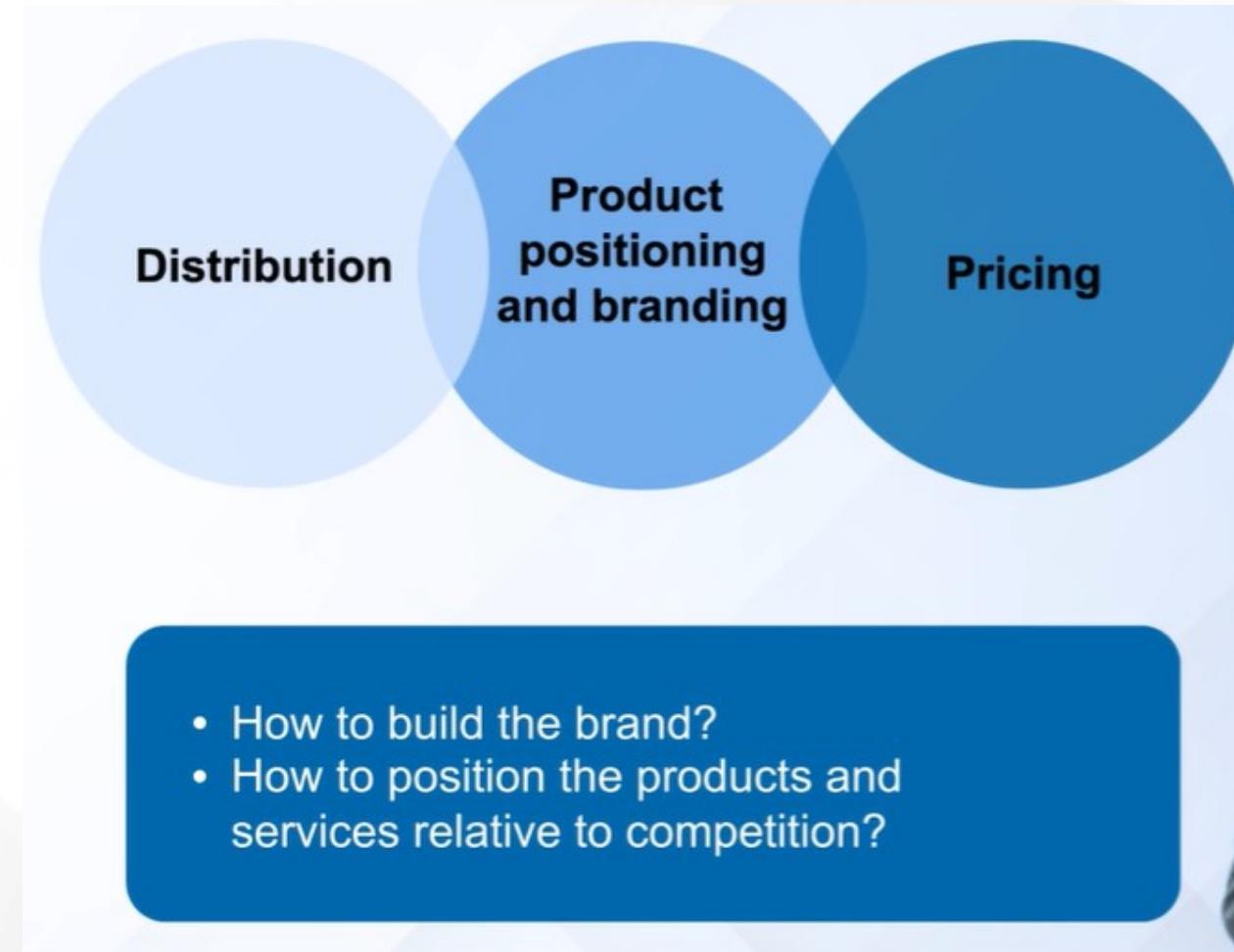




PM: Product Management and Development Pricing and Distribution Strategies

Pricing and Distribution Strategies

Previous Module Overview



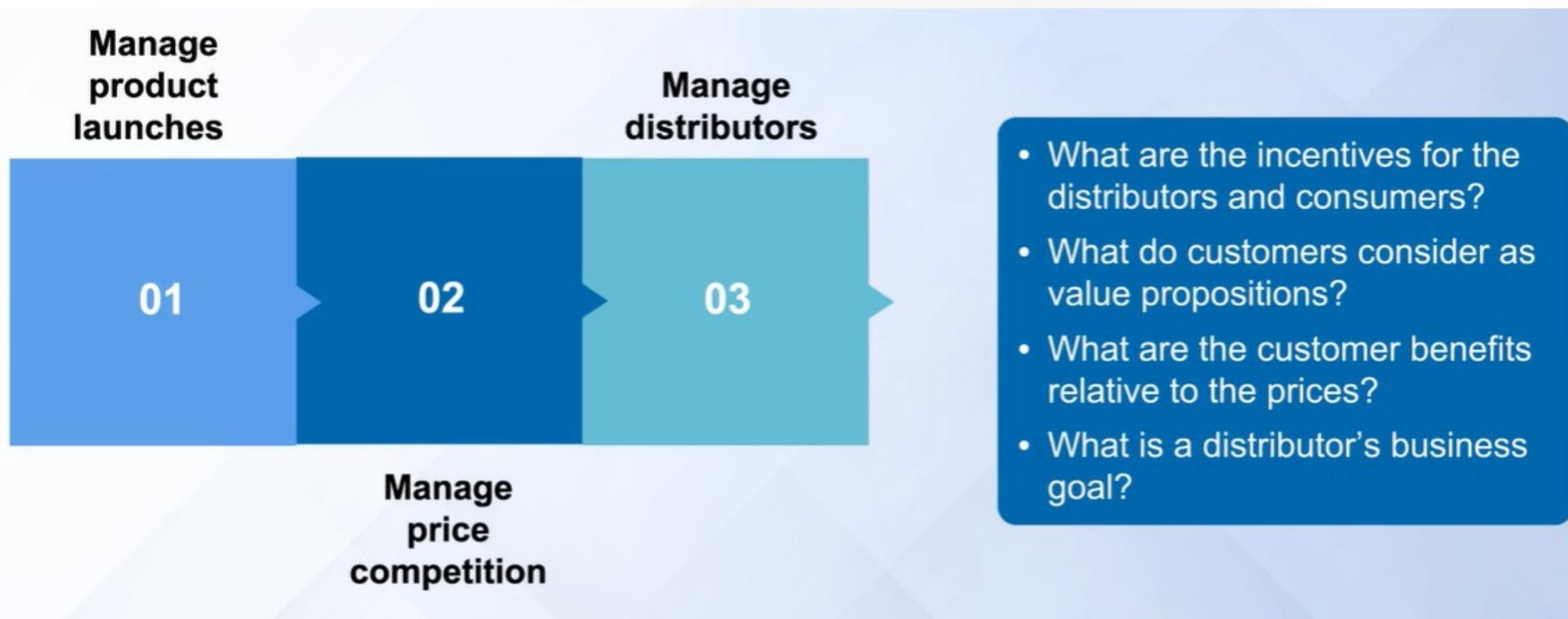
Pricing and Distribution Strategies



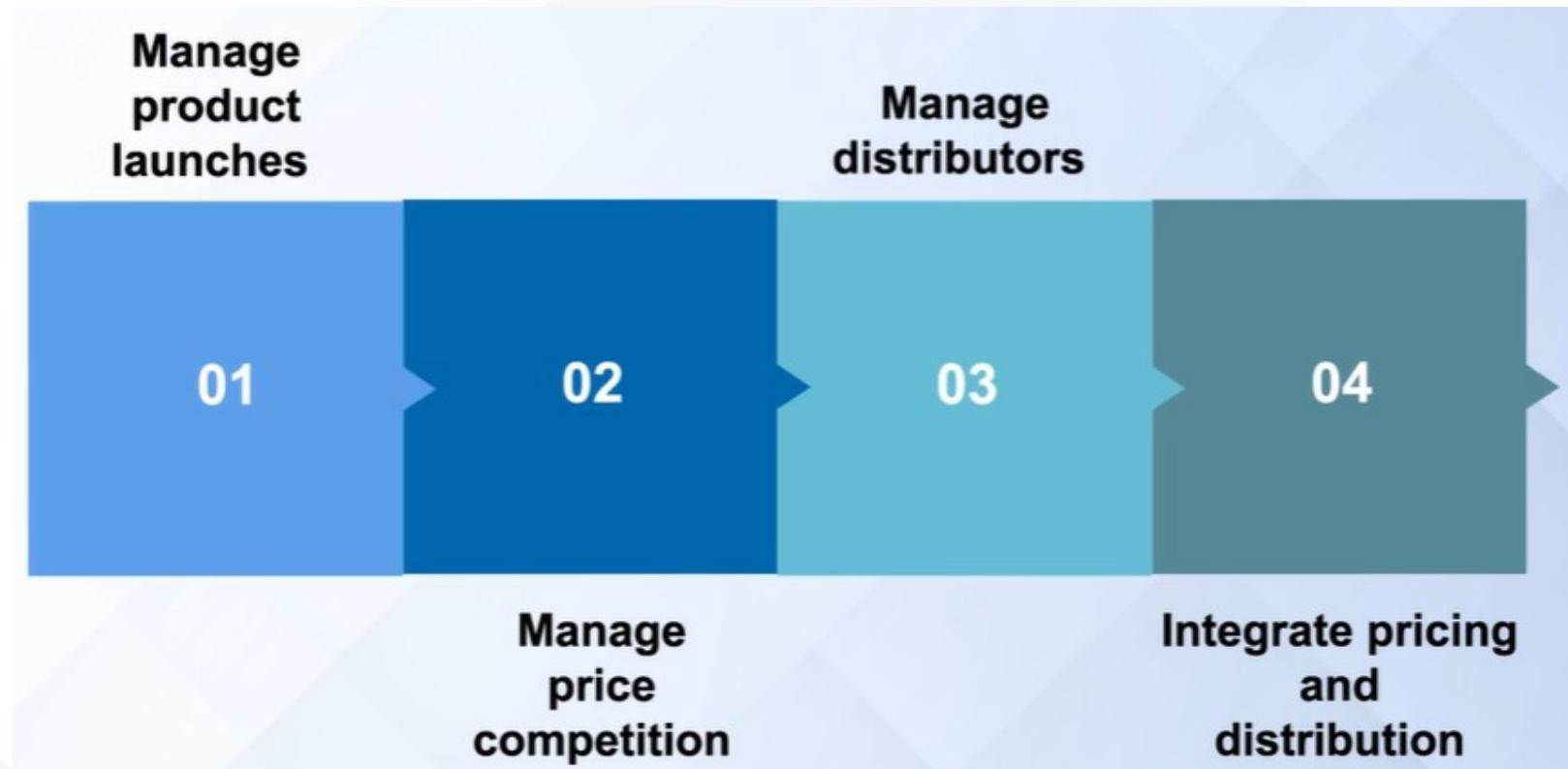
The image features a hand holding a large, textured sack filled with gold coins. To the right of the hand is a glowing green globe. Behind the globe is a stack of several brown cardboard shipping boxes. In the background, a white commercial airplane is flying across a clear blue sky. The entire scene is set against a light blue gradient background.

- How are the pricing and distribution strategies intertwined?
- How are these strategies linked to customer engagement and branding perspectives?
- How do both these strategies lead to profitability, growth and resilience?

Learning Objectives



Learning Objectives



Agenda



Managing Product Launch

Four Ps of Marketing



Fours As of Value to Customers



Translation of 4Ps into 4As



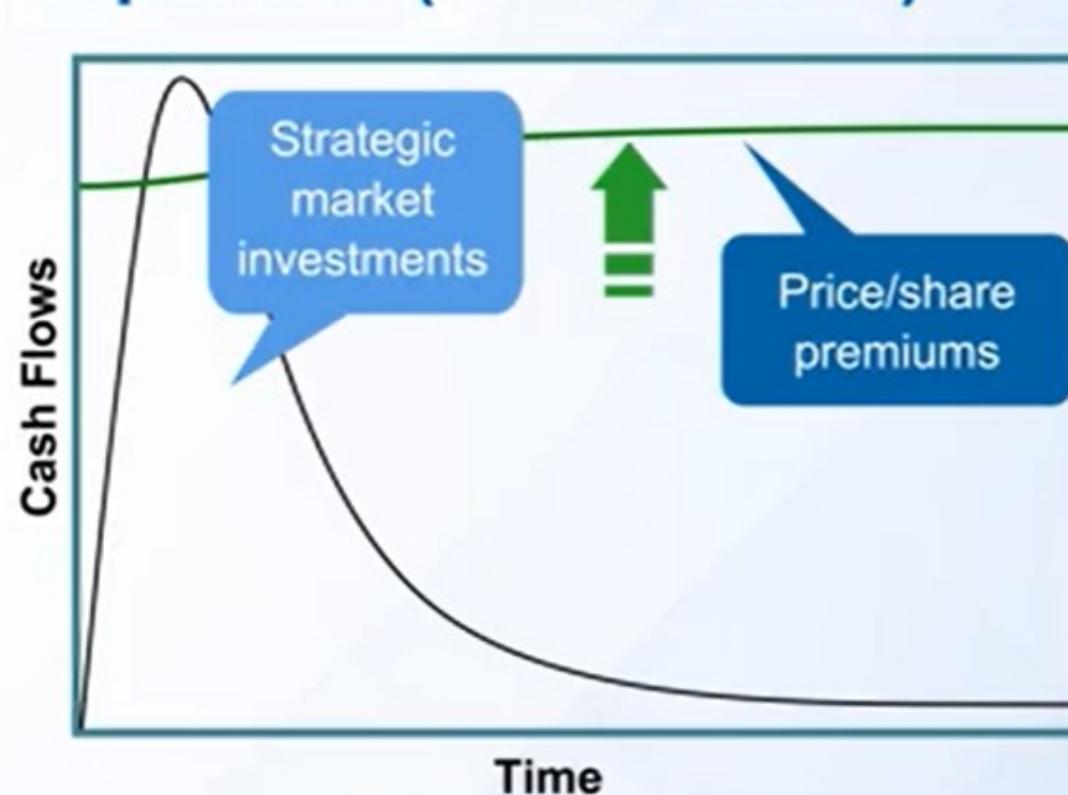
Product Launch



Launching of a product is very expensive

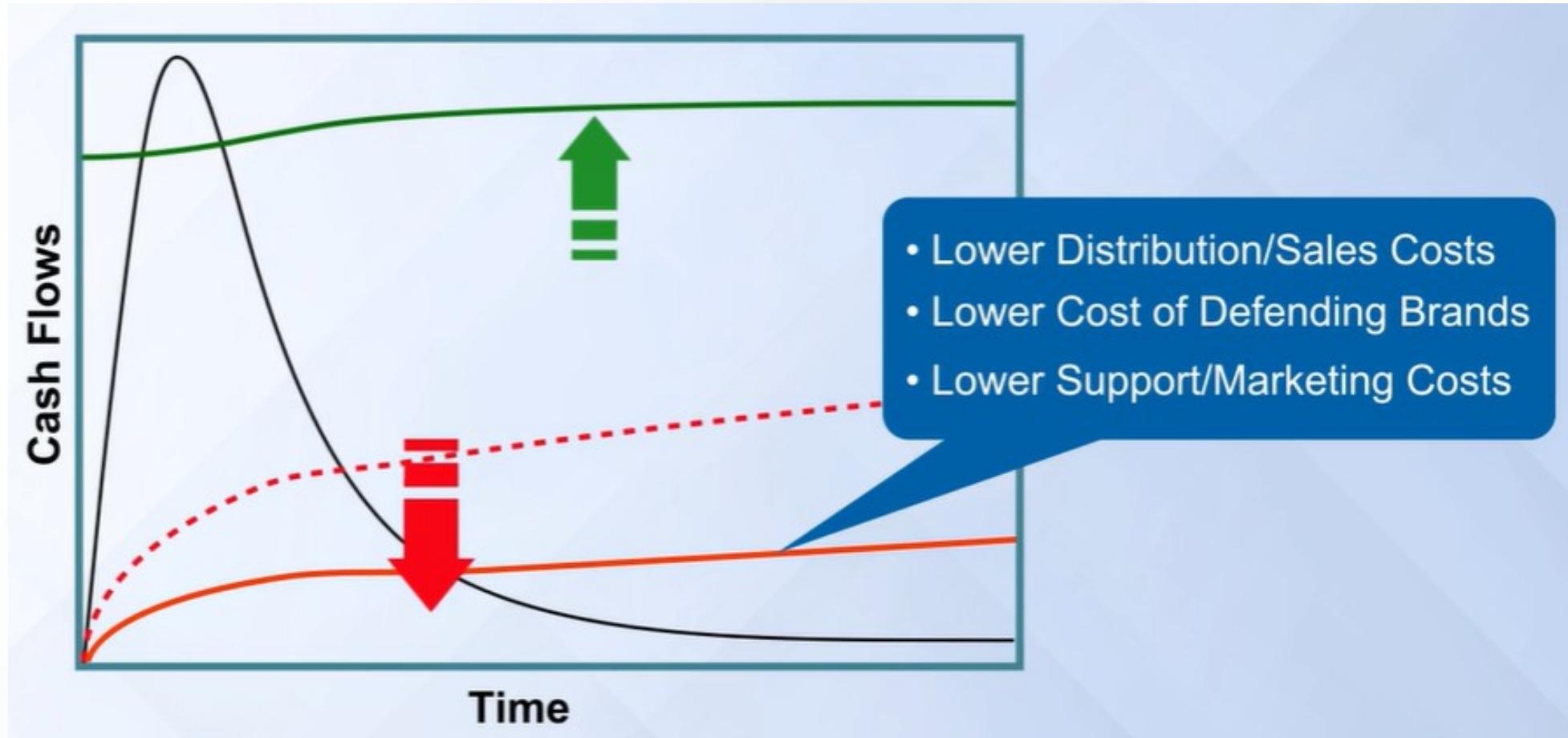
- Get into the market
- Capture market share from competitors
- Get into customers' minds
- Convince customers that the product is beneficial to them
- Sell the value proposition

Value of Strategic Product and Market Development Expenses (Investments)

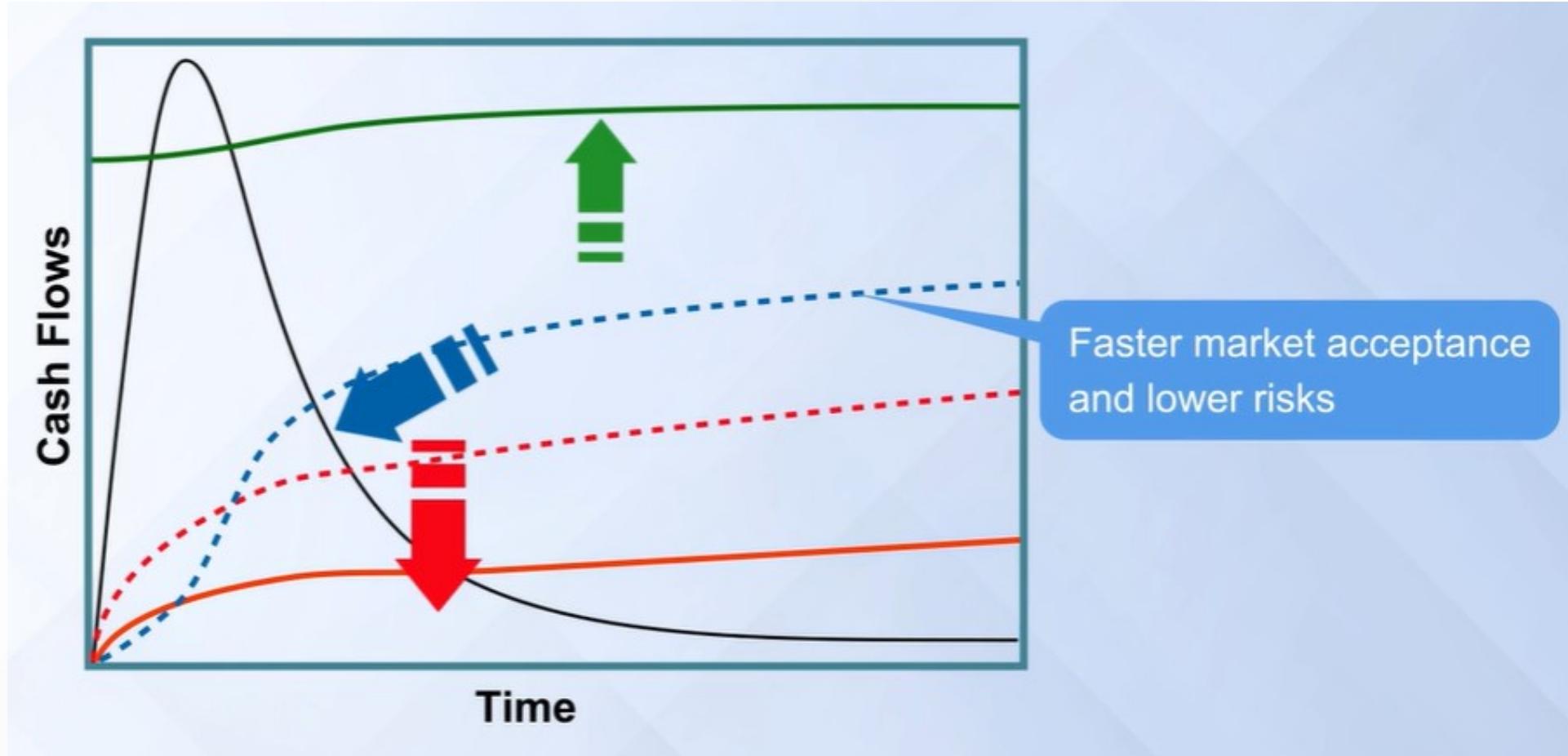


Invest money, time and energy in the product launch only if you get volume and margins.

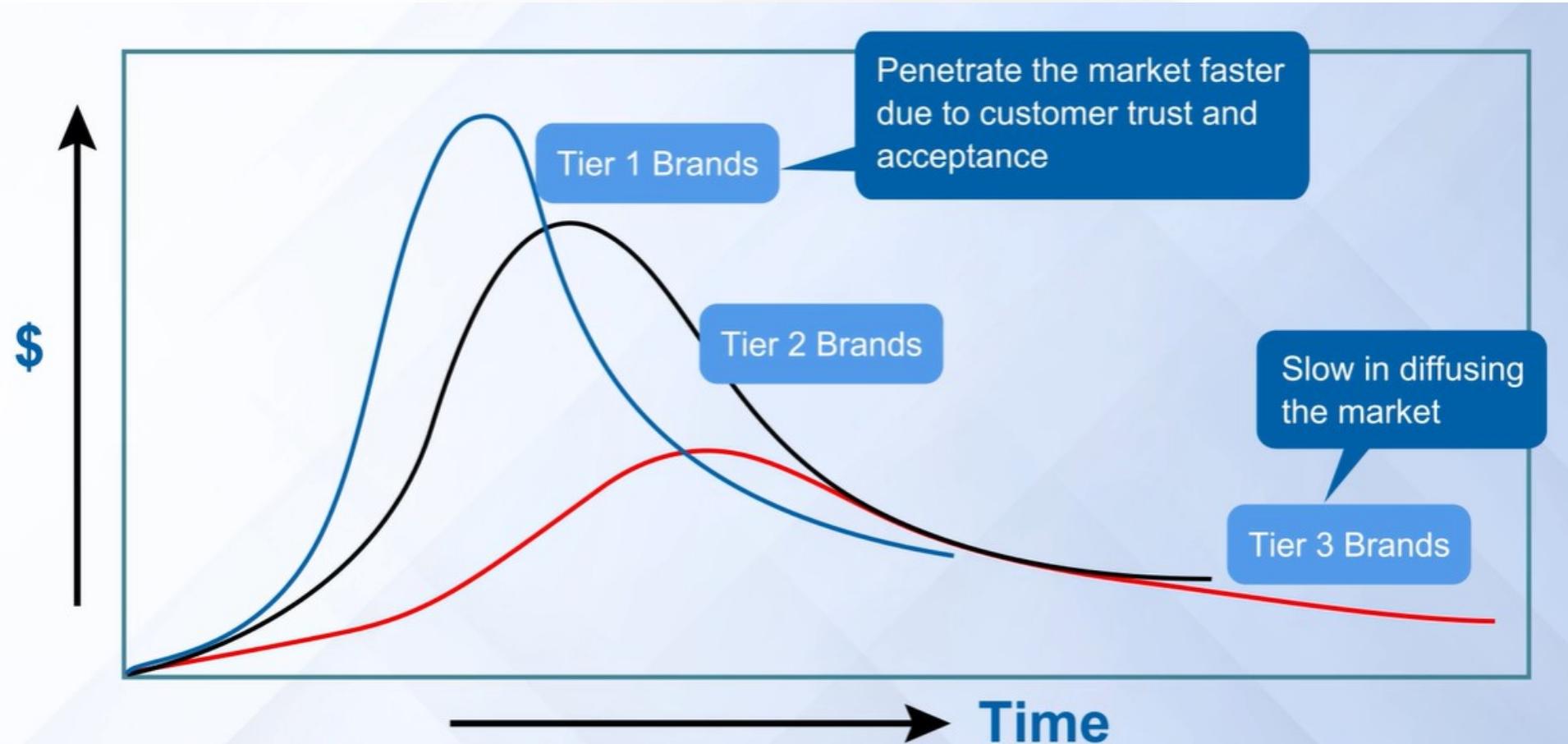
Value of Strategic Product and Market Development Expenses (Investments)



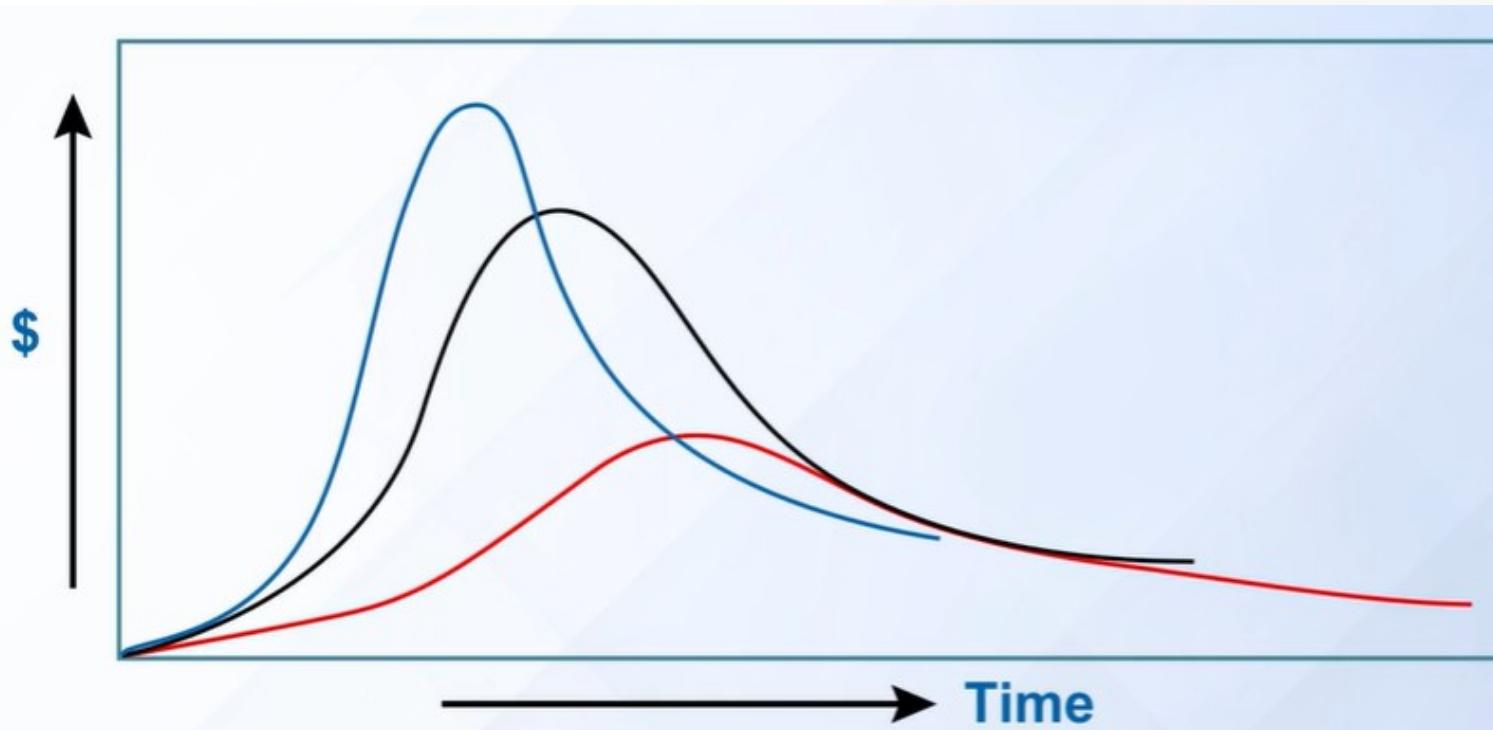
Value of Strategic Product and Market Development Expenses (Investments)



