PRODUCT MANAGEMENT

Week # 9

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INDIAN INSTITUTE OF INFORMATION TECHNOLOGY,
DESIGN AND MANUFACTURING,
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Why New Products Fail?

- Over estimation of Market size
- Design Problems
- Incorrectly positioned, priced or advertised
- Fixing a non existent problem
- Launched into the market despite poor marketing research findings
- Development Costs not managed properly
- Improper channels of distribution
- Non delivery of promised benefits
- Competition

New Products Failures

Failure Description	Product
The product falls short of claims and gets bashed.	Microsoft Windows Vista
New Item exists and no differentiation	Coca Cola –C2
Product launched too soon and Possibly flawed	Apple Maps
The product or marketing message is complicated	Febreze Scentstories-Fragrance disc
The product is revolutionary, but there's no market for it.	Segway
Competition, Hardware , Pricing	Microsoft Zune Music players, Amazon fire phone
Pricing	Apple PDA, Newton, Intel ultrabook
Product features , external factors delays	Nano

110 biggest Product failures :https://www.cbinsights.com/research/corporate-innovation-product-fails/

New Product Development -Metrics

- Selection of metrics (Performance measures) are key to understand the levels of process performance, project performance product performance. They are required to set goals and measure the rate of improvement.

New Product Development -Metrics

Metrics Type	Measurement span	Details
Process	Short term	To measure the effectiveness of the product development process and can be used to predict program and product performance – Staffing (hours) vs. plan, Turnover rate, Errors per 1,000 lines of code (KSLOC)
Program /Project	Medium term	To measure effectiveness in executing the development program/project – Schedule Performance, Program/project cost performance,
Product	Medium Term	Effectiveness in meeting Product objectives like design, technical performance (product parameters)
Enterprise Metrics	Long Term	To measure the effectiveness of the enterprise in undertaking IR&D and developing new products Percent of revenue from products developed in last 4 years, gross margin, Time to market-Development cycle time trend (normalized to program complexity)

Critical Success Factors and Metrics for Stages of NPD Process

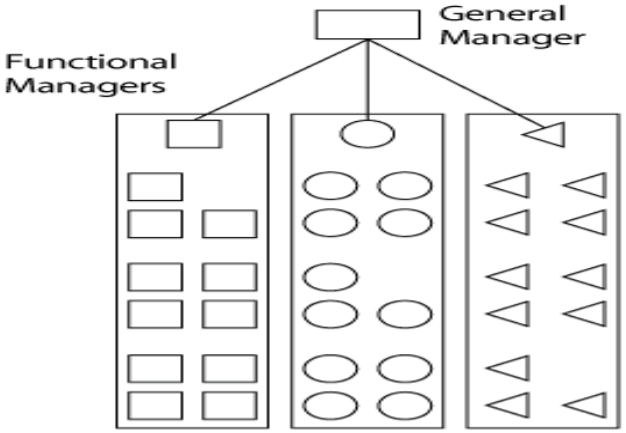
Stage	Critical Success Factor	Metrics	Tools and Technique
New Product Strategy	Clear Strategy	Return on Investment	Financial Analysis
	Well Communicated Strategy	Degree of Communication	Balanced-scorecard as a Communication Tool
Idea Generation	Customer Focused Idea Generation	Number of Customer Focused Ideas Generated	Lead User Methodology
			Ethnographic Approach
Screening and Business Case	Up-Front Homework	Expected Commercial Value (ECV)	Financial Method of evaluation
		Net Present Value (NPV)	
		Internal Rate of Return (IRR)	
		Productivity Index (PI)	
Development	Speed	Development time	Team Cohesiveness
	Customer feedback	Degree of functional integration	Dynamic Time to Market
		Degree of team commitment	Degree of Parallelism
		Concurrency of activities	
		Degree of design effort on real customer priorities	
Testing	Product Functionality	Product Performance	Validation Testing
	Customer Acceptance	Customer-Perceived Value	User and Field Testing

