Chapter Summaries

# Chapter 9 – Pricing and distribution

## Introduction

Pricing and distribution are distinct yet complementary elements in marketing. Strategically they are difficult to separate. A premium priced watch cannot be sold at discount jewellers. A tractor producer that wants a specific mark-up is going to find it difficult to control margin if it sells through intermediaries. Pricing and distribution strategies are separate, but complimentary decisions. This chapter will view the options individually and then examine the issues where decisions meet head-on.

Traditional marketing strategies of cost or differentiation do not provide any intrinsic logic on pricing or distribution. Porter was talking about ‘cost’ and not ‘price.’ He argued that relatively low costs provide a potential advantage over rivals in profitability. Put simply, you could charge the same price as rivals and make more money.

# Pricing

## Definition

Pricing has generally been seen as tactical rather than strategic and considered much easier than creating the product in the first place. Essentially it has been the ‘Cinderella’ of marketing. When it boils down to it, a price is just a number. Given prices affect sales, all things being equal, a small increase or decrease can have a disproportionate impact on profitability compared to any other marketing decision. Pricing strategy involves deciding more than this: how much, where, when, and how a buyer will pay are the key decisions. This is what holds together individual pricing decisions based upon an organization’s objectives and how they want to set their ‘numbers’ within the market. Most managers face enormous pressures on prices, especially during a downturn when the pressure is generally to price (downwards) reactively and wait signs of a recovery. The recession has made pricing ever more important as customers have shifted to lower-price alternatives or substituted one kind of good or service for another in pursuit of lower prices. Nevertheless, the basic principles remain even during a downturn. Customer needs may change; it is still important to align any organization’s price-benefit offerings. There are several elements in a pricing strategy to consider (Schindehutte and Morris, 2001) whatever market conditions prevail: value, variable, variety, visible/invisible, and virtual.

## Strategic options

Successful pricing means that the prices set must complement the company’s overall marketing strategy and ideally strike a balance between maximizing revenues and offering customer’s value (Rusetski, Andrews, and Smith, 2014). With the latter point, prices need to be coordinated across any business. The whole process has to be holistic. Dolan (1995) suggests eight strategic considerations to pricing; this will be followed by a review of the alternative approach of price mapping (D’Aveni, 2007) and then a discussion of several options aimed at maintaining price points.

## Dolan’s 8 options

1. The first stage is to reverse the traditional cost-plus based pricing approach (see Indounas, 2006).
2. Having considered this, it is then best to look for variations in how buyers value products. Wherever possible try and separate markets (e.g., both companies and individuals use post-it-notes and may be prepared to pay different prices) and segments (e.g., heavy, medium, and light users) and charge accordingly.
3. Beneath the value that buyers place on product or service performance is price sensitivity. Buyers can differ greatly in their price sensitivity based upon their overall elasticity. Much will depend on who bears the cost, e.g., an individual or their company might purchase a flight.
4. Having considered these issues, the next stage in the strategy is to identify the formal pricing structure. Should prices be individual or bundled?
5. The key issue now is to consider how competitors will react to any price changes. Just ask if the company puts up the price by 5% would competitors do nothing, match the increase, reduce their prices, or change some other element of their mix?
6. Towards the end of the process, it is now important to monitor what prices are realized at the point of sale. If a list price is agreed within Marketing, it needs to be established whether this price is fixed or open because if list prices are subsequently reduced by Sales to close a sale, it can lead to confusion.
7. Research may be needed to assess a buyer’s emotional response to a price because people develop price points over time that they see as fair.
8. Finally, wherever possible a company needs to decide whether the returns justify the costs to serve buyers. In relationship marketing this has led to a move by many companies to focus on who they regard as their most profitable customers.

## Online pricing

Click-through rates, the number of times people click on advertisements online (CTR) tend to be product specific as people check prices across a number of sites. The fees for CTRs can be considerable when aggregated (they range from about 15 pence to £1) and on average only about one to three per cent of click-throughs results in sales. Given competitors can use the web to stay constantly informed about pricing, anticipation is a key consideration. It is generally best to keep it unpredictable. Look no further than one of the world’s experts at web pricing: Amazon makes it very difficult for competitors to predict its pricing policy and so extremely hard to undercut. Another consideration with online is the use of dynamic pricing (Weisstein, Monroe, and Kukar-Kinney, 2013). This involves differential pricing from the same seller for the same product as is commonly used in the airline business. Technological advances increasingly mean that sellers can personalize online prices. From a strategic standpoint, companies operating through online channels can combine pricing approaches to attract different groups of customers. The most common approaches are the subscription model, the pay-per-use or access model, and the freemium model.

