TRINITY BUSINESS SCHOOL ASSIGNMENT COVER SHEET

This sheet must be submitted with your assignment.

Module: **Advances in Marketing Theory and Practice (BUU44551)** Date Due: **22/12/2023**

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Generative AI Declaration[1]
Please select either A or B with regards to your use of generative AI tools in this project: A. Nothing to declare. I did not use generative AI software.

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Pricing Your Value

Introduction

In this paper I will be addressing the topic of value creation through pricing. I believe pricing to be one of, if not the, most important aspect of marketing that we have studied. I'll first discuss how consumers seek value from goods. Then I will investigate how firms leverage pricing to create this value, specifically 'shared value' for all. To conclude I'll briefly offer perspective on what I believe the future holds for this topic.

Consumers

Pricing can be one of the principal characteristics a consumer looks at when making a purchasing decision (Gourville & Soman, 2002). Bertini & Gourville (B&G) (2012) propose consumers often buy more of a good if its price is fair. Kohli & Suri (2011) build on this, detailing that consumers judge a fair price by its relative price compared to its absolute price. This led me to question what exactly it is we mean by a 'fair price'. My initial perspective on the matter was that the lowest price was the fairest. The spike in popularity of discount supermarkets Lidl and Aldi during the aftermath of the recession would certainly suggest this to be the case [1]. Rajendran (p.19, 2009) defines it as "the price of a good a consumer finds appropriate, just or equitable… it is neither deemed high nor low".

The above led me to believe that perhaps a more rigid definition of 'fair price' should be examined. Again (as a student living away from home), I believed that the cheapest was the fairest. When shopping for groceries I look at the price before the item itself! I pondered whether this is the mindset of other consumers by conducting a survey on the matter. My responses consisted of mostly university students. 96% of the 44 respondents were aged between eighteen and twenty-five. This could be seen as a shortcoming in the research. However, youths tend to demonstrate a much more elastic response to a change in price (Ding, 2003). With that in mind, it might've suggested an agreement with the proposition of the lowest price being the fairest. The results I witnessed suggested otherwise.

Figure 1 shows that 45% of those surveyed appreciated a transparent, fair price over a cheaper one. Despite the other 55% preferring a cheaper price and thus attaining a majority, I expected a starker difference as per above. I probed more into the respondents' mindsets who wrote the following to explain their choices (Figure 2). A common buzzword amongst those who valued transparency and equality, was 'longevity'. Many surveyed expressed a belief that they would pay more to achieve this durability. Some hinted this will save money in the future, verifying the premium price must be "proportionate to the value being added" (Kohli & Suri, 2011). Many consumers also cited that a cheaper price suggests unsustainable labour conditions or business models and deliberately avoided that. Vartial et al. (2013) would certainly agree with such.

Curiously, both groups deemed they look for value from a price. Consumer value is said to be one of the most over and misused concepts in marketing literature (Sánchez-Fernández & Iniesta-Bonillo, 2006). Sánchez-Fernández & Iniesta-Bonillo write that numerous terms are connected to value, which can explain the confusing definition of the concept. The fact both mentioned groups draw upon it sees the vague understanding of the concept in practice from both respondents, and perhaps myself who should've better specified in the questions poised. From the survey and follow-up interviews, I gathered two major categories of value; Functional and Earned. Functional Value is the immediately cheap solution, with a minimum quality standard. The cheapest possesses the greatest Functional Value. As per the survey, this value is mostly sought after in functional goods, hence its name. For Earned Value consumers look for goods that offer higher quality and/or greater lifespans. This value, like flexibility (B&G), is both earned and reinforced through a premium price.

For firms to create 'shared value' they must first understand which value the consumer needs. The consumer may not always know what value it is they desire themselves and it's the marketer's job to determine this decision.

Firms

Price determines the top and bottom line (Kohli & Suri, 2011). I above illustrate how pricing can be important to create value on the consumer side. My next goal was to talk to the businesses and see how they attempted to create this value. I talked to Ryan Ormonde, Founder & CEO of Saor Water [2], and Richard Lyons, Founder & Managing Director of Omos Limited [3].

I start with Ryan. Ryan founded Saor Water with the goal of creating 'positive brand experiences'. Saor is 'Ireland's first free beverage' [4] that launched in August of this year. They provide free water cans paid for by advertising (Figure 3). Ryan described Saor as being promotional merchandise, thus occupying a niche and exciting industry. I was fascinated by their service as Ryan attempts to target both sides of the value spectrum by revolutionising the consumption chain for refreshments (Figure 4).

