Product and Brand Management
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Lecture No. 26
Product Pricing - I

Hello friends, welcome back to Product and Brand Management. Having gone through several aspects and most recently, the strategic part of it wherein we have seen, how a product manager decides, about the kind of influences he gets on his strategic thinking, and definitely those are I should not say directed by, but are supported by competitors' analysis, customer's analysis, and several elements which we have talked about in terms of product portfolio management, category management and several life cycle aspects, as discussed.

Now, I would be focusing more on precise aspects, key areas of decision making or should I say I would be focusing more on the other three P's precisely other than product, so, pricing, promotion and place with reference to their specifics which are important not only in terms of decision making for a product manager, but the criteria through which for example, pricing works, we would realize that those criteria by themselves can be seen as strategies.

That is the reason for different kinds of pricing, which evolve in due course of time getting an influence from several factors which, we have discussed also being influenced by product place and promotion and on the other side and that particular type of pricing may be a strategy by itself. So, that is what we are looking for in our subsequent discussion on pricing specifically, and I will be coming back to you with a discussion on distribution and promotion as well.

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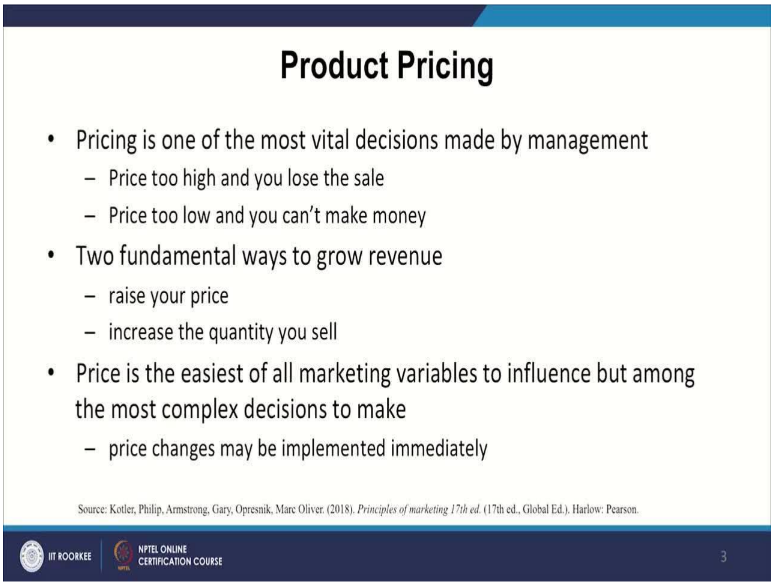

So, here we go, let us talk about product pricing. It is one of the most vital decisions made by a product manager or management at large as many other people are involved there and just to give you a view that price is too high and you might lose the sale, price is too low and you might not be earning the desired profits. There are two fundamental ways to grow revenue that is by raising your price or increase the sales or both of these and they are complementary in nature many times.

Price is the easiest of all marketing variables to be influenced should I say, but amongst the most complex decisions to make. Why is that? We will see in a short while, when we will see different types of pricing and that is an attractive portion because many times we as customers go through that kind of pricing ourselves, but we do not understand the intent of the product manager to come up with that kind of a pricing and we do not understand that how is it influencing us as customers. That is what we have to realise and while I will be demonstrating upon different types of prices, I would like you to recall wherever you have met those prices, in terms of your purchases that is your own purchases.

So, prices; the price changes may be implemented immediately that is the most (I should not say flexible) but does have a high variability context associated with that because it is a softer part to get influenced also because other factors especially 'Ps' are related to processes. So, product cannot be influenced so easily, promotion cannot be influenced so easily except for extracting it somehow and retail is a process, so, prices definitely can be altered.

