

# Marketing & Competition in Pricing Strategy

Week 3: Disrupting Markets and  
Engaging in “Coopetition”



What you'll learn about this  
week...

- Competitor pricing models
  - Price moves
  - Price wars
- Pricing through the product lifecycle
- Real world case: SmartOps

## By the end of this module you'll be able to...

- Utilize war gaming to understand the competitive landscape and make better pricing decisions
- Describe the dynamics of price wars and optimal responses
- Apply knowledge of the product lifecycle to price products



Disrupt markets and  
engage in "coopetition"



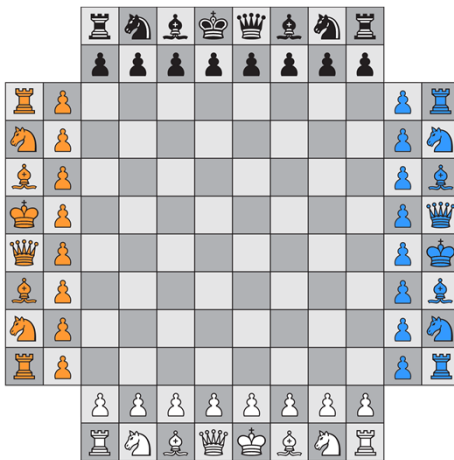
## Competitor Pricing Models

(Thomas)

## When do competitor pricing models matter?

Product cycle maturity	Immature product, frequent disruptions	Stable product, limited/predictable innovations
Industry concentration	Many players, low entry barriers	3/5 main players <sup>1</sup> , high entry barriers
Product differentiation	Undifferentiated, commoditized goods	Completely customized products
Price transparency	Competitors' prices are not transparent	Competitors' prices highly transparent

## Pricing in a competitive market is much like Chess



Think ahead a series of moves—both yours and your competitors'

Competitors might make unexpected moves ... or change strategy mid-game

Tune your strategy after each competitor move

If you know how the game is played, there are many ways to win

## Three typical use cases for Competitor Pricing Models



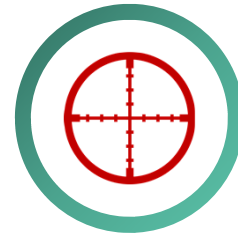
### Price setting

Setting prices based on value of next best alternative



### Price moves

Active price management through war-gaming



### Price war

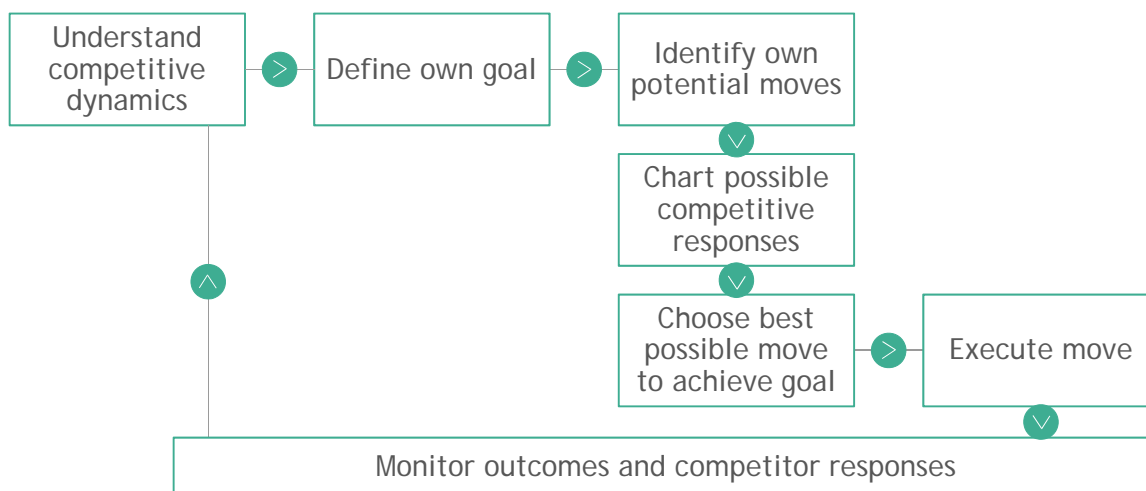
Avoid or break the vicious cycle



## Competitive price moves: Understand competitive dynamics

(Thomas)

