

Revisiting Teaching of the Pricing Module: The Seven C's of Strategic Pricing

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Abstract

This position paper presents ideas for conference participant discussion on a conceptual paradigm that can be used either for teaching the decisions regarding the content and interaction of pricing issues in the introductory marketing course or strategic pricing processes in the capstone-marketing course.

Introduction

Our objective is to stir some critical thinking, discussion and insightful debate among our colleagues in the marketing teaching profession on 1) revisiting the placement of pricing in teaching the 4 Ps and 2) the usefulness of a proposed paradigm for doing so. **Pedagogical Hypothesis 1:** That the pricing module should be taught **last** among the 4 Ps. This paper is to stimulate constructive discussion on why pricing should be taught last, as well as **Pedagogical Hypothesis 2)** A useful paradigm that can help students to better understand and utilize decision-making activities involving pricing is presented in Exhibit 1. We argue in pedagogical hypothesis 1 that students should have a basic understanding of and at least some preliminary decisions in areas such as market identification, segmentation and targeting, products/value propositions/brand positioning, go-to-market activities, channel roles and structures, communications messages, media and so forth prior to any strategic decision-making involving pricing.

Not that pricing issues, impacts and considerations don't need to be considered and factored in during the making of decisions in these other areas. However, establishing and setting pricing objectives and strategies requires at least some basic commitments to strategic direction in these earlier areas prior to being in a position to do the planning of pricing

Next, we would like to stimulate constructive discussion and debate on the usefulness and instructional value of the primary focus of this paper: What we term the Seven C's of Strategic Pricing. The proposed paradigm is shown in Exhibit 1. It is not new in much of its individual content, but what it does propose as value added is a) a construct summation of specific critical areas of issues and components of pricing, and b) a framework to go about committing these to memory and applied access to decisions. These seven areas are iterative: (1) Customer Value, (2) Company Objectives, (3) Competitive Differentiation, (4) Cost Position, (5) Cash Flows, (6) Channel Margins, and (7) Compliance With Laws,

(1) Customer Value

Most of us in marketing see customer value as our principal *raison d'être*. As I heard one eminent scholar state long ago at an earlier MEA conference: Marketing is the art of competing on value, not on price. Identifying, creating and fulfilling customer value opportunities is the centerpiece of pricing. This includes value identification, value capture, and value deliver and fulfillment. The more clearly defined and differentially targeted the opportunities in the market are presented, the greater chance that a price can be charged that commands a premium for serving opportunities.

(2) Company Objectives

It is not the intent of this conceptual discussion to imply that the seven C's in pricing strategy determination should occur linearly and sequentially. On the contrary, they are interactive, simultaneous and integrative elements. Company objectives could, arguably, be the center-

point for pricing strategy, except for the principle of having a market-based, customer-driven focus common to modern marketing strategy—which gives rise to the customer-centric focus of the paradigm. Yet without strategic wisdom and direction driven from the trade-offs and interplay between internal, dynamic enterprise resources, capabilities, and competitive advantages and the externally changing, and expanding opportunities, pricing strategy would be deplete of purpose. Company objectives include such as market share goals, development and management of product portfolios, profitability targets, investment/risk exposure, rate and timing of innovation. These, and other related objectives impact both the formulation and the implementation of pricing strategies. Matures and evolves across the region.

(3) Competitive Differentiation

To maximize profit yields the enterprise seeks viable and sustainable differentiation from competitive alternatives. Brands seek to offer such benefits as uniform expectations of brand value delivery within markets, and, consequently, pricing value for serving those benefits.

Yet a firm can seek differentiation by attempting to do a better job and fulfilling more unique and segment-specific need/benefit market structure through innovation, product line size and diversity, and customized marketing programs for channel value and communications messages between segmented markets. Here the product portfolio may seek to deliver such value propositions as truly unique and customized solutions to market-specific opportunities. Competitive differentiation, based upon sound customer value targeting, presents the upper limit to premium pricing, since customers defer paying more for a patronage choice that does not deliver equity in brand performance.

(4) Cost Position

Yet differentiation is costly in product development and manufacturing, and in the diversity of segment-specific marketing programs. This adds costs to the enterprise's comparative cost position, which represents the floor of pricing strategy in the long run. As sustainable competitive differentiation represents the ceiling or upper limit in pricing strategy, comparative cost position offers a floor. An enterprise offering comparative differential value cannot survive with an inferior cost position as industry shakeout and consolidation begins to occur.

Thus managerial decision-making must be continually cognizant of the impact that trade-offs between over focus and over generalization create for both short-term and long-term cost position relative to sustainable differential value. Since both forces are variables, decisions are also time-dependent, because opportunities and fulfillments of differential value are dynamic, as are elements driving the enterprise's comparative cost position (i.e. experience curve, comparative exchange rate differences, labor cost differences, and so forth).

