



Course Learning Outcomes for Unit VI

Upon completion of this unit, students should be able to:

6. Explore positioning, differentiation, and pricing strategies for effective marketing scenarios.
 - 6.1 Compare the pricing strategies of a company and its competitors.
 - 6.2 Describe pricing, distribution, or product strategies of a company with respect to the level of differentiation.
 - 6.3 Summarize how macro and micro environmental changes will impact a company.

Reading Assignment

Chapter 16:

Developing Pricing Strategies and Programs

Chapter 17:

Designing and Managing Integrated Marketing Channels, pp. 493–502

Chapter 18:

Managing Retailing, Wholesaling, and Logistics, pp. 527–542

Unit Lesson

Price is defined as the amount of money that is exchanged for something of value, which is defined by the customer. This value proposition directly aligns with the amount of money that a consumer is willing to pay for the prescribed product and/or service. Prices are adjusted based upon discounts, which could include seasonal discounts, quantity discounts, cash discounts and/or simply sales discounts. Another factor that could change the price are allowances; which include trade-ins and damaged goods allowances. Prices can be set based upon a one-price policy, which suggests that prices are the same for everyone. These tend to be low-cost, frequently purchased, and convenience goods. Alternatively, prices can be set based upon a flexible price policy, which allows for prices to be set differently for different customers. These prices tend to be set by salespeople who are working directly with the customer. A good salesperson understands his or her customer enough to know how high of a price the customer will bear and will adjust the price accordingly in order to secure the business. This model is used at car dealerships within the business-to-consumer (B2C) model as well as in most purchasing situations in the business-to-business (B2B) sector.

As the marketing team looks to establish pricing policies, company-wide marketing objectives need to be analyzed. The first pricing objective might be profit-oriented, which includes the concepts below.

- Target return: This pricing policy establishes a predetermined profit level guideline. This could be a return on investment or a certain sales level. Prices are then based upon this guideline.
- Maximize profits: This pricing policy suggests that prices will be set as high as possible in order to maximize profit levels. While this seems like an ideal alternative, careful research must be conducted to understand the profit level that the customer will bear before moving on to the competitor.

Another pricing objective might be sales-oriented, which focuses on increased sales without regard to profit levels. This alternative seems to disregard any additional costs associated with obtaining the increased sales levels. Pricing policies that would be categorized under this pricing objective are detailed below.

- Dollar or unit sales growth: This pricing strategy focuses on setting prices based on increased unit sales growth.
- Growth in market share: This pricing strategy is based upon establishing growth in market share. The literature states that this particular strategy provides companies with long-term success.

The cost-oriented approach represents another pricing objective that encourages the firm to set the prices based upon costs. Two pricing policies here would include the strategies below.

- Standard markup pricing: This pricing strategy sets pricing based upon a predetermined fixed percentage that is added to the cost of the product/service.
- Cost plus pricing: This pricing strategy sets pricing based upon a predetermined dollar amount that is added to each item.

Another pricing objective is status-quo-oriented, which tends to maintain pricing levels within marketing. Pricing strategies that would qualify as status quo include the strategies below.

- Meeting competition: This pricing strategy is established simply by following the prices established by the competitors.
- Non-price competition: This pricing strategy tends to disregard any type of competitive pricing structure. The idea of this type of structure is that the marketer would establish a competitive advantage based upon non-price factors such as product/service quality, distribution channels, or supreme promotional strategies.

The competition-oriented objective is based upon the price levels of the competition at a given point in time. The three pricing strategies listed below would be included in this category.

- Customary pricing: This is when prices are entirely based upon the pricing levels of the competitors.
- Above-the-market, at-the-market, or below-the-market pricing: This is when prices are based upon a distinct philosophical belief of maintaining above-, at-, or below-the-market prices.
- Loss-leader pricing: This is when prices are set very low and, many times, at a loss to the company with the idea of attracting customers to buy other higher-priced complimentary items.

A final pricing objective is that of demand-oriented pricing objectives, which suggest that marketers are setting prices based upon expected customer tastes and preferences. These might include the strategies below.

- Skimming: This pricing strategy sets a price higher than that of competitors and then it is dropped. Apple is a prime example of a company that utilizes this strategy regularly.
- Penetration: This pricing strategy sets a price lower than that of competitors, and then it is gradually increased. Most new products utilize this strategy.
- Prestige pricing: This pricing strategy sets a price higher than that of competitors as the target market perceives the high price to mean higher quality products or a greater level of prestige with the ownership of this product/service.

In looking at each of these pricing objectives, it is easy to understand that the cost-driven objectives place a greater value on achieving certain financial goals with less consideration for the consumer's needs and value proposition. These strategies are considered very favorable to stockholders as they realize a greater return. Conversely, the status quo, competition, and demand orientation justify the pricing level based upon customer needs but fail to provide the stockholders any assurance of reaching the financial goals.

