

Pricing and Brand Strategy



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Pricing sometimes is considered in isolation from the rest of marketing—for example, as part of the revenue management function—and it may appear that pricing managers can go about their business of finding the “right” price to charge with no regard to the rest of marketing strategy, but experience proves otherwise. Pricing is the marketing lever with the most immediate and direct business impact. Management decisions to change prices translate into revenue and profit. Pricing also is closely tied to the other elements of brand strategy.

Traditional pricing practice starts from the classical economic notion that volume demand for a product will decline as price increases. This applies to many marketing situations, under the assumption that “everything else is equal.” However, effective brand marketing can give consumers compelling reasons to pay a premium. The reasons can relate to product quality, special ingredients, processes and craftsmanship. Many brands are activated through convincing messages of a storied heritage and legacy. Often, the appeals are to status benefits, even if they are enjoyed only temporarily.

Macro Trends

Over the last decade, though, there have been several high-level trends related to price that are core to marketing planning. One is that consumers show increasing interest in gaining the most value from consumer products by getting low prices. The continued success of the “everyday low price strategy” led by

Wal-Mart and other bricks-and-mortar retailers, and the impact of e-commerce retailing led by Amazon and others show how widespread this trend is. The slow economy continues to fuel the consumer need for the lowest possible prices.

At the same time, there is an increasing trend toward the growth of premium products across many different categories. This was well-documented a decade ago in *Trading Up: The New American Luxury*, by Michael Silverstein and Neil Fiske, and this pattern has continued even through the difficult recessionary times, as indicated by the success of luxury brands, for example, in fashion, spirits, travel and watches. Marketers have coined the term “premiumization” to reflect that this

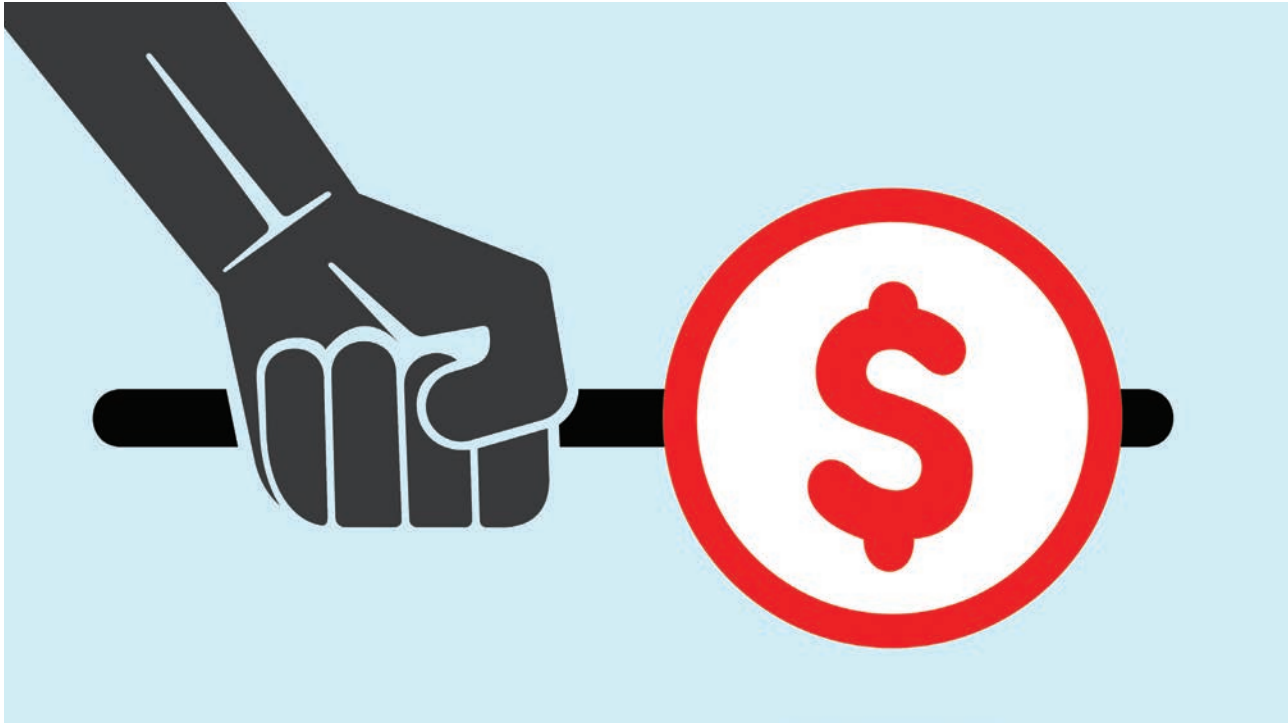
is a macro-level trend in which product categories migrate toward more products at the higher-priced end of the market over time.