Unlike any refreshment firm in Ireland, the consumers are not the customers. Thus, Saor must create value for both consumers and customers (the 'advertisees'). He offers Functional Value to his consumers by the lack of price offering and he offers Earned Value to his customers. He follows a simple cost and margin pricing model that attempts to be competitive. The quality of the service however is what separates Saor. As the brand continues to grow in size and in reach (therefore quality), he can charge a higher price while still maintaining transparency. Ryan creates value for three groups; the consumers who make a profit from not having to purchase, brands looking to advertise in new and exciting ways, who profit from a potential increase to their customer base and Saor, who of course earn a margin on the transaction. Ryan alluded that Saor must stay innovative to avoid the 'ad fatigue' that is now observed with social media advertising (Silberstein et al., 2023). With that said, the brand is an exciting start-up that understands the value objectives of each of its consumer bases and uses pricing to fulfil said needs.

Omos Limited is an Irish street furniture company. They design and manufacture various products such as benches, litterbins, and tree planters. Omos attempt to create Earned Value for its customer through quality of design and service. Like Saor, Omos' consumers are not their customers. (Figure 5)

Omos sell products to local councils and construction contractors. To complicate matters further, these customers are instructed to purchase by architects. Neither of these groups consume these products per se. Richard explained he attempts to create Earned Value to those buying his goods by delivering quality. Omos also adapt a cost-plus-margin business model, with prices being on the higher end, due to dearer manufacturing costs. The architects aren't concerned about the price and delegate the contractors to purchase the specified products. Richard highlights the price includes not only an elegant, robust piece of furniture but also a premium service compared to his competitors.

Simply put, contractors' main concern is satisfying the architect. Omos are a material example of a firm putting a premium on flexibility (B&G), through accommodating delivery and product modification policies. It's important that Omos identified this, especially as contractors are the ones paying, and it explains why they have earned such a reputation in the industry. Richard also highlighted in such a bespoke industry as furniture design, it's common for jobs to accumulate unforeseen costs after the original quoting stage. Unlike their competitors, Omos don't shy away from these costs. They recognise their reliance on a healthy contractor relationship to secure work at times.

They focus on this relationship, rather than the transaction (B&G), and transparently flag the potential for spiralling costs down the line. Contractors greatly appreciate this over time. Omos incorporate this in their price thus creating shared value.

Richard admitted contractors will occasionally attempt to negotiate down a price. I suggested this must have been harder to decline when Omos was first entering the market. However, Richard shared that premium service always prevails. He continued cheaper substitute brands don't survive in the long run in this, excluding Adshel (who employ an identical business model to Saor [5]). It's as much a service industry as a product and, as above, this enhances the need to focus on relationships. This reinforces that marketers must understand the desires of their customers, even if the customers mightn't themselves.

Omos has broadened the 'value pie' to encompass four groups. The architects receive value as their drawings are materialised in the form of a high-end piece of street furniture. Architects have the final word in the choice of product. It is imperative to Omos' reputation to 'earn' their value all the way through the customer chain. If the product itself isn't of high quality, Omos' brand values are lost on the architects which damages their reputation. Consumers appreciate the appearance and functionality of the furniture (Figure 6). Pleasing both these groups, as well as the premium service highlighted, ensures value for the contractor/customer. This leads to Earned Value for all, Omos earning value from their margins too.

Conclusion

In this paper I discussed the need for firms to understand the concept of value creation. I highlighted the importance of understanding the market and the type of value which customers desire. I write how firms can leverage pricing to achieve this. I believe more firms offering goods where consumers look for Functional Value will adapt a business model similar to Saor's; offering goods for free where consumers prioritise a lower price. This in turn flips the consumer chain. Consumers will then use these savings to purchase higher-quality goods where they desire Earned Value. This will create value for all, and I look forward to hopefully see companies on both sides of the value spectrum implement such.

Word count: 1648 words (including title)

