

Course Material 4

6MSMR1

Marketing Strategy

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EVROPSKÁ UNIE
Evropské strukturální a investiční fondy
Operační program Výzkum, vývoj a vzdělávání



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Satisfaction and Loyalty

Satisfaction

- "everyone knows what [satisfaction] is until asked to give a definition. Then it seems, nobody knows,,
 - Dozens of various definitions of satisfaction, lack of consensus, what satisfaction is
 - Without a uniform definition, we cannot develop valid measures and/or compare studies
- Three general components of satisfaction
 - Satisfaction is a response
 - Cognitive response
 - Emotional response – most studies concede an emotional response, using more affective descriptions; allows to measure intensity of the response

Response intensity refers to the strength of the satisfaction response, ranging from strong to weak. Terms such as, "like love," "excited," "euphoria," "thrilled," "very satisfied," "pleasantly surprised," "relieved," "helpless," "frustrated," "cheated," "indifferent," "relieved," "apathy," and "neutral" reveal the range of intensity. In sum, the literature and consumers both view satisfaction as a summary affective response of varying intensity.

- Satisfaction has a particular focus of the response
 - Identifies the object of satisfaction
 - Usually entails a comparison to a standard or benchmark (or expectations)
 - Often multiple foci including the product itself, consumption, purchase process, salespersons, store/acquisition
- Attribute satisfaction × overall satisfaction
- Additive × multiplicative models of satisfaction

Satisfaction

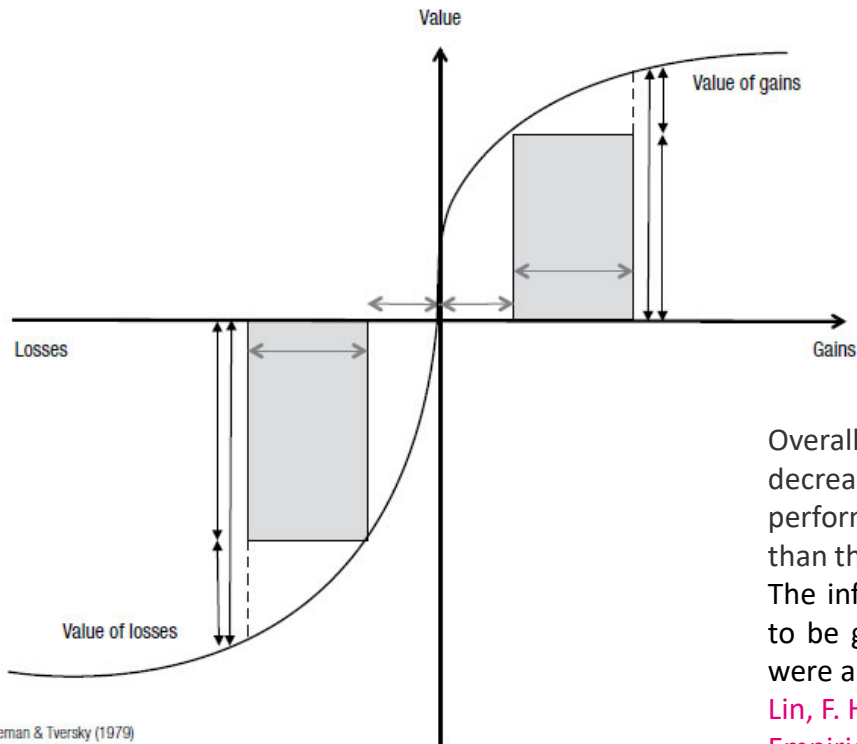
- Timing of the response
 - In general, satisfaction is a post-purchase phenomenon – however may occur i.e. after choice but before the purchase of the product, or even in absence of the purchase
 - Satisfaction has some duration (the length of the response)
- Dissatisfaction
 - May be understood as bipolar opposite of the satisfaction, or as a different concept (e.g. Herzberg's two factor theory)

Satisfaction and dissatisfaction are not on a continuum with one increasing as the other diminishes, but are independent phenomena. The opposite of Satisfaction is 'No Satisfaction' but not dissatisfaction. The opposite of Dissatisfaction is 'No Dissatisfaction' but not Satisfaction. Satisfaction is mostly affected by the "motivator factors". Motivation factors help increase the satisfaction but aren't that affective on dissatisfaction. Dissatisfaction is the results of the "hygiene factors". These factors, if absent or inadequate, cause dissatisfaction, but their presence has little effect on long-term satisfaction.

- The customers response (satisfaction) to a product performance is not linear and symmetric
 - Kahneman & Tversky Prospect Theory
 - Expectation confirmation theory by Oliver
 - Kano model (surprisingly by Kano)

Satisfaction

- Kahneman & Tversky Prospect Theory
 - people make decisions based on the potential value of losses and gains rather than the final outcome
 - people tend to prefer avoiding losses to acquiring equivalent gains (it is better to not lose \$5 than to find \$5)



Developed by: Kahneman & Tversky (1979)

1. Most people tend to avoid risk when facing “gain.”
2. Most people tend to prefer risk when facing “loss.”
3. People are more sensitive to loss than to gain.

Overall customer satisfaction is sensitive to quality attribute performance, and decreases if the performance decreases. The impact of negative attribute performance on overall customer satisfaction was determined to be greater than the impact of the positive attribute performance.

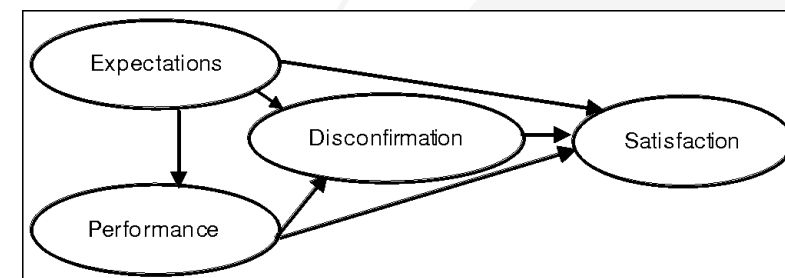
The influence of low performance on overall customer satisfaction was found to be greater than that of high performance, and utility-preserving attributes were applicable to the S-shaped value function curve in prospect theory.

Lin, F. H., Tsai, S. B., Lee, Y. C., Hsiao, C. F., Zhou, J., Wang, J., & Shang, Z. (2017). Empirical research on Kano's model and customer satisfaction. *PloS one*, 12(9),

- The customers' response (satisfaction) is asymmetric and non-linear

Satisfaction

- Expectation confirmation theory (ECT or expectation disconfirmation theory) by Oliver
 - explains post-purchase or post-adoption satisfaction as a function of expectations, perceived performance, and disconfirmation of beliefs; satisfaction and dissatisfaction are separate constructs
 - satisfaction is the discrepancy between expectations and perceived quality
 - expectations work as a reference point
 - negative disconfirmation – performance < expected
 - confirmation – performance = reference point
 - positive disconfirmation – performance > expected
 - the model works with symmetric effect, however some have identified that increasing performance or disconfirmation does not have a corresponding increase in satisfaction
 - “negative experiences are thought to be more salient, are perceived with greater intensity, and are expressed with a greater variety”
 - Positive asymmetry finds its roots in customer delight theory – customer delight is “a profoundly positive emotional state generally resulting from having one’s expectations exceeded to a surprising degree”
 - types of asymmetric effects (i.e., negative or positive) may depend on product quality attribute type



Satisfaction

- Kano model
 - Kano classified five types of quality attribute that lead to customer satisfaction
 1. **Must-be quality attributes** – sufficient quality attributes *do not* lead to customer satisfaction, but insufficient quality attributes lead to customer dissatisfaction.
 2. **One-dimensional quality attributes** – sufficient quality attributes lead to customer satisfaction, and insufficient quality attributes lead to customer dissatisfaction.
 3. **Attractive quality attributes** – sufficient quality attributes lead to customer satisfaction, but insufficient quality attributes *do not* lead to customer dissatisfaction.
 4. **Indifferent quality attributes** – sufficient quality attributes *do not* lead to customer satisfaction, and insufficient quality attributes *do not* lead to customer dissatisfaction.
 5. **Reverse quality attributes** – sufficient quality attributes lead to customer dissatisfaction, and insufficient quality attributes lead to customer satisfaction

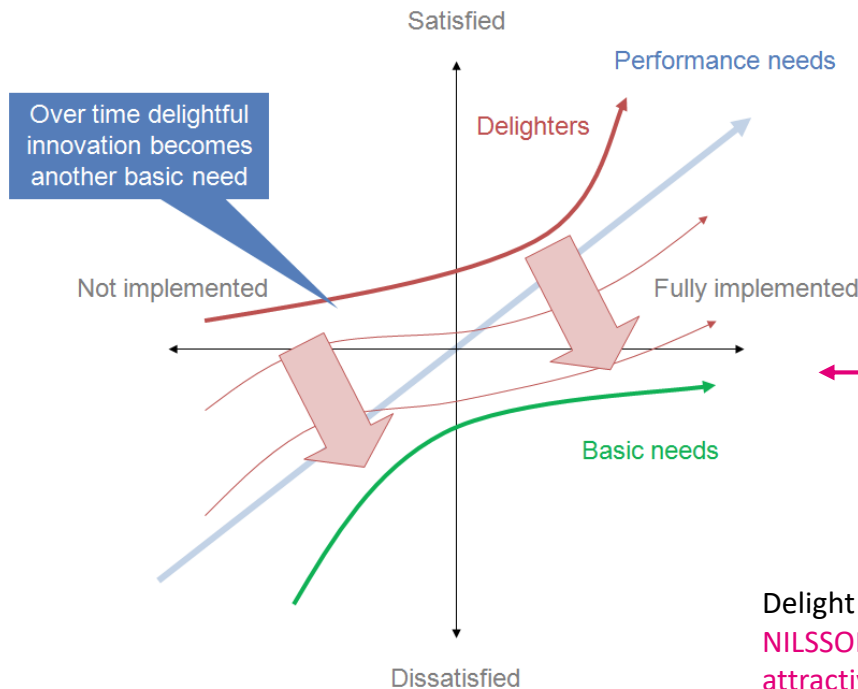


TABLE 1
The Taxonomies of Antecedents to (Dis)Satisfaction

Herzberg et al. (1959)	Motivators	Hygienes	---	---
Soliman (1970)				
Zhang & Dran (2000)				
Swan & Combs (1976)	Expressive Factors	Instrumental Factors	---	---
Kano et al. (1984)	Attractive	Must-Be	One-Dimensional	Indifferent
Matzler & Hinterhuber (1998)				
Oliver (1995)	Monovalent Satisfiers	Monovalent Dissatisfiers	Bivalent Satisfiers	Null Relationships
Cadotte & Turgeon (1988)	Satisfiers	Dissatisfiers	Criticals	Neutrals

Delight attributes become performance or even basic attributes over time

NILSSON-WITELL, Lars; FUNDIN, Anders. Dynamics of service attributes: a test of Kano's theory of attractive quality. *International Journal of Service Industry Management*, 2005, 16.2: 152-168.

Loyalty

Aksoy, Lerzan, Timothy L. Keiningham, and Richard L. Oliver (2014), "3 Loyalty: Its Many Sources and Variations." *Handbook of Service Marketing Research*, 37.

- Multi-dimensional construct consisting of purchase intention, recommendations, price tolerance, word of mouth, complaint behavior, and propensity to leave
 - (1) a perceived specialness of a relationship; (2) favorable treatment to objects of loyalty; (3) a desire to maintain the relationship even when sacrifice is required; and (4) defense and reinforcement of the relationship
 - "Loyalty is the recognition of the specialness of a relationship, the creation of a bond as the result of the relationship, and the defense and reinforcement of this relationship."
 - Types of loyalty

- Behavioral loyalty – repeating purchase behavior – is it “a real” loyalty?

However, the behavioral definition has its own drawbacks. It's quite possible for a customer to *behave* loyally even when they don't really *like* a brand, provided there are other reasons for purchasing. An airline with poor customer service, for instance, might have customers who behave loyally but aren't happy about it, if its prices are significantly lower than those of other airlines. (Some Londoners, for instance, complain that they *hate* Ryanair every weekend when they take it to their weekend house in Barcelona!) Or, a business-to-business firm selling complex services may rely on long-term legal contracts in order to ensure they are adequately compensated for high set-up costs. (I once participated in a meeting with EDS executives at their Plano, Texas, headquarters in which one of the executives joked that their primary customer loyalty tactic was probably the lawsuit.) [Customer Loyalty: A Behavior? Or an Attitude?](#)

- Attitudinal loyalty – consumer's psychological attachment to the product/service or brand/producer/provider

- customers may show a brand preference, beliefs, strong commitment, intention to buy, provide word-of-mouth or recommend to others, but *not necessarily buy or repurchase*

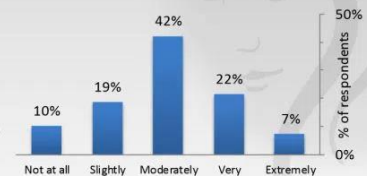
Competition-Loyalty

For consumers who regard the tested product as being similar to one they already use, the nature and strength of their loyalty to their current products is assessed.

Attitudinal Loyalty

This is a measure of how much consumers "like" the products and brands they currently use.

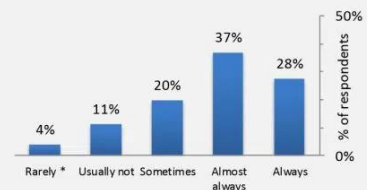
High attitudinal loyalty generally means consumers would pay more for the product, and prefer to buy it over most other alternatives.



Behavioral Loyalty

This is a measure of how consistently consumers have actually bought the competing products they currently use over time.

High behavioral loyalty can result from liking the product, having few affordable alternatives, or purchasing habits.



* "Rarely" denotes a recent switch to their current product/brand

Satisfaction–Loyalty link

- Many studies confirm link between satisfaction loyalty
 - Is it worth to delight the customers?
 - loyal (and most profitable) customers are often aware of their value to the company and request better support and services

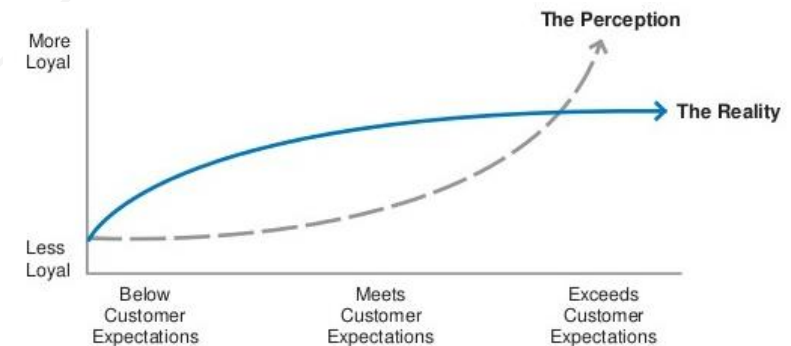
For most firms, customer profitability is not evenly distributed. Often the most expensive customers to retain are those who generate the most profits for the firm (Desired Customers). For obvious reasons, they are most desirable to competitors, thus are more likely to receive attractive offers from the competition. Desired Customers also often know that their relationship is significant to the firm and, consequently, they expect a higher level of service.

- The costs do delight the customers might not be worth it – attitude is not behavior

HESKETT, James L., et al. [Putting the service-profit chain to work](#). *Harvard business review*, 3-4/1994

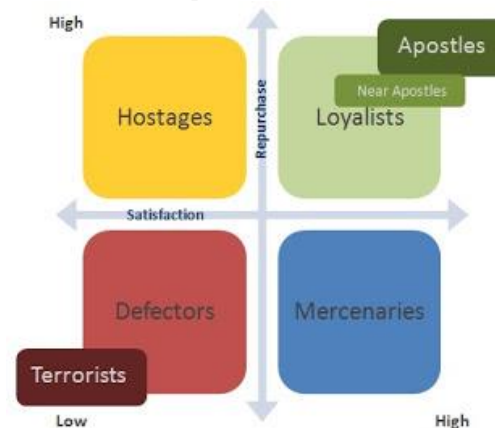
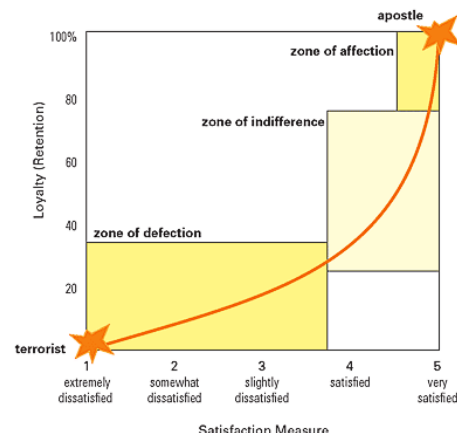
CEB looked at the customer service departments results from 100s of companies and 10,000s of agents. They discovered that exceeding the customers expectations increased the operational costs between 10-20% and had only a marginal increase in customer loyalty vs meeting the customers expectations.

[Why CEB's 'Stop delighting your customers' makes sense for your business](#)



- Some customers are satisfied but not loyal (or are loyal, despite being dissatisfied)

A Satisfied Customer Is Loyal



Recommended reading: [The Apostle Model](#)
JONES, Thomas O., Sasser, W Earl. [Why Satisfied Customers Defect](#). *Harvard business review*, 11-12/1995

Satisfaction–Loyalty link

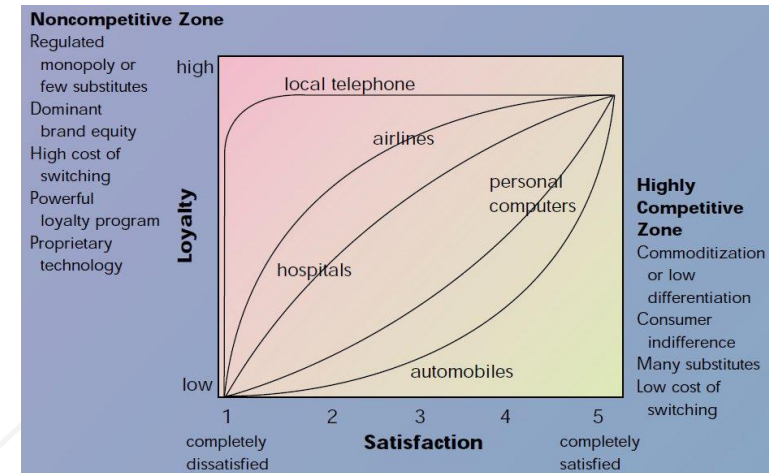
- The link between satisfaction and loyalty varies among industries

- Includes type of competition, presence of dominant brands, switching costs, proprietary technologies, ...

Recommended reading : JONES, Thomas O., Sasser, W Earl. [Why Satisfied Customers Defect](#). *Harvard business review*, 11-12/1995

- May depend on customer involvement or trust

CASTAÑEDA, José Alberto. Relationship between customer satisfaction and loyalty on the internet. *Journal of Business and Psychology*, 2011, pp 371-383



- Focus on customer acquisition or retention (actions to retain behavioral loyalty)

“A retained customer is not necessarily a loyal customer,” Retention also takes the form of an inducement to stay with the brand under unfavorable circumstances. If you call up your telecom or Internet provider to cancel, they will undoubtedly offer some deal to keep you. Even if you remain retained, you are not very loyal and even may be a negative brand influence on people in your social circle.

[Knowing the Difference Between Loyalty and Retention Programs](#)

- it costs five times more to get new customer than to maintain the one you already have (?)

No business can afford to lose customers, if only because it costs much more to replace a customer than it does to retain one—five times more, most industry experts agree.

HART, Christopher W.; HESKETT, James L.; SASSER JR, W. Earl. The profitable art of service recovery. *Harvard business review*, 7-8/1990

- Many studies suggest a direct link between satisfaction and loyalty and companies able to maintain customers are more successful

Nordstrom, Federal Express, IBM, The Morgan Bank, Frito Lay, American Express, McDonald's, Disney, and all too few others seem to understand that service pays. The PIMS [Profit Impact of Market Strategy] data base once more provides decisive support. It split a sample of firms into those rated as better and those rated as worse than average on service --by their customers. The better the performers on service charged about 9 percent more for their goods. They grew twice as fast as well, and picked up market share at 6 percent a year, while the also-rans lost share at 2 percent a year... ...It costs five times more to go out and get a new customer than it does to maintain a customer you already have. PETERS, Tom. *Thriving on Chaos: Handbook for a Management Revolution*. HarperBusiness. 1987

Satisfaction–Loyalty link

- However other studies indicate otherwise KEININGHAM, Timothy L., et al. *Loyalty myths: hyped strategies that will put you out of business--and proven tactics that really work*. John Wiley & Sons, 2005.
 - Focus on retention requires less marketing communications expenditures(?)
 Advertising and promotion are not simply about inducing first time purchases. Much of advertising is about reinforcing brand imagery and maintaining awareness among current customers of the brand. And while some firms promotionally “price to lose” to attract new customers in the short-term, typically such promotions are enjoyed by both prospective and current customers.
 - Simplified perspective does not include product/industry life cycle context
 The assertion ignores the lifecycle of products, services, and institutions. When firms are in their introductory and growth phases allocations to acquire customers will be substantial. The customer acquisition-retention cost ratio will typically be heavily weighted to acquisition. Conversely, when products or firms are in the decline phase, allocations required to retain customers will be substantial, making the typical acquisition/retention cost ratio weighted heavily to retention.

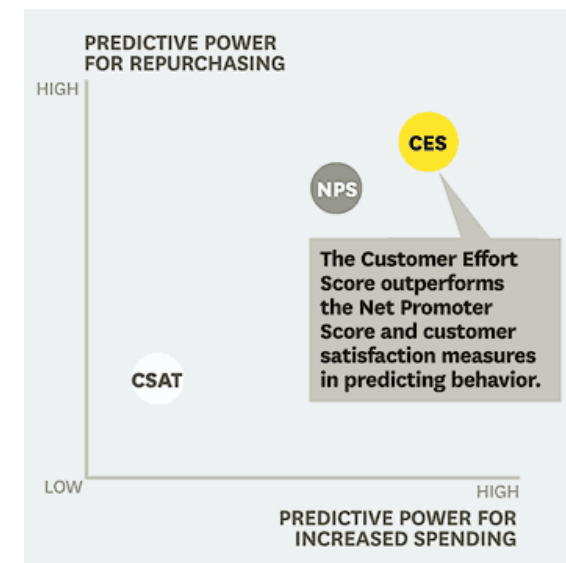
According to conventional wisdom, customers are more loyal to firms that go above and beyond. But our research shows that exceeding their expectations during service interactions (for example, by offering a refund, a free product, or a free service such as expedited shipping) makes customers only marginally more loyal than simply meeting their needs.

89 of the 100 customer service heads we surveyed said that their main strategy is to exceed expectations. But despite these Herculean—and costly—efforts, 84% of customers told us that their expectations had not been exceeded during their most recent interaction.

...managers often assume that the more satisfied customers are, the more loyal they will be. But, like others before us, we find little relationship between satisfaction and loyalty. Twenty percent of the “satisfied” customers in our study said they intended to leave the company in question; 28% of the “dissatisfied” customers intended to stay.

DIXON, Matthew; FREEMAN, Karen; TOMAN, Nicholas. *Stop trying to delight your customers. Harvard Business Review*, 2010, 88.7/8: 116-122.

We evaluated the predictive power of three metrics—customer satisfaction (CSAT), the Net Promoter Score (NPS), and a new metric we developed, the Customer Effort Score (CES)—on customer loyalty, defined as customers’ intention to keep doing business with the company, increase the amount they spend, or spread positive (and not negative) word of mouth. Not surprisingly, CSAT was a poor predictor. NPS proved better (and has been shown to be a powerful gauge at the company level). CES outperformed both in customer service interactions.



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Pricing strategy

Pricing strategy

- The only element of marketing mix that produces revenue
- Can be quickly (in comparison with other components of marketing mix) adjusted
- Marketing mix (and thus price) is a tactical tool, pricing also includes a strategic perspective

- Is not just a simple exchange of goods for money

In recent years business increasingly has been viewed as a major cause of social, environmental, and economic problems. Companies are widely perceived to be prospering at the expense of the broader community. A big part of the problem lies with companies themselves, which remain trapped in an outdated approach to value creation that has emerged over the past few decades. They continue to view value creation narrowly, optimizing short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine their longer-term success. Companies must take the lead in bringing business and society back together. Societal needs, not just conventional economic needs, define markets, and social harms can create internal costs for firms.

