

Training Workshop on “Forest Products Marketing – from principles to practice”
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Marketing fundamentals - the 4 Ps: Pricing, Promotion, Product, Place

Daide Pettenella
University of Padova - Italy

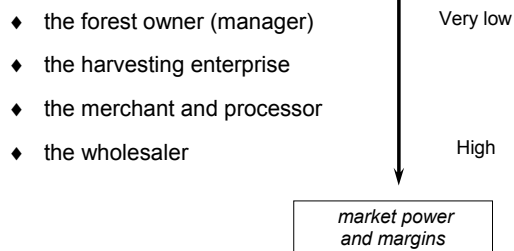
Paper organisation

Introduction - the objective: why we need to improve marketing techniques?

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| <ol style="list-style-type: none"> 1. Pricing methods 2. Product development 3. Promotion 4. Place: logistic | 4 Ps |
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Final remarks: from total marketing to social marketing

Agents in the wood value chain/ market power



Why do we need to improve marketing techniques?

The objective:

increasing market power (=profit) of forest managers and harvesting enterprises:

- fair distribution of profits,
- active management of forests,
- stewardship of the resources: positive externalities on environmental and social conditions

1. Pricing: five approaches

- A. Cost-plus pricing
- B. Profit-objective
- C. Customary prices
- D. Contract or negotiated pricing
- E. Perceived value

Attention given to producer's problems



Attention given to buyers' behavior

A. Cost-plus pricing

Pre-defined mark-up to be added to production cost:

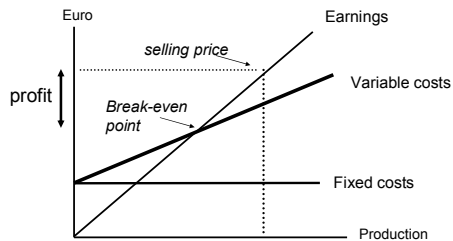
Average management costs of the forest = 10,000 Euro
 Average annual sales = 250 cm
 Stumpage price: 45 Euro/cm (mark-up of 20%: 40 + 8 Euro)

Problems:

- No reference to competitors
- No attention paid to market demand
- Not always easy to link annual costs to annual production

B. Profit-objective

- A minimum profit is pre-defined
- Prices are defined adding the profit to the break-even point



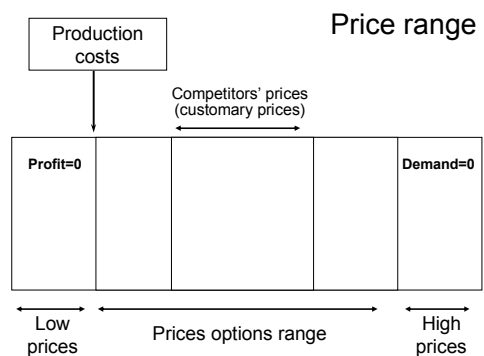
Problems:

- No reference to competitors
- No attention paid to market demand
- Is profit in the long run covering fixed costs?

C. Customary prices

- When product differentiation is low,
- When there are many competitors,
- When cost evaluation is difficult...

... prices may be defined looking at the competitors' prices to fix a *reasonable* price



D. Contract or negotiated pricing

Prices set by pre-agreement or negotiation **before harvesting**

Frequent application when buyers are large companies

An example

Poplar plantations in Italy sold immature (when they are 6-8 years old with rotation periods of 10 yr)

→ The buyer has a stock available for his needs

→ The forest owner reduces his risks



D. Contract or negotiated pricing

Prices set by pre-agreement or negotiation **before harvesting**

Frequent application when buyers are large companies

Sometimes risky: see weather conditions, site productivity, labor availability

A variant: **formula pricing** = set on the basis of systematic use of external values or factors (international prices index, license costs, fuel costs, etc.)

E. Perceived value

(the most popular in advanced markets)

Key factor in pricing is the **willingness to pay** by the buyer for a differentiated product

The very serious problem: rough wood material is not easily differentiable

Logs from Serbia



Logs from Croatia



Logs from Romania



Some special pricing techniques (**price tactics**) can be used to differentiate wood products:

- Direct sales to individual buyers (i.e. processors and exporters, avoiding merchants)
- Group marketing
- Off-season selling
- Quantity discounts, cash discounts and special sale prices

... some other opportunities to increase the trust and the willingness to pay by the buyers are offered by the other 3 Ps

2. Product development: three types of innovations

- A. Absolute new products
- B. Incremental innovations
- C. Subjective differentiation