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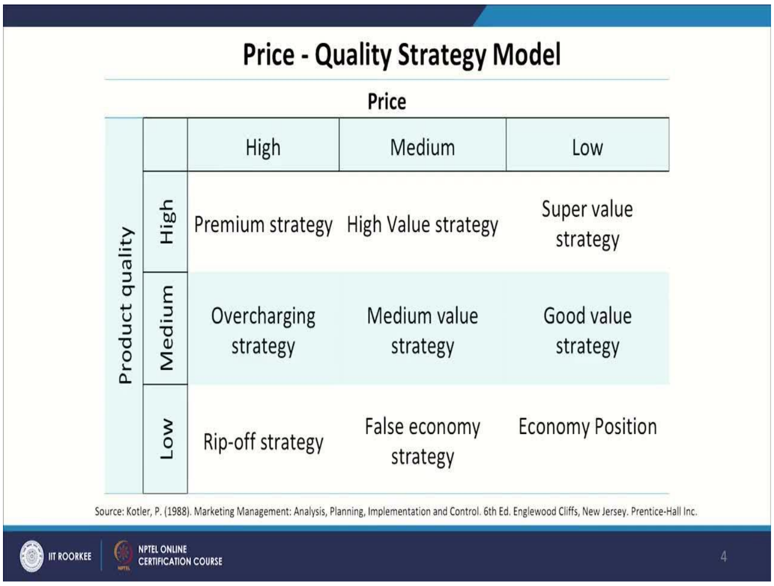

Price-quality strategy model; how price is related to quality? It has lots of details in economics literature as well and it is a matrix kind of a structure wherein, on one side you find product quality on the other side price. Imagine these things with three perspectives of low, medium, high; high, medium, low. Now, when the price is high, quality is high, this may be thought of as premium strategy, many products fall into that place and then, when price is high, product quality is medium and I would not say lesser, but optimal.

So, there you have slightly overcharging strategy that means, you are charging premium probably for the brand value. And when the price is low and the quality is low, then you are extracting value from everything probably because of the kind of mass market, probably you are extracting the product in due course of time as it is at the lower end of its lifecycle somewhere or probably you want to capture the market. There can be several reasons to it.

Price has different kinds of interpretation and different kinds of results in due course of time. So, I will not be describing each of these, but just look into this matrix and then try and analyse that, where you are witnessing these things around you.

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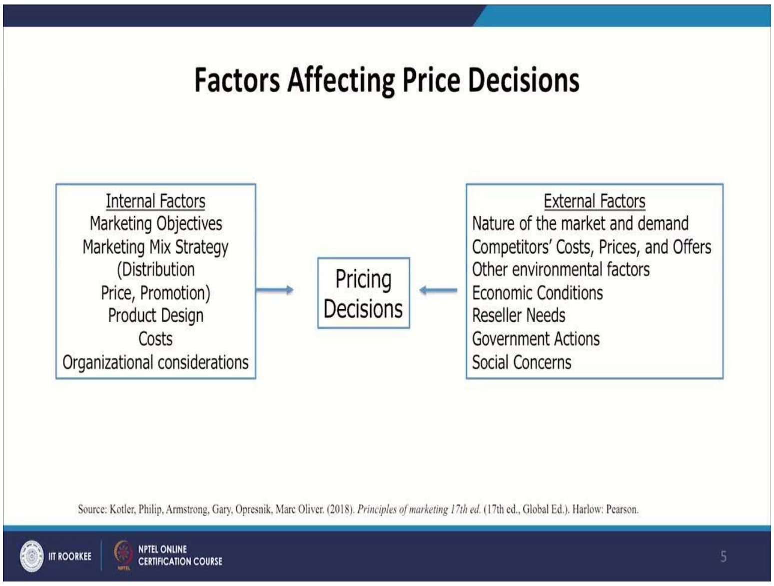

Factors which affect pricing decisions are related to internal and external. Internal factors are marketing objectives. One very important factor, which should be understood by us is that price is a combination of the costs (in terms of starting from procurement of raw material to manufacturing, to processing to marketing and so on that is all kinds of costs associated with a product to reach to the customer) then a markup, but also there is an element of desire of the marketer, wherein he wants to earn a specific benefit out of his product. I have talked about this earlier, but keep this in mind.

So, then, another internal factor apart from marketing objectives is marketing mix strategy and product, price, place and promotion perspective is there. Then, product design, costs, as I mentioned, organisational considerations as well. What are the organizational aspirations and targets? I will be talking about several kinds of examples, but in today's era, you would realise that there are many organisations which have come up in due course of time have gained lots of customers through very inviting kind of an offer pricing, low pricing with lots of discounts, and have developed a subscriber's base and a customer base.

