Strategic Marketing - Contemporary Issues
Prof. Jayanta Chatterjee
Department of Industrial and Management Engineering
Indian Institute of Technology, Kanpur

Lecture - 19

I was discussing with you in the last session that strategic marketing is as much a clinical art as is surgery or the practice of diagnostic medicine. I use the analogy with swimming to illustrate that to understand, to practice, to become an expert in strategic marketing, it is not enough to know all the theories, it is not enough to know all the various permutations and combinations of the marketing mix that can be applied in various situations as given in the book to know all the matrices and all the graphs and all the two by two, four by four model, etcetera; until and unless you engage, you try to apply those learning's, those nuggets of knowledge to actual real-life situations.

Case studies represent one of the ways in which we can do this reality testing, one of the ways we can engage with real life situations, but even better and in fact relatively more hands-on will be for you to keep yourself open to what all things are happening in the market place around you, around the world, understanding those dynamics from the financial news papers, from the business oriented TV shows, from the internet sites relating to business world or business week or the economist or the McKinsey quarterly and so on. For example we have discussed about Bata in many of the earlier sessions and I was just looking at a news item in the business press published just a few days back about Bata India's latest plan of investing about 100 crores in rupees in expanding their marketing capability.

Now, if you remember when we did the SWOT analysis we used Bata as one of the examples and we mentioned that being an old established brand the leader in the Indian footwear market, they have excellent distribution chain. This news item says that they have 1200 stores across the country, and they are now planning to add 140 more such stores. They are reorganizing some of their stores closing down the smaller stores and consolidating and expanding the bigger stores. And all of this they are doing to implement a strategy in marketing that we have already discussed and that is leveraging this distribution chain, they are adding not only footwear products shoes and sandals which they do not manufacture; according to this news item Bata manufactures 21 million pairs of shoes and sandals and other items and accessories whereas they market outsourced product to nearly about 24 million pairs.

So, you see they have their product range on offer to the market place is about fifty-fifty, fifty-fifty distribution distributed between what they make versus what they outsource. And exactly as we have discussed while studying ANSOFF matrix that there is always a good strategic marketing potential in bringing new products to your existing customers which is in many ways a lower risk, lower cost option a low hanging foot. We discussed about how Woodland another competitor to Bata in a niche market segment now is expanding from their main offering in the adventure and trekking and hiking range of boots and shoes to other accessories like skincare or tents and rugs, etc that will be like taken up by same customers.

Similarly, we discussed that what could Bata do and at that time if you remember that we discussed that maybe they can use their stores their relationship with existing customers and utilize that foot fall to attract customers who already come to Bata stores maybe twice in a year or once in a year at least for school shoes to offer to that same market segment, other products to expand their range and to get a greater percentage of the wallet share as we talked about or the mild share or the spent share and we see in this news tem that Bata has now decided that the area of focus in this expansion will be to introduce a new range of accessories. It plans to tie up with local and foreign brands for licensing school kids such as school bags and also they are talking about how they will now leverage their relationship with the female segment of their customer base in offering other kinds of accessories that will go with this.

So, again this is a live example of seeing the practical real life application of the principles, tools, methods, concepts that we have discussed in this course so far and see them unfolding in front of you. In the last one week, I find another interesting item that will also be interesting for your appreciation of this point that I am trying to make that live understanding of our discussions can be derived from looking at the market place and reading between the lines of developments. So, there is this interesting article I was reading in one of the business newspapers about Nokia and how Nokia could borrow from Bata strategy for the Indian market.

It basically talks about how Bata a decade back was taken by surprise by the entry of a foreign brands in the Indian market like Nike or Rebook or others Adidas and so on and they were also surprised by the emergence of new local competitors like Woodland who came up with special value proposition for a niche market like the adventure trekking hiking customers who were looking for tough shoes for rough use. At that point of time being a market leader and seeing this market threats, Bata first tried to utilize their strength and strive to manufacture all this different types of products the woodland type of product or the sports shoes type of products and they however could not match up to the specialize niche offerings from these competitors and they were failing in the market place. Then about I think 8, 10 years back in the beginning of this century in the early 2000 period, they said let us get back to our core strength and leverage that better.

So, they analyzed that their core strength came from the middle segment of the market the middle income group and the middle-aged group of customers who trusted Bata is a brand, trusted the Bata quality and so on and by sticking to that core competence Bata made a great comeback over the last decade or so. This article talks about that how Nokia could learn from this particular instance and understand that though they are losing market position to the new entrance like Apple or Samsung who are offering snazzy upper-end smart phones with many functionalities, they can create a valid strategy for India which is a significant market for Nokia globally by focusing on the lower and middle end of the market; that means focus not so much on the smart phone but on the affordable feature phones which means phones which offer besides voice and messaging utility some additional functionalities, could be camera for some segment, could be connecting with social network sites for some age groups.

