

“When people talk to themselves, it’s called insanity. When companies talk to themselves, it’s called marketing.”

Steve Bautista, advertising copywriter



Marketing to drive profits

So what is marketing? Well, firstly marketing is not just advertising. Advertising is a key component of marketing, but it is just one component.

Marketing should be tightly linked to sales and, in a small business, this is absolutely vital. However, as businesses grow, quite often the sales and marketing functions appear to operate as if they are two separate organisations. This can lead to sales staff focussing on a short-term result to the detriment of the value of the brand, or the sales team promoting a low-margin product that the marketing team is planning to exit. On the

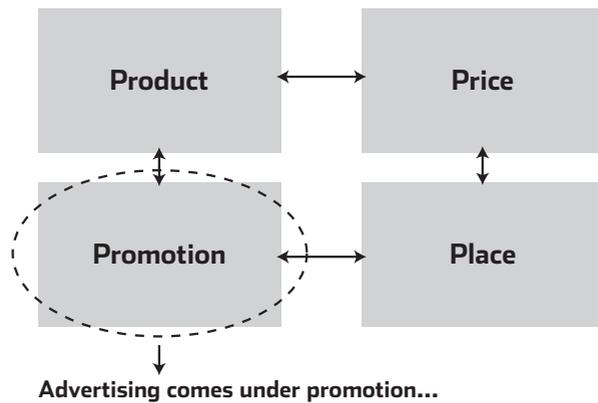
other hand, the marketing team might exit a product that the sales team find useful as a door-opener.

Marketing is a critical element in any business. As critical as finance, sales, operations and production, and it can affect all these functions. A well-known concept suggests marketing is made up of ‘the four Ps’: product, price, place and promotion.

Product – the products and services you are selling

Price – the pricing structure and strategy you have for the products and services you are selling

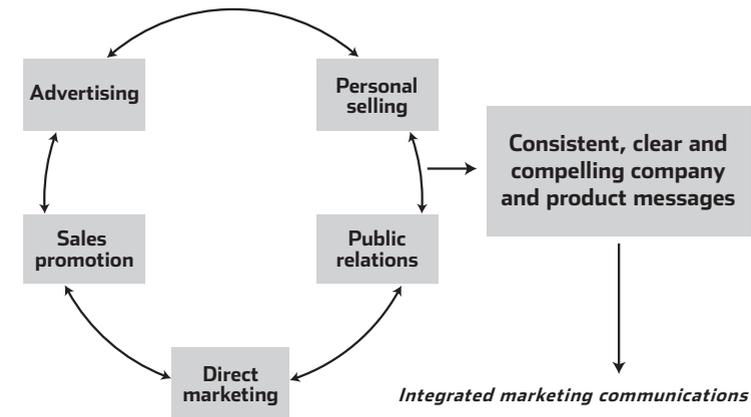
Place – the distribution and various channels you use to make your products and services available to your buyers. This could be direct from you, via the internet, or via dealers and retailers for example.



Promotion – the strategies and methods available to the business owner, or marketing manager, to promote their products and services. The various elements of promotion include:

- Advertising
- Personal selling
- Public relations
- Direct marketing
- Sales promotion.

The following diagram illustrates how closely sales and marketing must work together...



As indicated in this diagram, successful promotion requires a consistent approach in:

- Messages
- Brands
- Product quality
- Service levels.

We will explore all these areas, and will also focus on:

- Defining your target market
- Developing key messages for your target market
- Ensuring your message is heard.

It is also important to understand how marketing can directly affect sales turnover and profitability per product. This is vital in understanding the affect marketing can have on a business' success and why the marketing function needs to work together with finance and production.

How marketing can affect sales value

What is average sales value all about? Average sales value is, essentially, the average amount of revenue earned on each individual sales transaction your business makes. Ideally your business should be maximising the dollar value of every sale. The more revenue your business makes per sale, the more cash flow you have, and it should not cost you any more time or money! Before proceeding further, it is essential you understand the basic accounting concept of average dollar sale per sales transaction. This will give you a better appreciation of why increasing the dollar value per sale is a critical objective, and why you should maximise this objective wherever possible.

Total dollar revenue (R): This is the total dollar value of all sales made during a specific period of time for example: daily, weekly, monthly or yearly.

Total number of sales transactions (S): This is normally represented by the customer transaction count during the selected period of time.

Average sales value is determined by applying the following formula:

$$\frac{R}{S} = \text{Average sales value}$$

For example:

- Your total revenue in the last year was \$250,000
- Your total number of customer transactions in the last year was 25,000
- Your average sales value is therefore \$10.

$$\frac{250,000}{25,000} = \$10$$

By increasing the average sale value, your business is likely to make more money, or you can make the same money serving fewer customers.

Strategies for increasing your average sale value

There are three fundamental ways to increase the average sales value on any sales transaction:

1. Up-selling or cross-selling additional products or services at standard prices during the sales transaction process
2. Bundling additional products or services into one deal at a discounted price during the sales transaction process
3. Increasing prices.