They sold themselves out with a premium, not only covering all the losses they incurred in due course of that introductory phase of their organisation, but gaining lots of benefit on that sales, because the purchasing organisation purchased the subscription that is their customers rather than the loss which they incurred. So, that matters because they spent their energy in getting the customer, so, organisational considerations are definitely there. And then, comes in external factors, nature of the market and demand, competitors, costs, competitor's price and offers other environmental factors, economic conditions, reseller needs, government actions, social concerns and so on.

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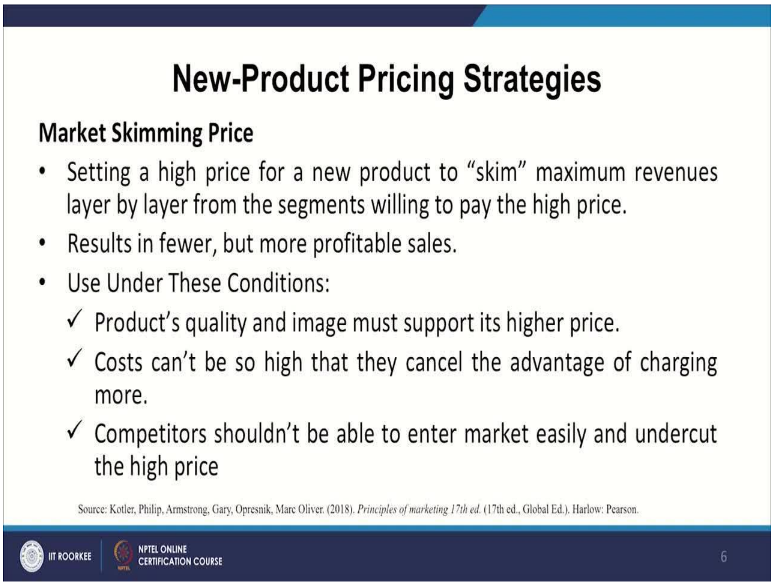

Now, there are several product pricing strategies and here again I would suggest looking at the criteria as well as the elements and the reasons for such kind of pricing, and to look at the types of pricing or strategies in terms of being strategies. For example, market skimming price. Setting a high price for a new product to skim maximum revenues layer by layer from the segment's willing to pay the high price.

Your product has that kind of quality, you have already developed that kind of communication, a brand resonance in the eyes of the customer, probably through a very nice portfolio management strategy, probably through developing a brand image of one of your products and then taking it for the other products. Many ways are there but you are ready to skim that value. And it results in fewer but more profitable sales many times.

Although in today's era, organisations have shown that skimming pricing can be done with large sales volume as well. We have seen many such examples in case of mobile phones, televisions and so on that the skimming pricing is used under these conditions. What are those? Product's quality and image must support a higher price and that is an obvious reason. Costs cannot be so high that they cancel the advantage of charging more.

Then competitors should not be able to enter market easily and undercut the high price. Non-imitable products that means the product is very innovative, very strongly acceptable and so on. So, these are obvious reasons, but lots of thought process goes into developing such kind of reasons. In today's era, where in technology and platforms are getting common, developing a unique product is very difficult.

Then market penetration price; I would call it more acceptable price basically. So, setting a low price for a new product in order to penetrate the market quickly and deeply or getting the acceptance of the customer quickly is that what this pricing focuses upon. And it attracts a large number of buyers and win a large level of market share and is used under the conditions such as market must be highly price sensitive so that a low price produces more market growth.

Production oblique distribution costs must fall as sales volume increases. Must keep out competition and maintain its low-price position or benefits, may only be temporary, for that matter. It is very common in consumer products (and I would not digress at this moment, but there are several, such reasons explained by Daniel Kahneman in his work thinking fast and slow, and if you want, you can read that it is a wonderful book and he is one of the best or one of the most prominent thinkers of our times). But just to bring you back to the subject, wherein many times for example, a product is 50 rupees a kilo and we get a benefit of 4 or 5 rupees, we are more attracted towards that. So, as soon as a discount in percentage that is 10 percent is offered on a product of 50 rupees, we get attracted towards that. And when you are talking of more acceptability these kinds of offers, you would have observed that in consumer products a lot basically.