## War-gaming is an approach to make better competitive pricing decisions

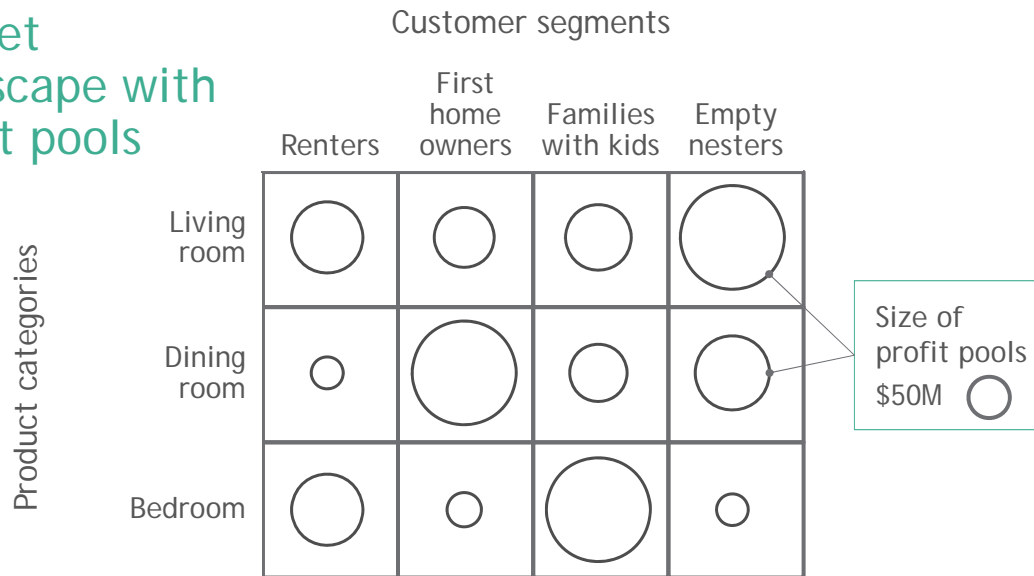


## Understanding competitive dynamics: What are we dealing with?

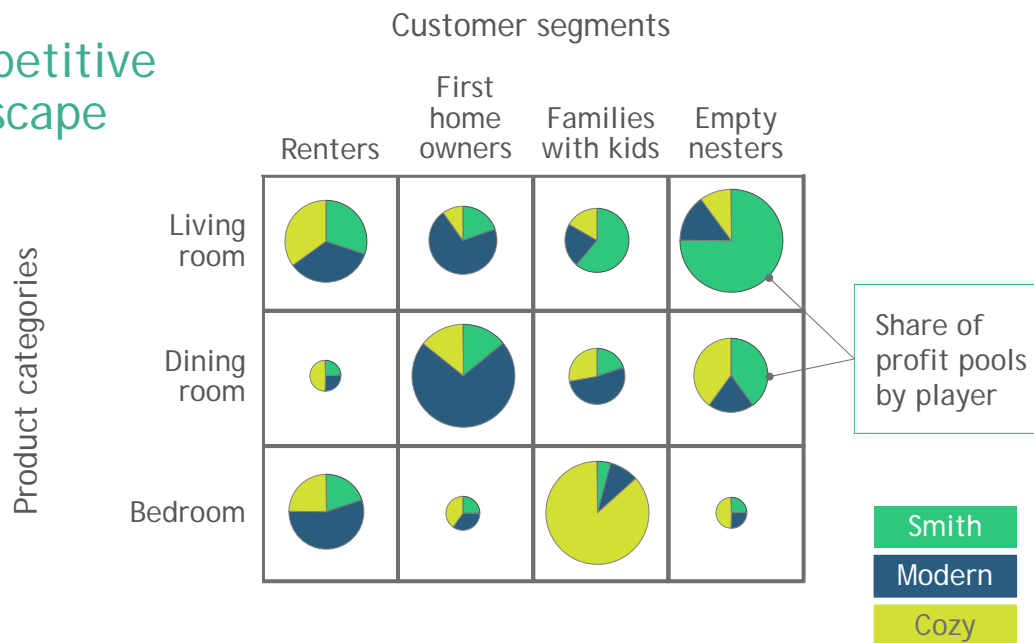
### Residential furniture market

Key players	Product categories	Customer segments
Smith	Living room	Renters
Modern	Dining room	First home owners
Cozy	Bedroom	Families with kids
		Empty nesters

