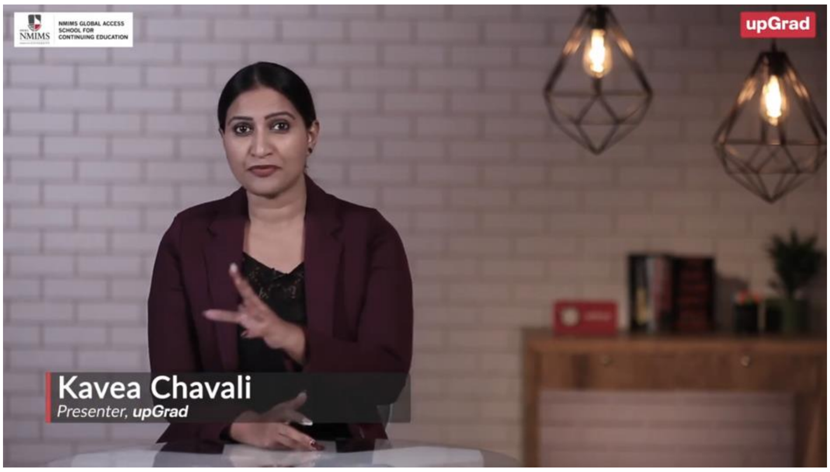
Transcription

Pricing Strategy



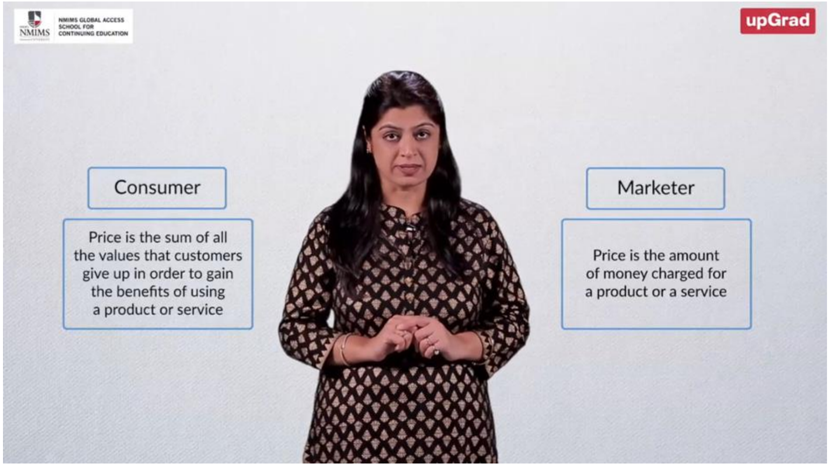
If you look at the google trends for the keywords feature and price for the last 5 years in India, then you will find, the latter has always superseded the former. In the las session you learnt about the importance of features in your product. However even if a product has all the desirable features but is not priced appropriately, then it poses a threat of being unsuccessful. Let's hear from Professor Chavvi about the importance of pricing of a product.

Let's quickly recall what we've learnt till now. We started by segmenting our market, selecting our target market and now. The objective is to position our brand in the minds of our target market. We have also formulated our product strategy. Now, why is pricing one of the levers of positioning a brand? Let's try and understand. Adidas sells three types of shoes at three different price points.

- You can pick up the Adidas Cloudfoam for around Rs. 3000.
- For the Adidas Bounce, you need to shell out Rs. 6000.
- And for the Adidas UltraBoost, you need to spend upwards of Rs. 10000.