Source: Journal of Industrial Engineering and Management - http://dx.doi.org/10.3926/jiem.334

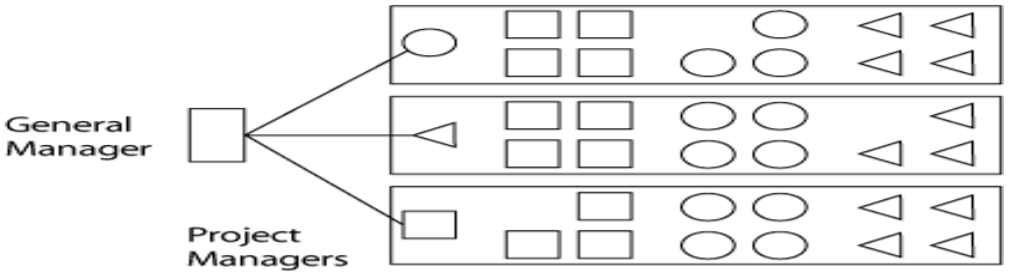
Product Development: Organization Types and Structure

- Strict functional organization
- Strict project organization
- Matrix organization

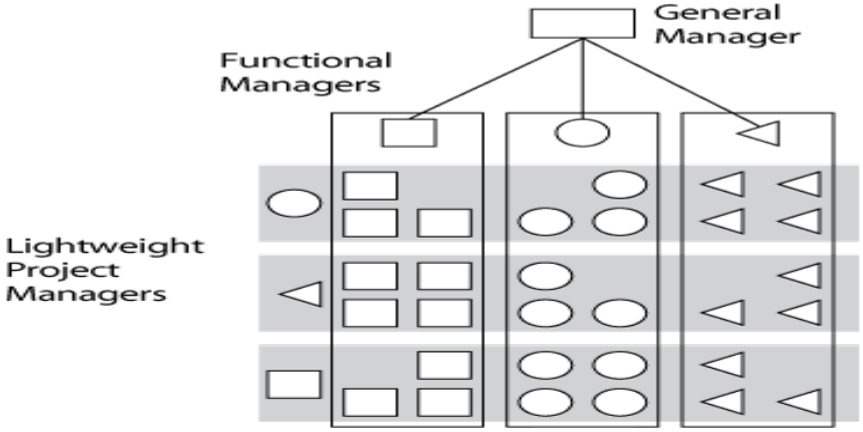
Product Development: Organization Types and Structure



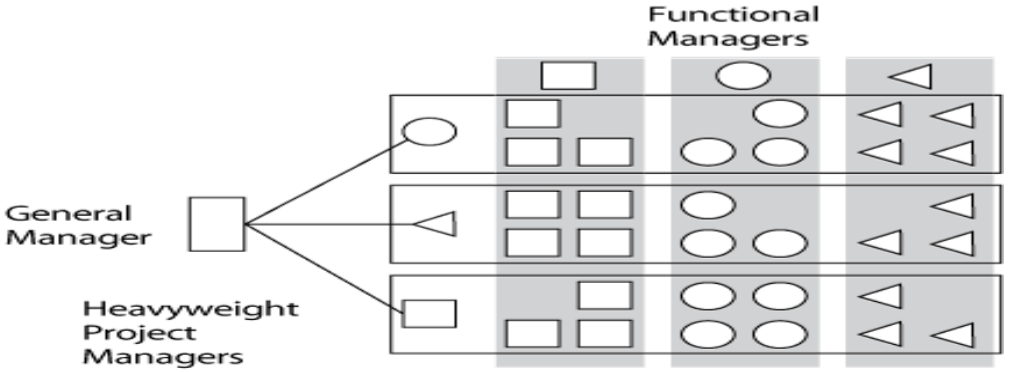
Functional Organization



Project Organization



Lightweight Project Matrix Organization



Heavyweight Project Matrix Organization

From *Product Design and Development* by Karl Ulrich and Steven Eppinger (McGraw-Hill/Irwin)

