Lecture 9
Ch: 10
Developing Pricing Strategies and Programs
A. INTRODUCTION
1. Overview and Strategy Blueprint
2. Marketing Strategy: Analysis & perspectives

B. WHERE ARE WE NOW?
3. Environmental & Internal Analysis: Market Information & Intelligence

C. WHERE DO WE WANT TO BE?
4. Strategic Marketing Decisions, Choices & Mistakes
5. Segmentation, Targeting & Positioning Strategies
6. Branding Strategies
7. Relational & Sustainability Strategies

D. HOW WILL WE GET THERE?
8. Product Innovation & Development Strategies
9. Service Marketing
10. Pricing & Distribution
11. Marketing Communications
12. E-Marketing Strategies
13. Social and Ethical Strategies

E. DID WE GET THERE?
14. Strategy Implementation, Control & Metrics
Learning Objectives

1. Examine the separate and complementary roles of pricing and distribution to marketing strategy.
2. Assess pricing mindsets and strategic options.
3. Evaluate the buyer’s perspective of distribution and its implications for strategy.
4. Review the role of pricing and distribution amidst the drive towards the commoditisation of products and services.
Chapter at a Glance

• PRICING
• STRATEGIC OPTIONS
• ONLINE PRICING
• IMPLEMENTING PRICING STRATEGY
• DISTRIBUTION
• MULTI-CHANNEL MARKETING
• GREY MARKETING
• PRICE AND DISTRIBUTION STRATEGIES MEET
• Pricing and distribution are distinct yet complementary elements in marketing
• Strategically they are difficult to separate
• A premium priced watch cannot be sold at a discount jewellers
• A tractor producer that wants a specific mark-up is going to find it difficult to control margin if it sells through intermediaries
Strategic options

- Successful pricing means that prices set have to complement the company’s overall marketing strategy and strike a balance between maximizing revenues and offering customers value.
- Prices need to be coordinated across any business.
- Dolan suggests eight stages to pricing strategy.
Strategic Options
stages to effective pricing strategy

1. Reverse Cost-Plus
2. Variations in Value
3. Price Sensitivity
4. Individual? Bundled?
5. Competitor Reaction
6. POS
7. Emotion
8. Customer cost
Step 1: Reverse cost plus pricing strategy

• Assess value that customers place on product/service. The cost plus margin mentality to pricing products and services generally leaves money on the table that could have been achieved with a higher price.
  • Reverse the traditional cost-plus pricing (cost based pricing strategy)
  • Rather it assess the value that buyers place on a product or service

• Outside-in approach rather than an inside out approach
Glaxo introduced Zantac to compete Tagamet

Instead of “following the leader (Tagamet)” Zantac had their own value based pricing and within years it became the Market Leader

Reverse cost plus

- Superior product performance
- Easier schedule of doses
- Fewer side effects
- Taken safely with many other drugs that were not compatible with Tagamet
- Perceived value to the customer was very high
Reverse cost plus

• Northern Telecom’s Norstar competing with Pacific Rim suppliers
• Inherent superiority of their product didn’t matter; resellers would value Norstar only at the market price
• Northern’s managers decided to introduce the Norstar system at the prevailing market level and then look inward to determine how they could reduce costs in order to make money at that price.
• Eventually, Norstar could convince consumers that their system was better than the competition’s
• As Northern’s competitors began to fight the commodity battle and lower their prices, Northern was able to maintain its price level, secure a price premium, improve margins increase its share of the market
Step 2: Value based pricing

- Look for variation in how customers value the product/service.
  - By customizing prices, a company can earn much greater profits than it could expect with a single product/single price policy
  - It is best to look for variations in how buyers value products
  - Wherever possible try and separate markets and segments and charge accordingly
  - Even in recession, there will be significant opportunities to apply values
  - The performance a company will provide will mean different values to different consumers
Step 3: Price sensitivity of the consumers

• Assess customers’ price sensitivity. Dolan recommends first analyzing customer economics. Dolan then recommends analyzing how consumers search and use the product or service
  • Price sensitivity is a factor to consider while buyers’ will perceive the value of the product or the service
  • Price sensitivity depends on
    • Who will bear the cost (the company/gift from someone or the buyer himself)
    • Buyers’ ability to judge the quality (judging a watch vs judging a lawyer)
    • Buyers’ ability to compare price
    • How time critical the purchase is
    • switching cost of a buyer (switching a telecom brand/bank vs switching clothing brand)
Price sensitivity