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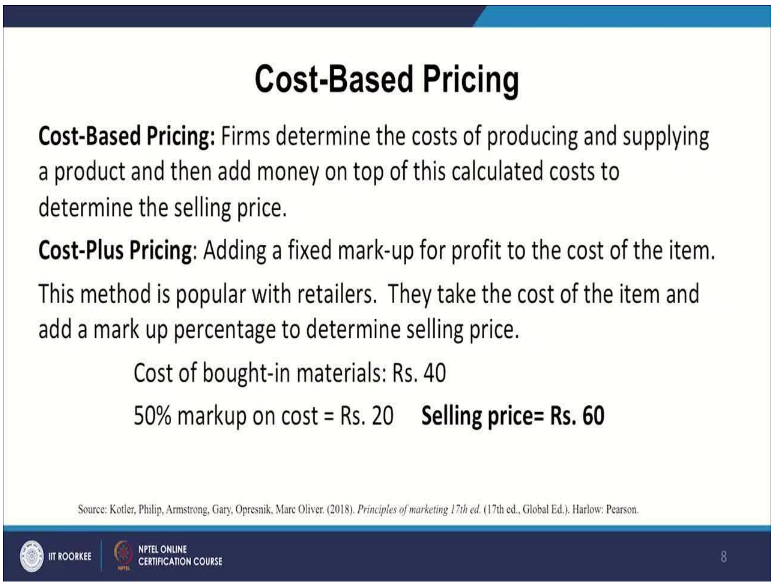

Then comes in cost-based pricing, wherein firms determine the cost of producing and supplying a product and then add money on top of this calculated cost to determine the selling price as simple as that and I will not go into cost plus details, that is what we have been learning since our childhood.

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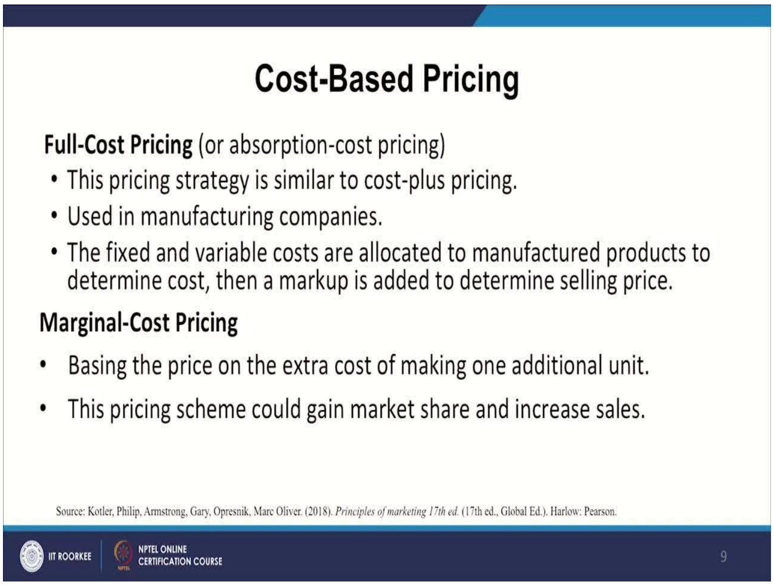

Full cost pricing or absorption cost pricing. Now, this pricing strategy is similar to cost plus pricing used in manufacturing companies. The fixed and variable costs are allocated to manufacture products to determine cost, then a markup is added to determine selling price. And there is also a marginal cost pricing wherein, basing the price on the extra cost of making one additional unit. Many times, you have to raise production and that is where this comes to you.