Managing and Tracking Product Launch

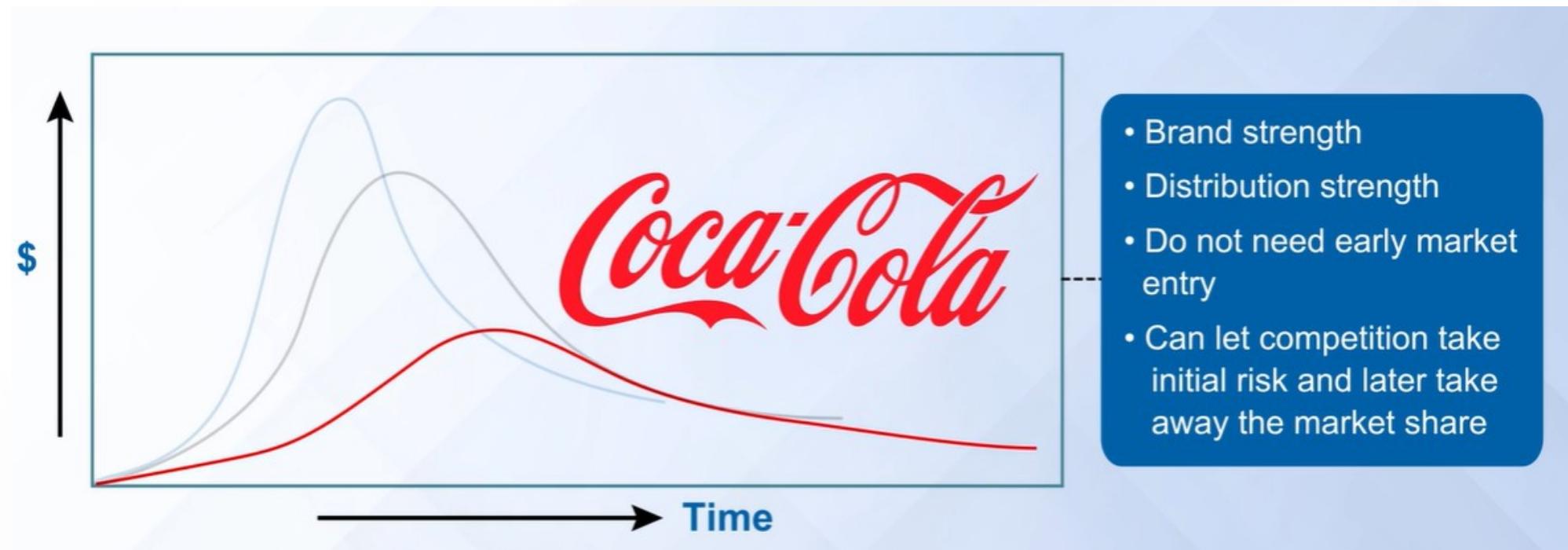


Strategic Brand Options

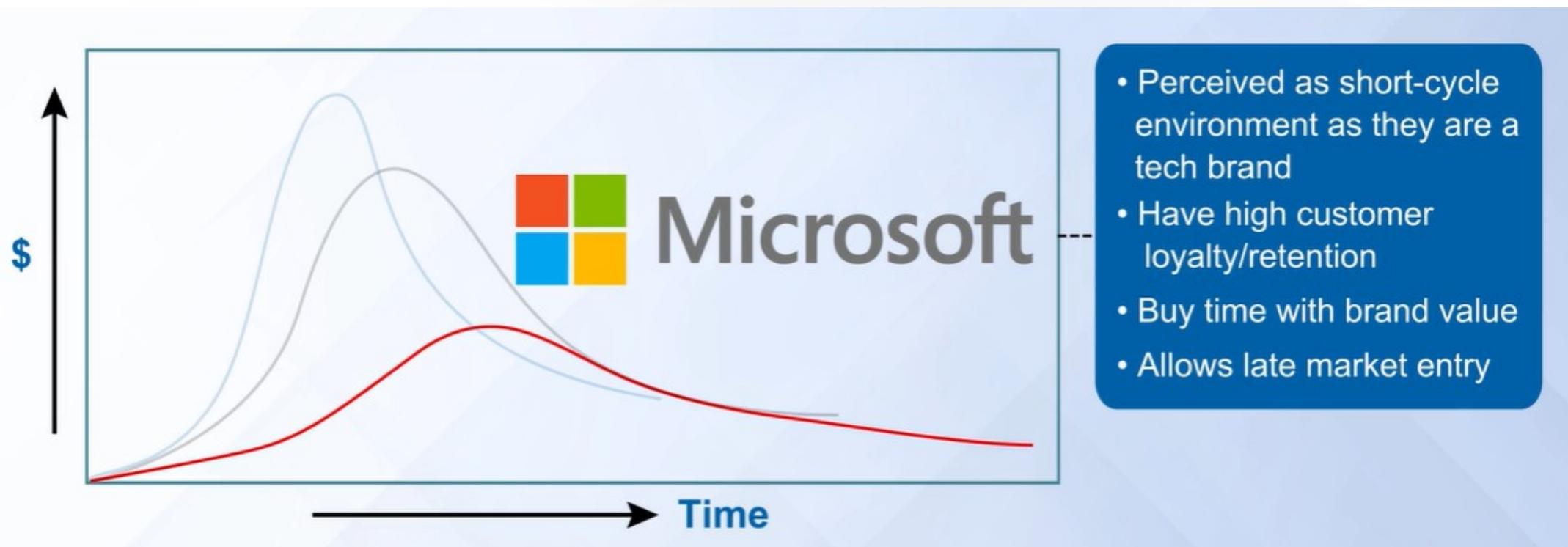


- How should you leverage brand “time premiums”?
- Enter later, then accelerate (lower risk)
 - Accelerate adoption early in cycle

Brands That Exercise Time Premium



Brands That Exercise Time Premium



Accelerate Market Penetration or Delay Market Entry?



- Got started in cloud computing
- Is still the market leader

- Coming in behind Amazon Web Services
- Picking up market share

Brand/customer trust is a growth platform

Customer Acquisition and Retention

Customer Retention



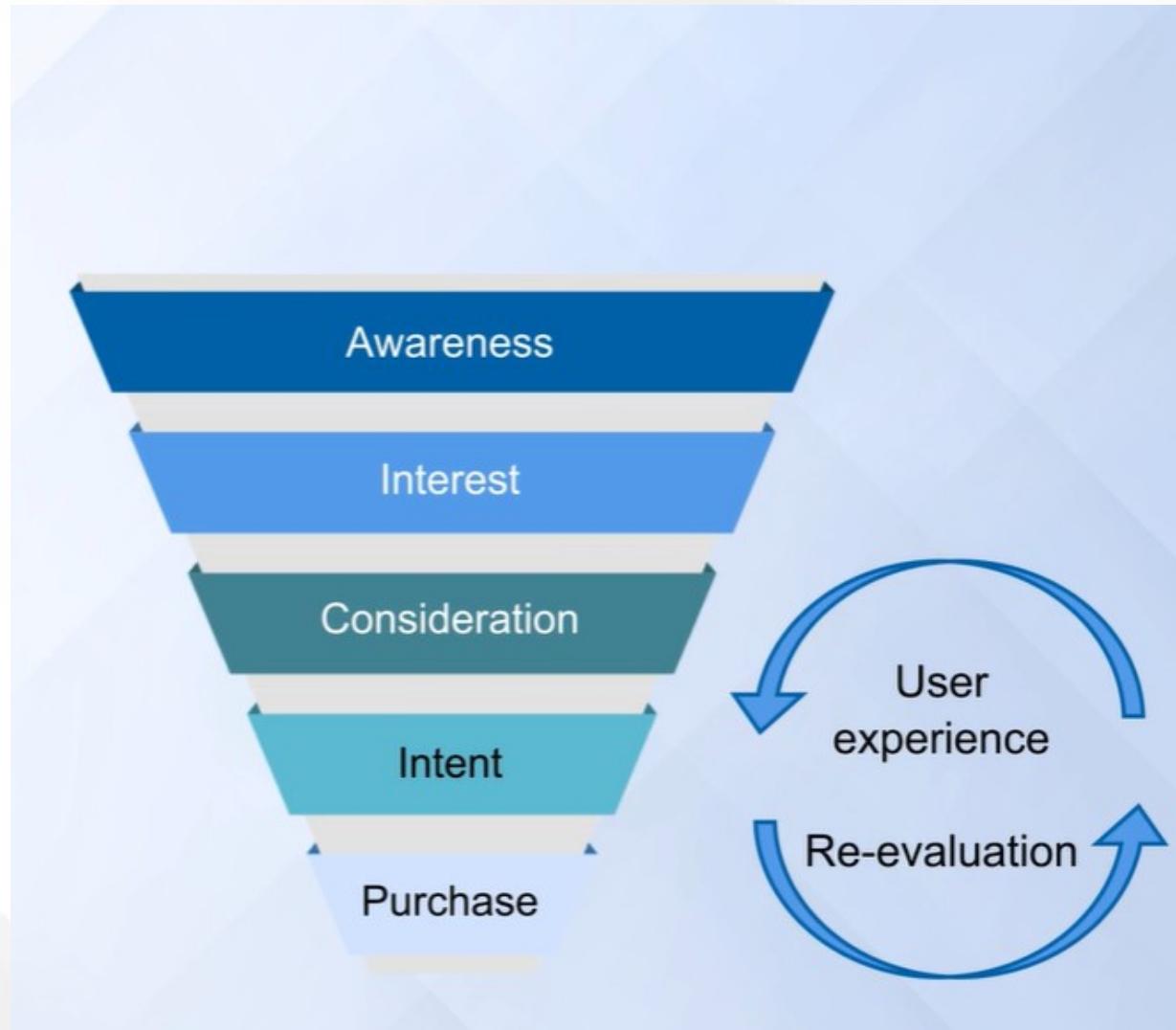
- Customer retention is critical in the long run.
- Retention is cost effective.
- Acquired customers need to be protected from the competition.

The Sales Funnel

This sales funnel cycle is considered in both consumer and business-to-business sales.



The Sales Funnel

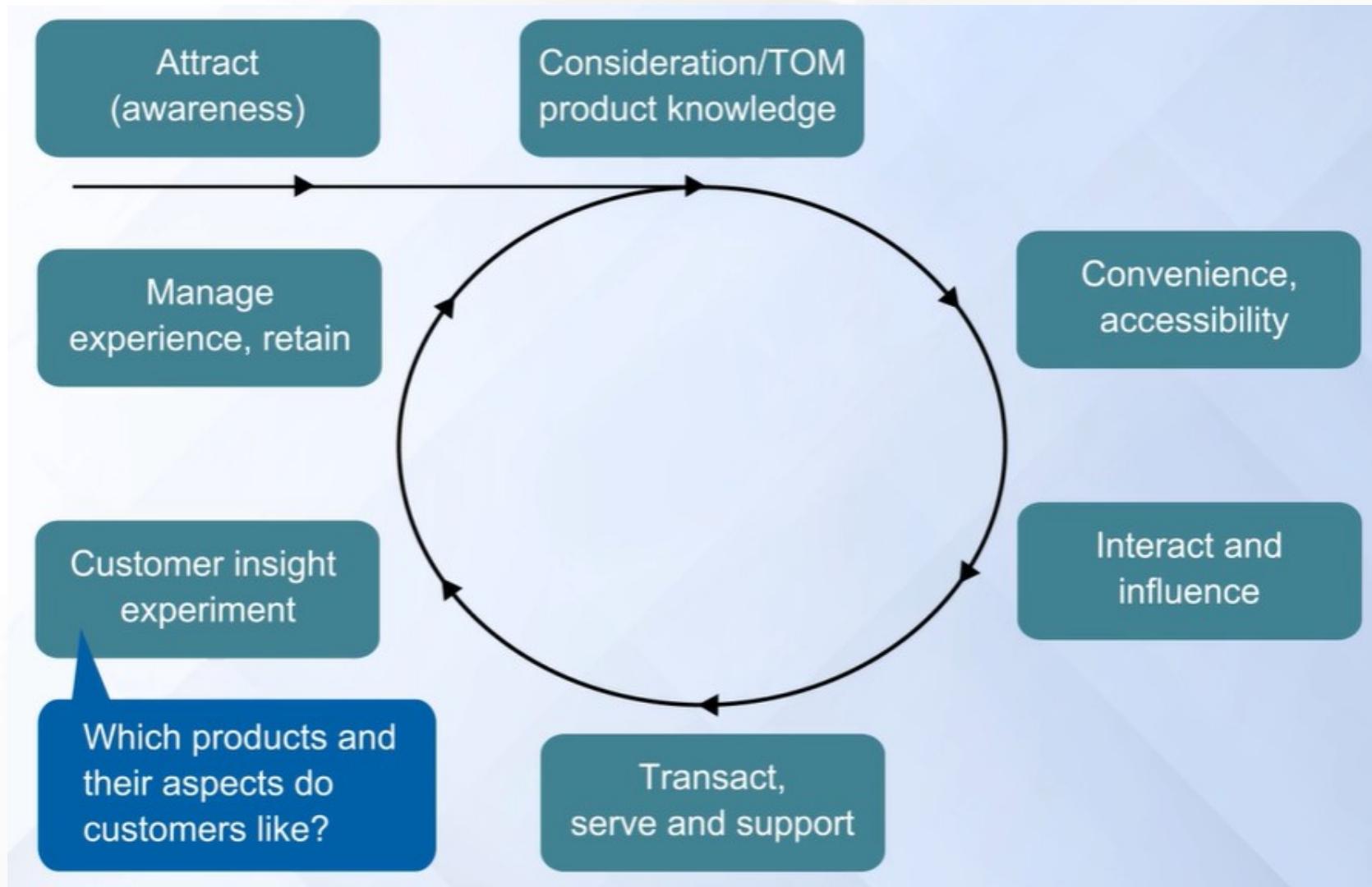


Customer Acquisition vs Retention



- Acquisition strategies are complicated because there is a fight to acquire customers.
- Retention strategies are simple because the customer is known.

Customer Management Strategies

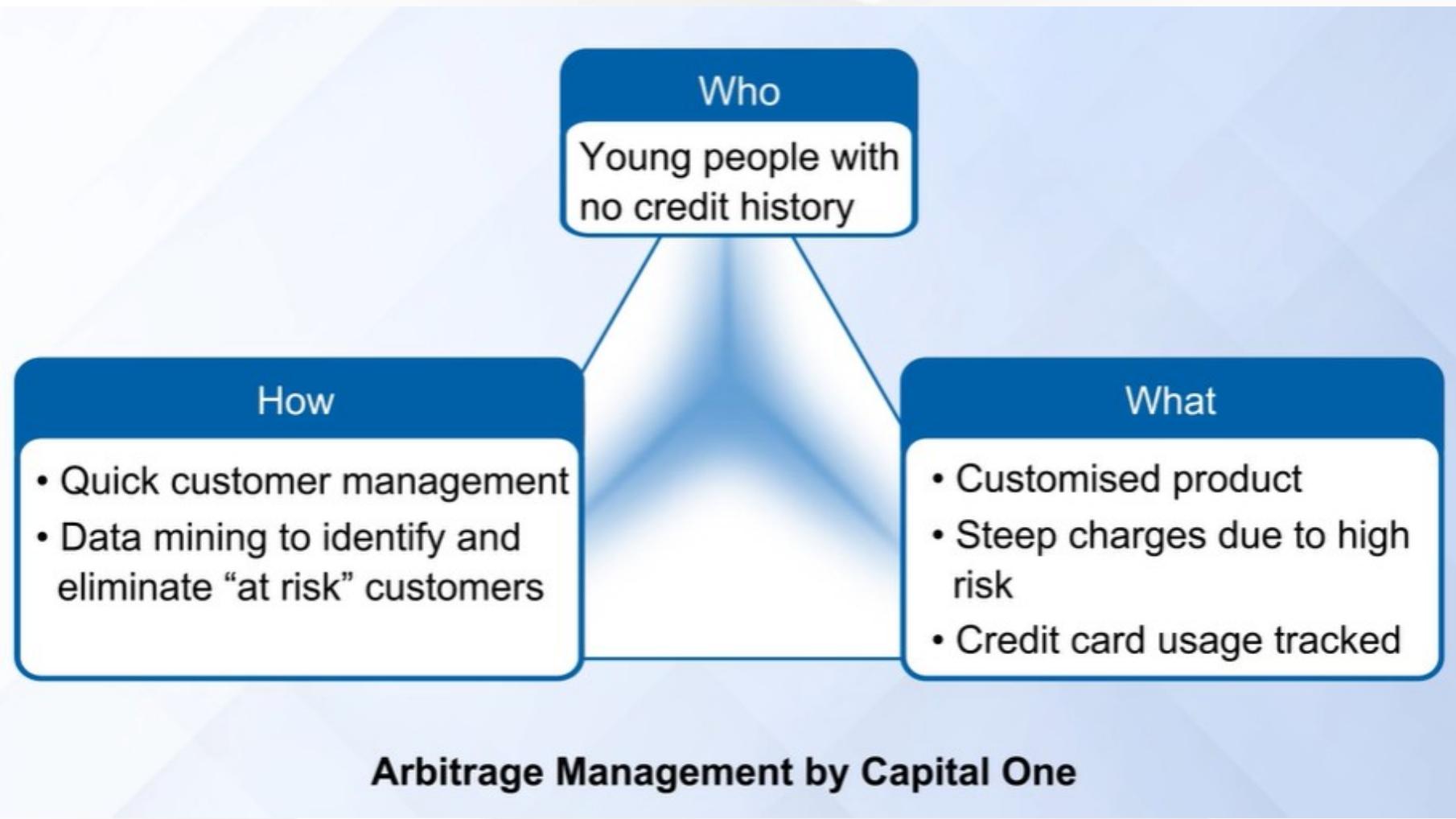


Customer Management Strategies: Capital One Example

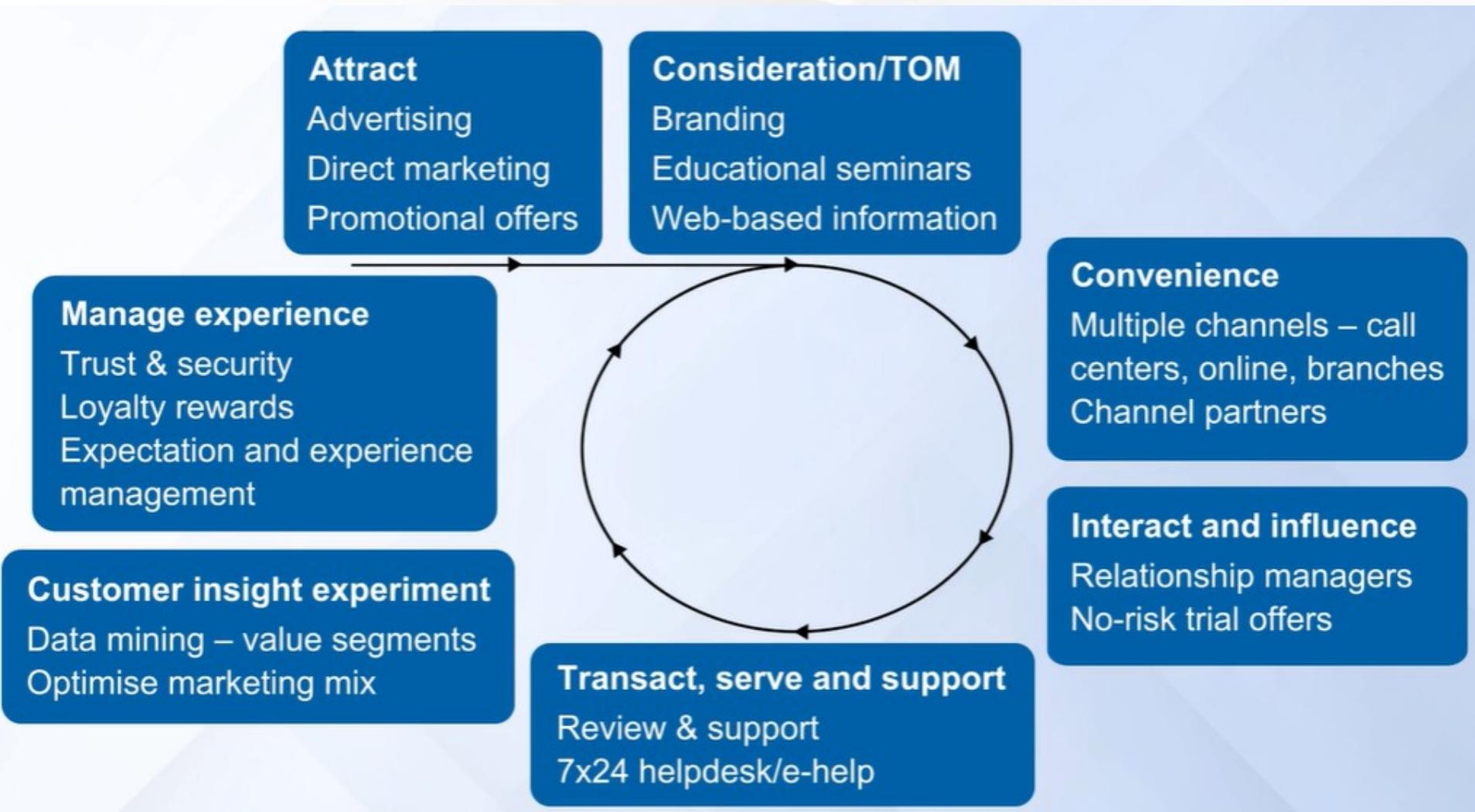


- Capital One started offering credit cards in 1990s and soon became the third largest credit card provider in the world.
- They offered credit cards to young customers who had no credit history and hence no access to credit cards.

Customer Management Strategies: Capital One Example

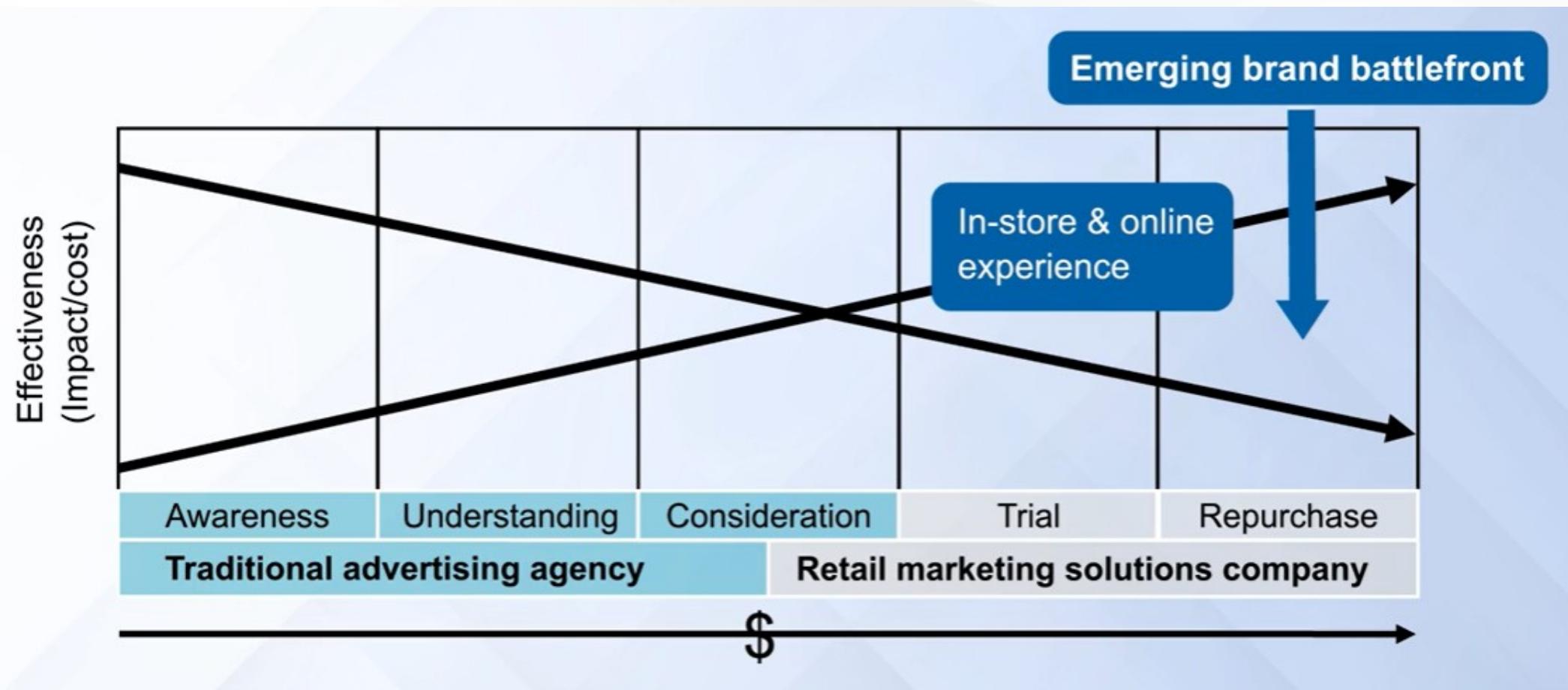


Customer Management Strategies: Capital One Example

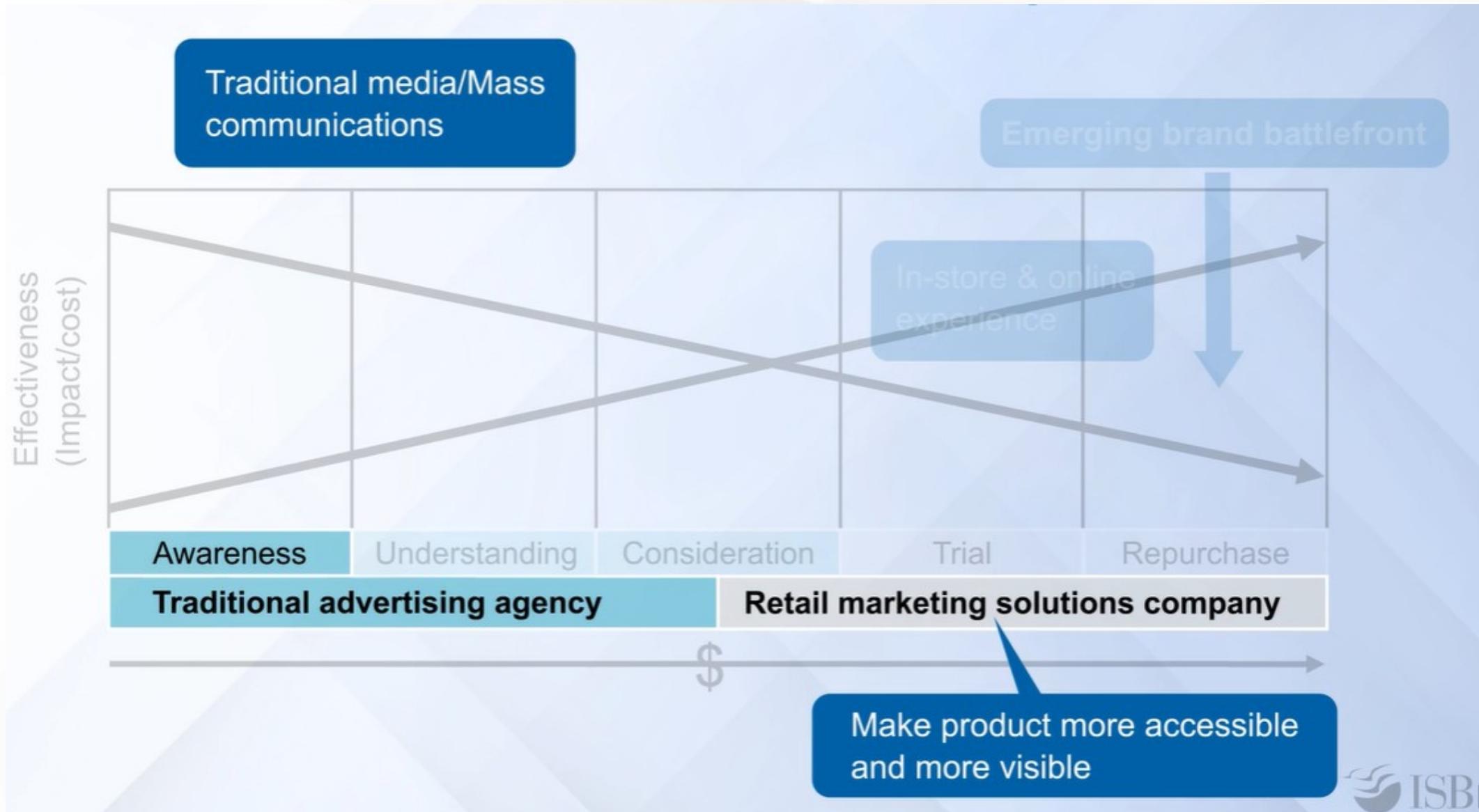


Market Access: Value for Distributors

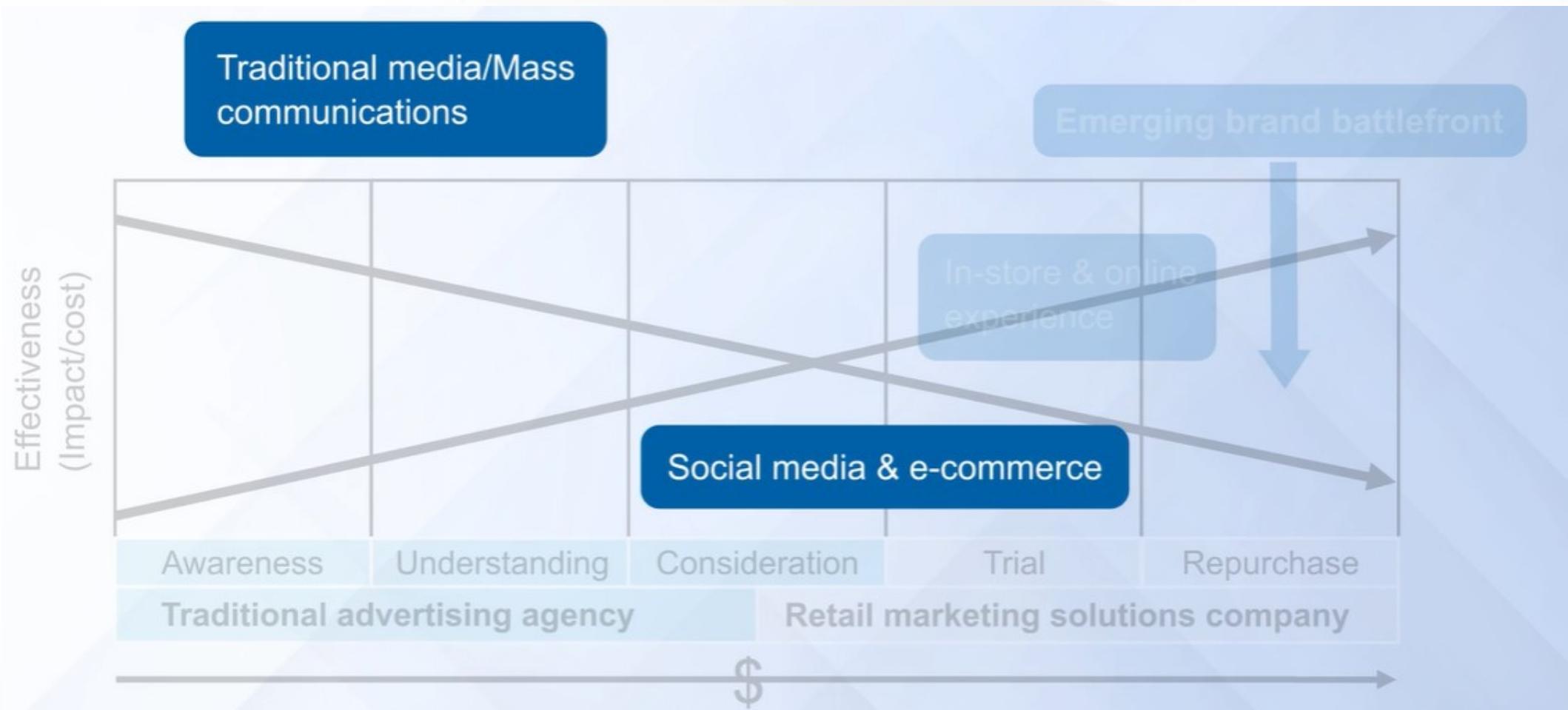
Mass Media and Point-of-Purchase Competition



