GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

BUSINESS STUDIES

GRADE 11

TERM TWO

WEEK 4

CHAPTER TEN

COMMUNICATION POLICY & PRICING POLICY

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CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

MARKETING FUNCTION

Learners must be able to:

COMMUNICATION POLICY

- Define/Explain the meaning of a marketing communication policy.
- Outline/Mention/Explain/Discuss/Describe the following components of the marketing communication policy:
  - Sales promotion
  - Advertising
  - Publicity and
  - Personal selling
- Explain the purpose of sales promotion and give practical examples.
- Explain the purpose of advertising and give examples of advertising medium.
- Elaborate on the meaning of publicity.
- Explain the role of the public relations in publicity.
- Give examples of publicity e.g. press release to the media.
- Explain the meaning of personal selling
- Explain the effectiveness of personal selling in promoting a business product.

PRICING POLICY

- Define/Explain the meaning of price
- Discuss/Explain the importance of pricing.
- Outline/Mention/Explain/Discuss the following pricing techniques e.g.:
  - Cost-based/orientated pricing
  - Mark-up pricing
  - Customer/target-based pricing
  - Competition based/orientation pricing
  - Promotional pricing
  - Penetration pricing
  - Psychological pricing
  - Bait pricing
  - Skimming prices
- Identify the above-mentioned pricing techniques from given scenarios/statements. Quote from the scenario to support your answer.
- Outline/Mention/Explain/Discuss factors that influence pricing.
- Identify these factors from given scenarios/
- statements. Quote from the scenario to support your answer.

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Terms and Definitions

TERM	DEFINITION
Promotion	The publicizing of a product, organisation, or venture so as to increase sales or public awareness.
Target market	A particular group of consumers at which a product or service is aimed at.
Credibility	The quality of being trusted and believed in.
Persuade	Cause someone to believe something, especially after sustained effort/ to convince.
Communication	The imparting of information by speaking, writing, or using some other medium.
Endorsements	The act of giving approval or recommendation to something.
Banners	A long strip of cloth bearing a slogan or design/advertisement appearing on a web page.
ASA	The Advertising Standards Authority
Costs	An amount that must be paid or spent to buy or obtain something.
Mark-up	The amount added to the cost price of goods to cover overheads and profit.
Substitutes	A person or an object acting in place of another.
Websites	A set of related web pages located under a single domain name.
Profit margin	The portion of the selling price that is not allocated to input costs/overheads and contributes to the gross profit margin of the business.
Cash and carry	Wholesaler purchase where payment is made in full by the customer.

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MARKETING ACTIVITIES: COMMUNICATION/PROMOTION POLICY

1 The meaning of a marketing communication policy

- The main aims of the communication policy is to increase the sales of a product/services.
- The purpose of the marketing communication policy is to inform existing and potential customers about the product.
- It explains the features and benefits of using the product.

2 Components of the marketing communication policy

2.1 Sales promotion

- Sales promotion is usually a short-term tactic to boost sales.
- It can be used to complement other promotion methods.

2.1.1 The purpose of sales promotion

The purpose of sales promotion is to:

- Inform consumers about the product.
- Persuade potential customers to buy the product now rather than later.
- Remind the target market of the availability of a product.
- Increase the sales of a product or service.
- Introduce new products or to extend the product life cycle.

2.1.2 Examples of sales promotion

- Many shops offer special offers. Buy One, get One Free promotions
- Money-off coupons
- Discounts vouchers
- Free gift vouchers
- Joint promotion to encourage customers to purchase their brands.
- Loyalty cards e.g. Pick n Pay offers the smart card and Clicks the Club Card etc.
- Free gifts or accessories when buying a product
- Bonus pack e.g. larger items are sold at the price of the smaller item
- Competitions linked to buying a product
- Charity promotions e.g. donations
- Point of sales displays that show off the product and a free product samples.
- Customer loyalty cards where holders receive special discounts or earn points

2.2 Advertising

- Advertising is used to inform, persuade and remind the consumer about the product or service
- Advertising is a paid and non-personal marketing communication tool.
- It involves communication with many consumers at the same time.

