DISPATCHES™
Insights On Brand Development From The Marketing Front

F PRICING – AN IMPORTANT BUT UNDERUTILIZED "P" OF MARKETING

MARCH 4, 2019

All marketers know the 4-Ps of marketing – Product, Placement, Pricing, and Promotion. And, if you are familiar with our work and read our books and blogs then you know there's a fifth "P" – Positioning. You also know then that Positioning is the most important "P," as it the one that directs our strategies and tactics for all of the other "Ps."

However, this article will deal with pricing as marketers and their organizations overlook and underutilize it as a strategic tool in support of, and to reinforce, brand positioning. There are three ways to price products: 1) less costly than the competition; 2) same as competition; and 3) premium pricing. Regardless of which pricing strategy is employed, it needs to be consistent with the brand positioning strategy, organization capabilities, and the marketer's creativity. Let's examine each.

- *Less costly than the competition* – Smaller companies may find this strategy most suitable in their quest to carve share from their larger, better known and established competitors. Companies employing this pricing strategy will position themselves as value brands. They claim they are "the same as the market leader but less costly" and, therefore, (lead to the perception that they are) a better value. Lower prices can create an impression among their purchasers, prescribers, and users, that they are somehow smarter than those people who pay a premium.

  Companies employ this strategy to pass along their lower cost of doing business, meet lower required economic hurdles, place capital equipment to capture sales of consumables (e.g., medical devices), acquire customers to capitalize on their lifetime value (e.g., technology, insurance industry), and/or compete effectively with fewer resources (e.g., smaller sales force, little to no advertising). These lower priced competitors are usually fast followers. They don't innovate but are quick to copy. At the least, they will obfuscate any claimed differences made by their higher priced competitors. This pricing strategy serves to demoralize and distract their higher priced competitors, particularly those that rely primarily on their sales force to push their products.

  In this "age of sameness and abundance," where products do the same things, work in the same ways and produce the same outcomes, it serves as a relevant and meaningful differentiator. It cost less! It also suggests that customers of lower priced goods are smart and savvy shoppers. The less costly than the competition pricing strategy, is all the more effective in an environment of tenders, economic contraction, customer cost cutting, strict payor policies (e.g., must fail on a lower priced pharmaceutical, where special contracts and promotion effectively lower costs), and where generally acceptable quality is, well, acceptable. It also helps focus customers on one differentiating factor, the lower price and better-perceived value, to reduce complexity in choosing among the plethora of available products.

- *Same pricing as the competition* – Same-o, same-o, same-o. What does this suggest? It's what the market (i.e., constituency or category customers) will bear. And, if we're honest, it suggests that the companies employing this strategy are admitting, and evidencing, that all the products within the category (or therapeutic area, or class of drugs, or devices) are virtually the same. Same pricing as competitors is not a differentiator; so those companies and brands employing this strategy must find other ways (e.g., use of organization muscle such as more "feet on the street"), including their selection and use of marketing mix elements to differentiate.

  Typically, one brand will be the pricing leader. This brand will move first to raise prices, and other brands in the category will follow. If they do not, then the lead mover will most likely retract the price increase or increase promotion spending to equalize costs to customers, otherwise face losing market share.

  Marketers employ this pricing strategy to drive volume and fill manufacturing capacity. Margins are typically slim, and overcapacity increases unit costs thereby adversely impacting profits. Accordingly, these companies fight to, at a minimum, hold on to market share.

- *Premium pricing to competition* – Ah, this can be perceived in one of two ways. The first is that premium pricing is a disadvantage. While senior and finance managers will undoubtedly claim the higher pricing supports premium or quality products, those marketers and sales personnel who have to deal with it are more likely to view it as a disadvantage if it is not an integral part of the brand's positioning strategy – particularly where they are losing share to the so-called "value brands." The second way to perceive it is to view premium pricing as a meaningful differentiator and support for creating the perception with target-customers that the brand is of premium value.

  The difference between the two is that in the former, the marketer and organization have not defined what is meant by the word "premium" beyond carrying a higher price. After all, what is premium? Just because you price your product higher does not make it premium. That's circular logic. Premium is in the eye of the beholder. And, no one wants to pay a premium price, when they can get what they perceive as the same thing, and satisfy the same needs, for less. That would make them feel hoodwinked. The marketer has to make the case for premium pricing that meets customers' standards.

  On the other hand, those marketers who perceive premium pricing as a meaningful differentiator have a clear idea of what it means to be, and it takes to warrant, premium pricing. They make it integral to their positioning strategy. One of the ways to substantiate premium pricing is to present the "whole product," which delivers more of what the target-customer appreciates than the physical product and competitors offer. The whole product includes intangibles such as added value services (e.g., providing hands-on training a la Apple for their devices at Apple retail stores, offering continuing medical education, providing a money back lifetime guarantee), among other differentiators beyond the physical product.

Marketers can also assert premium pricing through superior (physical) performance among performance seeking customers. Countries like Great Britain that control pricing on pharmaceutical products will permit a company to charge a premium if they can prove, via clinical evidence, that the company's drug performs (significantly) better than standard therapy. An example would be an oncology drug that proves it extends life further than current oncological treatments.

Performance seekers will also willingly pay more for a product that has an established reputation for superior performance. Among consumers, men will pay a premium price for Craftsmen Tools or the Die-Hard Battery (in their day). Households pay premium prices for Michelin steel belted radial tires based upon their perception that these tires perform better on wet roads, negotiating curves, and holding up to potential punctures.

Note, too, that the products mentioned above help define the purchaser in a favorable light. If a man is working with Craftsman tools, then we may think he knows what he's doing, even if he doesn't. (We can hear the comedian, Tim Allen, making grunting noises and beating his chest like an alpha primate while he's handling a Craftsman tool.) Michelin tires on the family car evidence that these are responsible parents who take extra care for their children's safety.

Additionally, premium pricing can serve to create the perception that the offering is indeed special. Those that purchase couture do not think or feel they are overpaying. Instead, they believe that it sets them apart from those consumers who neither wear nor can afford couture. Note that in this latter case, the clothing provides the same physical benefit of clothing one may purchase off the rack. The difference is the prestige accrued from wearing couture, the association with the designer, and/or how it makes the customer feel about being able to afford premium-priced clothing.

A classic example of using premium pricing to create a premium perception for a staple is L'Oréal. What is the difference between using L'Oréal products for beauty care than competitive products? Will one be more beautiful than using Dove? Ah, but L'Oréal capitalized on a belief that one should not skimp on beauty care products. You get what you pay for. Thus, the distinctive premium positioning and classic, iconic campaign, "Because you're worth it."

Where premium pricing is successful, the markers have found the key to creating customer perceptions that make them feel that, despite the premium price, they are purchasing or dealing with a "value brand."

All of the pricing strategies have merits. The one we choose needs to marry needs with brand capabilities. Many marketers view premium pricing as a disadvantage. That's because they don't know how to create a premium impression. Indeed, if the marketer has the skills to effect a premium priced strategy, it is the one we'd advocate. Why? It provides higher margins and penny profit, which can be used to fuel continued investment in product development and marketing initiatives.

Make your pricing strategy an integral part of your brand positioning strategy and marketing.

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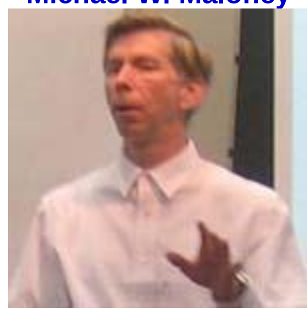

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