But fundamentally bring back the focus not on the higher end of the market but on the middle and lower middle end of the market because the very low end is already squeezed by emergence of many local and Chinese and Korean competitors who are trying to attack from the lower part of the market and climb upwards whereas people like Samsung or Apple are hogging the limelight for the upper end of the market. So, this article says why cannot Nokia for the Indian market learn from Bata success failure and then success by staying focused on the middle market where they have a good understanding, enjoy good brand loyalty and therefore that could be a winning strategy.

They bring also the examples of Maruti which actually with the entrance of many upper end models from foreign competitors try to introduce model like Baleno and some of those multi utility vehicles and sports utility vehicles which did not do very well. So, they brought their focus back to the middle segment. They introduced models like Swift which became huge success and brought them back into the quiet firm number one position in terms of volume as well as in terms of financial results. So, again from this news analysis you can immediately see how the SWOT analysis can be applied, how success or failure in marketing in one domain can be translated to your domain many of the concepts that we have already discussed.

I would now in today session like to discuss again two live items from market developments around us and through that process I would like to discuss with you a key component of the marketing strategy, the pricing strategy, what are the different possibilities in the pricing strategy; that will be the focus of today's session and I would then request you to apply those principles to many of the companies that you are aware of you may be working in or you may be aspiring to join. And I would request you to then apply your understanding from today's session to analyze and comprehend the pricing strategy of those companies. So, before I get into the discussion I will try to on pricing strategy and price management.

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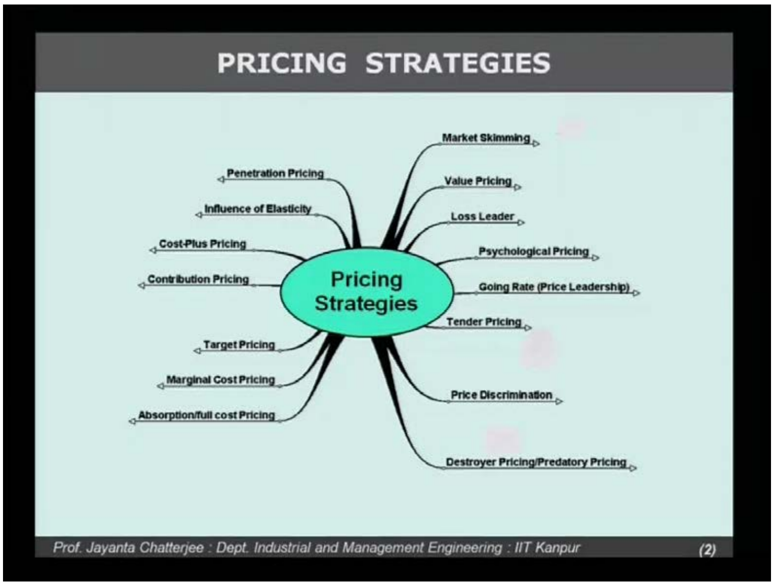

I will bring to you two live examples and we will discuss these in the beginning and again as we progress and maybe towards the end. So, one of them relates to a company which is wanting to introduce in Indian market a karaoke system. Karaoke as you know is a sing-along equipment where you can play favorite popular songs without the words, the music plays as in the original in the background and through the microphone you can sing the words the lyric as it appears on you in front of you on a screen. The karaoke box which is basically a computer which sits between the music system and your microphone mixes the sound track with your singing and apply some digital techniques to smoothen out the problems with the armature voice, adds the facilities of rhythm and eliminates the problem due to loss of rhythm in an armature singing and the output is amazingly pleasant.

It came from Japan and Korea and those far eastern countries and has taken the world and by storm and very popular in many as a form of evening entertainment, household entertainment when people get together and sing their favorite songs using the karaoke box or machines. So, it is fundamentally a music playing system with microphone input and some of these digital mixing capabilities. Now professional karaoke systems suitable for big restaurants and public functions are available to the Indian market. They cost in the range about 70 to 80000 rupees upwards; it can even be as high as couple of lakhs. Now this company has a product to market which is meant for small functions at home or in a small school gathering or institutional gathering of 40, 50 people in a normal size class room or drawing room.