• **Customer Economics**
  • Will the decision maker pay for the product him or herself?
  • Does the cost of this item represent a substantial percentage of the total expenditure?
  • Is the buyer the end user? If not, will the buyer be competing on price in the end-user market?
  • In this market, does a higher price signal higher quality?
Price sensitivity

**Customer Search and Usage**
- Is it costly for the buyer to shop around?
- Is the time of the purchase or the delivery significant to the buyer?
- Is the buyer able to compare the price and performance of alternatives?
- Is the buyer free to switch suppliers without incurring substantive costs?
Price sensitivity

• Competition
  • How is this offering different from competitors’ offerings?
  • Is the company’s reputation a consideration? Are there other intangibles affecting the buyer’s decision?
Step 4: Single or Multiple (bundle) pricing

• Determining whether the company should price the individual components of a product or service, or some “bundle,” is critical.
  • Example: Should an amusement park operator charge admission to the park, a fee for each ride, or both?
  • Answering these questions incorrectly can be very costly.

• Two important issues to consider when creating a pricing structure are whether to offer quantity discounts and whether to offer bundle pricing.
Single or multiple: Quantity Discount

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Cost: $20

What is the optimal price to charge?

At $70, you get revenue of $140 and profit of $100

In this schedule, you get total revenue of $295 and profit of $175

Greater than profit given above
Single or multiple: Bundle offer

• Sometimes bundle offers can yield more revenue than the à la carte offer
• Assess competitors’ reactions. Pricing actions nearly always elicit a response from competitors. The key to assessing competitors’ reactions is to systematically assess each of your major competitors and determine their action based on their known methods of conducting business and responding to past price issues.

• Now the question is how the competitor will react if you change any price of your product?
  • Competitors usually react to a lower price by lowering their prices as well
  • \textit{Flanker brands} might be introduced
  • Legal actions can be taken (in case there are any illegal discounts)
A flanker brand is a new brand introduced into the market by a company that already has an established brand in the same product category. The new brand is designed to compete in the category without damaging the existing item’s market share by targeting a different group of consumers.

- Dove and Lux
- Toyota and Lexus
Monitor prices realized at the transaction level. Monitoring prices requires that you know how the final priced is realized. What discounts are being offered? Are there rebates? How do returns and claims affect the transaction price?

- The total set of pricing terms and conditions a company offers its various customers can be quite elaborate. They include discounts for early payment, rebates based on annual volume, rebates based on prices charged to others, and negotiated discounts, based on which intermediary is being used.
- If a list price is agreed, it needs to be established whether this price is fixed or open because if prices are subsequently reduced by the intermediary to close a sale, it can lead to confusion.

Step 6: Assess Point of sales price
Step 7: Assess customers’ emotional response.

- Market research may be needed by the company to assess buyer’s emotional response to a price.
- If customers believe that a price is unfair, their negative reaction can be devastating for business.
- Emotions may play a part in promotion like free gifts.
Bangladesh raises power and gas prices from September

Single gas burner Tk 600, double burner Tk 650

Star Report

Retail customers will have to spend on average 2.93 percent more on electricity and Tk 200 more on gas from this September.

“We have closely examined the logic behind the hike in gas and power tariffs. We have kept the rise to a minimum level,” said AR Khan, Chairman of Bangladesh Energy Regulatory Commission (BERC), while announcing a new tariff structure at his office yesterday.

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Step 8: assess the cost to serve the customers

• Company needs to analyze whether the returns justify the costs in serving buyers
• In relationship marketing this decision leads to focusing on the most profitable customer of the company
Customer costs

- Managers must consider the cost side to avoid the “strategic accounts”
- These accounts demand product customization, just-in-time delivery, small order quantities, training for operators, and installation support while at the same time negotiating price very aggressively, paying late, and taking discounts that they have not earned
- These accounts don’t get what they pay for; they get a lot more
- Companies need to decide whether the returns justify the cost