



# Managing Price Competition

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Pricing—Class 9

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**“Win as much as you can”**

		Competitor's Price	
		High	Low
Your Price	High	+5, +5	-10, +15
	Low	+15, -10	-5, -5

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## Positive Sum Game

Total Gains > Total Losses

Sports matches

Economic transactions generally

Higher education degree race

Goal: WIN

## Negative Sum Game

Total Losses > Total Gains



July 11, 1804  
*Alexander Hamilton v. Aaron Burr*

Source: Samuel Engel

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## Prisoner's Dilemma

Two women are in custody for a crime they may or may not have committed: armed robbery.

The police have the women in separate cells and have told them the following:


Confess to the crime of armed robbery and we will let you off with a light term of three years in jail with parole after one year.

Remain silent and we will throw everything we have at you. You can be sure your accomplice will talk, and you'll be behind bars so long that your children will forget your name.

However, if you both remain silent, we have to let you go with a slap on the wrist because we won't have the evidence to convict you.

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		B	
		Clean	Dope
A	Clean	If A and B stay clean, both enjoy a fair race	If B dopes but A stays clean, B has an edge
	Dope	If A dopes but B stays clean, A has an edge	If A and B dope, neither has an edge, but both risk disqualification

Clean: Do not use Steroids

Dope: Use Steroids

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### 4 Types of Competitive Moves: Which Protect, or Destroy Value?

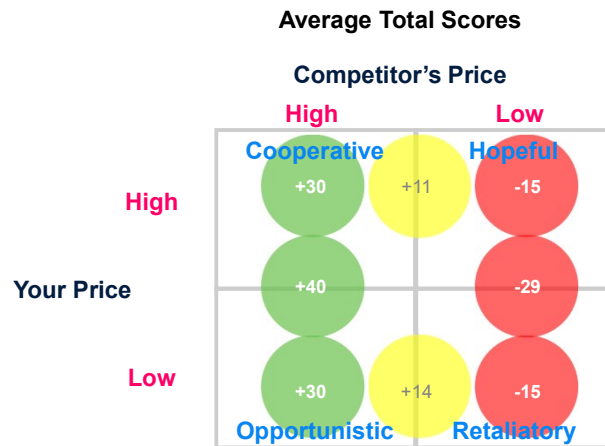
		Competitor's Last Price Move (t-1)	
		High	Low
Your Price	High	Cooperative	Hopeful
	Low	Opportunistic	Retaliatory

Adapted from: Gerald E. Smith

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## Which Competitive Activities Maximize Profit?



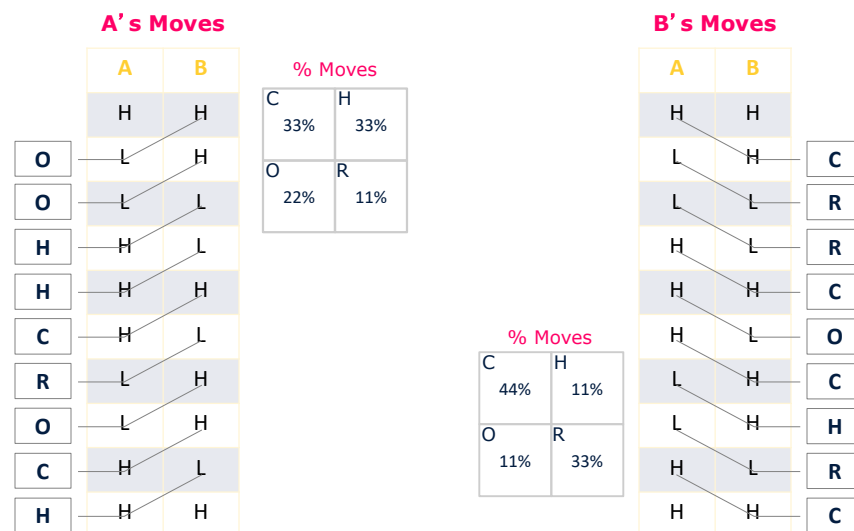
\*Results from 196 competitive games with corporate and academic teams.

