Ensuring the price is right

Pricing is going to be a huge challenge for brands in 2017. **Fiona McAnena** says marketers must invest some serious time and thought into developing a pricing strategy they can defend

PRICING WILL BE a major issue this year, as cost increases caused by the weak pound feed through. Even the most consumer-focused marketers will be tempted, or pushed, to get people to pay more for less. But you don't need market research to tell you that is not what consumers want. So how should marketers express the voice of the consumer inside the business in the face of this pressure?

The right answer isn't necessarily defending low prices at all costs. Whatever approach you take, brand champions must ensure there's no long-term damage. That means getting credit for honesty, and keeping the essential nature of your brand and product.

Marketers often spend a lot less time on pricing than on other aspects of the marketing mix. However, pricing needs special attention because it is strategic, tactical and creative. Those who take a proactive approach have a better chance of protecting their brand for the long term.

PRICE AS BRAND STRATEGY

Choosing a price positioning is strategic. Aside from the few, such as Ferrari or Chanel where maintaining a price premium is part of the deal, getting the price right is a knotty issue. There's price relative to competition, price relative to cost of goods, and achieving good price points. And that's before deals and promotions.

Price positioning is relative not absolute, so it must be monitored. Brands can decline when the marketing team, focused on product innovation and marketing communication, don't realise their brand's average price has drifted upwards relative to the market. The good news is it's fixable.

Then there's value. It's easy to forget that the real focus should be on what you get for what you pay, not just what you pay. It's essential to be crystal clear on how and why a brand is desirable, the benefits it provides, and to whom. Without that, it's hard to leverage the difference between price and value.

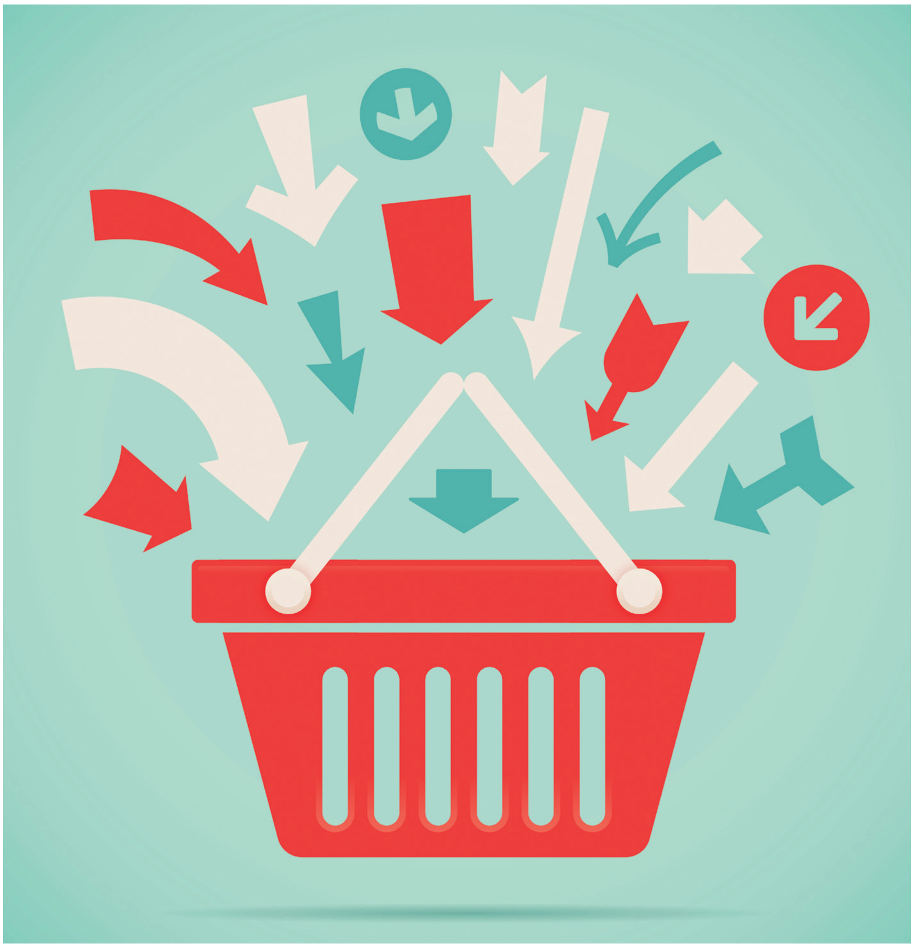
Tesco did this elegantly almost 20 years ago, with the creation of its much-imitated three-tier own-label strategy: the Value range, the ordinary Tesco stuff and Finest. It wasn't about discounting, but clear positioning in which the brand proposition was perfectly aligned to price.