Launch Monitoring and Adjustments

Launch Monitoring & Adjustments	Key drivers	Key questions
• **Post-launch product fine-tuning**	• Product features & quality level • Packaging	• Is product delivering as expected? • What adjustments are required?
• **Post-launch product tracking**	• Market penetration • Customer satisfaction • Actual sales, costs & margin	• Is product delivering as expected? • Are we progressing according to plan? • Which KPIs need strengthening?
• **Post-launch product operation monitoring**	• Promotion • Distribution • Price levels	• Is performance in line with forecasts? • Have unforeseen external factors impacted progression? • What adjustment are required?
• **Post-launch product marketing plan adjustment**	• Sales, costs and margin forecast • Targeted customer segment • Promotion • Distribution • Price levels	• What evidence is available to support marketing and promotional efficacy? • How do we address the weakest links? • Any adjustment required to our forecast plan as a result?

Product Platforms

A product platform is a set of subsystems and interfaces that form a common structure from which a stream of derivative products can be efficiently developed and produced

Underlying structures or basic architectures that are common across a group of products or that will be the basis of a series of products commercialized over a number of years.

Source: PDMA

Examples

1. Intel Chip set in a Personal computer
2. Apple Iphone operating system iOS
3. Blade design in a Gillette razor
4. Black and Decker line of Power tools
5. HP desk jet and inkjet printers

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Product Platforms

- The combination of subsystems and interfaces defines the *architecture* of any single product. Every product has an architecture; the goal is to make that architecture common across many products. Any single product's architecture therefore has the potential to become a product platform architecture if it is designed and then used as the basis for creating several or more derivative products.
- Each subsystem of a product platform has a specific function; when combined, they create a higher form of function for the overall product platform architecture. As we saw in the inkjet printer case, not all subsystems and interfaces are equal in their importance to the evolution of a product line. Some subsystems, if changed, will require changes in many other subsystems; others will have little ripple effect.

Advantages of Product Platforms

- Increased speed in developing new products
- Manufacturing can be flexibly adjusted to create new products
- Reduced development costs
- Ability to upgrade products easily
- Reduce testing on new products as common components are used

Planning for Product Platforms

- Effective Planning for Product Platforms allows a company to deliver distinctive Products to the market through effective management of development and production resources

- Platform Planning Process typically focussed on the three information management tools, namely
  - Product Plan
  - Differentiation Plan
  - Commonality Plan

Source: David Robertson and Karl Ulrich, SMR, Summmer1998,39,4, p19

Successful Product Platform Strategy

- **Black and Decker Power Tools**
  - New products had been developed one-at-a-time, not as a family of products.
  - 30 different motors in the power tool offering (each produced differently) and 104 different armatures
  - Product Platform developed in 1971 with an USD 1.7million investment and seven year break even period
  - Project completed in three years.. By planning the entire product line, involving both the engineering and manufacturing in the product design phase and adopting a long-term planning horizon at the senior management level, the product platform approach with standardized parts yielded in significant improvements.
  - Savings in power tool motor manufacturing was USD1.28 million annually and that of armature 1/5th of the previous manufacturing process level.
  - Labour savings yielded USD 4.6 million due to reduction of 450
  - Platforms resulted in faster launch of derivative products
  - Black & Decker took the savings to the prices of the power tools and even 50% price reductions were witnessed.

Successful Product Platform Strategy

Sony Walkman :

- Key benefits adopting Platform strategy was cost minimization and faster launch of derivative products.
- Walkman product platforms were developed by company's best design and manufacturing engineers (cross-divisional). The product platform development was done in an intense project of a year or more.
- When the product platforms were ready, the individual topological changes were cheap to design and produce thereby the break-even would come from selling only 30 000 units of the derivative product.
- During the 1980's, Sony launched nearly 250 models of personal portable stereos in the US markets
- The whole product family was based on only four different new product platforms (1981 – 1989), while 99% of Sony's products were derivative products.
- From twenty to thirty models were based on the incremental innovations and others were based on the topological changes(rearrangements, cosmetic changes).