2.2.1 The purpose of advertising

- The purpose of advertising can be explained in terms of AIDA as follows:
  - **Attract**: attract the attention of people
  - **Interest**: arouse their interest in the product

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- **Desire**: create the information needed to persuade the consumer to act and buy the product.
- **Action**: provide the information needed to persuade the consumer to act and buy the product.

2.2.2 Examples of advertising medium.

- The examples of advertising medium can be classified into the following main FOUR main categories:

Printed media	Broadcast media	Direct Mail	Web-based media
Newspapers Magazines	Radio Television Cinema	Brochures Pamphlets Billboards Directories Posters Leaflets	On-line magazines Websites Search engines Banners Emails and SMS Internet

2.3 Publicity

- Publicity is a free non-personal form of communication that the business and its product can receive through mass media e.g. newspaper and television
- Publicity is unpaid communication in the mass media about a business enterprise, its employees, its goods or services.
- The business has no control of what is said about them.
- It can take form of a news story in a newspaper, a press release or a media statement.
- Endorsements by famous people draw attention to a company's brand and products.
- Some companies hand out gifts and samples with company branding on them.
- It is information about a business published by an independent third party such as a newspapers or television station.
- Ensures that the public know about the business, its social programmes, community involvement and fair labour practices etc.
- Publicity can be positive or negative as it is not paid for by the business.

2.3.1 Examples of publicity

- Internal publicity is the display of goods, the appearance of the shop and its employees as well as the staff's behaviour towards customers.
- Many companies create brand exposure for the company by running competitions which provide exposure to the company's products.
- Endorsements by famous people draw attention to a company's brand and products.
- Sports and movie stars are often seen wearing certain brands of clothing which create public awareness for the brand.
- Some companies hand out gifts and samples with company branding on them, e.g. at conferences where delegates receive goodie bags.
- Some companies offer sponsorship to sporting events or community events.

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2.3.2 Role of the public relations in publicity

- Public relations aim to present a favourable image of the business and its products or service.
- Many businesses outsource the PR function to an outside agency to take advantage of their specialised knowledge.
- The PR department builds good relationships with representatives of the media and press.
- They keep the media informed of news about product launches and opening of new factories or shops for the attention of the public.
- The PR function supports marketing efforts to establish and build a brand identity.

2.4 Personal selling

- Personal selling involves face-to-face communication between sales people and customers or potential customers to promote the product.
- The business uses sales people who have direct contact with customers.
- Sales people have specialised knowledge to the product and can advise customers on how to use the product.
- The sales person is ready to answer all the questions asked by the consumer.
- Sales people promote the product through their attitude and appearance.
- The message can be individualised to suit the needs of the consumer.

2.4.1 The effectiveness of personal selling in promoting a business product

- Personal selling can be made telephonically but are usually face to face and offer the most flexible means of delivering a promotional message.
- Done by experienced sales people who develop charisma and become skilled in getting people to pay attention to them.
- It is very effective especially in the case of expensive industrial goods such as machinery and shopping goods e.g. stoves/fridges/cell phones etc.
- Involves a very personal touch with specific attention giving to customer's needs and requirements.
- Most effective way to build relationships between the salesperson and the customer.
- It is also a very good way of maintaining good relationships and ensuring on-going business and sales.
- The salesperson can adjust his/her message to be more attractive to the person listening.

3 The pricing policy

3.1 The meaning of price

- The price of a product refers to the amount of money that must be paid by the buyer to experience the benefits of the product.
- The pricing policy specifies what and how the business will work out the pricing of its product.

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3.2 The importance of pricing

- The pricing process needs to consider flexibility/discount/territory/life cycle status/allowance.
- Pricing affects the number of products that an enterprise is able to sell, which in turn, affects profitability.
- The price of a product can influence the consumers' attitude towards the product or the brand.
- If the is believed to be too high, fewer consumers may buy the product.
- If the price is too low, consumers may perceive the good as being of poor quality.
- The pricing policy should explain when and to whom discounts will be granted.
- The price of a product must make provision for transport costs.
- The price of a product must make provision for VAT.
- Low sales result in stockpiles of unsold product that have to be stored and not repaying the cost of manufacturing that product.