Recommended reading: PORTER, Michael E.; KRAMER, Mark R. [Creating shared value](#). *Harvard business review*, 1/2011

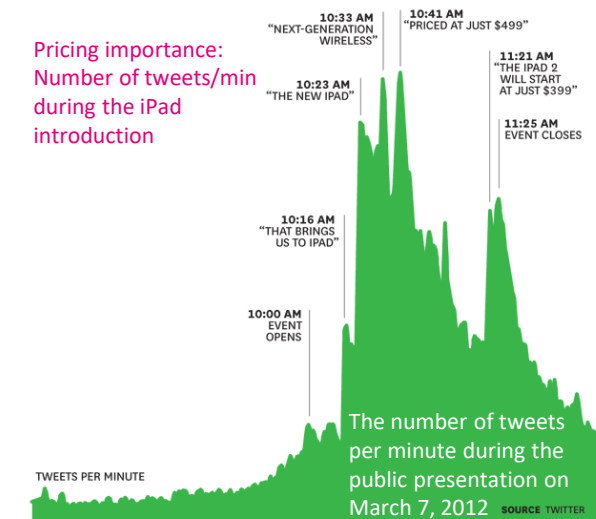
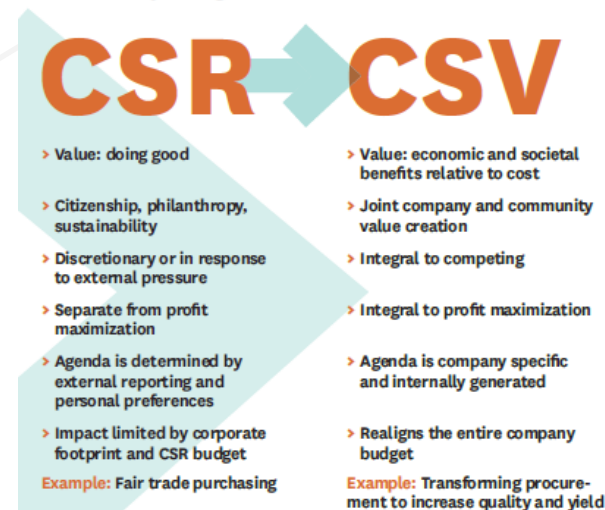
- Pricing must include also other important aspects

The way most companies make money is not just broken; it's destructive. Today's consumers are not passive price takers. They root out and disseminate information about a firm's prices, exploiting social media platforms to publicize policies that they believe are unfair. And they don't hesitate to abandon companies that cross the line.

A firm's brand communications may say, "We value you as a person," but its pricing practices often say, "We value you as a wallet." Traditional pricing strategy is by definition antagonistic, but it needs to become a more socially conscious, collaborative exercise. Businesses should look beyond the dry mechanics of "running the numbers"—still relevant but no longer sufficient—and recognize that humanizing the way they generate revenue can open up opportunities to create additional value. That means viewing customers as partners in value creation—a collaboration that increases customers' engagement and taps their insights about the value they seek and how firms could deliver it. The result is a bigger pie, which benefits firms and customers alike.

BERTINI, Marco; GOURVILLE, John T. [Pricing to create shared value](#). *Harvard Business Review*, 6/2012

Creating shared value (CSV) should supersede corporate social responsibility (CSR) in guiding the investments of companies in their communities. CSR programs focus mostly on reputation and have only a limited connection to the business, making them hard to justify and maintain over the long run. In contrast, CSV is integral to a company's profitability and competitive position. It leverages the unique resources and expertise of the company to create economic value by creating social value.



Pricing Strategy

- Companies do not pay that much attention to pricing as they should

Fewer than 5% of Fortune 500 companies have a full-time function dedicated to pricing. Fewer than 15% of companies do systematic research on this subject. Numerous studies have confirmed that pricing has a substantial and immediate effect on company profitability. Studies have shown that small variations in price can raise or lower profitability by as much as 20% or 50%.

Recommended reading: HINTERHUBER, Andreas; LIOZU, Stephan. [Is it time to rethink your pricing strategy](#). *MIT Sloan Management Review*, 2012, 53.4: 69-77.

Some companies are good in price setting (customer value-based pricing), some are good in price realization (convince customers about the value delivered). Price realization failures – [Pricing leakage](#)

NEXT STEPS FOR IMPROVING PRICING CAPABILITIES

Regardless of industry, it's almost always possible for companies to improve their pricing capabilities.

PRICING MATURITY LEVEL	STRENGTHS	CHALLENGES
Pricing Power Zone	Excellent capabilities in price orientation and price realization	Manage costs and complexity; ensure sustainability and innovation in pricing.
Value Surrender Zone	Good price orientation capabilities	Improve consistency of price realization; focus sales personnel on price realization.
Price Capture Zone	Good price realization capabilities	Quantify and capture customer willingness to pay through customer value-based pricing.
Zone of Good Intentions	Some advantages in price orientation and price realization	Increase customer orientation; further improve pricing capabilities.
White Flag Zone	No significant strengths in either price orientation or price realization	Increase executive awareness and sponsorship of pricing; improve pricing capabilities.

THE PRICING CAPABILITY GRID

While competition, costs and price sensitivity within a market affect the parameters within which companies set prices, superior pricing is almost always based on skill. In particular, the companies we found that had achieved better pricing all had top managers who championed the development of skills in price setting (price orientation) and price getting (price realization).



- Price represents the (customers) value
 - It comes in many forms (rent, tuition, fares, fees, rates, tolls, retainers, wages, and commissions)
- Most of history – individual prices set by negotiation between buyers and sellers
 - One price for all since the end of the 19th century and the development of large-scale retailing

Octavia Hatch



Octavia Hatch

- The new third-gen Octavia
- Wide range of 'Simply Clever' solutions
- Innovative safety, comfort and driver assistant systems

boot space 590 l / 1580 l up to* 74.3 mpg CO₂ from 99 g/km

* Standard EU Test figures for comparative purposes and may not reflect real driving results. Click [here](#) for more information.

from £16,310 BMW 3 SERIES OVERVIEW.

The BMW 3 Series models combine the pleasure of driving and practicality for daily use, ranging from the BMW 3 Series Saloon, BMW 3 Series Touring and BMW 3 Series Gran Turismo.



BMW 3 Series Saloon
from £ 23,550.00



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from £ 24,865.00



BMW 3 Series Gran Turismo
from £ 29,200.00



BMW X3
from £ 30,865.00



BMW ActiveHybrid 3
from £ 40,680.00

Pricing Strategy



Strategic perspective

Recommended reading: MICHEL, Stefan. [Capture More Value](#) Harvard Business Review 10/2014

- When common (cost-, competition- or customer value-based) approaches don't work
 - Alternatives to pricing
 - Auctioning – can result in prices that don't please the seller but must be honored nonetheless, But can also bear prices the seller would never have had ask
 - Demand-driven pricing – fluctuations in aggregate demand drive the changes of price (hotel, car rentals, flight tickets, ...)
 - Pay what you want, name your price
 - Changing the payer
 - There are not only two-sided markets (buyer–seller)
 - Metro paper – advertisers are the sole payers
 - Changing the price carrier
 - Product is for “free”, the costs are covered by other products (often bundling as well); Free Wi-fi at McDonald's, pre-paid services (Spotify, Netflix)
 - Changing the timing
 - Purchase now pay later, “desynchronized” exchange; (cheap) printers and (expensive) ink, (cheap) Gillette starting kit and (expensive) blades
 - Changing the segments
 - Address another segment by new offerings (often just a new brand; the product remains the same/similar) without weakening product value proposition to the others
 - Instead of low prices for everyone – coupons for those who want to bother with coupon finding, checking, its validity, presenting coupons at checkout, ...

Having implemented it in five nonprofit “community cafés” over three years, Panera reports that although 20% of customers pay less than the suggested donation (and sometimes nothing), another 20% pay more.



When the price cannot be changed:

- Introduce smaller packaging
- Lower quality (plastic parts instead of metal ones)
- Adjust conditions of sale (cancel free delivery)
- Backward-costing – set the price and try to develop best achievable product



Pricing Strategy



Tactical perspective

- When common (cost-, competition- or customer value-based) approaches don't work

- Ways how to make expensive product look like a steal

- Introduce a more expensive product

Williams-Sonoma had a \$275 bread maker listed in their print catalog, and almost no one was buying it. When they introduced a similar bread maker for \$429 and positioned it next to the \$275 bread maker, sales of the \$275 bread maker nearly *doubled*.



- Divide a larger fee

- daily or monthly Prices instead of annual

- compare expensive product to something tangible

Pro \$99/month Billed Annually	Plus \$49/month Billed Annually	Standard \$19/month Billed Annually	Basic \$9/month Billed Annually
All you'll ever need	Most Popular	For growing businesses	Starting out
Start Your FREE Trial	Start Your FREE Trial	Start Your FREE Trial	Start Your FREE Trial

- Increase the perception of value

Dyson has claimed 27% market share in the U.S. vacuum cleaner space with their story of the years of thinking and experimentation that went into redesigning vacuums and the patents that were obtained. They detail everything behind their products on their About page, explicitly referencing the following:

5 years of prototyping

5,127 prototypes

Experiments held in "development laboratories"

1,000 Dyson engineers and scientists in Britain, Singapore, and Malaysia

Engineers in disciplines like Fluid Dynamics, Aerodynamics, Turbo Machinery, and Acoustics

And their product sales pages focus heavily on the patents behind their products:

Ultra-lightweight, compact and easy to steer.

DC29 Multi Floor has patented Dyson cyclone technology for no loss of suction.



DC29 Multi Floor
• Earn 25 AIR MILES® reward miles with this machine
• Free shipping
• 5 year warranty
\$499.99
[Add to basket](#)
f t i

Root Cyclone™ technology
Patented Dyson technology for no loss of suction.



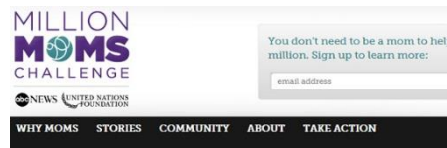
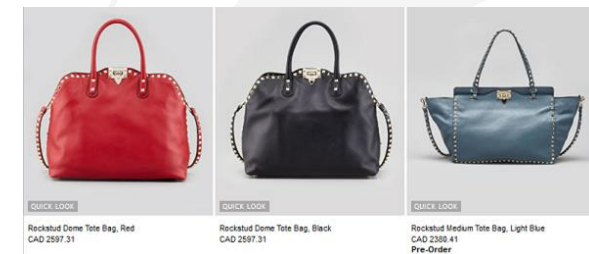
DC29 Multi Floor Features
• Root Cyclone™ technology
• Ball™ technology
• Designed for ease of use
• Motorized brush bar
[Learn more](#)

Useful links
• Support
• Register your machine
• What's in the box

- Remove the currency sign and make the number visually smaller

- Emphasize that previous customers (influencers) have accepted the price

[9 Ways to Make Your Expensive Product Look like a Total Steal](#)



Saving A Baby's Life, For Less Than The Price Of A Cup Of Coffee




Trusted by over 1 million users. All plans have a 7-day free trial

Forever Free Plan	Months to Month	Yearly (com. unit)
<p>30 DAY TRIAL</p> <p>Guys + Flashcard Bundles</p> <p>Number of flashcards: 10</p> <p>No Advertisements: <input checked="" type="checkbox"/></p> <p>Create Quizzes: <input checked="" type="checkbox"/></p> <p>Branding: <input checked="" type="checkbox"/></p> <p>Private & Security: <input checked="" type="checkbox"/></p> <p>Support: <input checked="" type="checkbox"/></p>	<p>Free (ad supported)</p> <p>\$0 forever</p> <p>Sign Up</p>	<p>Professional (ad supported)</p> <p>\$9.97 per month</p> <p>Sign Up</p>

Pricing strategy – Factors

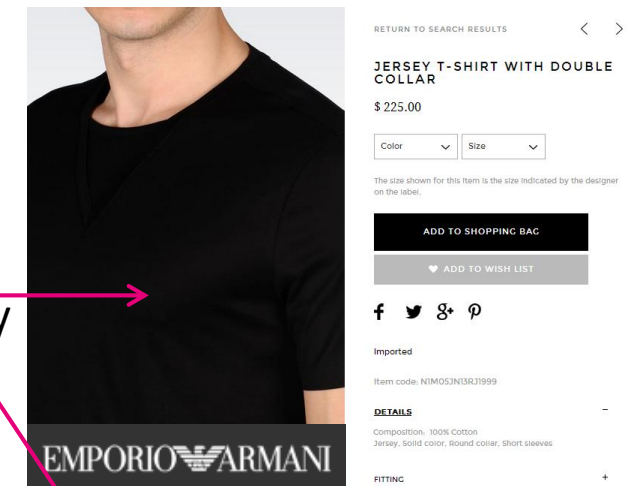
1. Psychological factors

- Product value can be based not only on quality, materials, utility but also on price
- Some prices have psychological impact, being perceived as significantly lower than they actually are
- Reference pricing – as a base for comparison – “fair” price, usual price, recent price, historical prices, expected price, price estimates, ...

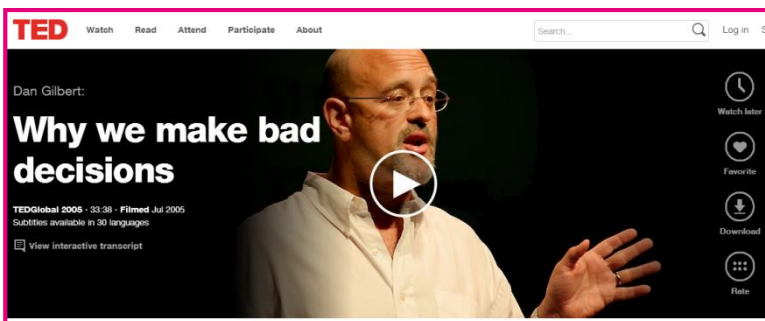
 e-Bay bidders are not willing to bid that high if they are aware there are also other auctions running
 WOLK, Agnieszka; SPANN, Martin. [The effects of reference prices on bidding behavior in interactive pricing mechanisms](#). *Journal of Interactive Marketing*, 2008, 22.4: 2-18.



Customer confusion – what is the reference price?
 Price per kg and per piece? Is pepper for 12 CZK expensive or not (~ 70 CZK per kg in another store at the same time)



Dan Ariely – When Free is Dangerous

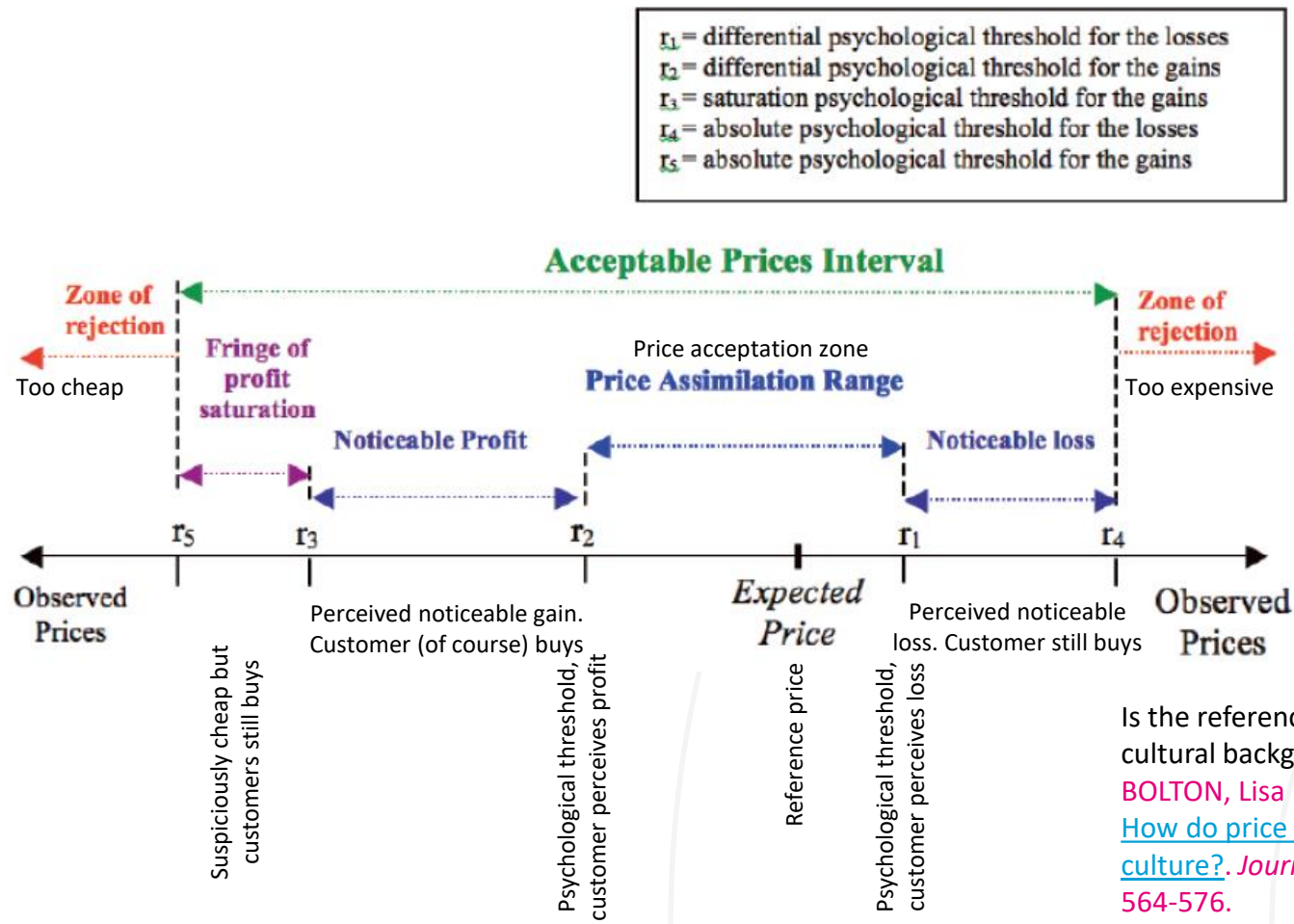


Pricing strategy – Factors

- The price is perceived as a sign of quality – especially when the customer doesn't have any other information available
 - Comparison with reference price
 - There are other thresholds that influence whether the price is accepted or not

Suri, R., & Monroe, K. B. (2003). The effects of time constraints on consumers' judgments of prices and products. *Journal of consumer research*, 30(1), 92-104.

Erdem, T., Mayhew, G., & Sun, B. (2001). Understanding reference-price shoppers: a within-and cross-category analysis. *Journal of Marketing Research*, 38(4), 445-457.



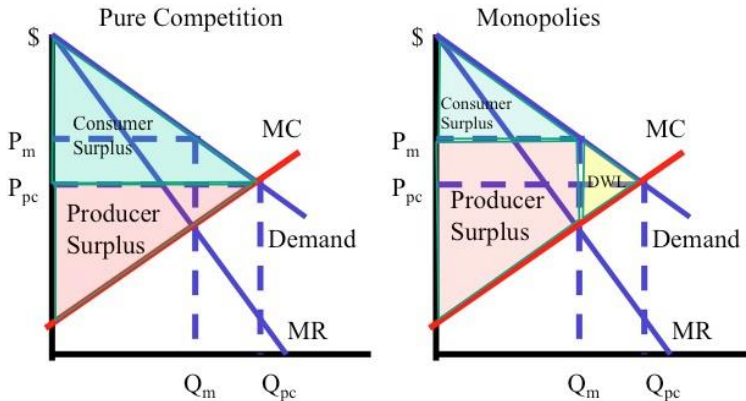
Is the reference price influenced by customer's cultural background?

BOLTON, Lisa E.; KEH, Hean Tat; ALBA, Joseph W. [How do price fairness perceptions differ across culture?](#). *Journal of Marketing Research*, 2010, 47.3: 564-576.

Pricing strategy – Factors

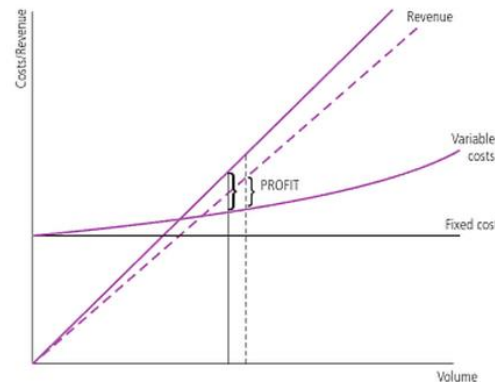
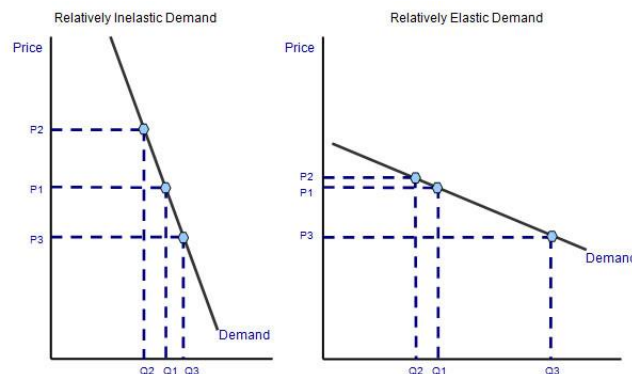
2. Market/Industry

- Type of competition (monopoly, oligopoly, perfect competition)

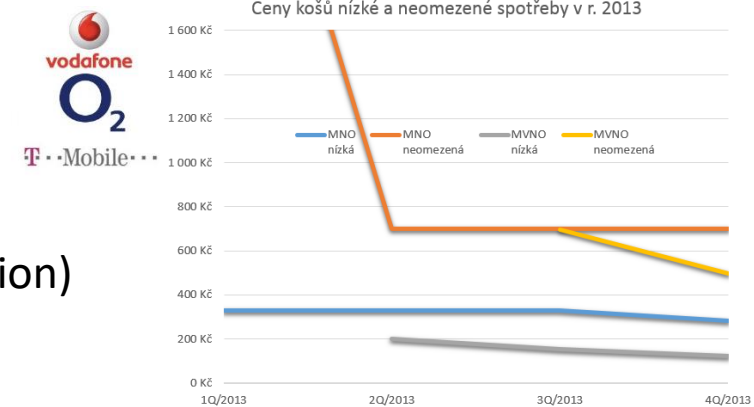


- Price makers, price takers
- Competition intensity; direct, non-direct; price, non-price competition

- The nature of demand (elasticity)



Some Patek Philippe watches (especially the Nautilus Stainless Steel) and Rolex (especially the Daytona Stainless Steel in black) are really hard to get if you try at the local authorized dealer in some regions. Even the waiting lists are long there, and it might take a year to get a certain Rolex sport model. For the 50th birthday of the Submariner Rolex launched the 16610 LV a few years ago with a green bezel. The prices of second-hand watch sales exploded up to more than 25 percent higher than the original list price. [Wrist Watch Brands & Models Of High Value](#)

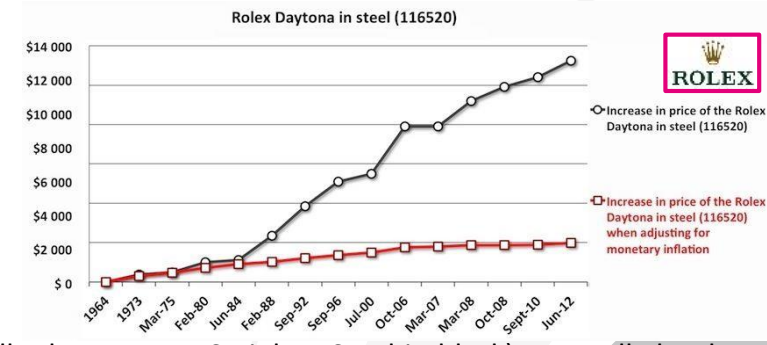


The effect of unlimited flat tariffs introduction on Czech mobile market in April 2013. [Tarify pro domácnosti a virtuální operátoři v ČR 2013](#)



Hyundai executives seemed to understand what many leaders fail to grasp—emotional storytelling was the key to connecting with customers. In 2009, during the depths of the recession, Hyundai launched the “assurance program,” a one-year promise to buy back a new Hyundai should the customer lose their job. It humanized the automaker. The buyback program ended in 2011, but the “assurance” label stuck and now defines what the carmaker calls “America’s best warranty.” [How Hyundai's New CEO Taught Me To Create An Irresistible Brand Story](#)

How And Why Rolex Prices Have Increased Over Time



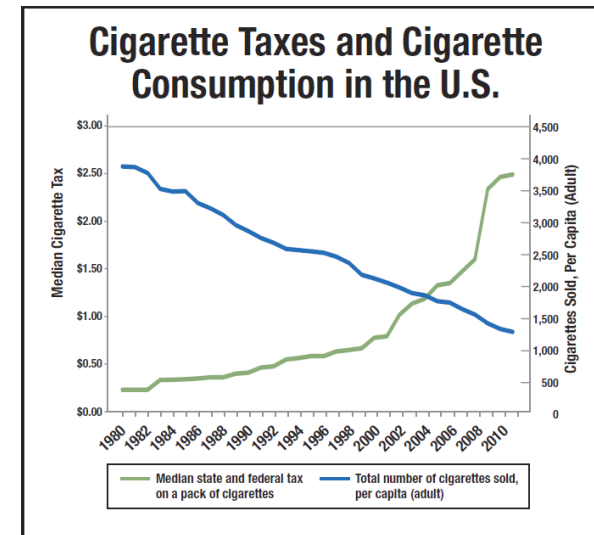
Pricing strategy – Factors

3. Law and governmental conditions

— Taxation, customs duties

The empirical evidence clearly indicates that higher tobacco taxes will significantly reduce cigarette smoking and other tobacco use

CHALOUPKA, Frank J. How effective are taxes in reducing tobacco consumption?. In: *Valuing the Cost of Smoking*. Springer Netherlands, 1999. p. 205-218.