The cost of the product at the manufacturers or rather the marketers input if you remember we had seen how the margins develop across the delivery chain. So, the manufacturer to the wholesaler to the distributer to the retailer, so you can look at a four stage distribution model or you can took at a three stage distribution model. And your task will be that if the high end karaoke system suitable for restaurants and other professional use costs something like 60000 rupees to couple of lakhs and if the cost of this system that you have is something like 6000 rupees before you take it to the market; that means at your doorstep it cost 6000 rupees including the manufacturing and the overhead and the sourcing costs and so on. Then at what price will you offer it to your distributors? Will you have a two-stage, three-stage or four-stage distribution? Where will you launch it first? Should you keep it limited to a regional distribution in the East or the West or the North or the South and for how long?

Assume that your outfit is located in Western India, say, Gujarat and so you have to now decide this other elements. So, you have this product one element of the marketing mix, the description this karaoke box and you have to decide about the pricing strategy and the place, that is the distribution strategy, and at what price you will offer it to your channel partners and then what price will you set for the retail outlets or what would you call it set as the street price as we call it. So, street price is the price which is ultimately paid by the consumer by the buyer maybe after some retail discount and your recovery is the price at which you offer it to your first point in the distribution chain maybe a whole seller or a regional distributor. The other example I would like you to think about in the beginning and as we go along our study of the various pricing models is a new steel casting machine which is based on a unique technology developed by your company.

So, your target market will be steel melting shops and foundry forge factories and this is a casting machine which is fully integrated and has features like high casting speed versatility in terms of the various rods and billets it can cost. And also it has good degree of automation capability suitable for the Indian environment which means rugged features suitable for high temperature application, suitable for high humidity, high voltage fluctuation and such anomalies in the input system. The older style casting machines which this new machine wants to replace used to cost say one and a half million rupees and the smallest size to about 15 million size 15 million for the bigger size. So, 15 lakhs to one and a half corers is the range depending on the various models.

So, here it will be interesting exercise for those of you who have some knowledge and interest in industrial marketing or B to B marketing strategy that we discussed briefly in earlier session the difference between consumer buying behavior and the industrial institutional buying behavior and now you will have to look at the pricing strategy in that particular market. Having introduced these two sort of live problems to you, incidentally in the second case these integrated casting machine you can read more about this high speed modular caster at the website of www dot electrotherm dotcom a well-known player in this market and you can look at their new offering and you can therefore decide how you will go about it. So, pricing strategies you have this chart in front of you in the form of a mind map as we call it. This is another way you can approach instead of doing those boxes and arrows; this is a way of seeing a large number of concepts on one page.

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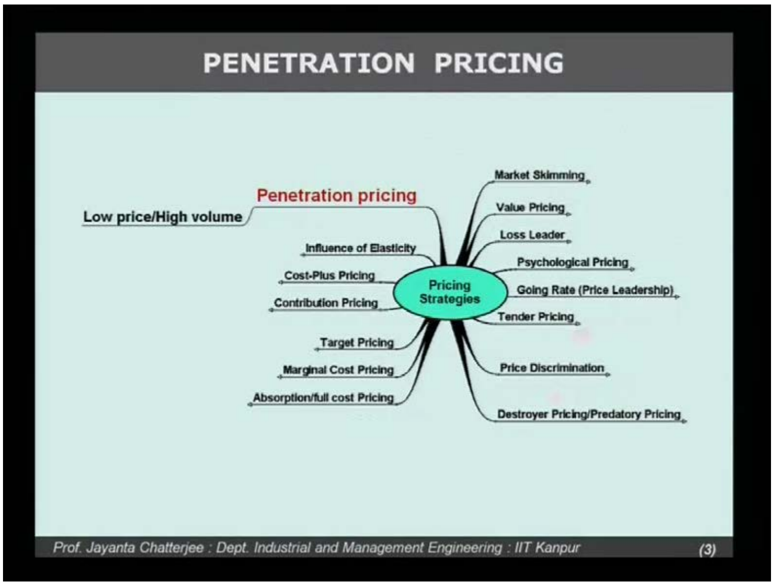

So, in this particular visual we map all the different types are pricing strategies that we normally know about and I will talk briefly about each one of them. So, the first one is called penetration pricing. Penetration pricing usually means at the launch point using low price to generate high volume or using low price to stimulate customer interest or to persuade the customer to move from brand A to your brand or to accept a new format or a new variant of an existing product range. It could be therefore used for a new variety of toothpaste meant mainly for diabetic and people who are sensitive to high sugar content in the toothpaste.

So, aim at this particular niche market which is also in India as you know we are soon going to become or I would say we will soon have this huge problem with that of being the diabetic capital of the world where we will have the highest number of potential and actual diabetic patients taking the whole world in terms of the percentage of population; various reasons but obviously therefore in a way this market which is now more focused on health and needs products with low sugar content. There is a social responsibility as well as a market opportunity but it means moving from an old habit of certain taste and certain feel of the morning toothpaste and if you want to make your offering popular not only in terms of its health benefit but to make customers used to your product you could actually use penetration pricing to use the relatively lower price in the beginning to generate higher volume.

