Brand Management
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Welcome to another lecture on Brand Management. Today we are going to start a new topic and that is Tricing. And the title of this lecture is as you can see on the slide Relationship between Pricing and Brand Positioning. Now, before we look at the relationship between the two, let us understand what are we talking about when we say pricing. When you entering a shop and examining various products that you may like to buy. One of the things that you look for when you decide whether to buy this or that brand or this product or that product, you look at the price of the product.

Now, the price itself is quite a complicated thing. You may see that on the package it is written MRP which is Maximum Retail Price and then some amount is written. You are sometimes you are sure that the price will be this much and it cannot be more than that because that is what the government specifies or you may expect some kind of discount on that MRP or on that price. So, what you are prepared to pay is either that amount or perhaps slightly less amount than the one mentioned in the package.

But we must also think about the price that you are going to pay is for what? It is for the service or the value that the product that you are going to buy is going to provide to you. So, if you are buying 5 kg of atta or dal or biscuits or an automobile, no matter what you are expecting a certain level of service to be rendered to you for the price that you pay. Now, this is at the level or this is from the perspective of the consumer. Consumer since we are dealing with brand management as a subject, we must also keep in mind that when a consumer pays for the product he does not pay only for the product, but he also pays for the brand. And when I say brand immediately all of us will think of ideas like brand identity, brand iceberg, brand architecture and so on so forth.

So, you are paying not just for the product or the service, but you are also paying for the brand for using a product which is or using a brand which is distinguished from the other brands in the marketplace. So, you are paying for that ability to distinguish between one brand and the other brand. So, that ability to discriminate which perhaps you have in your mind and which you think that people who are observing you will also have in their mind you are paying for that as well. So, when we pay a price we are paying not just for the service or the product that we are buying the service the actual benefit that those product or service are likely to bring to me, but we are also paying for the brand that ability to buy to discriminate to discriminate that brand and then buy it.

So, that is also something that we are paying in addition to the symbolic benefits.

Now this is as I said from the perspective of the consumer there is also a perspective of the seller. So, the person the company the shop which is selling that product they also have a perspective they have an objective also not just a perspective, but they also have an objective and what is that objective it is to make some profit which means that the money that they get from the consumer from you should be at least slightly more than the money that they have paid to either manufacture the product or to bring the product to that shelf from which you can take off that product buy that product and take it home. So, their objective is to have a price which is slightly more than the cost. Now there is an opposition here as a consumer you would like to pay as less as possible for that product whereas, that shopkeeper or that manufacturer would like to take as high as possible for that product. So, one person trying to price the product as high as possible whereas, another person which is a consumer trying to pay as less as possible for the same product.

Now the place where they meet is where the price gets determined the price gets fixed. It is also in the term in economic terms it is called where the demand meets supply price gets determined. So, that is the crux of the issue of pricing that price gets determined where supply meets demand. Now supply and demand might be an economic construct or economic constructs, but here we are talking about brand positioning. So, supply and demand gets cleared or gets artificially modified when the brand positioning enters the picture and moment brand positioning enters the picture you will suddenly realize that the relationship between cost and price gets distorted.

I will give you an example and the best example is products in the luxury segment. Now suppose a lady walks into a store and she wants to buy a purse or a bag handbag. Now a handbag is available at 500 rupees and a similar handbag of the same size is also available at 5 lakh rupees. Now why there is such a vast difference between a handbag which serves the same purpose it is because of this idea called brand positioning. So, if you buy say a bag of Louis Vuitton it may cost 5 lakh whereas, if you buy a bag on the footpath of your city you may buy it for 500 rupees.

So, this is the magic of brand positioning which allows the customer and which allows the seller or the manufacturer to delink cost and the price of the same product. And if you as a brand manager are able to do this delinking between cost of the product and price of the product you will be in a position to have a much higher margin for your product than otherwise possible. So, in this lecture we are going to see how this relationship between pricing and brand positioning works. Let us move forward. Now something similar which we have just discussed that one man's price is another man's cost.

So, when I enter and I want to buy say a bicycle its price for me is price whereas, for the seller for the shopkeeper it is his cost. So, this element in any discussion on pricing we must be aware of we must be cognizant of because there is a duality in any pricing decision that duality is one man's price is another man's cost. Today we are going to see 8 truths about pricing and its relationship between price and business, price and industry, price and brand positioning and so on so forth. These 8 positions are cognitive approaches they work on our mind they are well thought out position and we are going to look at these 8 truths or 8 insights into these processes. Before we go to those 8 truths let us first understand a few basic points.

First pricing is the most powerful lever to grow business, but at the same time it is also risky and controversial. Why are we saying this? Because see you are selling a product and it is selling well. Now the easiest thing to do is to increase its price. If you increase its price perhaps people will not notice it and they will continue buying that product and if they continue buying that product what will happen is you are getting X revenue suddenly you will start getting 1.