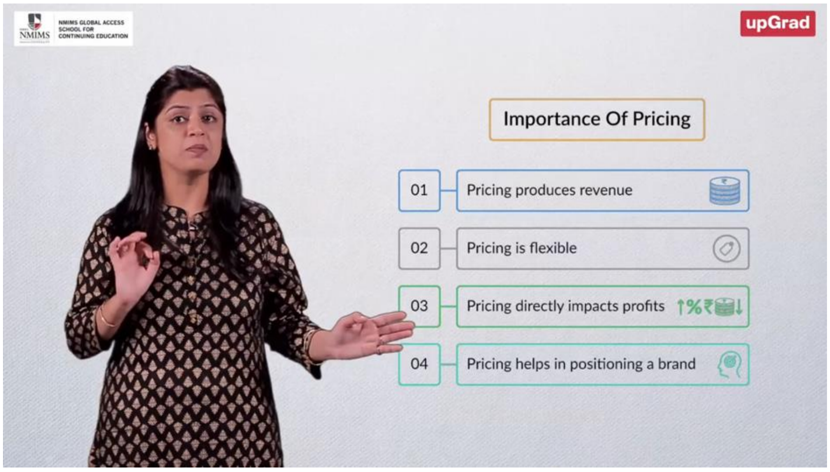
Adidas sells each of these brands on the same pitch – it feels like you're walking on cloud. But, which of the 3 brands do you feel is the Softest, bounciest and the most comfortable?

Pricing sends out a powerful message to the consumer. Most of you would not have interacted with all the 3 types of shoes that Adidas sells. But simply the price sends out a strong message. We talked about this earlier when we talked about consumer perception being a strong influencer in the purchase decision.



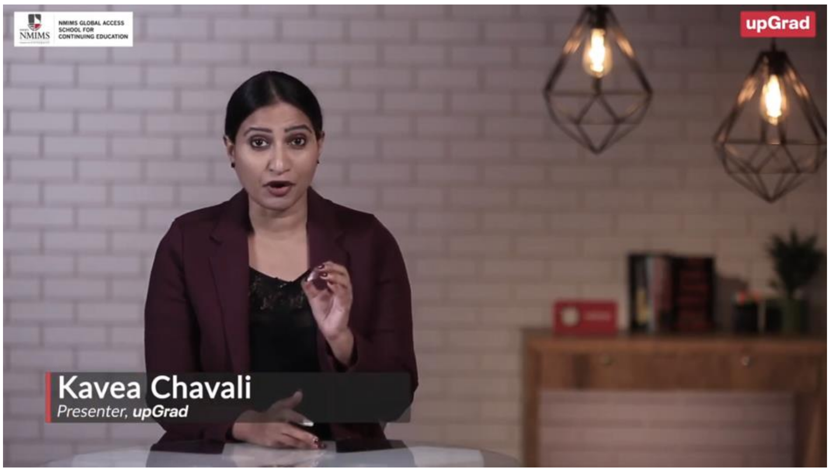
Price has two definitions – one from the point of view of a marketer and one from the point of view of the consumer. From a marketer's perspective, the price is the amount of money charged for a product or a service. From the consumer's point of view, price is the sum of all the values that customers give up in order to gain the benefits of having or using a product or service.

Why is pricing such a powerful tool?

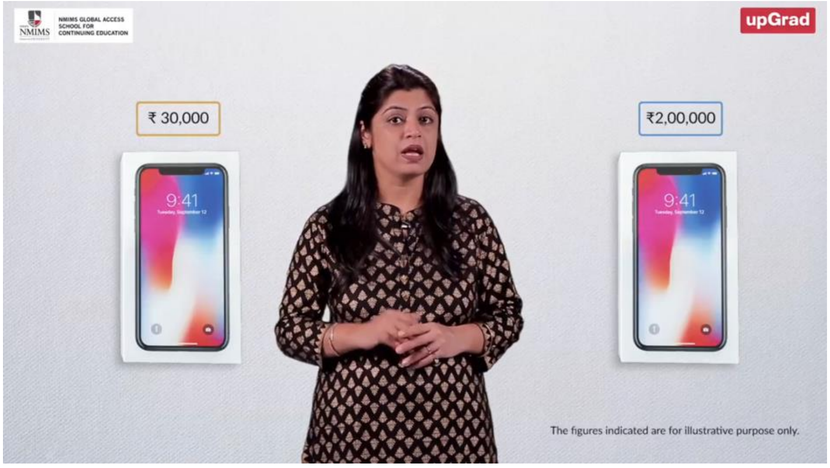


- First, pricing is the only element in the marketing mix that produces revenue; all other elements - product, place and promotion - represent costs.
- Price is also one of the most flexible marketing mix elements. Unlike product features and channel commitments, prices can be changed quickly.