Both of these crosscurrents can be seen in the market for jeans. One indicator of this trend is the portion of the market value of all jeans that are premium-priced versus those that are economy-priced. This has been trending up over time. While the trajectory has been slowed, to some extent, by the recession, it hasn’t been reversed. There may be fewer jeans sold in the \$300 category but still substantial sales in the \$200 range, for instance. There also has been a proliferation of lower-priced jeans products. Some carry the same parent brand name of higher-priced products, some are store brands and others are lower-priced brands.

In this complicated environment, marketers must decide where to position their brands along this price/value continuum. Some specific brands clearly fall onto one side or another, but many companies have large brand portfolios that span from the lower end to the higher end, such as in the auto, hotel and wine industries. They must decide how to balance the potential exclusivity of their premium-priced brands with the “inclusivity” of their more accessible brands.

The position of a brand along this continuum will differentially impact the size and nature of market opportunities—that is, the volume, revenue and profit that will be generated. A small base of customers who buy high-end products will generate high revenue per customer. It will take a larger base of frequent purchasers who buy low-priced products to generate as much total revenue. Different marketing tactics and spending levels will be needed for these alternative strategic directions.

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Consumers' High-Low Purchases

One reason that these seemingly contrary trends can coexist is that individual consumers split their purchasing between some value and some premium products. The same consumer may participate in both trends, across different categories, and even within categories.

While premium and luxury products have obvious appeal to wealthier consumers who can easily afford them, they often attract a broader segment of buyers. Many premium products are purchased on an occasional basis, to fulfill an aspiration to enjoy a more exclusive brand. For example, purchasing a premium wine for a special occasion or dining at a gourmet restaurant is within reach of many consumers at least some of the time. Even if the consumers can't enjoy the premium product all of the time, they can purchase it some of the time, enjoy the experience and anticipate future use.

Consumer segmentation research confirms that individuals are not all the same when it comes to reacting to price. Segments of people often vary according

to the price that they actually pay, their perceptions of price and the importance that they attach to value in products. These varying segments have quite different value to the marketer, in terms of revenue, profit and lifetime financial value.

The way that consumers evaluate and choose products also varies by segment. Some consumers tend to exhibit strong brand loyalties, while others systematically review alternatives and pay the lowest price. Some prefer to shop in specialty channels that cater to premium-priced brands, while others rely disproportionately on discounters.

The implication for marketers is that they shouldn't assume that all consumers behave the same way with respect to price. They'll need to understand their target consumers' orientation to price and shopping, along with needs and behaviors related to the product in question.

Pulling the Pricing Lever

A brand doesn't succeed just by attaching a high price and expecting demand to

follow. A benefit is created by providing meaningful experiences for consumers, who then are willing to pay a premium price, at least some of the time.

This has the potential to change the economic demand curve in several ways. It can show that consumers sometimes prefer a higher-priced product to a lower-priced one. It can change consumers' consideration sets, for example from a broad set of high- and low-priced products, to a narrower selection of premium products to fulfill specific needs or for particular situations. In order to make good strategic pricing decisions, it pays to consider pricing in the context of the other elements of the marketing mix, rather than in isolation. **m**

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