Appendix

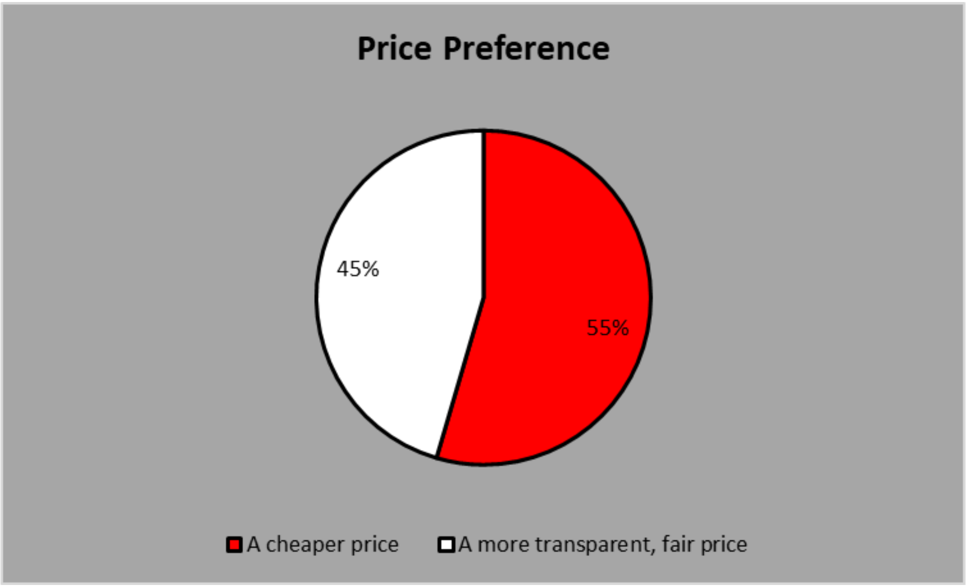

Figure 1: Survey results on price preference.

What would you prefer? (In general)	Please expand (Why?/Would there be a time when this isn't the case? etc.)
A cheaper price	You want better value for your product
A more transparent, fair price	A more transparent, fair price still might offer better value than a cheaper product would
A cheaper price	Once quality is similar I will always try save money for further consumption or saving
A more transparent, fair price	willing to pay more if there is an expectation that you are paying for quality.
A more transparent, fair price	In general I would go for the best value for the quality of the good

Figure 2: Sample of survey respondents to price preference.

Figure 3: Example of a can of Saor Water (https://saorwater.ie/).

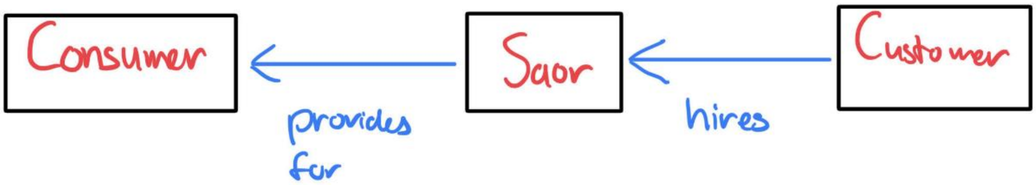

Figure 4: Saor Water's consumption chain.

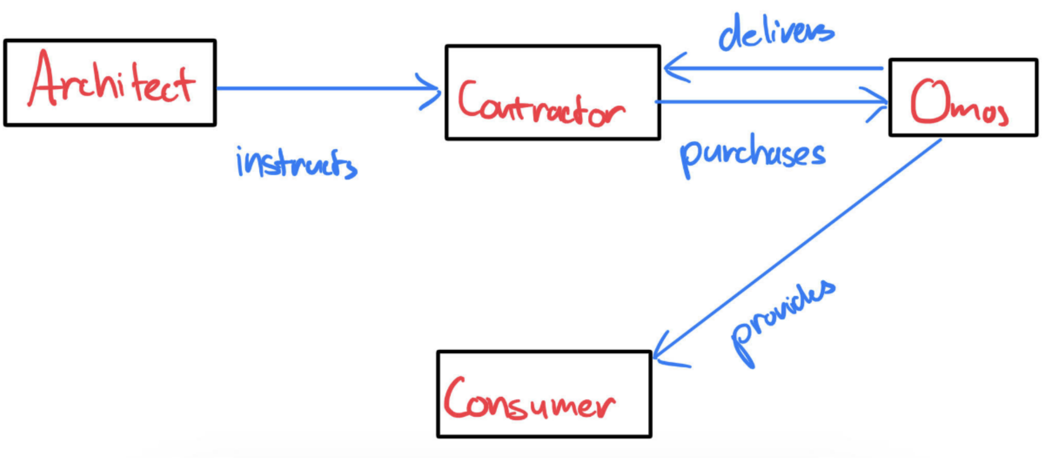

Figure 5: Omos' consumption chain.

Figure 6: Positive response from local residents to Omos products (https://www.facebook.com/photo.php?fbid=657022393127372&set=pb.100064588516622.-2207520000&type=3).

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[1] - https://www.linkedin.com/pulse/walmart-returns-playing-offense-price-graeme-mcvie/

[2] - https://saorwater.ie/

[3] - https://omos.ie/

[4] - https://www.instagram.com/saorwater/

[5] - https://www.clearchannel.ie/products/adshel