

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.

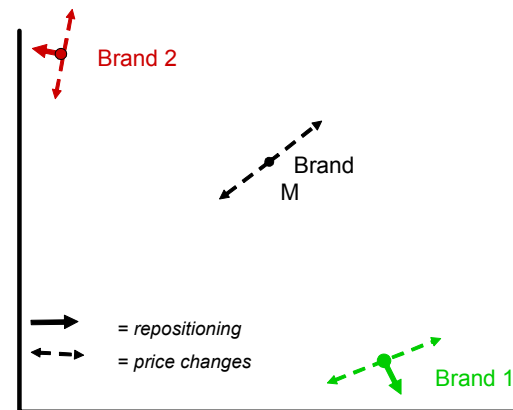
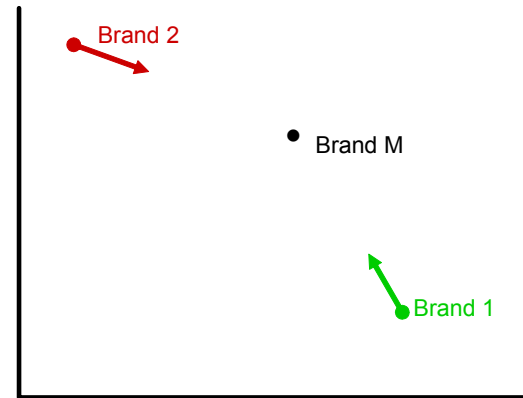
- **Product** (features, quality, service, support, product line etc.)
- **Promotion** (advertising, sales force, brochures, coupons, etc.)
- **Price** (list price, discount, deals, both end-user and channel)
- **Place** (channel of distribution, exclusive vs. intensive, etc.)

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

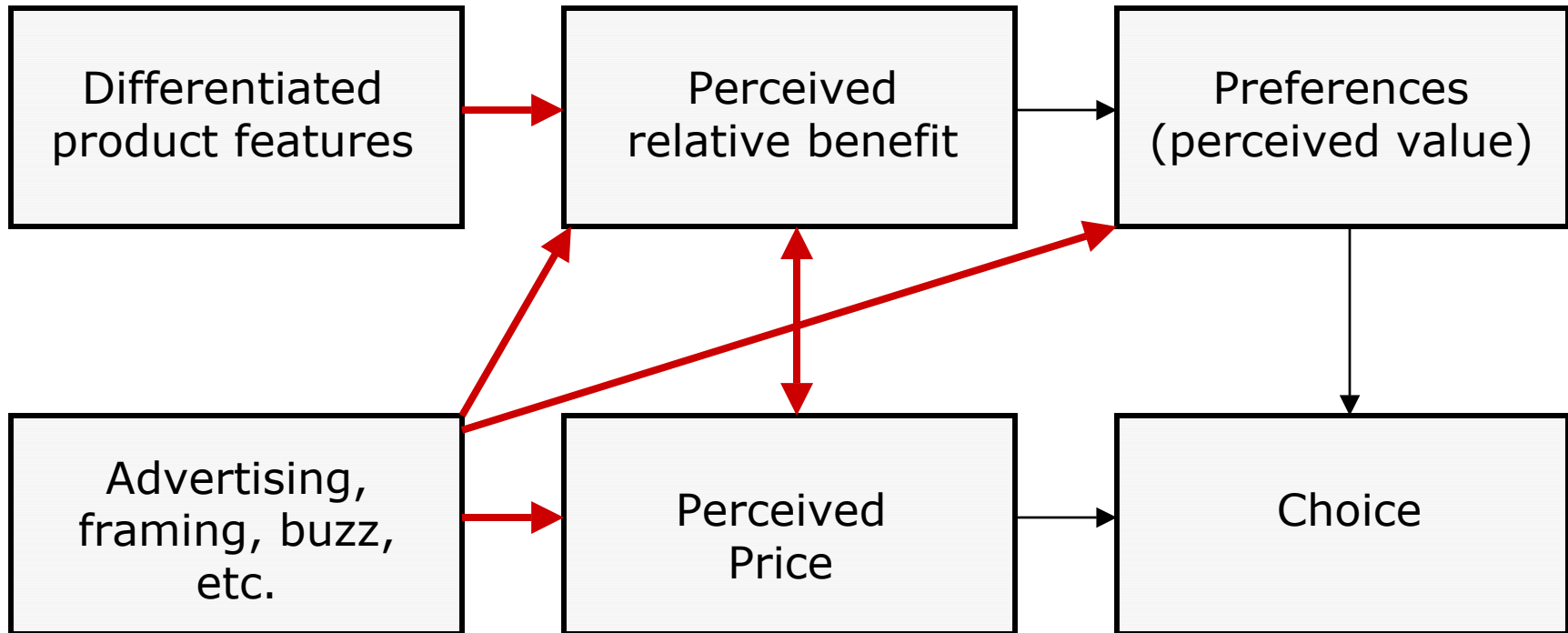
- Annual demand = 100M units
- Variable costs = \$196
- Current price = \$200
- Current profit = \$400M

