Review of marketing analysis structure
4P’s & 5 C’s – used in every case so far

- **Customer** (customer needs, segments, consumer behavior)
- **Company Skills** (brand name, image, production capability, financial strengths, organization, etc.)
- **Competition** (actions are interrelated, market environment)
- **Collaborators** (downstream wholesalers or retailers, upstream suppliers)
- **Context** (culture, politics, regulations, social norms)
Marketing tactics – 4 P’s
Starting the 3rd P.

- **Product** (features, quality, service, support, product line etc.)
- **Promotion** (advertising, sales force, brochures, coupons, etc.)
- **Price** (list price, discount, deals, both end-user and channel)
- **Place** (channel of distribution, exclusive vs. intensive, etc.)
Session 13: Pricing (Customers, Competition, Context)

1. Economic theory (including EVIU – economic value in use)

2. Marketing affects the realized price
   - perceived value vs. perceived price
   - higher price if “own” a dimension

3. When is the price right?
   - 3Ps and 5Cs influence price and provide structure

4. Customers’ emotional response
Making competition imperfect

- Barco?
- Brita?
- SWA?
- AIBO?
- Swatch?
- BMW?
Local monopolies are better than commodity markets

- Perfect competition
  - lobsters are caught by small boats
  - sold at market price
  - why not “Prelude” lobsters?
Differentiation makes for “local monopolies”

- Imperfect competition (“local monopolies”)
  - Perdue chickens
  - Bay State Distributors
Once competition is imperfect, raising perceived value can have high leverage

- Annual demand = 100M units
- Variable costs = $196
- Current price = $200
- Current profit = $400M

- What if we could raise perceived value by 1%? 10%?
- Profit increases by ________%?

value = benefits vs. price

marketing raises perceived benefits
marketing lowers perceived price
Lens model helps us understand how to change perceived value.

- Differentiated product features
- Advertising, framing, buzz, etc.
- Perceived relative benefit
- Perceived Price
- Preferences (perceived value)
- Choice
Marketing structure helps us select tactics to increase perceived value

- **Product**
- **Promotion**
- **Place**

Perceived value

- Customers
- Competitors
- Company skills
- Collaborators
- Context

Perceived price

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Knowing when the price is right
(Dolan reading: eight steps to better pricing.)

- **Customers**: (variation in customers, emotional response, price sensitivity)
- **Competitors**: (competitive positioning)
- **Company skills**: (returns vs. costs)
- **Collaborators**: (quantity discounts)
- **Context**: (issues of fairness)

**Perceived value (lens model, own a dimension)**

**Perceived price (optimal pricing structure)**

- **Product**: (assess value)
- **Promotion**: (assess value)
- **Place**: (realized price)

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Perceived value – perceived price

- “Rational”
  - Expected value in use (EVIU)
  - Cost to customer without product minus cost to customer with product

- “Emotional”
### Expect Value in Use (EVIU)

<table>
<thead>
<tr>
<th></th>
<th>Current Solution</th>
<th>CMI Pile-driving Pads</th>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hours to drive 55’</td>
<td>75 hours</td>
<td>60 hours</td>
<td>15 hours</td>
</tr>
<tr>
<td>Set-up time</td>
<td>16 2/3 hours</td>
<td>6 minutes</td>
<td>16 2/3 hours</td>
</tr>
<tr>
<td>Weight</td>
<td>40 pounds</td>
<td>15 pounds</td>
<td></td>
</tr>
<tr>
<td>Handling temp</td>
<td>700 degrees</td>
<td>250 degrees</td>
<td></td>
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<tr>
<td>Recycling</td>
<td>Asbestos</td>
<td>Curled metal</td>
<td></td>
</tr>
<tr>
<td>Price</td>
<td>$80/set</td>
<td>???</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>= 31 2/3 hours</td>
</tr>
<tr>
<td>Net @ $200/hour</td>
<td></td>
<td></td>
<td>EVIU = $6,334</td>
</tr>
<tr>
<td>Product Cost</td>
<td></td>
<td>$150</td>
<td></td>
</tr>
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</table>
Perceived customer value
Michelin Tires

Because so much is riding on your tires.
Variation in customers (Dolan)

- Ford and the River Rouge Plant
  - 2,000 acres, 120,000 employees, 53,000 machine tools, 90 miles of track, 27 miles of conveyors
  - power plant, glass plant, cement plant, paint, rubber, etc.
  - Model A

- General Motors
  - Alfred P. Sloan
  - Buck Weaver
Assess price sensitivity (Dolan)

- Laptop bags (conjoint analysis)
- Exec Ed (conjoint analysis)
- Spreadsheets, microprocessors, and operating systems
Assess price sensitivity

VOC gives insight on uses among a variety of customers.