There's evidence, from the work of Byron Sharp and others, that if brands discount too often, shoppers believe the lower price is the 'right' one, and only buy on promotion. That leads to a downward spiral, chasing volume through discounting. Dishwasher tablets in the UK, for example, are often on half-price offer: not a good tactic for something without a use-by date. Discretionary categories such as soft drinks and snacks get a volume boost – buying more makes you consume more – but you don't run your dishwasher more because of cheap tablets. Buying volume through price-cutting is addictive, for both the brand and the retailer.

WHAT'S COST GOT TO DO WITH IT?

Price doesn't have to be linked to cost. Luxury fashion brands are the touchstone for confident use of price as proof of supremacy. Some high-end fashion brands give discreet preferential deals to regular customers – even a Dolce & Gabbana buyer likes a discount – but they're never advertised. There are seasonal sales, but not of the best stuff. Apple too has boldly held the line on price. Shopping around for an iPhone is a waste of time. It simplifies shopping for your consumer. If you're going to pay a lot, do so with confidence, knowing you didn't overpay.

'Reassuringly expensive' is a choice, built on the brand but not necessarily intrinsic to the product. That's why the



same product and brand can have different price positioning in different countries. Your French visitors will be shocked to be offered Stella Artois in your home; Stella is the Special Brew of the French market.

The same applies in pharmaceuticals. Generic versions of branded drugs can be a tenth of the price. The difference is the brand, which can add to the user's belief and ultimately their perception of efficacy. For new drugs, still on patent, pricing is how the pharma company factors in years of drug development.

But be careful. Remember Pierre Cardin, who once headed Christian Dior, launched his own fashion house in the 1950s and dressed Lauren Bacall. He startled the industry by putting his brand logo on the clothes in his collections, and pioneered brand licensing in the 1960s. It was very lucrative. But something was lost. You can now buy Pierre Cardin waxed jackets in Sports Direct for £14.99.

IT'S DIFFERENT FOR RETAILERS

Retailers have more pricing weapons than single brands. In grocery, the basket of Known Value Items (KVIs) may feel like a blast from the past, but selective pricing is critical in establishing an overall price perception. Ask the farmers hurt by the supermarket price war on milk, which drove their prices below the cost of production.

Own-label discounters like Aldi and Lidl have their own take, filling the KVI basket with their own cheaper substitutes. Supermarkets can't always match them on price – but that doesn't mean they can't offer better value. Until recently, Sainsbury's Brand Match totted up the price of your purchases in comparison to Asda, providing a voucher if Asda was cheaper. This was a confident statement. It said, there's no need to shop around. A recent study found that almost 90% of retail customers have never claimed a refund from a price match promise. However, it's the promise that matters.

The Waitrose approach is different. In the 2008 recession it launched the Essential Waitrose range. Cue media fun mocking these 'essentials' – ironing water, tinned artichoke hearts and baby avocados. But it worked, because occasional and semi-loyal Waitrose shoppers felt it was the essence of Waitrose – excellent quality, fairly priced. More recently, the myWaitrose loyalty scheme offers targeted discounts.

A curious by-product of technology-enabled discounting schemes is that till receipts have become interesting. They're also a powerful brand-building medium. Grocery retailers use discounting to say something bigger about trust, to stimulate repeat visits and, ultimately, win a greater share of the household grocery bill.

CAN PRICING BE CREATIVE?

Pricing can be used creatively to disguise the value equation. Some FMCG brands use different pack formats to create bespoke deals for each grocer, like the little chocolate bars and tins of fish in Poundland – produced to hit the price point. Others use those outlets to promote less popular variants, giving huge discounts. The problem is that many shoppers visit multiple retailers. Seeing a familiar brand going cheap can change our belief about what it's worth.

Producing different packs for different channels can be a way to charge a premium. The most obvious example is portion packs in food service, where a slather of butter or jam in a tiny tub can cost as much as a whole pack from Lidl. Context is critical. Restaurant food brands can usually command higher prices when they migrate to the supermarket. For example, Pizza Express pizzas cost double the supermarket average but half the price of a restaurant pizza.

DIFFERENT PRICES FOR DIFFERENT CUSTOMERS?

This is an increasing problem in consumer services like insurance. The customer wants to know two things: where can I get the best deal for me, and, are they offering me their best price? When a business treats these as two separate functions – acquisition and retention – it leads to problems. Customers don't think in these terms. Price comparison sites have made pricing more visible, and switching easier. If a brand can't be trusted to offer its best price on renewal, why would the customer show any loyalty? This is compounded by 'save' strategies that suddenly come up with lower prices when you threaten to leave. It's a much-used tactic among membership and subscription services, but while it enables them to maintain higher prices among those who can't be bothered to get on the phone, it erodes trust.