(5) Cash Flows

A fifth factor of concern and relevance is the enterprise's continual need for sufficient cash flows, particularly as IPOs occur, and subsequent endeavors in financial markets for expansion. Too aggressive and too dynamic strategies toward trade-offs between segment focus and line breadth in expansion can create imbalance between capitalization/debt on the one hand, and the necessary returns and the availability of cash flows to expand through necessary product innovations and internationalization of manufacturing facilities.

As homogenization of regional demand segments creates a weakening in opportunities in customer value, coupled with the resultant impact on sustainable differential advantage--sometimes brought on by delays in shifting the balance from localization to more regional and global strategic focus—this can cause cash flow inadequacies. Furthermore, delays in focus/breadth/depth-shift dynamics can be caused by inertia stemming from such factors as

brand identity commitments to broad, country-specific product lines, coupled with asset commitments in geographically dispersed manufacturing sites, can decrease the enterprise's reaction time to shifts in the competitive landscape.

(6) Channel Margins

Enterprises are dependent on value-added partnerships in the marketing channel. These intermediate customers, who are often value-added experts, can provide value through localized service differentiation and opportunities for product innovation. But they also represent two challenges: First, if they have too much local scope, they may present impediments in the need for shifting emphasis in the relative global versus local balance of the enterprise's strategy. Often grounded in local scope and market devotion, they can stress a need for more conservative moves in globalization of product lines and marketing programs/budgets. Second, these value-added partners represent costs as well as value-deliverers. Channel members require margins within the pricing structure of the overall producer/go-to-market channel.

Not only is it necessary for managers to be dynamically, and entrepreneurially cognizant of the need for shifts in their own strategies, and the cost/benefit impacts on pricing, but also shifts from local/country-market specific channels and channel cost positions, versus larger, more regionally focused and, perhaps, lower cost channel alternatives. This presents both opportunities and challenges in pricing decisions.

(7) Compliance With Laws

The legal framework impacting pricing decisions is both extensive and diverse, as well as constantly changing as both nations and trade-blocs create legal issues that impact pricing. Not only need the enterprise be cognizant of these laws as it expands regionally and manages its marketing strategy trade-offs, but it also must see them as entrepreneurial opportunities for gaining competitive advantage regarding both other regional players and regional entrants from abroad.

Laws can be protectionist and allow prices to be set artificially high, but they may also add unnecessarily to cost position in operations between countries. This is nowhere evidenced more than from the experiences in the European Union, where the original intent was to reduce barriers to intra-EU trade by standardization and elimination of tariffs, but in many industries market preferences for localization and country-of-origin have yielded delays and snags in regionalization within the union.

Conclusion: Adapting and Applying the Paradigm in Practice

Both the nature of a specific industry and the dynamics of the firm's overall strategies will shape the environment in which pricing decisions are made, and, thus, the relative emphasis placed upon each one of the seven elements and the integration of decision priorities resulting. The paradigm represents both an aggregation of key issue areas, and an explanation of how decisions involving the pricing strategy content and emphasis impact the interpretation and use of each element in the paradigm.

Customer value impacts each of the other six elements dynamically, as do each of the other elements impact their counter-parts. As noted earlier, pricing decisions cannot be made linearly or sequentially within the paradigm, nor can they ignore or downplay the impacts that changes in each element can have upon the others.

As managers plan and implement changes in their focus and horizons within strategic thrust, they can and should use the paradigm as a decision aid in making both the identification of

relevant issues for consideration, and the relative trade-off of pros and cons for decision options in the pricing policies and strategies they pursue.

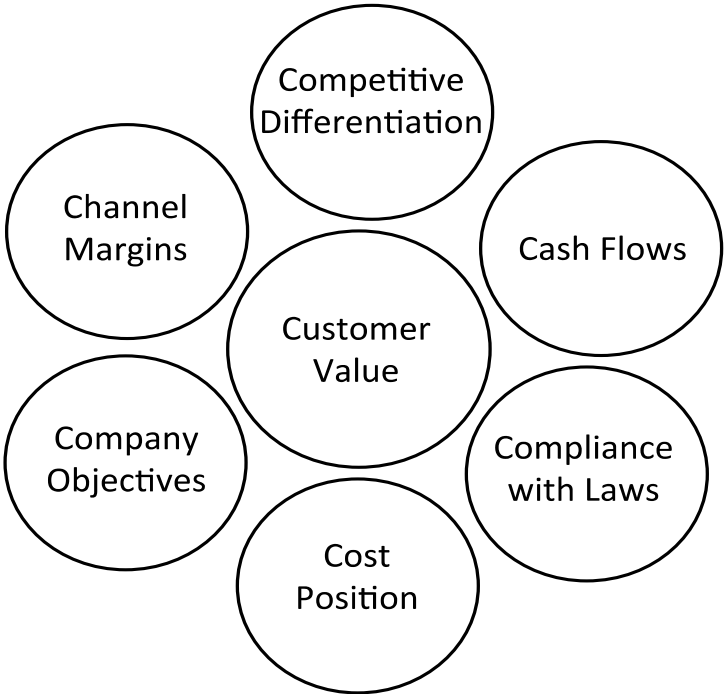


Figure 1: The Seven C's of Strategic Pricing