Adapted from: Gerald E. Smith

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## Competitive Moves Worksheet



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<b>Theory</b> Two Ways to Win	<b>Reality</b> Success in the Real World
<ol style="list-style-type: none"> <li><b>Cooperation</b> Stable, balanced competition, protect value</li> <li><b>Opportunism</b> Unstable, unbalanced competition, steal value</li> </ol>	<p>Clarity of <b>Reputation</b></p> <ul style="list-style-type: none"> <li>Cooperation vs Opportunism</li> </ul> <p>Clarity of <b>Communication</b></p> <ul style="list-style-type: none"> <li>Pricing goals</li> <li>Strategic Intent and Resolve</li> </ul> <p>Competitive <b>Advantage</b></p> <ul style="list-style-type: none"> <li>Nature of Competitive Advantage (cost vs other differentiation)</li> <li>Industry Pricing Roles</li> <li>Information Advantage</li> </ul>

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## 7 Steps to Achieving Stable Pricing Climate

1. Rational Pricing Goals
2. Gather Pricing Intelligence
3. Articulate Segmentation Strategy
4. Diagnose Competitor Moves and Signals
5. Deliver Good Strategic Signals
6. Leverage Competitive Advantage
7. Manage Industry Pricing Role

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### 1. Rational Pricing Goals

Rational and consistent pricing goals for:

- Market share
- Growth
- Margin

...that don't conflict with each other



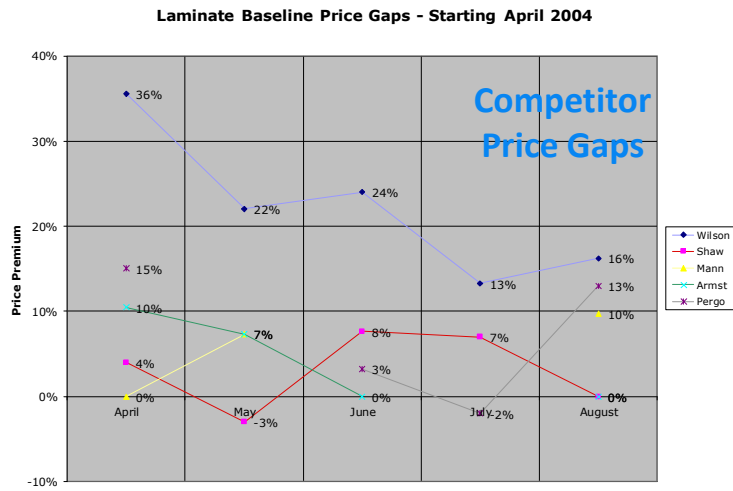
Offer a competitive retail price that is attractive to a particular customer segment based on how the guest perceives that hotel's value. As a result of this discounting rates and offering promotions becomes a supplementary tool... finding the correct mix of guest segments should be the target for operators. This will ensure that each hotel has a strategy to rely on the most profitable segment of guests

-- Head of Pricing/RM for Hyatt North America

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## 2. Gather Pricing Intelligence



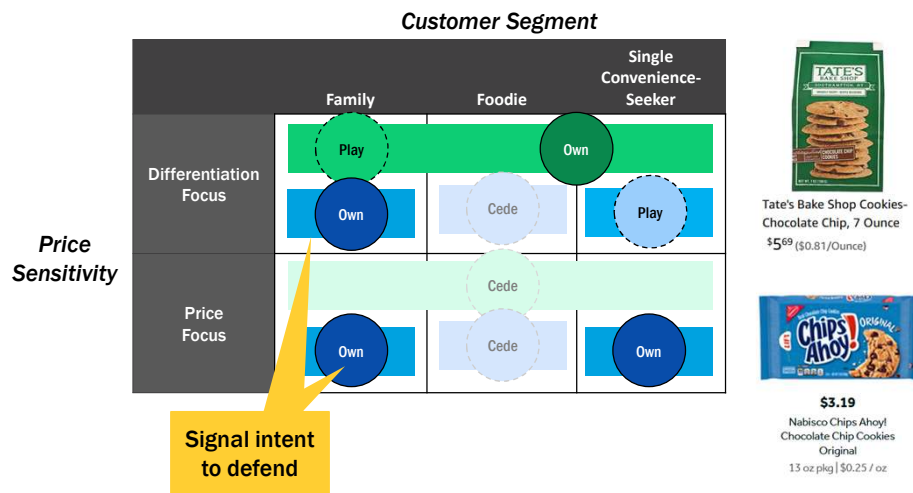
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## 3. Articulate Segmentation Strategy