Intel Centrino : A Platform Success Story

Intel Centrino Mobile Technology: A Platform Success Story

The Intel Centrino success is a story of four end user business requirements and how three critical solution components met those requirements. While designing these platforms, Intel knew that businesses wanted:

- Agents able to take the office to their customers.
- Workers and managers able to stay in touch while on the go.
- Increased productivity.
- Access to information and key applications anytime, anywhere.

First, Intel translated those needs into design requirements. For example, in order to carry an office to a customer, users needed a mobile device that was lightweight, with long battery life, and with wireless communications fully integrated. To meet these requirements, the devices needed a variety of capabilities, including intelligent software, flexible connectivity software, cooperative standards for communication in different environments, wireless infrastructure around the globe, and so forth.

Along with developing hardware to provide that solution, Intel worked with the industry in developing the software fundamental to providing these targeted user values. This included drivers, kernels, middleware, configuration software, and other application software that would complete the user experience. Intel also worked extensively with the industry to enable investments in infrastructure; hotspot locations for homes, offices, and public places; simplified "one-bill roaming" wireless access models; industry standards; and identity and security t echnologies.

Basically, the Intel Centrino mobile technology success story is a result of three components: intense collaboration with the industry in developing standards for many of the mobile technologies used in Intel Centrino mobile technology–based platforms, the user-oriented design of hardware and software components, and a strong commitment to testing Intel Centrino mobile technology– based products in thousands of locations worldwide to make sure the platforms worked in all environments. Intel also marketed Intel Centrino mobile technology directly to users, creating additional market pull for mobile devices. Mobile-device original equipment manufacturers saw a direct benefit from Intel's branding and marketing investments, which created demand for Intel Centrino mobile technology–based platforms.

The result has been a remarkably successful set of new business opportunities and end user values that have opened the door for a social revolution. From coffee shops and fast-food restaurants to bookstores, and from airports to train stations, this technology has driven truly innovative, useful solutions for business and end users alike.

Five Major ingredients of Intel Platforms

- **Hardware,** such as processors, chipsets, communications, memory, boards, and systems.

  Software, such as operating systems (OSs), applications, firmware, and compilers.

  Technologies, such as Hyper-Threading Technology (HT Technology), Intel® Virtualization Technology (Intel® VT), Intel® I/O Acceleration Technology (Intel® I/OAT), and Intel® Active Management Technology (Intel® AMT).

  Initiatives and standards, such as Wi-Fi, WiMAX, the Wireless Verification Program, and so on.

  Services, such as digital media distribution, communications services, and system management services.

  There are also external elements that make a comprehensive platform come together, such as standards, development tools, marketing initiatives, and infrastructure.

  For a platform to be truly valuable, all of these elements and ingredients must work seamlessly together to create a useful and cohesive end user experience.

Five Key Areas for the Platform Approach

Intel has identified five key areas where a platform approach would offer significant advantages for end users, OEMs, third-party vendors, and service providers:

- *Digital Enterprise*: Platforms for end-to-end solutions in businesses, offering a lower total cost of ownership (TCO), better security, reliability, scalability, automation, manageability, and responsiveness.
- *Digital Home:* Platforms for entertainment and other home uses with evolving consumer-electronics (CE) form factors; content management, protection and services; high-quality audio and video; rich graphics; multitasking; wireless access; ease of use; security; and reliability
- *Digital Home:* Platforms for entertainment and other home uses with evolving consumer-electronics (CE) form factors; content management, protection and services; high-quality audio and video; rich graphics; multitasking; wireless access; ease of use; security; and reliability.
- *Mobility:* Platforms that will make the growing numbers of different mobile devices work together better and be easier to use, offering enhanced performance, security, mobile entertainment, and much more.
- *Channel Platforms:* Platforms focused on the unique needs of local markets worldwide, such as the China Home-Learning PC and the Rural India PC.
- *Digital Health*: Platforms for healthcare research, diagnostics, and productivity, as well as for personal healthcare, such as enhanced caller-ID for users with Alzheimer's Disease, and sensor networks to help caregivers better monitor patients.