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

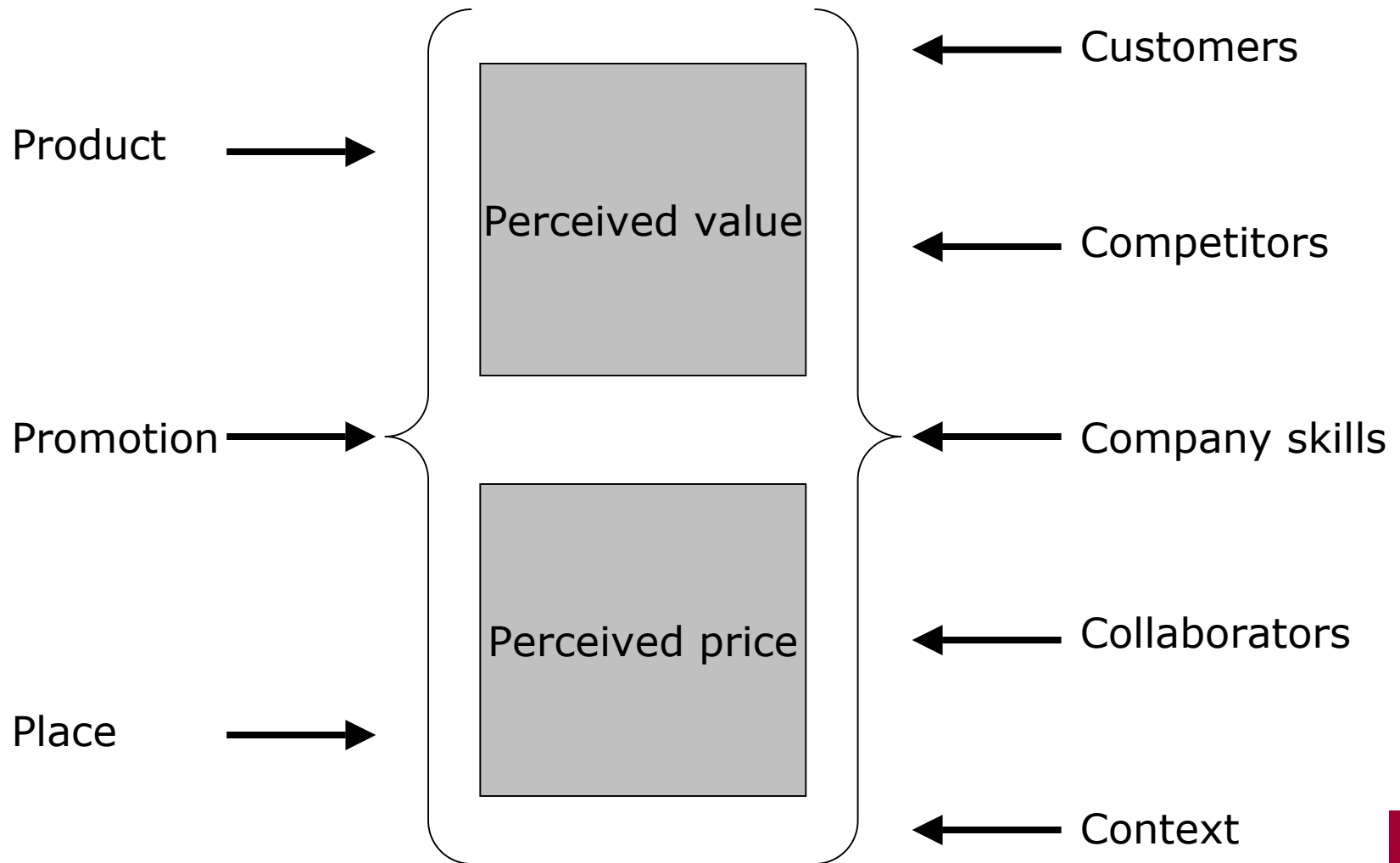
value = benefits vs. price

marketing raises perceived benefits
marketing lowers perceived price

Lens model helps us understand how to change perceived value.