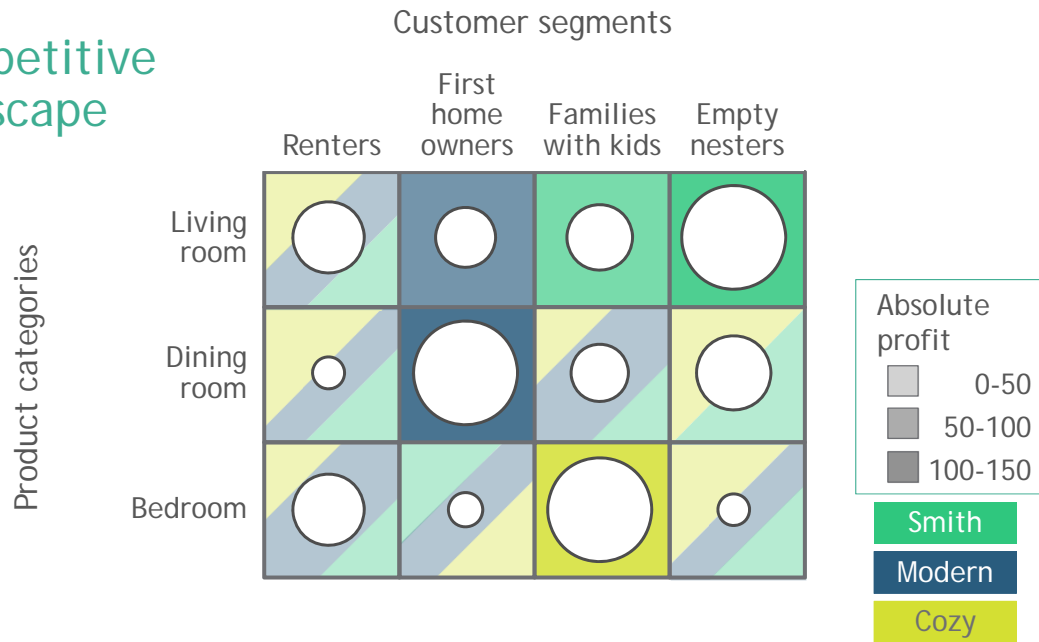
## Market landscape with profit pools



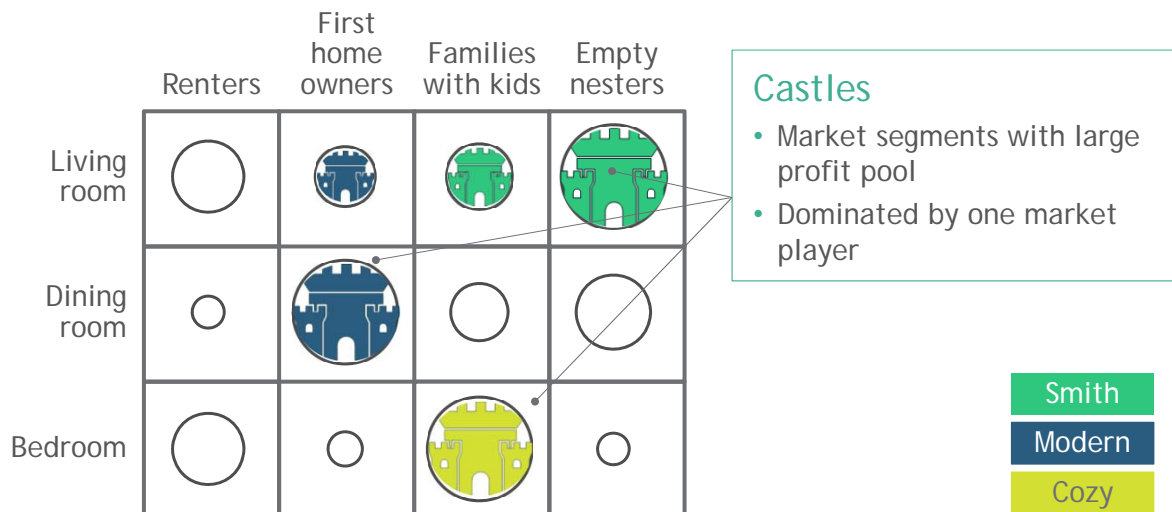
## Competitive landscape



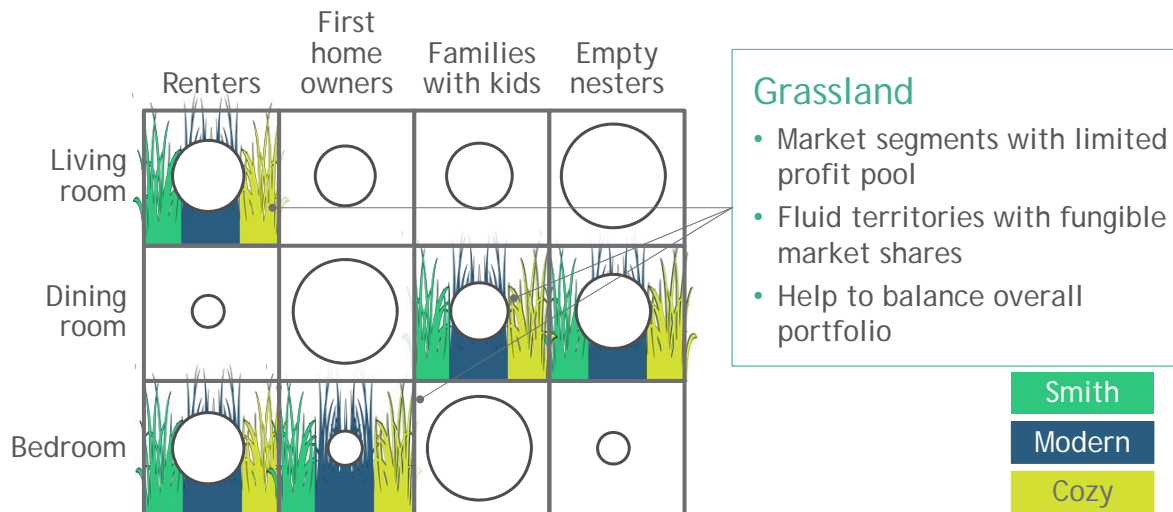
## Competitive landscape



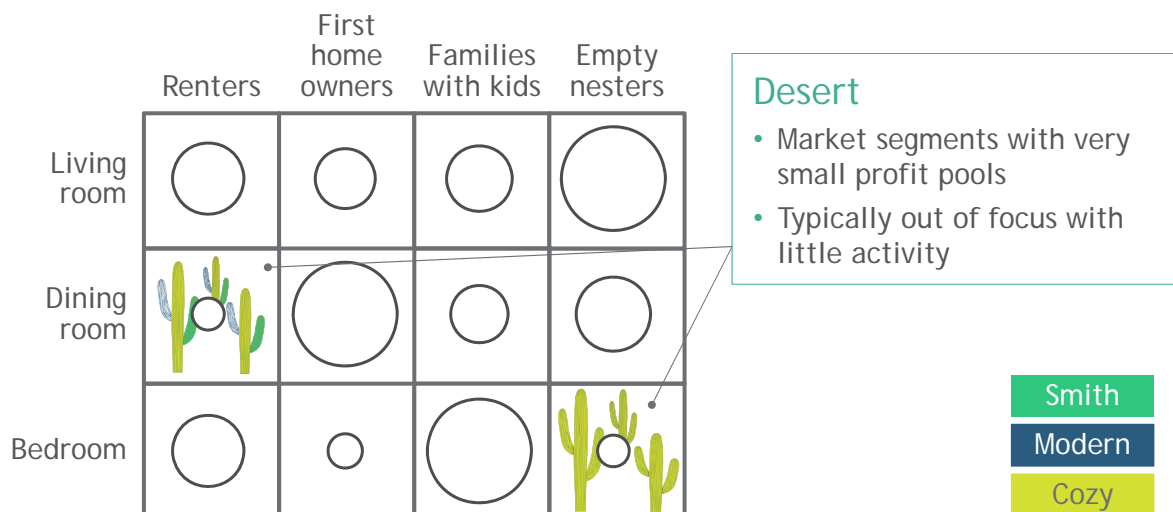
## Think of the landscape like competing kingdoms



## Think of the landscape like competing kingdoms

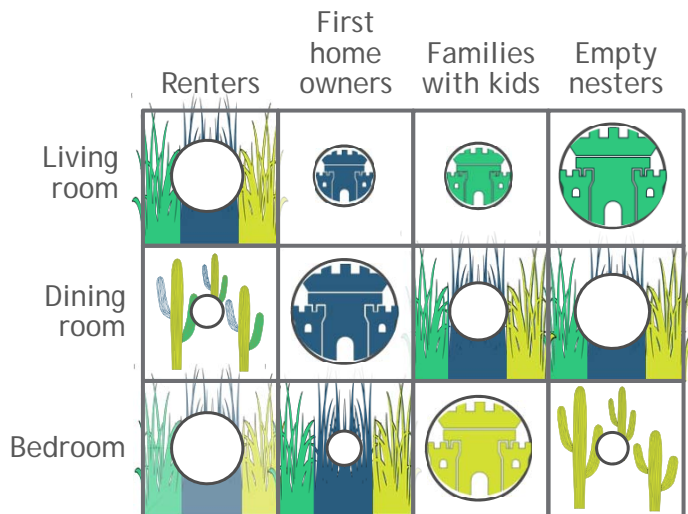


## Think of the landscape like competing kingdoms



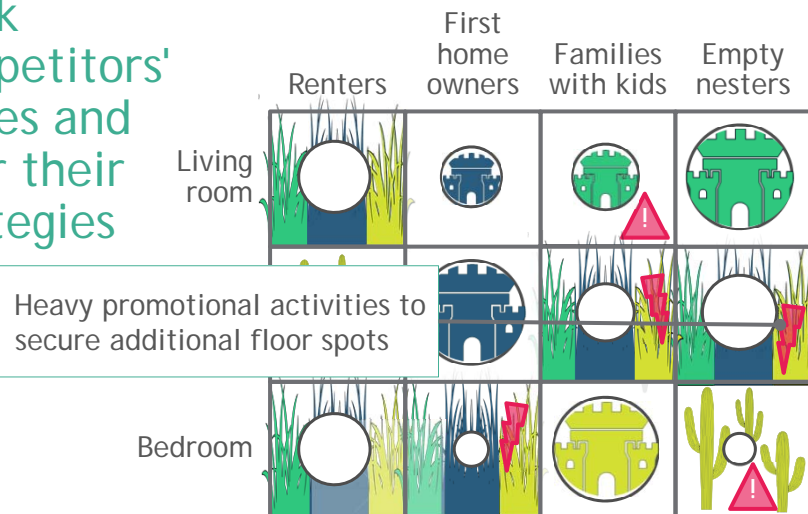


## Competitive landscape



You must fully understand the market, profit pools and competitive landscape to make optimal strategic pricing decisions