Other Product Platforms

- HP Computers and peripherals
- Canon’s copier machines
- Chrysler Cars
- DC-3 Aircraft
- Kodak cameras
- Intel Processors

Vehicle Platforms

- A platform can be defined as a collection of assets shared by a set of products. In the case of automobiles, these range from components to whole functional systems. The product platform is generally defined by a combination of engine, drive train, transmission and other major subsystems upon which a variety of different models can be based.
- In short, A platform is the basic core around which the rest of a car is built.

- Examples:
  - Honda, has developed its popular Civic, DX, and LX passenger cars from a common platform.
  - Among Volkswagen's (VW) current product portfolio, the Skoda Octavia, VW Golf, VW Beetle, and the Audi TT roadster share the same chassis components. This strategy has helped VW save close to $1.50 billion each year. VW now plans to share brakes, transmission, and other systems too.

Toyota New Global Architecture (TNGA)

a state of the art new way to build cars that are better for us, our customers and the environment

- Currently Toyota has uses around 100 uniquely modified platforms and Sub platforms along with 800 powertrains to fit these different platforms
- With TNGA, just 5 layouts will be needed for the whole range compact sports car to SUVs.
- Size and position of other key components will also be standardised.
- Standardised TNGA will provide the necessary freedom to Toyota Designers to produce cars which are distinctive as can be seen in the all new Prius and the C-HR Concept car – both of which were designed using TNGA.
- TNGA would enable reuse of many uniform components leading fewer components to be designed and validated, thereby reducing the time to market
- Also 20 % less manpower to build the vehicles

Source: https://www.toyota.co.uk/world-of-toyota/stories-news-events/tnga.json

Advantages of Using Shared Vehicle Platforms

- Drastic reduction of product development costs and time through the sharing of vehicular design and functional systems, so that vehicles can be introduced faster into the market.
- Greater ability to tailor products to the needs of different market segments or customers. (For instance, although the Lincoln Navigator and Ford Expedition share common parts and design elements, the former offers luxury options such as front and rear heated and cooled seats that are not available on the Ford Expedition.)
- Increased manufacturing flexibility, as different models based on the platform can be rolled out of the same assembly line.
- Reduced complexity of activities ranging from purchasing, logistics, distribution, sales, and service. The level of commonization also cuts down inventory levels, as more common components are used.
- Increased volume of components being used, as components are shared, thereby reducing costs per component by creating economies of scale.
- Reduced complexity of the vehicle assembly process as vendors are encouraged to supply modules of functional systems instead of components.
- Lower minimum financial return that must be earned on the product, due to reduced investment in product development.
- Easier to sell the vehicle, as the credibility of new products that share platforms with existing, successful vehicles is already established.

Software Platform

A software platform is a set of subsystems and interfaces that form a common infrastructure on top of which a set of related products are developed**

Software platforms resemble a strategic way to achieve reuse at an organizational level.

Many advantages of software reuse have been reported by organizations such as: fast delivery of products because less development and testing is required, reduced development and maintenance costs, improved quality of reused artefacts, reduced risks by reusing a previously proved solution, and better project estimates for time and cost.

*** McGrath, M. 1995. Product Strategy for High-Technology Companies. Homewood, IL: Irwin*

Advantages of Software Platform

- Many advantages of software reuse have been reported by organizations such as:
  - fast delivery of products because less development and testing is required
  - reduced development and maintenance costs
  - improved quality of reused artefacts,
  - reduced risks by reusing a previously proved solution,
  - better project estimates for time and cost.

Challenges of Software Platform Adoption

- Business Challenges
  - the business strategy,
  - and product-driven platform development.
- Organizational Challenge
  - Communication:
    - Communication among platform teams, Product teams and other business units
  - Organization structure
  - Agile culture
  - Lack of Standardization
- Technical Challenges
- People Challenges

- Well-designed platform architectures for software products, like platform architectures for physical products such as a car or office furniture, can provide substantial R&D productivity benefits for development organizations.