Referring to our discussion on the chasm, this is where you want to quickly graduate from the innovative customers and the early movers to the early majority part of the market penetration pricing. In the recent past we have seen this strategy being used when oats quick cooking oats were introduced to the market as an alternative for breakfast a healthy alternative for against the breakfast cereal and not only to popularize it in the Indian market as opposed to the western habit of having oats in the form of porridge with milk, the Namkeen oats or oats as a kind of upma or poha was introduced in the Indian market with recipe books and so on. But along with that a penetration pricing strategy was followed to attract customers to give it a first time trial and then keep it for some time and then gradually you would observe if you have been tracking this particular product item you would have seen, how they have inched up the price per 250 gram packet by either playing with the packet size.

So, if the 250 gram actually became a 200 gram packet and the outer size remaining the same, it was very clearly mentioned it is a 200 gram package. So, in a way therefore you made a 20 percent saving in what you offered and so if you could actually retain the same price or dip the price by 5 percent you still improved your margin and similar strategies are associated with penetration pricing and the post penetration pricing strategy. You can observe now what is happening in the multigrain biscuits which were introduced in the market maybe a year or two years back and how that market is changing in terms of prices, how different new variants are being introduced and the prices are gradually inching up compared to the launch price where a penetration strategy was used.

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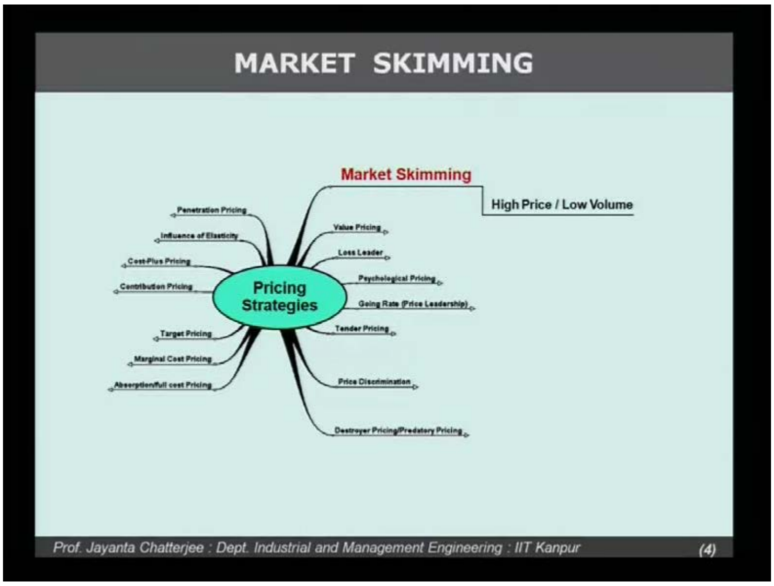

Opposite to this low-price high-volume strategy is the skimming price like you skim the cream from the milk. In the same way this strategy is to use a high-price low-volume option or an option where you can initially get the most that you can get from the early part of the product lifecycle if you remember the innovative users and the early adopters. Those two first segments on the chasm curve, and then as you have a number of early adopters, then you gradually try to expand the market towards the early majority and you start reducing the price at that stage because in the meantime usually this is a very valid strategy for high velocity markets like the mobile phone. So, you come up with a new smart phone at a high price. If you have observed the feature phone prices where the competition is much higher than that the smart phone, how many phones were introduced in 2007, 2008 at the level of 14 to 15000 rupees per unit at the retail end and how those same phones will now be available at about 7000 rupees.

So, at 15000 they used a skimming strategy mainly addressing the innovative customers and the early adopters who would like to have the latest gadget and then once the value was established then they move towards the early majority and at that time they started reducing the price per unit while higher end phones to satisfy again those high end users, the early adopters, the innovative users. So, they traded their earlier high end phone now o this new higher end phone and in the meantime the high end phone became available to the early majority customers at a lower price. So, two variants we discussed kind of opposite. One is low-price high-volume orientation; another is high-price low-volume orientation. The skimming strategy can also be used when as a manufacturer and as a tracker of technology engaged in forecasting you know that notebooks have already given way to net books and will soon give way to ultra books. So, you now try to skim the market for the notebooks, trying to get the best price that you can achieve because you know soon that prices going to rapidly fall. So, this is a kind of skimming where you hold on to your price or maybe even increase the price with some additional cosmetic add-ons knowing that it is soon going to give way to a another complete technology shift.