Up-selling or cross-selling

- Up-selling refers to the sale of a product/service of higher dollar value than the customer originally anticipated purchasing
- Cross-selling refers to the skill of selling additional products/services every time they purchase.

Both mean maximising the sale opportunity. The power of up-selling and cross-selling cannot be underestimated. There really is not a better time or chance to sell a higher-priced alternative or an additional item to someone than when they are standing right in front of you with wallet in hand. Especially when the customer has spent time discussing their needs with you or a staff member. You don't need to advertise to get them there. They are in the best position to make a decision to invest in the additional benefit you are offering.

Car dealers are typically expert at up-selling. They start with a basic \$30,000 car and then add some leather seats and a CD player. Before you know it, you have just spent another \$3,000!

The following scenarios demonstrate the use of up-selling and cross-selling to increase profits. The scenarios are based on a business selling three products. Products 1 and 2 are cheaper and more expensive versions of the same product, and Product 3 is a different product entirely.

- Product 1 is \$29
- Product 2 is \$39
- Product 3 is \$59
- There are four sales people who see 10 clients each per day
- The business operates six days per week.

Scenario 1: No up-selling or cross-selling

- Each client only buys one unit of Product 1, spending \$29 in total.

40 clients x \$29	= \$1,160/day	
x 6 days in a week	= \$6,960/week	
x 52 weeks in a year	= \$361,920/year	
Average \$ value per sale	= 1,160 ÷ 40	= \$29

Scenario 2: Up-selling

- One customer in five is up-sold to Product 2, while the remainder still purchase Product 1.

32 clients x \$29	= \$928/day	
8 clients x \$39	= \$312/day	
	= \$1,240/day	
x 6 days in a week	= \$7,440/week	
x 52 weeks in a year	= \$386,880/year	
	= 6.8% increase	
Average \$ value per sale	= 1,240 ÷ 40	= \$31

Scenario 3: Cross-selling

- One customer in five is cross-sold Product 3 in addition to Product 1 (which they all buy).

40 clients x \$29	= \$1160/day	
8 clients x \$59	= \$472/day	
	= \$1,632/day	
x 6 days in a week	= \$9,792/week	
x 52 weeks in a year	= \$509,184/year	
	= 40.6% increase	
Average \$ value per sale	= 1,632 ÷ 40	= \$40.80

Effectively, up-selling and cross-selling can add significant sales value. These are just simple examples. Your business may have other far more effective sales opportunities. Remember to be flexible with these concepts. You are an entrepreneur.

Up-selling messages

According to the Better Business Institute, if presented correctly, one in five customers is likely to take up a special offer at the point of sale. A company that uses this technique extensively and effectively is McDonald's, where staff members are trained to say: "Would you like fries with that?"

Proactive travel agents might ask: "Would you like travel insurance for your family?" as a method of increasing the average sales value and average profit margin.

The rental car companies might ask: "Would you like to reduce the excess?"

Some service station attendants are trained to offer the two-for-one chocolate deal. Why? If approximately one in five take up the offer, this can lead to an increase of 20% sales value, with a potentially high profit margin product.

Bundling

Bundling is a variation of up-selling and cross-selling, where instead of selling additional products at full price, the customer is offered a combination of products and services at a discounted price. The key objective with bundling is to use discount pricing to encourage a customer to commit to spending more money than originally intended, with the resulting additional turnover and cash flow available to the business immediately. Importantly, bundling is a powerful way to quickly increase the average dollar value of a sale. Yes, you are discounting price and profit per product compared with what you would make if each product was sold separately, but if you structure the bundle appropriately, your business should benefit from immediate increased turnover and cash flow. Don't think just because your customers buy from your business once, all you have to do is sit and wait for them to come back...it may never happen.

What are the secrets to successful bundling?

- Adding value through bundling with joint promotions (more on this in chapter 7).
- Adding value through bundling with in-house products - If you ever go to McDonald's, KFC, or any of the other fast-food outlets, do you purchase (or at least look at) the value meal range offered? Why do they do this? It is simply a strategy to increase the average sale value through offering a bundled deal at a total cost less than each item purchased separately. After all, if you are ordering a hamburger, don't french fries, a drink and dessert go with it? Especially if it is offered at a discount?

Any business that offers a variety of related products and services can use the same system to increase the average sales value of each transaction. For example:

- A men's fashion store can offer a bundled deal on purchase of a suit, with special discounts on an extra pair of trousers, shirts, ties and belts
- A hair and beauty salon can offer a hair treatment, facial, and nail treatment for a special price
- A café can offer coffee and dessert for a special price
- A mechanical workshop can offer a service, wash and detail for an 'all-in-one' deal.

The possibilities are endless! You just need to be creative and ensure you find products or services that are associated with each other and are of genuine value to the customer. At a bundled price that's reasonable, you could trigger their impulse to take the deal.

Using samples to drive sales

Imagine you are a business selling DVDs. You acquire a variety of mini DVDs and sell them for \$5.00 each. When customers spend more than \$29.95, they receive a mini DVD for free. The customer walks away feeling like they've found a bargain. The retailer has increased cash flow, the likelihood of sales of more than \$29.95 and the likelihood of repeat

custom. In fact, if the customer likes the artist on the mini DVD, they could return to buy the limited edition complete version for \$59.95.