Value in use is another consumer pricing consideration. What this involves is consideration of how much the customer will save over the duration of a period of time if he or she purchases the item. An example of this might be a cell phone service company claiming savings over a period of months if the customer switches to them. Another might be a solar panel company attempting to justify the high cost of the panels with a cost analysis of the consumer's monthly energy savings. This leads up to the point at which the consumer will cover the costs of their investment with the solar panels. Theoretically, from that point on, the consumer is enjoying a monthly energy savings.

A concept used quite heavily in the business-to-business world (B2B) is that of bid pricing. This pricing model suggests that a company will bid on a project with the projected pricing to complete the project. The idea is to be awarded by the project bringing additional business to the company. Initially, one might think that the lowest bid will be the winner. While this may be the case in the majority of situations, it is not the only determinant in securing the bid. Reputation of the company, delivery terms, quality of product/service, financial terms, and a host of other criteria are included in the bidding process. When negotiating a bid, consideration must be given to all criteria that would be considered of value to the potential customer.

Moving away from the pricing area to place or distribution, the importance of understanding the distribution channel will be emphasized. The distribution channel represents the movement from the manufacturer or the creator of the product or service through various suppliers to the final consumer. This could involve a manufacturing plant, distributors, wholesalers, and retailers. The holistic process where the product/service progresses through each of these intermediaries is termed as the *distribution channel*. Through this process, the intermediary or supplier is making some level of contribution which could include re-grouping of the products through break bulking, accumulating, and/or assorting. Break bulking refers to the practice of dividing larger quantities into small quantities, whereas accumulating collects products from many small producers by grouping them together for customer convenience. Assorting and sorting adjusts assortment discrepancies by separating products into groups. This could be based upon criteria such as style, quality, product type, or a variety of other characteristics. At the end of the day, the ultimate goal is to ensure that the right product is at the right location exactly when the target market desires the product/service. Convenience for the consumer is the ultimate goal!

Conversely, some companies might prefer a direct channel that moves the product directly from the manufacturer to the consumer. Online buying would be considered a direct channel of distribution for many companies. A distinct advantage to the direct channel system is the fact that the marketer can maintain greater control on all aspects of the marketing process. This could lead to overall lower costs and, theoretically, lower prices to the consumer. The direct contact with customers also provides a distinct advantage of being able to develop a greater relationship with the customer, leading to improved customer relationship management (CRM) practices within the company. Finally, there simply might not be any suitable intermediaries available. In many cases, companies will utilize a variety of distribution channels (both direct and indirect) in order to respond to consumer needs.

Retailers constitute a familiar venue for the distribution of products to consumers. Store retailers, non-store retailers, and corporate retailers/franchisers represent categories of retailers. The store retailers are represented by specialty stores, department stores, supermarkets, convenience stores, drug stores, discount stores, off-price retailers, superstores, and catalog showrooms. Each of these are detailed in the textbook in Table 18.1 on page 530. Non-store retailing suggests that consumers will utilize alternative methods such as direct marketing/catalog buying, multi-level/home selling, automatic vending machines, or alternative-service buying. Direct marketing utilizes shopping networks such as QVC and online shopping such as Amazon. Multi-level utilizes an approach where consumers are actually selling and incentivized to sell the company's products to the consumer in the convenience of their home. Examples of this might be Avon, Pampered Chef, or Tupperware.

Vending machines use small machines dispersed everywhere to dispense and sell products. Finally, alternative-service buying provides a situation where an organization provides discounts on products in exchange for the customer becoming a member of the organization. The last category is that of corporate retail organizations or franchises. This includes corporate chain stores, voluntary chains, retailer cooperatives, consumer cooperatives, merchandising conglomerates, and franchises. These are detailed in the textbook in Table 18.2 on page 531.

Franchising has become one of the fastest growing retail venues in the United States. This model suggests that a franchisor or owner of the company will provide the franchisee with the opportunity to open up a location at a predetermined location. The franchisor provides the franchisee with the business model, processes and procedures manual, supplier contacts and discount pricing opportunities, assistance with setting up the business (including hiring of the management team and employees), and brand equity and marketing benefits. Examples of this would include Subway, Anytime Fitness, Jimmy Johns, or Buffalo Wild Wings to name a few. While this venture sounds incredibly sound, it also requires a hefty investment upfront as well as monthly royalty fees paid to the franchisor's company.

Pricing and distribution strategies play a key role in the success of a firm. Understanding the options associated with pricing and distribution will enable marketers with the ability to select the strategy that best meets the needs of the associated target market.

Reference

Kotler, P. T., & Keller, K. L. (2016). *Marketing management* (15th ed.). Upper Saddle River, NJ: Pearson.