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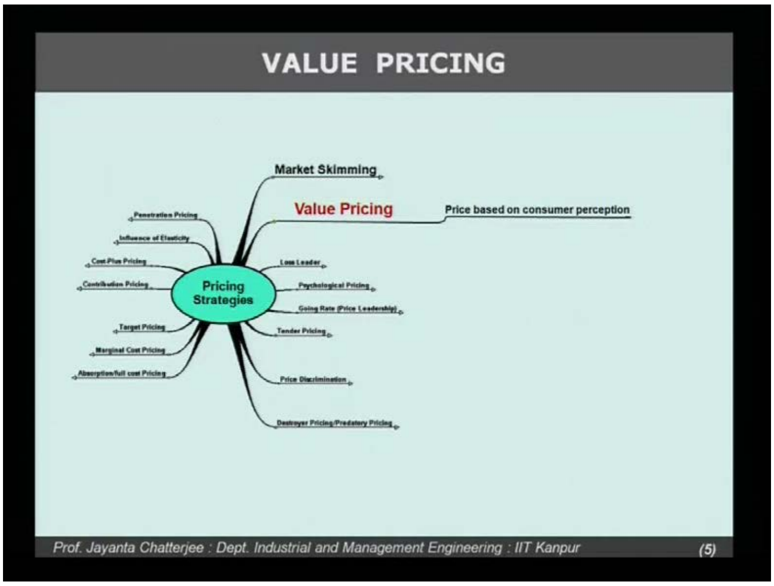

The next variant in pricing strategy is what we call value pricing. This is a kind of strategy which tries to extract the best price for the product or the service based on the customer perception, based on the market image that you have been able to build. Great examples here will be the pricing of Singapore airlines. They have built a service brand which has retained a high reputation for high level of service and customer satisfaction and therefore, they are able to charge a price premium over their competitors for the same highly competitive segments like Singapore, Los Angeles or Singapore, San Francisco or even Singapore, New York at such long haul flights because of the value perception of their offering in the customer's mind.

They have taken another strategy of course to protect their lower end by creating another brand within the same corporation but not using the Singapore airlines brand. It is a low cost option in low fills option. The value pricing model however, keeps on Singapore airlines in their premium brand position as a high service airline particularly for the long-haul flights. In the same way when Mercedes or BMW price their products in a market like India or China, they rely on the value perception in the customer's mind in these markets. So, obviously therefore the Mercedes strategy in the Indian market for the luxury sedan will be quite different from the Mercedes strategy in the many European markets as a key option for taxi service. Now both value propositions are derived from the durability functionality comfort level offered by the product but in different markets different value bundles are projected and different price points are created.

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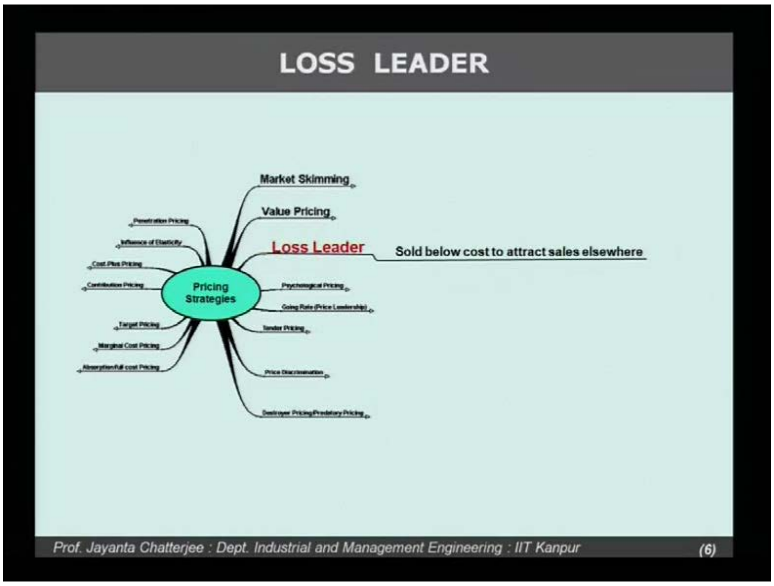

The opposite of this will be what we call the loss leader strategy. The loss leader strategy uses initially or apparently a very low at cost or below cost level of pricing, but usually it is deployed to encourage customers to come to you when you know that you would maybe in most cases be able to persuade the customers to buy other products which will be at normal margin or supernormal margin. So, at the festive on festive occasions like say Diwali or Dugra pooja or Eid or Christmas, many of the bigger stores offer you gifts like boxes of sweets or small toys and so on at a very attractive price or almost as a free giveaway if you buy certain amount of do a certain amount of shopping.