## Track competitors' moves and infer their strategies



Heavy promotional activities to secure additional floor spots

Aggressive pricing action

Important note

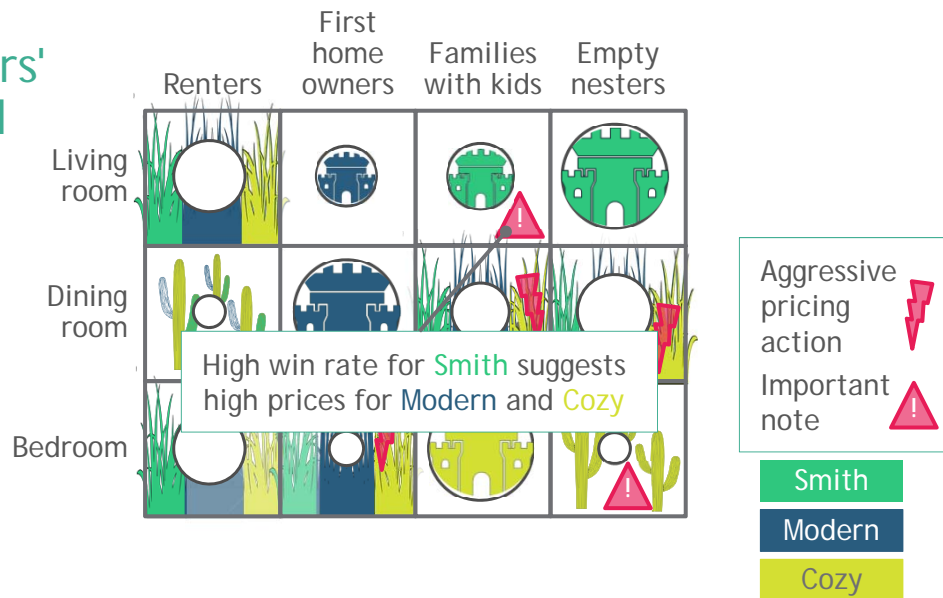
Smith

Modern

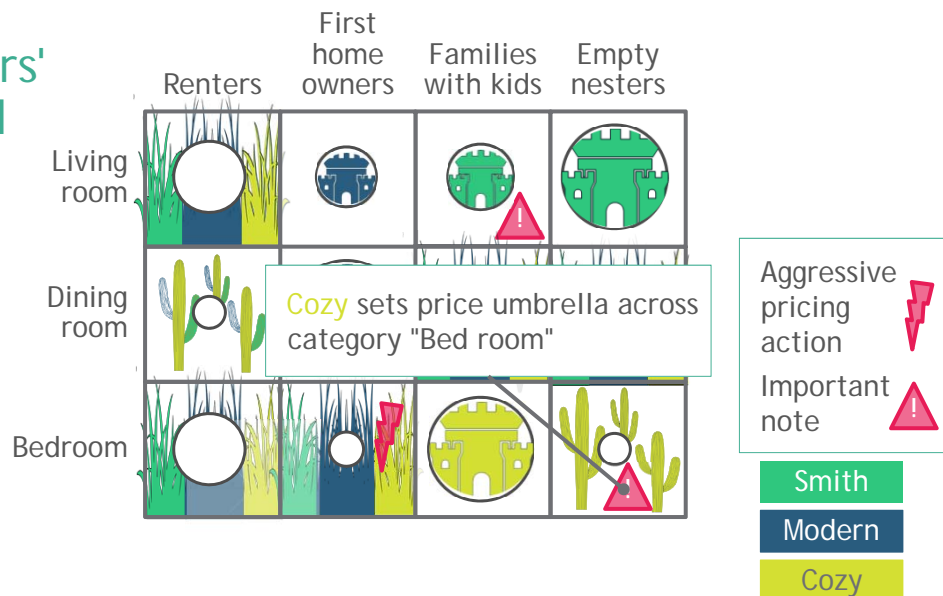
Cozy



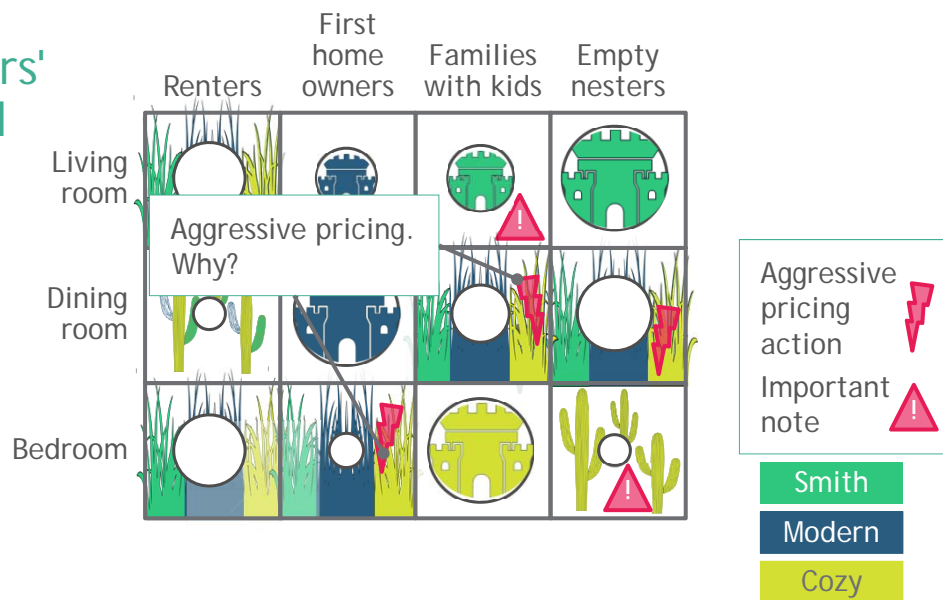
## Track competitors' moves and infer their strategies



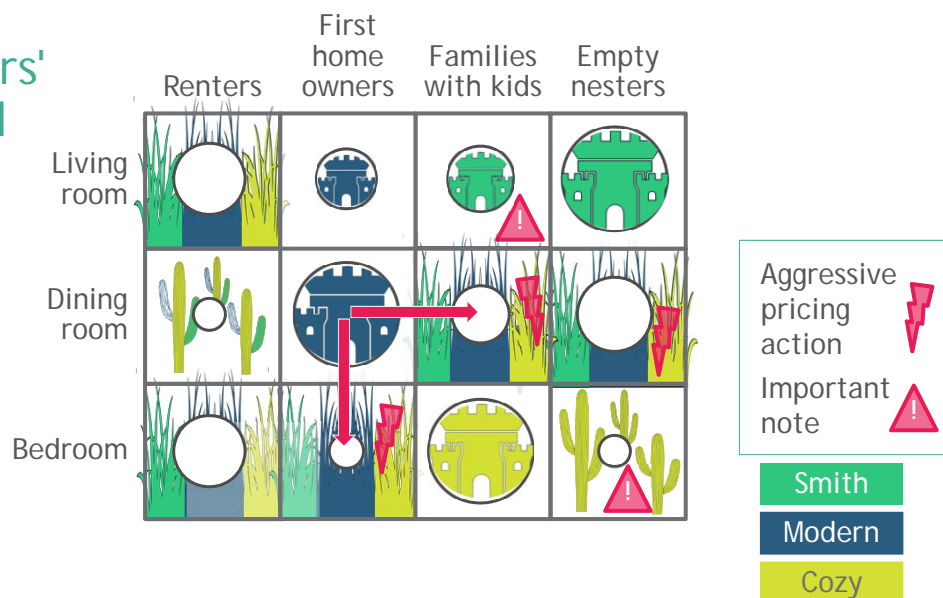
## Track competitors' moves and infer their strategies



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## Track competitors' moves and infer their strategies



## Understand competitive dynamics — wrap-up

Where do I get all of this competitive intelligence from?

### Look for the right things

- What are they selling?
- Who are they selling to?
- Where do they make money?
- What are they trying to achieve?