Mass Media and Point-of-Purchase Competition



Mass Media and Point-of-Purchase Competition

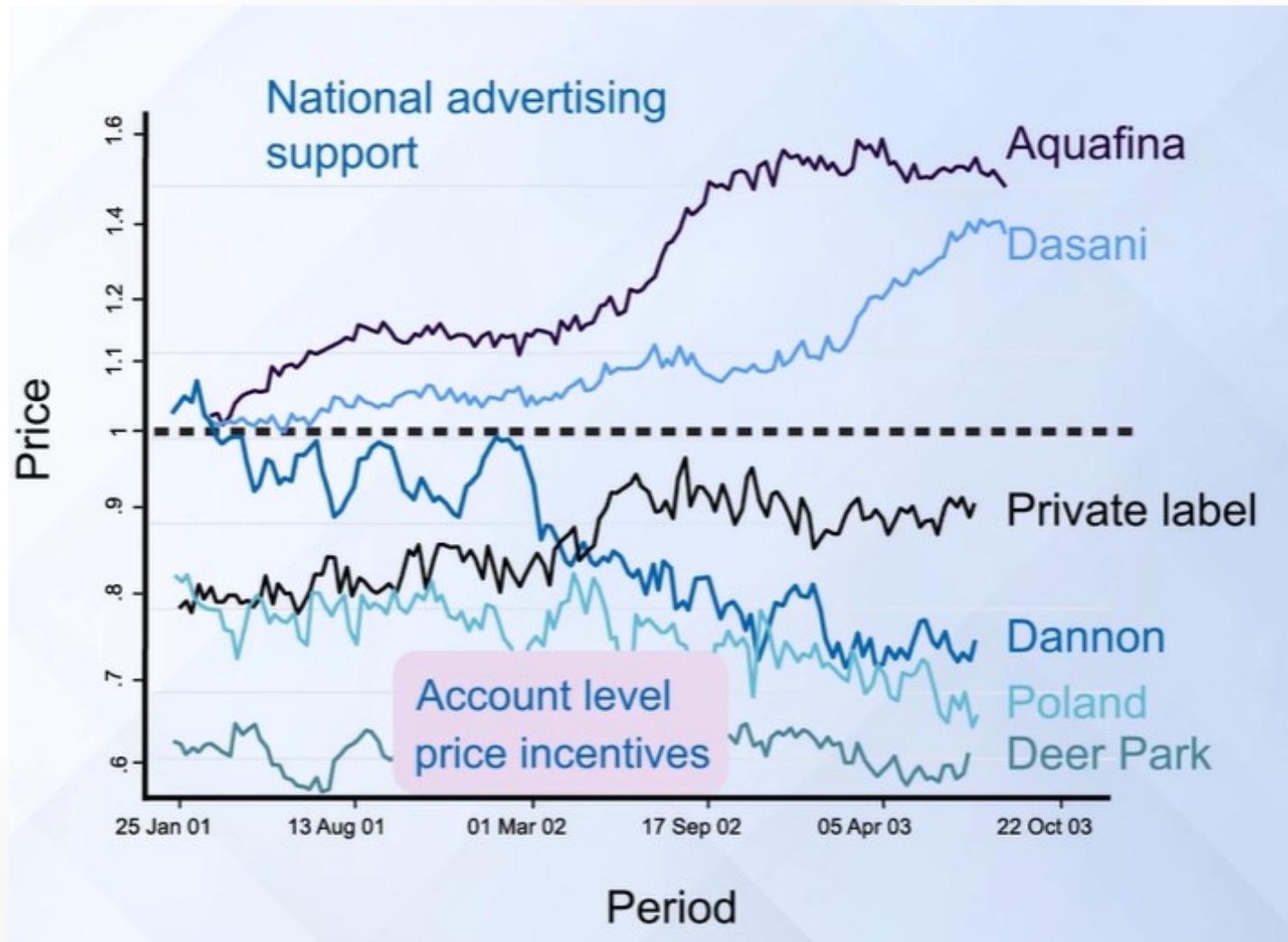


The Advent of Online Business

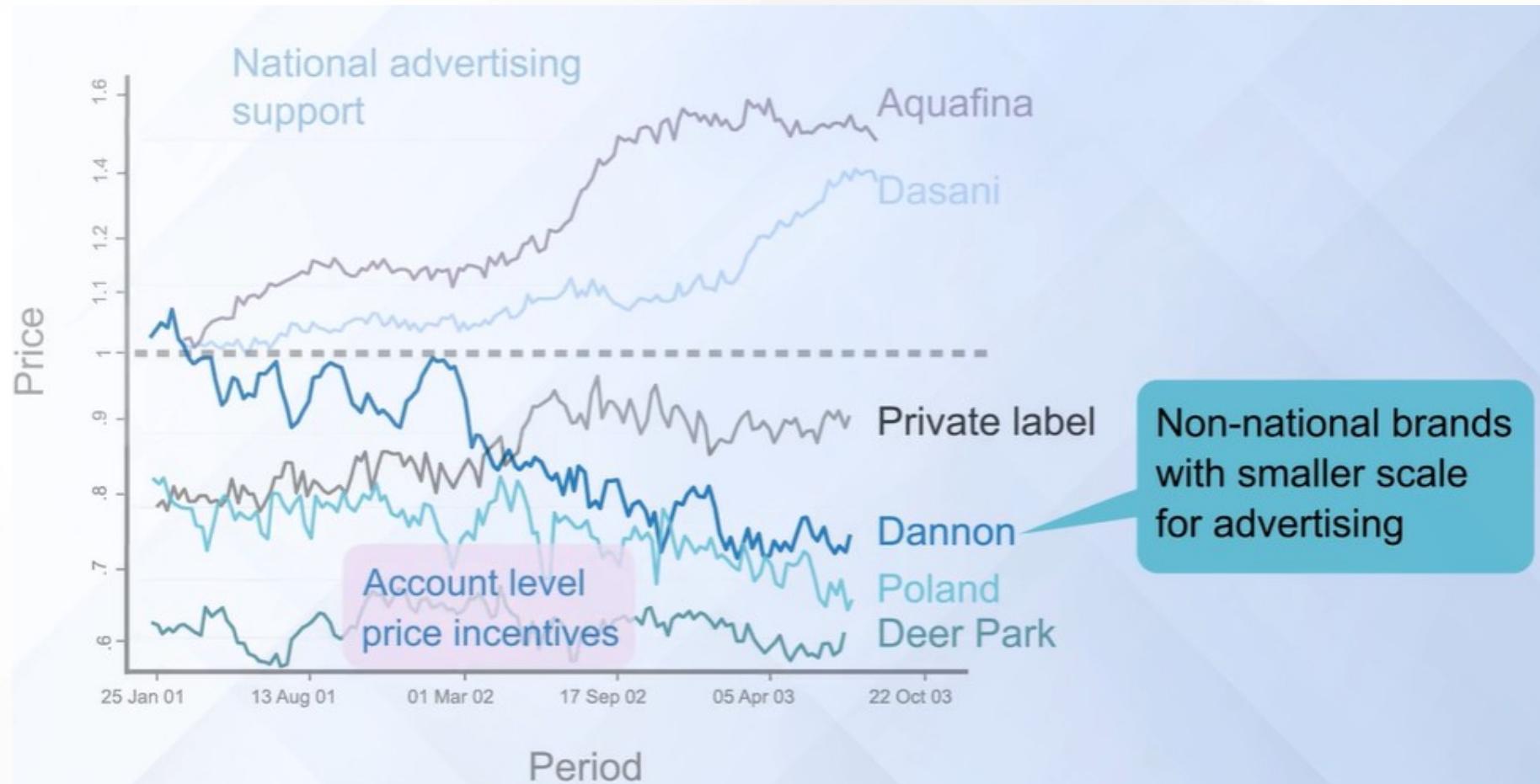
- Google and Amazon have replaced the traditional advertising agencies.
- Over 90% of Google and Facebook's revenues come from advertising.
- Tech companies are technology-driven advertisers.



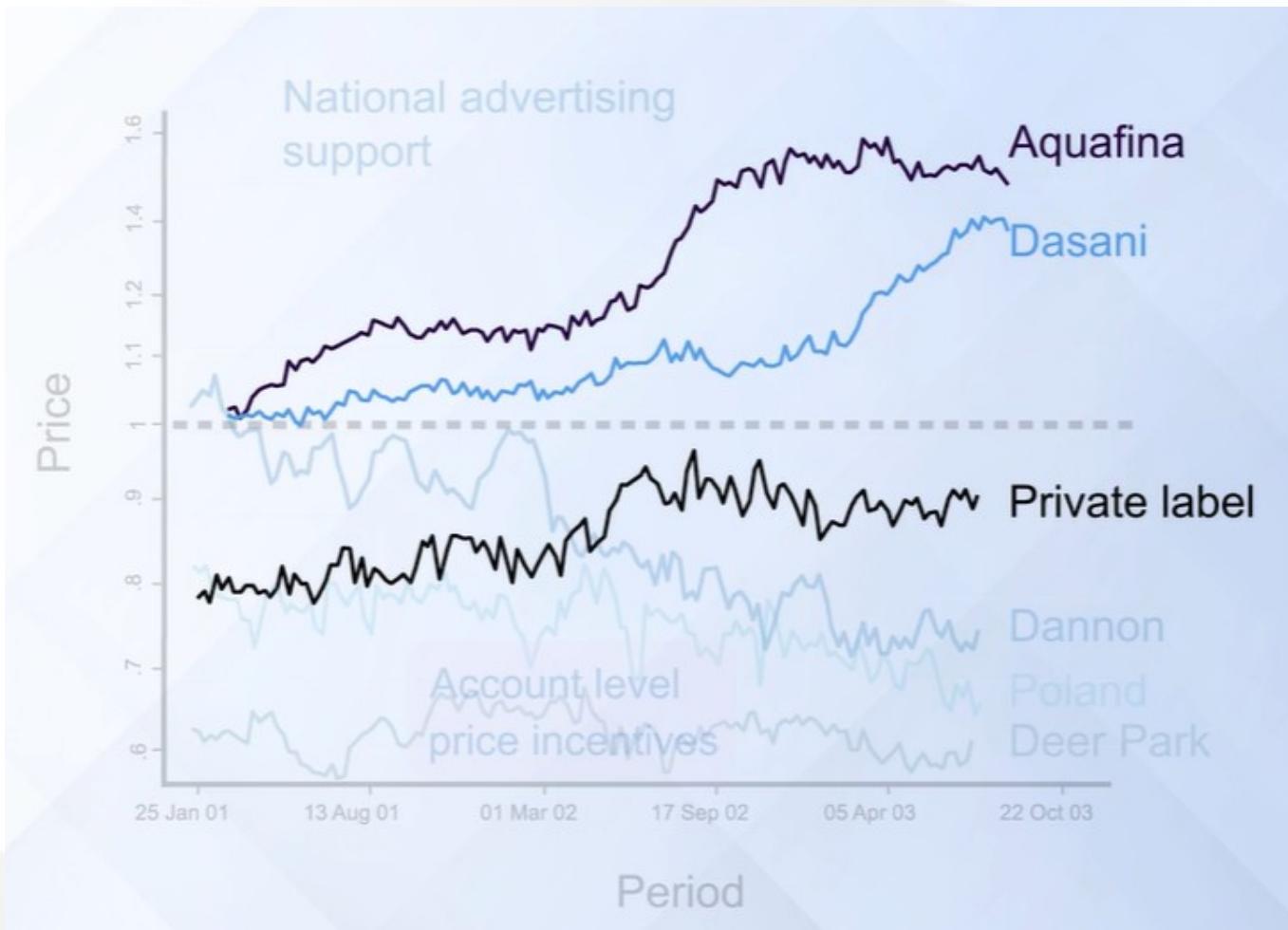
Ratio of Brand Price to Average Category Price



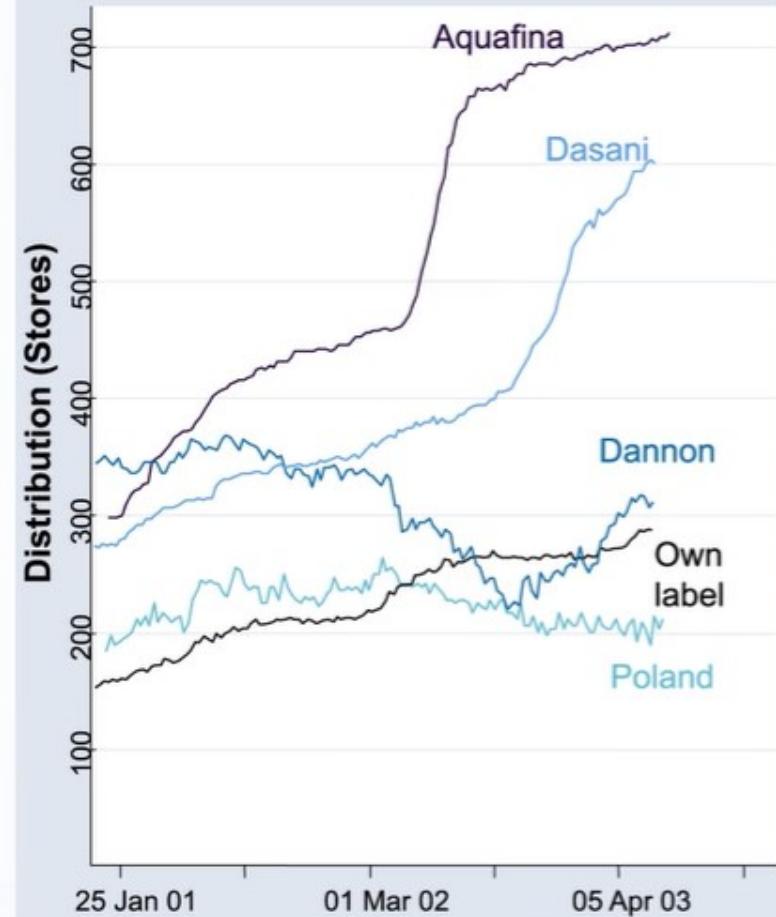
Ratio of Brand Price to Average Category Price



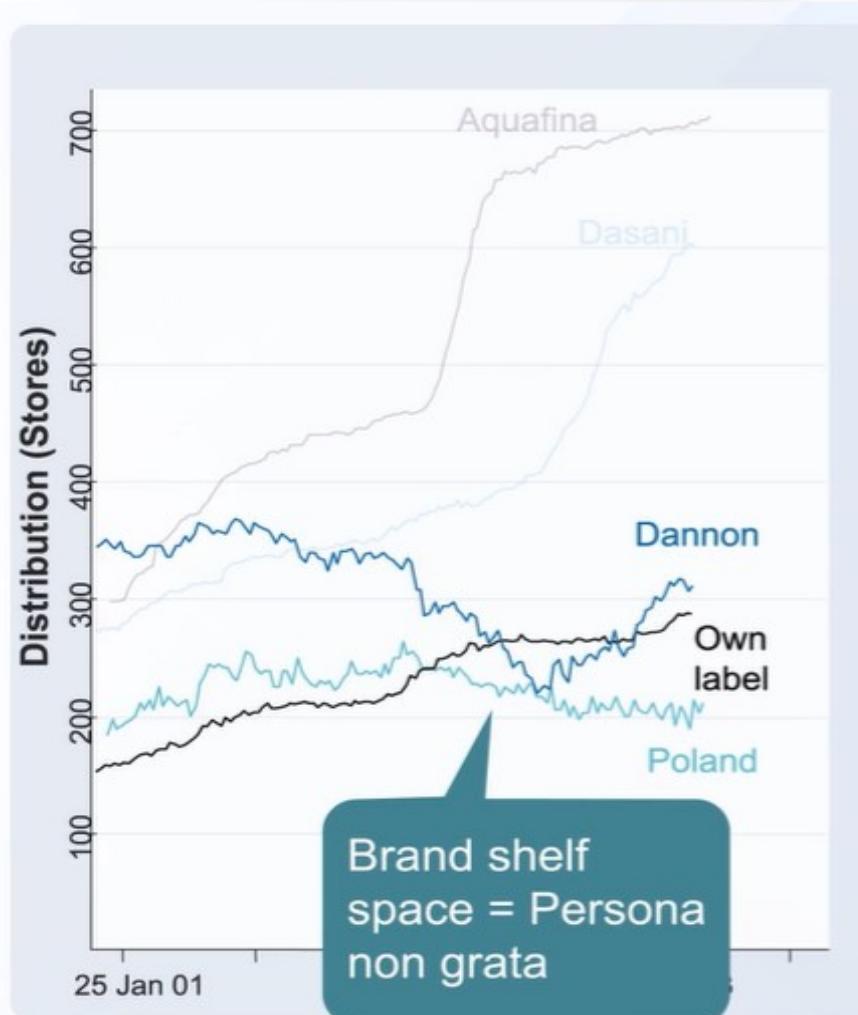
Ratio of Brand Price to Average Category Price