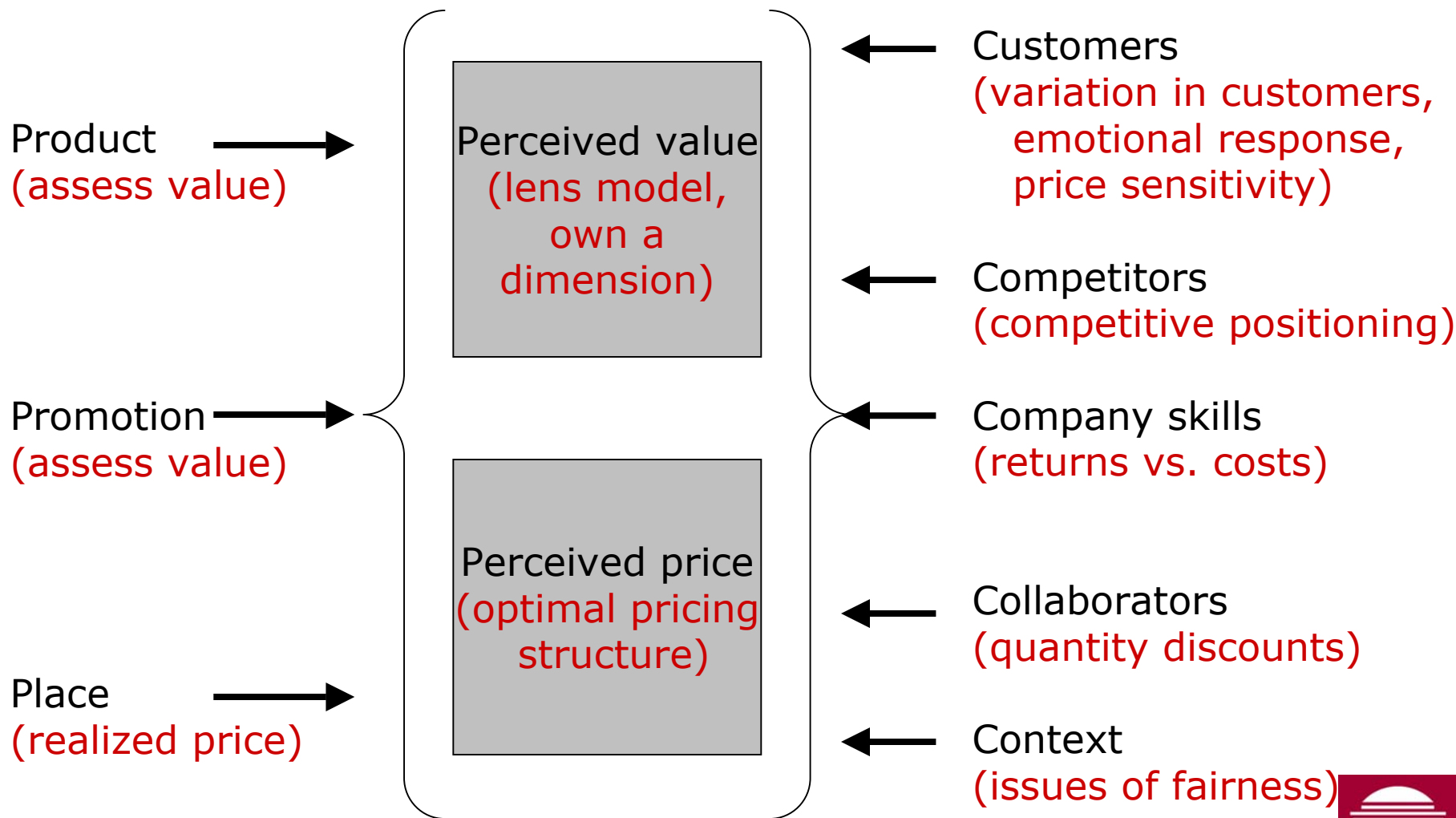


Marketing structure helps us select tactics to increase perceived value



Knowing when the price is right

(Dolan reading: eight steps to better pricing.)