### Leverage all sources

- Observations
- Conversation
- Affiliations
- Estimations
- Computations

### Don't dismiss

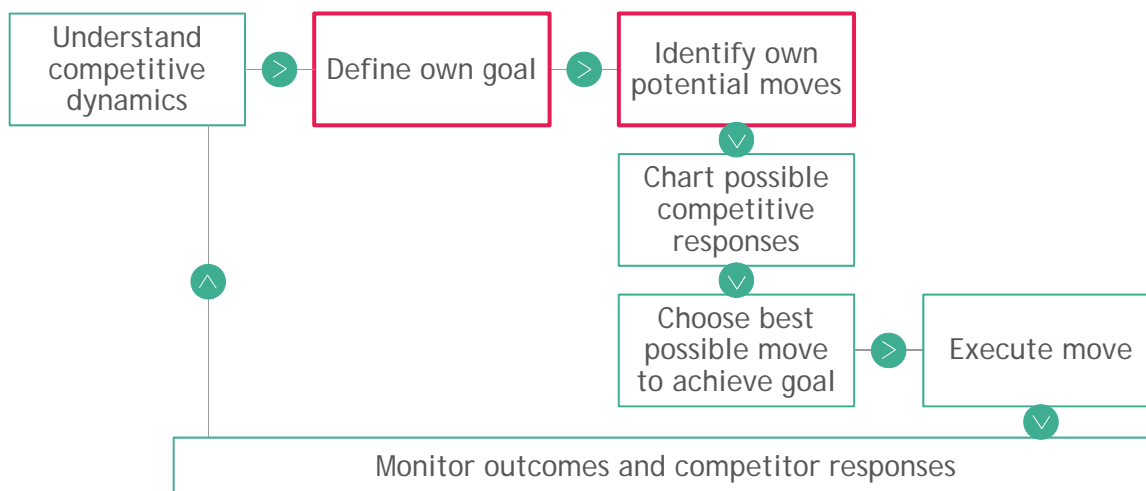
- Facts & details
- Logic & reasoning
- Intuition
- Experience





Competitive price moves:  
Assess your options

(Thomas)

## War-gaming is an approach to make better competitive pricing decisions



## Define own goals for overall portfolio and identify potential moves

	Achieve target	Rebalance portfolio	Manage competitive moves
	<ul style="list-style-type: none"> <li>• Increase volume by 2%</li> <li>• Improve overall portfolio margin by 150 bps</li> </ul>	<ul style="list-style-type: none"> <li>• Offset market decline of "First home owner"</li> <li>• Shift revenues to new category "Game Rooms"</li> </ul>	<ul style="list-style-type: none"> <li>• Manage aggressive price moves by Modern into "Bed rooms for first home owners"</li> </ul>
	<ul style="list-style-type: none"> <li>• Use price moves for "Renters" to drive volume</li> <li>• "Empty nesters" could deliver price delta</li> </ul>	<ul style="list-style-type: none"> <li>• Increase price for "Family with kids" to drive margin</li> <li>• Consider price re-positioning with a new product category</li> </ul>	<ul style="list-style-type: none"> <li>• Defend "Bed rooms for first home owners"</li> <li>• Consider attack in another grassland to take share from Modern</li> </ul>

## Some general "rules of thumb"



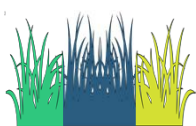
Attack on  
Castle

### Protect the castle by lowering prices

- Lower prices just enough to protect market share
- Rule of thumb: reduce prices by 20-40% of the price change competition has made.

### Attack competitor castle to gain market share, show retaliation and divert focus

- Attack with only 60-80% of force used by competition



Attack on  
Grassland

### Avoid reducing prices in same grassland, try to capture market share in adjacent grassland

- Balance overall grassland market share

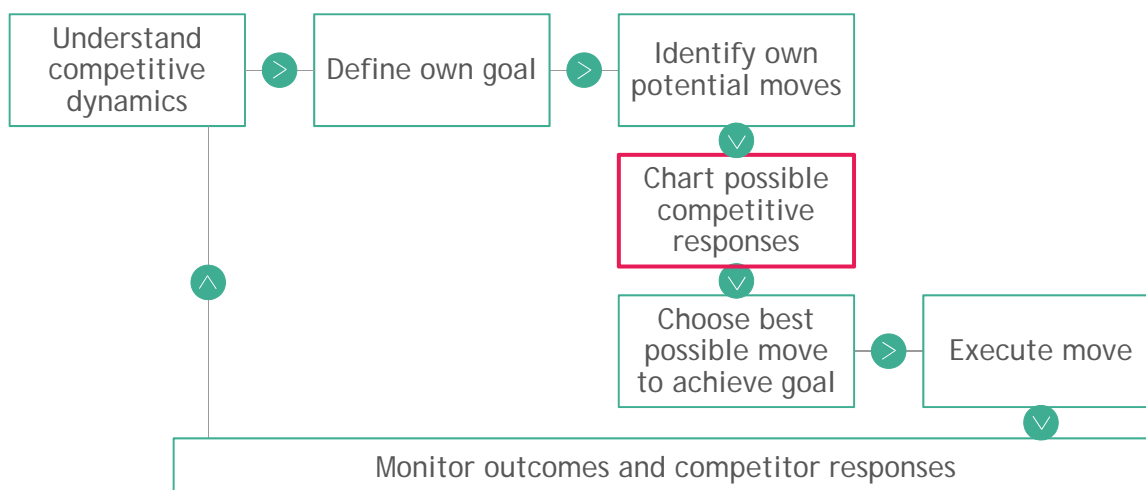


Attack on  
Desert

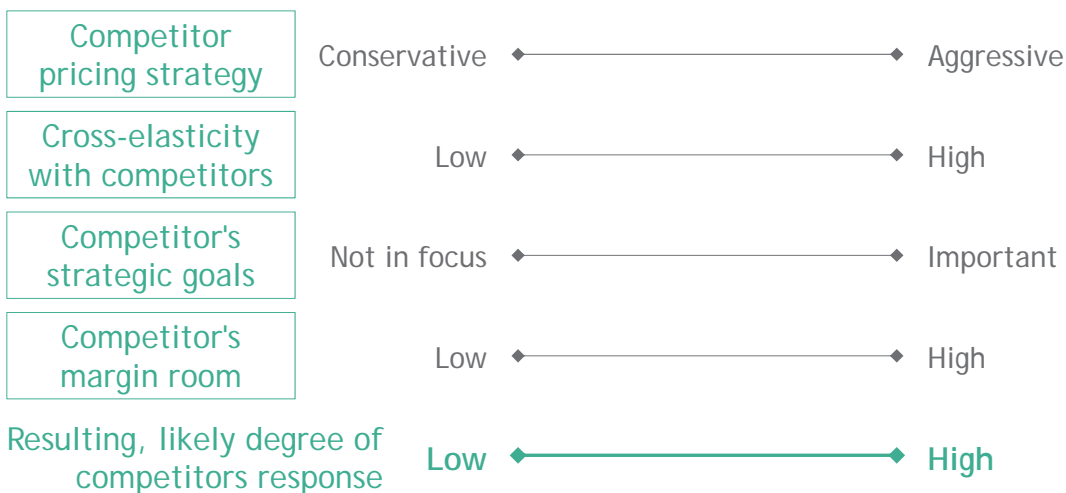
### Do not respond to price wars in deserts

- Think of repositioning as premium brand or other means to respond to price cuts