SOURCES: AMERICAN LUNG SOCIETY; CENTERS FOR DISEASE CONTROL; AND THE TAX BURDEN ON TOBACCO, BY ORZECZOWSKI & WALKER

In a major setback to auto industry, Finance Minister Arun Jaitley has announced a hike in the customs duty on commercial vehicles. The FM increased the duty to 40 percent from the current 10 percent. However, on the brighter side, to give a boost to the government's green theme he has waived off duty on electric & hybrid vehicles. Furthermore, the FM has allocated Rs 75 crore for electric vehicles. Auto analysts do not see this benefitting domestic CV majors like Tata Motors and Ashok Leyland in a big way. That is because it affects only the high end hydraulic power steering CVs produced by players like Volvo and Mercedes. According to CNBC-TV18, only 500-1000 high HP CVs are imported annually.

[Union Budget 2015: Customs duty on commercial vehicles raised to 40% from 10%](#)

On June 24, 2009, President Obama signed into law the Car Allowance Rebate System (CARS, commonly known as 'Cash-for-Clunkers'), one of several stimulus programs whose purpose was to shift expenditures by households, businesses, and governments from future periods when the economy is likely to be stronger, to the present when the economy has an abundance of unemployed resources that can be put to work at low net economic cost.

Critics of the CARS program argued that it would have little ultimate effect because most of the purchases under the program would have happened soon anyway - they were merely 'pulled forward' from the following few months.

A plausible interpretation of the available data, in fact, is that many of the CARS sales were to the kinds of thrifty people who can afford to buy a new car but normally wait until the old one is thoroughly worn out. [Did 'Cash-for-Clunkers' work as intended?](#)

Thanks to EU roaming rules, the cost of making and receiving calls when abroad in the EU is now substantially cheaper than in 2007, when the EU first started to tackle excessive roaming charges. [Roaming Tariffs](#)



Data Roaming

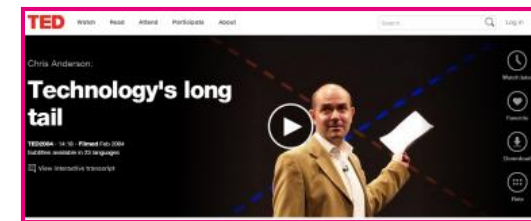
ON

Turn off data roaming when traveling to avoid charges when web browsing and using email and other data services.

Pricing strategy – Factors

4. Industry life cycle

- Initial stage (hi-tech, innovative products) high costs – skimming, initial high prices and then lowering the price over time (temporal price discrimination)



Cheaper Viewing
The annual drop in the median price of disc players:

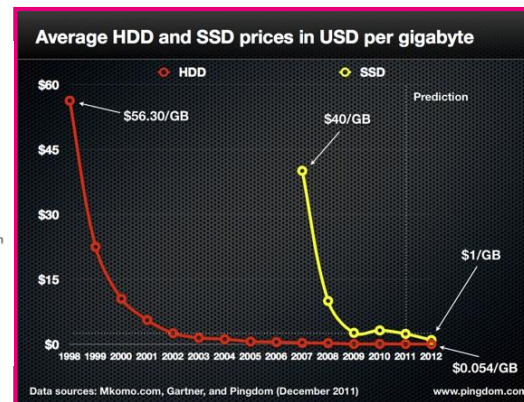
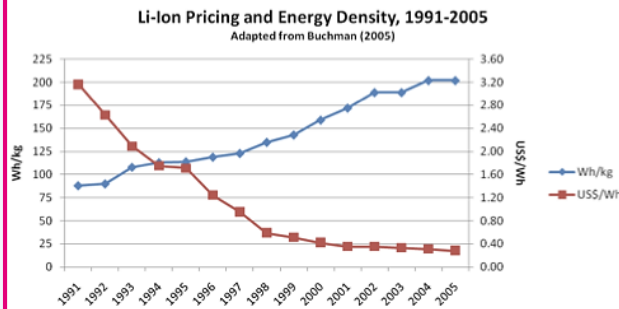
DVD players, launched May 1997

Initial price	\$840
Year 1 ('98)	\$571
Year 2 ('99)	\$467
Year 3 ('00)	\$345
Black Friday ('00)	\$248

Blu-ray players, launched May 2006

Initial price	\$800
Year 1 ('07)	\$497
Year 2 ('08)	\$388
Year 3 ('09)	\$322
Black Friday ('09)	\$221

Source: The Envisioneering Group



Gradual reduction of DVD and Blu-ray prices over time. Similar to HDTV (Sony, 1990 – 43.000 USD, 2006 – 600 USD)



In 2007 two months after introduction, Apple lowered the price of iPhone. Current customers got angry since they paid 200 USD more just a few week before. [Steve Jobs had to apologize \(including 100 USD voucher\)](#). [Price Skimming's Unintended Consequences](#)



- Skimming is risky when competition enters the market or when the prices change dramatically
- When entering a well developed market (without hi-tech product) the goal might be [market penetration](#) – low initial prices strategy
 - Aim to become market leader, [experience effect](#), economies of scale, [cost leadership](#)

this will be Google's final Nexus tablet. It wouldn't be the first time we've heard a rumor like that, with earlier reports stating Google will eventually look to sunset the Nexus line. The stated cause? Because the Nexus tablets were only ever made to boost market penetration for Android tablets, and now that they're beginning to beat out the iPad in sales that task is reportedly checked off as complete.

[HTC said to be responsible for upcoming 8-inch Nexus tablet, could be Google's last one](#)



nexus
The playground is open

Pricing strategy – Factors

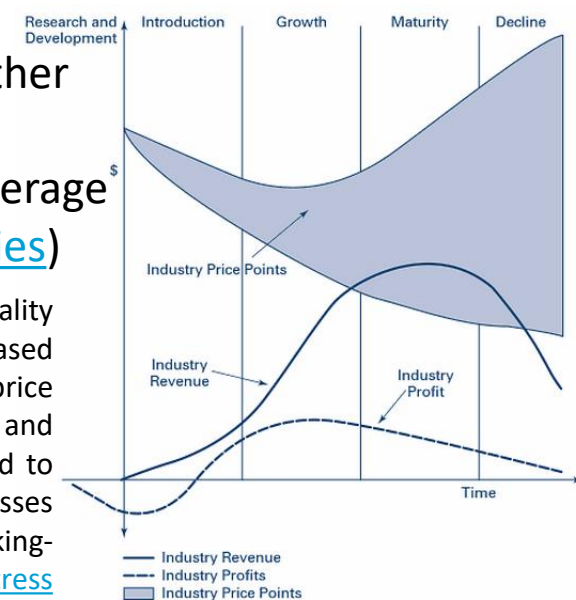
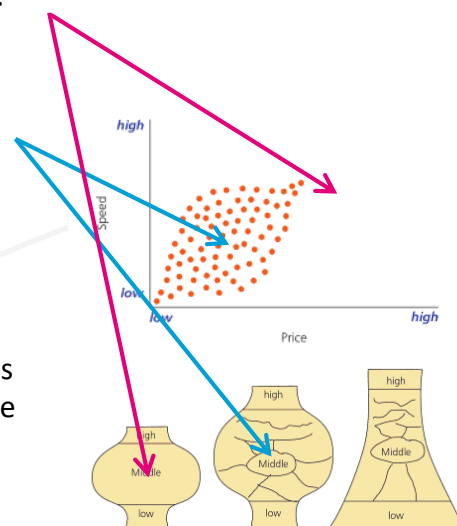
- Growth – costs decrease, competition enters the market, pressure to lower prices to attract new customers (and keep current customers)
- Maturity – intensive competition, production volume rises, intensive marketing communication, market segmentation, differentiation and distribution optimization; weaker competitors leave the market – might be an opportunity to even rise the prices (for specialized products or [services](#))

My price point puts myself rather low on the value chain. As the field of SEO has grown and my share of voice has grown I have attracted far too many wankers. Potential changes may include any of the following: increasing price point to \$299 to filter out many of the wankers

[SEO Book changing business model](#)

- Decline – most of the companies try to harvest the market and leave. Some companies stay on the market and focus on cost leadership through economies of scale of experience effect – consolidation. Usually another price decline. However less companies left in the industry, advanced segmentation, targeting profitable market nichés can even lead to average price increase (industry restart, fashion or fads, [repositioning strategies](#))

Consumers have shown an increasing willingness to spend more money on mattresses of a higher quality and provide extra comfort to achieve a better night's sleep. The average price for a mattress has increased from \$92 in 1990 to \$239 in 2010, representing an average annual growth rate of 5%. This increasing price point trend is primarily the result of: (1) an industry shift towards specialty mattresses, such as foam and air mattresses, which were sold at wholesale for an average of \$537 per mattress in 2010 compared to \$201 for a traditional innerspring mattress, (2) consumers desiring more expensive innerspring mattresses that have enhanced technology and comfort features, and (3) an increase in the sale of queen- and king-size mattresses as a percentage of total mattress units sold. [Will You Sleep Well With This Mattress Retailer?](#)



Pricing strategy – Factors

5. Product life cycle

- Difficult to determine the stage of the life cycle
- Different objectives in different life cycle stages
- Form more see [product life cycle](#)

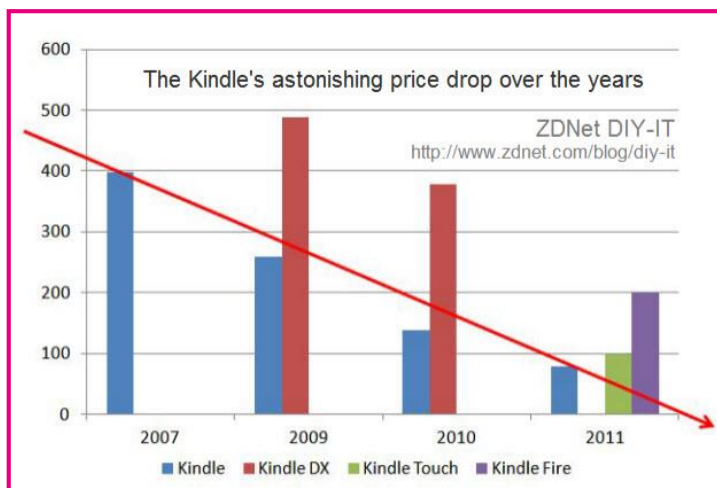
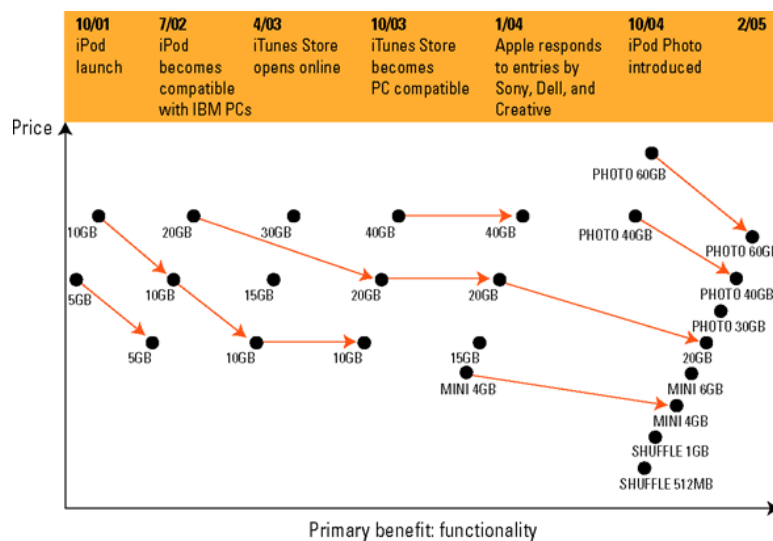


Figure 1. Product life cycle pricing

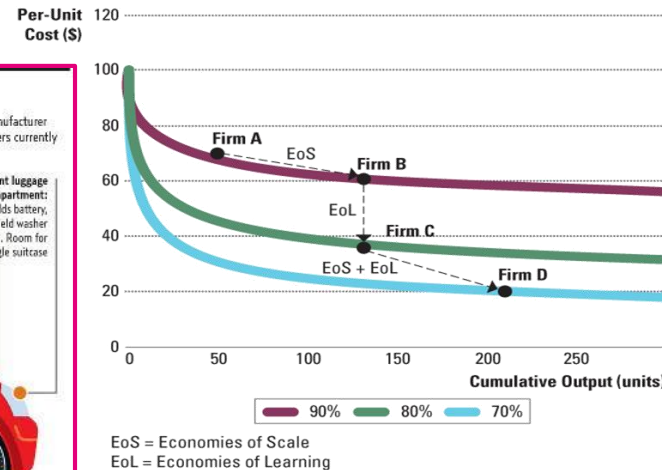


D'Aveni, Richard. A. [Mapping Your Competitive Position](#). Harvard Business Review 11/2007

Pricing strategy – Factors

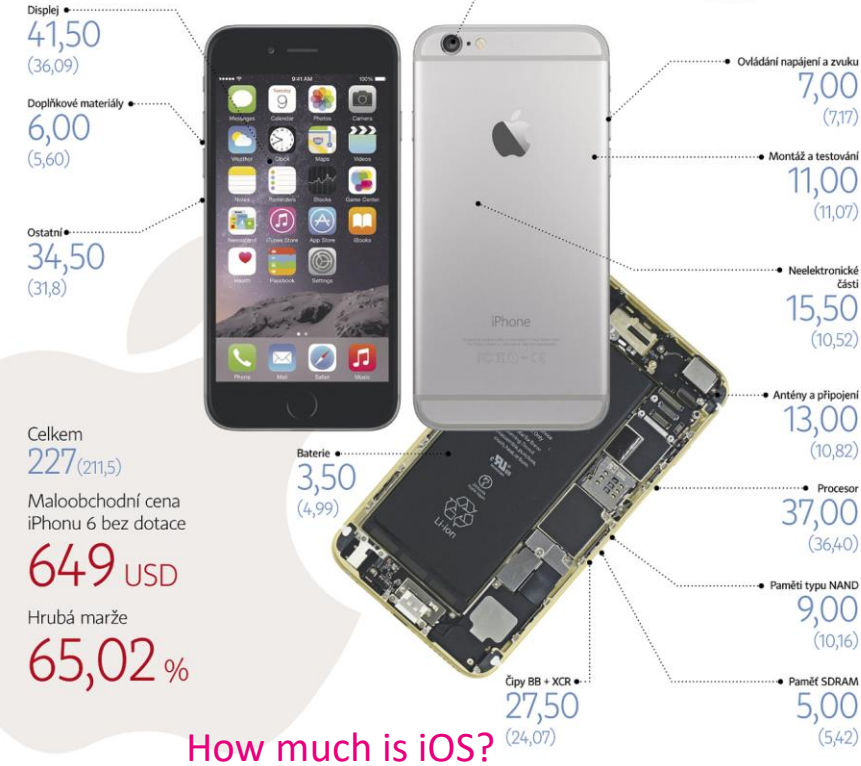
6. Internal factors

- Costs, economies of scale, experience effect



NÁKLADY NA JEDNOTLIVÉ ČÁSTI IPHONU 6

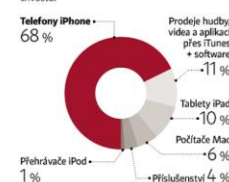
(odhadované údaje v amerických dolarech, v závorce cena u předchozí verze 5s)



Apple sám nezveřejňuje přesná čísla, odhady analytiků ceny jednotlivých částí iPhone se však téměř shodují. Části marže firmy a jejich prodejců pak záleží především na obchodních dohodách. Dlouhodobě nejvyšší je v Japonsku.

Podíl předchozího iPhone 5s na zisku Apple za finanční rok 2014

Apple je stále především hardwarová společnost. Prodej zařízení tvoří 85 procent jejich zisků a 84,9 procenta příjmů. Hlavním tahounem je iPhone, zatímco přehrávače iPod, se kterými Steve Jobs odstartoval novou éru firmy, dnes zůstávají na chvilku.

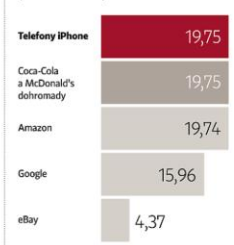


Rozdělení příjmů Apple podle regionů (údaje za první čtvrtletí 2014)

(v procentech)



iPhone jako samostatná společnost v porovnání čtvrtletního obrátu (v miliardách dolarů)



Company can have a non-price objectives – i.e. introduction of unlimited plans in 2013 in Czech republic? How did it influence the acquisition of O2 mobile carrier by PPF group? např. uvedení neomezených tarifů v roce 2013? What about EU regulations? How difficult is to manage hundreds of historical and obsolete plans in the information systems? How is the market influenced by entry of virtual mobile carriers?

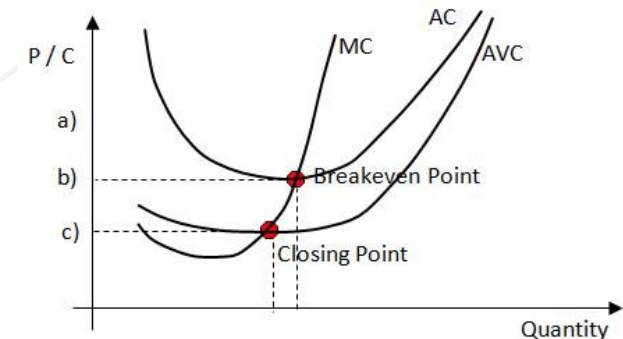
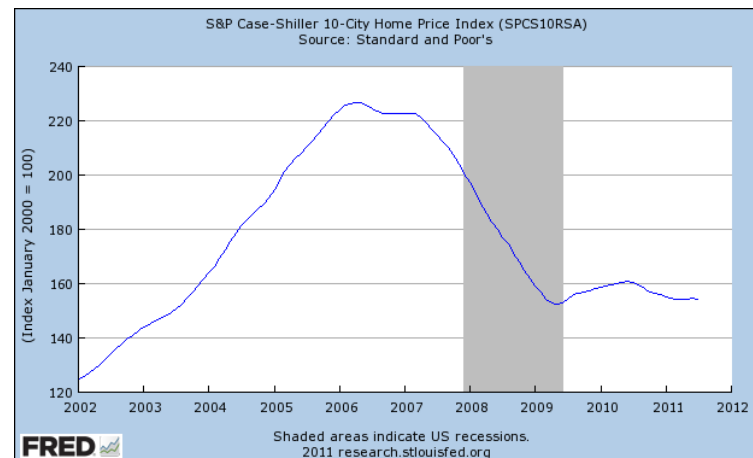
- Costs must be considered when setting the prices. However customers don't care about company costs at all

Pricing strategy – Factors

— Company objectives

- Survival – short-term objective when i.e. the company is not able to utilize production capacity, on highly competitive markets, in time of crisis, ... company operates between closing and breakeven points

Construction industry in times of crisis (US, but in CR as well)



- Financial goals – profit maximization, return of investments or reaching markup (i.e. higher than industry average)

$$\text{Unit cost} = \text{variable cost} + \frac{\text{fixed cost}}{\text{unit sales}} = \$10 + \frac{\$300,00}{50,000} = \$16 \quad \text{Markup price} = \frac{\text{unit cost}}{(1 - \text{desired return on sales})} = \frac{\$16}{1 - 0.2} = \$20$$

$$\text{Target-return price} = \text{unit cost} + \frac{\text{desired return} \times \text{invested capital}}{\text{unit sales}} = \$16 + \frac{.20 \times \$1,000,000}{50,000} = \$20$$

- Markup pricing is common in restaurants, but also in pharmacies (in CR by law)

- Not a very suitable method, since it doesn't consider demand; however it is pretty common approach

Pricing strategy – Factors



- Perceived value pricing
 - In recent years some companies adopted value pricing – fairly low prices but high quality offerings

Silverstein, M. J., & Fiske, N. (2003). [Trading up to new luxury. Opportunities for action in consumer markets.](#) Boston Consulting Group

PACCAR

maker of Kenworth and Peterbilt trucks, able to charge 10 % premium through continuous innovations, increasing reliability, fuel efficiency, hybrid technologies – third largest truck manufacturer worldwide, Fortune 500, success on emerging markets ... [China Develops a Taste for Expensive Trucks](#)

CATERPILLAR®

[Caterpillar is absolutely crushing it](#)

\$90,000	is the tractor's price if it is only equivalent to the competitor's tractor
\$7,000	is the price premium for Caterpillar's superior durability
\$6,000	is the price premium for Caterpillar's superior reliability
\$5,000	is the price premium for Caterpillar's superior service
\$2,000	is the price premium for Caterpillar's longer warranty on parts
\$110,000	is the normal price to cover Caterpillar's superior value
– \$10,000	discount
\$100,000	final price

- Value pricing (not necessarily low-prices)
 - EDLP (everyday low-pricing) – constantly low prices with little or no promotions or sales to eliminate customers uncertainty
 - high-low pricing – high prices on everyday basis but frequent promotions and temporarily sales; often with bait-pricing, leads to brand and value erosion, customers wait for sales

Gillette®

Gillette and [product innovations](#)



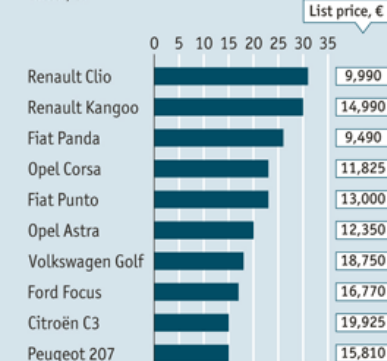
1992 study – only 26 % US retailers EDLP, 74 % Hi-Lo, 10% EDLP category price decrease led to a 3% sales volume increase, whereas a 10% Hi-Lo price increase led to a 3% sales decrease. An everyday price reduction of 10% requires a sales increase of over 39% in order to maintain existing profit levels HOCH, Stephen J.; DREZE, Xavier; PURK, Mary E. EDLP, Hi-Lo, and margin arithmetic. *The Journal of Marketing*, 1994, 16-27.

- Retailers but also Italian or French car manufacturers



Wheel deals

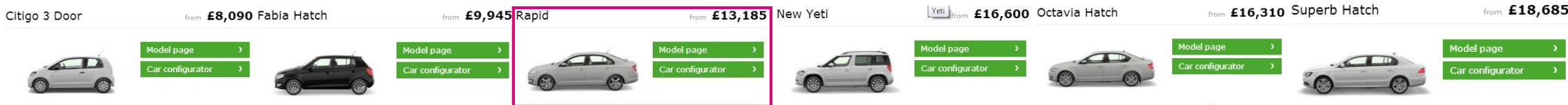
Car discounts, Germany, selected models
Latest, %



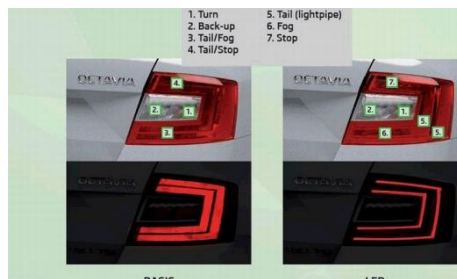
Source: Guter Rat magazine

Product Lines Pricing

- Product lines pricing
 - Considering product line length (number of products in the line)



- Considering product line depth (versions offered of each product in the line)



How costly is plastic cladding and underbody protection for Octavia Scout? Are the LED lights (or power windows) really that much costly than bulb lights (manual windows)?