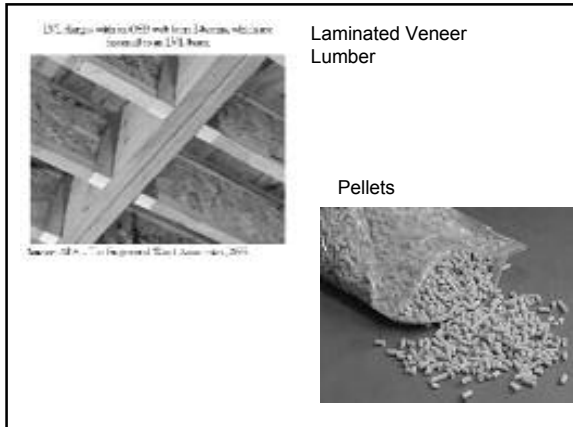
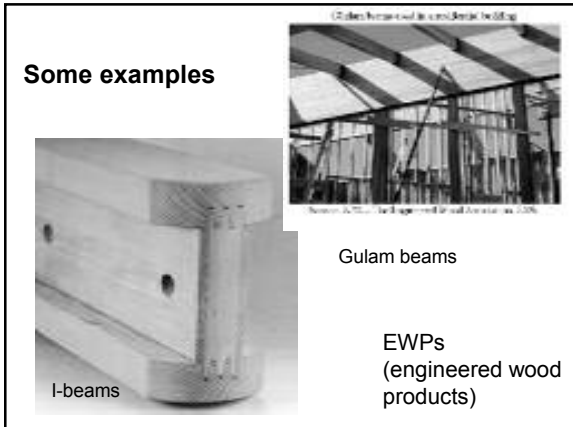
A. Absolute new products

- Rough material
- Semi-finished products
- Final products

Very low

Relatively high

potentials for innovation



B. Incremental innovations: improved products and services

Products:

- Laminated boards
- Particleboard and MDF made with recycled post-consumers wood products



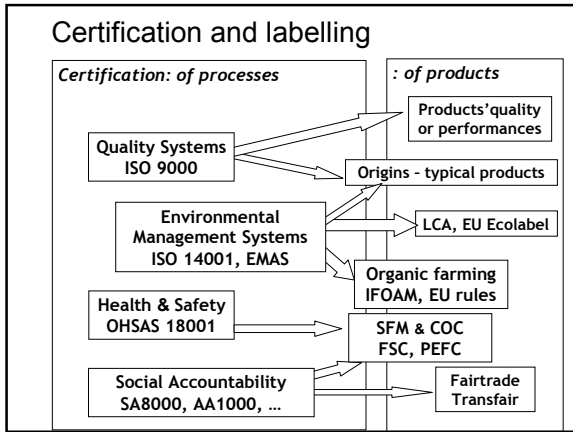
B. Incremental innovations: improved products and services

Products:

- Laminated boards
- Particleboard and MDF made with recycled post-consumers wood products

Services:

- Sorting and grading system
- Kiln drying
- Packaging
- Branding
- Certification and (eco)labelling



C. Subjective differentiation

Not a new product or an improved product or services,
but an old product that is presented and perceived as a new one

→ Essential role of promotion

3. Promotion



- SME in the forest sector are very week in promoting their products,
- but they can take advantage from the use of “umbrella labels”



Improved visibility of SME through web advertising



A strong conflict between wood and plastic, concrete, metal products

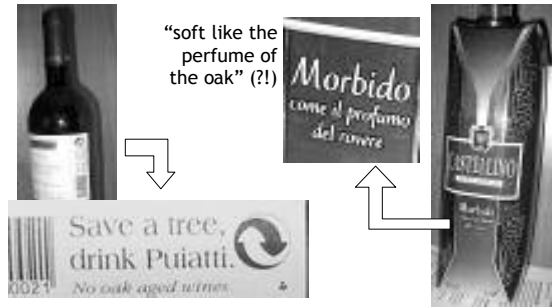


... but also a strong internal fight

between, for examples:

- wood packaging and paperboard packaging,
- plywood and OSB,
- chips and pellets,
- ...

... with opposite view of the role of wood as an environmentally friendly product



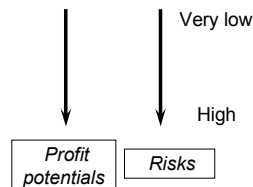
4. Place: logistics

- Delivery time,
- Wood assortments handling: containerization and palletization
- Freight forwarding (i.e. several smaller shipments from different plants combined)
- Warehousing
- ...

Probably the most important aspect for the forest manager is

Where (how and when) to sell its roundwood

- Standing
- On the roadside
- In the buyer's yard



Final remarks

From total marketing (4 Ps)...

... to social marketing:

Company's decisions are taking into account the **long-term** interests not only of the internal but also of the **external stakeholders** → Corporate Social Responsibility

(Kotler, Armstrong, Saunders, Wong, 2001)

CSR: marketing based on ethical principles:

- safety and health of workers, consumers, local population
- no discrimination, no social inequality
- right to information, transparency
- sustainable use of natural resources (precautionary principle)
- ...

There is no conflict (no trade-off) between ethics and economics (profit, value of the assets, ...)

Hvala!