## War-gaming is an approach to make better competitive pricing decisions

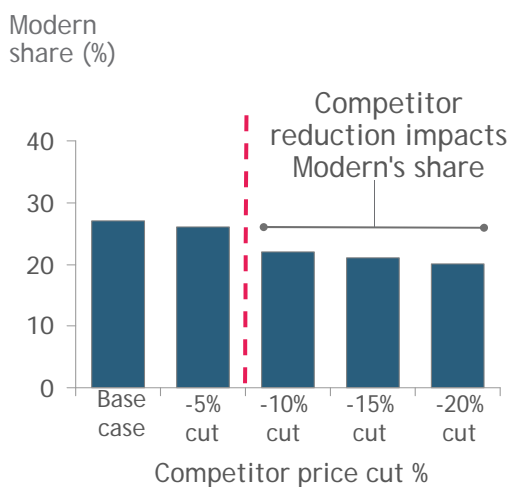


## Chart possible competitive responses

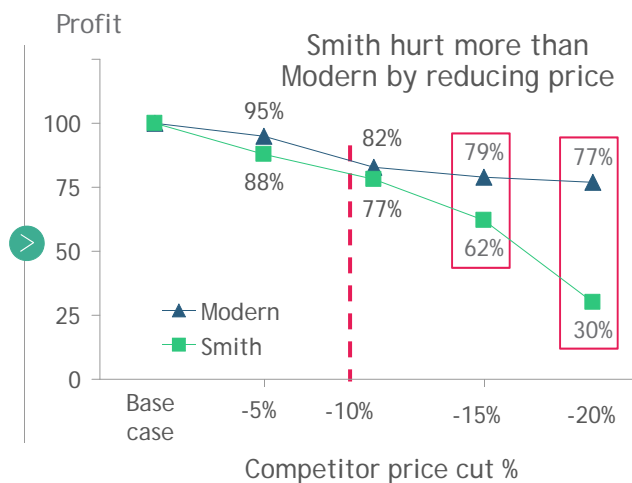


## Share and profit impacts from competitive responses

Market share impact



Profit impact

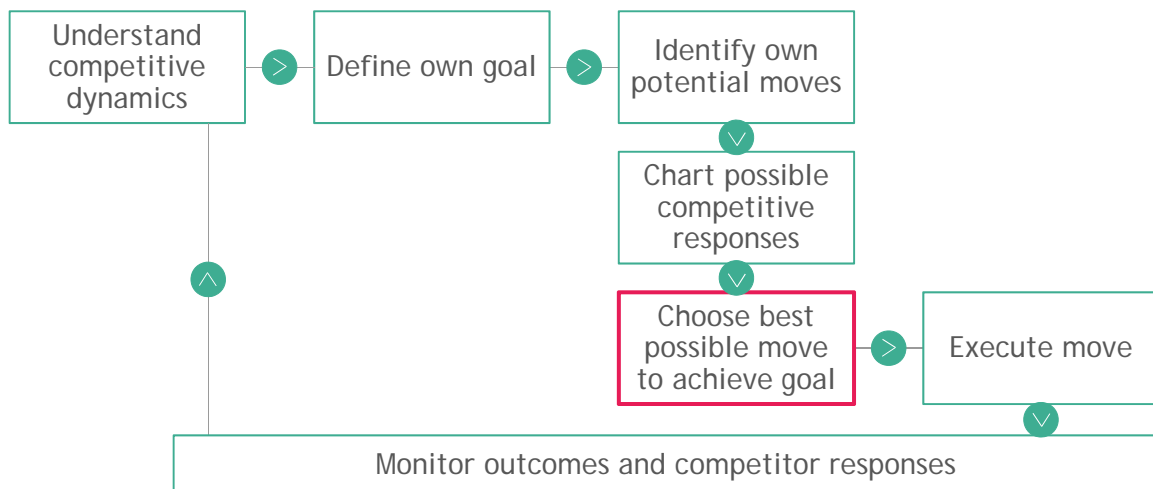




## Competitive price moves: Choose and execute best move

(Thomas)

War-gaming is an approach to make better competitive pricing decisions



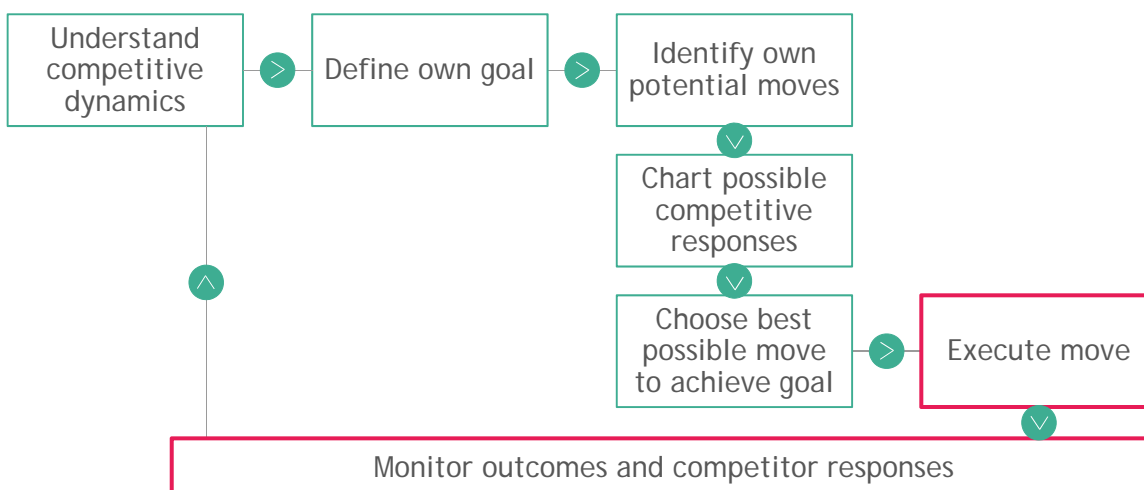


## Choose moves supporting overall goal

Goal: Maximize revenue by changing price level



## War-gaming is an approach to make better competitive pricing decisions



## Chart possible competitive responses

Note price moves,  
update market map

	Renters	First home owners	Families with kids	Empty nesters
Living room				
Dining room				
Bedroom				

Verify, if competitor responses  
matched predictions

No response

Mild response  
(e.g. 5% price cut)

Strong response  
(e.g. 10% price cut)

Most likely  
competitor  
response

## Making price moves with war-gaming — wrap-up

### Table stakes

- Know your own business and be clear what you want to achieve
- Know your competitors as well as you can

### War-gaming

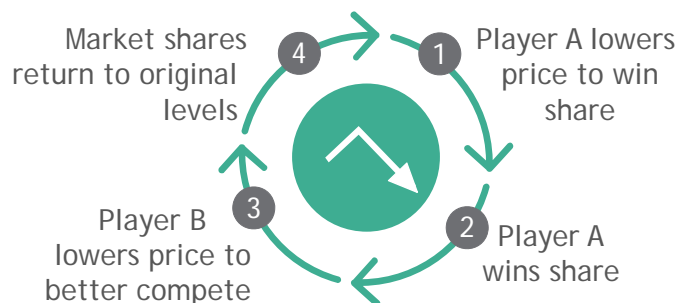
- Think through possible price moves and what competitor response they might trigger
- Select the option with the best end-outcome