Software Application, Platform, Framework

- An *application* is computer software designed to help a user perform specific tasks.
- A computing *platform* includes a hardware architecture and a software framework that allow application software to run—for example, the operating system and programming languages.
- A software *framework* helps facilitate software development by providing generic capabilities that can be changed or configured to create a specific software application.

Monetizing Innovation Failures

New Product Monetization failures fall typically in four categories

1. *Feature Shock*: Cramming too many features into one product including unwanted features thereby creating a product that is overpriced and does not resonate well with customers *(Amazon fire Phone)*
2. *Minivation :* An innovation that, despite being the right product for the right market is priced too low to achieve full revenue potential
3. *Hidden Gem:* Potentially a cutting edge product that is never brought to the market properly, generally it falls outside of the core business. (*Kodak Digital camera missed opportunity)*
4. *Undead :* When nobody wants your Product (*Zune, Segway)*

Source: Monetizing Innovation: Ramanujam and Tacke

Monetization of Innovation

Willingness to Pay

Willingness to Pay : WTP

It is important to have a conversation with customers about their willingness to pay for your product before beginning to build the product.

Benefits of early WTP include:

- Will tell immediately if there is an opportunity to monetize your product
- Will help in prioritizing features and design the product with the appropriate features.
- Will enable you to avoid early setbacks/failures

Source: Monetizing Innovation: Ramanujam and Tacke

Information from early pricing talks

Asking the WTP questions

- What do you think could be an acceptable price?
- What do you think would be an expensive price?
- What do you think would be a prohibitively expensive price?
- Would you buy this product at the price point Rs.YYY

- It is important to follow each question with a “Why ?”- Asking for a justification for the response

Source: Monetizing Innovation: Ramanujam and Tacke

Top Five Methods for having WTP Conversations…(1/3)

Method	Description	When to Use
Direct WTP Questions	• What do you think could be an acceptable price? • What do you think would be an expensive price? • What do you think would be a prohibitively expensive price?	• During early stages of the innovation. • Provides for a good indicator as where you are heading
Purchase Probability Questions	• Present a new product concept, explain the value and benefits along with the price. • Seek a response on a scale of 1 to 5 on the probability of buying from the customer. • Run the survey by varying the price point and seek justification about the selection lf price	

Source: Monetizing Innovation: Ramanujam and Tacke

Top Five Methods for having WTP Conversations…(2/3)

Method	Description	When to Use
Most- Least Questions	• Start a survey with a a finite set of features (10 for instance) and subsequently ask the customer to identify the most preferred and least preferred. • Try and administer different combinations by showing different subsets from the same feature set. (MaxDiff method)	• Quickest way to determine the relative priorities of features and identify the leader (most valued), fillers and killers (least valued)
Build your Own questions	• It is important to have a rough idea about customers WTP prior to get started on the build your own questions. • Put a set of features and price before the customer and let them build their ideal product by selecting the features they value most. • It is important to observe where they stop. As the price increases with features increasing, the stop point gives an indication of the price point	• Use this for identifying ideal packages for the different set of customers

Source: Monetizing Innovation: Ramanujam and Tacke

Top Five Methods for having WTP Conversations…(1/3)

Method	Description	When to Use
Purchase Simulation	• Most advanced method also called Conjoint analysis. • Give a product with a set of features and price and ask the question "If they would buy the product and why?" • Change the features and price and ask the same question • Try and run through 5 to 8 combinations to see the reaction of the people • Closest a real sales situation	• Use this method when the willingness to pay for a product needs to be more precise. • A prerequisite is to identify the set of good features and a good understanding of willingness to pay. • It is preferred to use the other methods prior to using this method

Source: Monetizing Innovation: Ramanujam and Tacke

Willingness to Pay : Points to note.....(1/2)