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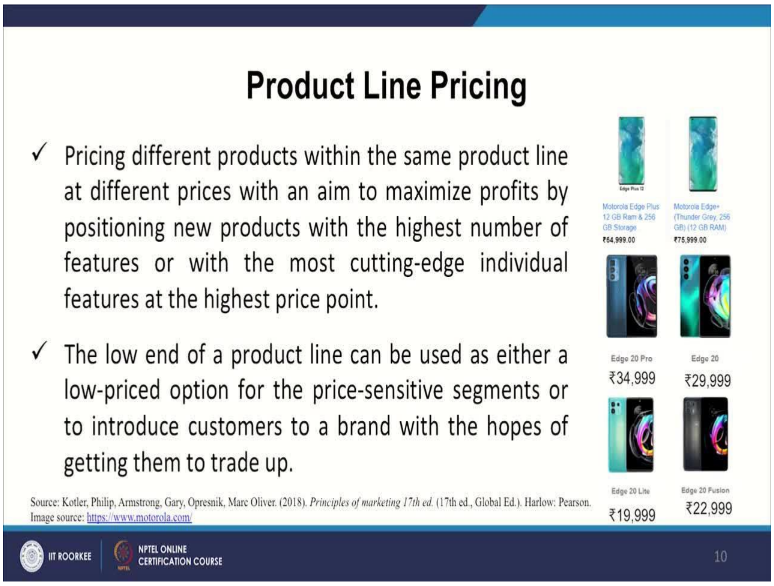

There are elements of product line pricing. That kind of an understanding is used for promotion of the product, wherein you have interrelated pricing perspective, but when you are having products in a line and there are a number of products actually, so, there is a depth associated with as far as product line situation goes. So, then pricing has to be a differentiating factor, but you cannot have that kind of a huge differentiation within a particular depth. But, if you are talking of line, then there has to be a differentiation. It is a complex situation, but the point is that product line pricing is an important element for us to understand.

Pricing different products within the same product line at different prices with an aim to maximize profits by positioning new products with the highest number of features or with the most cutting-edge individual features at the highest price point is the main stay of and main feature of as far as product line pricing goes. Very important strategic perspective associated with product line pricing is that for a product manager, total benefit out of that product line in terms of profits he is earning is what matters, because at the back end, the production of products related to a product line also has several commonalities in the production process.

And then, not to mention the distribution process also has several kinds of commonalities. So, the point is you can curtail costs by altering the production level within the same production line, while creating a demand for one kind of a product and reducing the demand or monitoring the sales or specifying the sales of some other product and total profits might be higher.

It is a strategic perspective. Lots of forecasting and insight, lots of competitor's analysis, lots of customer perspective is required and you have to think in terms of benefit maximization and an organisation, that is what a product line pricing perspective is. The low end of a product line can be used as either a low-price option for the price sensitive segments or to introduce customers to a brand with the hopes of getting them to trade up. So, that is wherein the frame of product line pricing comes in.

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Now, product line pricing has optional product pricing, captive product pricing, by-product pricing, product bundle pricing and so on. Is it sounding complex to you? It is not at all complex, because then you will look at all the products in a product line with the point of view of a product manager. These are simpler terms. The method of visualising this can be that you go back to the discussion which we had in terms of strategy, wherein I explained the product mix of Cadbury's chocolates.

You choose one-line list those go to market or just go on surfing on Google and put up the price of all the products parallel to that line and immediately you would realise what I am referring to. If you are a consumer of one of those or few of those products, then also you would realise what we are talking of.

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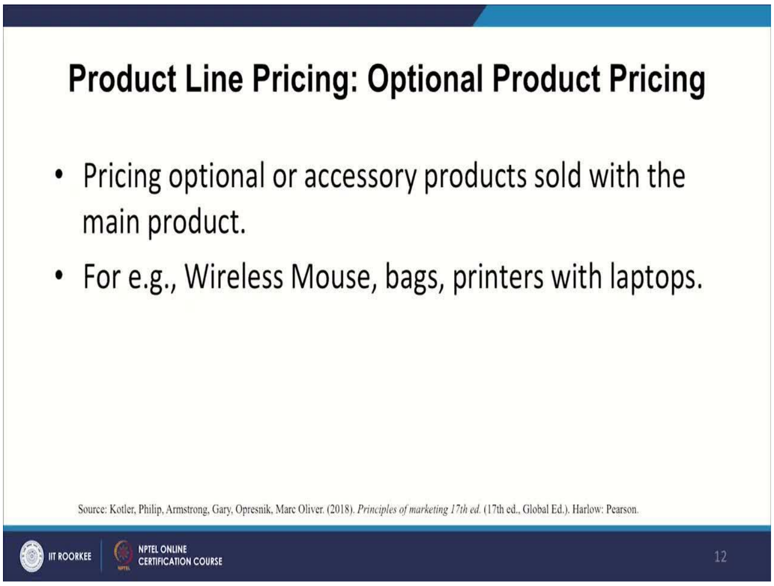