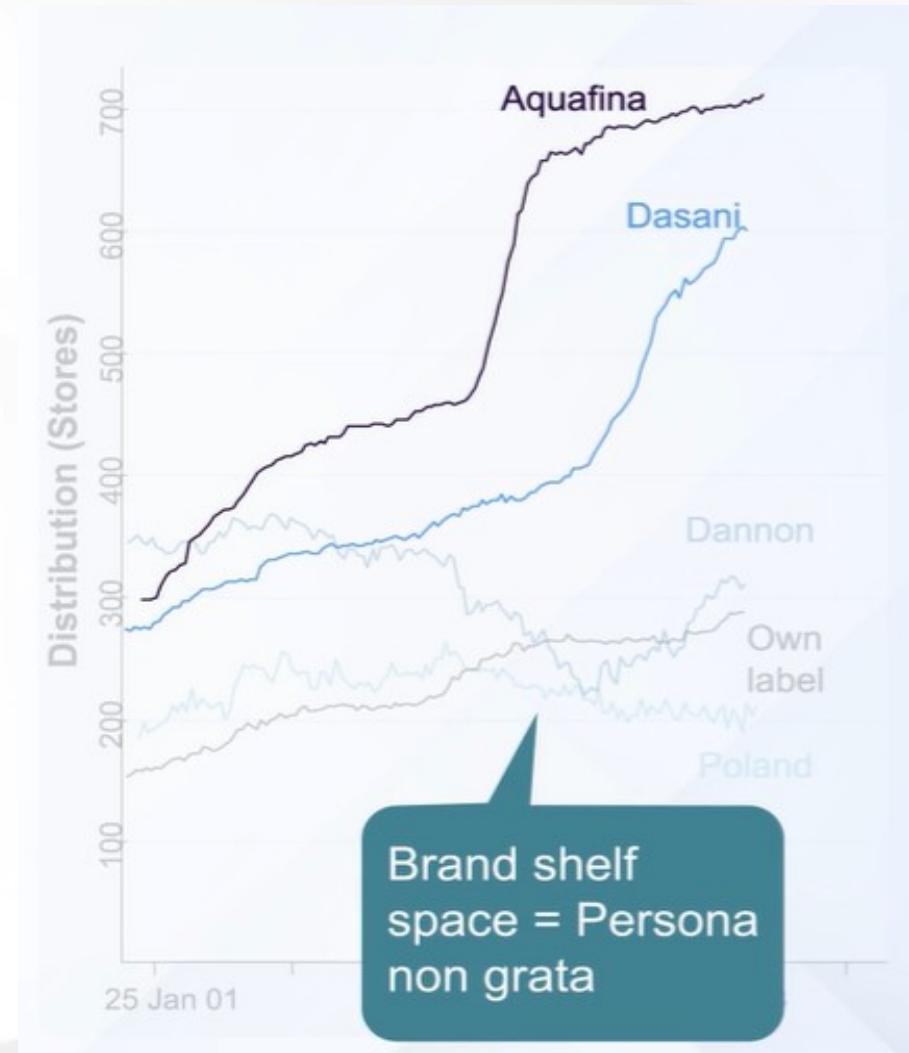
Distribution Trends



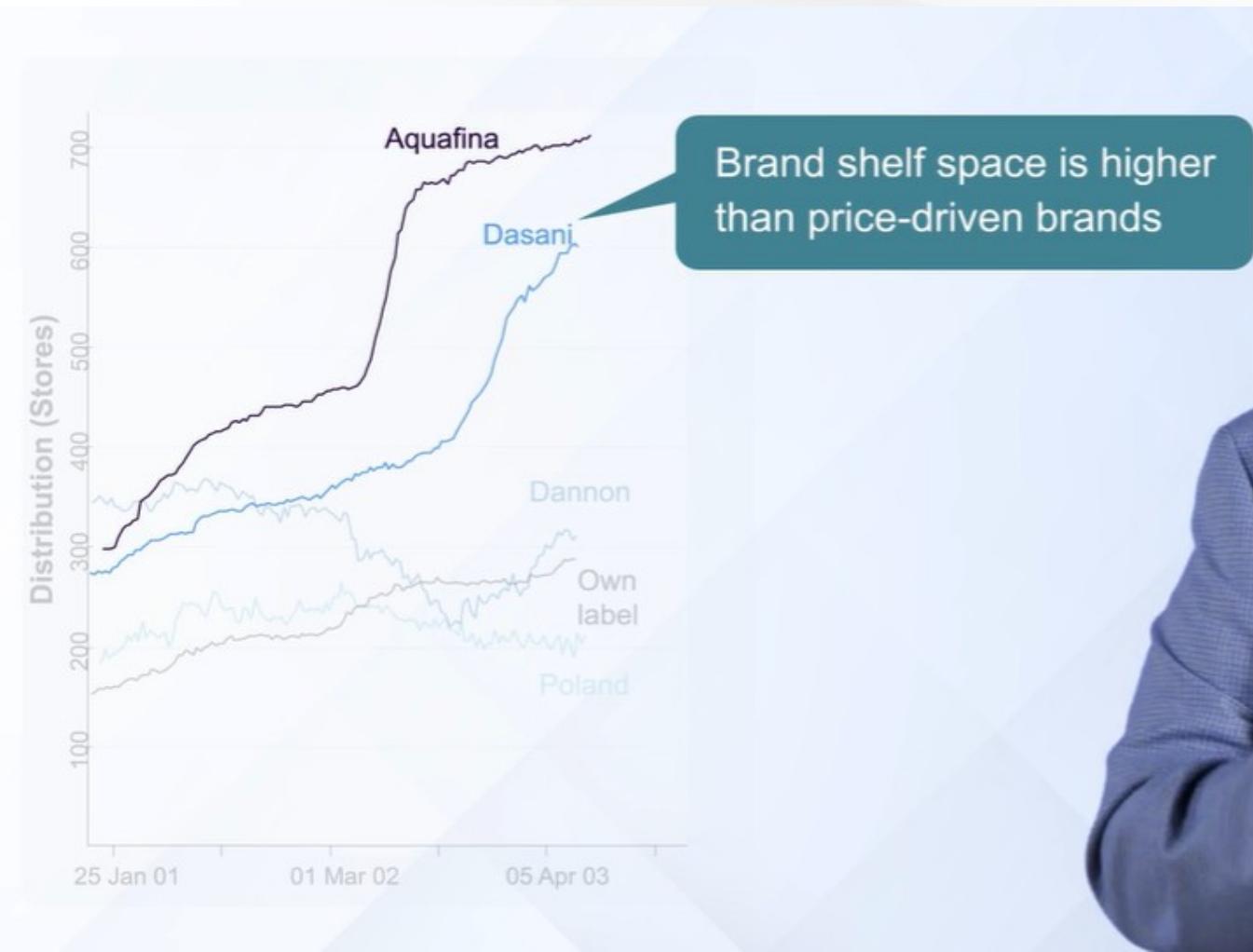
Distribution Trends



Distribution Trends

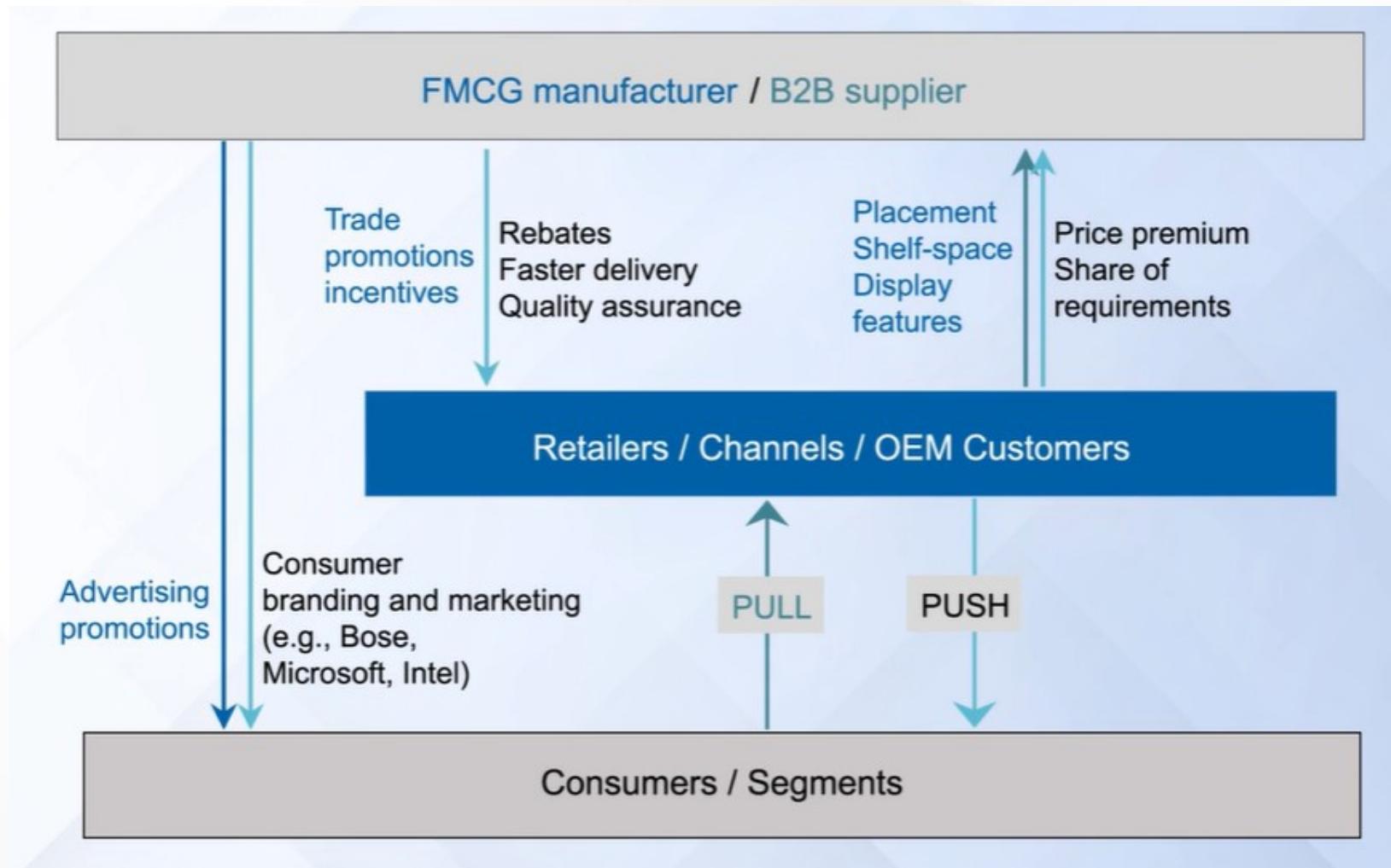


Distribution Trends

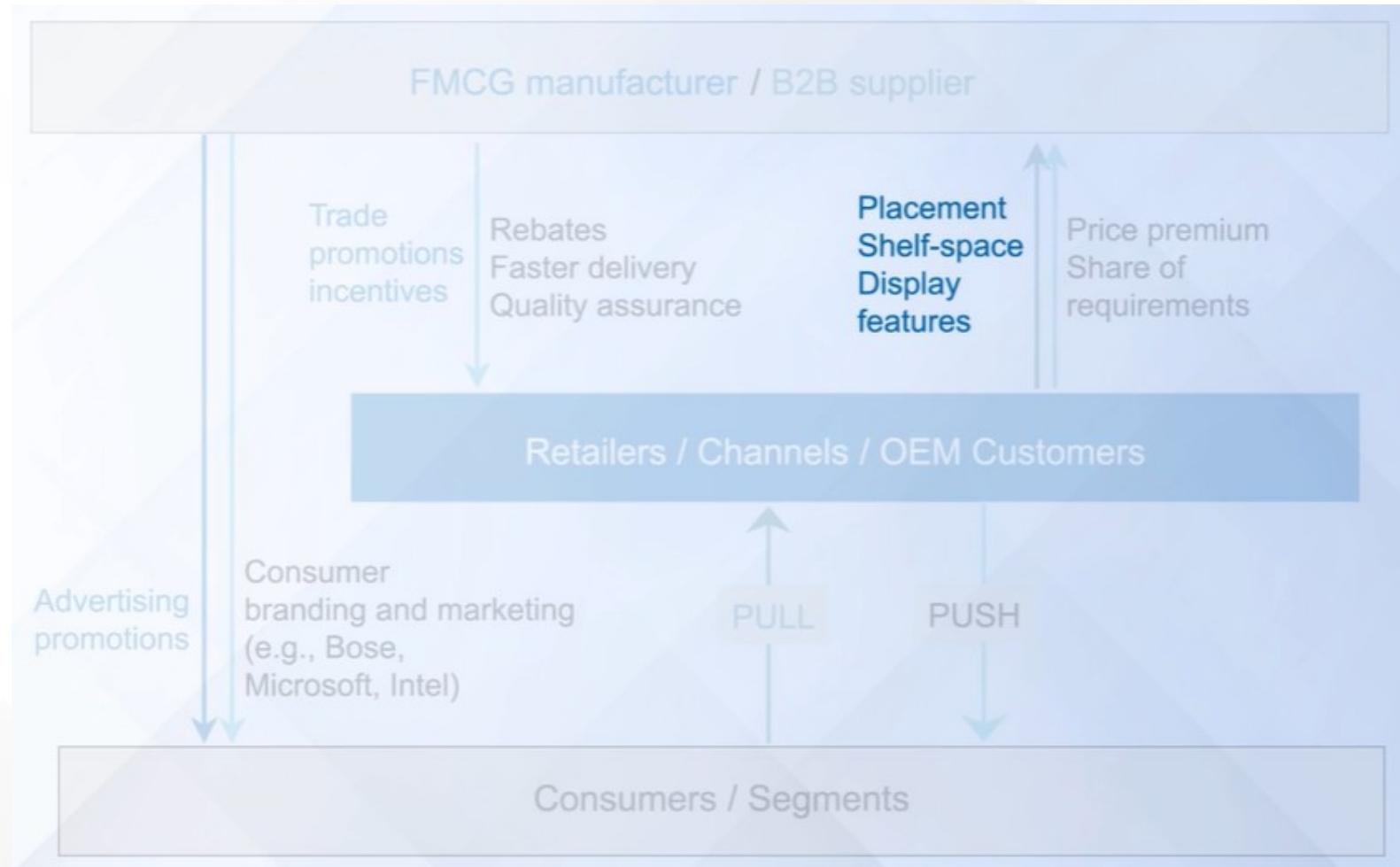


Brand shelf space is higher
than price-driven brands

Market Management: B2C and B2B



Market Management: B2C and B2B



Balancing Brand and Customer Management Strategies

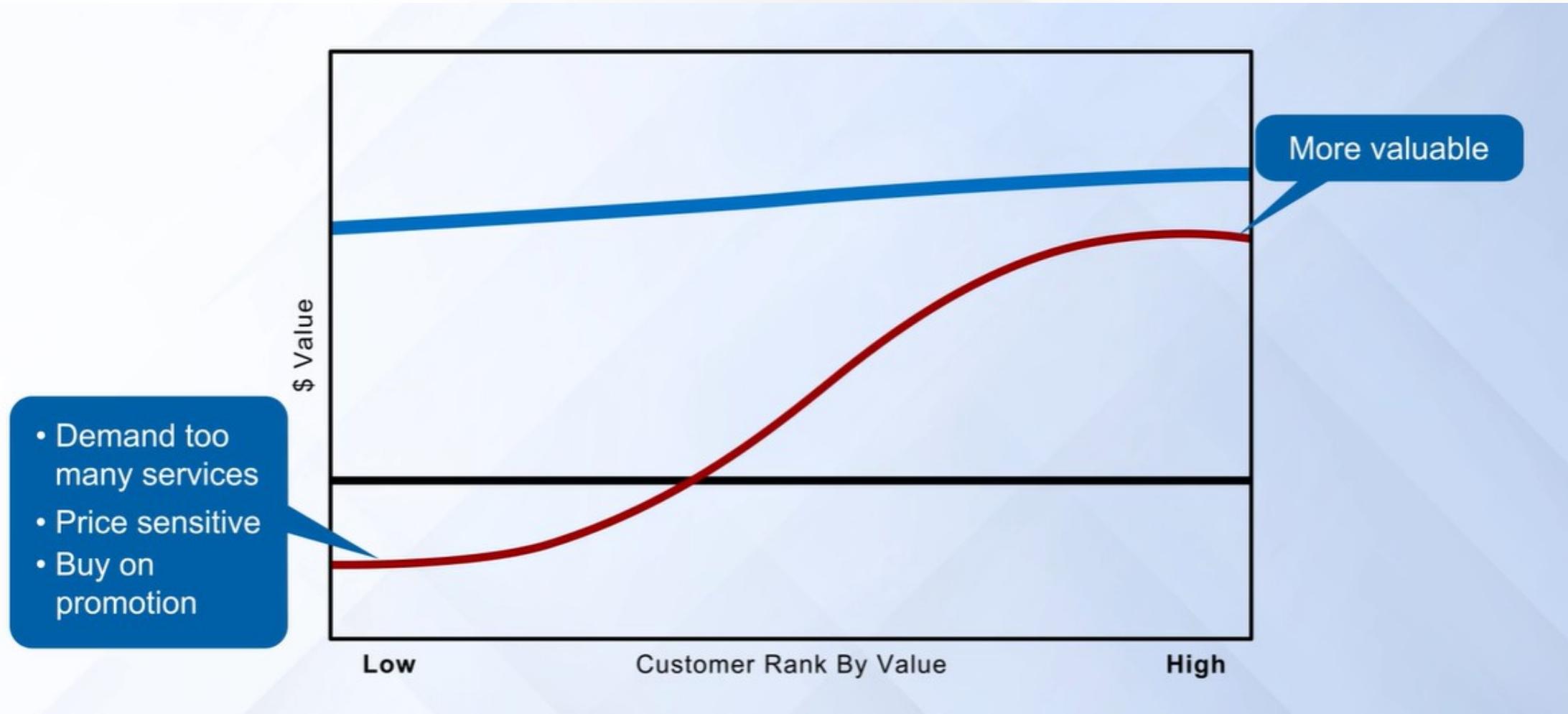
Brand Management or Customer Management?



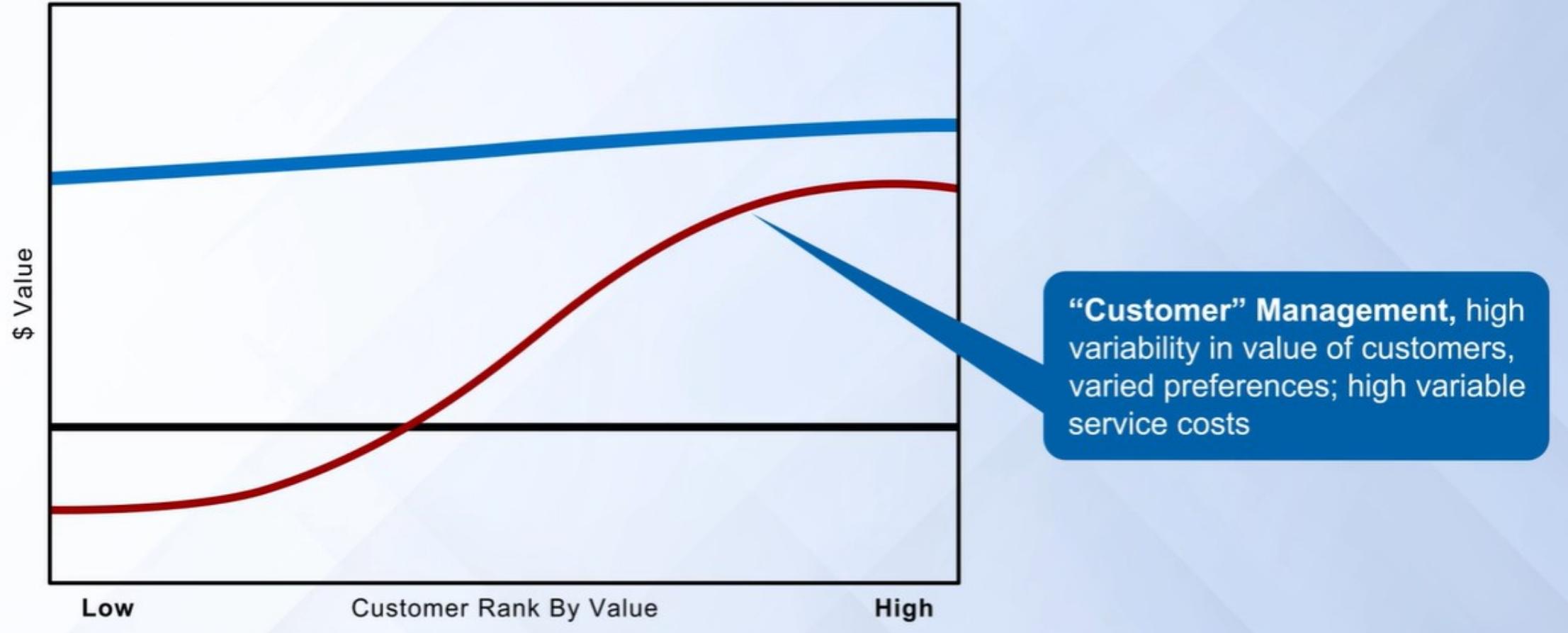
Brand Management or Customer Management?

	Existing products	New products	Total
Existing markets	Penetration	Product Development	Customer Equity
New markets	Market Development	Diversification	Customer acquisition value
Total	Brand Equity	NPD value	Firm Value

Brand Management or Customer Management?



Brand Management or Customer Management?



Brand Management or Customer Management?



"Brand" Management:
Low variability in value of
customers, homogeneous
preferences; high fixed
costs, low marginal costs

Customer Variability



The low-end customer may be buying detergent with a coupon or on sale.

Customer Variability



Different people prefer to buy different products,
even within the same brand.

Brand Management or Customer Management?



Reinforcing the Brand

Building the
brand

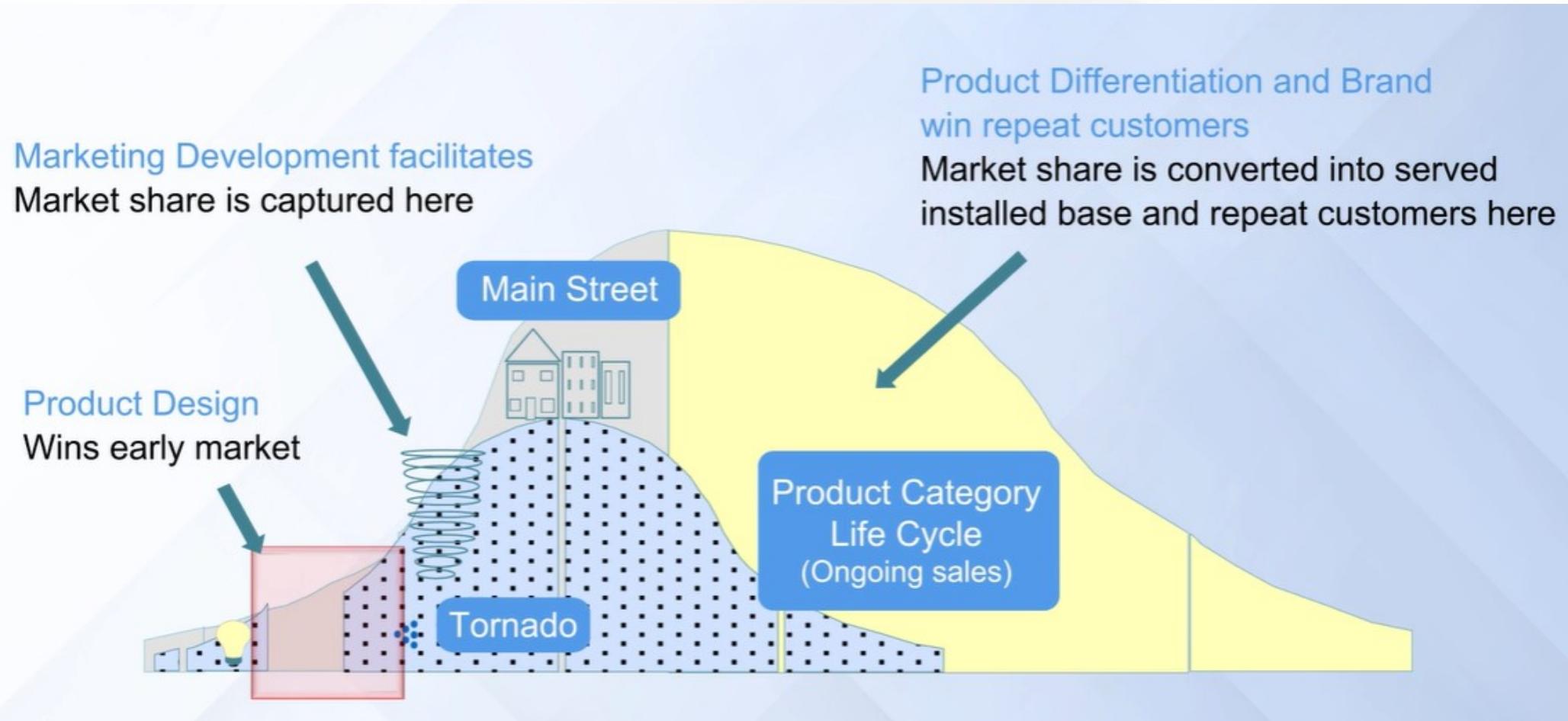
Building the customer
relationship management
mechanisms



It is the brand that makes companies valuable to
the customer.

Managing Technology Product Launches

Technology Adoption Life Cycle (First Time Adopters)



Zip Drive



Zip drive could accommodate up to 80MB on a single drive.

LS120 Drive



Value Proposition of LS120

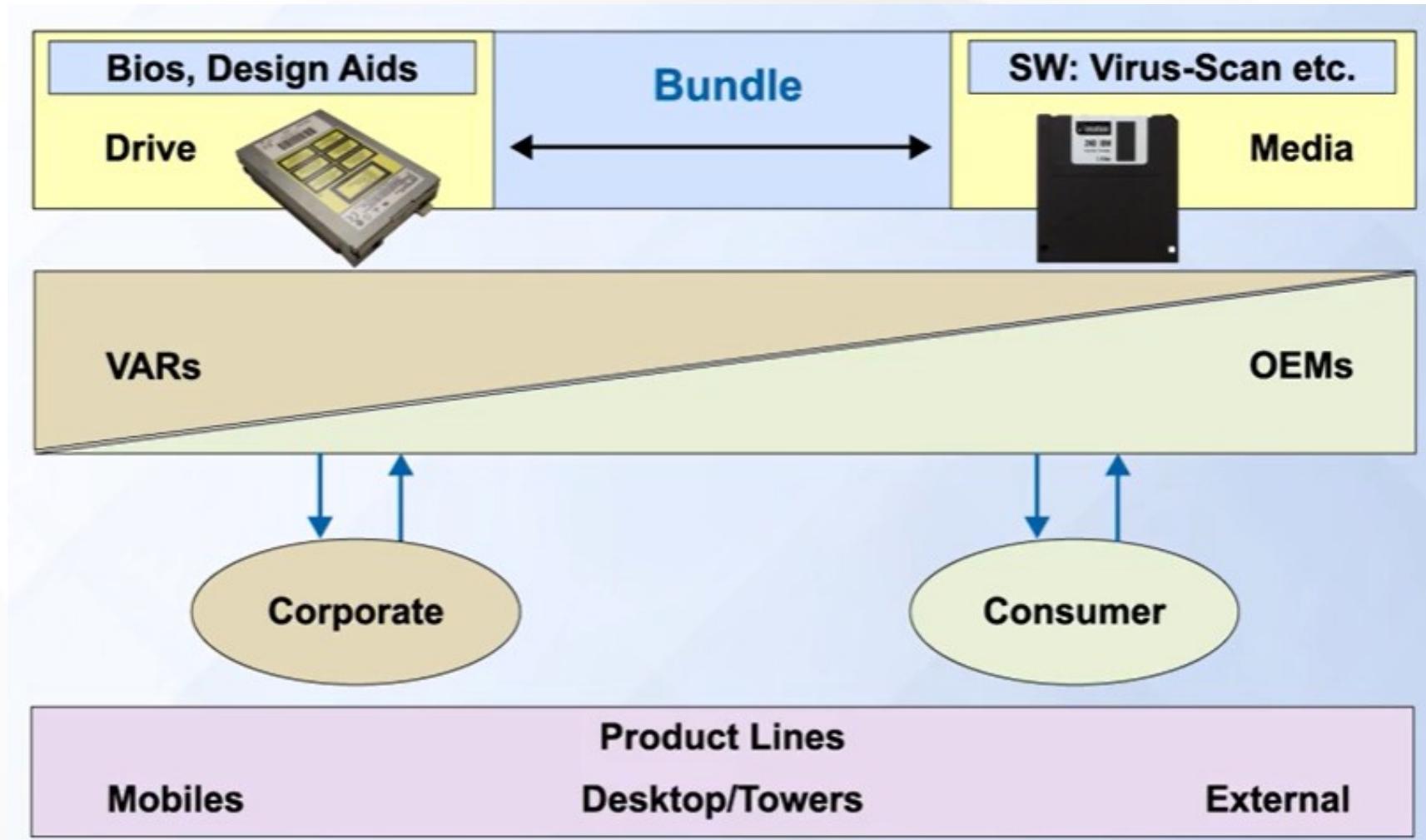
Product Differentiation:

- Backward compatibility
- High capacity (120MB)
- Performance accelerator
- Viable solutions in all platforms

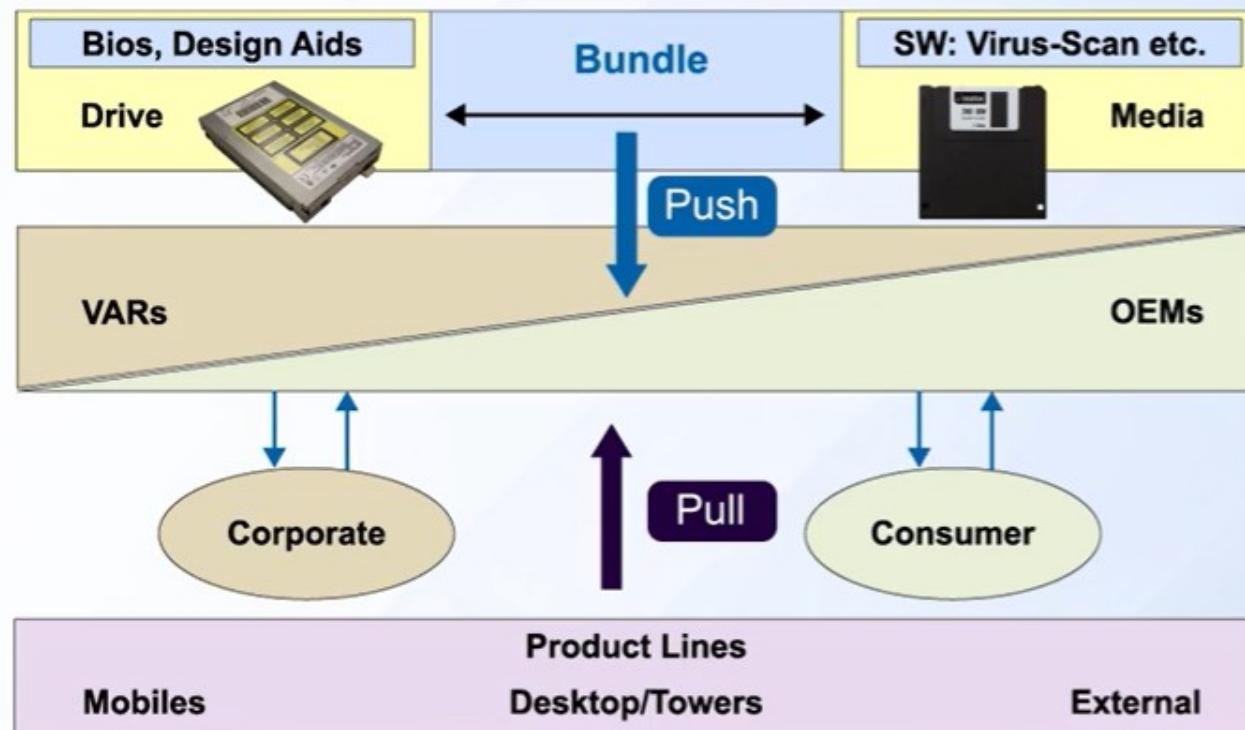
Service Differentiation:

- Strong global distribution
- Global after market support

LS-120 Super Floppy: Market Blitz Plan

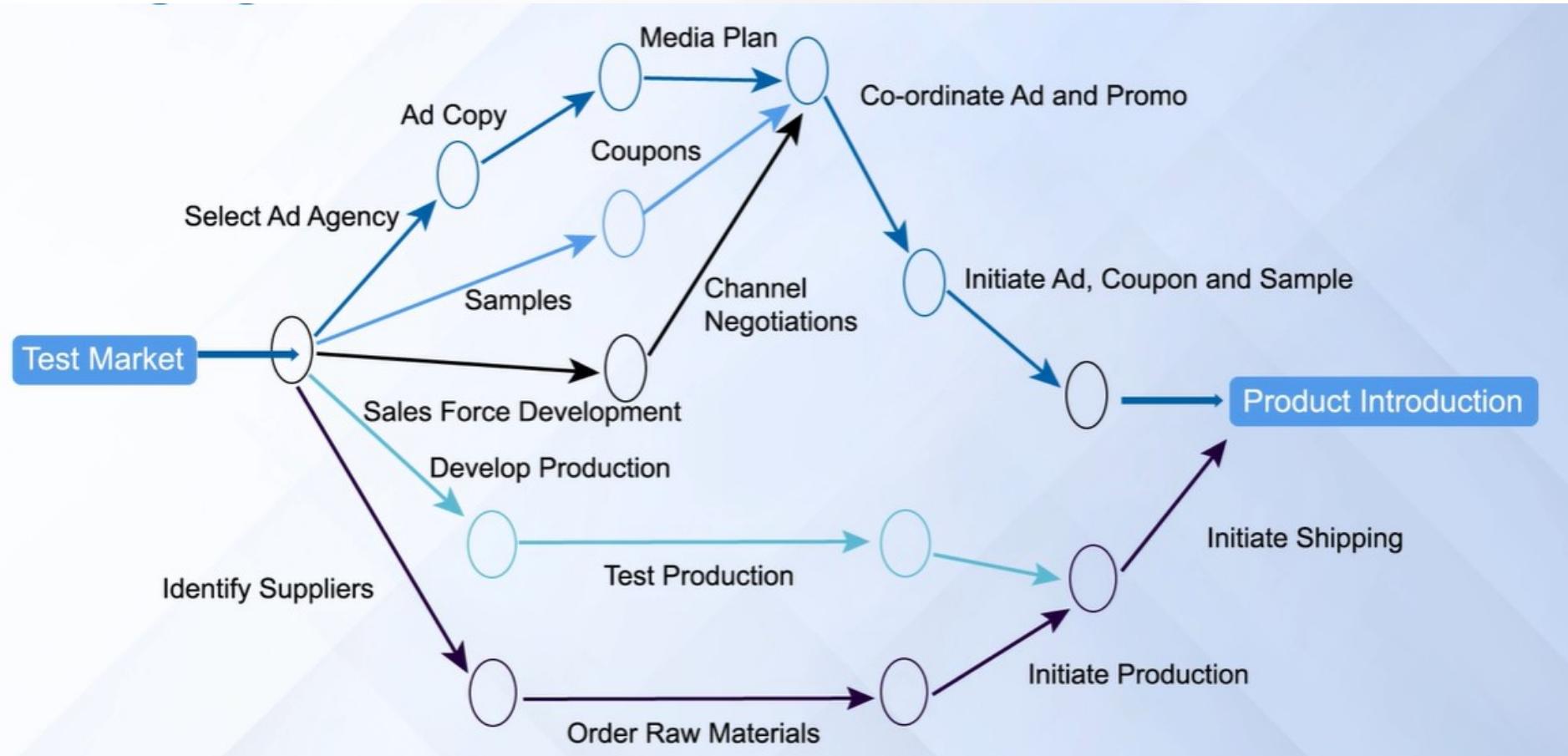


LS-120 Super Floppy: Market Blitz Plan



- OEM/VAR/SI
- Corporate/Educational Plans
- Public Relations
- Catalogue
- Advertising
- Tech Support
- Direct Selling
- Data Base Marketing
- Seeding
- Retail/Dist.
- Adv. on Floppies

Managing the Product Launch



Managing Technology Product Launches

Top 10 Reasons for Product Launch Failure

Inadequate support from distribution channel

Poor competitive positioning; competitive response

Poor repeat purchase or no diffusion of sales

Inadequate coordination in functions (sales, marketing, operations); culture clash

Insufficient return on investment

Not new/not different; no real benefit

Market too small, forecasting error

Major shifts in technology

Changes in customer tastes

Changes in environmental constraints

Brand Value and Pricing Power

Recap

Changing your mindset

Move from competitive pricing to decommoditisation

01

02

03

04

Power of brand

No requirement of naming; identification via logos

Marketing: Managing cash-flows, not revenues

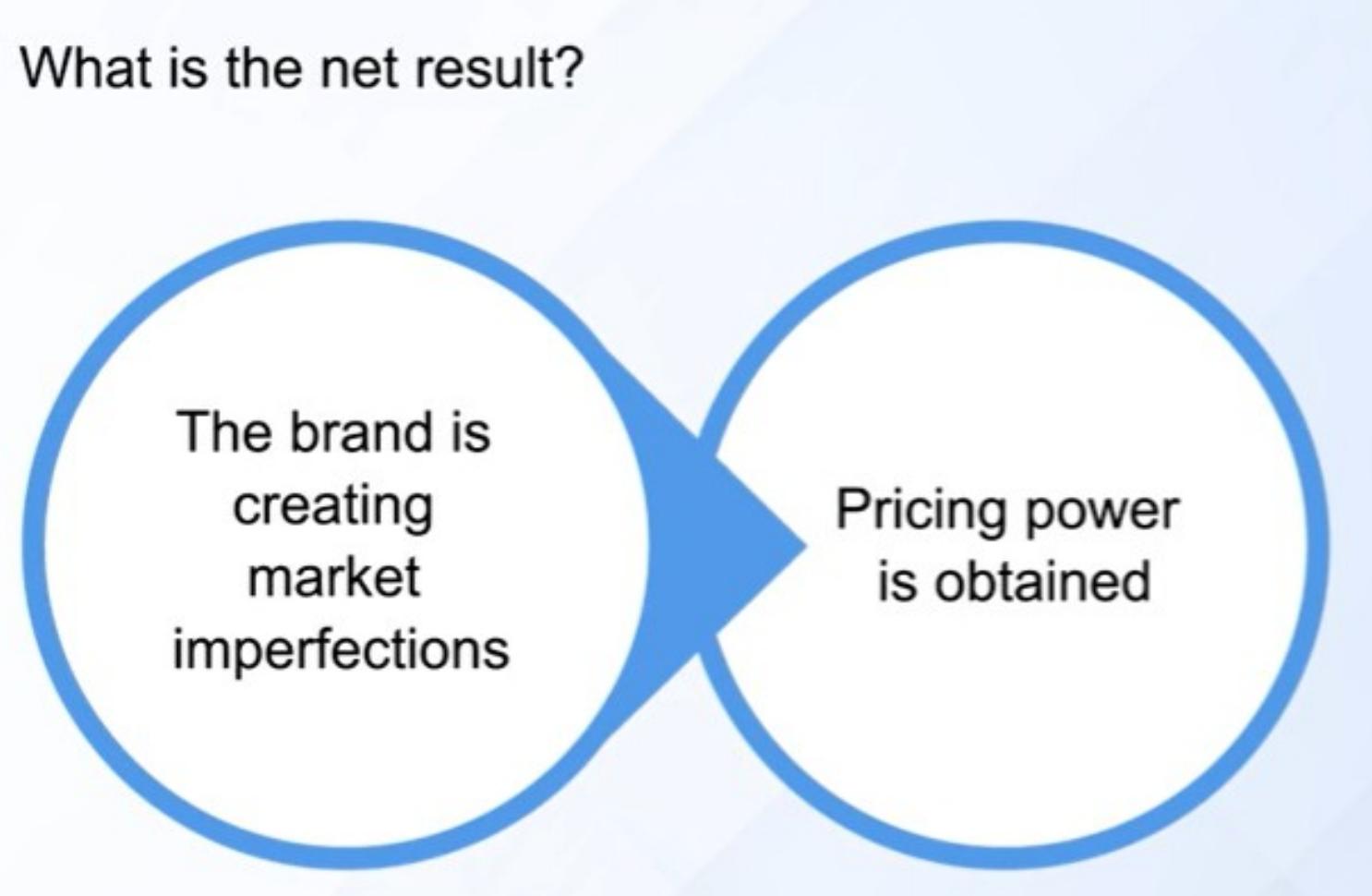
Worry about segmentation and differentiation

Consumer choice is based on functional attributes

Importance of experience and trust

Impact of Brands on Financial Performance

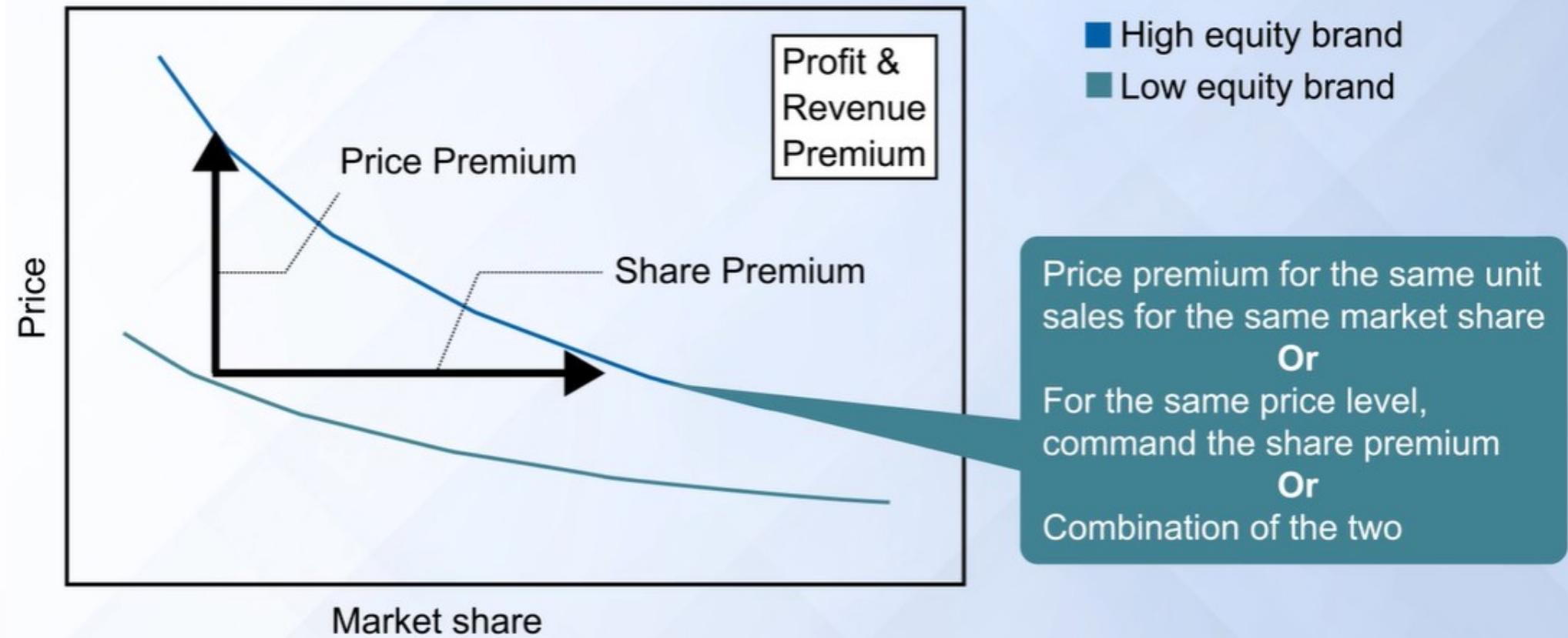
What is the net result?