Octavia Estate - List prices

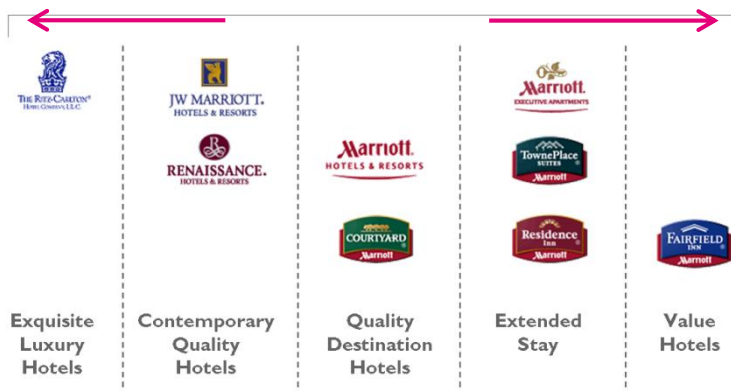
List prices · Business prices · Motability scheme and prices



List Prices

SE 2.0 TDI CR 150PS 4X4	124	D / £0	£18,458.33	£3,691.67	19E	£22,715.00
Elegance 1.4 TSI 140PS	121	D / £0	£17,333.33	£3,466.67	19E	£21,365.00
Elegance 1.4 TSI 140PS DSG	116	C / £0	£18,375.00	£3,675.00	19E	£22,615.00
Elegance 1.6 TDI CR 105PS	99	A / £0	£18,041.67	£3,608.33	14E	£22,215.00
Elegance 1.6 TDI CR 105PS DSG	104	B / £0	£19,083.33	£3,816.67	14E	£23,465.00
Elegance 1.6 TDI CR 105PS 4X4	119	C / £0	£19,250.00	£3,850.00	14E	£23,665.00
Elegance 2.0 TDI CR 150PS	110	B / £0	£18,791.67	£3,758.33	20E	£23,115.00
Elegance 2.0 TDI CR 150PS DSG	119	C / £0	£19,833.33	£3,966.67	20E	£24,365.00
Elegance 2.0 TDI CR 150PS 4X4	124	D / £0	£20,000.00	£4,000.00	20E	£24,565.00
vRS 2.0 TSI 220PS	142	F / £140	£19,508.33	£3,901.67	29E	£24,115.00
vRS 2.0 TSI 220PS DSG	149	F / £140	£20,666.67	£4,133.33	29E	£25,505.00
vRS 2.0 TDI CR 184PS DPF	119	C / £0	£19,850.00	£3,970.00	26E	£24,385.00
vRS 2.0 TDI CR 184PS DSG DPF	129	D / £0	£21,008.33	£4,201.67	26E	£25,775.00
SE Business 1.6 TDI CR 105PS	99	A / £0	£16,500.00	£3,300.00	14E	£20,365.00
SE Business 1.6 TDI CR 105PS DSG	104	B / £0	£17,541.67	£3,508.33	14E	£21,615.00
SE Business 2.0 TDI CR 150PS	110	B / £0	£17,250.00	£3,450.00	20E	£21,265.00
SE Business 2.0 TDI CR 150PS DSG	119	C / £0	£18,291.67	£3,658.33	20E	£22,515.00

- Product line stretching – increasing number of products within an existing product range; downward or upward stretching, filling



Product Mix Pricing

- Product mix pricing strategy – maximize profit for the whole mix
 - Captive products – cannot be used without the core product. Usually the core product is priced low but high prices are placed on captive products – ink and printers, film rolls and camera, phones with contracts. Allows sellers to [make a profit off the captive products](#). If the price is too high – aftermarket offers an alternative (ink cartridge refill)

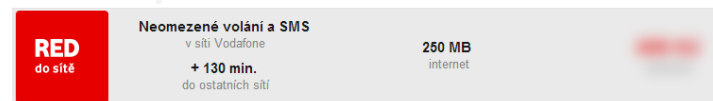


The printers used to be sold without ink. However the customers did not appreciate the additional costs to start printing. Therefore companies have introduced [starter cartridges](#) – smaller and lower-quality cartridges

- Optional feature – i.e. beverages in restaurants, again, often the [true source](#) of [profit](#). Again, if the price of optional product is too high – customers won't buy it



- Two-part pricing – cell phone plan including a limited amount of data for a monthly charge (with additional fee when exceeded the limit), a [amusement parks](#) (admission fee plus pay-as-you-go)



Product Mix Pricing

4. By-products – produced as a side-effect while producing something else



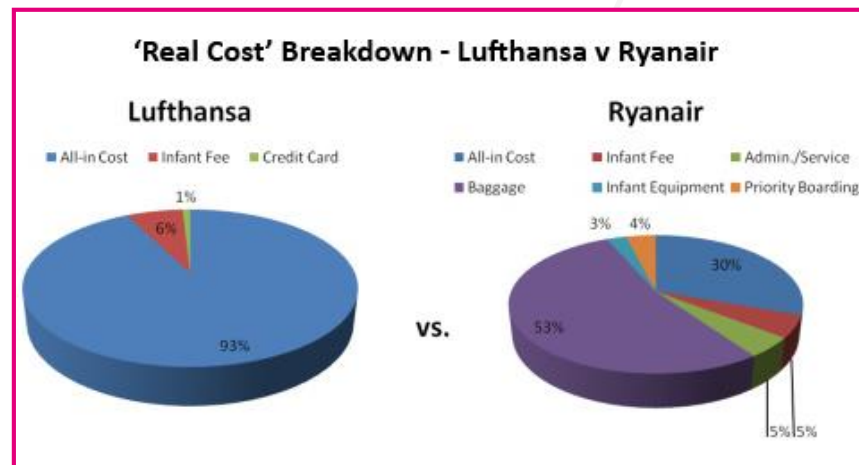
[CSR – originally named Colonial Sugar Refinery](#) – since 19. century as a sugar company. The company began to sell by-products: waste sugar cane fiber was used to manufacture wallboard. Today – one of the TOP10 Australian selling building and construction materials



Meat and Bone Meal – a by-product in food-processing industry. In some countries forbidden as animal feed (yet [still happening](#))

5. Bait-pricing – customers are “baited” by advertising low-priced product which is just limited availability. Therefore customers are pressured to “switch” to similar but higher-priced product.

Sometimes the products are not even on stock – [illegal in some countries](#).



Bundling

- Bundling – offering multiple products for sale as one combined product
 - pure bundling – customer can purchase the entire bundle or nothing – i.e. entrée and side dish in restaurant or Digital Cable TV Service Plans & Packages

- Joint bundling – two products are offered for one bundled price or leader bundling – leader product is discounted when purchased with a non-leader product



Restaurant Ambiente Churrasco-rodízio offers a salad buffet eat-all-you-can for 685 CZK/person (Spring 2014)

- mixed bundling – the products can be purchased either separately or in one bundle for a favorable price
 - For products where the demand is negatively correlated
 - MS Office, consoles and (some) games, [CD albums](#),



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PREVIEW

Download (\$24.00)

- unbundling – the bundle is sold as separate products
[game DLC](#), academic journals (JSTOR)

Základní balíčky
Hlavní programová nabídka služeb

Přemiové balíčky
Více obrazu, více tisku, více zábavy

Digital + Digital HD
Čistě a transparentně programy a služby
ZDARMA s televizním přístrojem

Ke každému placenému balíčku zároveň získáte všechny programy z balíčku Digital a Digital HD za 0 Kč měsíčně!

19 Kč/měs. Balíček Mini Hlavní balíček Vše v balíčku 179 Kč/měs. Objednat	7 Kč/měs. Balíček Flexi 7 Balíček každému na město více v balíčku 249 Kč/měs. Objednat	37 Kč/měs. Balíček Multi Hodně pořadů za málo peněz Vše v balíčku 290 Kč/měs. Objednat	56 Kč/měs. Balíček Kombi Najednodušší balíček našich zákazníků Vše v balíčku 290 Kč/měs. Objednat
61 Kč/měs. Balíček Multi HD Prostřední balíček Hodně pořadů v balíčku 494 Kč/měs. Objednat	17 Kč/měs. Balíček HD Plus Balíček pro hromadný HD Vše v balíčku 350 Kč/měs. Objednat	86 Kč/měs. Balíček Komplet Vše v jednom balíčku Vše v balíčku 1100 Kč/měs. Objednat	Nemůžete se rozhodnout? VYZKOUŠEJTE NÁS KONFIGURÁTOR PROGRAMŮ Konfigurator

extra value

meals Includes medium fries & medium fountain drink.

Large fries and large fountain drink are 0.50

500-650 Cal.* meal

1 Big Mac® 6.79 meal 9.20-11.60 meal 540 Cal.	3 Quarter Pounder® 6.79 meal 8.90-11.30 meal 510 Cal.	5 Angus Deluxe 6.89 meal 8.80-11.30 meal 780 Cal.
2 Cheeseburgers 5.89 meal 8.80-12.20 meal 600 Cal. 2 combinations	4 Double Quarter Pounder® 7.39 meal 11.20-13.60 meal 740 Cal.	

Unapologetic (Standard Explicit)
Rihanna
November 19, 2012

★★★★★ 501 customer reviews

\$11.49

Available on: Buy the CD album for \$11.49 and get the MP3 version for FREE. CD album ships first and sold by Amazon.com. Terms and Conditions

Buy MP3 Album \$11.49
Add to MP3 Cart
Or
Buy CD Album \$11.49
Includes FREE MP3 version of this album
View List and Gifting
Return a gift card or promotion code & view balance

Song Title	Time	Popularity	Buy \$1.29
1 Phresh Out The Runway (Explicit)	3:42	★★★★★	Buy \$1.29
2 Diamonds	3:45	★★★★★	Buy \$1.29
3 Numb (Explicit) (feat. Eminem)	3:25	★★★★★	Buy \$1.29
4 Purr It Up (Explicit)	2:41	★★★★★	Buy \$1.29
5 Loveeeeeee Song (Explicit) (feat. Future)	4:16	★★★★★	Buy \$1.29
6 Jump (Explicit)	4:24	★★★★★	Buy \$1.29
7 Right Now (Explicit) (feat. David Guetta)	3:01	★★★★★	Buy \$1.29
8 What Now (Explicit)	4:03	★★★★★	Buy \$1.29
9 Stay (Explicit) (feat. Mikky Ekko)	4:00	★★★★★	Buy \$1.29

Mixed bundling

- Use mixed bundling to increase profits

Lets have a restaurant selling just a cake (koláč) and fish (ryba). The cake is 8 USD, the fish 8 USD as well. The products are sold just separately.

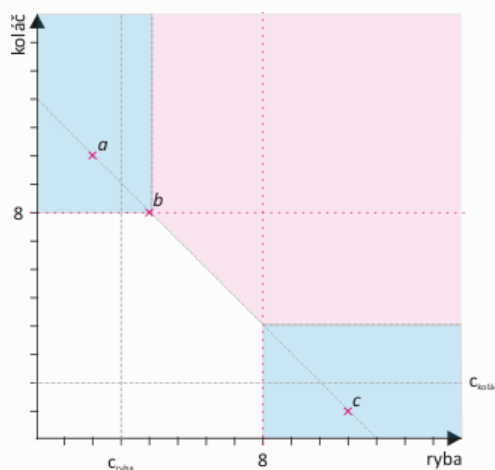
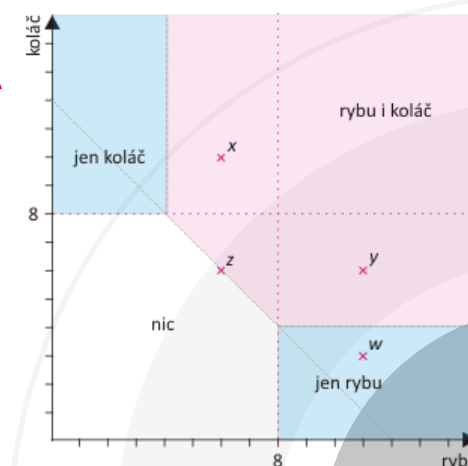
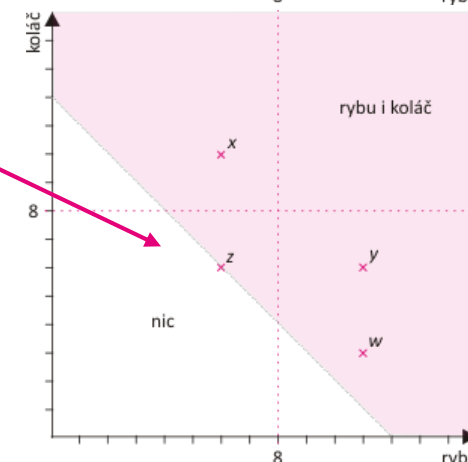
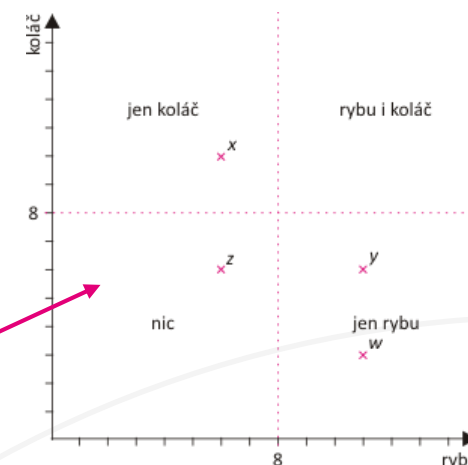
A customer buys a cake just if his reservation price (how much is he willing to pay) is higher than the price of the product. If the customer's reservation price for cake is 10 USD and 6 USD for fish, he buys just the cake (point x). If another customer values cake at 6 USD and fish at 11 USD, he buys just fish (point y). Another customer who values both products at 6 USD buys nothing (point z).

The restaurant changes the offering and decides to sell just the pure bundle (fish and cake) for 12 USD. The customer buys the bundle when his reservation price for the combination is higher than the price (all points in the colored area).

The restaurant changes the offering and decides to sell each product for 8 USD or the bundle for 12 USD. A customer buys the bundle when:

1. Reservation price of fish + Reservation price of cake > Price of bundle, or
2. Reservation price of fish > Price of bundle - Price of cake, or
3. Reservation price of cake > Price of bundle - Price of fish

For (w) the condition (3) is not met – therefore the customer buys just the fish



Consider customers a , b , c , and cost of cake 2 USD and cost of fish 3 USD

For fish and cake sold separately, the optimal price of cake is 8 USD, when both a and b buy; profit $2 \times (8 - 2) = 12$ USD and optimal price of fish is 11 USD, when just c buys the product; profit $11 - 3 = 8$, total **profit 20 USD**

For pure bundling (12 USD), all a , b and c buy the bundle, which means total **profit $3 \times (12 - (2+3)) = 21$ USD**

However for mixed bundling, the separate prices could be set even higher – cake could be 9,99 USD (a buys either; profit $9,99 - 2 = 7,99$), fish could be 10,99 (c buys anyway; profit $10,99 - 3 = 7,99$) and b chooses the bundle (profit $12 - 5 = 7$), total **profit 22,98 USD**

Mixed bundling is not always the most profitable option – it depends on unit costs, production volumes and reservation prices!

Price adjustments

1. Promotional pricing

- Loss-leader pricing – drop the price on well-known brands to stimulate additional store traffic. Manufacturers don't like much – brand value/image erosion
- Special event pricing – black Friday, back-to-school, Easter
- Special customer pricing – loyalty programme/scheme



- Cash rebates – to clear inventories without cutting the list prices
- Low-interest financing or Longer payment terms – lowering the costs of loans (interest rate) to attract customers worried about whether they can afford the monthly payment
- Warranties and service contracts – promote sales by adding free or low cost warranty
- Psychological discounting – artificially high initial prices, then offer a substantial savings – often an illegal discount tactic

Nexus 7 (2013) Price Cut By Up To \$50 Today On Woot

The discount shopping website is currently promoting a factory reconditioned version of the Nexus 7 (2013), promising to ship the refurbished Android slate in three to five business days. For the 16GB model you'll pay \$189.99 for a \$40 saving, while the 32GB model is just \$219.99 at a \$50 discount.

In Czech Republic, the prices are additionally increased before the Christmas sales. When the Christmas sales begin, the retailers introduce "discounted" prices (lowered to the previous level). This is a pretty common approach on Czech market (5,6 % cases). A real bargains occur only in 3 % of products on sale.

[Povánoční slevy na českých e-shopech jsou často jen naoko, opravdu zlevněné jsou jen 3 % zboží](#)



Price adjustments

2. Price discrimination (price differentiation)

- Customer-segment pricing
 - Different prices for different customer segments – it is more usual than people think
- Product-form pricing – different price in different markets for the same product) – Evian mineral water (~ 1–2 USD), Evian refresher (mineral water spray – 50 ml for 7 USD)
- Image pricing
 - same products different packaging
- Channel pricing
 - Bricks and mortar, outlets, online stores, daily deal sites (Groupon), exclusive dealerships or retailers, ...
- Location pricing
 - Based on the location (i.e. Amazon Kindle in EU)



Kindle Paperwhite, 15 cm (6 Zoll)

EUR 129,00
Bestellen Sie in den nächsten 9 Stunden, um den Arti
Andere Angebote
EUR 127,71 gebraucht (1 Angebot)



Kindle Paperwhite, 6" High Resolution

\$119.00
Order in the next 32 hours and get it by Monday, Mar 31.
More Buying Choices
\$97.00 used (5 offers)



Kategorie	Dospělý (19 a více let)	Junior (od 15 do 19 let)	Student (od 19 do 26 let, držitel průkazky „Student 19 – 26 let“)	Senior (od 60 do 65 let)
měsíční	550 Kč	260 Kč	260 Kč	250 Kč
čtvrtletní	1480 Kč	720 Kč	720 Kč	660 Kč
roční	4750 Kč			
5měsíční	2450 Kč	1200 Kč	1200 Kč	1100 Kč
10měsíční (v prodeji pouze od 15. 8. do 1. 11.)		2400 Kč	2400 Kč	

Evian Mineral Water Sp

by Evian

★★★★★ 100 customer review

Price: \$7.00 + \$6.95 shipping



ALL+
MODERN

Find anything for your modern home...

LIVING | DINING | BEDROOM | BATH | LIGHTING | KITCHEN | ACCENTS | BABY + KIDS

babyletto Modo 3-in-1 Convertible Crib Set (Click all from babyletto)



★★★★★ 4.6

\$1,076.76

List Price: \$1,167.00

You Save: \$90.24 (8%)

Rewards: Get 3% Back

Share:



Baby Mod - Olivia 3-in-1

★★★★★ (208 Customer Reviews)

Buy from Walmart

Online

\$265.00

List Price: \$299.98

You Save: \$34.98 (12%)

Quantity: 1

Add to Cart

Add to my: [Wish List](#) | [Registry](#)

About this product

- Time pricing
 - (Flight) tickets, seasonal discounts (early or last minute) hotel room booking, ...



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ekonomická v Praze
Fakulta managementu

fm.vse.cz

Distribution strategy

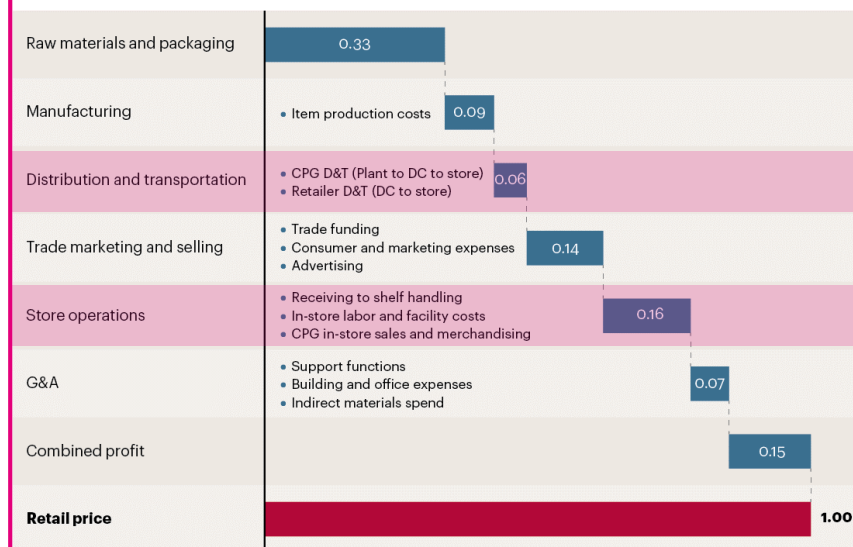
Distribution strategy

- To manufacture a great product is not enough
- There are usually some/many intermediaries between the manufacturer and customers – distribution channel
- Distribution costs usually much higher than i.e. cost of marketing communications
 - Intermediaries usually split around 30–50 % of the final price paid by the customer
 - In comparison, marketing communications usually represents around 5–7 % of the final price
 - Shipping and handling often reach 20 % of the final price

Figure 3

How a combined cost waterfall can reveal key insights

Retail shelf price index = \$1.00 (food example)



Notes: CPG is consumer packaged goods; D&T is distribution and transportation; DC is distribution center; G&A is general and administrative.
Source: A.T. Kearney analysis



US logistics spend [is estimated](#) ~ 10 % of GDP.
Due to the fragmented environment, in China the logistics spend could reach [almost 20 %](#).

Distribuční strategie – význam

- Marketing perspective doesn't include just transportation (supply chain), a broader view also incorporates a comprehensive network of partners.
- The goal is to deliver the value to the customer – value delivery network/marketing channels
- Includes both [upstream and downstream activities](#). Here focus on downstream.
- All components of marketing mix are strategic complements

We find that advertising and pricing are strategic complements as manufacturer advertising increases the price elasticity of demand; advertising competition intensifies price competition but it also improves the profitability of manufacturers; the presence of retailers in the channel leads to increased advertising spending while mitigating the extent of price competition. Manufacturers can enjoy a higher profit from using retailers when they compete in both price and advertising. Finally, we show that the emergence of ecommerce, which enables manufacturers directly selling to end consumers, has asymmetric profit impacts on manufacturers, as brands with lower cost and lower brand goodwill are more benefited from ecommerce.

Chan, T. Y., Narasimhan, C., & Yoon, Y. (2017). Advertising and price competition in a manufacturer-retailer channel. *International Journal of Research in Marketing*.

Farris and Albion (1987) show that, by and large, the evidence on advertising and price elasticity is consistent with the notion that advertising decreases price elasticities for manufacturers and increases price elasticity for retailers. This earlier work was later buttressed by additional research showing lower retail gross margins for highly advertised national brands (Albion and Farris 1987). Together with analyses that showed higher gross margins and higher relative prices for high-advertising manufacturers, there is support for the argument that advertising helps manufacturers differentiate their product (advertising = market power), but induces greater retail price sensitivity, more intense retail price competition, and lower retail margins (advertising = information).

Chan, T. Y., Narasimhan, C., & Yoon, Y. (2017). Advertising and price competition in a manufacturer-retailer channel. *International Journal of Research in Marketing*.

Distribution strategy

- Intermediaries usually split around 30–50 % of the final price paid by the customer

Notwithstanding dispersion across different types of goods, on average, around half of the final price of retail items can be attributed to the cost of the goods themselves, with the remaining half covering the gross margins of wholesale and retail firms in the distribution supply chain.

The retail supply chain, which includes both retailers and parts of the wholesale sector, accounts for a significant part of Australian economic activity, representing around 7 per cent of GDP and more than 10 per cent of total employment.

- Distribution costs among industries/sectors

Summarizing all this, the cost of goods accounts for around half of the final sale price of retail items, shared between its two inputs – imports and domestically produced goods. The remainder reflects the cost of distribution. Splitting this into the various inputs involved in distribution shows that around 20 per cent of the final price is attributable to each of labor and intermediate inputs used by distributors, with the final 10 per cent of the sale price being the net profit of wholesalers and retailers combined.

D'ARCY, Patrick, NORMAN, David, and SHAN, Shalini. [Costs and Margins in the Retail Supply Chain](#). The Reserve Bank of Australia. Bulletin – June Quarter 2012.