2 X revenues. So without doing much effort your revenues increase. So that way it is a very powerful factor through which you can grow your business, but it is also risky because if you increase your price if you increase the price of your product it is possible that people realize it and they stop buying it. If they stop buying it then what happens your business comes at risk because suppose you are getting X revenues in the past suddenly you start getting 0.

7 X, 0.8 X, 0.5 X you do not really know how it will how it how people or consumers will react to your price rise decision. So, it is very risky. It can also be controversial because controversy can be at the level of emotion. So, people may feel someone who has bought say a product at 100 rupees and tomorrow it is available at 80 rupees. So, he may feel cheated that he was a fool to buy a product at 100 when it is within two days it is available at 80 rupees.

So, they feel cheated and they may decide that they will never buy your product again. So, that way pricing is a very sensitive issue and whenever you make a decision you must be careful you must carefully consider all aspects before you take that decision. This is also a reason why businessman or business managers brand managers say that pricing is or should be the last lever to be touched. You should do other issues you should make other intervention interventions make other decisions, but try not to touch price as a decision as a marketing intervention. But there is also a reality and that reality is inflation.

What does it mean? It means that the prices of all the commodities raw material advertising is going up all the time. So, inflation increases your costs material costs advertisement costs and all other costs and as costs keep mounting what happens is your margin is always under pressure. So, if you are having say 20 percent margin after one year it may become 15 percent margin after some time it may become 10 and so on. So, if the margins become lower your profits become lower and if profits become lower then you are not able to sustain your organization you are not able to pay salaries you are not able to produce at the same level and then your business starts going down. So, that is why increasing pressure on material cost and other costs labor cost advertisement cost capital cost forces you to make price decision.

So, that is why a brand manager and a CEO and a marketing manager they operate within these two extremes. One extreme is let us not touch pricing at all and other extreme is we have to touch pricing because costs are going up. So, somewhere in between you will have to locate yourself and make a decision. So, finally, in this slide you can see that tactical decisions like pricing is more complex than initially anticipated and must be considered seriously against the context of positioning. So, you must keep in mind that this is the positioning of my brand and I must keep the pricing at a level that that brand positioning is maintained.

If you price it too high then there will be a dissonance in the consumers mind and they may stop buying the product and the same thing may happen if you price it too low. So, as I said that pricing is not an easy decision it is a very complex kind of intervention that you can make in the marketplace and you must do with full awareness. Let us move and look at the first truth about pricing. Now this insight or this truth is something that says that pricing strategy must be tied to market share strategy. So, through pricing you must try and maintain your market share whatever market share you are enjoying at the moment if you face some problem you can work with the pricing, but try and keep your market share intact that is what this principle is trying to tell us and we will explain this with an example.

Now Caterpillar all of us know is into infrastructure machinery goods segment and at one point of time, Caterpillar used to have almost 25 percent market share in the American market. It had good margins and it was enjoying the market leaders position in the American market. Now one fine day a Japanese brand called Komatsu entered the market and what they did the price of the product that was offered by Komatsu was 40 percent lower than what Caterpillar was offering. So, for example, if Caterpillar's product is available at 100 rupees today and there was no competitor tomorrow suddenly there is a competitor called Komatsu and the same product is available at 60 rupees. Now what should Caterpillar do what do you think Caterpillar would have done because suddenly if a customer sees that he can buy the same product at 40 percent lower price why should he buy Caterpillar and the product is almost as good as what Caterpillar is offering.

So, Caterpillar was in a dilemma what should it do should it maintain 100 rupees as its price and say that no its product is of better quality technology is better and so on so forth or it should reduce its price, but a moment it reduces its price it will start incurring losses because Caterpillar is an old organization it is working at a certain level of cost and that is why it was pricing its product at 100 rupees. Now if it reduces its cost or price at 60 rupees suddenly it will start making losses. So, what should it do should it try to maintain its price and see that its market share will erode it will go to Komatsu and then it will not know what to do or Caterpillar should also reduce its price to Komatsu's level and start incurring losses. It is a good exercise for all of you to think about what would you have done if you were in the position of Caterpillar. Let me share with you what Caterpillar actually did.

Caterpillar went on to reduce its price to the Komatsu level because it decided that making profit right now is not important what is important is that we should preserve our market share. So, if we have 25 percent market share we should try and hold on to that market share profits we will we can make later. So, Caterpillar also reduced its price to the Komatsu level and then they fought at the level playing field and then it did this competition went on for some time of course Caterpillar was also a very rich company and it invested into technology it invested into cost cutting measures and so on so forth. And after some time after a few years it was not only able to compete with Komatsu it was able to give better value to consumers at the same price and perhaps at a higher price and it was able to not only fight Komatsu, but later on it was able to even increase its market share. So, what this principle is telling us that even if you have to incur losses in short term you must have those losses, but do not let go of your market share because once you let go winning even 1 percent of market share will be very very costly.