Product line pricing is associated with as I said optional product pricing, wherein accessory products are sold with the main product. For example, computer has a mouse, a wireless mouse, bags, printers and so on. So, you have specific accessories and those are different products by themselves. You have an imbibed need of those products, but you may not need those products. So, it depends, but many times we end up buying those products and there is a perspective of optional product pricing. Ultimate objective is to raise the level of total benefits.

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Then captive product pricing; it involves products that must be used along with the main product. You must buy these many blades with this razor. Have you seen that? There is a bundle of products or that would be more apt when I talk about bundle pricing basically, but here, that product has to be purchased with this product because if you do not buy blades with razor, how would you use it. So, but then there is a captive perspective to it. For example, cartridges can be priced separately also, but those cannot be sold as accessories because you would not be able to do anything without in terms of printing without cartridges.

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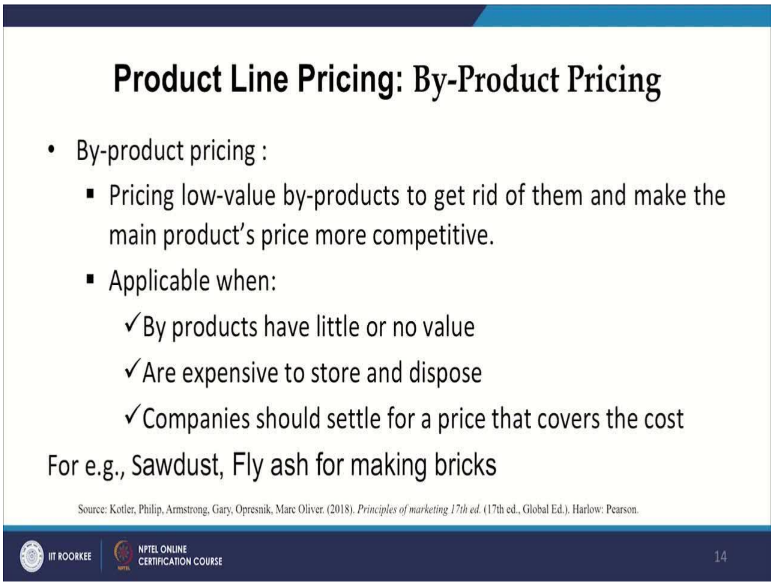

Now, by product pricing; pricing low value byproducts to get rid of them and make the main products price more competitive. It is applicable when byproducts have little or no value, are expensive to store and dispose. And companies should settle for a price that covers the cost. Sawdust for example, rice husk for example, fly ash for example.

And here it is very interesting, we are talking of a strategic perspective when you have a byproduct and you do not have technology, then this kind of a pricing comes in or let us say you have technology, but you do not have resource, human resource specially or capacity or capability or you do not have time for producing something out of that byproduct, so, definitely you sell it to someone who uses it, but if you have technology then probably you can make bricks out of fly ash and many organisations have started doing that.

Another thing which comes in here when we talk of and this is the beauty of this subject wherein pricing is taking us backwards towards environmental analysis perspective, which we talked about, and it is taking us towards an understanding of value chain as well. In today's era, when all the organisations are talking of sustainability, sustainable measures, and zero waste kind of production and those kinds of things, there the utilisation of byproduct for developing a newer product is also very important kind of an element.

I have been talking about these things in innovation also, but here because we are discussing for example Patanjali has a plant wherein they use some fruits to the levels were in the seeds of those fruits are also utilised as a raw material for their production processes. So, that is what I am referring to that they have generated the technological capacity of capability of utilising the waste as the basis or raw material for energy generation within their plants. So, that is where the whole thing comes in.