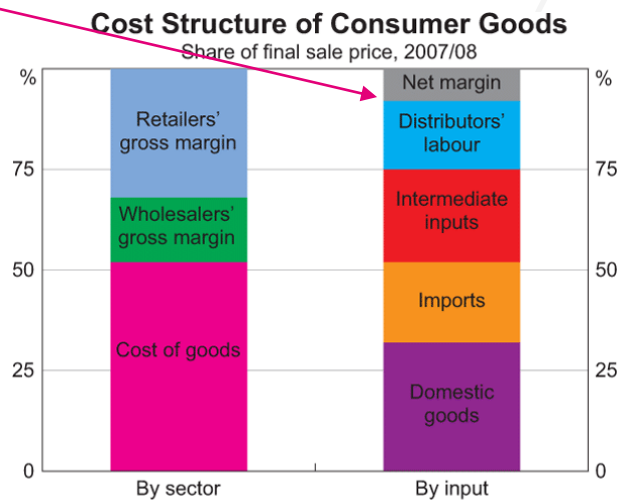
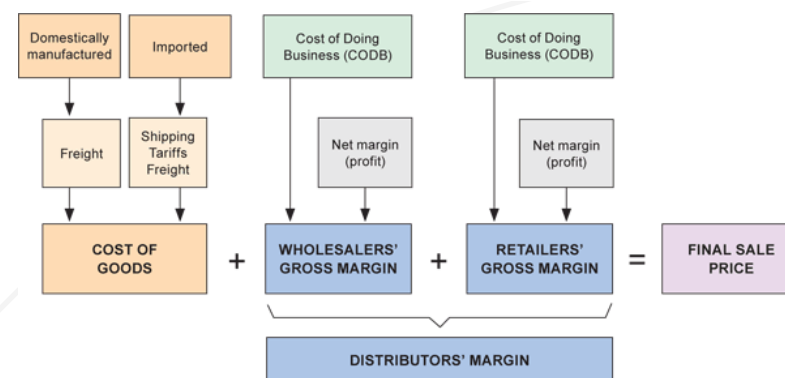


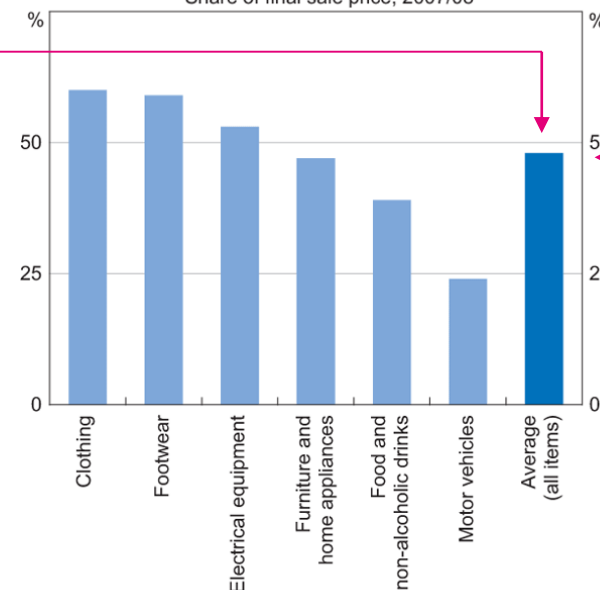
Table 1: Components of Retail Prices
Per cent of final sale price

	Cost of goods			Distributors' gross margins
	Imports	Domestic	Total	
1998/99	18	37	55	45
2004/05	18	36	53	47
2007/08	20	32	52	48

Sources: ABS; RBA

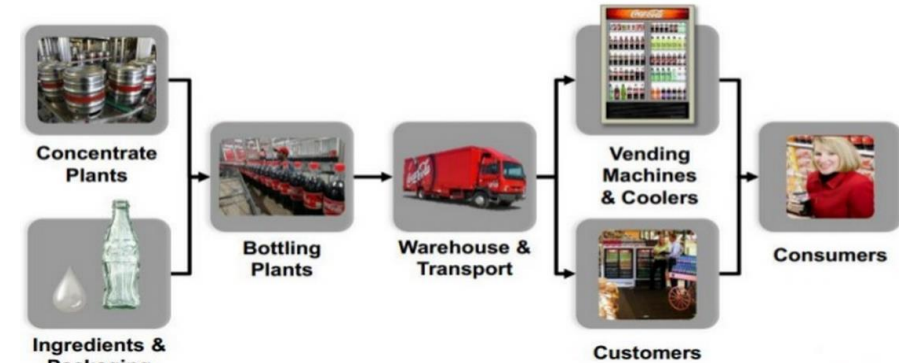


Distributors' Gross Margins by Product Type
Share of final sale price, 2007/08



Distribution strategy

- Coca-Cola case
 - Coca-Cola produces concentrate/syrup which is sold to licensed Coca-Cola bottlers throughout the world



Our \$64 billion supply chain covers more than 900 manufacturing facilities, 270 bottling partners and more than 20 million customer outlets. For two-thirds of our 20 million customers, we use one of the world's largest direct store delivery (DSD) systems. We have more trucks on the road than UPS and FedEx combined.

Since we produce and distribute locally in every country, we have the flexibility to tailor our brands, products and packages to fit the needs of our customers and consumers.

[Building Brand Love Through Agility](#)

Only few facilities are owned by the company, bottling partners hold Coca-Cola franchises for one or more geographical areas

Bottling Investments Group is a division of The Coca-Cola Company dedicated to investing in Coca-Cola bottling operations around the world. BIG provides leadership to drive growth in critical markets, provides venture capital to move quickly, and often amends structural or ownership challenges. BIG is currently in 19 countries and works to maintain a healthy balance of franchise and Company-owned bottlers in the system.

[The Coca-Cola System](#), [New and Improved: The Story of Mass Marketing in America](#)

- In emerging countries – micro distribution

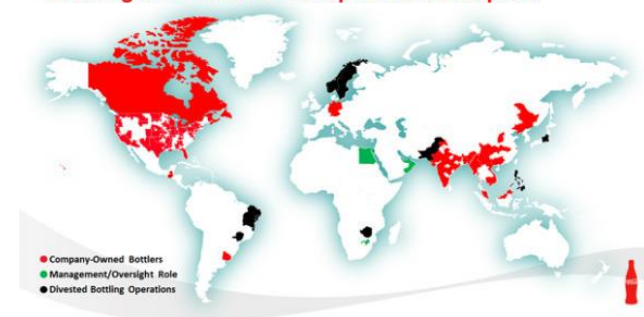
Our micro distribution centers (MDCs) in Africa, many of which are run by women, help our beverages reach small shops and kiosks that can't be served by more trucks and vans and create value for our business, our retail and restaurant customers, and the broader communities.

[The CEO of Coca-Cola on Using the Company's Scale for Good Supporting Small Business Development](#)

- A part of Coca-Cola [CSR](#) activities

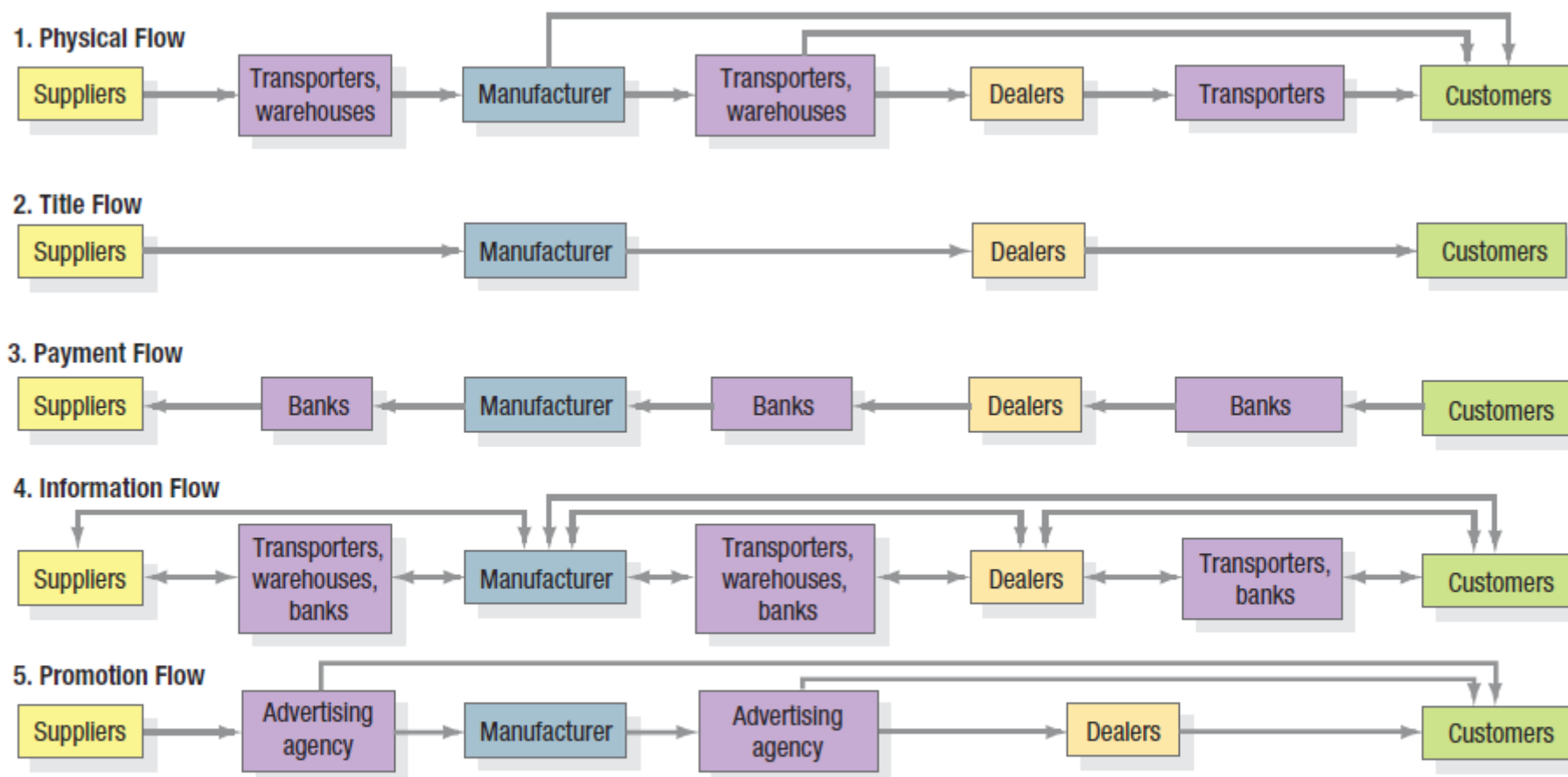


Bottling Investments Group Global Footprint



Distribution Strategy – Channel Functions and Flows

- Storage and movement, title, and communications constitute a forward flow, ordering and payment represent backward flow, information, negotiation, finance, and risk taking can occur in both directions

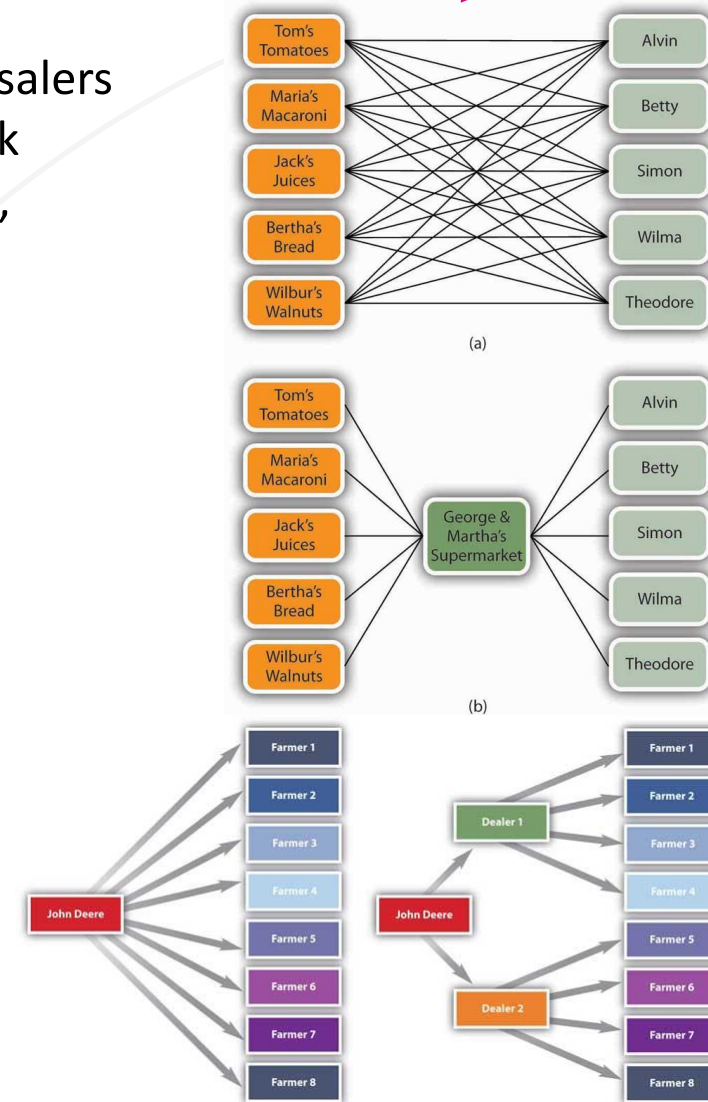


[Fig. 15.1] ▲

Five Marketing Flows in the Marketing Channel for Forklift Trucks

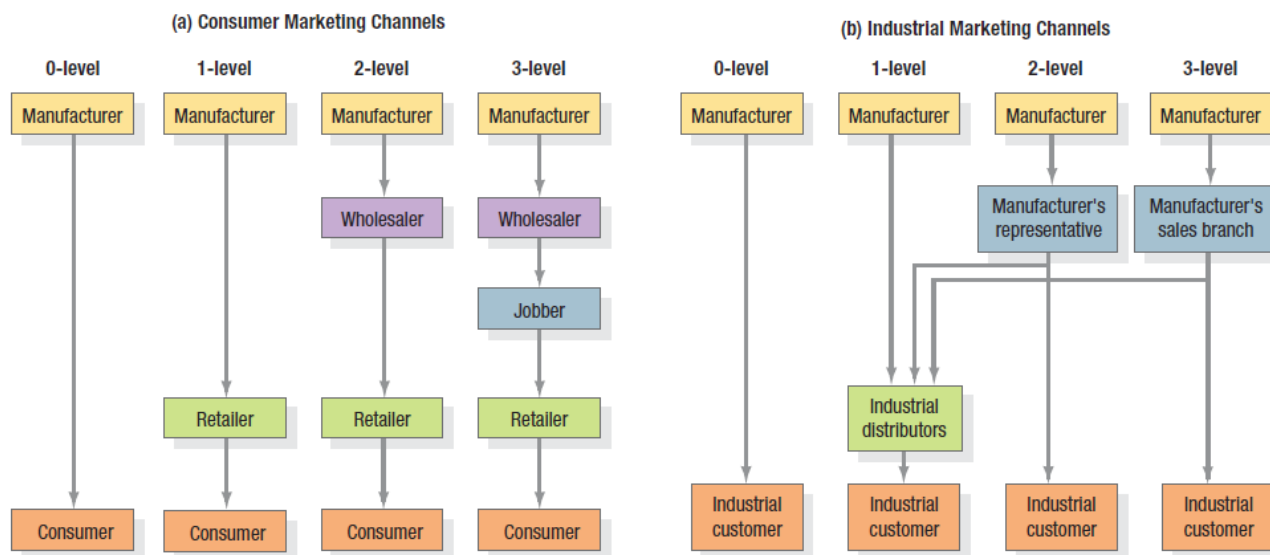
Distribution strategy – Types of Intermediaries

- For FMCG, the intermediaries are the only option for an effective distribution
 - Dramatically reduces the number of transactions
- Various types of intermediaries – wholesalers, merchant wholesalers (limited-service, cash-and-carry, drop shippers, mail-order, truck jobbers, rack jobbers), dealers (brokers), sales offices, branches, retailers, supermarkets, convenience stores, specialty stores, department stores, superstores, warehouse clubs, off-price retailers, pop-up stores, nonstore/direct retailers, ...
- Intermediaries have many other functions
 - Marketing research about existing or potential customers, competing products and other subjects on the market, ...
 - Marketing communication with the customer
 - Price negotiation, orders frequency and quantities
 - Inventory administration, financing, risk taking
 - Storage of goods, product assembly, packaging, ...



Distribution Strategy – Channel Levels, Channel Design

- The distribution channel can consist of a number of partners and can be of various length



[Fig. 15.2] ▲

Consumer and Industrial Marketing Channels

The length of distribution channel can reach a high number of levels – for example Food processing industry in Japan has often more than six levels (while still being effective)

ITO, T., & MARUYAMA, M. (1990). [Is the Japanese distribution system really inefficient?](#) (No. w3306). National Bureau of Economic Research

- Channel Design Decisions are influenced by many factors

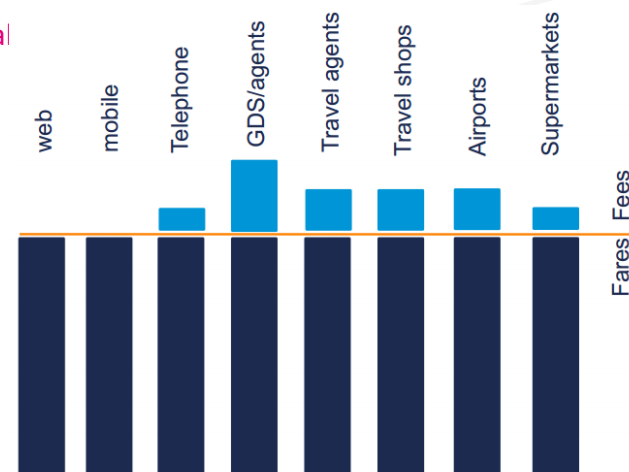
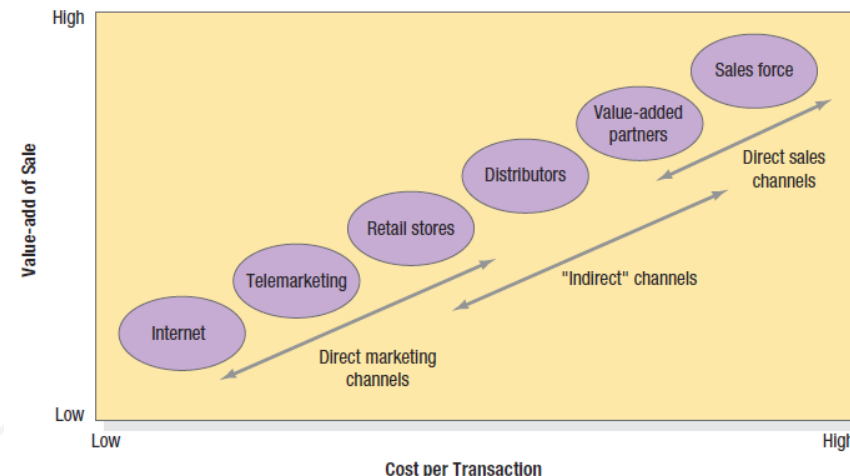


[Kodak's printers and ink cartridges were initially available only at Best Buy stores or direct from Kodak online](#) – the product required an additional sale support to deliver the message that the higher price is [offset by lower operating costs](#)

flydubai

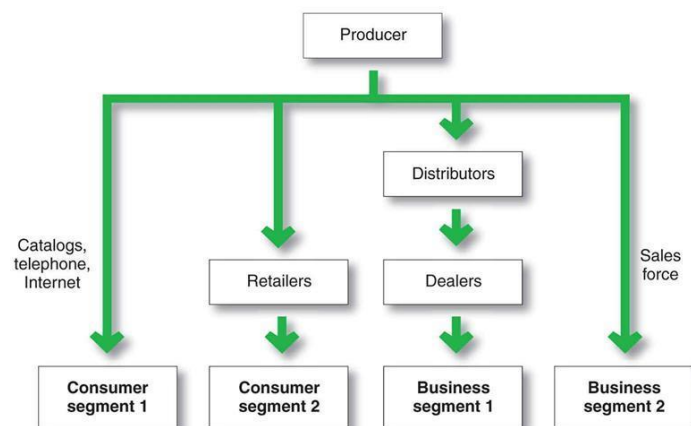
FlyDubai uses a variety of distribution channels to reach different segments. The demands of channels varies

Direct and indirect marketing channels



Distribution Strategy – Chanel Design

- Channel Design Factors
 - Type/nature of the product
 - Market mapping, Segmentation



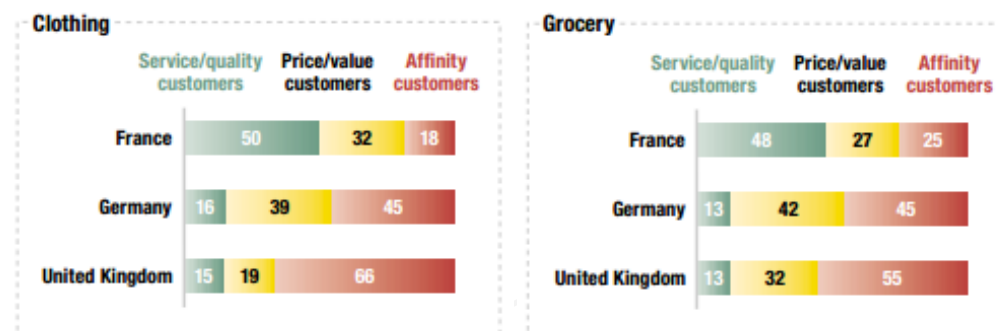
On Site

Our John Deere dealers and distributors are the experts that can help you find the right solution to your equipment needs. Specializing by industry or residential equipment dealers – they can help with your buying decision from defining your requirements, ordering your equipment, finalizing and financing your purchase to servicing your equipment.

For maintaining your residential property, you can also find select John Deere equipment at [Home Depot](#) and [Lowe's](#) home improvement stores.

Online

- You can order select models of John Deere equipment to maintain your residential property using our [Buy Online Web site](#). These online orders are sourced through your local John Deere dealer. They will contact you to set up delivery and finalize the financing and purchase.
- Some basic [homeowner equipment service parts](#) can be ordered online and shipped directly to your home.
- A more comprehensive online parts ordering Web site is also available for a the [complete line of John Deere parts](#). You order online and your local John Deere dealer fulfills the order – for delivery, pick-up, or to ship directly to you.
- For [governmental agencies or military entities](#), John Deere has special Web sites to help meet your purchasing requirements.



- Service/quality customers care most about the variety and performance of products in stores as well as the service they provide.
- Price/value customers are most concerned about spending their money wisely.
- Affinity customers primarily seek stores that suit people like themselves or the members of groups they aspire to join. In fact, our research shows that affinity in this sense-the social associations of stores-is a more important consideration for all groups than marketers have traditionally recognized.

CHILD, P. N., HEYWOOD, S., & Kliger, M. (2002). [Do retail brands travel?](#). *The McKinsey Quarterly*, 1, 11-13.

There are many different kinds of people, and they display about as many different buying patterns. That simple truth is well understood by those responsible for market research, product development, pricing, sales, and strategy. But they haven't been getting much help from a venerable technique – market segmentation. Market segmentation has become narrowly focused on the needs of advertising.

The idea was to broaden the use of segmentation so that it could inform not just advertising but also product innovation, pricing, **choice of distribution channels**, and the like. Yet today's segmentations do very little of this, even though markets and media are even more fragmented and consumers even more diverse and accustomed to following their own tastes and impulses.

YANKELOVICH, Daniel, MEER, David. [Rediscovering Market Segmentation](#). *Harvard Business Review*, 2/2006

Distribution Strategy – Chanel Design

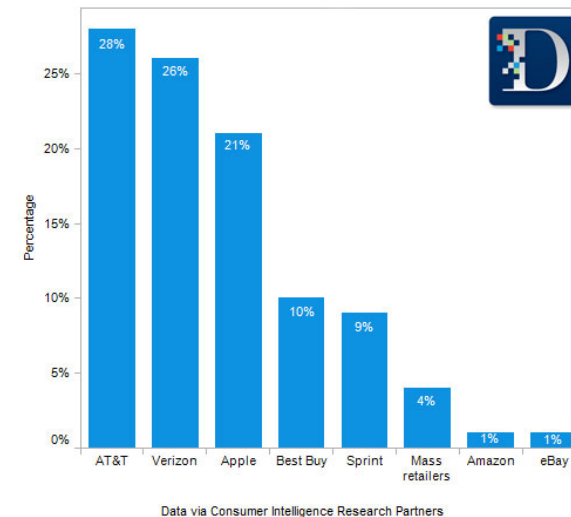
— Customer's characteristics

Millennials—born between 1980 and 2000—are both the 20th century's last generation and its first truly digital one. This old century/new technology dichotomy gives pause to marketers attempting to understand and connect with this key demographic.