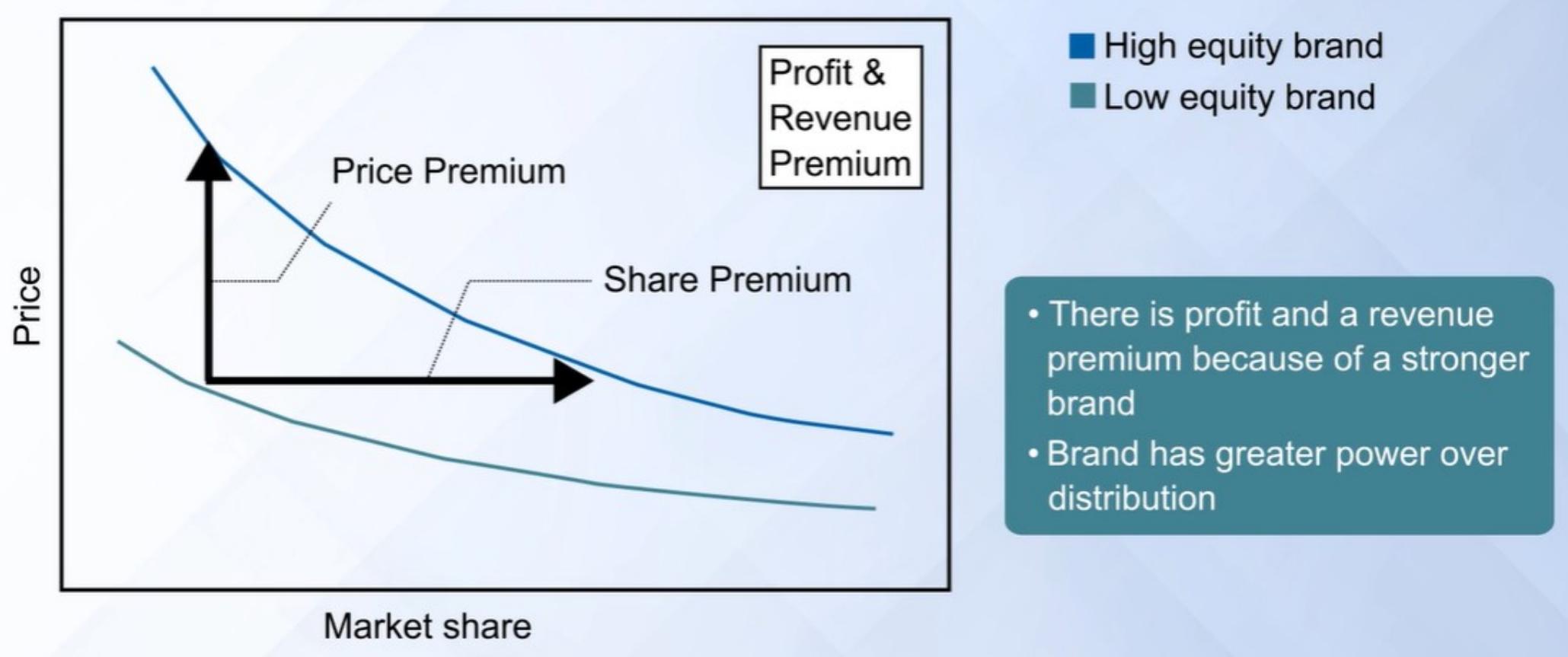
The brand is
creating
market
imperfections

Pricing power
is obtained

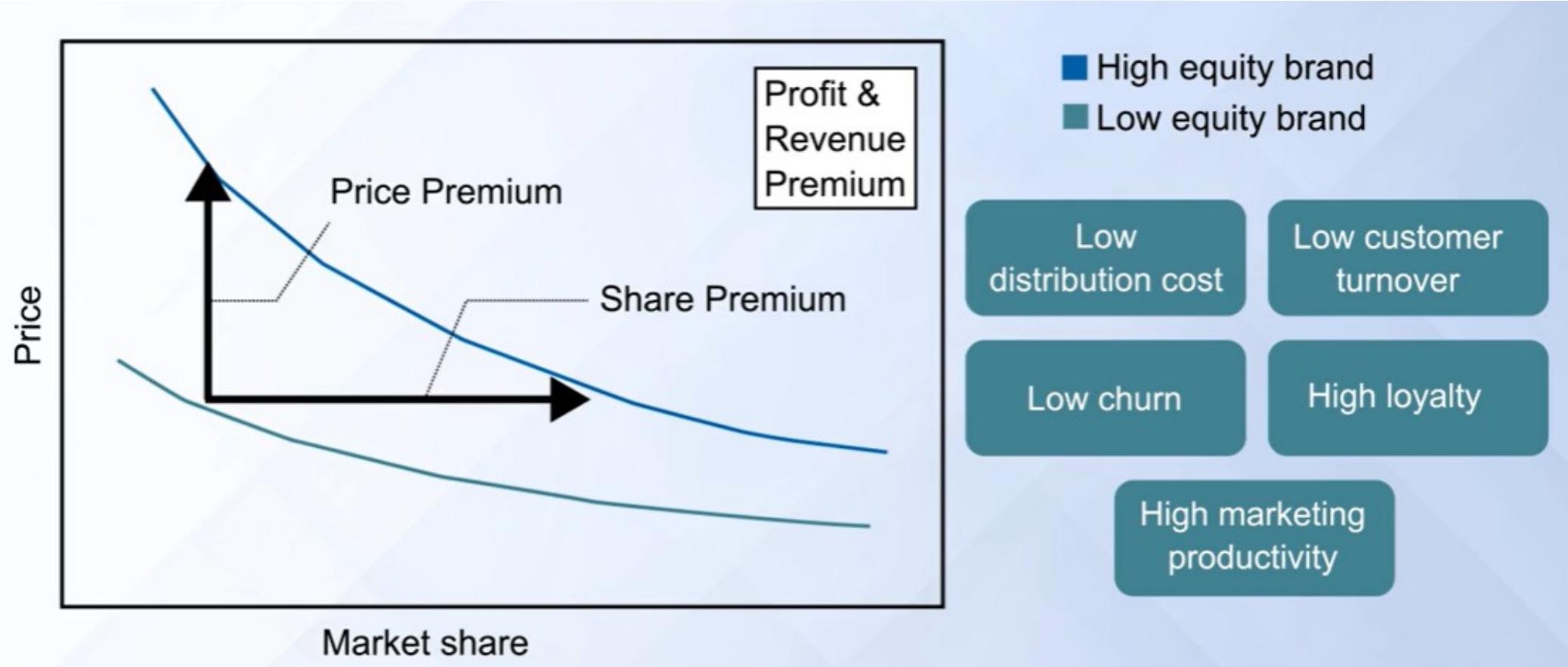
Impact of Brands on Financial Performance



Impact of Brands on Financial Performance



Impact of Brands on Financial Performance

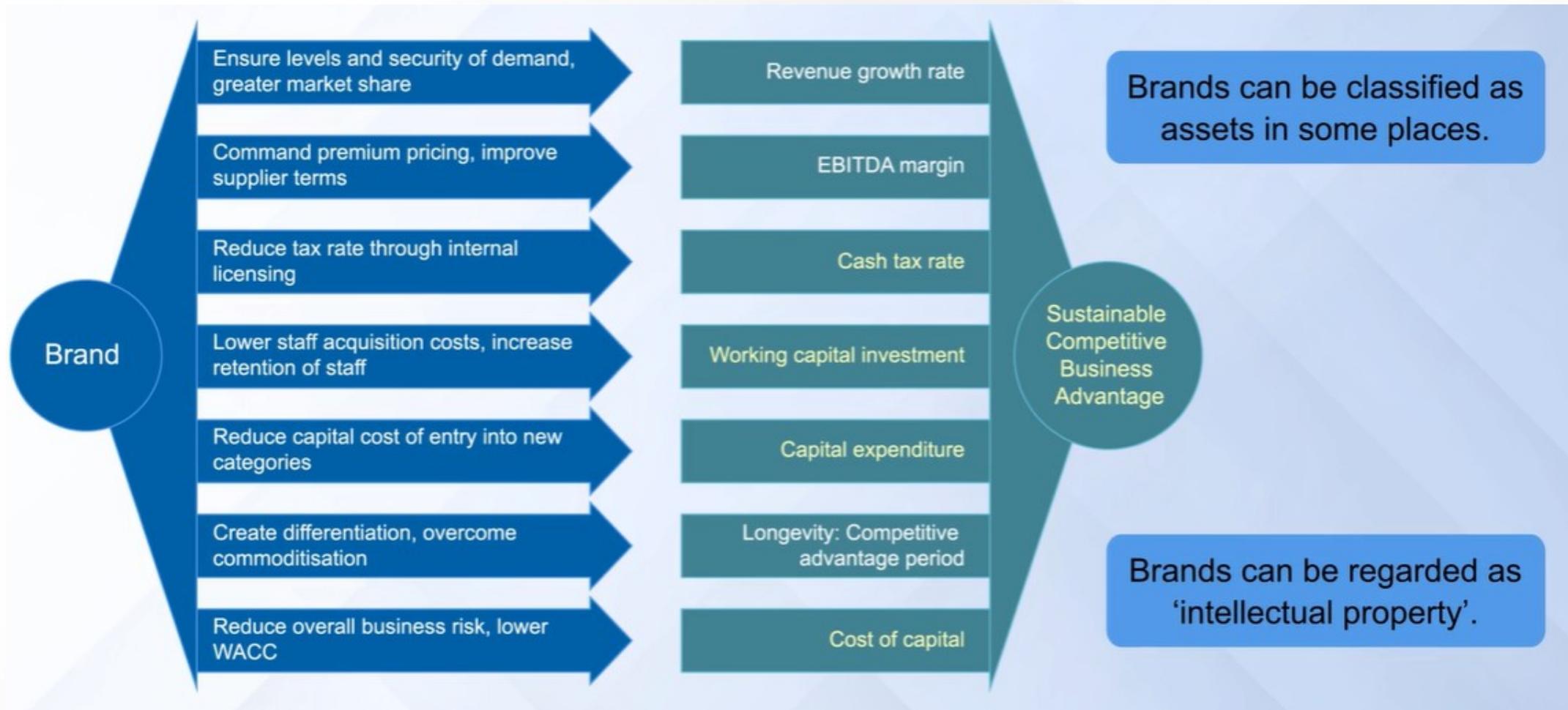


Impact of Brands on Financial Performance



- It takes less money to market a well-known brand.
- A strong brand gives faster market penetration.

Brands Impact Key Value Drivers



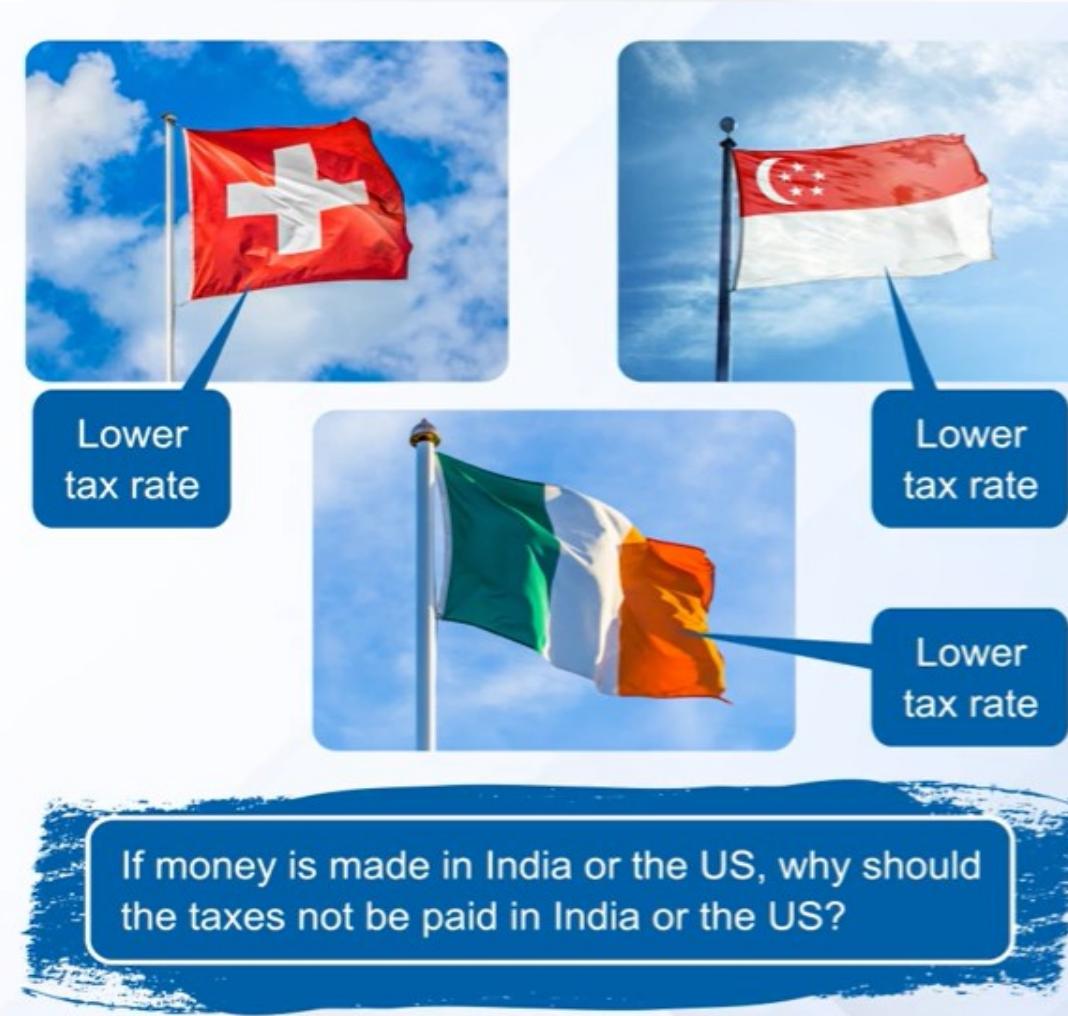
Treating Brands as Assets



Lower
tax rate

- Brands are parked in countries like Switzerland.
- Operations using the brand pay a licensing fee to Switzerland.
- This allows money transfer from North American/Indian market into Switzerland.

Treating Brands as Assets



Importance of Strong Brand Names

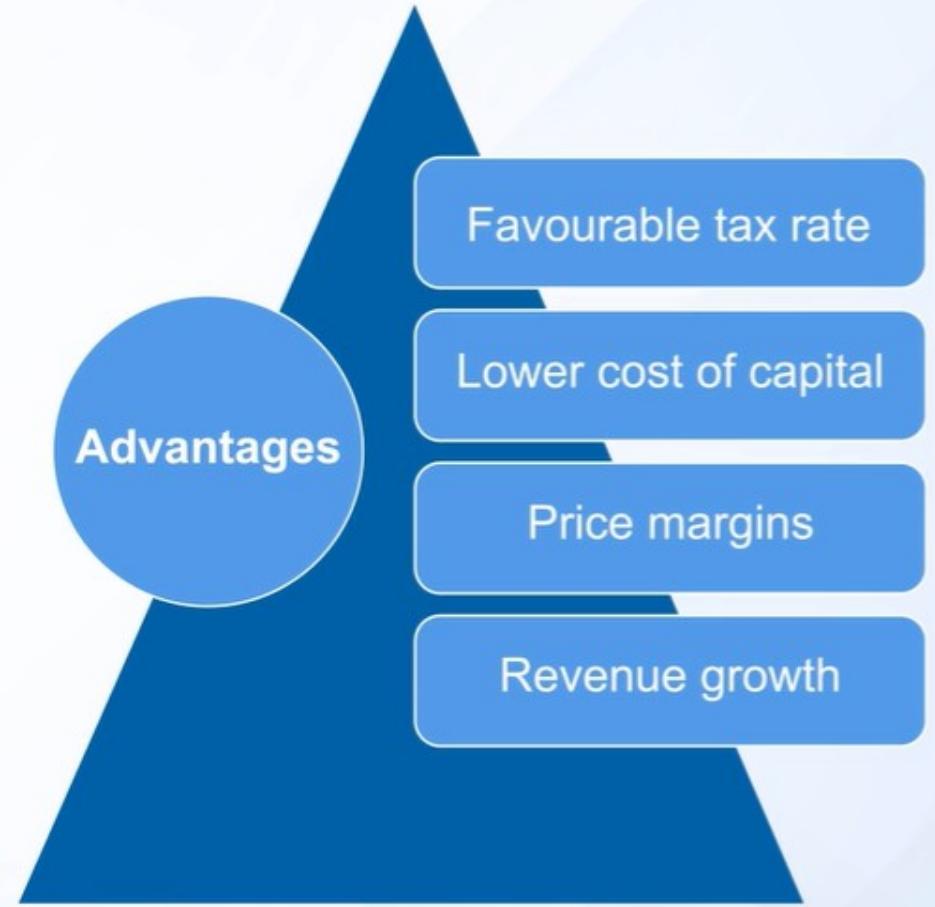
Strong
brand name



Reduction in
cost of capital

- If people were inclined towards a company, they were more willing to buy a brand.
- The cost of borrowing money was lower for companies with a strong brand name.

Advantages of Strong Brand Name



G7 vs G20



Does not include **China** and **India**



Looks at the value of the brands and the appropriation of that value by the corporate and public sector.

Profit due to Price Premium

Net margin = 10%

Premium controlling
for volume = 3%

Profit = ~~10%~~
13%

Ways to Calculate Brand Value

1

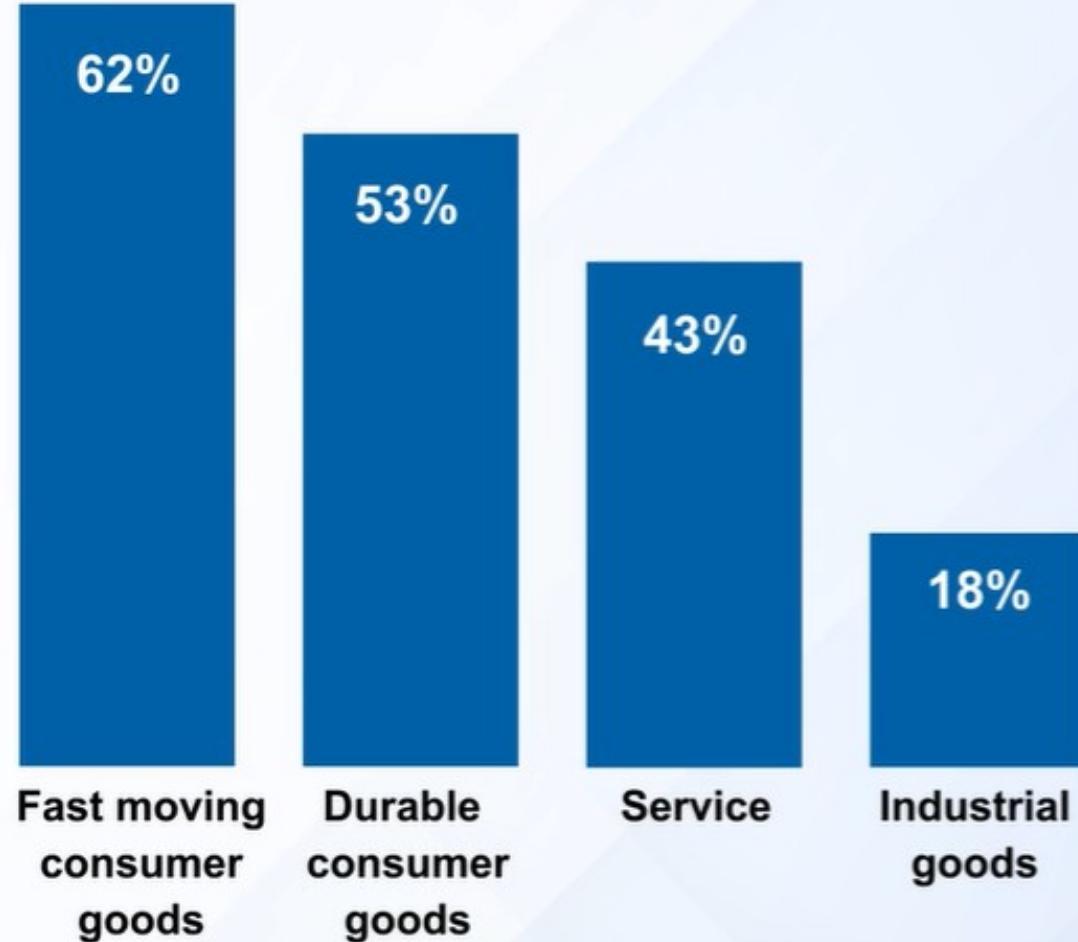
Calculate incremental earnings and multiply it by the price earnings multiple

$$\begin{array}{rcl} \text{50 million} & \times & \text{10 million} \\ (\text{incremental}) & & (\text{price earnings}) \\ \text{earning} & & \text{multiple} \end{array} = \begin{array}{l} \text{500 million} \\ (\text{brand value}) \end{array}$$

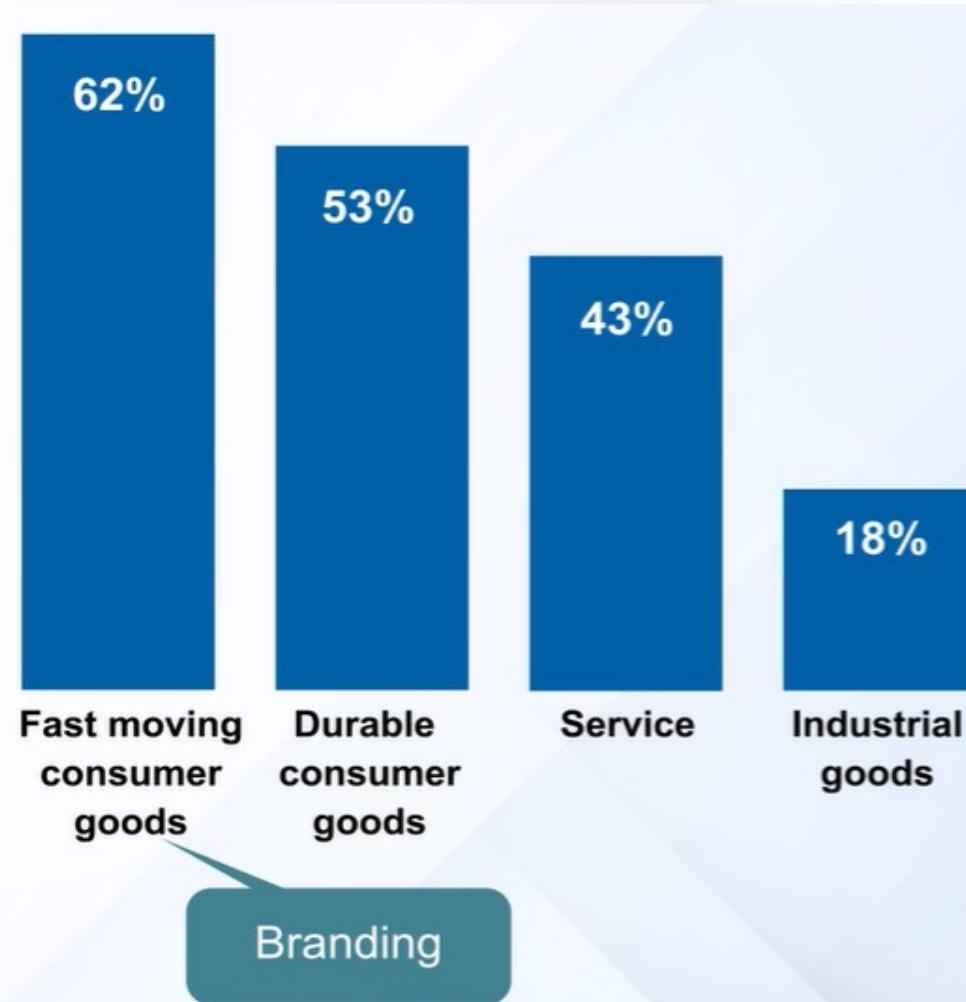
2

Look at the increases in cash-flows that can be expected

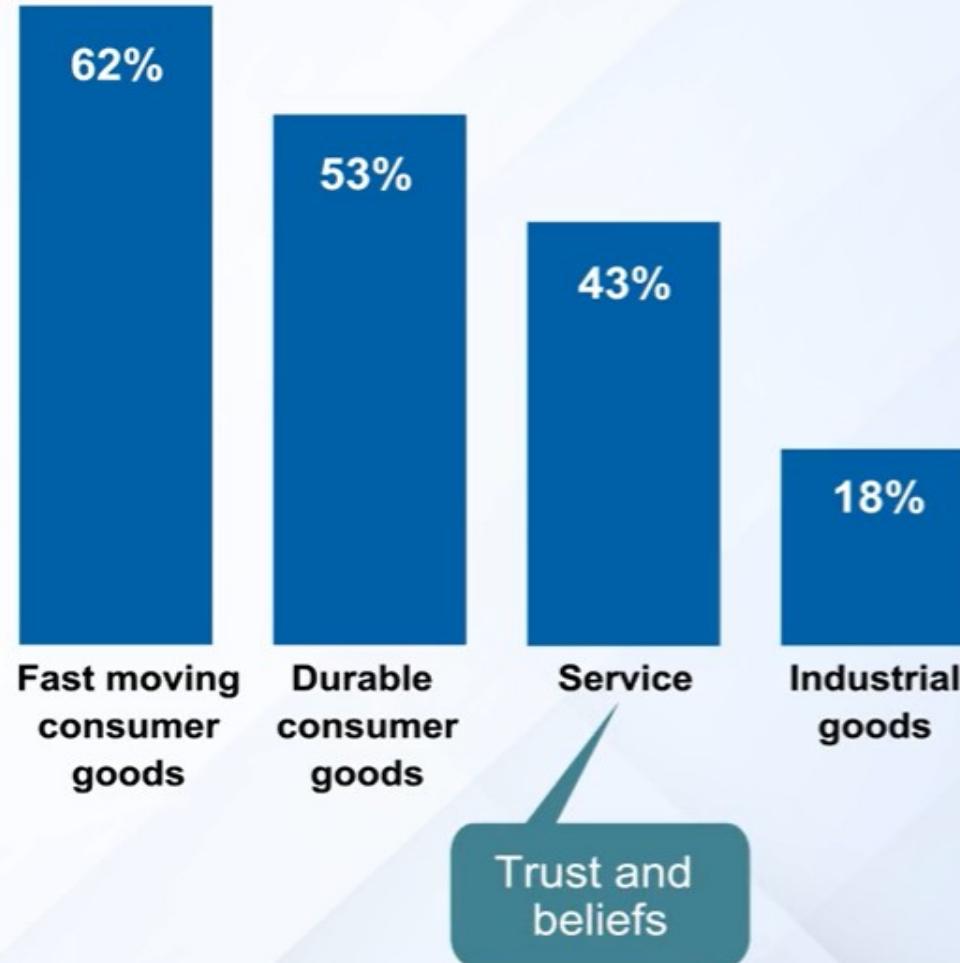
Brand Value as Firm Value Percentage



Brand Value as Firm Value Percentage



Brand Value as Firm Value Percentage



Managing Price to Distributors: Price Margin Incentives vs Rethinking GMROI

Revenue Growth



Revenue Growth



New product markets



Existing markets

How can I increase revenue
while increasing **channel
penetration?**

Gross Margin Return on Investment



- The retailer's investment (or 80-90% of it) is typically in the **inventory**, which is very expensive.
- A **larger business share** is wanted while making more money simultaneously.

