Pricing Strategies and Tactics

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Pricing Strategies and Tactics

**Consumer Price Perception**

**Internal Factors**

The first internal factor that affects consumer price perception is product differentiation and the cost of the product. Natural Energy is made using natural ingredients and thus is more expensive than non-natural alternatives. This means that consumers will expect Natural Energy to be more expensive than the competitors. A second internal factor is the objective of Natural Energy trying to penetrate a new market in the West. This means that it is appealing to sell drinks at a discount to help penetrate the new market, however, this would be a mistake because it would hinder future growth. The third internal factor is that the sales team would like to extend the price promotion for another two months because it obtained a 20% sales increase.

**External Factors**

The first external factor is demand, which there is plenty of as Natural Energy is a successful brand that already has a strong foothold in the Northeast region. The second external factor is competition, which many customers expect Natural Energy to be more expensive since the ingredients are more expensive. This also means that when Natural Energy is cheaper it is a pleasant surprise and makes the customer think that the competitors may be overpriced. A third external factor is suppliers, which at the moment are suffering from a natural disaster, this means that price raises are expected but if they can be avoided it would be greatly appreciated since there is backlash to competitors raising their prices too much.

**Pricing Strategy**

The price strategy I recommend is customer-driven pricing. This would be the most effective pricing strategy because it means that Natural Energy will be priced at its true value instead of what customers are willing to pay. In the Northeast, the product is already priced a bit too low compared to the true value of Natural Energy considering that the net profitability is a little low compared to competitors. Then in the West, we want the product to be priced at a point where the value of Natural Energy should be to secure long-term profitability of the product.

**New Retail Price**

The new retail price for the Northeast region should be $3.00 per can. This is because anything under $2.99 is considered too cheap based on the survey results and it is still under the too expensive amount of $3.25. This number will raise the profitability of the product in the Northeast region while being unlikely to reduce sales since consumers in the region already perceived the drink to cost $2.99 versus the current price of $2.75. This price better reflects the product's true value because it is now more expensive than Dynamo and Dragon Juice, which it should be since Natural Energy uses more expensive ingredients. It is also still below the price of Blue Danube because Natural Energy does not have the same pricing power as Blue Danube due to it being the market leader by a large margin.

The new retail price for the West region should be $3.99. This is because the West region is willing to pay quite a bit more for energy drinks than the Northeast region. It also prices the product at a spot that is around the same as the competition since Dynamo is at $3.75 and Dragon Juice is at $4.25. It is still at the true value of the product since it is priced at a higher amount per oz than those two but is still lower than Blue Danube since Natural Energy does not have the same pricing power as them. The price is also well below the amount of $5.75 which was determined to be the upper end of the range for what customers are willing to pay for Natural Energy.

**Price Discount**

The price discount cannot be extended as it will not be good for the long-term profitability of Natural Energy. While the 20% increase in sales and 5% increase in share by volume looks good on paper it does not consider the hit in profitability it causes. Natural Energy is only profiting $0.13 per can, which means that the company was losing money on each sale with the promotion of a 20% discount. The goal of the sales and marketing team should be to convince the customers the product is worth its price. Allowing this discount to continue may help short-term sales numbers but would hurt them when the company inevitably needs to return to the non-discounted rate. We don’t want consumers to become accustomed to the discounted price and then be shocked when prices are raised again. If the discount is successful, then Natural Energy should keep some of those increased sales because after trying the product new customers should realize that the product is worth the price.

**Natural Disaster Situation**

Natural Energy should keep prices the same even though the natural disaster opens the opportunity to temporarily raise prices due to scarcity. This is because of the backlash on social media that consumers are expressing due to feeling they are being taken advantage of. Natural Energy can use this as an opportunity to essentially have a discount compared to competitors, while also showing consumers that Natural Energy is ethical. Keeping prices the same while competitors raise their prices can increase the market share that Natural Energy has without having to re-increase the price. This means that you get the benefits of having a discount without the downfall of a discount which is the inevitable decrease in sales after the discount ends.

The second reason Natural Energy should not increase the price due to a natural disaster is that it could be viewed by consumers as the company taking advantage of other people’s suffering. It is considered unethical to raise the price of a product (even a non-necessity) unless the price increase is due to an increase in cost (Nagle and Müller, 2018). The scenario does not state that Natural Energy has any actual increase in costs due to the supply chain disruptions, therefore a price increase would be unethical.

The third reason Natural Energy should not increase prices is because the consumer would likely assume that the cost has increased for Natural Energy due to the shortages. However, since they did not increase, the company would be taking advantage of scarcity. It is considered unethical for them to raise prices without disclosing that to consumers (Nagle and Müller, 2018). If Natural Energy was to disclose that costs did not increase but were simply raising prices to take advantage of the scarcity of the supply chain, then it would make the company look bad in the public eye. This negative publicity would likely lead to a long-term reduction in sales.

References

Nagle, T. T., & Müller, G. (2018). Chapter 12: Ethics and the Law—Understanding the Constraints on Pricing. In *The Strategy and Tactics of Pricing: A Guide to Growing More Profitably* (6th ed.). essay, Taylor and Francis.