So, when they offer you a nice tea set for to free of cost if you do shopping for 1500 rupees in that store before Christmas or before Diwali, then you as customer you are happy because you got a nice tea set free of cost while you bought; what you thought was anyway you would have bought because you wanted some Diwali gifts for your relatives or for your family, but in that 1500 rupees the store will arrange the pricing strategy in such a way that the cost they incur in the free giveaway of that tea set which appears to be what we call a loss leader strategy is actually part of a bigger game plan, where you ultimately end up with a higher volume and possibly the desired level or maybe better than the desired level of margin or contribution.

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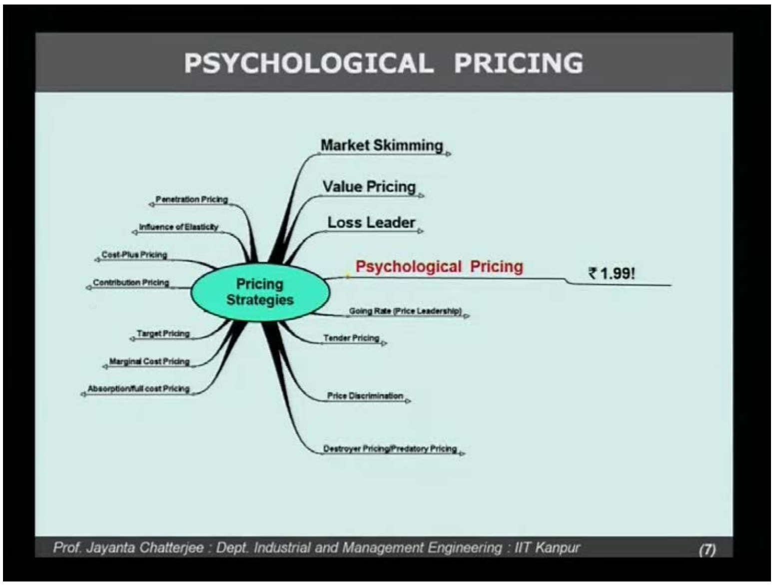

Psychological pricing is in India often called known as the Bata pricing because I think it was Bata which first introduced this and learned from this dollar 1.99 or pound 1.99 sort of strategy and introduced in India this strategy of 99.90 instead of 100.10 because somehow psychologically 99 appears to be better than 100 and so on. So, then the next one will be psychological pricing. In India sometimes called the Bata pricing which was inspired by the dollar 99 or 99 P type of pricing strategy abroad and in India. So, therefore 99.9 rupees price for a pair of shoes was using the psychological pricing strategy because in customers mind 99.9 is more attractive than 100.1. Appears to be a little not exactly rational, but it is a real in the market place and today you will see what used to be known as Bata pricing in India is now used by most products in the consumer market.

The psychological market pricing is also used by vendors of services who are offering high credence services like healthcare were often wellness packages as opposed to pathological tests. So, you are offering the same set of blood tests or urine or stool tests. Now the price at which you would normally be offering it offering those tests when somebody reports to you for getting evaluations done because they are having some discomfort some kind of possible illness. You create a wellness package where you get those same test done and you offer a kind of a price level which psychologically appear to the customer as a low-risk high-benefit sort of offering where you feel that okay at 900 rupees if I can get all these tests done and be sure that I have no lingering problem, no hidden unknown problem, then I will be better off. I will be more secure and again therefore, you can use the psychological pricing from another way of appealing to the customer’s need of security. We will discuss hierarchy of needs and its relationship with strategy in a little while.

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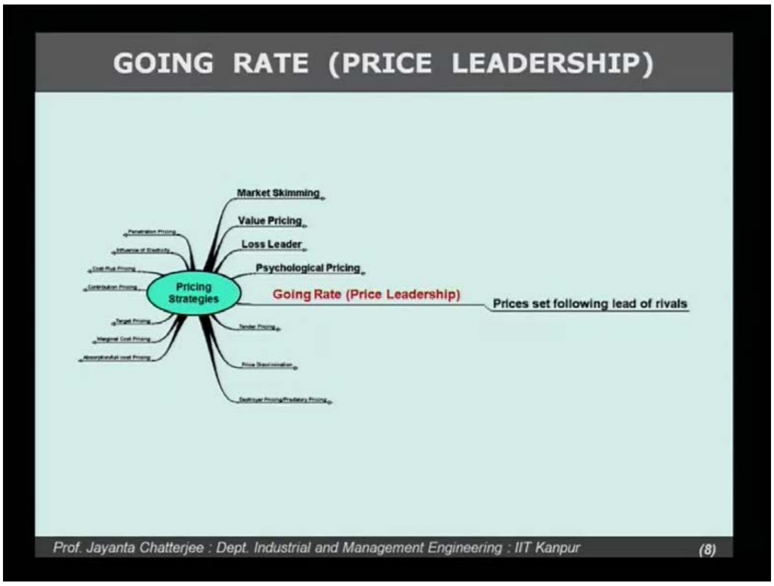