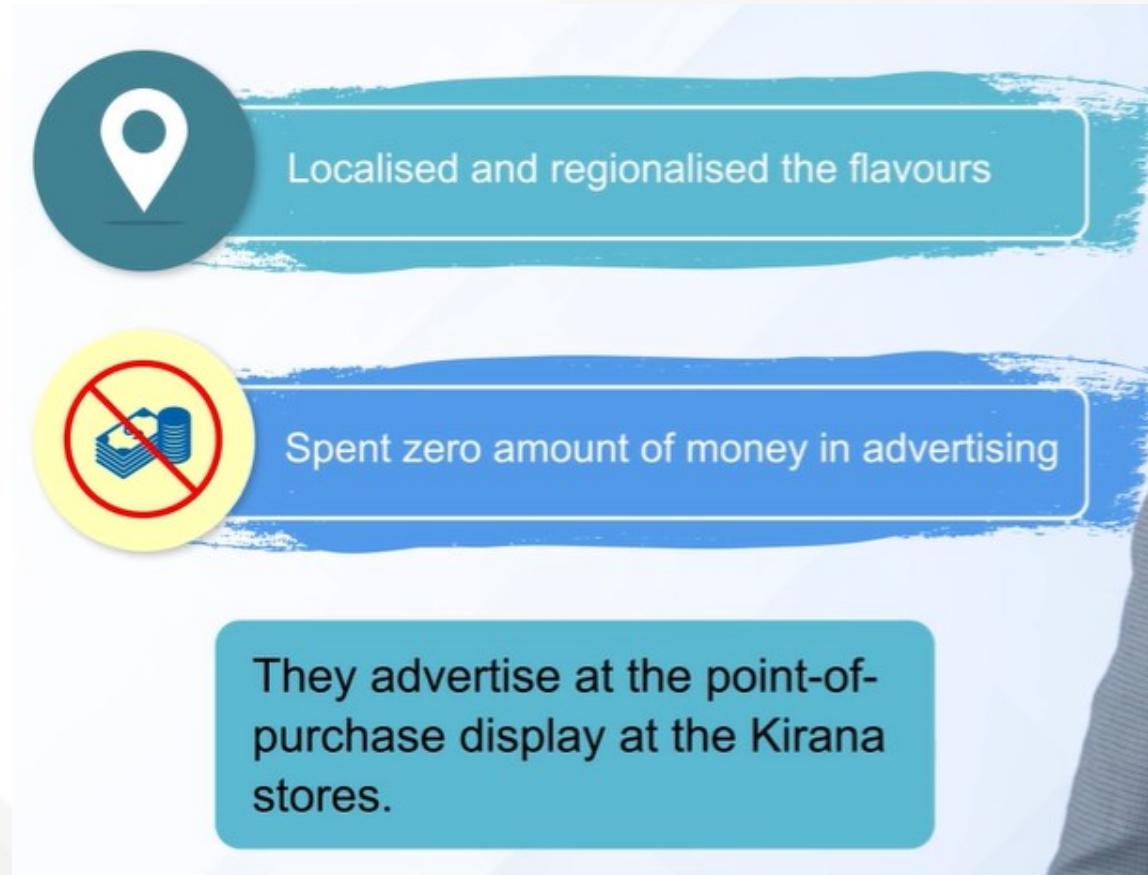
Example: Balaji Wafers



A company that sells potato chips in multiple flavours.

In Gujarat, some flavours may be popular, and in Madhya Pradesh, some other flavours are going to be popular.

Example: Balaji Wafers



Example: Balaji Wafers



Point-of-purchase advertising

No advertising on airwaves or in print advertising

Value proposition: "We will sell you the same product with 30% more for the same price."

Example: Balaji Wafers

What is the impact?



- The company has outrun Pepsi's brands in every state they're in.
- Every year, they expand into adjacent geographical markets.

Value Proposition

$$\text{GMROI} = \frac{\text{Revenue} - \text{Costs}}{\text{Investment}}$$

$$\frac{\text{Revenue} - \text{Costs}}{\text{Investment}} \overline{2}$$

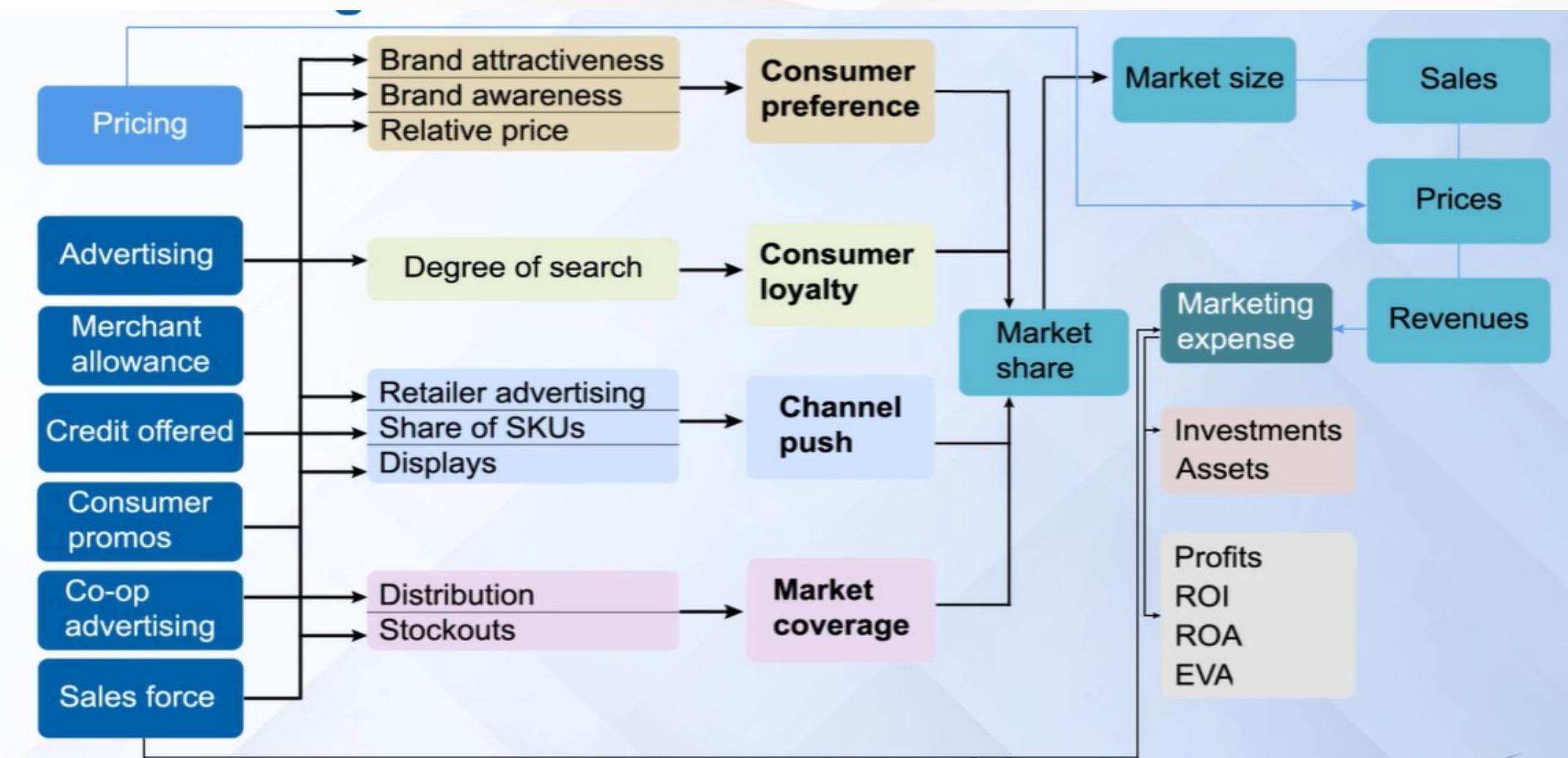
$$= 2 \times \frac{\text{Revenue} - \text{Costs}}{\text{Investment}} = 2 \times \text{GMROI}$$

Managing Price Promotion and Distribution Challenges

A Marketing Dashboard



A Marketing Dashboard



Introduction to ROMI



ROMI (Return on Marketing Investment) is a financial metric related to brands and marketing.

Brand Responsiveness to Price Promotions

Price promotions



- Induce trial
- Attract switchers
- Generate experience
- Do price segmentation
- Act as price signal
- Tap brand strengths
- Offense

Works best for established and differentiated brands

- Short-term effects: Negative impact?
- Short-term impact: Big bump in sales

Brand Responsiveness to Advertising

Advertising



Works for differentiated brands

- Influence perceptions
- Keep loyalists
- Interpret experience
- Benefit segmentation
- Act a quality signal
- Build brand image
- Defend

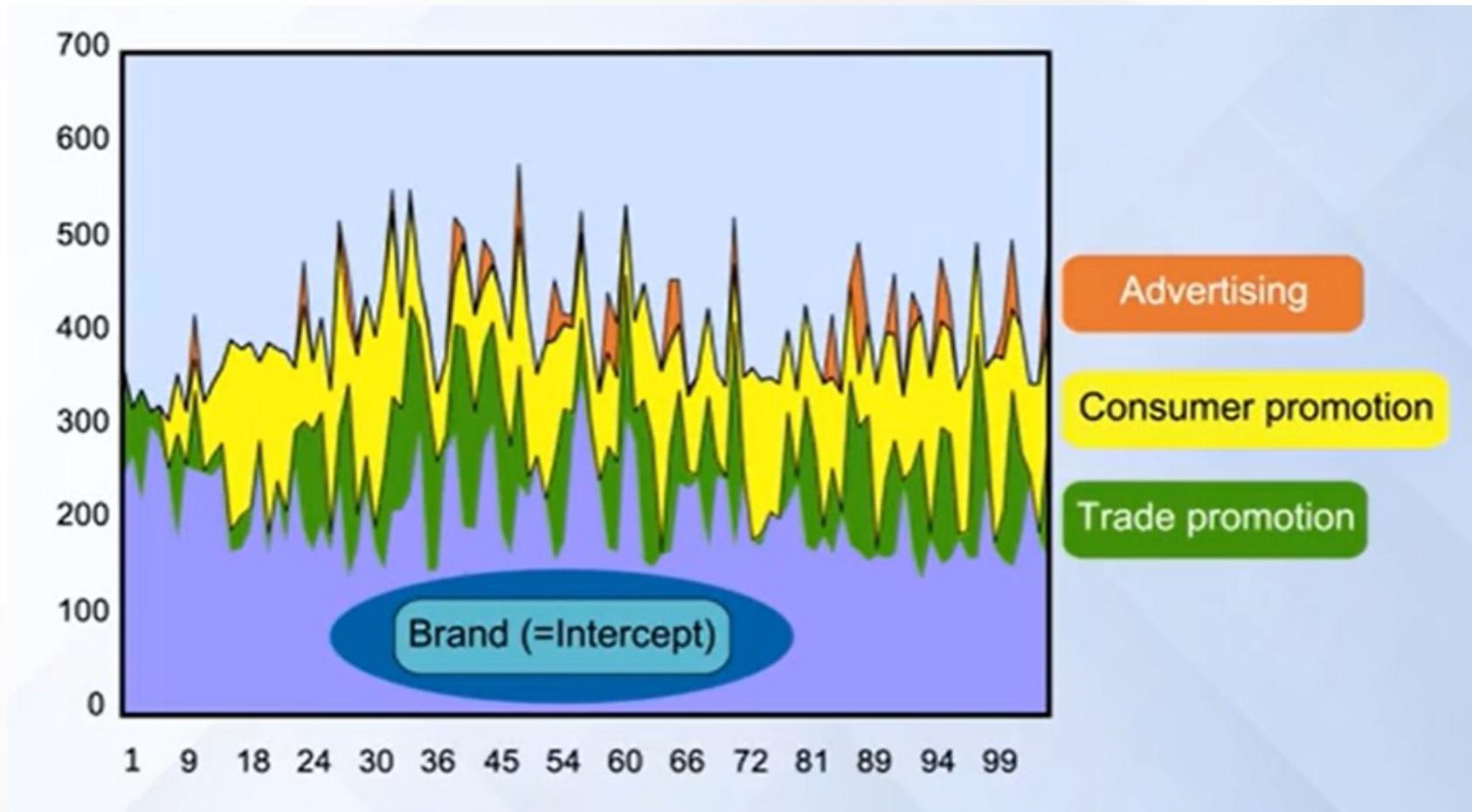
- Long-term impact: Positive impact?
- Short-term impact: Little blip

Market Share Analysis

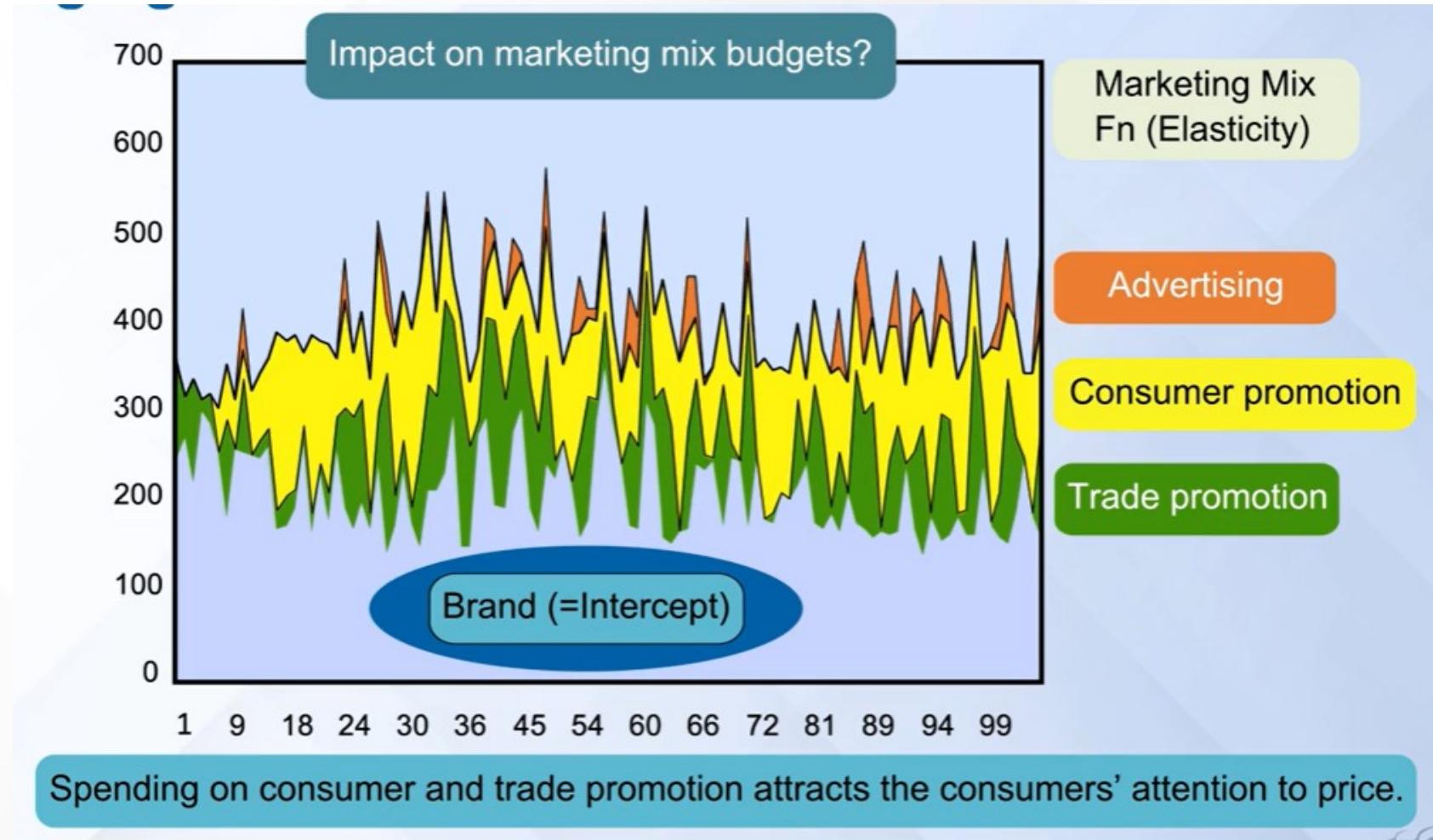


$$\begin{aligned} \text{Market share} = & B_01 + B_02 + \dots + B_{0n} \\ & + \\ & B_1 * \text{Advertising} \\ & + \\ & B_2 * \text{Trade promotion} \\ & + \\ & B_3 * \text{Consumer promotion} \\ & + \\ & \text{Error} \end{aligned}$$

Managing Price Promotions and Advertising



Managing Investment



Consumer Price Sensitivity



Consumer becomes more and more price sensitive.

Marketplace Strategy



Important to remember that:
Consumer preference is due to brand reinforcement.
Still, budget is allocated to consumer promotions and not to advertising.

- How to support pricing activities in the marketplace?
- Should price promotions be used for the short run?
- How should differentiation be used in the long run?

Manufacturer and Retailer Brand

Manufacturer Brand vs Retailer Brand

Manufacturer brand

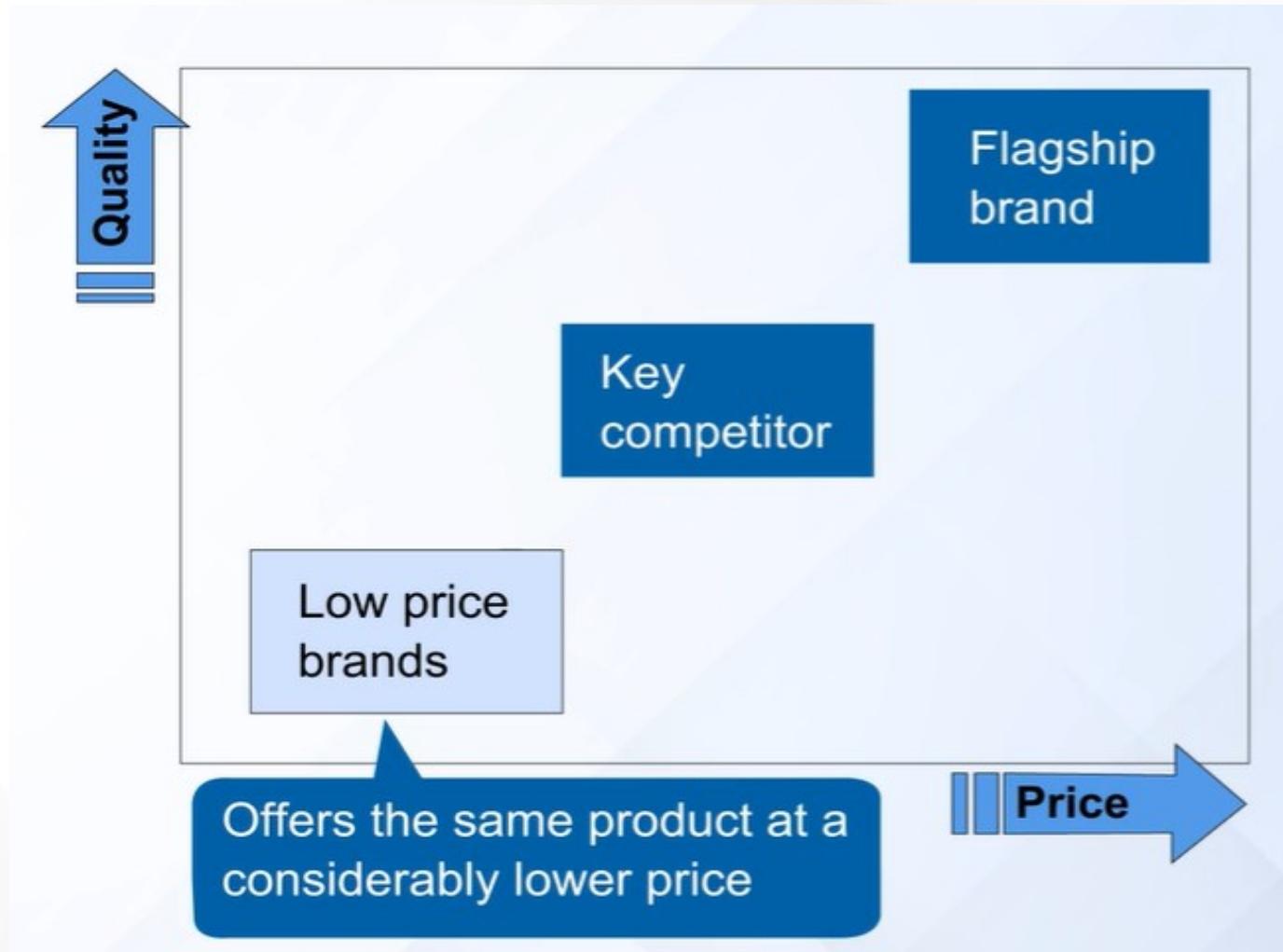


Retailer brands

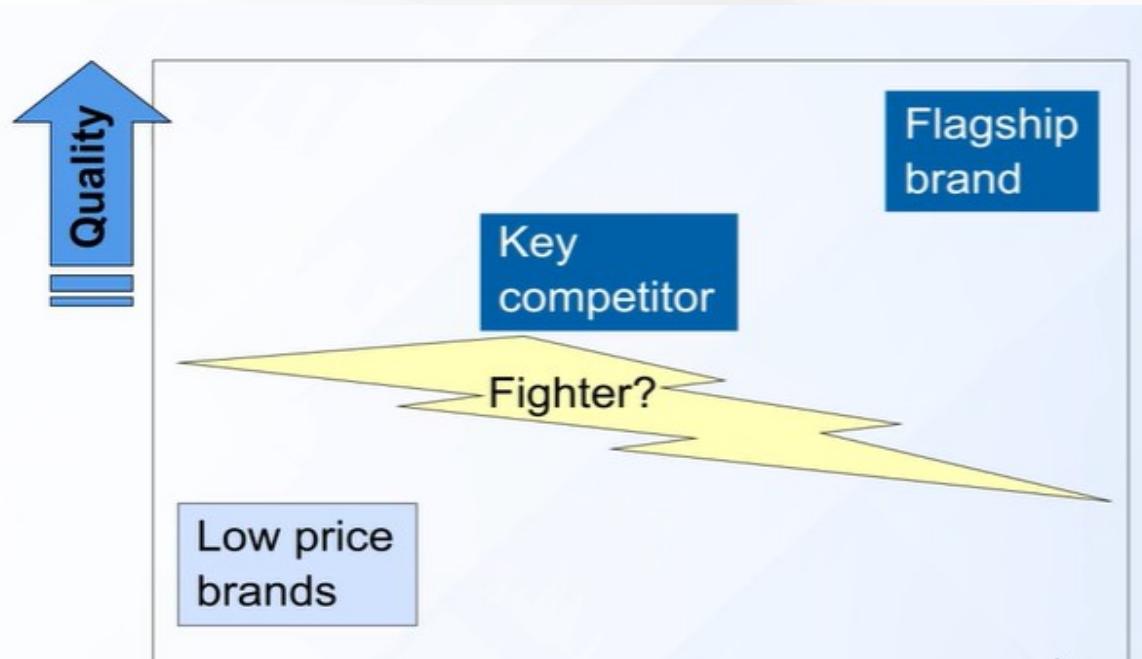


Retailers are duplicating the manufacturer's product.

Brands in Market



Launch Fighter Brand

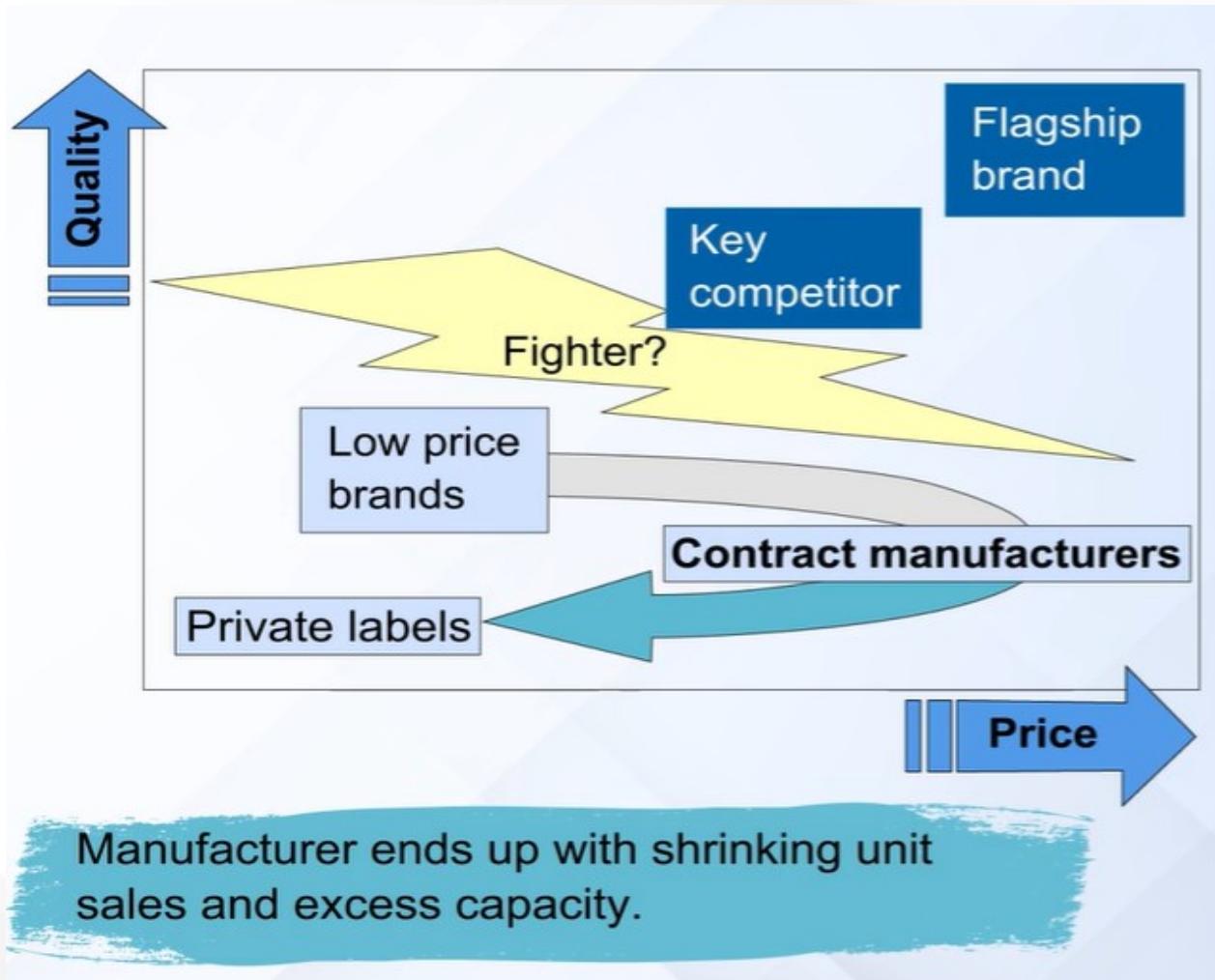


Launch a fighter brand at a price brand that competes with the low-price competitor

Impact of Fighter Brand

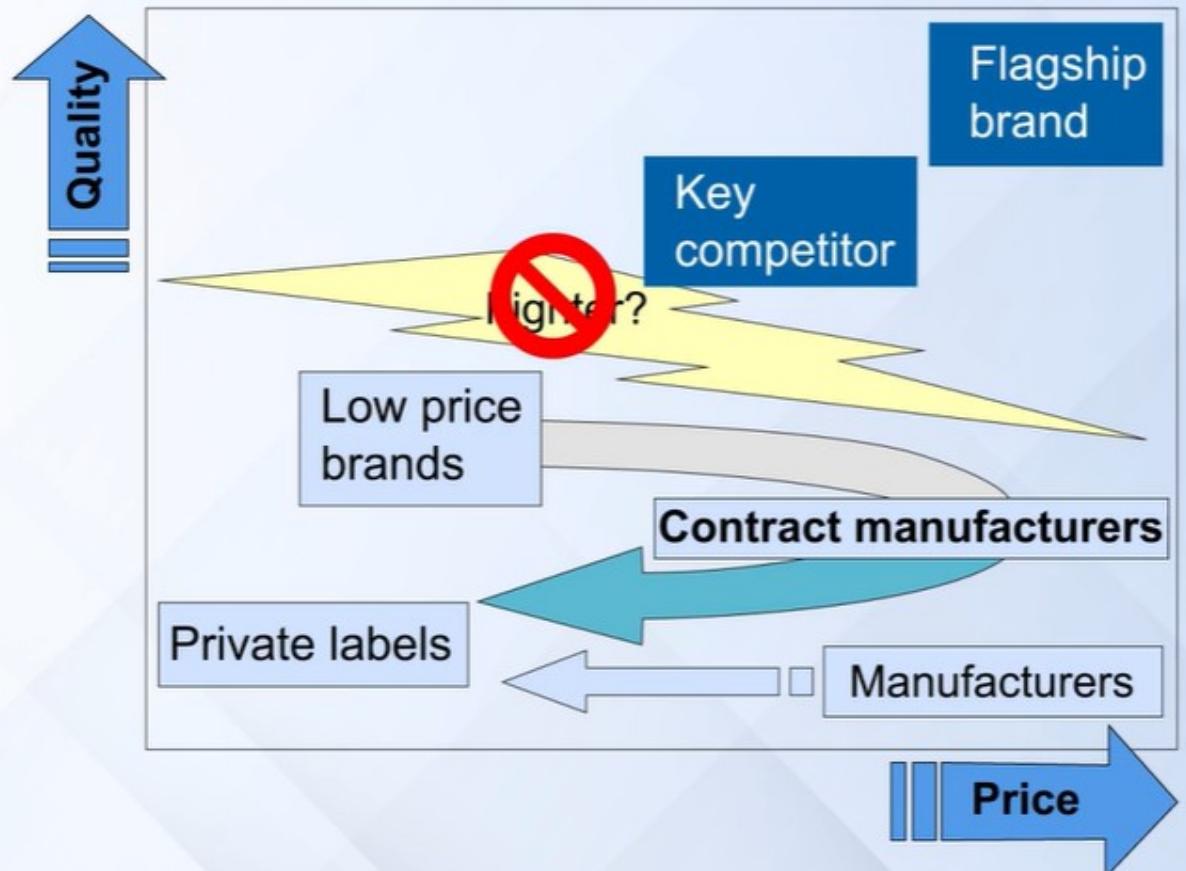
- The fighter brand takes away sales from the low-price competitor.
- The low-price competitor is not able to match volume.
- The market realises the similarity between the fighter and flagship brand.
- The fighter brand takes away sales from the flagship brand.
- The low price brand starts to go out of business.