## Implementing pricing strategy

To implement pricing strategy three ‘capitals’ are required: human, systems, and social. Companies need to invest in all three capitals for pricing strategy to work.

# Distribution

## Definition

Distribution strategy is a vital element in creating value and has a direct bearing on marketing (pricing, promotion, packaging, salesforce logistics) and delivery, installation, repair and servicing, as well as outbound logistics (order processing, warehousing, and inventory). Distribution is about making a supply of something available to people—be they buyers or users. It can be physical (supplying hard copy of an accounting software package for a customer in box), a service (supplying a training session for an accounting package), or virtual (downloading an accounting package via the Internet). It is intrinsically linked to pricing for most companies as the mark-up of distributors can account for a significant amount of the price and normally at least 50 per cent.

## Direct/online

Going direct to a buyer can be achieved by using the Internet, telephone, mail, catalogue, some form of direct advertising (press, DRTV, or radio), or own distribution network. Direct channels can provide a reliable supply, a good price, and can be extremely convenient by saving the physical requirement to shop. However, they are prone to problems of availability, speedy supply (no instant purchases can be made aside from digital products), range of choice (e.g., companies like Lands End only offer their own branded clothes), empathy when supply is interrupted, and service and support (especially if items have to be returned).

## Salesforce

An alternative to going direct is to use a salesforce. The alternatives are to: (1) set up your own; (2) use another organization’s; or (3) hire on a contractual basis. The use of a salesforce in the B2C marketplace is largely no longer viable and very few companies have continued to use one. That is not to suggest that the use of a salesforce in B2C markets was ever that common, ever since the 1950s it has been largely confined to a relatively small group of industries and companies such as vacuum cleaners and financial products. There are small niche companies using salesforces in particular regions in the UK, but few large ones (the Co-Operative Society still used agents for its financial products for the home) as even the Prudential, famous for its ‘Man from the Pru’ campaign, has disbanded its operation. The one major exception in recent years has been the use of salesforces by competing gas suppliers (e.g., British Gas and Southern Electric) in the newly deregulated gas market. After all, gas is an industry that is used to managing large numbers of staff to read meters. It has occasionally been highly controversial as some heavy-handed tactics have been used by a small group of unscrupulous sales people.

## Intermediaries

Strategically, intermediaries enable firms to offer just about everything buyers want: availability, speed of delivery, reliable supply, range of choice, empathy when supply is interrupted, convenience, and service and support. From a customer’s perspective there are few, if any downsides aside from the kind of B2B customer identified in the previous section that is involved in a measured choice and needs to deal with a salesperson. Intermediaries are a market in their own right and require considerable resources to support and develop relationships with—hence the issue of ‘push’ and ‘pull’ and the importance of branding.

## Omnichannel marketing

It is all very well to consider the main three channel options of direct/online, intermediaries, or salesforce, but increasingly a multi-channel marketing strategy is required for buyers who use more than one channel when interacting with an organization. Digital retailing has morphed into ‘omnichannel retailing’. Retailers are now able to interact with customers through countless channels—websites, physical shops, kiosks, pop ups, direct mail and catalogues, call centres, social media, mobile devices, gaming consoles, televisions, networked appliances, home services, and many more. Unless conventional retailers integrate disparate channels into a single seamless ‘omnichannel experience’ they are likely to be swept away. Customers engage with brands across a customer retail journey. Omnichannel shoppers are now in the majority and studies indicate they account for just under two-thirds of all shoppers and as well they spend significantly more than single channel shoppers. The tendency for omnichannel shopping will rise as wireless devices and mobile phones increasingly offer new ways to enter a market and associated services. Weinberg, Parise, and Guinan (2007) suggest three cohesive actions for developing an effective omnichannel strategy, and each will be reviewed in term below.

## Summary

Appropriate strategies for price and distribution will depend on a variety of factors but should be synchronized. Clearly it would be a mismatch to distribute high-priced luxury handbags in discount stores and would only confuse potential buyers. The inherent brand position and direction must be taken into account. Market position is another factor. A follower brand with a relatively small market share is likely to follow the price and distribution patterns of leaders and generally be sold at a lower price and be placed in slightly less favourable positions by distributors. The product life cycle (PLC) is also a consideration. The PLC is a tool in widespread managerial use (despite its problems) given its ability to provide some strategic insights. Depending on where an organization is on the PLC, the kinds of price and distribution decisions may vary considerably.