### Follow-through

- Monitor competitors carefully, adjust strategy as needed

## Price Wars (Thomas)

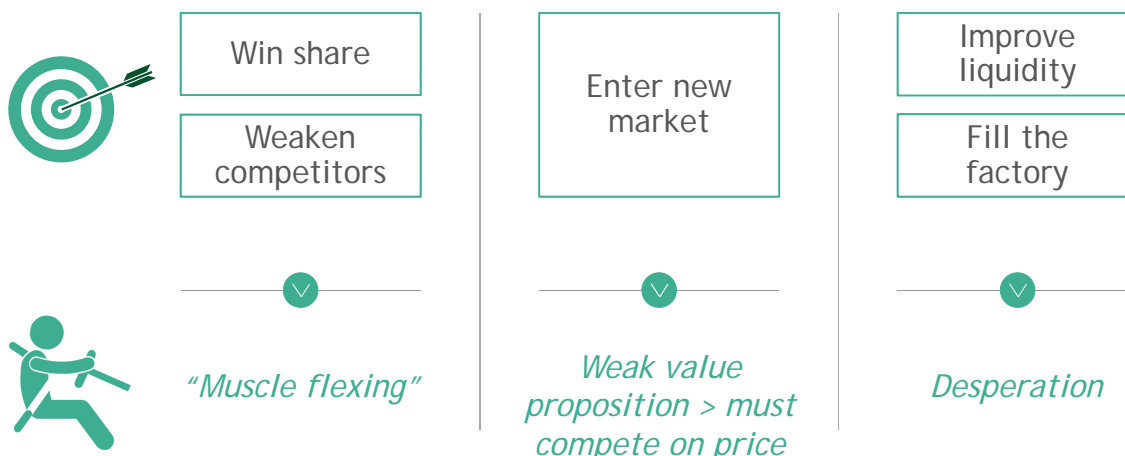
### A price war is a vicious circle in four acts



Margins in the  
entire industry  
come down as the  
price "water level"  
is lowered

Price wars can also be used as strategic tools  
to drive competitive advantage

## Typical goals of price wars ... and likely drivers



## Before you go to war, check your facts and fully assess risks and potential rewards

Scenario		What to look for		Possible explanation
Competition starts lowering prices!	>	Is competitor responding or initiating?	>	We initiated aggressive pricing behavior
Competition attacks our market share!	>	Is price war likely to endure?	>	Competition maximizing temporary excess capacity
We are caught up in a big price war!	>	How bad is it?	>	Price war is localized, no threat of increasing scope
New player prices very aggressively!	>	What part(s) of overall market landscape affected?	>	Affecting small part of market, limited global threat

## Possible moves to tackle a price war

Non  
price  
moves



- 1 Do not respond
- 2 Send a message
- 3 Change value perception

Price  
moves



- 4 Play the war
  - 4a Surgical price actions
  - 4b Price retaliation

## Price war—Summary

Price wars usually don't make a lot of sense

Respond, if you can, with non-price moves

Price moves are less preferred options

Monitor competition closely after each move

- But they happen all the time
- Better be prepared

- No response
- Signaling
- Address value perception

- Surgical/subtle price moves
- If "subtle won't do", move quickly and unambiguously

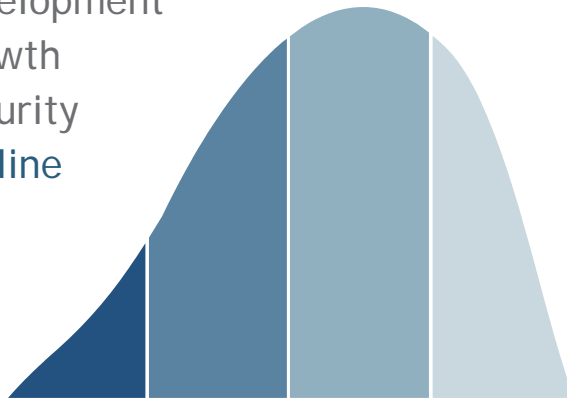
- Did move work as intended?
- Does competitor change/adjust his strategy?

# Pricing the Product Lifecycle



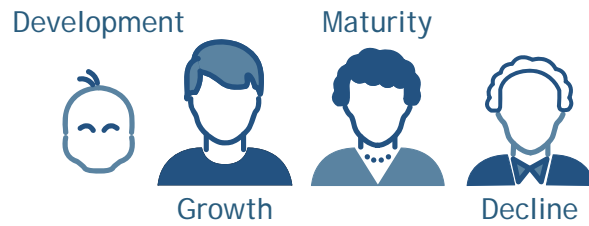
## The Product Lifecycle

- Four phases
  - Development
  - Growth
  - Maturity
  - Decline



## The Product Lifecycle

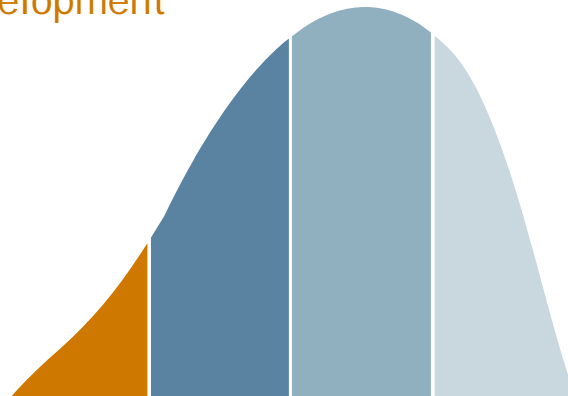
- Four phases



Vary pricing strategy based  
on product lifecycle

## Development Phase

- Four phases
  - Development



## Development Phase

- Buyers question product utility



## Development Phase

- Buyers question product utility





## Development Phase

- Buyers question product utility
- Buyers need to be educated



## Development Phase

- Buyers need to be educated



## Development Phase

- Buyers question product utility
- Buyers need to be educated
- Buyers are price sensitive



## Development Phase

- Buyers are price sensitive



## Development Phase

- Buyers question product utility
- Buyers need to be educated
- Buyers are price sensitive
- Price signals the product's value



## Development Phase

- Price signals the product's value



## Pricing Strategy in the Development Phase

- Trial promotions
  - Product is frequently purchased
  - Low production costs
  - Obvious benefits



## Pricing Strategy in the Development Phase

- Direct sales
  - High price purchases
  - Educate buyers about product use and benefits



Photo by Mark Hunter (Wikimedia Commons)

## Pricing Strategy in the Development Phase

- Distribution channels
  - Convince the distributor to promote the product
    - Offer low wholesale price
    - Pay incentive fees

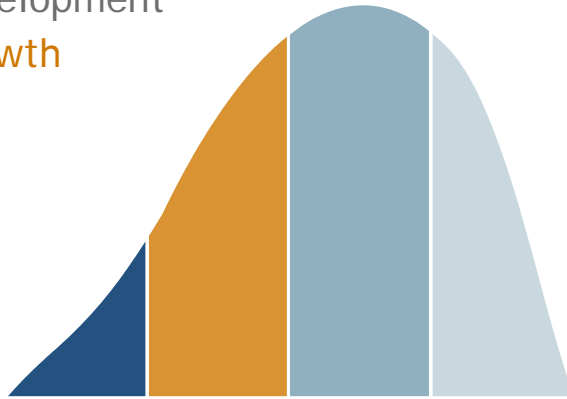


Photo by Tseria  
(Wikimedia Commons)