But in the meantime, we can look at another well practiced strategy in pricing which is called a going rate pricing. Here usually prices are set by looking at the leader’s price when the leader has a overwhelming presence. So, when Samsung came into the Indian market their pricing strategy very much tracked the pricing strategy of Nokia and offered maybe a little better but soon as they started introducing new variants and new feature combinations, they started setting up prices based on distinctiveness and then they moved therefore from going rate pricing to the skimming or to the penetrating pricing strategy that we discussed a little while back.

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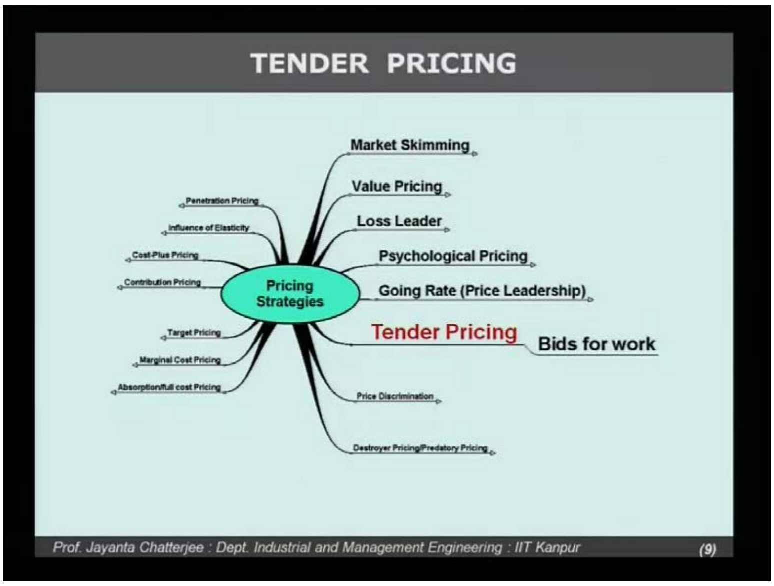

In industrial market we often use what we call the tender pricing or pricing for bids. This is also a quite an interesting area of pricing strategy. Here actually data analytics; that means how in the same market for the same kind of products or services, prices have been will be an important input that analytics of that historical data will be an important input in deciding your tender pricing. Often in very large value like this case of modular Billet caster and continuous casting machine that we were discussing, one would have to also see the pricing strategy adopted by the key competitors. Usually these are markets where there may be few competitors because most often these days' people have some limited number of enlisted suppliers who are prequalified through technical and capability evaluation.

So, that you do not have wild bids as we call them in tender pricing. So, you have prices where you have responsible players, the key players in the market participating in the bidding process and if you are one of the bidders, you would then try to capture the history of the price behavior of your key those key competitors in the past 12 months or the past 24 months depending on the business cycle in that kind of domain. And if you know that a competitor is already quite full with number of orders already booked, then one would expect that they will be less hungry and therefore their pricing strategy will be less aggressive but on the other hand another competitor might be quite aggressive because they have lost some of the bids in the recent past.

So, you have to put all of these together to decide tender pricing; may be we will take up a case on this later on when we have covered a little bit more ground on some of the other aspects of strategy. So, tender pricing usually used for long range supply contract it could be an institutional if for example, a company is participating in a long range supply contract to Air India for packaged milk and packaged tea then though it is a kind of a consumer product, but it is being offered in the institutional channel for a long term supply contract and again usually it will be done through tendering and through the bidding process and you would follow almost similar strategy as you would follow for a construction machine or for a road building machine. So, in that respect here the bidding strategy tender pricing strategy of Ingersoll Rand will be somewhat the strategy would be somewhat similar as will be adopted by Tata tea or Unilever for long term tea supply tea contract to Indian airlines or I mean Air India.