Millennials are not only transforming their own shopping behaviors but those of their parents, who are increasingly mimicking the demands of their children for seamlessness as they climb the digital learning curve. One consequence of this evolution is that the retail environment will probably change faster than many companies expect in the coming years, and many retailers will find themselves falling further and further behind. That's because delivering products and services in a truly seamless fashion will require companies to make profound changes across their entire organizations—changes that many seem either unprepared or unwilling to make. [Who are Millennial shoppers? And what they do really want?](#)



iPhone Sales by Outlet



— Company objectives



In 2001, Apple has opened its first Apple Store. Analysts predicted failure (BusinessWeek: [Sorry, Steve: Here's Why Apple Stores Will not Work](#)). Today, there is over 400 stores in 16 countries. Although these Apple stores does not sell most of their products ([Breaking Down Apple's Retail Distribution Strategy](#)), Apple has created a specific site for enthusiasts, looking for the brand experience, a complete range of products, or advice of specially trained dealers (Genius Bar).

— Law

Drinking laws are usually culturally derived and there is substantial international variation in minimum legal drinking and purchase ages. In general, a state's drinking or purchase age - corresponds to the legal age of majority or the point at which an individual assumes adult roles in society. Among those countries that set a legal age, 18 is the most common, although in many cases the legal drinking age is ignored or unenforced. [What is the drinking age in other countries? Global Status Report: Alcohol Policy](#)



Distribution Strategy – Chanel Design

– Type/nature of intermediaries

A new study by the mobile marketing firm Vibes indicates that showrooming is not necessarily a bad thing for brick-and-mortar retailers. The fact that consumers are increasingly hitting stores with smartphones in hand can actually boost sales, researchers say. [Could 'Showrooming' Actually Be Good for Brick-and-Mortar Retailers?](#)

The changes come as margins and profits slump at the traditional dealership model and a new generation of buyers look to shop for vehicles in the same way they purchase music, clothes and gadgets. "Digital showrooms and online retailing is the big shift that is coming to the car industry, and it is coming fast," says Sarwant Singh, a partner at Frost & Sullivan. "This is going to completely change the way people choose and buy their cars."

Brick and mortar dealerships are expensive. Margins for dealers on new car sales in Europe are typically less than 1 per cent of the price of the vehicle, as tough competition and heavy discounting drive down prices. [Online showrooms and digital dealerships revolutionise car buying](#)



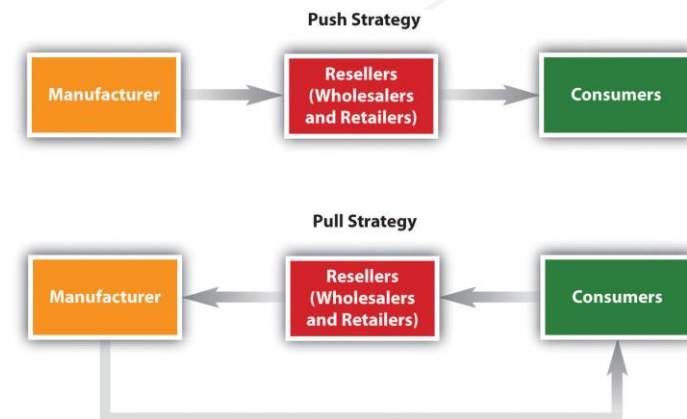
– Nature of demand

- Push strategy – stable demand, economies of scale
- Pull strategy – unstable demand, economies of scale are hard to reach
- Hybrid strategy – unstable demand, however economies of scale are important to reach the profit

In the "push" model, the U.S. auto industry consistently produces too many cars and trucks, which in turn forces deep discounting. That's been the case since the mid-1970s, when Chrysler was the first manufacturer to start writing rebate checks. [Can U.S. Auto Industry Make the Switch from Push to Pull?](#)

James O'Donnell, BMW's most senior U.S. executive, wants to change that and, in the process, maybe change the way cars are made in America. BMW is launching a marketing push to convince more American consumers to order their car exactly the way they want it and take delivery in two to six weeks. To entice them, BMW will offer them unique choices and provide a video link of their car being "born" while they're waiting for delivery.

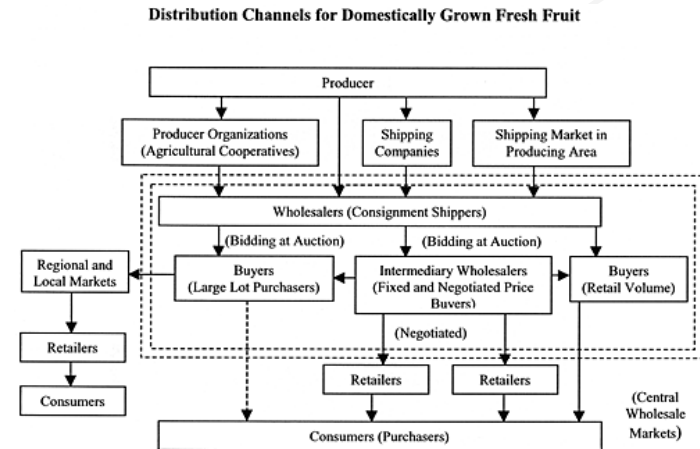
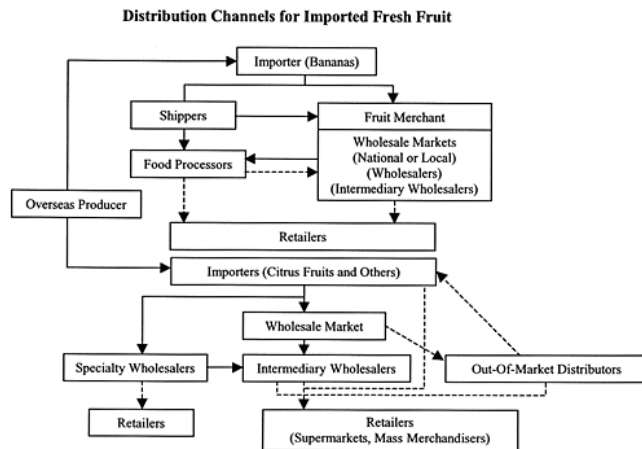
[BMW's Push for Made-to-Order Cars](#)



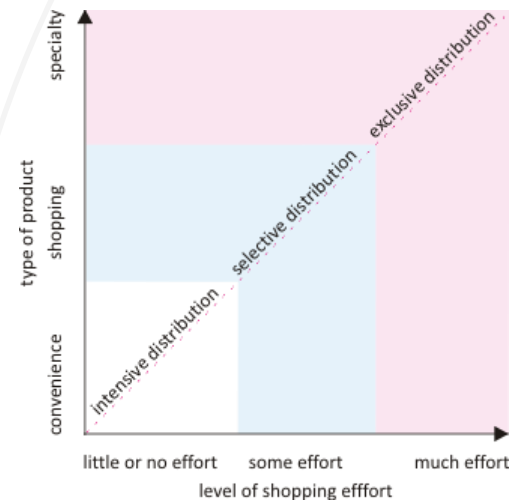
Distribution Strategy – Chanel Design

- Competition Intensity
- Length/levels of the distribution channel

Many Americans believe that the Japanese food industry's distribution system is a deliberate barrier to foreign goods. It isn't - it arises from the way the Japanese prefer to do business domestically. If anything, it offers significant benefits to exporters who take the time to learn its workings and plot their marketing strategies accordingly. [Japanese System: How Japan's Distribution System Works for You, The Japanese Market](#)



- Distribution channel intergration
- Processes and information sharing
- Targeted market coverage
- ...



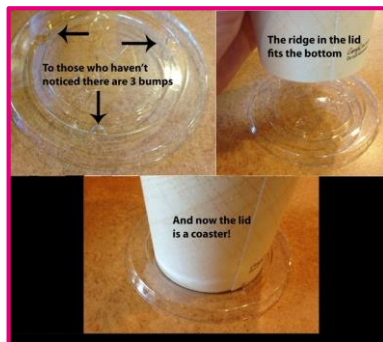
Distribution Strategy – Chanel Design

- Packaging
 - Not only protection of goods during distribution or storage

Amazon Certified [Frustration-Free Packaging](#)
[Packaging Is All the Rage, and Not in a Good Way](#)

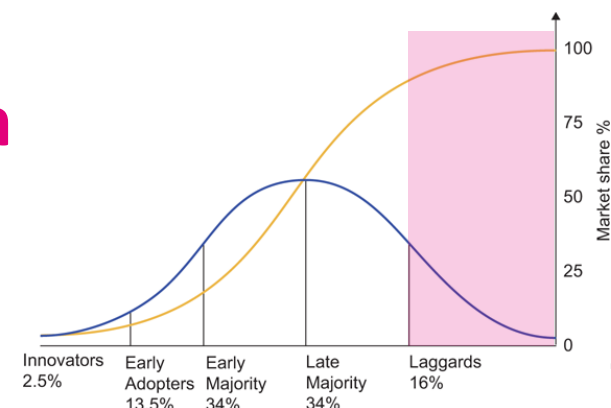


- First impression – what customer sees on the shelf
- Can be useful while using the product



Distribution Strategy – Types of Distribution

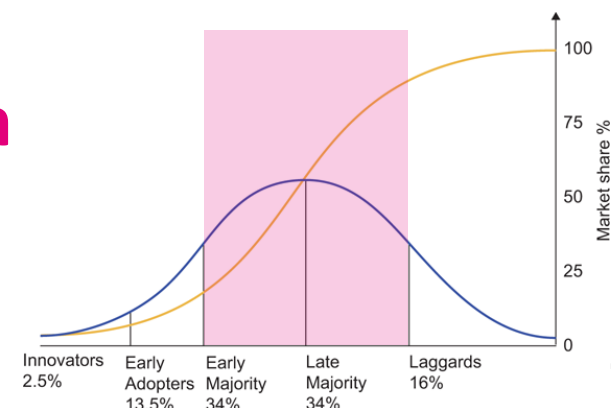
- Intensive distribution
 - Fast-moving consumer goods
 - Products that do not require premium sales or after-sales support or specific customer service
 - Products at the end of their lifecycle
 - Retailers as intermediaries



Attributes	Intensive Distribution	Selective Distribution	Exclusive Distribution
Objectives	Wide spread market coverage, channel acceptance, high volume sales and high profits.	Moderate Market coverage, solid image, some channel control and loyalty, good sales and profits	Prestige image, channel control loyalty, prices stability and high margins.
Resellers	Many in number, all type of firms (outlets)	Moderate in number, well established better firms (outlets)	Few in number, well established, reputable fir outlets (Outlets)
Customers (Final consumers)	Many in number, convenience oriented.	Moderate in number, brand conscious, somewhat willing to travel to store.	Fewer in no., trends setters, willing to travel to store, brand loyal.
Major Weakness	Limited channel control.	May be difficult to crave out niche	Limited sales potential.
Marketing Emphasis	Mass advertising, nearby location, items in stock.	Promotional mix, pleasant shopping condition, good services	Personal selling, pleasant shopping conditions, good services.

Distribution Strategy – Types of Distribution

- Selective distribution
 - Does not use retail chains
 - Better control over the (distribution) process
 - Lower costs than intensive distribution
 - Very often as (some type of) vertical integration
 - In the later stages of the industry lifecycle
 - The usual method of distribution for electronics, [household appliances](#) or [furniture](#), jewelry, [watches](#), accessories



Attributes	Intensive Distribution	Selective Distribution	Exclusive Distribution
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[Stihl power tools are only distributed](#) through “Independent Servicing Dealers.” And the company is quite proud of it, telling from its website.

Stihl chce mít jistotu, že zákazník dostane odpovídající servis a školení při nákupu jejich výrobků...

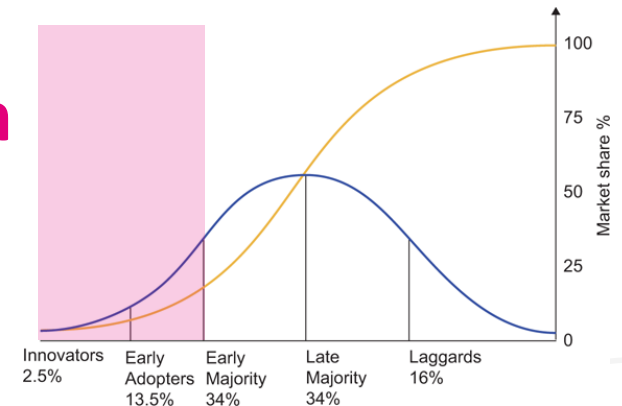
[Ray-Ban, Oakley, Chanel Or Prada Sunglasses? They're All Made By This Obscure \\$9B Company](#)

Luxottica produced 46.6 million sunglasses and 26.1 million prescription frames (it does not make prescription lenses.) Then it sold them through one of its 7,000 retail stores like Sunglasses Hut, Pearle Vision or LensCrafters around the globe. Pro některé produkty ale využívá i další široce rozšířeně řetězce.

LUXOTTICA

Distribution Strategy – Types of Distribution

- Exclusive distribution
 - Premium products
 - Superior sales and after-sales support/services
 - (often) products in the initial stage of the PLC
 - Limited number of dealers in the geographic area



In 2011, [Bentley had 161 dealers worldwide](#), a large number of the vehicles ([half of Arnage models](#)) is [customized](#) in a special division Bentley Mulliner.

[The car accessories](#) can be purchased from exclusive partners (watches, pens, perfumes, sunglasses, ...)

Attributes	Intensive Distribution	Selective Distribution	Exclusive Distribution
Objectives	Wide spread market coverage, channel acceptance, high volume sales and high profits.	Moderate Market coverage, solid image, some channel control and loyalty, good sales and profits	Prestige image, channel control loyalty, prices stability and high margins.
Resellers	Many in number, all type of firms (outlets)	Moderate in number, well established better firms (outlets)	Few in number, well established, reputable fir outlets (Outlets)
Customers (Final consumers)	Many in number, convenience oriented.	Moderate in number, brand conscious, somewhat willing to travel to store.	Fewer in no., trends setters, willing to travel to store, brand loyal.
Major Weakness	Limited channel control.	May be difficult to carve out niche	Limited sales potential.
Marketing Emphasis	Mass advertising, nearby location, items in stock.	Promotional mix, pleasant shopping condition, good services	Personal selling, pleasant shopping conditions, good services.



The first generation of iPhone: [Phone to be available at 2000 store fronts on launch](#)

Apple retail chief Ron Johnson and Director of Mac Product Marketing Tom Boger informed the analyst that those store fronts would consist exclusively of Apple and AT&T retail stores.

The fifth generation was [available in 25 countries](#) right from the beginning

Distribution Strategy – Types of Distribution

- Is the exclusive distribution suitable for low priced products?

Everybody wants a perfect phone, but such a thing simply doesn't exist. OnePlus believes it doesn't have to be this way. Its motto, "Never Settle," represents the fledgling Chinese company's mission to build and sell the perfect smartphone. Its first attempt is the One, a premium-looking device that has customizable firmware and top-shelf specs. Oh, and it'll sell for \$299 unlocked and free of contract. Good things come to those who wait. Phones with lower asking prices often come with excruciating delays, and OnePlus' first handset is no exception. The company is going to have a difficult time meeting demand right away, which is one reason why it's offering the One on an invite-only basis at the beginning. [OnePlus One review: a \\$300 smartphone has never looked so good](#)

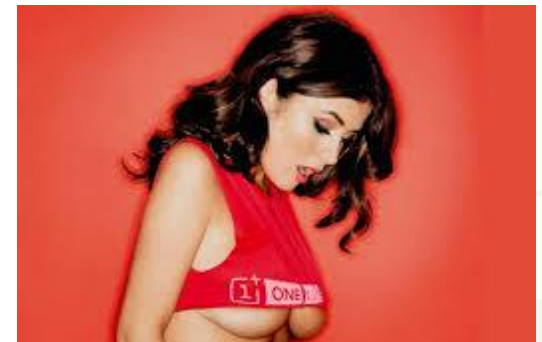
So, the OnePlus One is out, and yes, you will need an invitation to buy one. Some have voiced their concerns about this novel method of purchase, while others have been outright in sounding their disappointment.

However, what amazed me the most is how many people are willing to whip out their credit cards and buy a phone they've never seen before, made by a Chinese company that's barely five months old. The company is not planning to make any profit at all in the first two years. It's imperative for One Plus to keep costs down. The company is planning to do this by selling its products solely through e-commerce, in effect cutting out the middlemen and the overheads of normal distribution channels. While big name companies are spending millions in their endorsement programs, One Plus One has potentially recruited thousands of brand evangelists from all across the globe, for free. [What every phone maker could learn from OnePlus](#)

OnePlus began supplementing it with a horribly conceived and deeply sexist contest that allows women to jump the line if they're willing to have a bunch of internet dudes vote on their appearance. The contest asks women to draw the OnePlus logo on their body (or on a sheet of paper that they're holding) and then take a photo of themselves and post it in OnePlus' forums. From there, the 50 "most well liked" will get a free T-shirt and have the option of buying the phone. [OnePlus asks women to participate in degrading contest to get a smartphone](#)



INVITES TO SHARE



Multichannel Distribution

- More customers interact with multiple channels during the purchase process (and more at the same time)

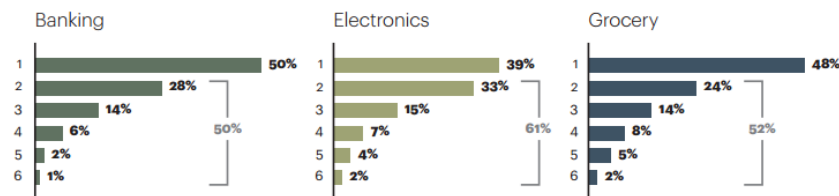
As more people interact with more companies in more channels—from websites and mobile apps to in-store online kiosks—chief information officers (CIOs) are delivering value from cross-channel integration.

Even in historically single-channel sectors such as grocery, more than half of customers now use two or more. And although differences remain across sectors, customers are building on behaviors developed in highly multichannel sectors and are beginning to expect similar options in other sectors.

First major finding is that most customers across all industries use multiple channels. Second major finding is that consumers are engaging companies through multiple channels simultaneously. [Engaging Multichannel Consumers](#)

Most shoppers use multiple channels

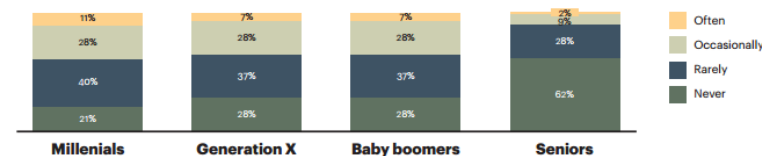
% of end-consumers



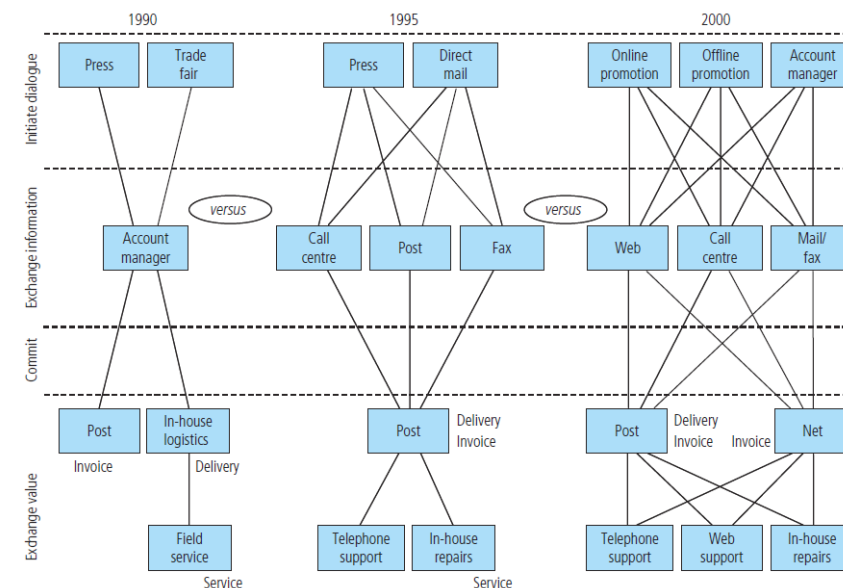
Note: Three select sectors are displayed.
 Source: A.T. Kearney Multichannel Shoppers Study, 2012

Many people shop using multiple channels at the same time

How often do you use multiple channels simultaneously?



Note: Millennials include people born since 1980, Generation X between 1964 and 1980, baby boomers between 1946 to 1964, and seniors before 1946.
 Source: A.T. Kearney Multichannel Shoppers Study, 2012



Technologies extend the capabilities of distribution channels
 MCDONALD, M., & DUNBAR, I. (2004). *Market Segmentation: How to do it, how to profit from it*. Butterworth-Heinemann.

[Multichannel Marketing & Sales 2015: Skutečný úspěch ZOOT nastartovaly až výdejny radosti](#)

- Essential for complex and large markets with many (distinct) customer segments
- Hard to manage, conflicts can occur between channels

Recommended reading: PwC (2013) [Demystifying the online shopper 10 myths of multichannel retailing](#)
 A.T. Kearney [Engaging Multichannel Consumers](#)
 Accenture: [Winning the retail war](#)



Multichannel Distribution

- Essential for complex and large markets with many (distinct) customer segments
- Could substantially increase company's profit



Site To Store, a Click & Collect service which offers free delivery to any Walmart store in the contiguous US, now accounts for more than half of all the company's online orders and generates around US\$3.5 billion in revenues. While Pick Up Today, a free Click & Reserve service that allows a customer to order store items online and pick them up at their Walmart store that same day or the next day if the order is made after 6:00 p.m. local time, has resulted in a 22 percent increase in basket size.

Some retailers have gone further. In the UK, both the fashion retailer Oasis and the general merchandiser Argos use Shutl, a Web service that connects retailers with local, same-day delivery companies and can bring consumers their goods within 90 minutes of purchase.

[Winning the retail war](#)



Tesco has revealed it made £127m of trading profit in its UK online grocery arm last year, lifting a shadowy veil from one of the biggest unanswered questions in grocery. The retailer is to step up activity in broadening its multichannel offer with the introduction of a free click-and-collect service for food and non-food and dropping the price of grocery home delivery [Tesco reveals online grocery profits as it builds multichannel offer](#)

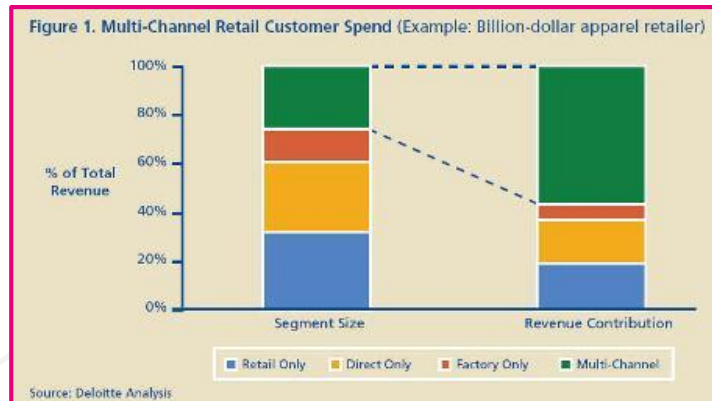


If you are the person responsible for supplying the office with Dunkin' Donuts products, prepare to have your mind blown. Dunkin' Donuts new "Dunkin' Run" iPhone app is going to change your life forever.

Dunkin' Run brings customers a completely new and unique social online group ordering experience and tools. To begin, "Runners" can initiate a group order through their computer or mobile device. Interactive alerts are sent to the Runner's list of friends or co-workers, telling them when a trip to Dunkin' Donuts is planned along with a personal message inviting them to place an order online. Invitees can view the Dunkin' Donuts menu to place their order, and registered users can select from their own personal list of favorites and/or previous orders.

All of the orders are integrated onto a single page/screen which the Runner either prints or uses their mobile device to bring to any Dunkin' Donuts store. Dunkin' Donuts crew members will use this checklist to fulfill orders quickly and ensure order accuracy. The Runner can also use this page as a checklist to ensure that everyone in the group gets what he or she ordered.

