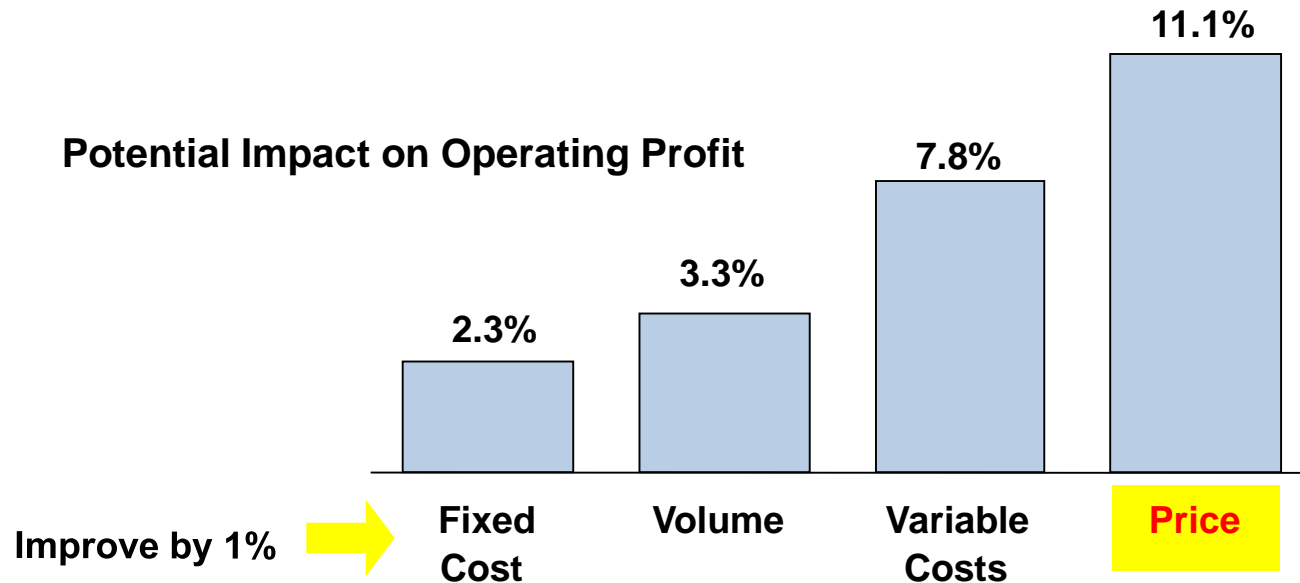


Go To Market Strategies: Week 9

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- Motivation and Puzzles
- Inputs to the Pricing Decision
 - The floor and ceiling bound the Economic Value to the Customer (EVC) metric
 - Note, however, that the 5Cs affect the final location of the actual price between the floor and ceiling
- Getting Deeper into Customer Factors
 - Price sensitivity: Drivers and measurement
 - Psychological factors
- Takeaways

Motivation and Puzzles



The importance of this lever has driven a three-fold increase in the number of pricing directors reporting to C-level officers in the last 10 years

Source: McKinsey study of over 2,400 companies

- **Trader Joe's**
 - Why does Trader Joe's sell nationally-branded water, e.g., Poland Spring, at very low prices?
- **Catalog Company**
 - Why are more shoes sold at \$49 than at \$44?
- **Walmart**
 - Why does Walmart sell Tide detergent for \$4.73?

Four Inputs to Pricing

- Customers (most important, discussed last)
- Company
- Competitors
- Collaborators
- Context (not discussed)

- Financial Considerations
 - Target margin or internal rate of return (IRR)
- Consistency in the Product Line
 - Price of new Toyota Camry is influenced not only by prices of Honda Accord or Ford Taurus, but also by the prices of Toyota Corolla and Toyota Avalon
- Consistency in Image
 - It's difficult for Neiman Marcus to cut prices in response to price competition

- **Competitor Aggressiveness**
 - The ability of the competitor to sustain a price-based response, i.e., whether competitor has “deep pockets”; propensity for “irrational” behavior
- **Willingness to Respond on Price**
 - Direct financial cost to the competitor
- **Competitor Position**
 - Market leaders are more likely to initiate; followers are more likely to imitate

○ Collaborator Incentives

- How hard will the collaborator work to “push” your product; what kind of “pull” support do they expect?
- What other functions will perform, how much influence do they have? (see Distribution session)
- Also, it’s not just about margins—Return on Assets (ROA) also matters

$$\begin{aligned} \text{ROA} &= \frac{\text{Profit}}{\text{Assets}} \\ &= \frac{\text{Profit}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Assets}} \\ &= \text{Margin} \times \text{Rotation} \end{aligned}$$

- Price Sensitivity
 - What drives it?
 - How can we measure it?
- Psychological Issues
 - Odd numbered endings (e.g., \$3.99, \$1,995, etc.)
 - Mental Accounting
 - Prospect Theory, including reference effects, loss aversion, and diminishing sensitivity
 - Endowment Effect