **Can you charge more because of unique or superior service?**
 - » **May be more palatable to charge flat rate per job.**

COST-BASED PRICING MANUFACTURING EXAMPLE

- Stone's Widget Company
 - ◆ $\$200,000 = \text{total costs} + \text{profit}$
 - ◆ 2,500 units per year to be produced
 - ◆ $\$250,000$ raw material ($\$100$ per unit)
 - ◆ $\$450,000 = \text{total costs} + \text{raw material}$
 - ◆ $\$450,000$ divided by 2,500 units = $\$180$ per unit selling price
 - » Is this competitive?
 - » If not, can you reduce costs?
 - » If in hot demand, how much more can you charge?

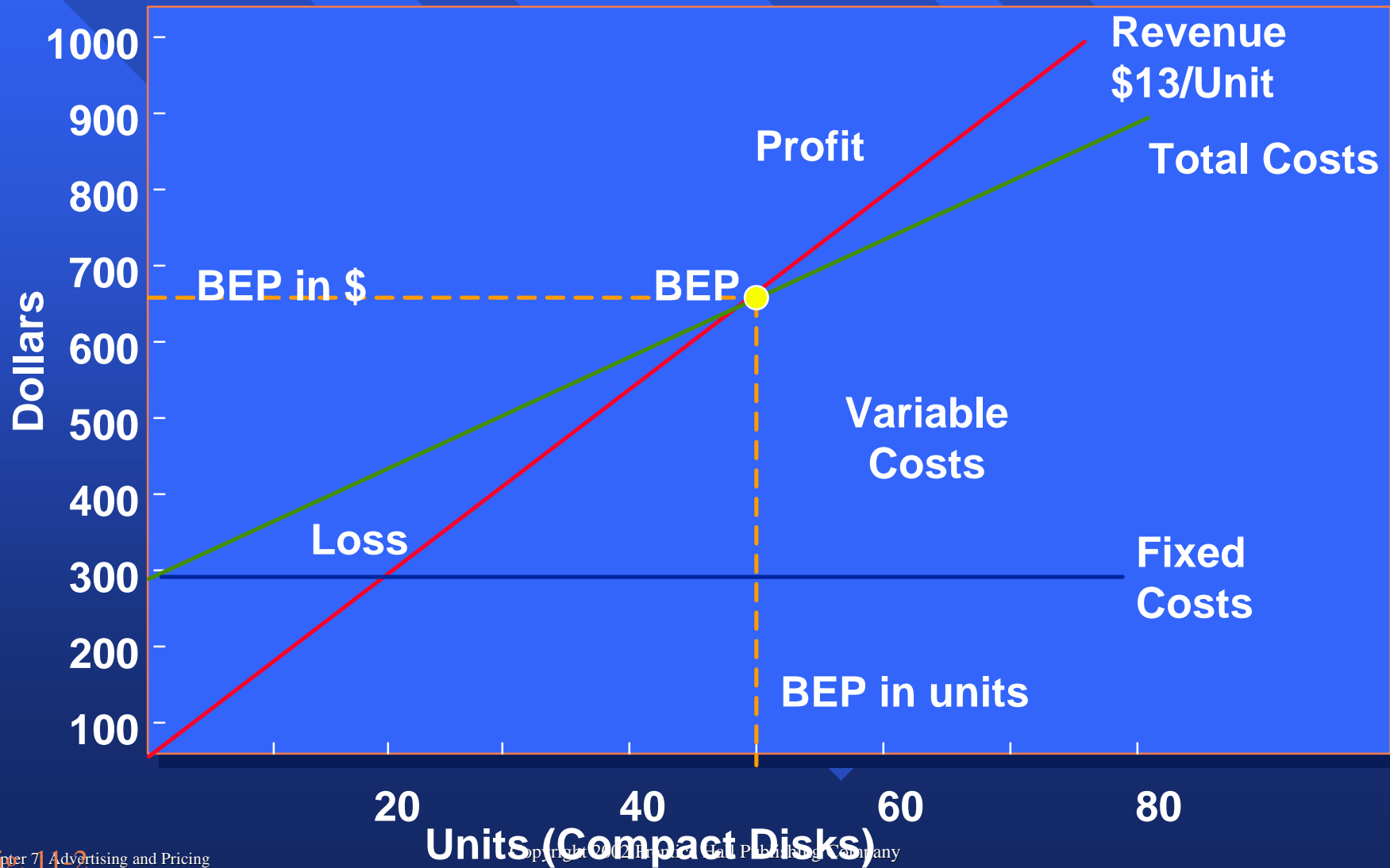
VARIABLE PRICING

- **Important to influence customer perceptions of price**
 - ◆ **Customers generally know going price of about 1% of items they buy. These are price sensitive**
 - » **Price sensitive items**
 - **Things we buy regularly**
 - **Things we see advertised regularly**
 - **Commodity items**
 - **Items that “irk” us to buy**

VARIABLE PRICING

- **Examples of price-sensitive items**
 - ◆ **Grocery**
 - » Bananas, milk, beer, pop, bread, paper products, etc.
 - ◆ **Discount department store**
 - » Light bulbs, paper products, motor oil, film, etc.
 - ◆ **Farm supply store**
 - » Carr-Hart, animal feed, 25 ft. Stanley Power Lock tape

Break-even Analysis



Consumer Credit

- Credit cards
 - ◆ National
 - ◆ Private
- Installment credit
- Trade credit