Entry of Private Labels

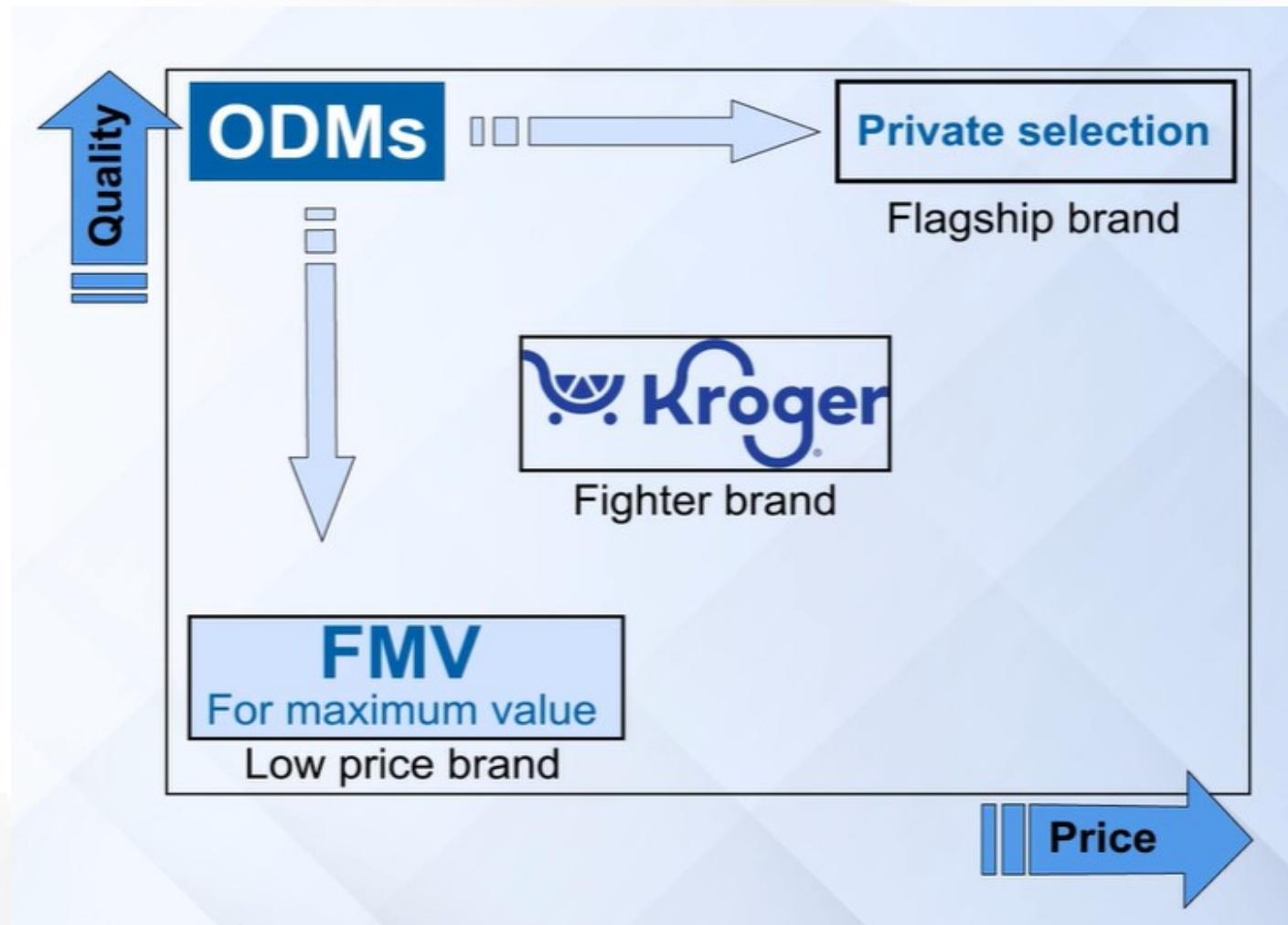


Consequence of Private Labels on Fighter Brand

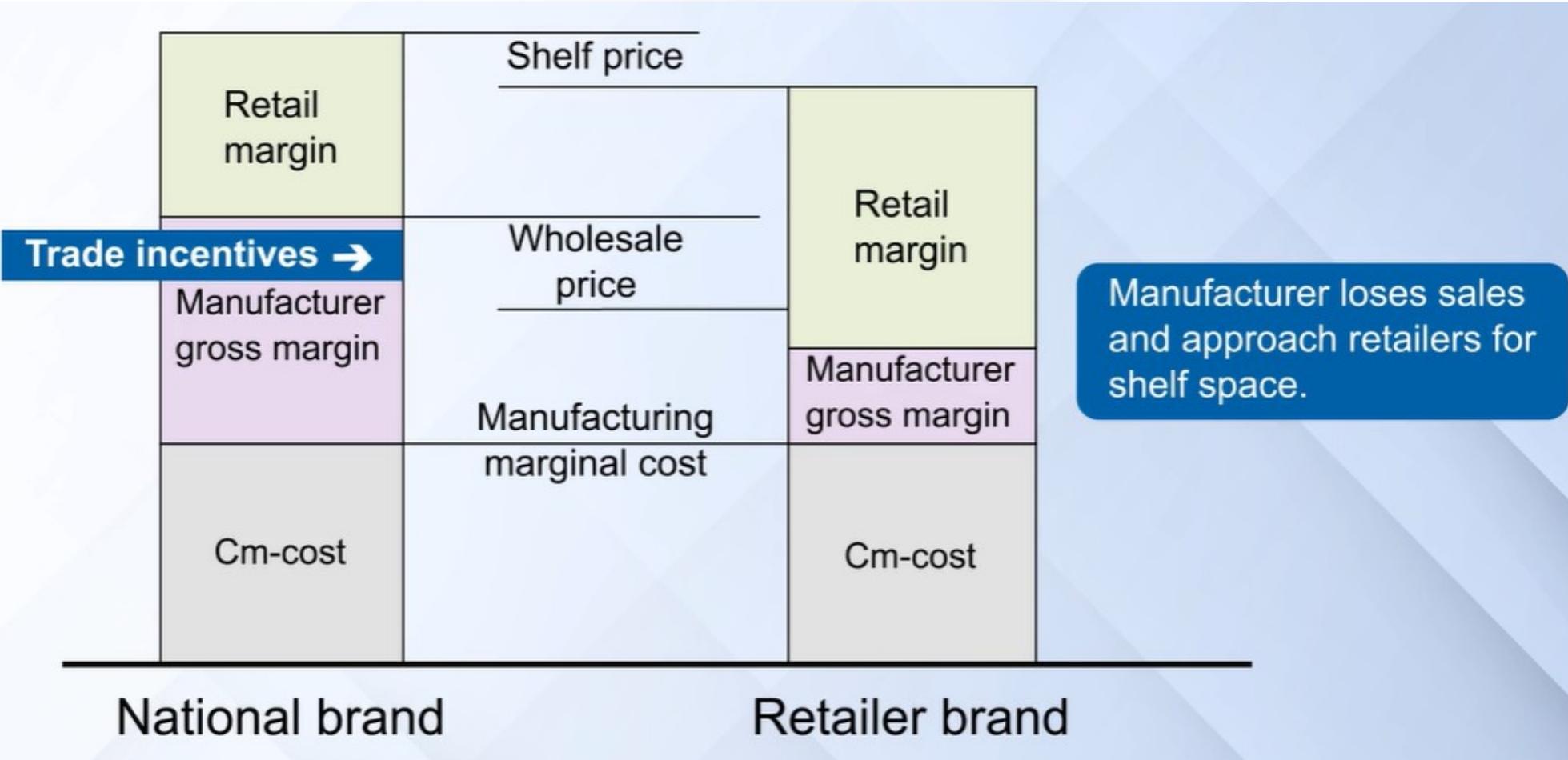
- The manufacturer sells excess capacity to the retailer.
- The retailer does not give shelf space to the fighter brand.



History of Misguided Brand Positioning



Impact of Misguided Pricing/Distribution Decisions



Increase Manufacturer Margins



profit margin

To avoid a shrinking profit margin, a manufacturer must:

- Have a differentiated product
- Ensure that the end consumer is willing to buy their brand

Shift of Powers to Retailers due to Technological and Exogenous Disruptions

Impact of Emerging Technologies



Shift of power to retailers because of technological and competitive disruption

Flipkart Business Model



Adapting and Redefining Markets: Cash on Delivery



Shifted to the process of cash on delivery to cater to customers without credit card

Adapting and Redefining Markets: Regional and Local Warehouse



Increases the time or reduces the geographical spread served out of the warehouse

Advantages of Local Warehouse



- Product was available locally and the delivery boys could deliver it the same day
- Product became available at corner store

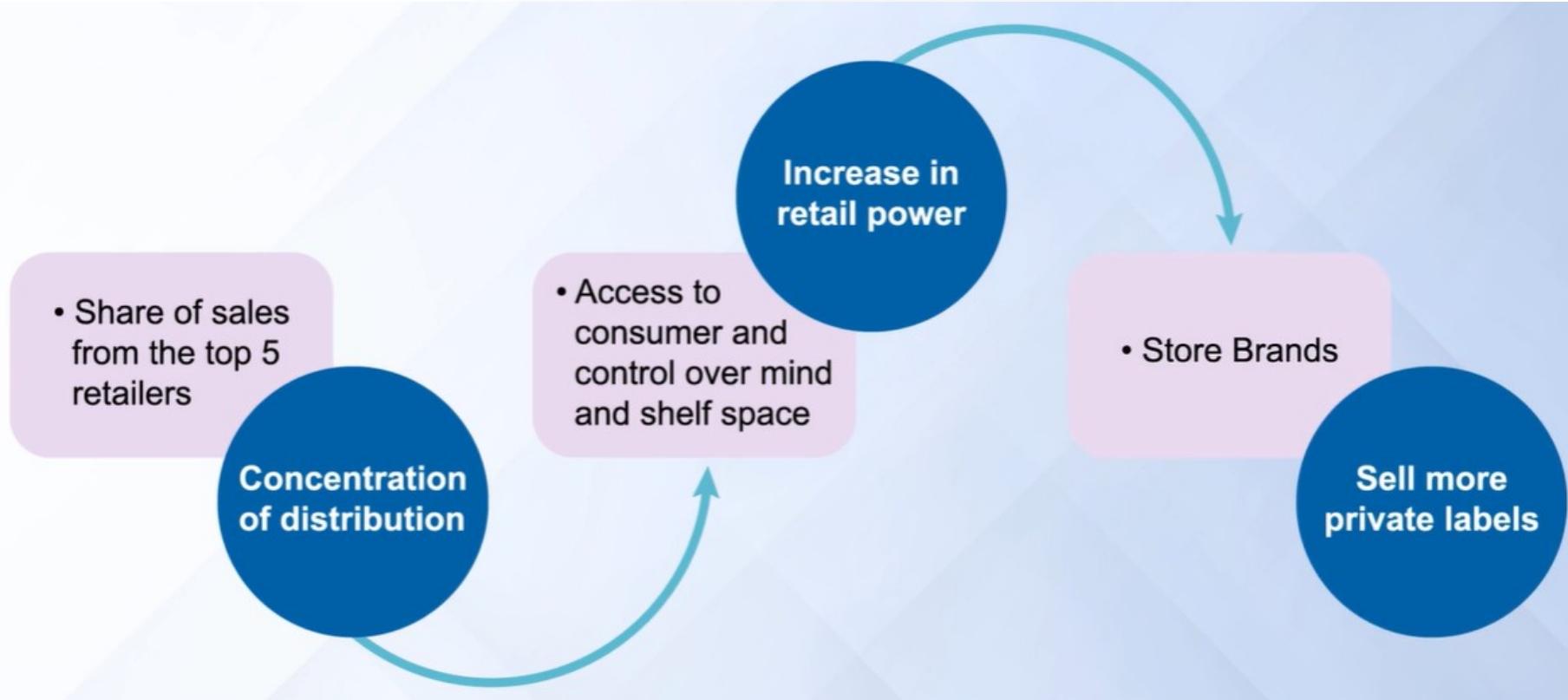
Omni-Channel Retailing



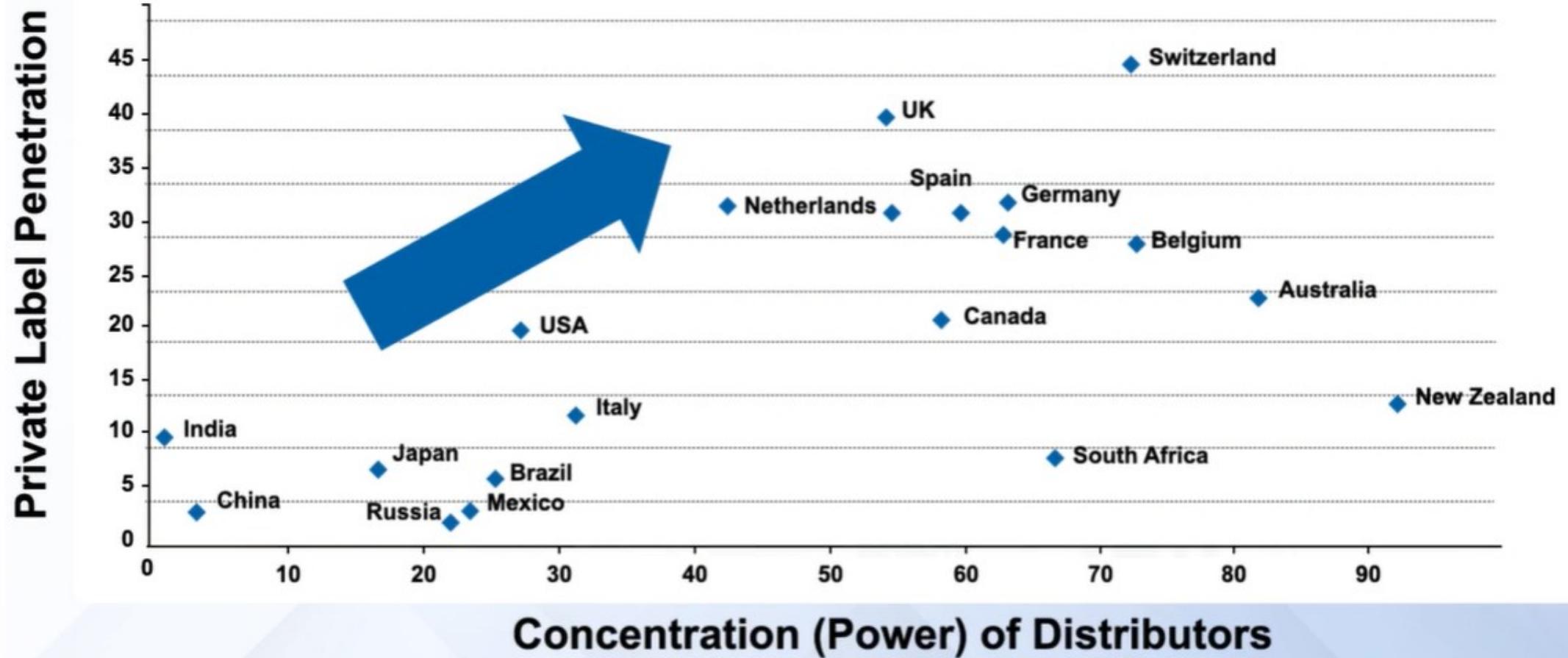
Buyers can:

- Buy on a physical enterprise
- Buy on the Internet
- Have the product delivered

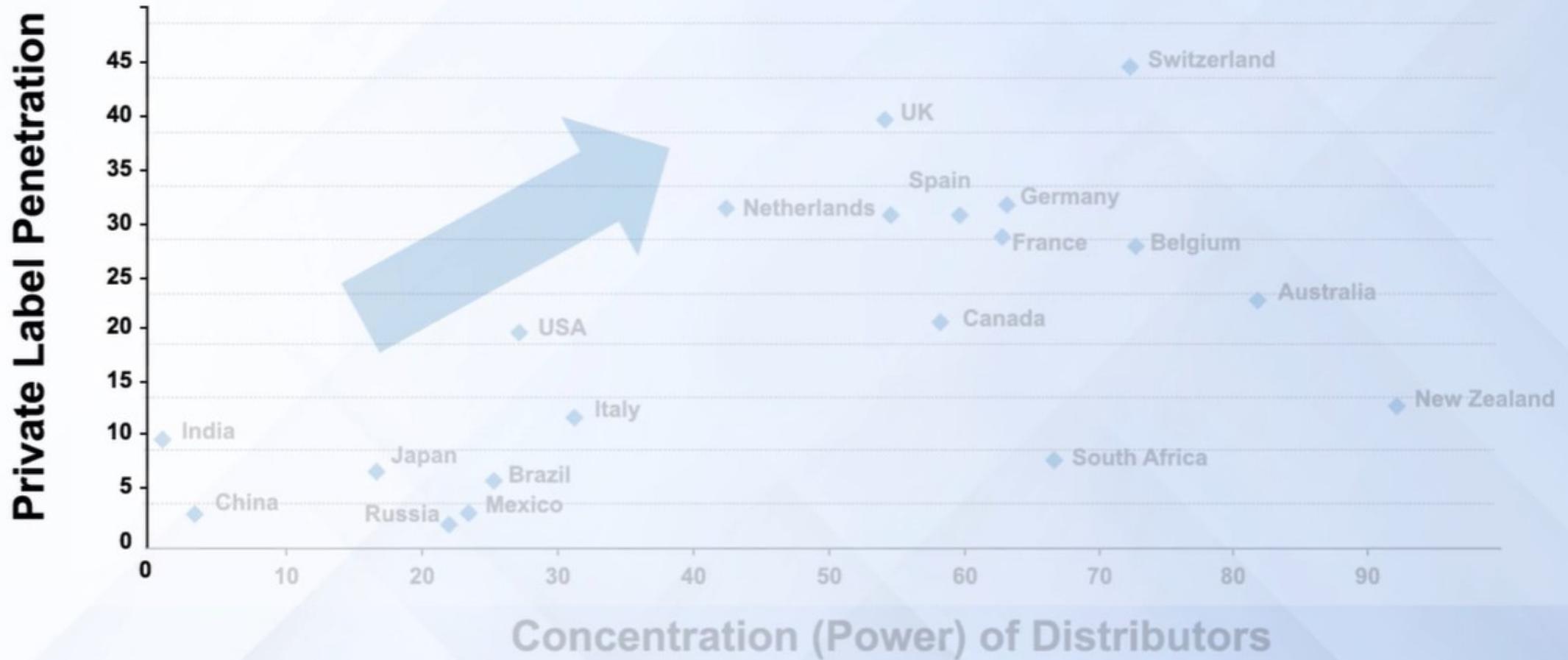
Business Innovation and Organisational Transformation



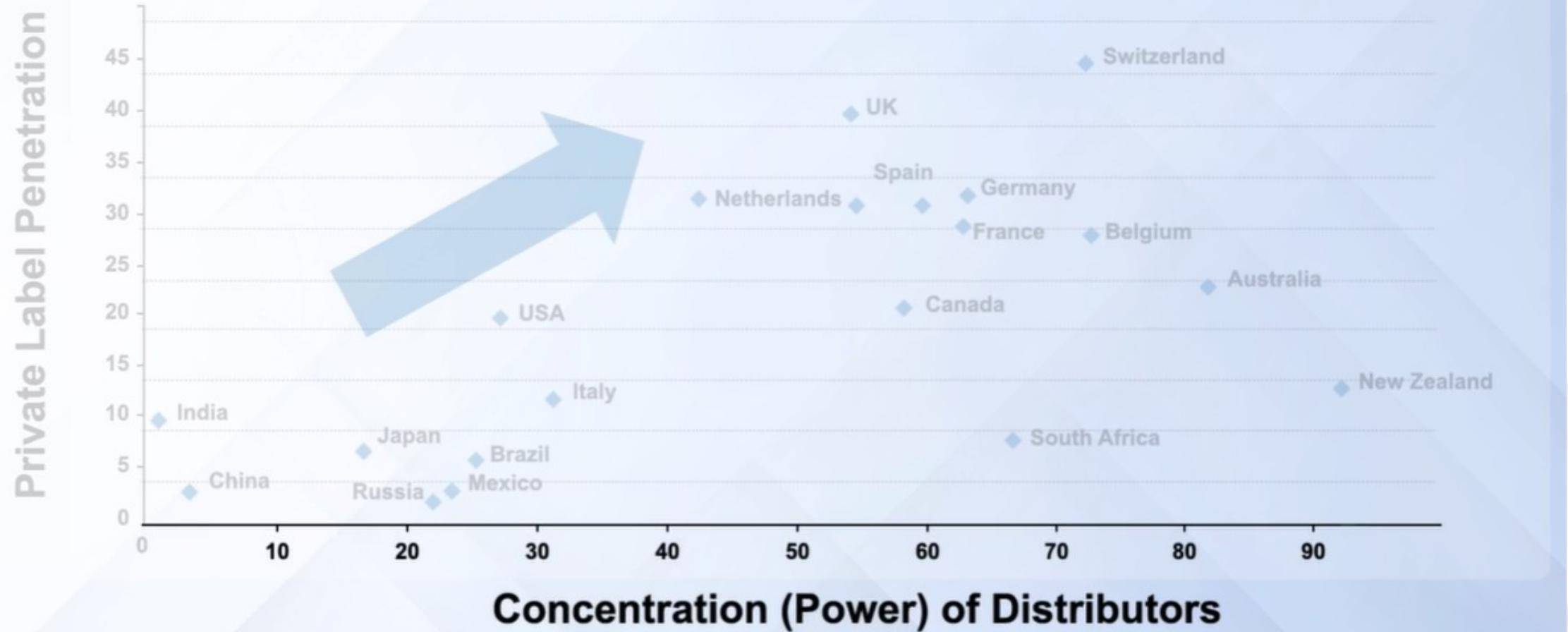
Concentration of Distribution Power Drives Private Labels



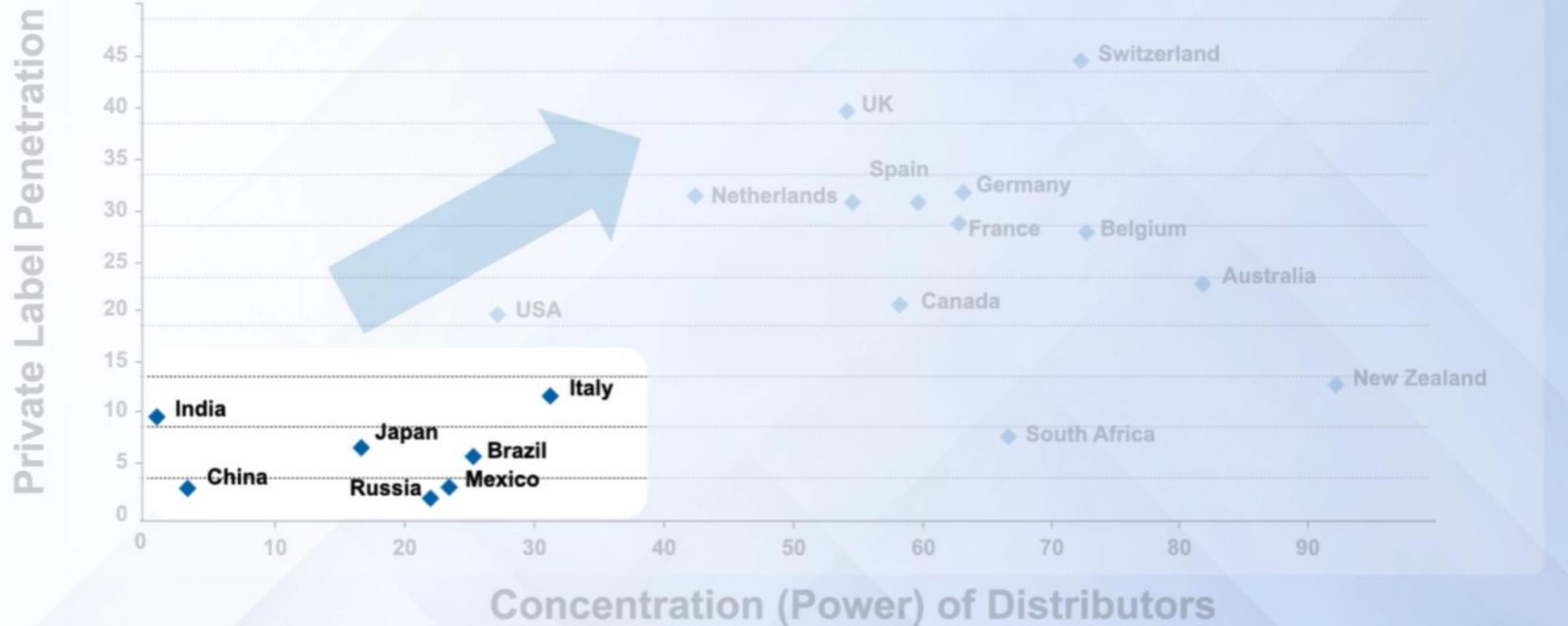
Concentration of Distribution Power Drives Private Labels



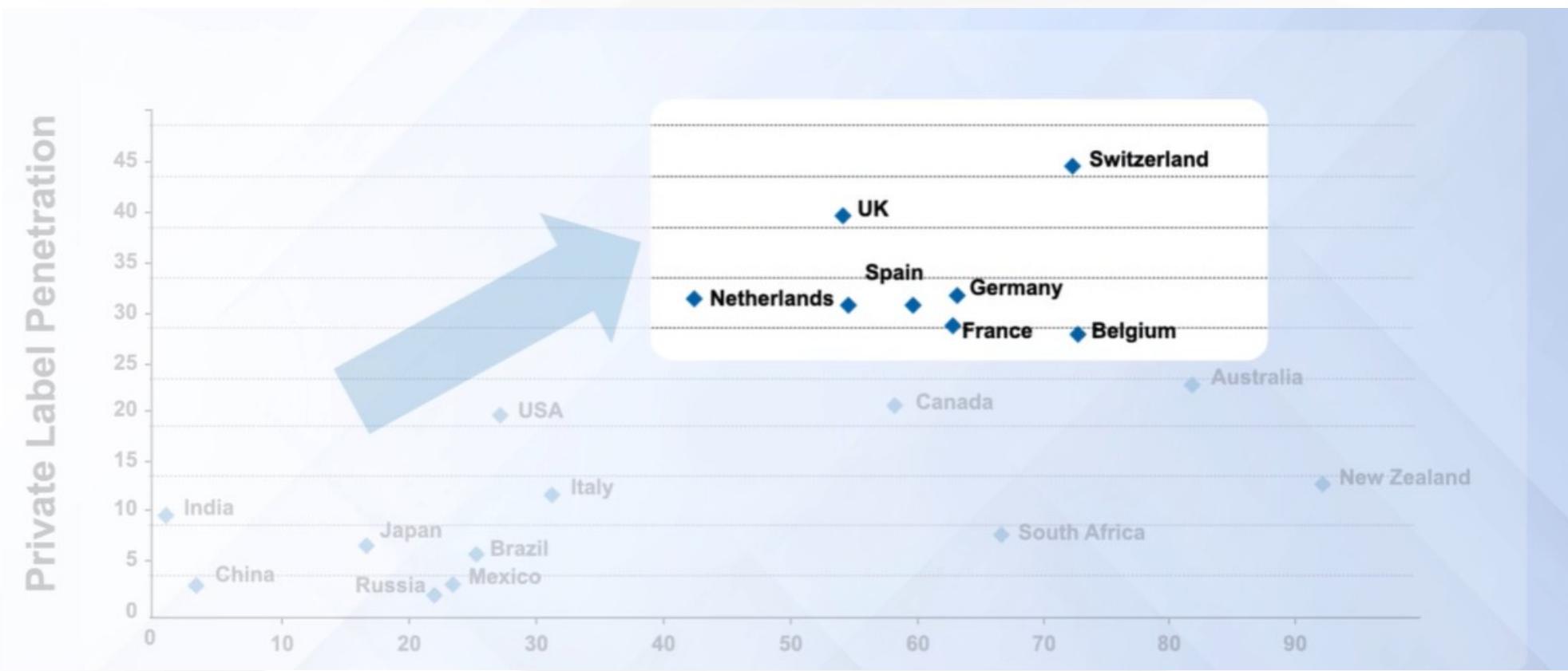
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Business Innovation: Amazon

A12 | Tuesday, September 17, 2019

THE WALL STREET JOURNAL.

Amazon Changes Search

WSJ, September 17, 2019

Amazon Changes AI/ML Search Algorithms to Favour OWN and Higher Margin Products and Services

brands or products offered by our selling partners."

Antitrust regulators for decades have focused on whether companies use market power to squeeze out competition. Amazon avoided scrutiny partly because its competitive marketplace of merchants drives down prices.

Now, some lawmakers are calling for Washington to rethink antitrust law to account for big technology companies' clout. In Amazon's case, they say it can bend its dominant platform to favor its own products. Sen. Elizabeth Warren (D., Mass.) has argued Amazon stifles small businesses by unfairly promoting its private-label products and underpricing competitors. Amazon has disputed this claim.

During a House antitrust hearing in July, lawmakers pressed Amazon on whether it used data gleaned from other sellers to favor its own products. "The best purchase to you is an Amazon product," said Rep. David Cicilline (D., R.I.). "No that's not true," replied Nate Sutton, an Amazon associate general counsel, saying Amazon's algorithms are optimized to predict what customers want to buy regardless of the seller.

House Judiciary Committee leaders recently asked Amazon to provide executive communications related to product searches on the site as part of a probe on anticompetitive behavior at technology companies.

Amazon says it operates in fiercely competitive markets, it represents less than 1% of global retail and its private-label business represents about 1% of its retail sales.