- Prices have a direct impact on a firm's bottom line. A small percentage improvement in price can generate a large percentage increase in profitability.
- And finally and most importantly, price plays a key role in positioning a brand effectively in the minds of the consumer.



Now that you have learnt about the importance of correctly pricing a product, let's hear from Professor Chavvi about the various pricing strategies that can be used bu marketing managers to price their products.

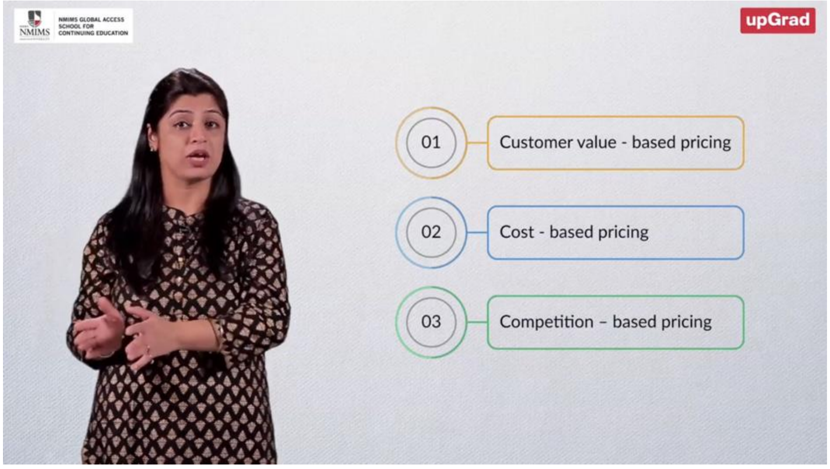


What if Apple launches the next iPhone at a price point of Rs. 30,000. Apple claims this is the best iPhone they have ever built and is the world's fastest smartphone. Would you buy it? What if Apple launches the same at Rs. 2,00,000. Again, this is the best phone in the history of smartphones and Apple claims that you'll experience something you've never experienced before. Would you buy this phone?

When it comes to pricing, brands need to operate between a ceiling and a floor. Customer perceptions of the product's value set the ceiling for its price. If the customer perceives that the product's price is greater than its value, they will not buy the product. For an Apple iPhone, for example, customers would expect to pay between 500 and 1200 dollars. The floor on the other hand is set by what it costs the company to make the product. The iPhone 11, for example, costs Apple close to 500 dollars to manufacture. So this 500 $ sets the floor. So an apple when it charges the customer 1100 dollars for the phone, is clearly above the floor.

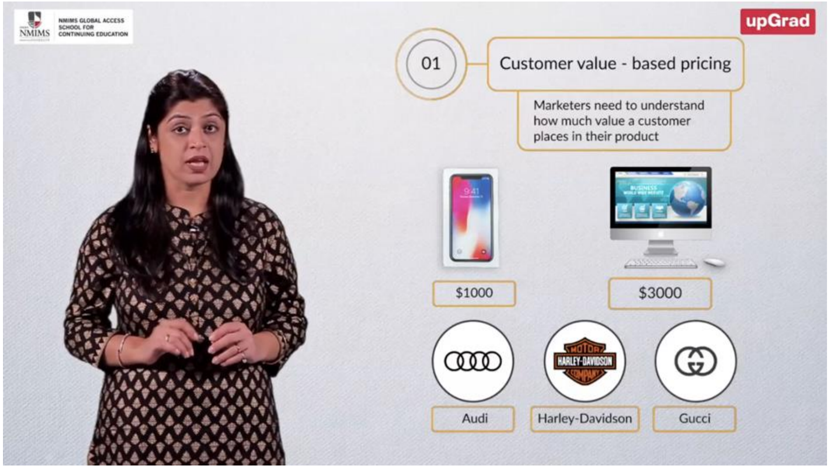
Brands would want to set their pricing somewhere between these 2 extremes. There are various factors that determine how close the pricing will be to either extreme:

- nature of market and customer demand
- the marketing and positioning strategy for the brand
- the competitor's pricing strategy