(Image of Pulmonary Products Price List from the Puritan-Bennett Corporation.)
Emotional response (Dolan)

- Coca-Cola
  - at Sloan
  - at the Bayside Expo
  - at an exclusive bar
  - on a really hot day

- Price discrimination
Coca-Cola has quietly begun testing a vending machine that can automatically raise prices for its drinks in hot weather. The process appears to be done simply through a temperature sensor and a computer chip. The potential was heralded by the company’s chairman and chief executive officer in an interview with a Brazilian magazine.

“the desire for a cold drink can increase during a sports championship final held in the summer heat. So, it is fair that is should be more expensive. The machine will simply make this process automatic.”

quoted from the New York Times

October 28, 1999
It’s not often you get good news instead of a bill, but we’ve got some for you. If you’ve heard all those rumors about your basic cable rate going up $10 or more a month, you can relax: it’s not going to happen! The great news is the rate for basic cable in increasing only $2 a month.
Blackberries

100 lbs

?? lbs

99% water

(Images by MIT OCW.)

98% water

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Blackberries

100 lbs

1% blackberry solids

?? lbs

2% blackberry solids

(Images by MIT OCW.)

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Paying by cash or by credit card....

A

• $1.50 per gallon
• 10¢ a gallon surcharge for using a credit card

B

• $1.60 per gallon
• 10¢ a gallon discount for using cash.

(Images by MIT OCW.)
Emotional response – recommendations

- Framing (luxury boxes)
  - raise reference price

- Fairness (Red Sox tickets)
  - long-term relationship
  - avoid transaction disutility

- Patriots Season Tickets
  - pass along
  - but hefty fee
Emotional response – price causes value?
Emotional response – compromise effects

<table>
<thead>
<tr>
<th>Fuel Type</th>
<th>Octane</th>
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<tbody>
<tr>
<td>Regular</td>
<td>87</td>
</tr>
<tr>
<td>Mid-grade</td>
<td>89</td>
</tr>
<tr>
<td>Super</td>
<td>93</td>
</tr>
</tbody>
</table>

\[(2/3)\text{Regular} + (1/3)\text{Super} = 89 \text{ Octane at 167}\text{^8?}\]
Context – some laws

- Sherman Act – agreements between competitors to distort the natural forces of competition are illegal. Fix prices, allocate markets, need only try. Can advertise MSRP, but not coerce.

- Clayton Act – can not use monopoly power to manipulate price or restrain competition.

- Robinson-Patman Act – Precludes price discrimination to lesson competition. However, can meet competitor, cost-justified, quantity discounts if not unique to a retailer.

- Rule of reason (Sylvania case) – can limit retailers, restrict territories, etc. if the net is more interbrand competition.
Dolan’s other issues were covered previously or will be covered in the channels (place) session

- realized price
  - returns, damage, repair (e.g., Swatch)
  - pitchers and filters (e.g., Brita)

- optimal pricing structure
  - quantity discounts (see channels’ reading)
  - bundling (e.g., MasterCard)

- strategic accounts
  - “fire” your customer if necessary (e.g., Calyx)
Summary: consumer behavior and pricing

- Lens model indicates how to affect perceived value and price
- Framing the decision
- Issues of fairness
Summary – Marketing theory shows how to get maximal prices.

- Differentiation leads to imperfect competition
- Consumer behavior theory changes value equation
- 3Ps and 5Cs influence perceived value and perceived price
- Market research tools can set the right price
  - Conjoint analysis
  - Voice of the customer analyses
  - Expected value in use (EVIU)
### Competitive response – playing the competitive game

<table>
<thead>
<tr>
<th>You vs. them</th>
<th>0%</th>
<th>5%</th>
<th>10%</th>
<th>15%</th>
<th>20%</th>
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</thead>
<tbody>
<tr>
<td>0%</td>
<td>20</td>
<td>12</td>
<td>3</td>
<td>-6</td>
<td>-15</td>
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<tr>
<td>5%</td>
<td>27</td>
<td>18</td>
<td>10</td>
<td>1</td>
<td>-8</td>
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<tr>
<td>10%</td>
<td>29</td>
<td>21</td>
<td>12</td>
<td>3</td>
<td>-6</td>
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<tr>
<td>15%</td>
<td>26</td>
<td>18</td>
<td>9</td>
<td>0</td>
<td>-9</td>
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<tr>
<td>20%</td>
<td>15</td>
<td>7</td>
<td>-2</td>
<td>-10</td>
<td>-19</td>
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