1. Leverage the internal expertise by involving a cross functional team. Conduct an internal expert judgment workshop with the survey questions planned for customer WTP
2. Position focussed Customer discussions as “value talk”. Do not position the talk as “pricing” or “Willingness to pay”, rather talk how the innovation ideas will add value to the customer
3. Valuable insights come from simple questions
4. A good percentage of questions should have “Why” so that the customer responses could provide additional reference points for improvement

Willingness to Pay : Points to note.....(1/2)

5. It is advisable to change the conversation script, may be unstructured especially for leading edge innovations. Do not always follow a standard script
6. Do not leave the WTP conversations to the product teams alone. Involve all the key people into the action
7. Avoid the average trap
8. Do not always rely on quantitative numbers
9. Be Precise in your language: communication

Emerging Monetizing Models

- Subscription Model
- Dynamic Pricing (*Surge Pricing in cab aggregators*)
- Market Based Pricing (*Auctions)*
- Alternative Pricing (*Pay as you use*)
- Freemium Pricing *(Rel Jio, Linkedin, dropbox*)

New Product Pricing Strategies

- Market skimming pricing – *set a high initial price*

- Market penetration pricing – *set a low initial price*

New-Product Pricing Strategies

Market skimming pricing is a strategy with high initial prices to "skim" revenues layer-by-layer from the market.

- *Product quality and image must support the price.*
- *Buyers must want the product at the price.*
- *The costs of producing a smaller volume cannot be so high that they cancel the advantage of higher prices.*
- *Competitors should not be able to enter the market easily and undercut the high price.*

New-Product Pricing Strategies

Market penetration pricing sets a low initial price in order to penetrate the market quickly and deeply to attract a large number of buyers quickly to gain market share.

- Price sensitive market
- Production and distribution costs must fall as sales volume increases
- Low prices must keep competition out of the market.

Value Pricing

- Price set in accordance with customer perceptions about the value of the product/service
- Examples include status products/exclusive products /art pieces

Pricing Objectives

- Survival
- Profit
- Return on Investment (ROI)
- Market Share
- Cash Flow
- Status Quo
- Product Quality

Product-Mix Pricing Strategies

The firm looks for a set of prices that maximizes the profits on the total product mix.

Five product mix pricing situations

- Product line pricing – *the products in the product line*
- Optional product pricing – *optional or accessory products*
- Captive product pricing - *complementary products*
- By-product pricing – by-products
- Product bundle pricing – several products

Product line pricing

- **Product line pricing** takes into account the cost difference between products in the line, customer evaluation of their features, and competitors' prices. – *the price differences represent the perceived quality differences*

Captive – basic product in a product line low while related items higher

Premium – pricing highest-quality product higher than other models

Bait – low pricing on one item in line with intention of selling higher-priced item in the line

Price Lining – limited number of prices for selected lines of merchandise

Product line pricing

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- Premium – pricing highest-quality product higher than other models
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Product line pricing: Example

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Product-Mix Pricing Strategies

Optional product pricing takes into account optional or accessory products along with the main product. – *Decide which items to include in the base price and which to offer as options*

Dell Laptops with HDD a

New car with ordinary rims
$59,000

New car with sports rims
$60,000

Product-Mix Pricing Strategies

Captive product pricing involves products that must be used along with the main product.

- *Price the main, or driver product low and seek high margins on the supplies*

- **For services: two-part pricing** is where the price is broken into fixed fee and variable usage fee.
  - *Decide how much to charge for the basic service and how much for the variable usage*
  - *The fixed amount should be low enough to induce usage of the service; profit can be made on the variable fees*

Product-Mix Pricing Strategies

Product bundle pricing combines several products and offer the bundle at a reduced price.

- Price bundling can promote the sales of products

Examples:

Bundled offers : Laptop + Antivirus Software + Single user MS office

Price Adjustment Strategies

- **Companies adjust basic prices to account for various customer differences and changing situations.**
  - Discount and allowance pricing
  - Segmented pricing
  - Psychological pricing
  - Promotional pricing
  - Geographical pricing
  - Dynamic pricing
  - International pricing

Price Adjustment Strategies

Discount and allowance pricing reduces prices to reward customer for certain responses such as paying early, volume purchases, and off-season buying.