## Growth Phase

## Market Growth Phase

- Four phases
  - Development
  - Growth



## Market Growth Phase

- Cost and benefits of product increasingly important
  - Buyers responsive to lower prices
  - Buyers better able to evaluate alternatives

## Market Growth Phase



## Market Growth Phase

- Cost and benefits of product increasingly important
  - Buyers responsive to lower prices
  - Buyers better able to evaluate alternatives
- Competition emerges
  - Innovator and entrants vie for competitive position

## Market Growth Phase

- Cost and benefits of product increasingly important
- Competition emerges



Best price is often lower than  
in the development phase

## Pricing Strategy in the Market Growth Phase

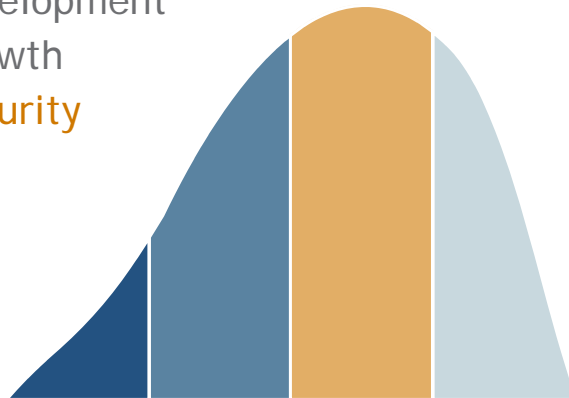
- Differentiate
- Become a cost leader
  - If focused on a segment
    - *Use skim pricing*
    - *Focus on high margins with low volume*
  - If focused on multiple segments
    - *Set neutral or penetration prices*
    - *Focus on volume*



# Maturity Phase

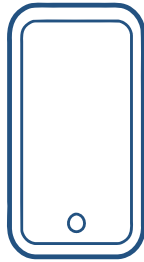
## Market Maturity Phase

- Four phases
  - Development
  - Growth
  - **Maturity**
  - Decline



## Market Maturity Phase

- Buyers are repeat purchasers
  - Familiar with the product
  - Increased price sensitivity



## Market Maturity Phase

- Buyers are repeat purchasers
  - Familiar with the product
  - Increased price sensitivity
- Competition increases
  - Prices lower
  - Profitability depends on competitive position



Maintaining margins is more challenging

## Pricing Strategy in the Market Maturity Phase

- Unbundle related products and services
  - Knowledgeable consumers can shop around
  - Better to sell individual product components to more buyers rather than to bundle and sell to fewer buyers

## Pricing Strategy in the Market Maturity Phase

- Make the most of your price sensitivity estimates
  - Easier to estimate sensitivity in this phase
  - Allows for more nuanced pricing to capture more revenue



## Pricing Strategy in the Market Maturity Phase

- Improve control and utilization of costs
  - Identify products and customers that are expensive to carry or service, and price accordingly



## Pricing Strategy in the Market Maturity Phase

- Expand the product line
  - Leverage your position to segment the market



## Pricing Strategy in the Market Maturity Phase

- Re-evaluate distribution channels
  - Reduce dealer margins
  - Open up distribution



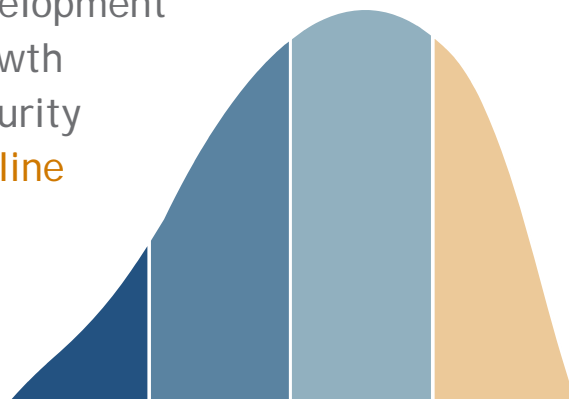
## Pricing Strategy in the Market Maturity Phase

- Unbundle related products and services
- Make the most of price sensitivity estimates
- Improve control and utilization of costs
- Expand the product line
- Re-evaluate distribution channels

# Decline Phase

## Market Decline Phase

- Four phases
  - Development
  - Growth
  - Maturity
  - Decline



## Market Decline Phase

Declining demand leads to  
excess capacity

## Decline Phase

- If costs are variable and capital can be reallocated...

- Think about other uses for your productive assets



Photo: Whitebox  
(Wikimedia Commons)

## Decline Phase

- If cost structure is rigid...
  - Average costs increase due to reduced capacity utilization
  - Price competition increases
  - Time to retrench, harvest, or find new uses



## Pricing Strategy in the Market Decline Phase

- Retrenchment
  - Withdraw from weakest market segments
    - *Price to defend the remaining market segments*



## Pricing Strategy in the Market Decline Phase

- Retrenchment



## Pricing Strategy in the Market Decline Phase

- Retrenchment
- Harvesting
  - Withdraw in phases from the industry, starting with weakest markets
    - *Price to maximize returns*
    - *Use resulting income to fund new products in new markets*

## Pricing Strategy in the Market Decline Phase

- Retrenchment
- Harvesting



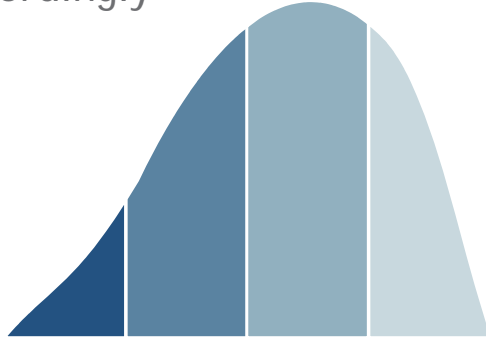
## Pricing Strategy in the Market Decline Phase

- Retrenchment
- Harvesting
- Find new uses



## Key Takeaway

Know where your product is  
in the lifecycle and price  
accordingly



SmartOps Corporation:  
Forging Strong Alliances?

## SmartOps Intro

- An enterprise-class supply chain software provider
- Seeking a closer alliance with SAP, a huge provider of more general enterprise-class software
- Has to balance the potential risks and rewards of standing that close to a software giant

## Questions You Should Ask Yourself

- Is there a basis for trust between SmartOps and SAP?
- Look at each element of the proposed contract. Which ones do you think need to be amended?
- In the end, if SAP will not amend this contract, should SmartOps sign it?

## Case Debrief: SmartOps

### So what happened?

- They signed the contract as it is presented in the case.
- SmartOps believed there was a basis for trust because SAP had many partners like SmartOps and didn't want to get a reputation for treating partners badly.
- SmartOps significantly increased their sales.
- SAP acquired SmartOps.

## Week 3 Conclusion

### What we talked about this week...

- Competitor pricing models
  - Price moves
  - Price wars
- Pricing the product lifecycle
- Real world case: SmartOps

## Now you're able to...

- Utilize war gaming to understand the competitive landscape and make better pricing decisions
- Describe the dynamics of price wars and optimal responses
- Apply knowledge of the product lifecycle to price products



Disrupt markets and  
engage in "coopetition"