[Dunkin' Donuts 'Dunkin Run' iPhone App Will Change The Lives Of Office Lackeys](#)



Multichannel customers of a well-known fashion retailer represent just 26 % of all customers, but make up 57 % of total income



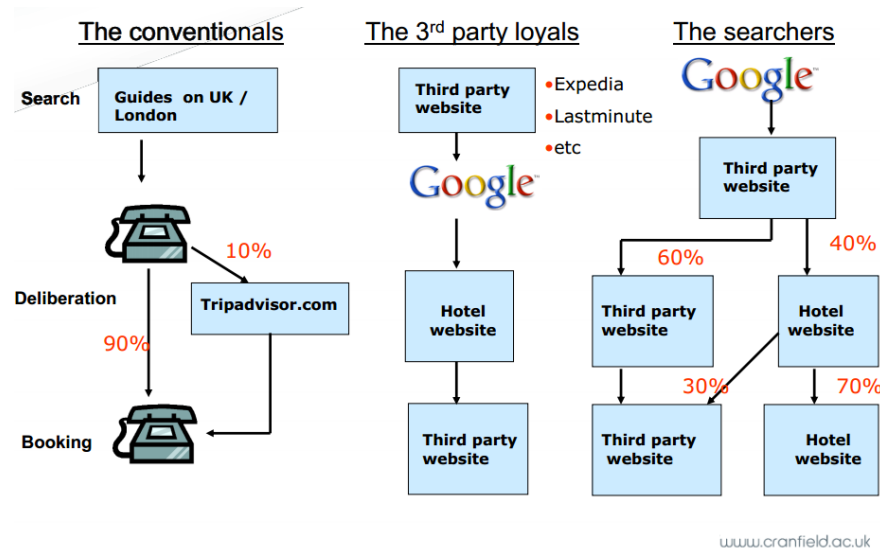
Multichannel Distribution

— A significant synergies can be achieved

In a time of multichannels and connected consumers, retailers must adapt or die. Over the past few years as the Internet, mobile technology, and modern consumer expectations have increasingly turned the old notion of how retail traditionally works on its head. The problem is they paint the picture of a zero-sum conflict, an almost Highlander-esque scenario (“there can only be one!”), where mobile and online stores are directly at odds with their brick and mortar counterparts and where one side is destined to exterminate the other. But this isn’t the way it works. In fact, not only are these various channels not mutually exclusive, they’re actually best used to complement one another. But that kind of harmony would take work and a firm focus on innovation. more and more pure play eCommerce retailers have begun setting up their own brick and mortar locations after realizing that there really is no such thing as a “one channel fits all” solution. [Brick and Mortar Retail Isn’t Dead, But It is Evolving](#), [Once Proudly Web Only, Shopping Sites Hang Out Real Shingles](#)



— Hard to manage, conflicts can occur between channels



A luxury hotel chain approach (just 3/7 channels are displayed):

Around 10 % of customers are still “conventionals”, initiating their search with a printed guide and contacting the hotel via phone. Some of them consult the choice with a 3rd party website, i.e. Expedia.

A larger share of customers are 3rd party loyals who put their trust in one of the intermediaries (i.e. Expedia or Booking.com), but still can check further information on the hotel website. However they finish their transaction on the 3rd party website (where intermediary takes 10–25 % share).

The third group of customers start searching online, some of them still visit the hotel website for further information but most of them book through the 3rd party website

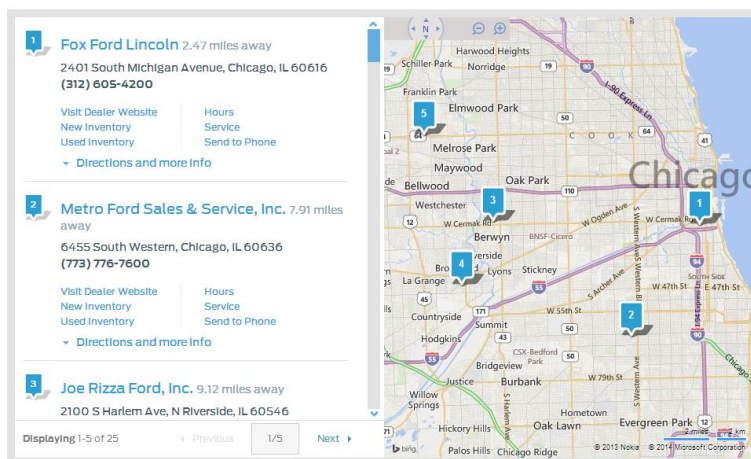
Surprisingly, the main reason for returning to the 3rd party website from the hotel website was price expectation – the customers wrongly believed that the price would be better with the intermediary. The hotel adjusted its marketing message on the website to explain that the best prices are offered directly.

Conflicts Between Channels

Horizontal conflicts

i.e. conflicts between Ford dealers operating in the same geographical area (and therefore competing each other)

Wyndham Hotel Group is major lodging brand operating worldwide. In many locations, the properties are right next to each other (and therefore may target the same customer segments)



Vertical conflicts

The conflict between Burger King and its franchisees over the \$1 Double Cheeseburger is as hot as the restaurants' flamebroilers.

The debate has centered on the issue of the \$1 price point for a double cheeseburger, yet the program's true impact hinges on much more. Franchisee Dan Fitzpatrick states "You could conservatively indicate that it costs us between \$1.10 and \$1.15 per double cheeseburger that we sell with all of our fixed and variable costs being covered."

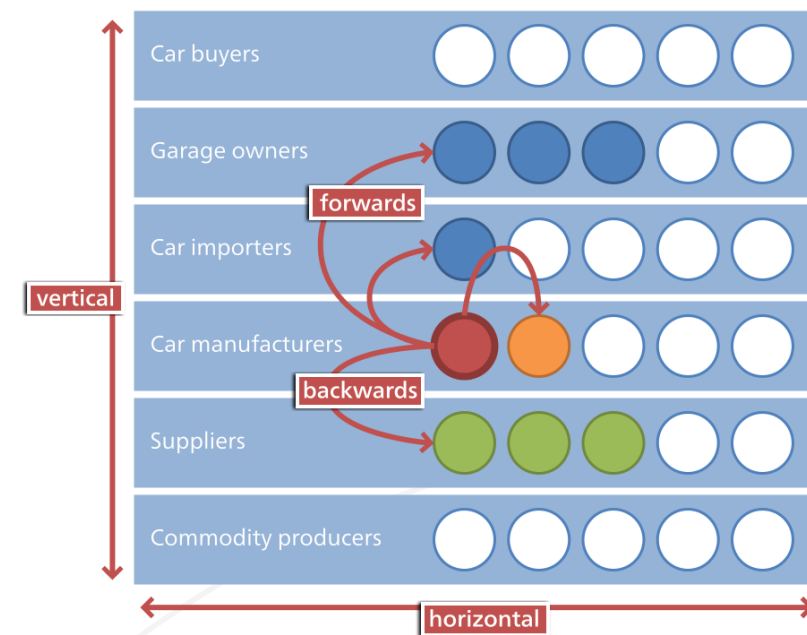
The price returned back to the previous level

[Weighing in on the BK \\$1 Double Cheeseburger Battle](#)



Integration of Distribution Channels

- Companies in the distribution channel maximize their profit – the interests may be contradictory– conflicts, worse customer support/services
- Integrated distribution channels – avoid conflicts, maximize profit of the whole channel
 - Horizontal distribution channels
 - Companies on the same level of the distribution level join the integrated channel
 - Either competitors or not competitors
 - Temporary or permanent



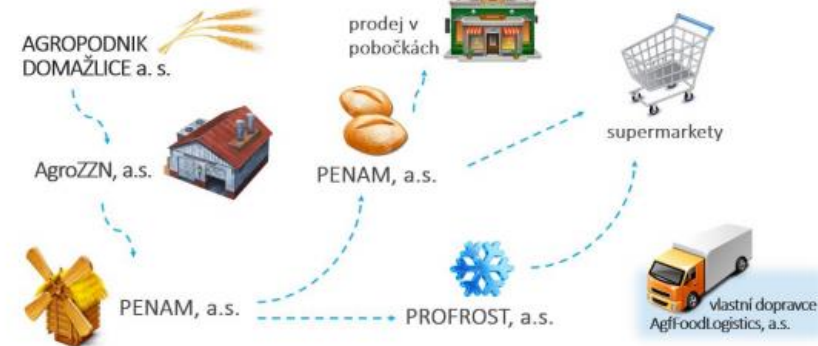
McDonald's restaurants in Walmart stores - McDonald's profits from the number of customers in the store, Walmart customers can spend more time in the store since there is a refreshment available



2009 Microsoft and Yahoo! deal – Yahoo! Search will utilize Bing technology (and Yahoo! will receive 88% of all advertising revenue over five years). Since 2008 [Microsoft tries to acquire Yahoo](#)

Integration of Distribution Channels

- Vertical distribution channels/systems (VMS)
 - The entire channel is owned/managed/controlled by one company
 - To optimize the process to maximize channel profit.
 - Corporate VMS



LUXOTICA

ZARA

Luxotica company produces (among other products) RayBan glasses. The company also owns the largest chains selling glasses (LensCrafters and Sunglass Hut).

Zara has control over the entire chain from the design, production, distribution and sale. This allows Zara to get their new designs on the market within a few weeks (competition up to 6 months)

- Contractual VMS

- The customer hardly recognizes the difference between contractual and corporate VMS

By far the most common, only in the US about 1500 franchised business types. Fast food restaurants (McDonald's, Burger King), car rental companies (Hertz, Avis), motels (Holiday Inn), real estate brokers (Century21).

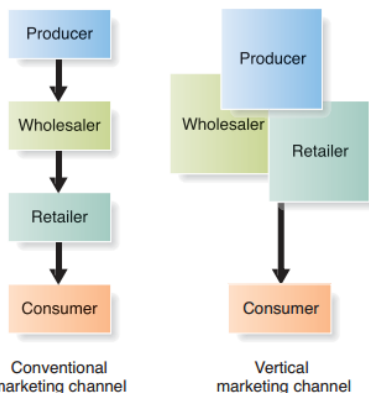
- Administered VMS

- builds on the bargaining power of partners, Procter & Gamble or Kraft Foods have a very wide range of products, providing better opportunity to negotiate with large retail chains

[Danone stopped deliveries for Kaufland chain shop.](#)

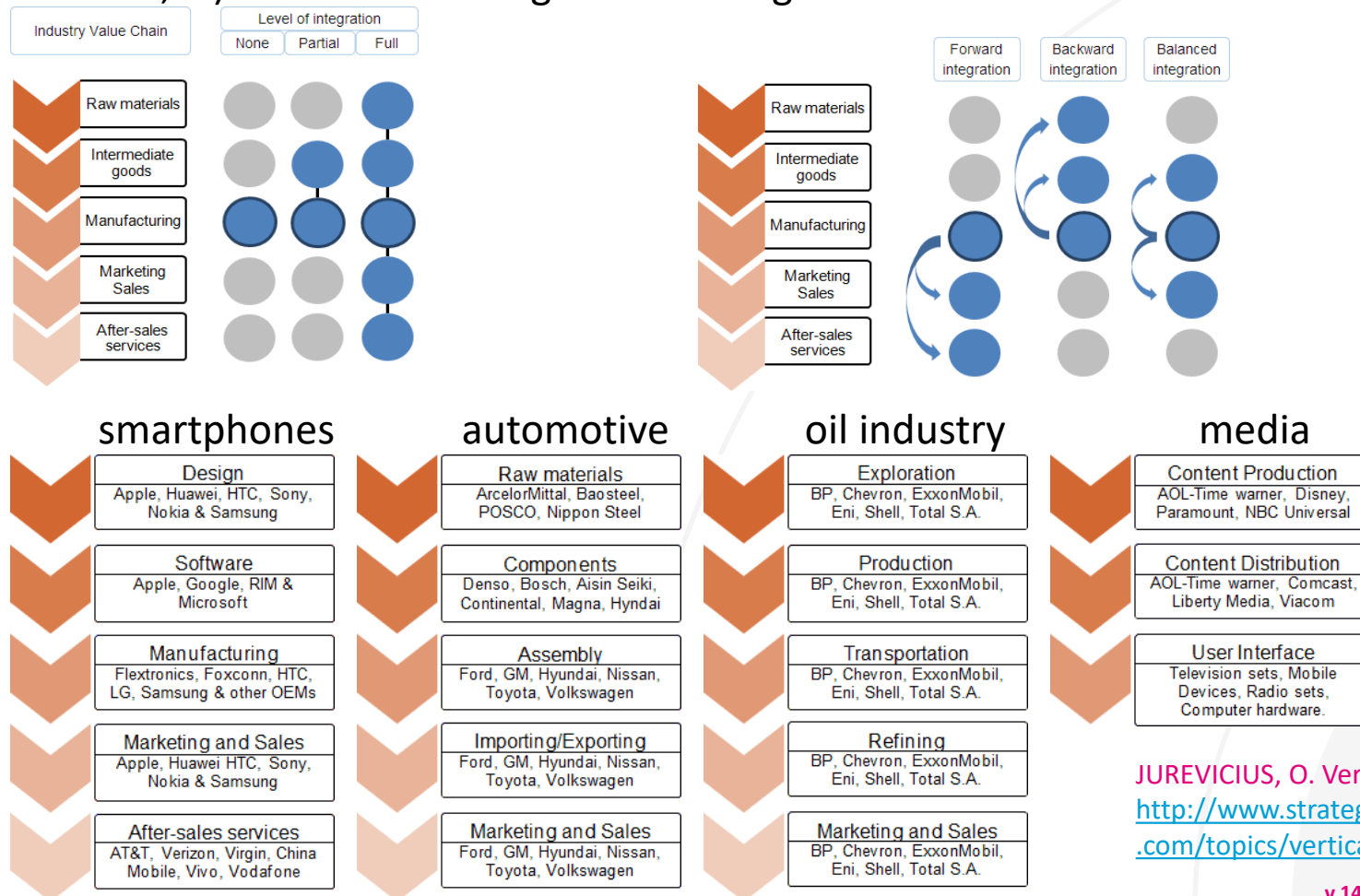
[Danone products are again available in Kaufland](#)

LUXOTICA	
EYEWEAR BRANDS	RETAIL BRANDS
ALAIN MIKI	DAVID CLULOW
ARNETTE	GMO
BROOKS BROTHERS	ILORI - OPTICAL SHOP OF ASPEN
BURBERRY	LAUBMAN & PANK
BVLGARI	LENSCRAFTERS
CHANEL	OPSM
COACH	PEARLE VISION
CKNY	SEARS OPTICAL
DOLCE & GABBANA	SUNGLASS HUT
DONNA KARAN	TARGET OPTICAL
EMPORIO ARMANI	
GIORGIO ARMANI	
MIU MIU	
OAKLEY	
OLIVER PEOPLES	
PAUL SMITH SPECTACLES	
PERSOL	
POLO RALPH LAUREN	
PRADA	
RALPH LAUREN	
RAY-BAN	
STARCK EYES	
STELLA MCCARTNEY	
TIFFANY & CO.	
TORY BURCH	
VERSACE	
VOGUE EYEWEAR	



Integration of Distribution Channels

- Vertical distribution channels can be
 - Partial** or **fully** integrated (according to the costs or scope of the company)
 - Companies can pursue **forward** (few quality distributors are available, distributors or retailers have high profit margins, the industry is expected to grow, ...) **backward** (suppliers are unreliable, only few suppliers but many competitors, prices of inputs are unstable, ...) or **balanced** integration strategies



Distribution Strategy

- Zara

Fashion retailer owned by Inditex Group

Business model based on imitation of haute couture designers and brands, worn by celebrities and on a fast distribution channel



Company employs a number of people who follow trends and young designers who are flexible and able to create similar designs quickly

Production back in Europe (higher costs but faster distribution), Zara owns and operates the entire channel chain from design, manufacture substances, sewing, distribution to shops

It takes only a few weeks from the initial design stage to the moment when the products are on the racks in the stores (6 months average among industry)

Shops are supplied several times a week, goods are not produced to be carried in stock

Customers visit Zara stores 17 times a year on average (the industry average is 5) not to miss the new trends

Products are cheap, so called "disposable fashion"

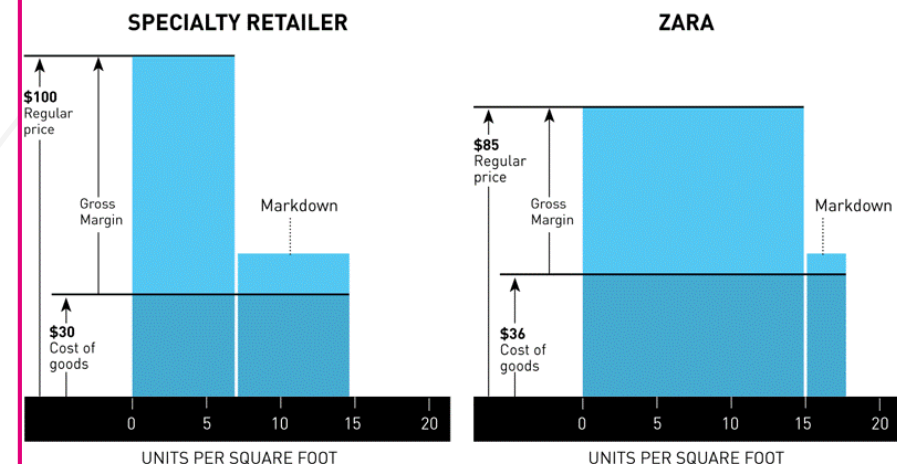
Rapid turnover of goods and limited storage means that (after)seasonal sales are not needed as much

Industry revolution, other companies and fashion houses are not able to strike back



Exhibit 2: Zara's Competitive Economics

Compared to an unnamed but real specialty retailer, Zara (a fashion retailer owned by the Inditex Group) has lower prices and higher production costs. Its advantages: gross margins (light blue areas) that are 55 percent greater and sales of approximately 20 percent more units per square foot.



Source: Company financials and Booz Allen Hamilton

Video: Store Wars - Fast Fashion

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Vysoká škola
ekonomická v Praze
Fakulta managementu

fm.vse.cz

Product strategy

Product strategy

- Core decision: through which products to satisfy customer's needs and achieve company's objectives
 - Related to the nature, number, diversity, innovativeness of product, product design, product life cycle, position in product line/portfolio, ...
 - Product strategies include all product layers

Recommended reading: QUINN, James Brian; DOORLEY, Thomas L.; PAQUETTE, Penny C. [Beyond products: services-based strategy](#). *Harvard Business Review*, 3/1990

The role of services in providing value is ever more important. Not long ago, most of a product's value added came from the production processes that converted raw material into useful forms (steel into auto bodies, for example, or grain into edible cereals). Now, however, value added is increasingly likely to come from technological improvements, styling features, product image, and other attributes that only services can create.

Recommended reading: SHANKAR, Venkatesh; BERRY, Leonard L.; DOTZEL, Thomas. [A practical guide to combining products and services](#). *Harvard Business Review*, 11/2009

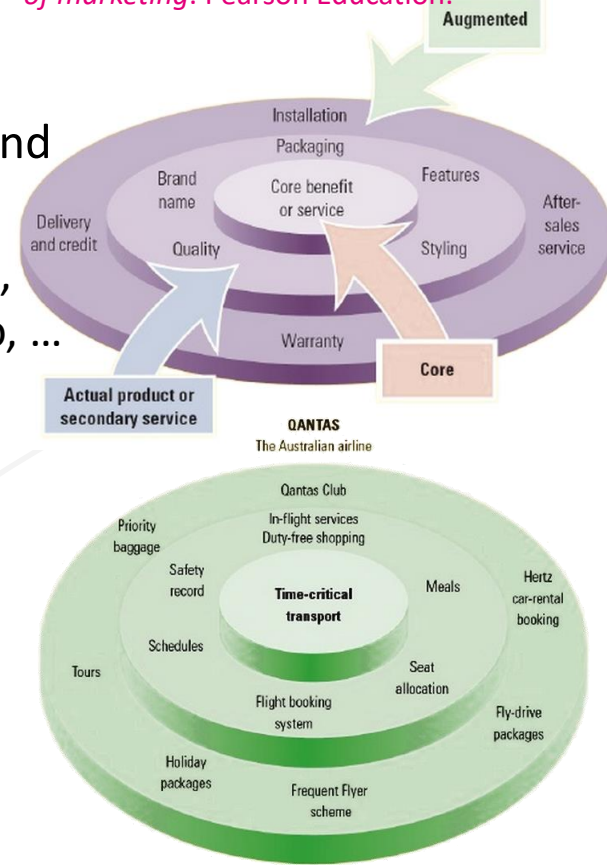
These days, many firms are trying to mix products with services in an effort to boost revenue and balance cash flows. Hybrid solutions – products and services combined into innovative offerings – can help companies attract new customers and increase demand among existing ones by providing superior value. Such offerings are commonplace – think Apple (the iPod product combined with the iTunes service) and Xerox (copiers and printers bundled with maintenance or customer support services). Hybrid solutions have spurred growth or helped reverse market-share or profit decline. Developing hybrid solutions can be tricky because various combinations may have potential. Companies should keep in mind four rules related to differentiation, scalability, pricing, and branding.

Rule 1: Look for points of differentiation in product and service markets (What is the degree of commoditization? Is the customer's problem complex? Can the quality of the service be improved?)

Rule 2: Scope the service and scale the product (What can be centralized? Can the service be digitized?)

Rule 3: Assess the revenue and profit potentials of various hybrids (Which half of the offering has the most profit potential? How often do customers repurchase either goods or services? Which should lead the customer purchase, the product or the service?)

Rule 4: Invest in the brand.



Product strategy

- From where comes the company's profit?
- Is it always the core business/product?

Used cars dealers transformed into loan sharks

Car dealers made an average of \$23 for every new car they sold in 2011, according to the National Automobile Dealers Association. Dealers are celebrating that \$23, because it's a huge swing from 2010 figures, when dealers lost \$180 for every car they sold. Turns out that new cars are essentially a loss leader for dealers, who make most of their money by fixing your car, selling you a warranty when you buy a new car, financing car loans, and used car sales. New car sales are the smallest part of the puzzle, something most dealers do only because the automakers insist.

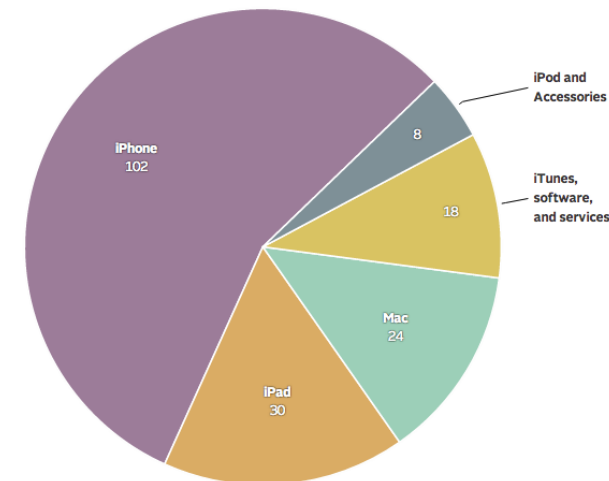
The recession may be partly to thank for the profits. Many people are hanging on to their cars longer and longer, stretching the average life of a car from 8.4 years in 1995 to 10.8 years in 2011, and many of them are having repairs done more often than they have in the past. Car Dealers Earn Just \$23 Per Car Sold.

F&I is an important source of dealership income. Nearly 37 percent of a dealership's gross profit comes from the sale of F&I products and service contracts on new and used cars. While the gross margin on the sale of new cars and trucks fell to 4.2 percent in 2012 from 4.6 percent in 2011, aftermarket income rose, "because of increasing F&I and service contract dollars." In economic hard times, service bays have kept many dealerships afloat. Dealers know that there's a good chance that a car buyer will bring the vehicle in for regular service, and even if the dealership only ekes out a thin margin on a new car sale, there's the possibility of continued cash flow from a service relationship. Where Does the Car Dealer Make Money? Mostly From Service, Not From Car Sales

First, for both this quarter (Q1 2010) and the (new) previous quarter, iPhone revenue was greater than CPU revenue. Apple was still, primarily, a computer company and it was computers, not iPods, that drove Apple's revenue machine. That no longer seems to be the case. Apple Accounting – The Director's Cut



Apple revenue sources, 2014 (billions of dollars)



Source: Apple

Product strategy and Type of Consumer Product

Kotler, P., & Armstrong, G. (2010). *Principles of marketing*. Pearson Education.