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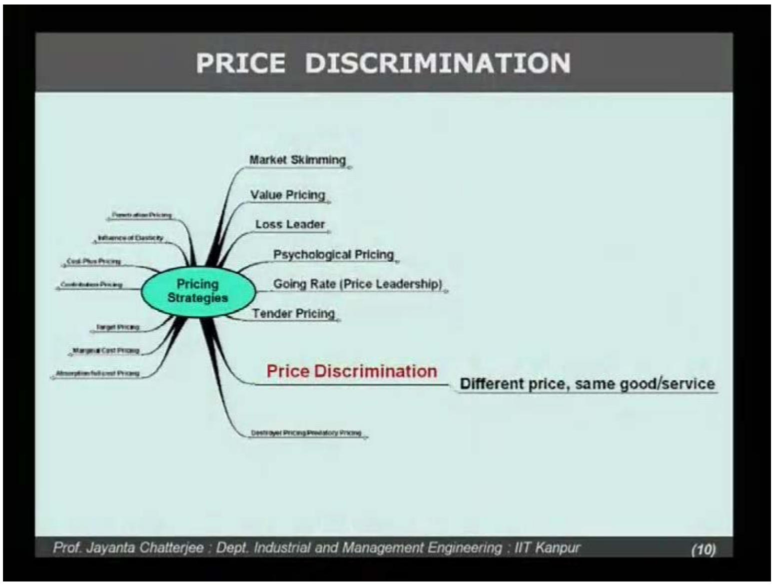

Price discrimination quite accepted in service markets like hospitality. So, customers accept that in high season the same hotel room will cost higher. So, if there is a higher level of demand and there is a limited supply of hotel rooms, then prices will go up and the same room off season will be offered at discounted price or if you prebook a flight three weeks in advance, you will pay may be half the price as would be paid by a person walking in three days before the flight and again just before the flight takes off, the price again can be quite low compared to the price that has been paid by the person who bought three weeks in advance. So, you see this is called the price discrimination strategy for the same product for the same service and it is more applicable for services rather than products where different prices can be offered to a different point of time for the same offering. So, we see it in the airline seats, in hotel room pricing, in pricing for restaurant, where you have happy hours and so on which we discussed briefly in one of the previous sessions. So, these are all what we call discriminative pricing or yield pricing or variable pricing and so on.

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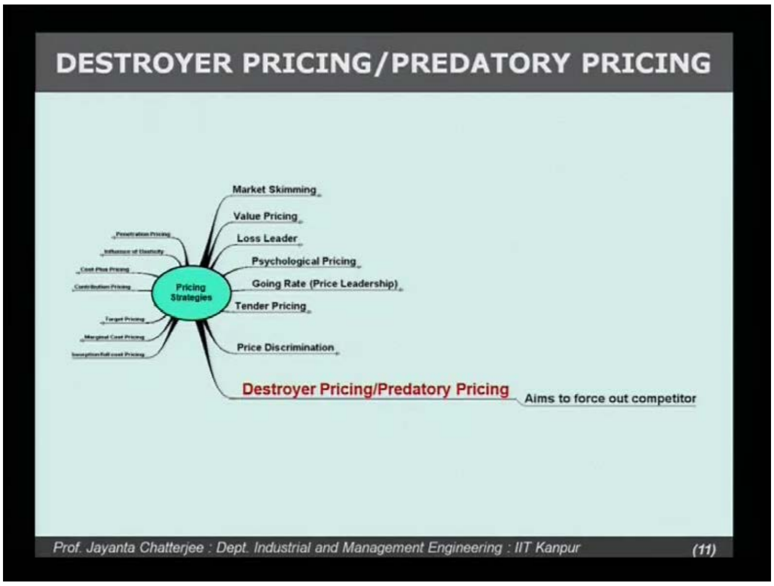

Destroyer pricing or predatory pricing this is aimed at if you have deep pocket and you want to push out some of your new challengers then as a market leader you can bring the price down to a level which will make the market unattractive for a new entrant. So, we know from economics that anytime there is supernormal profit in a market the market immediately attracts more competitors. The competition tries to bring the price down, but if you are the leader you can deliberately create a pricing strategy that will destroy your weaker competitors. This can also be used as an increase strategy in a market. It was very ably deployed by the two wheeler manufacturer of Japan, the motorcycle, the scooter and the manufacturers from Japan came into the European market and basically attacked the lower segment with higher performing machines at very attractive price point. That predatory pricing almost destroyed the British cycle industry, the low end motor cycle industry.

Once the Japanese had a monopoly position in that lower segment of the market where the British competitors walked out because the market was no longer viable for them, then from that monopoly position the Japanese manufacturers, the Kawasaki's and the Yamahas and they attacked the higher end of the market and soon pushed out even the local European manufacturers for the high end motorcycles and dominated almost the entire range of the two wheeler market. How some of the European manufacturers came back into that market place again and established themselves against the Japanese on slot inspired by the great success story of Harley-Davidson from U. S another iconic two wheeler manufacturer will be an interesting exploration for you to understand that how marketing strategy can cause failure, bring success and how you can compete as a new entrant and how you can compete as a market leader using pricing as the strategic tool.