There are legitimate ways to deploy differential pricing. Look at software as a service to see a variety of options: number of licensed users, volume of use, number of uses in a given period, often combined with a 'fremium' approach. Free can work, if the trigger to trade up is compelling.

DON'T DO A TOBLERONE – THREE WAYS TO PROTECT MARGINS

1. Make it smaller.
But don't expect to get away with it. It's easier with categories such as cereals, crisps, dry pet food, where the contents aren't counted, and don't have to fit the pack precisely. But someone always spots it, and it never goes down well.

The recent Toblerone move is probably driven by pragmatism – downsizing the product without changing the pack dimensions, which would affect packaging, production lines, maybe distribution. But it has damaged the consumer experience. The internal voices of operations and finance have trumped the voice of the consumer, creating not just a value problem but a change of product experience.

Mr Kipling is also taking some media flack, but the chocolate slices are the same, just one less in the pack, as stated on the box. Sometimes this hidden price increase is a sensible option that minimises other costs. Be open about it. You won't be alone this year, but it feels like a con if you don't front it up.

2. Make it cheaper.
Adjust recipes and formulas, push suppliers, find cheaper ingredients. Sophisticated businesses do this anyway, so more gains are not easy to find. The deeper your understanding of what really delivers the brand experience, the better chance of saving money without compromising the brand promise.

Be careful of unintended consequences – for example, replacing a good-quality food ingredient with something that makes the product less healthy, in consumers' eyes. Or the salami-slicing effect of changing the product little by little over time. Eventually, it just won't be as good as it used to be. Remember the Pizza Express 'shrinking pizza' controversy of 2002? It was never fully resolved, but at least the pizzas got bigger; appetite, if not curiosity, was satisfied.

3. Put the price up.
This is going to happen a lot this year. Unilever was pushed back on Marmite by Tesco, who spotted an opportunity to act as a consumer champion – but you can bet Tesco wasn't sharing the pain of increased costs. Short-term revenue may suffer, especially if competitors don't follow. But increasing prices is honest, and people will understand why it's happening. It has the virtue of maintaining both brand and product integrity, and won't damage trust.

There's a fourth option. Suck it up.
Don't mess with the product or the price. Protect the consumer experience and value for money, not your margins. It's not an option for everyone. Absorbing higher costs will hit the business. But if competitors are messing about with an eye on the short term, your brand could be the winner, in volume in the near term and loyalty in the longer term. Companies with a portfolio may hedge their bets with a range of responses across different brands. It's a real test of short-term vs. long-term orientation.

Real-world pricing is a combination of price positioning, promotion, and pragmatism

THE BIG QUESTION FOR MARKETERS IS: HOW CAN YOU CREATE MORE VALUE?

Pricing doesn't happen in a vacuum. It can be a function of commodity markets, regulation, actuarial calculations, all of which take it away from the consumer's representative inside the business. Even in FMCG, where the partnership of brand management and sales has the final say, commercial realities, competitive activity and short-term budget pressures can unseat a strategic aim. A brand-led approach may work in luxury goods where everyone understands that long-term gains may mean short-term pain. Elsewhere, the marketer can bring in the voice of the consumer – to ensure the trade-offs are recognised. Research and modelling tools can also help. The question always must be: is the value equation right?

Marketers are the custodians of consumer value. While everyone else clamours for lower prices, we must drive up the 'what you get' side of the value equation. That's where there can be a win-win between the business's need for profit and the consumer's need for value. This is the heart of branded business, but it's not just about a high-minded purpose. Value can be created in practical ways.

What else might people value, that doesn't cost the business as much as hard cash? Choice, in simple things like choosing delivery slots, can be valuable, both practically and emotionally, for the customer. Amazon Prime offers next day delivery, and then gives the choice to opt out of it in return for a voucher.

WHAT DOES IT ALL ADD UP TO?

Real-world pricing is a combination of price positioning, promotion, and pragmatism. The pressure is usually downwards, and the temptation is to take the short-term gains. But remember, a desperate brand rocks consumer confidence. Pricing must always be consistent with your brand strategy.

- Value is what you get for what you pay. Marketers need to pay equal attention to the two sides of the value equation. It usually takes longer to change what you get than to adjust what you pay.
- Non-financial rewards can create perceived value and build engagement. Cash is quick and easy. Both have a part to play.
- If you must discount, do it in a way that reinforces the brand promise. Compare *The Economist*'s dignified offers with *Harvard Business Review*'s screechy mailshot pleas to renew at a zillion per cent discount if you do it TODAY!

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