3.3 PRICING TECHNIQUES

3.3.1 Cost-based/orientated pricing

- Involves setting the price of a product based directly on its cost.
- The business calculates the cost of producing one unit of the product, called unit cost, and then adds a standard mark-up to obtain the price.
- The costs of production and supply are calculated, and a suitable profit margin is added to determine the selling price.

3.3.2 Mark-up pricing

- It is calculated as a percentage.
- This percentage is calculated from the cost per unit.
- Example will include a sandwich-making a business may calculate that the cost of producing a sandwich is R10 and decide on a mark-up of 100%, setting the price at R20.

3.3.3 Customer/target-based pricing

- It is when companies set certain targets to achieve.
- Based on what the business believes customers are prepared to pay.
- The perception of the product it wants to create in the customers' mind.

3.3.4 Competition based/orientation pricing

- Sets its price based on what competitors are charging customers.
- This approach is also called going rate pricing or competitive pricing.
- The more competition in the market, the lower prices are likely to be.
- If the price is set at a higher level than of competitors, consumers must be convinced that the good is better in terms of quality and usefulness.

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3.3.5 Promotional pricing

- Businesses offer sales or special offers to attract customers.
- It is used when the price is lowered for a short period of time.
- At certain times of the year, end of season ranges or old stock may be sold off at discount prices.
- Example include special offers/discounts that are valid for a limited period of time/"Buy one, Get one free" type promotions.

3.3.6 Penetration pricing

- Products are sold at very low prices to attract consumers when the product is introduced to the market.
- The aim is to convince the customers to buy a product.
- As soon as the introductory offer is over, the price is increased.
- It is often used for new products and it is not a profitable long-term marketing strategy.

3.3.7 Psychological pricing

- This strategy is used when the business wants the consumer to respond on emotional basis rather than a rational one.
- It is used to give an impression that an item is cheaper than it really is.
- A CD player is priced at R699 instead of R700.
- Consumer mentally place the item in the R600 rather than the R700 price range.

3.3.8 Bait pricing

- Prices are usually set lower than the items cost price to attract customers.
- It is used to attract customers into a shop to buy the product and other items.

3.3.9 Price skimming

- Prices attached to a new innovative product that is considered unique and prestigious.
- Higher prices are charged to test the demand.
- There are consumers who are prepared to pay higher prices, because such inventions have prestige value.
- As the product gains popularity, the price of the product is gradually reduced.
- Price skimming can be successful and profitable in the short term

3.4 Factors that influence pricing

3.4.1 Input costs

- The higher the input costs, the higher the final price. An increase in labour or transportation could increase the final price.

3.4.2 Demand for the product

- The higher the demand, the higher the production volume, the lower the input costs, the lower the final price.

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3.4.3 Target market

- Income level of the target market.

3.4.5 Type of product

- Luxury products can be priced higher.

3.4.6 Pricing technique used to determine the price.

- Promotional pricing could be lower than demand oriented pricing.

3.4.7 Competitive and substitute products

- If there are similar products that could replace a product, a high price may result in loss of sales to the substitute.
- If the price and demand of complement good increases, the other product may increase at the same rate e.g. prices of computers and keyboards may increase at the same time.

3.4.8 The economic climate and availability of goods and services

- When there is a shortage of a certain product, people are prepared to pay more for it.

3.4.9 Forms of markets

The following forms of markets will affect the price chosen

Perfect competition	• There are many buyers and sellers • Products are similar and there are many substitutes' products. • Example: Shares being traded on the JSE
Monopolistic competition	• There are many suppliers/sellers • Each supplier has his/her own brand of a particular product • Example: Car manufactures/dealers e.g. Toyota/Nissan/Ford etc.
Oligopoly	• Only a few suppliers/sellers control the prices of products. • Product are homogenous/same • Example: MTN, Vodacom /Cell C
Monopoly	• Only one supplier/seller controls prices and products • Profit margins are usually higher because consumers do not have any alternative • Example: Eskom

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