Increasing prices

What are the secrets to successful price increases?

- Communicate to your customers why prices are increasing
- Increase prices below the 'just noticeable difference' threshold
- Increase prices on low-value items
- Increase prices to differentiate your product or service.

Your business may be in a position where you have to increase prices. The solution to avoiding substantial loss of customers in the process is to be honest with them. Notify them in advance and explain the reasons for the price increase. Provided your customers clearly understand the need for the price increase, and they are satisfied with all other aspects of the products and services you provide them, this should minimise any loss to your customer base. If you operate a business that sells to other businesses, or provides professional services, you might consider sending a personalised letter followed by a phone call. For instance, an accountant faced with increases in professional indemnity insurance costs might draft a letter to his clients. By taking a proactive approach and informing each of your customers well in advance of the event, you should be able to maintain your business, or at least minimise the loss of customer goodwill. It should also enable you to find out in advance if you are at risk of losing any major customers or accounts. If this is the case, you will then be in a position to look for alternative ways to add value to the relationship to sustain it.

Increase prices below the 'just noticeable difference' threshold

The 'just noticeable difference' (JND) is a psychological measure developed by Gustav Theodore Fechner in the 1800s. Referring to the smallest observable difference between two stimuli, the concept has since been applied to consumer behaviour relating to marketing and pricing practices.

The essence of this concept, when applied to marketing and pricing practices, is that consumers are consciously aware of significant one-off increases in the price of a particular product or service, and unless there is an obvious benefit associated with the price increase, are likely to react in an adverse manner by searching for alternatives. Customers are less likely to balk at a product increasing from \$10.49 to \$10.99 as they might if the new price was \$11.00, even though we are only talking a variation of one cent. For some reason, going into the next dollar bracket is more likely to result in negative reaction, especially for regular buyers of the product. By staying below \$11.00, which in this case is the point of JND, your risk of losing sales has decreased, but your margins have increased.

Another facet to the JND concept involves changing the product or service rather than the price point. If you are manufacturing a product of slightly lower quality than your competitors, but priced at the same value and your customers don't notice the difference, your profit margins are better than your competitors. The trick is to ensure the difference in quality is slight enough to avoid the point of JND.

On the other hand, if you increase the quality of your product just beyond the JND, you should be in a good position to increase your price and offer a point of advantage your competitors can't offer, thus driving sales and a reputation for quality products. Importantly, the additional quality must come at a relatively low cost to ensure strong margins.

Some ways to apply the JND concept:

1. Consider increasing prices gradually over time
2. If customers don't notice an improvement, then your improvement is probably not obvious enough
3. Ensure your marketing campaign highlights the product's competitive advantage
4. Look for ways to save by cutting back on expenses customers don't notice or care about
5. Increase prices on low-value items.

Differentiating your product or service

One of the most fundamental mistakes many businesses make, particularly small-to-medium businesses, is to define the product or service they sell far too narrowly. When they market their offering to potential customers, they fail to effectively differentiate their specific brand from those offered by their competition.

Usually, it comes down to a fight over which business can sell their product or service at the cheapest price. If you are a small to medium business, you will lack the economies of scale to get the substantial price discounts on the products you sell to win business on the basis of lowest price. In the long run this is unsustainable, and you will more than likely go out of business.

Contrary to what many of us think, most people shop for value, not just price. In other words, they want the product or service that will solve their problems at the best possible price. In reality, any product or service sold is nothing more than a series of features which convey a set of benefits to a customer. The value of each of those features to the customer is directly related to the personal importance the customer places on them. The key to this is differentiating your unique features and benefits, then branding and promoting them. Remember you are not just up against other direct competitors, but also every other business vying for your customers' money. Your customers' interests, tastes and spending priorities change over time, and if you don't take the opportunity to sell your product now, you may not have another chance.

Why advertise?

Advertising can help ensure the message you want to share with your target audience is delivered the way you want it. Public relations and word of mouth might often be cheaper, but you can't always control the message. Advertising helps you profile your business and brands.

While the numbers may vary from industry to industry, it is vital you know the cost of your options.

Current average cost to reach a potential customer:

Direct sales person:	\$75-175 per call
Door-to-door sales:	\$35 per door
Direct mail:	\$2-7.50 per customer (dependent on quality of envelope, offer and database costs)
Telemarketing:	\$6-15 per call
Broadcast:	\$0.025 per view
Print:	\$0.024 per view
Online ads:	\$0.20 per view

Note: All figures are approximate and will differ from company to company. Figures are included to show likely differences in cost associated with different advertising options.

An advertisement cannot close a sale, but it can generate a response and if you need to reach a wide range of people consistently, then advertising is still one of the most cost-effective ways to do it. Even if your company has the biggest market share and most recognisable brand, it is important to continue to advertise. Advertising is the locomotive driving the business. Consider Harvey Norman, Telstra and General Electric as examples. These companies all continue to advertise despite having well-known brands and considerable market share.