So, give importance to market share more than you give importance to profit or pricing. So, this is the first principle that we must keep in mind. Second principle is pricing must always involve cost strategy. So, pricing should have some relation to cost and that price earlier we had said that if you can achieve a de-linking of pricing and cost it is very good and it is very good because it allows you to price your product at a very high level and have greater and higher margins, but that is not always possible because in an industry there are always competitors and competitors often offer goods which are as good as your goods or as your products. So, therefore, you need to watch your costs because if your costs go up your margins will come down and therefore, your ability to grow will get compromised.

So, therefore, you must always have a cost strategy which will help you or which will give you greater leeway over your pricing options. So, essentially what you should look at is the unit cost. So, no matter which product you are manufacturing whether it is a pack of biscuits or it is an automobile you should look at unit cost. What is the unit cost per car? What is the cost you are incurring per wall clock, per wristwatch, per camera, per LED bulb you must look at the unit cost because that always gives a good indication as to where your price and cost strategy is going. Now, how can you reduce your cost? These are very simple and obvious answers that you can figure out intuitively yourself.

I will just list them out first is productivity gain. So, if you can make your machines make your people work more for the same cost for the in the same time for the same salary then your productivity increases and your costs come down. You can also think of material substitution. So, instead of using say while you are say making biscuits instead of using atta if you use maida perhaps your cost will come down. So, and similarly I mean in different industries different kind of examples can be given, but if you think of material replace expensive material with a relatively cheaper material your cost will come down.

You can always outsource your processes and people and so on. So, if you moment you outsource your overheads come down sometimes salaries come down and therefore, your costs come down and which contribute to unit cost and therefore, you have greater power over pricing. You can change the process. So, today suppose you are working in a certain manner and if you think that if you change the process do it in a different way perhaps you can reduce the time or reduce the effort or reduce number of people and that way you can save time and money. You can reformulate the product also you can change the product which will help you in reducing cost.

Now, once the cost you are able to reduce cost or when you are thinking of reducing cost what do you do with that reduction. So, this is a question that all brand managers and CEOs must think about and they must consider well because I if you are in an industry which is witness to severe competition price competition particularly if it is a price sensitive market then you will have to pass on that benefit to the consumer. So, if you have reduced the costs or per unit cost of your production what you will have to do is a part of it you will have to pass on to the consumer and therefore, the price of the product actually comes down and customers are encouraged therefore, to buy more. So, that is one option you have if you are able to reduce your cost. Another aspect or another option you have is that you do not pass on the benefit to the consumer and you have saved the cost by making so much of effort.

So, you can reward yourself by allowing it to make contribution to the bottom line which means your profits will go up. If you remember a simple equation profit is equal to revenue minus cost. So, if you reduce the cost naturally profit will go up. So, this is the second principle that we must keep in mind when we are working with pricing we should always think of cost and ways and means to reduce cost. Next one next principle is price and performance equation.

Now, what does it mean? It means that your price should be for the performance and you should try and think of improving your performance whether it is product performance or symbol performance you should think of raising up the performance level instead of lowering your price for the same level of performance. So, because if you raise the performance and if you are able to tell the customers that the performance of your product is at a higher level and the benefits that we are offering to the customers is also at a higher level then and that is the reason why we are charging a higher price than the consumers. So, if you can ask this question that are your customers benefit sensitive or price sensitive? What is the nature the character of your target customers in your target group? Are they ready to pay slightly higher amount if you give them better and larger number of benefits? Are they ready to pay a higher price or they are price sensitive and are moment you increase the price they will reduce their consumption. So, if you understand the nature the character of the consumers in your target group you will be able to decide whether you can increase your price or you should increase your performance and correspondingly you increase your price or whether you can do this or you cannot or should not do this. But as a principle what it says is that ideal is to sell up rather than down.

So, it is always good for the health of the business and for the health of the brand to sell up which means that you communicate to the consumer that the performance level of your product or your brand is higher and that is the reason why you are charging a higher price. One example you can see the picture here and this picture is of a airport or a runway of the airport and you may have noticed that sometimes in India it happens that airport is closed for 10 days, 20 days and so on. Why are they closed for such a long period? Because often what they do is they are not because often what they do is they repair the runway and while repairing of the runway is going on it is not possible for the aircrafts to take off and land from the runways. And why does it take so long 10, 20 days for runways to be repaired because the kind of cement that is used for the repairing of runway they need 8 to 10 days time for setting up because only when they set up and they become hard the aircrafts will be allowed to land or take off on those runways. Now, if you can create a solution a kind of cement or kind of a mix cement mix which will set in less time instead of taking 10 days or 20 days to set if you can create a technologically enabled solution a new kind of cement which can set in a few hours say 10 hours or within 1 day.

What will happen is instead of closing the airport for 10 days or 20 days you can close it for just 3 or 4 days and because of which the airport and the airlines all of them will be able to operate for the operate the airline and the airport for a longer period of time or they will not have to shut down their operations thus saving money or having more revenues. So, what I am trying to say is that by technologically enabled product innovation you can demonstrate that you are saving time or you are saving cost or you are allowing people to work for longer period and so on so forth and this way you can charge higher premium. So, this is what it says about price performance equation. Thank you very much. .