Perceived value – perceived price

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

- “Emotional”

Cumberland Metals Incorporated

Expect Value in Use (EVIU)

	Current Solution	CMI Pile-driving Pads	Savings
Hours to drive 55'	75 hours	60 hours	15 hours
Set-up time	16 2/3 hours	6 minutes	16 2/3 hours
Weight	40 pounds	15 pounds	
Handling temp	700 degrees	250 degrees	
Recycling	Asbestos	Curled metal	
Price	\$80/set	???	
			= 31 2/3 hours
Net @ \$200/hour		EVIU =	\$6,334
Product Cost			\$150

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

Emotional response

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 it should be more expensive. The machine will simply make this process automatic.”

quoted from the *New York Times*

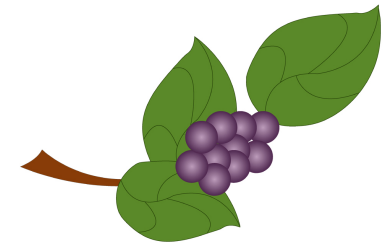
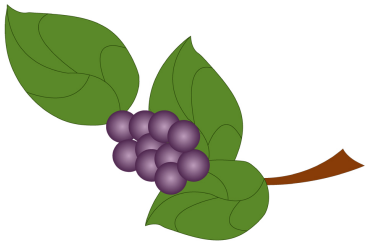
October 28, 1999

Storer Cable Communications (Louisville, Kentucky)

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 is increasing only \$2 a month.

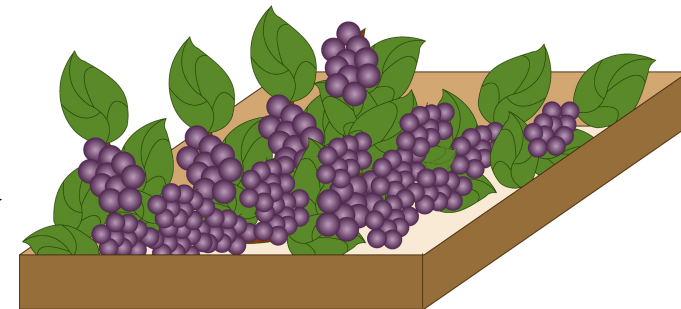
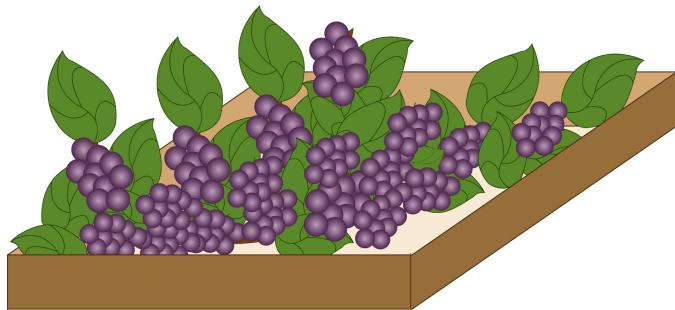
– Russo and Shoemaker – Framing Example

Blackberries



100 lbs

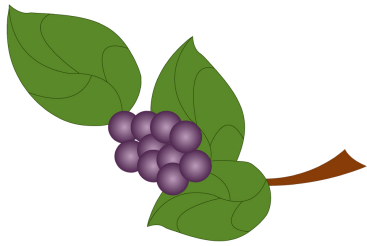
?? lbs



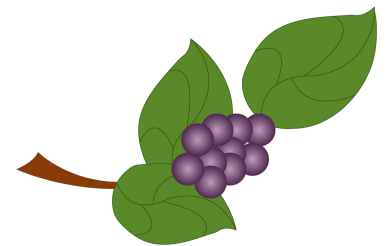
99% water

(Images by MIT OCW.)