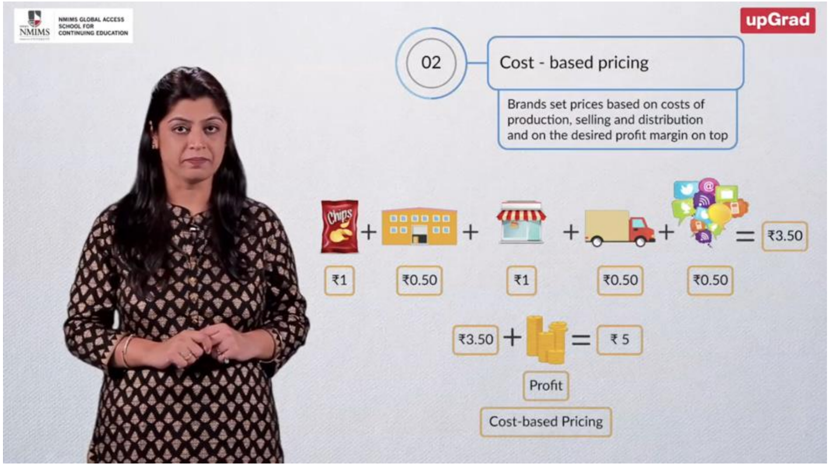


Mapped to this, there are three major pricing strategies:

- customer value-based pricing
- cost-based pricing
- competition-based pricing



In customer value-based pricing, marketers need to understand how much value a customer places in their product. This is what Apple does when they price their phones at 1000 dollars and their computers a 3000 dollars. This is true for all luxury brands and services, the price is based on customer perception and how much the customer is willing to pay.



In Cost-Based Pricing, brands set prices based on costs of production, selling and distribution and on the desired profit margin on top. This is the typical strategy used by FMCG players. A bag of chips costs 1 rupee to manufacture, you pay 50 paise to the distributor, one rupee to the retailer, spend 50 paise on transport and logistics, 50 paise on brand building and add arrive at the total cost, 3 rupees and 50 paise. You add your profit margin on top and arrive at Rs.5. This is cost-based pricing.

The third pricing strategy is Competition-based pricing. This involves setting prices based on competitors' strategies, costs, prices, and market offerings. Consumers will base their judgments of a product's value on the prices that competitors charge for similar products. In most categories, market leaders define the category price points and the others would align accordingly.

If Maggi is priced at Rs.10, Yippee can't be priced at Rs.12. If Lays is priced at Rs.10, all other snack brands will follow suit. If the price of a Delhi-Mumbai Indigo ticket is Rs.4000, the Spicejet ticket would be more or less the same.

So, these are the 3 pricing strategies mapped to the 3 big factors –

- consumer's perception of the brand
- costs of production
- competition strategy

Subject Matter Expert: Anuri Mehta

Pricing: Tea Category

The next P that we are going to be talking about in the marketing mix is that of price. Tea as a category is highly price sensitive because it is a commodity. So the thing about commodities is really that as a brand, Brookebond faces a lot of competition from local players. Tea being a commodity when it is at a low price, there are a lot of local competition, local players who come out into the market, try and make a quick buck and exit the market, by which time have already spoilt the entire price equation in the market and big brands are unable to meet that kind of price.

To tell you guys something interesting in the years 2007 to 2012, Brookebond did not have a play in the mass segment of the pyramid at all. So the portfolio essentially started from the popular end of the pyramid to the premium. So the only brands in the stable of Brookebond was popular plus premium. It was only post 2012 where brands like super dust and ruby dust brought back into the portfolio, so that we could populate the mass end of the pyramid.

Now why was this done. As explained to you earlier, tea is a commodity and when commodity prices are low, locals take advantage of this situation. So there was a lot of play at the bottom end of the pyramid or the mass end of the pyramid as explained to you earlier and at that point in time, HUL had no brands to fight those local players. Hence with the -- hence with the -- hence by bringing back brands like ruby dust and super dust, we were at least able to establish ourselves and get back into the game and fight the local players.