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Product bundle pricing. Now, it is an attraction based proposition wherein you purchase a separate product, let us say a toothbrush, it will cost you X-amount, then definitely for using the toothbrush, you must have a toothpaste, so, it will cost you X-amount, but then the product manager says that if you buy these together, so you will have bundle discount and that is termed as bundle pricing.

What does it do? It does, something associated with not only propelling an associated product of the same company that is product from the width, but also hampering the competition, which might be competing with toothpaste, not the toothbrush. So, it is a strategic perspective and that is what we have to look for when looking at these kinds of things basically. It can also be looked upon with portfolio perspective, it can also be looked on for with the perspective of assortment and so on.

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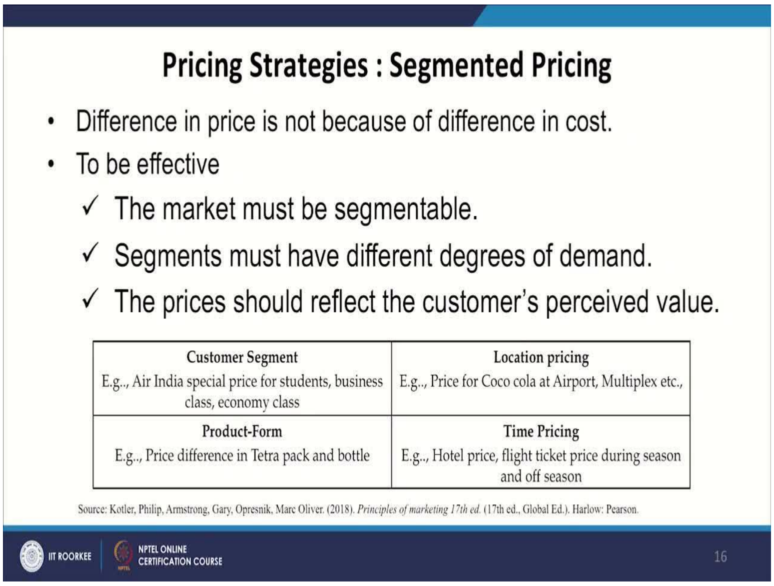

Segmented pricing; difference in price is not because of difference in cost. To be effective, the market must be segmentable, compartmentalized, categorised and category management we have talked about. Segments must have different degrees of demand; the price should reflect the customer's perceived value. For example, customer segment location pricing, time pricing, product form, these can be four broader areas to be thought of while focusing upon such kind of a pricing technique or method.

Air India special price for students, business travelers, economy class and so on. So, Air India offers such kind of pricing or any Airlines for that matter. Price for Coca Cola at airports and multiplexes etc. i.e. location pricing. Price difference in tetra pack and bottles, so, product form pricing and hotel price, flight ticket price, during season and offseason time pricing. So, there are several segmented aspects associated with pricing.

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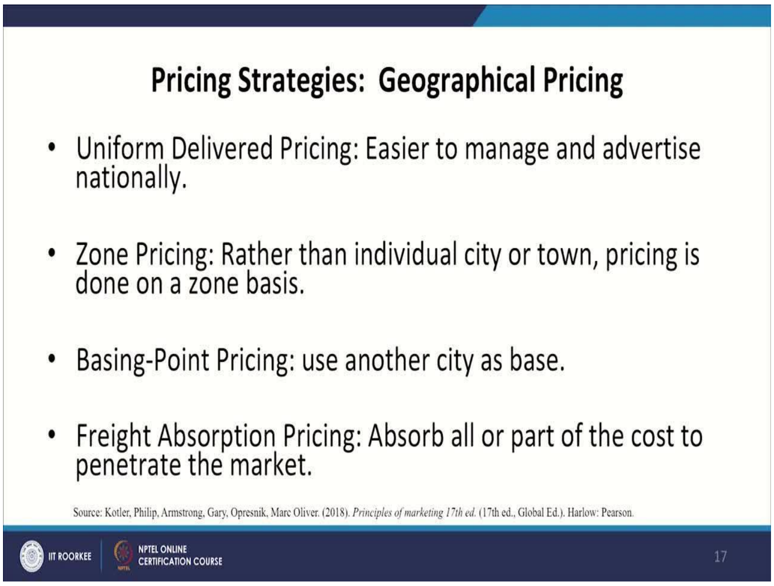

Then geographical pricing, uniform delivered pricing easier to manage and advertise nationally. So, you have priced a product for this region and there is no difference whosoever will purchase. Zone pricing, basing point pricing using another city as a base actually.