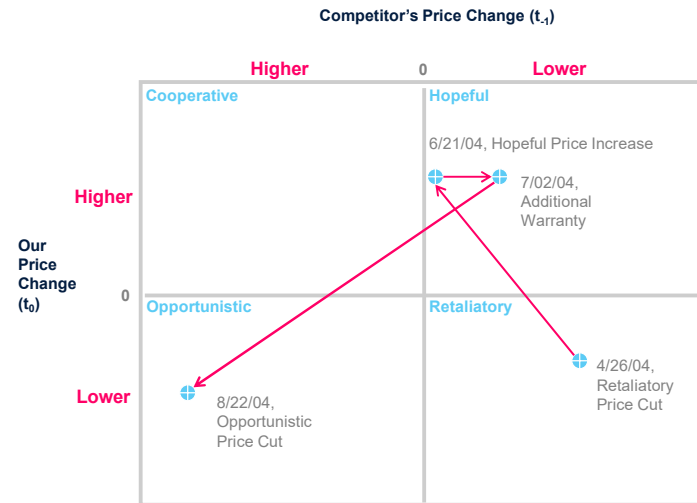
Market Segments,  
not market share



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## 4. Diagnose Competitor Moves and Signals

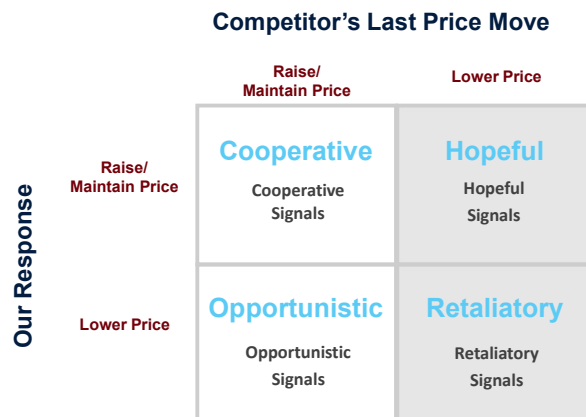


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## 5. Deliver Good Strategic Signals



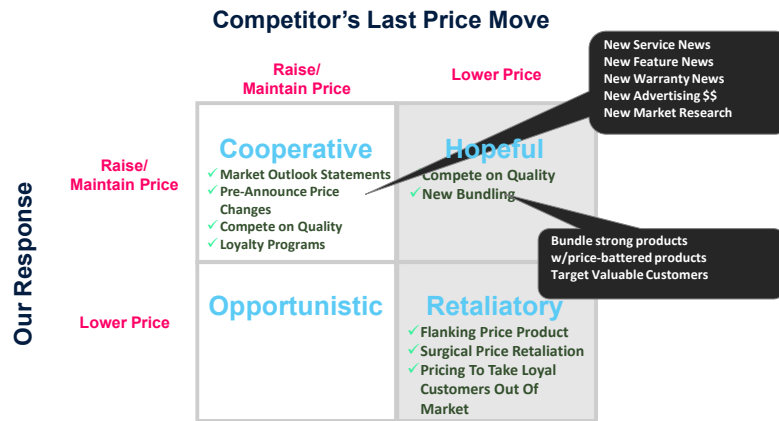
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## Good Signals Lead To Stable Competition and Protect Value



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## Shampoo Giants Go Head to Head

[Unilever UL +1.14%](#) PLC—the maker of Dove and TRESemmé—is going head to head with Pantene owner [Procter & Gamble Co.](#) , **cutting prices in the U.S. as it aims to gain market share.**

“There’s been a very vibrant and competitive battle in hair care in North America,” said Unilever Chief Financial Officer Graeme Pitkethly. **“I don’t think it’s going to be a quick win for us.”**

P&G is “very focused on the fundamentals” in hair care after “a very lackluster period,” he said. **“We give credit to P&G for the quality of their execution and innovation in this space.”**

Both companies have lost share of the U.S. hair-care market in recent years. Unilever’s market share dropped to 17.1% last year from 17.6% in 2017, while P&G fell to 13.9% from 14.6% over the same period, according to Euromonitor. L’Oréal SA, the market leader, has also lost share in the U.S. **Big companies are increasingly facing competition from niche, salon brands** that reach shoppers through Instagram and Facebook.