98% water

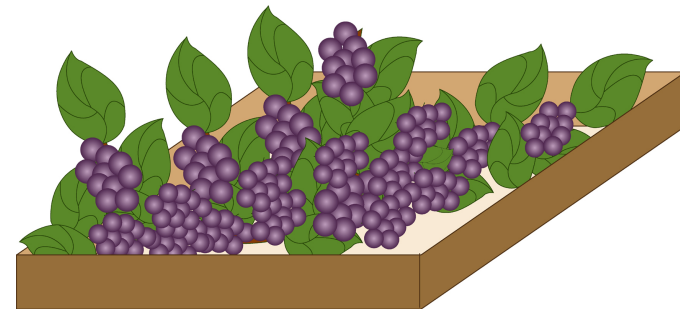
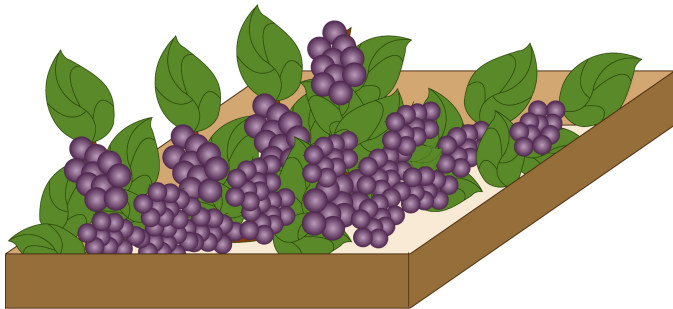


Blackberries



100 lbs

?? lbs



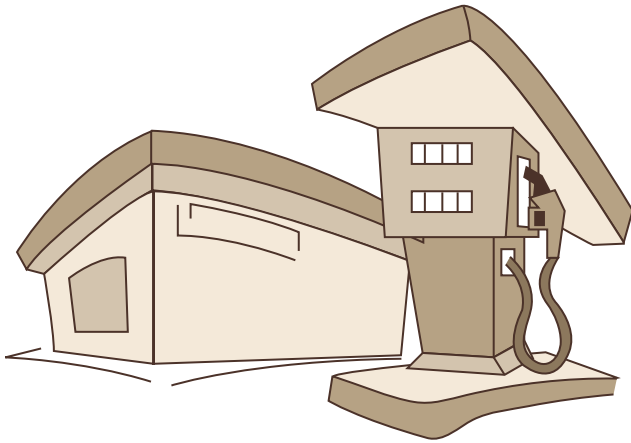
(Images by MIT OCW.)

1% blackberry solids

2% blackberry solids

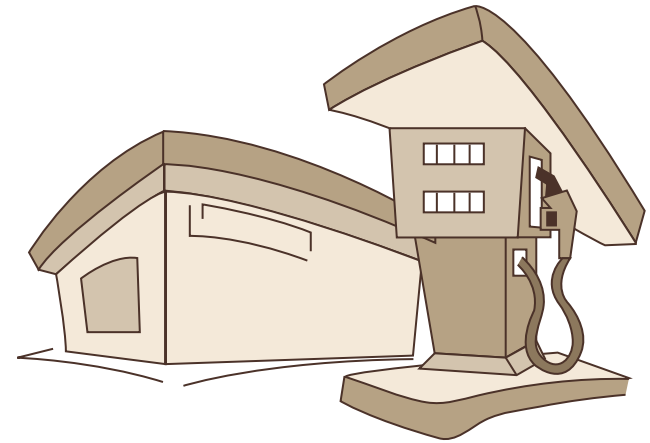
Paying by cash or by credit card....

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

Regular

159⁹

Mid-grade

175⁹

Super

183⁹

Octane

87

Octane

89

Octane

93

$(2/3)\text{Regular} + (1/3)\text{Super} = 89 \text{ Octane at } 167^8?$

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 lessen 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

You vs. them	0%	5%	10%	15%	20%
0%	20	12	3	-6	-15
5%	27	18	10	1	-8
10%	29	21	12	3	-6
15%	26	18	9	0	-9
20%	15	7	-2	-10	-19