Amazon executives have sought to boost profitability in its retail business after years of focusing on growth. A ma-

line from that principle: "Leaders start with the customer and work backwards."

One former Amazon search executive said: "We fought tooth and nail with those guys, because of course they wanted preferential treatment in search."

For years, A9 had operated independently from the retail operations, reporting to its own CEO. But the search team, in Silicon Valley about a two-hour flight from Seattle, now reports to retail chief Doug Herrington and his boss Jeff Wilke—effectively leaving search to answer to retail.

After the Journal's inquiries, Amazon quietly ditched A9 web lab, which had stood for about a decade and a half. The site included the statement: "One of A9's tenets is that relevance is in the eye of the customer and we strive to get the best results for our users."

Mr. Herrington's retail team lobbied for the adjustment to Amazon's search algorithm that led to emphasizing profitability, some of the people familiar with the discussions said.

When a customer enters a search query for a product on Amazon, the system scourrs all listings for such an item and considers more than 100 variables—some Amazon engineers call them "features." These variables might include shipping speed, how highly buyers have ranked product listings and recent sales volumes of specific listings. The algorithm weighs those variables while calculating which listings to present to the customer and in what order.

The algorithm had long placed a priority on variables such as unit sales—a proxy for popularity—and search-term relevance, because they tend to predict customer satisfaction. A listing's profitability to

When engineers test new variables in the algorithm, Amazon gauges the results against a handful of metrics. Among these metrics: unit sales of listings and the dollar value of orders for listings. For metrics that correlated with high customer satisfaction and helped determine the ranking of listings a search presented to the customer.

Now, engineers would need to consider another metric—improving profitability—said the people who worked on the project. Variables added to the algorithm would essentially become what one of these people called "proxies" for profit: The variables would correlate with improved profitability for Amazon, but a outside observer might not be able to tell that. The variable could also inherently be good for the customer.

For the algorithm to understand what was most profitable for Amazon, the engineers had to import data on contribution profit for a item sold, these people said. The laborious process meant extracting shipping information from Amazon warehouse to calculate contribution profit.

In an internal system called Weblab, A9 engineers tested proposed variables for the algorithm for weeks on behalf of Amazon shoppers and compared the impact on contribution profit, unit sales and few other metrics against a control group, these people said. When comparing the results of the groups, profitability now appeared alongside other metrics on a dashboard called the "dashboard."

Amazon's A9 team has since added new variables that have resulted in search results that scored higher on profitability metric during a person's

FROM PAGE ONE



Amazon CEO Jeff Bezos proclaims a 'customer obsession' mantra.

Top Billing

When people search for products on Amazon, nearly two-thirds of all product clicks come from the first page of results...

First page	Row 1	2	3	4	5	6	7	8
Other pages	0	20	40	60%				

...so the proliferation of Amazon's private-label products on the first page makes it more likely people choose those items.



Amazon private-label products

amazon prime

men's button down shirts

Search results for men's button-down shirts showing various shirt options.

Target Brands



Amazon Owned Brands



Shift Direct to Consumer Strategies

Advantages of Partnerships



Disadvantages of Partnerships



- Walmart will become very powerful
- A positive relationship might turn into an acrimonious one
- Lead to friction between manufacturers brand and retailer brands

Shopify Partner Ecosystem

Shopify was not competing with manufacturers, but helping them.

App development



Product development



Web design



Account/advertising
agencies



Shopify Partner Ecosystem



Amazonas a Marketplace

	amazon	shopify
Marketplace	✓	✗
Interactive platform	✓	✗
Delivery mechanism	✓	✗

Walmart- Shopify Partnership

	amazon	shopify
Marketplace	✓	✓
Interactive platform	✓	✓
Delivery mechanism	✓	✓

Shopify-Walmart Partnership



Stock prices of Shopify went up by almost 10% on the day partnership with Walmart was announced.

Shopify vs Amazon: Growth Comparison



Amazon Seller University

**HOW TO START SELLING
ON AMAZON**

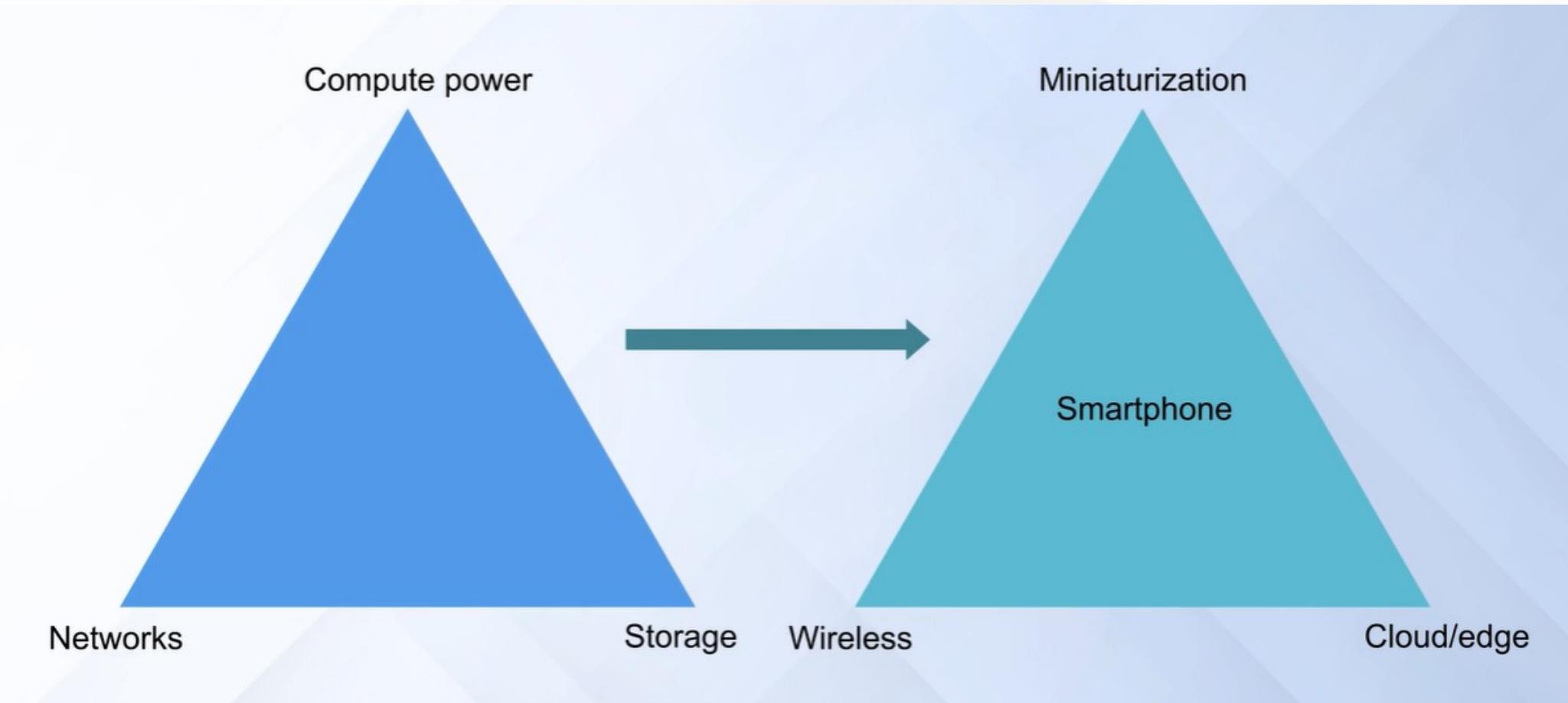


amazon.in

Seller University

- Educate clients to use online platform more effectively
- Support online retail activities through Amazon FBA

Technological Evolution and Information



Amazon: A Growing Trend



Amazon: A Growing Trend



Amazon vs Google

OPINION

Will Google be Amazoned?

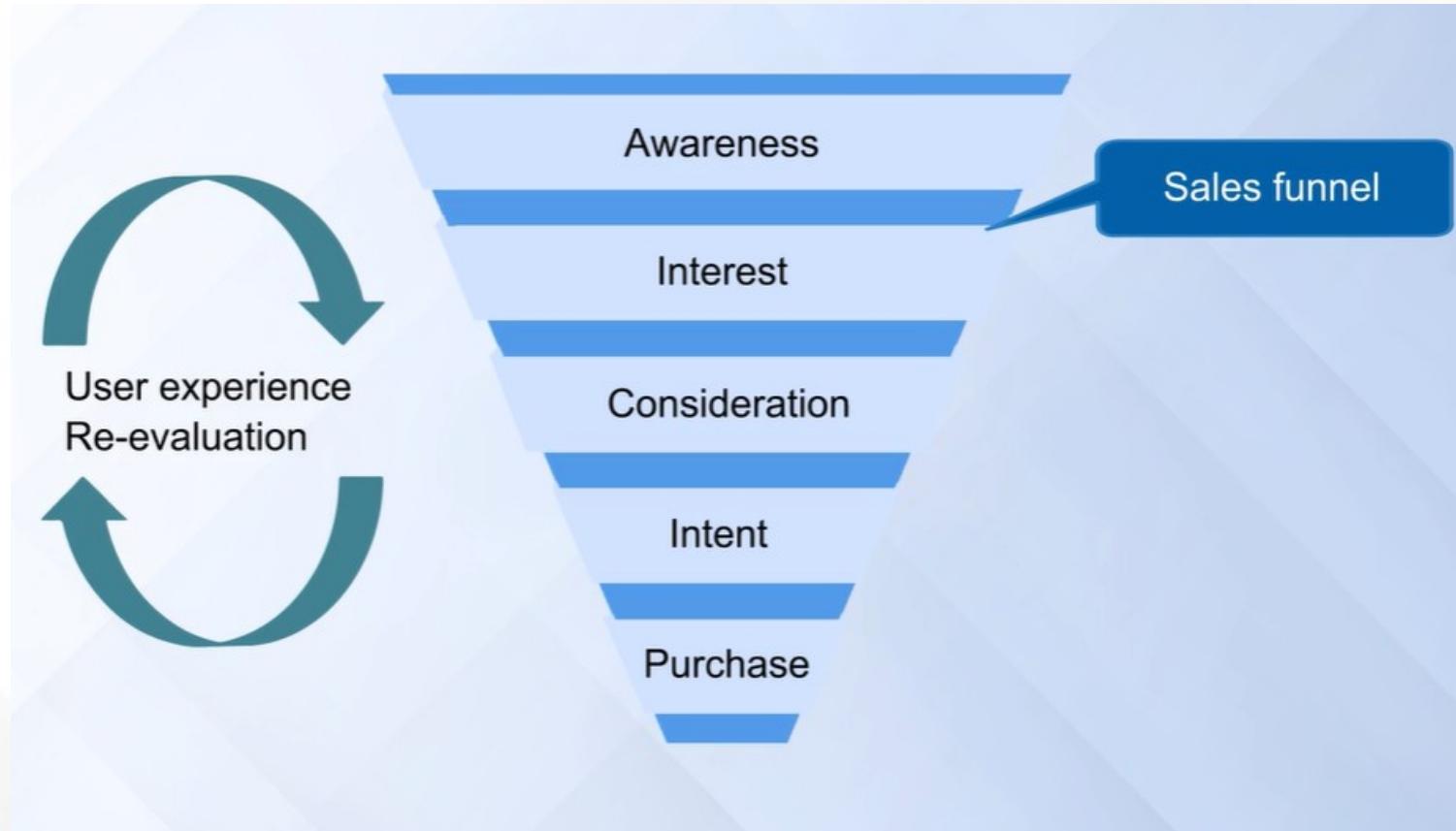
With more than 50% of product searches now originating on Amazon, Google has a reason to be worried.

By PIYUSH SHARMA AND RAJENDRA SRIVASTAVA, Apr 7, 2019 | 6 min read



READ MORE

Sales Funnel and User Re-evaluation

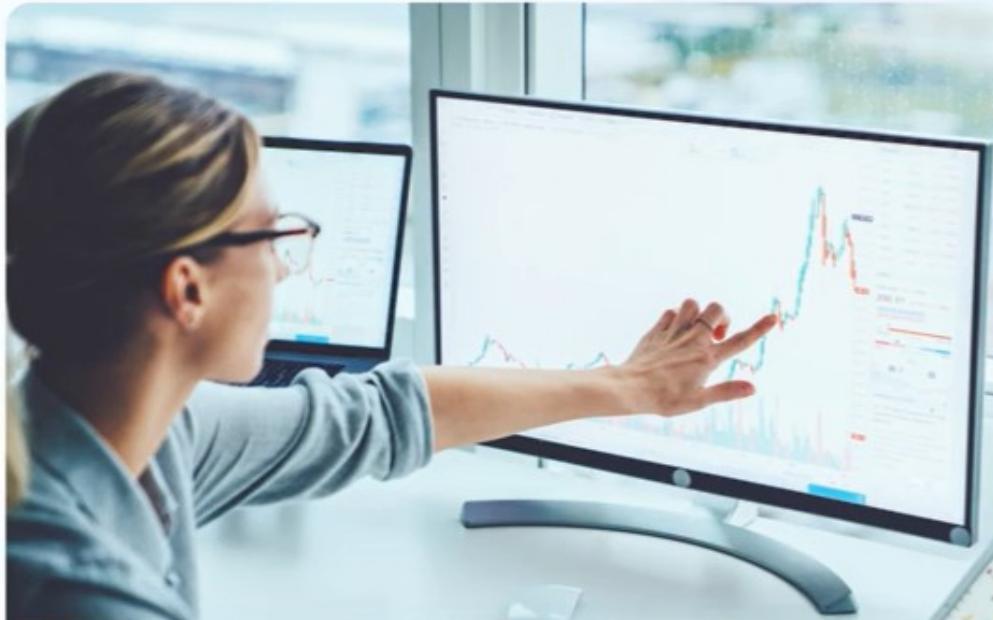


Amazon vs Google

amazon		Google
Purchase/repurchase information	✓	
Attitudinal analysis	✓	
Purchase/repurchase behaviour	✓	
Biographics	✓	Trying to build these capabilities through Google Pay, etc.

Leveraging Data and Technology to Drive Business Value in Dynamic Markets

Leveraging Data for the Marketplace



We are leveraging data to generate insights about the marketplace and thereby making it more dynamic.

Dynamic pricing: American Airlines



Sabre helped American Airlines to:

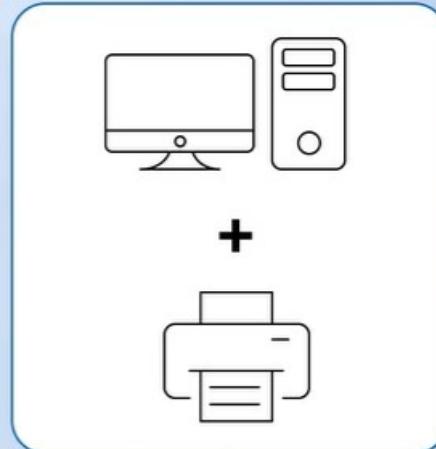
- Tell how many seats were or were not sold on a particular flight
- Forecast sales based on the outcomes of previous week
- Make adjustments to prices to ensure better sales in the future

Dynamic Pricing: Dell

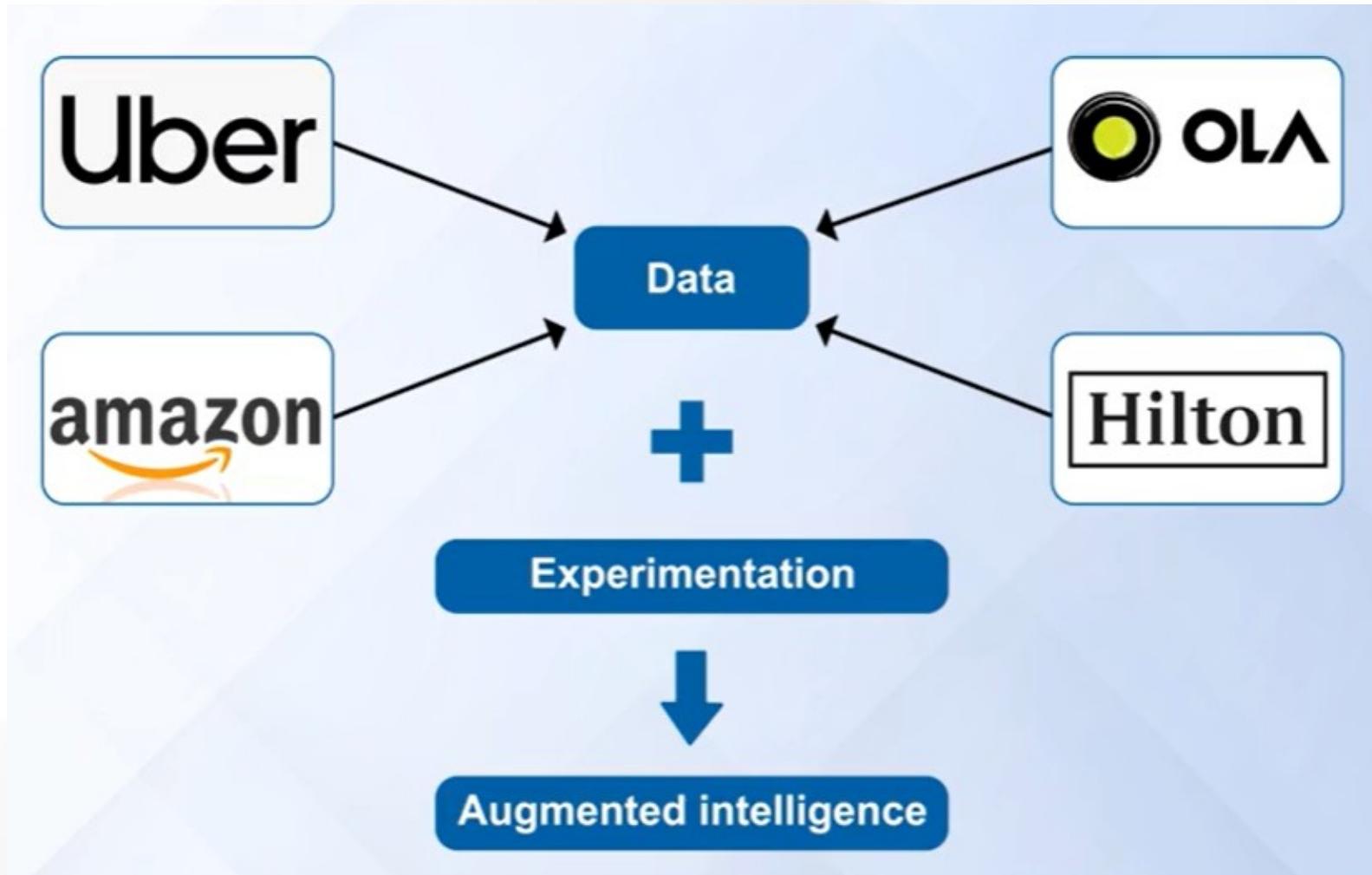
Price experimentation

Day	Price
Mon	\$20
Tue	\$30
Wed	\$40
Thurs	\$15
Fri	\$10

Bundling



Information-Based Business Innovations: Dynamic Pricing



Logic of Dynamic Pricing

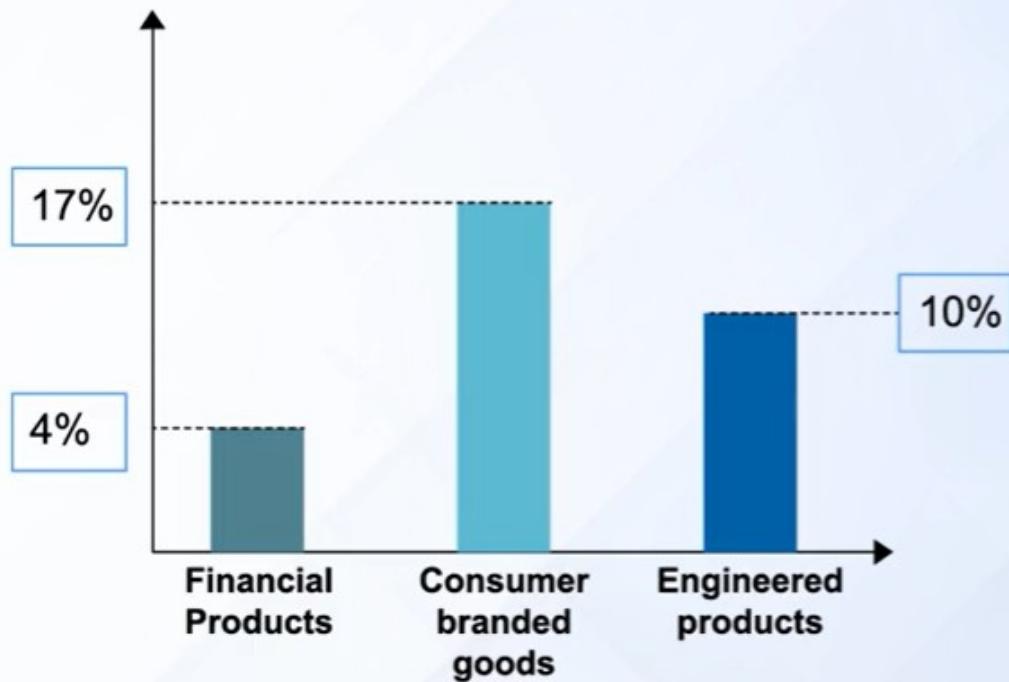


Logic of Dynamic Pricing



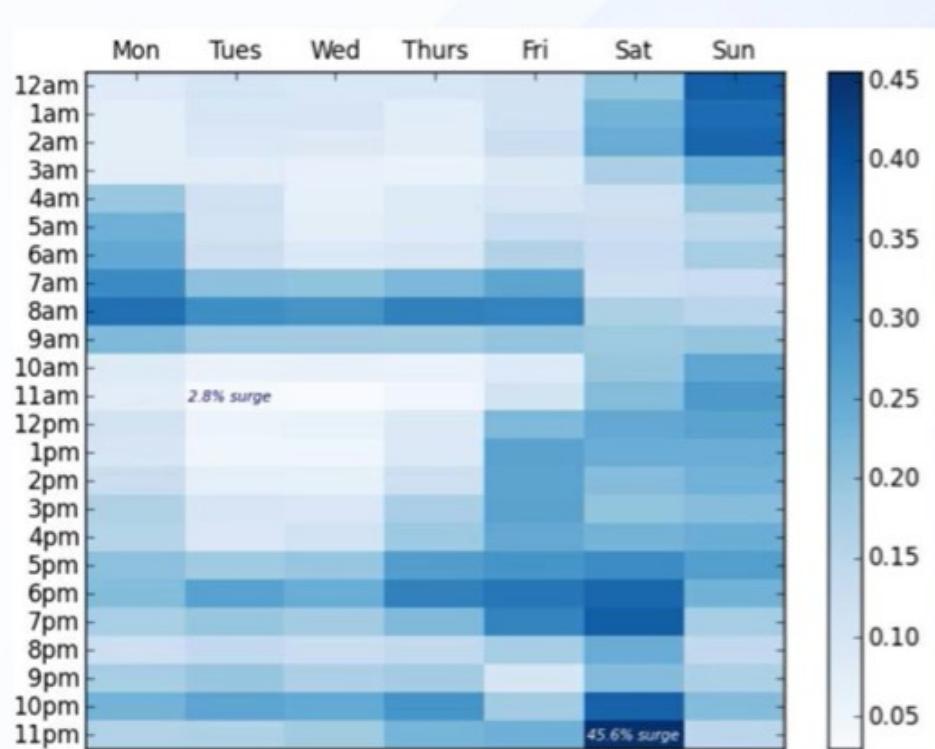
Dynamic pricing is also referred to as **surge pricing**

Dynamic Pricing and Latitude of Price Acceptance (LPA)



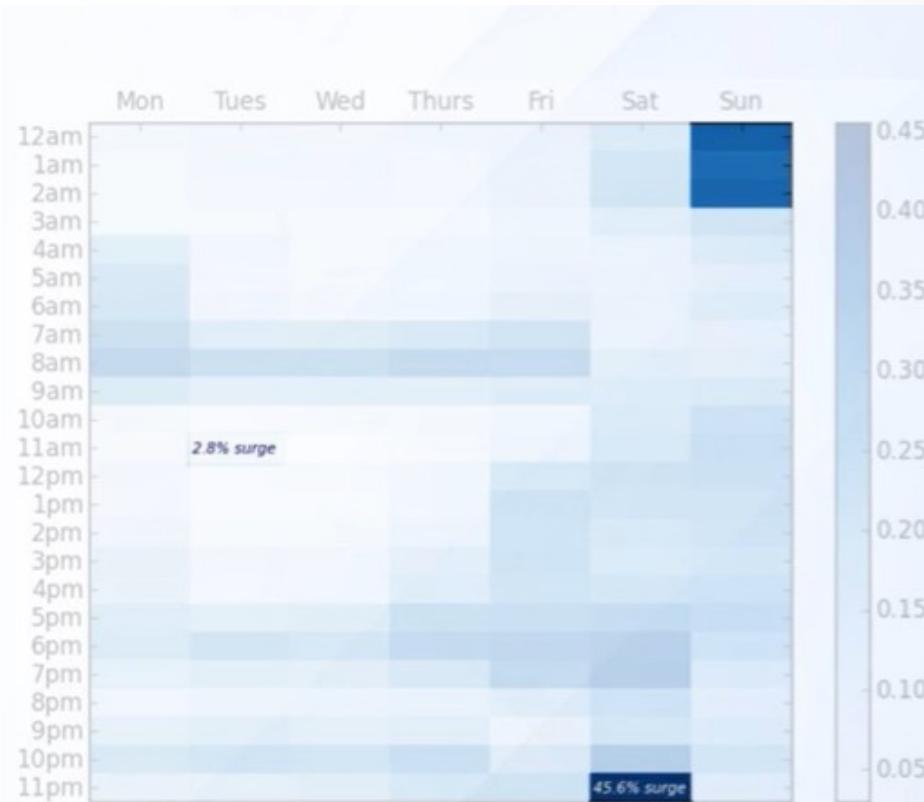
- What is the **latitude of price acceptance?**
It is the range of possible prices within which there is no impact on purchase decision.
- Dynamic pricing enables firms to capture higher end of an LPA price band that can substantially increase profits.

Dynamics of Uber's Surge Pricing



- The heat map shows the frequency of surges by hour of day and day of week for UberX.

Dynamics of Uber's Surge Pricing



- The heat map shows the frequency of surges by hour of day and day of week for UberX.
- When the demand is higher, the price surge will happen
- Uber, Lyft and Ola started offering fare splitting and ride sharing with other people for cheaper rides.

Dynamic Pricing: Competition



vs



Taxi services driven
by radio technology

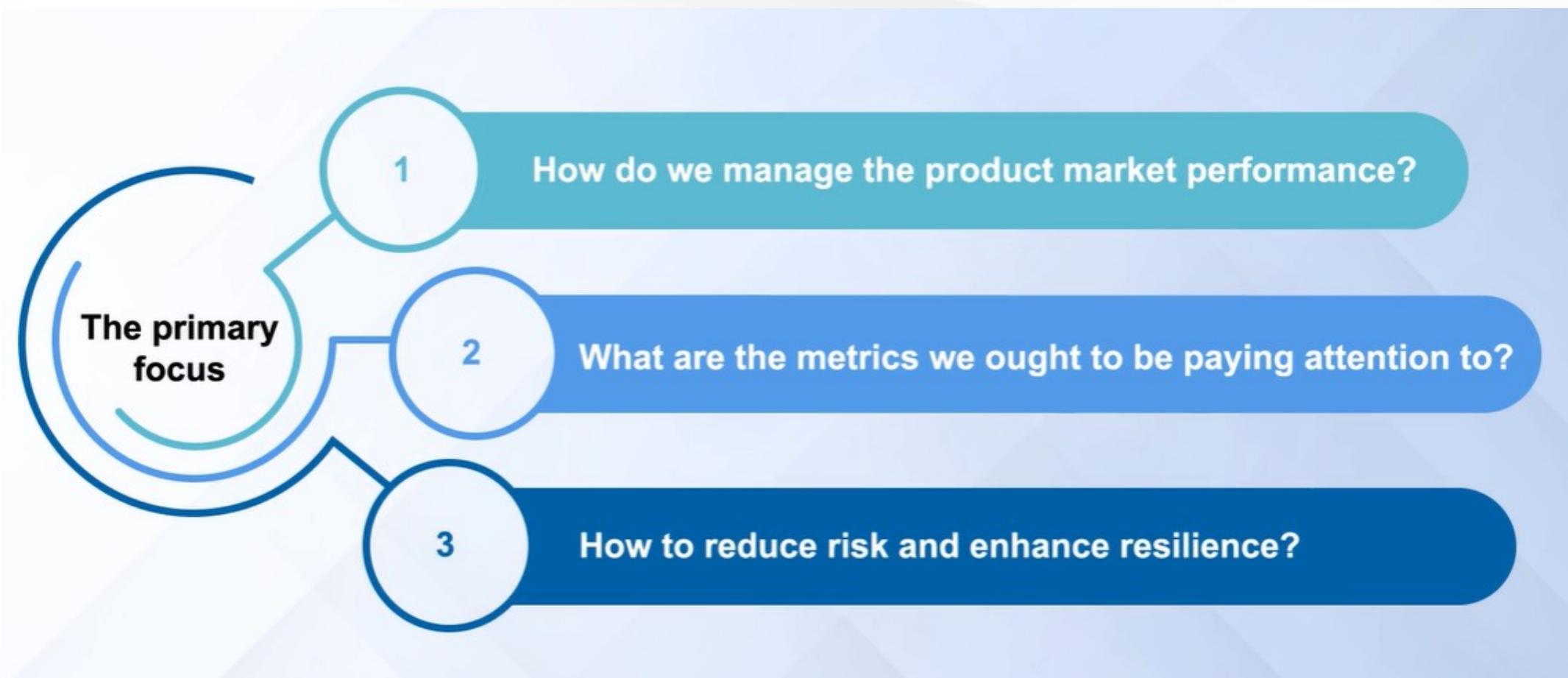
Uber and Ola services
driven on real time
data analytics

Summary

Summary



Module 11





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