Shampoo Giants Go Head to Head; A tussle with P&G for the U.S. hair-care market cuts into Unilever’s third-quarter sales  
 By Saabira Chaudhuri  
 17 October 2019, The Wall Street Journal Online

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## Loyalty does not mean air miles

- Personalized service
- Training
- Forward-positioning spares nearby
- Priority repair/parts service
- Special mods, customer-specific features
- Co-marketing spend



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## Flanking Price Product

Depart ▾	Arrive ▾	Stops ▾	Duration ▾		Basic Economy (most restricted) ▴	Economy ▾	Economy (flexible) ▾
3:22 pm	8:45 pm	1 stop	8h 23m	 Details ▸ Seats ▸	\$349 Select	\$399 Select	\$463 Select
7:37 am	5:00 pm	1 stop	12h 23m	 Details ▸ Seats ▸	\$280 Select	\$388 Select	\$893 Select

Basic Economy restrictions apply, including:

-  **No seat selection**
  - Seat assigned prior to boarding
  - No group or family seating
  - No Premier® member seating benefits
-  **No full-sized carry-on bag on board\***
  - Check bags before airport security for the applicable fee (starting at \$25)
  - Bags brought to the gate incur an additional \$25 gate handling charge (total starting at \$50)

\*This restriction does not apply to MileagePlus Premier members, primary cardmembers of qualifying MileagePlus credit cards or Star Alliance™ Gold members.

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## Bad Signals Lead To Unstable Competition and Destroy Value

		Competitor's Last Price Move	
		Raise/ Maintain Price	Lower Price
Our Response	Raise/ Maintain Price	<b>Cooperative</b>	<b>Hopeful</b>
	Lower Price	<b>Opportunistic</b> x Opportunistic Price Cut	<b>Retaliatory</b> x Undercut Competitive Prices x Match Competitive Prices

Adapted from: Gerald E. Smith

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## 5. Strategic Signals Summary

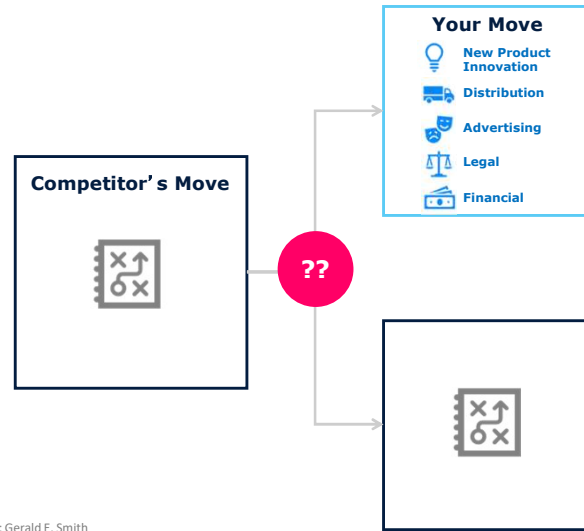
		Competitor's Last Price Move	
		Raise/ Maintain Price	Lower Price
Our Response	Raise/ Maintain Price	<b>Cooperative</b> <ul style="list-style-type: none"> <li>✓ Market Outlook Statements</li> <li>✓ Pre-Announce Price Changes</li> <li>✓ Compete on Quality</li> <li>✓ Loyalty Programs</li> </ul>	<b>Hopeful</b> <ul style="list-style-type: none"> <li>✓ Compete on Quality</li> <li>✓ New Bundling</li> </ul>
	Lower Price	<b>Opportunistic</b> x Opportunistic Price Cut	<b>Retaliatory</b> <ul style="list-style-type: none"> <li>✓ Flanking Price Product</li> <li>✓ Surgical Price Retaliation</li> <li>✓ Pricing To Take Loyal Customers Out Of Market</li> <li>x Undercut Competitive Prices</li> <li>x Match Competitive Prices</li> </ul>

Adapted from: Gerald E. Smith

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## 6. Leverage Competitive Advantage



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## 7. Manage Industry Pricing Role



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## Competitive Pricing Role Profiles “Price Leader”

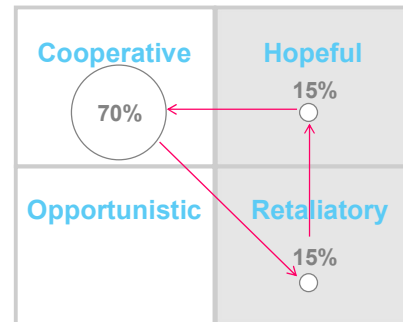
Cooperative pricing model  
 Defines price/performance standard  
 Large share of market  
 Perceived category strength and advantage – differentiation  
 Lead price changes  
 Industry price umbrella  
 “Information makers”

- Superior information gathering
- Superior information advantage

Market power to enforce discipline

Adapted from: Gerald E. Smith  
 Image: svgsilh.com

### Price Leader Strategies



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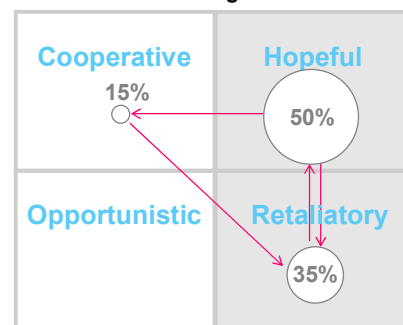
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## Competitive Pricing Role Profiles “Price Follower”