- **Discounts**
  - *Cash discount for paying promptly*
  - *Quantity discount for buying in large volume*
  - *Functional (trade) discount for selling, storing, distribution, and record keeping*
- **Allowances**
  - *Trade-in allowance for turning in an old item when buying a new one*
  - *Promotional allowance to reward dealers for participating in advertising or sales support programs*

Price Adjustment Strategies

Segmented pricing is used when a company sells a product at two or more prices even though the difference is not based on cost.

- Adjust basic prices to allow for differences in ***customers, products, and locations***
- Airlines, hotels and restaurants – revenue management or yield management
- To be effective:
  - Market must be segmentable
  - Segments must show different degrees of demand
  - Watching the market cannot exceed the extra revenue obtained from the price difference
  - Must be legal

Price Adjustment Strategies

- **Customer segment pricing** is when different customer pay for different prices for the same product or service.
- **Product form segment pricing** is when different versions of the product are priced differently but not according to differences in cost.
- **Location pricing** is when the product is sold in different geographic areas and priced differently in those areas even though the cost is the same.
- **Time pricing** is when a firm varies its prices by the season, the month, the day, and even the hour.

Price Adjustment Strategies

Psychological pricing occurs when sellers consider the psychology of prices and not simply the economics.

- **Reference prices** are prices that buyers carry in their minds and refer to when looking at a given product.
  - Noting current prices
  - Remembering past prices
  - Assessing the buying situations

Price Adjustment Strategies

Promotional pricing is when prices are temporarily priced below list price or cost to increase demand.

- Loss leaders
- Special event pricing
- Cash rebates
- Low interest financing
- Longer warrantees
- Free maintenance

- Risks of promotional pricing
  - Used too frequently
  - Copies by competitors can create “deal-prone” customers who will wait for promotions and avoid buying at regular price.
  - Creates price wars.

Price Adjustment Strategies

Promotional Pricing

- **Loss leaders** are products sold below cost to attract customers in the hope they will buy other items at normal markups.
- **Special event pricing** is used to attract customers during certain seasons or periods.
- **Cash rebates** are given to consumers who buy products within a specified time.
- **Low interest financing**, **longer warrantees**, and **free maintenance** lower the consumer's "total price."

Price Adjustment Strategies

Geographical pricing is used for customers in different parts of the country or the world.

- FOB pricing
- Uniformed delivery pricing
- Zone pricing
- Basing point pricing
- Freight absorption pricing

Price Adjustment Strategies

- **Dynamic pricing** is when prices are adjusted continually to meet the characteristics and needs of the individual customer and situations.
- **International pricing** is when prices are set in a specific country based on country-specific factors.
  - Economic conditions
  - Competitive conditions
  - Laws and regulations
  - Infrastructure
  - Company marketing objectives

Price Changes

Initiating Pricing Changes

- **Price cuts** is a reduction in selling price.
  - Excess capacity
  - Increase market share
- **Price increases** is an increase in selling price
  - Cost inflation
  - Increased demand and lack of supply

Buyers' Interpretation to Price Changes

- **Price cuts**
  - New models will be available
  - Models are not selling well
  - Quality issues
- **Price increases**
  - Product is "hot"
  - Company greed

Price Changes

Responding to Price Changes

- **Questions**
  - Why did the competitor change the price?
  - Is the price cut permanent or temporary?
  - What is the effect on market share and profits?
  - Will competitors respond?
- **Solutions**
  - Reduce price to match competition
  - Maintain price but raise the perceived value through communications
  - Improve quality and increase price
  - Launch a lower-price “fighting brand”

Price Changes

Pricing Within Channel Levels

- **Price fixing:** Sellers must set prices without talking to competitors.
- **Predatory pricing:** Selling below cost with the intention of punishing a competitor or gaining higher long-term profits by putting competitors out of business.

End of Session