These interesting methodologies exist actually, and that is why authors and several thinkers have elaborated upon that. Our job is to understand the reasons for that, to look at these with a strategic perspective, and most of all, we must start thinking that what other kinds of pricing methods can be generated. Can we think of something else which can be brought in the picture as far as the pricing goes? Can we go for innovative pricing like daily reducing pricing? It is there it is a method basically.

Nokia introduced a weekly reducing pricing. So, they introduced a pricing method wherein, the product is launched, and then every week the price is reduced. The early buyers feel that, if they would have waited, but the point is, they never wanted to wait. Why? Because they wanted to be the early buyers, that is where the strategy perspective is. Many people, they look at that particular pricing as a prohibitive pricing, so they wait, and they want to be the second buyers, and so on.

Many times, I remember that few years back Apple iPhone 5 was marketed once again, after so many years of its launch, not only because it was a good product, it is a good product, but then, there were many people who aspired to have that product and could not purchase that when it was launched. So, there are several perspectives to it. We will find those things in subsequent discussion, but again, this Insight is related to about how to be innovative upon these things with reference to strategy, not only strategy but also with reference to earning profits.

Remember one thing that beyond a certain limit, if customer does not want to pay, then you cannot go for premium even if the product has a strong brand image and it is one of the most desired products in the world. Customer does not want to pay beyond certain limit, so what to do? You have to be innovative; you have to think in terms of what can be done in terms of as far as the pricing goes.

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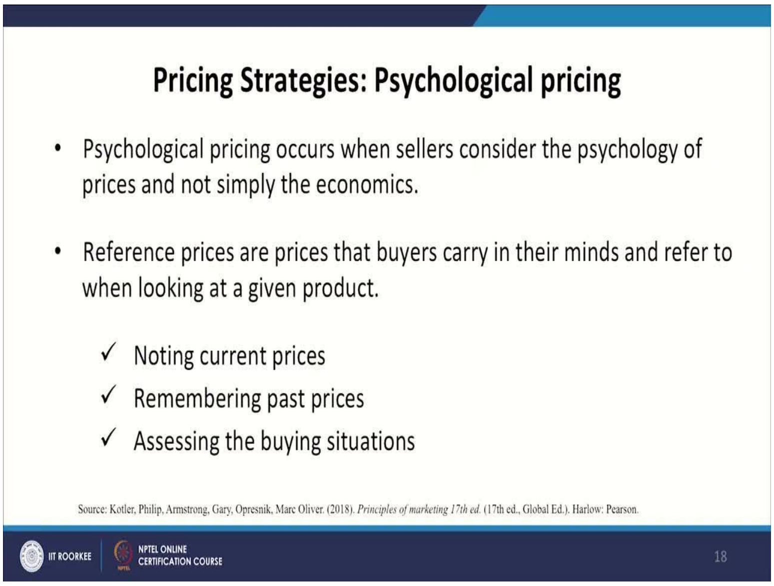

Psychological pricing occurs when sellers consider the psychology of prices and not simply the economics. Reference prices are prices that buyers carry in their minds and refer to when looking at a given product.

Noting current prices, remembering past prices, assessing the buying situations etc. wherein one of the most favorite all-time examples in terms of psychological pricing, or that pricing can be referred to as many other forms basically, but Bata's pricing 99 rupees is an apt example. There was a time when, if I am not wrong, they used to price something like, 99.99 something.

So, it is below 100 and again, I would refer to great thinkers like Daniel Kahneman, who has explained this, why it works, how it works, just read one of his articles, think in terms of how the difference of 10 paisa of one rupee 99 and 100 and 101 might create a huge difference in terms of thought process or moving towards a product.

For example, it is 101 you might resist, if it is 99, you might move towards that product that is the magic of psychological pricing. Keep thinking. I will be joining you back with lots of other insights on pricing, especially with reference to it being a strategy, then complementing that with promotion and discussion on distribution as well. I will be seeing you till then goodbye.