Cooperative pricing model  
 Major player  
 Credible share and category strength  
 Well defined segment focus  
 One of several parity competitors  
 Follows price changes, but may occasionally lead  
 “Information Maker”  
 Credible information capability

Adapted from: Gerald E. Smith  
 Image: svgsilh.com

### Price Follower Strategies



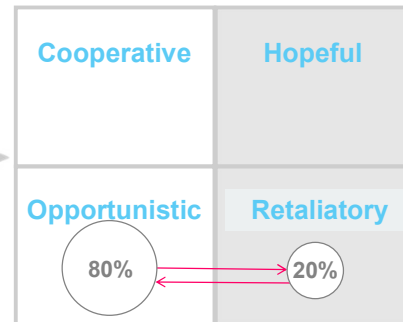
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## Competitive Pricing Role Profiles “Opportunist”

Opportunistic pricing model  
Small share of market, small player  
Insignificant threat  
Avoidance market segment strategies – stay in their swimlane  
Appeal to price buyers

### Price Opportunist Strategies



Adapted from: Gerald E. Smith  
Image: svgsilh.com

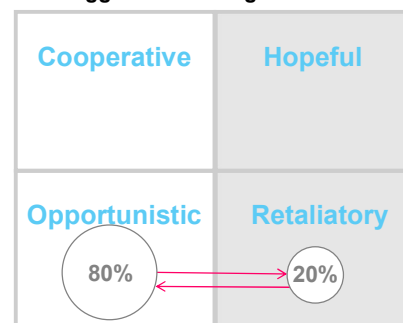
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## Competitive Pricing Role Profiles “Aggressor”

Opportunistic pricing model  
Small but growing market share  
Direct, credible strategic threat  
Apparent competitive advantage  
Appeal to price buyer; expands price sensitive buyer base

### Price Aggressor Strategies

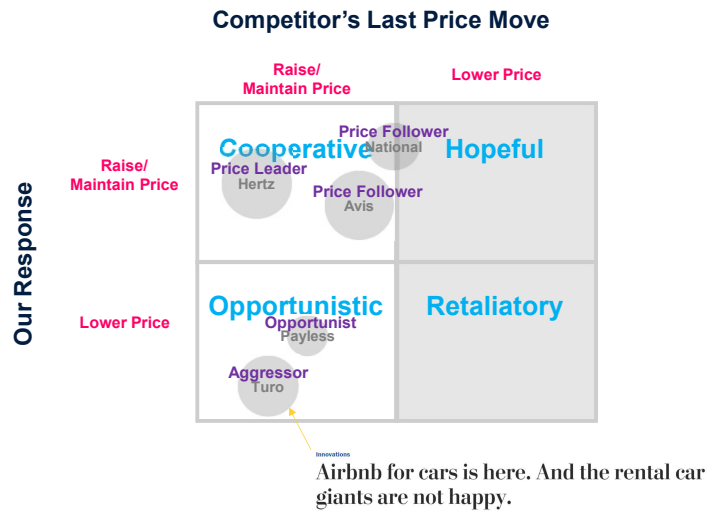


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## 7. Manage Your Competitive Pricing Role



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### 7 Steps to Achieving Stable Pricing Climate

1. Rational Pricing Goals
2. Gather Pricing Intelligence
3. Articulate Segmentation Strategy
  - Own, Play, Cede
4. Diagnose Competitor Moves and Signals
5. Deliver Good Strategic Signals
  - Cooperative, Hopeful, Retaliatory, Opportunistic
6. Leverage Competitive Advantage
7. Manage Industry Pricing Role
  - Price Leader
  - Price Follower
  - Opportunist
  - Aggressor

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## Competitive Moves Worksheet

**A's Moves**

	A	B

**% Moves**

C	H
O	R

**B's Moves**

	A	B

**% Moves**

C	H
O	R

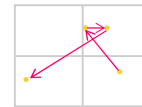
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## Competitive Moves and Signals Diagnosis

Trace the sequence of competitive moves for A by numbering and plotting A's moves. Do the same for B. Add public announcements. Which were game-changing moves?



### T-Mobile's Moves

Cooperative	Hopeful
Opportunistic	Retaliatory

### AT&T's Moves

Cooperative	Hopeful
Opportunistic	Retaliatory

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