Marketing Considerations	Type of Consumer Product			
	Convenience	Shopping	Specialty	Unsought
Customer buying behavior	Frequent purchase; little planning, little comparison or shopping effort; low customer involvement	Less frequent purchase; much planning and shopping effort; comparison of brands on price, quality, and style	Strong brand preference and loyalty; special purchase effort; little comparison of brands; low price sensitivity	Little product awareness; knowledge (or, if aware, little or even negative interest)
Price	Low price	Higher price	High price	Varies
Distribution	Widespread distribution; convenient locations	Selective distribution in fewer outlets	Exclusive distribution in only one or a few outlets per market area	Varies
Promotion	Mass promotion by the producer	Advertising and personal selling by both the producer and resellers	More carefully targeted promotion by both the producer and resellers	Aggressive advertising and personal selling by the producer and resellers
Examples	Toothpaste, magazines, and laundry detergent	Major appliances, televisions, furniture, and clothing	Luxury goods, such as Rolex watches or fine crystal	Life insurance and Red Cross blood donations

Dimensions of Product Strategies

- Product strategies address various aspects, following strategies are recognized
 1. Product-positioning strategy
 2. Product-repositioning strategy
 3. Product-overlap strategy
 4. Product-scope strategy
 5. Product-design strategy
 6. Product-elimination strategy
 7. New-product strategy
 8. Diversification strategy
 9. Value-marketing strategy



In 1964 Ford launched Mustang model. In the first year, 70 % of Mustang sales were those who would have purchased another Ford model, just the remaining 30 % came from new customers



In 1975 Bud introduced a low-calorie Bud light. It has targeted women who favor light beers in smaller bottles (0,33 litre). These days Bud Light is the most popular beer in US

Product-positioning strategy

1. Product-positioning strategy

- Placing a brand in that part of the market where it will receive a favorable reception compared to competing products
- Product should stand apart from competing brands;
- Positioning tells what the product stands for, what is it, for what customers and how it should be perceived
- Positioning product lines/portfolios – to avoid threats from competitors, to better cover targeted segments, to seek opportunities for growth (but avoid brand cannibalism)
- Through marketing mix components

Recommended reading: LEVITT, Theodore. [Marketing Success through Differentiation of Anything](#). *Harvard Business Review* 1/1980

Fabricators of consumer and industrial goods seek competitive distinction via product features – some visually or measurably identifiable, some cosmetically implied, and some rhetorically claimed by reference to real or suggested hidden attributes that promise results or values different from those of competitors' products.

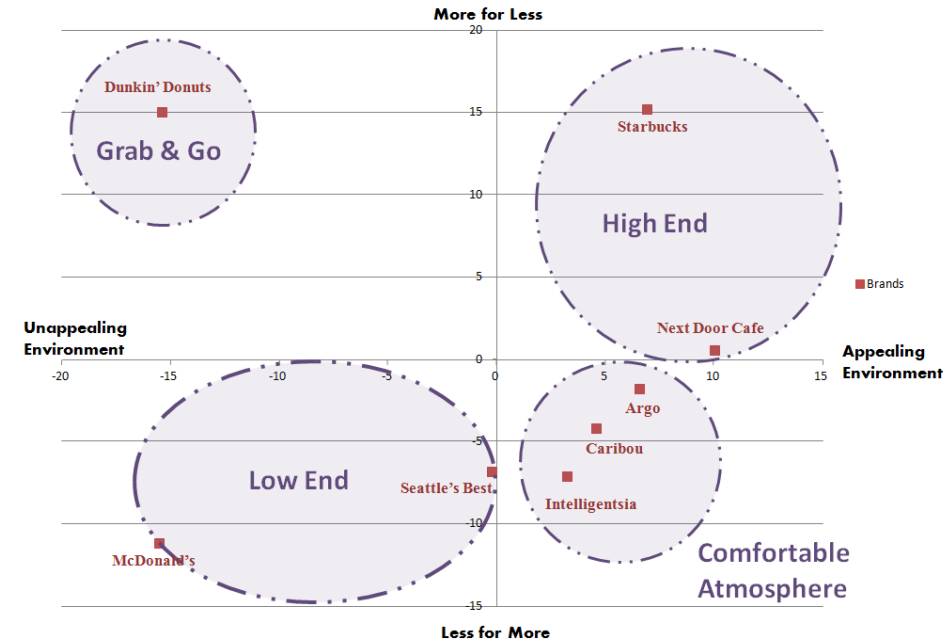
So too with consumer and industrial services – what I call, to be accurate, “intangibles.” On the commodities exchanges, for example, dealers in metals, grains, and pork bellies trade in totally undifferentiated generic products. But what they “sell” is the claimed distinction of their execution – the efficiency of their transactions in their clients' behalf, their responsiveness to inquiries, the clarity and speed of their confirmations, and the like. In short, the *offered* product is differentiated, though the *generic* product is identical.

Positioning by	Strategy
Product attribute(s)	Associating the product with an attribute or feature; asociace prostřednictvím vlastnosti či charakteristiky, případně zákaznickým benefitem; fast cash loan, cheapest mortgage, free-charge account, ...
Price/quality	Price/quality is so important that it can be considered as a specific approach to positioning; i.e. Dacia cars as the cheapest cars on the market
Use or application	Associating the product with a use or application; i.e. Bosch tools – for professionals
User/consumer	Associating the product with a user a class of users; Nespresso and George Clooney, Omega and James Bond
Product class	Associating the product with respect to a product class; positioning Dove soap rather as a hydrating body lotion
Respect to a competitor	Making a reference to a competitor; AVIS car rental „We are only Number 2, but we try harder“

Product-repositioning strategy

2. Product-repositioning strategy

- Reconsidering the current position of the product on the market
 - Repositioning among existing customers
 - Repositioning among new customers
 - Repositioning for new use
- The aim to extend the product life cycle, deal with the changes on the market, increase product profit, ...
- Form more see [product life cycle](#), [positioning and market research](#), and [Pstrategies for \(re\)positioning](#)



Before its success with the Prius, Toyota was seen as a "fast follower," "a copycat," and a stodgy, "risk-averse company" with a rigid system of seniority and hierarchy. It seemed to outdo its competitors only through its lean production system. Toyota depicted itself as the Japanese "Volkswagen" trying to appeal to its customers with its affordability and down-to-earth style. The "birth of the Prius," therefore, was revolutionary not only for its hybrid technology but also for its repositioning of Toyota from a backward, risk-averse company to an innovative risk embracer.

For the 2014 model year the Toyota Prius Plug-in hybrid will get a price cut. [Toyota cuts 2014 Prius Plug-in hybrid prices](#)

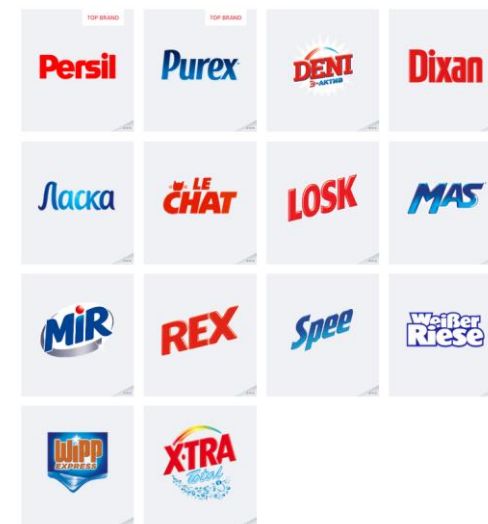
Product-overlap strategy

3. Product-overlap strategy

- Company decides to (partially) compete with its own brand
- Attract more customers (capacity utilization, market share, economies of scale, experience effect, filling market gaps)
- Often market leader
- Brand cannibalism can occur
- Not only as competing brands, but also private labeling or OEM (Original Equipment Manufacturer) products

Podíl privátních značek řetězců na trhu

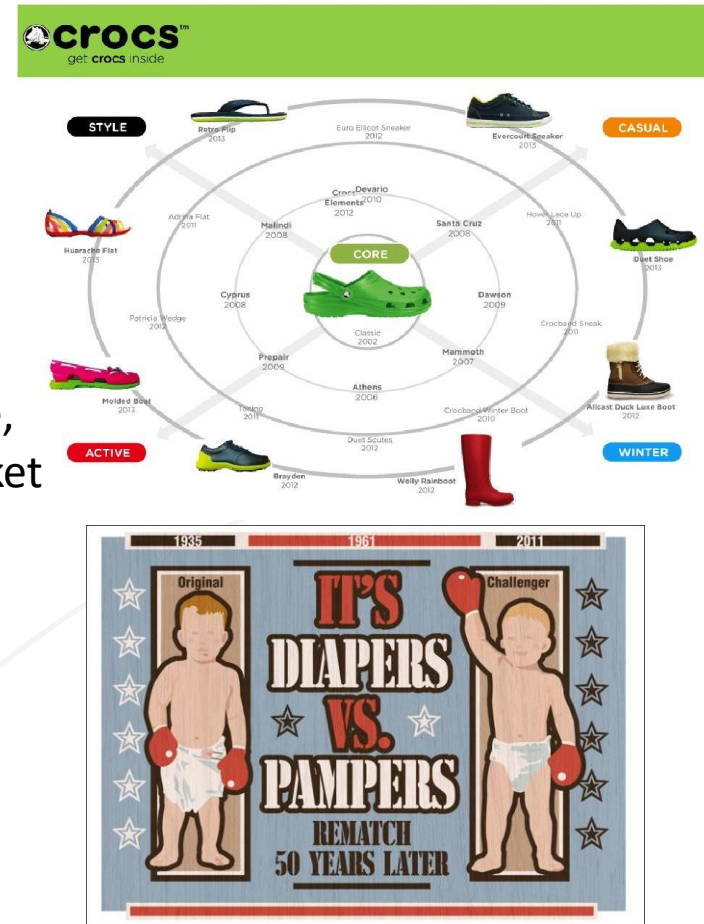
(v % v hodnotě prodeje v řetězcích, rok 2011)



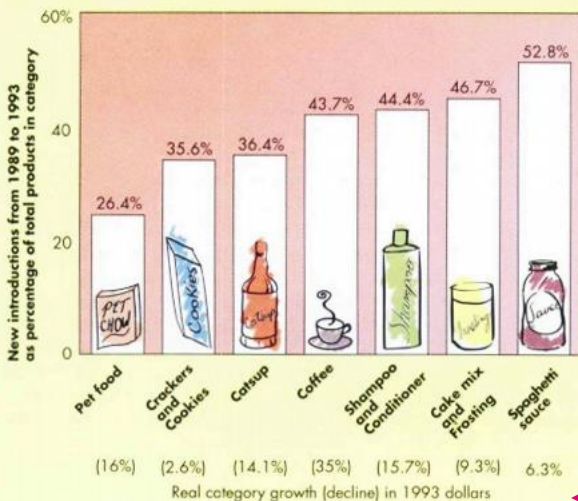
Product-scope strategy

4. Product-scope strategy

- Deals with the perspective of the product mix
- Single product advantages – specialization, economies of scale, high productivity, resources utilization, better targeting a market niche; disadvantages – when the product becomes obsolete and/or a new technology disrupts the market
- Multiple products often overlap, are hard to manage; but can better cover targeted segments and satisfy customers needs – the aim to create a comprehensive system pro products
- For more see Product line strategies



Line Extensions Don't Increase Demand



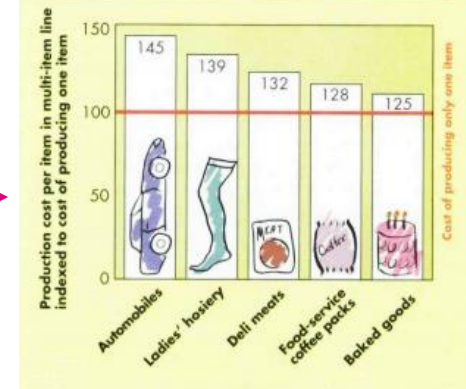
Recommended reading: QUELCH, John A.; KENNY, David. Extend profits, not product lines. *Harvard Business Review*, 9/1994

In the last ten years, products have proliferated at an unprecedented rate in every category of consumer goods and services, and the deluge shows few signs of letting up. Most companies are pursuing product expansion strategies—in particular, line extensions—full steam ahead. At the same time, however, more and more evidence is indicating the pitfalls of such aggressive expansion if it is not well managed: hidden cost increases, weakened brand images, and troubled relations with distributors and retailers.

Next to sales promotions, line extensions represent the most effective and least imaginative way to increase sales quickly and inexpensively. People do not eat more, drink more, or wash their hair more just because they have more products from which to choose.

50 years later: Pampers revolutionized diapering, but cloth vs. disposable debate continues

The Cost of Variety



Product-design Strategy

5. Product-design strategy

- Decision whether to produce a standardized product (and build on economies of scale, [experience effect](#), [cost leadership](#)), customized product ([differentiation](#) or [focus](#) strategy), standardized product with individual [modifications](#).

Recommended reading: GILMORE, James H.; PINE II, B. J. [The four faces of mass customization](#). *Harvard business review*, 1/1997

As the concept of a mass market gained currency a century ago with the success of such giants as Sears, A&P, Coca-Cola, and Ford, all too many managers lost sight of a simple fact known for ages by every butcher, cobbler, and corner grocer: every customer is unique. Economies of scale in manufacturing and distribution brought down the price of mass-produced goods so much that all but the most well-to-do customers were often willing to forgo their individuality and settle for standardized – but very affordable – goods.

Still, the uniqueness of individual customers never went away; it was just subsumed in the averages of countless bell curves in every market-research study ever performed. The concept began coming back into view when companies discovered segmentation in the 1950s and niche marketing in the 1980s. The rise of mass customization in the 1990s has been both a response to and, with the pioneers' success, the impetus behind the now commonplace notion of *segments of one*: every customer is his or her own market segment with specific requirements that must be fulfilled. And so it seems that we have come to the end of a 100-year progression.

PINE II, B. J., Victor, Bart, and Boynton, Andrew C. [Making mass customization work](#). *Harvard business review*, 9/1993

Not all markets are appropriate for mass customization. Customers of commodity products like oil, gas, and wheat, for example, do not demand differentiation. In other markets, like public utilities and government services, regulation often bars customization. In some markets, the possible variations in services or products simply are of little value to customers. Also, variety in and of itself is not necessarily customization, and it can be dangerously expensive. Some consumer electronics retailers and supermarkets today are experiencing a backlash from customers confused by too broad a range of choices.

[Nike can make a pair of custom shoes in under an hour](#)

The athletic company will open Nike Makers' Experience at the Nike By You Studio in New York. Part of that experience is the ability to create Nike shoes with a custom look. And you don't even have to wait for them: From start to finish, the process takes less than 90 minutes -- significantly faster [than something like Nike's Bespoke iD process](#) that takes 6 - 8 weeks for delivery.

[Atelier 27 Combines Additive Manufacturing with Consumer Co-Creation](#)

What Unistudio Design has done with the Atelier 27 project for Eram is revolutionary for the footwear business. What the agency has done is develop a means for consumers to design and 3D print unique stiletto heels for their pumps, enabling them to jazz up a pair of bland-looking party shoes, or to replace a broken or scuffed heel with something a whole lot more exciting.



GILMORE, James H.; PINE II, B. J. [The four faces of mass customization.](#)

Harvard business review, 1/1997

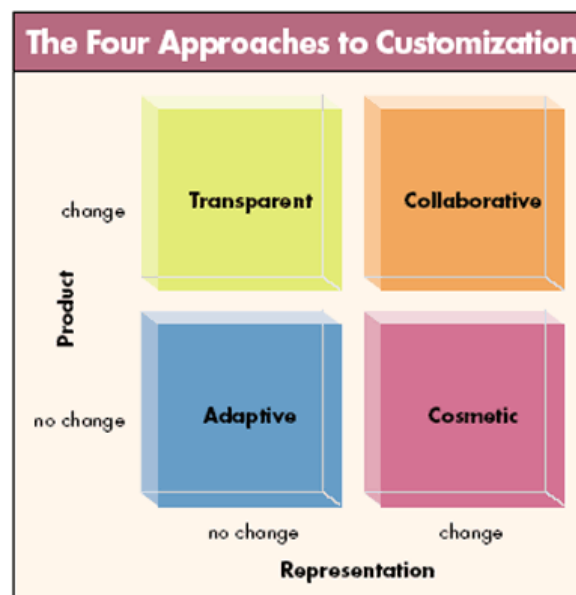
Transparent Customization

Transparent customizers fulfill the needs of individual customers in an indiscernible way – changing the product for them but in such a way that they may not even know that the product has been customized. Instead of requiring customers to take the time to describe their needs, transparent customizers observe behaviors over time, looking for predictable preferences. To avoid annoying customers with an endless barrage of surveys on preferences, **Ritz-Carlton** established a less intrusive means of learning about individual needs. It observes the preferences that individual guests manifest during each stay—preferences for, say, hypoallergenic pillows, classical radio stations, or chocolate chip cookies. The company then stores that information in a database and uses it to tailor the service that each customer receives on his or her next visit.

Adaptive Customization.

Rather than provide customized offerings, adaptive customizers create standard goods or services that can easily be tailored, modified, or reconfigured to suit each customer's needs without any direct interaction with the company. Each customer independently derives his or her own value from the product because the company has designed multiple permutations into a standard, but customizable, offering. It is the product itself, rather than the provider, that interacts with customers.

Sometimes the technology permits each user to adapt the product—such as the control panels and embedded microprocessors in **Lutron's** products that enable customers to create different lighting settings.



Collaborative Customization

Collaborative customizers change the product itself in addition to changing some aspect of the representation. Collaborative customization also works effectively in the shoe industry. Many buyers of mass-produced shoes have to sacrifice a perfect fit on one foot to avoid a fit that is too tight or too loose on the other.

Mass producers frequently add new features that seek to improve the functionality of existing offerings, such as more types of fasteners on fabric, additional locks and latches on windows, and more gauges and gadgets on manufacturing equipment. Such features generally provide increased value to individual customers, but in many instances they are not enough.

Companies are forced to modify the product: clothing is tailored, shoes have pads inserted, windows are remolded, and equipment is realigned. Collaborative customization replaces such back-end solutions with front-end specifications.

Cosmetic Customization

A company should adopt the cosmetic approach when its standard product satisfies almost every customer and only the product's form needs to be customized. In doing so, the company visibly demonstrates that it understands the unique ways in which each customer likes the standard product to be presented.

Hertz Corporation's #1 Club Gold Program effectively uses cosmetic customization to increase the value of its otherwise standard rental cars. After signing up for the service, Gold Program customers still receive the same basic vehicle, but they bypass the line at the counter. By doing only and exactly what each customer required, Hertz discovered that its Gold service was less costly to provide than its standard service.

Product-elimination Strategy

6. Product-elimination strategy

- Decision whether (and when) to eliminate the product
- Related to [product life cycle](#) or [portfolio analysis](#)
- The aim is to optimize the product portfolio
- No longer just decision to eliminate the product
 - Various strategies according various characteristics (situation on the market/in the industry, nature of products, profitability, ...]
- Harvesting, product line simplification, total-line divestment

Recommended reading: HARRIGAN, Kathryn Rudie; PORTER, Michael E. [End-game strategies for declining industries](#). *Harvard Business Review*, 7/1983

Exhibit II Strategies for Declining Businesses

	Has competitive strengths for remaining demand pockets	Lacks competitive strengths for remaining demand pockets
Favorable industry structure for decline	Leadership or niche	Harvest or divest quickly
Unfavorable industry structure for decline	Niche or harvest	Divest quickly

Exhibit I Structural factors that influence the attractiveness of declining industry environments

Structural factors	Environmental attractiveness	
	Hospitable	Inhospitable
Conditions of demand		
Speed of decline	Very slow	Rapid or erratic
Certainty of decline	100% certain predictable patterns	Great uncertainty, erratic patterns
Pockets of enduring demand	Several or major ones	No niches
Product differentiation	Brand loyalty	Commoditylike products
Price stability	Stable, price premiums attainable	Very unstable, pricing below costs
Exit barriers		
Reinvestment requirements	None	High, often mandatory and involving capital assets
Excess capacity	Little	Substantial
Asset age	Mostly old assets	Sizable new assets and old ones not retired
Resale markets for assets	Easy to convert or sell	No markets available, substantial costs to retire
Shared facilities	Few free-standing plants	Substantial and interconnected with important businesses
Vertical integration	Little	Substantial
"Single product" competitors	None	Several large companies
Rivalry determinants		
Customer industries	Fragmented, weak	Strong bargaining power
Customer switching costs	High	Minimal
Diseconomies of scale	None	Substantial penalty
Dissimilar strategic groups	Few	Several in some target markets

New-product strategy

7. New-product strategy

— Essential activity (not only) when seeking growth

The long-term competitiveness of any manufacturing company depends ultimately on the success of its product development capabilities. New product development holds hope for improving market position and financial performance, creating new industry standards and new niche markets, and even renewing the organization. Yet few development projects fully deliver on their early promises.

WHEELWRIGHT, Steven C.; CLARK, Kim B. [Creating project plans to focus product development](#). *Harvard Business Review*. 3/1992

However, the mortality rate of new product ideas has declined considerably since the 1960s. In 1968, on average, 58 new-product ideas were considered for every successful new product. In 1981, only seven ideas were required to generate one successful new product. However, these statistics vary by industry. Consumer nondurable companies consider more than twice as many new product ideas in order to generate one successful new product, compared to industrial or consumer durable manufacturers.

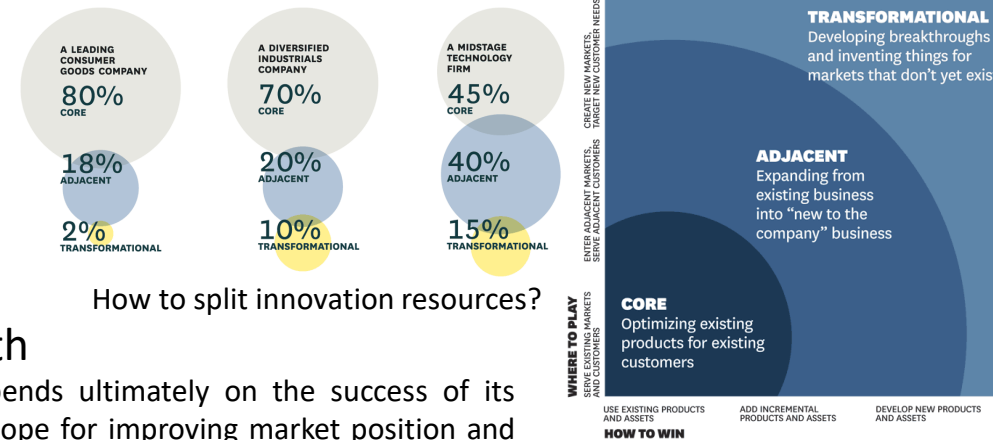
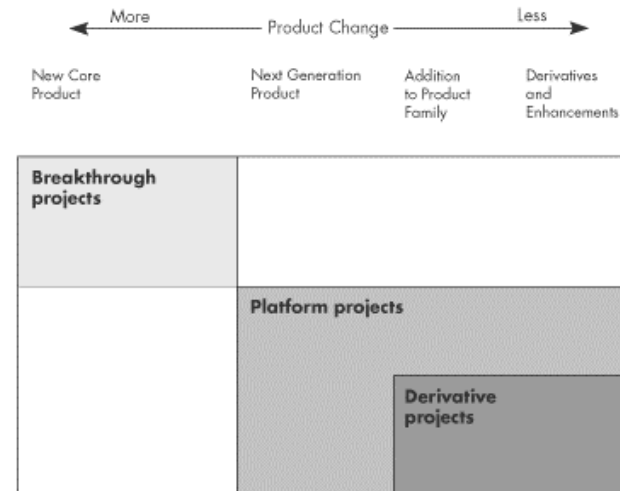
BOOZ; ALLEN & HAMILTON. *New products management for the 1980s*. New York, 1982.

- Various levels from modification/derivates to completely new/breakthrough products
- Some companies are afraid of being first on unexplored market –second bite is good enough (focus on imitation) for more see [product life cycle](#), [how to deal with hypercompetition](#),



Research and advanced development projects

More
Less
Process Change
New Core Process
Next Generation Process
Single Department Upgrade
Incremental Change



NAGJI, Bansi, TUFF, Geoff Managing Your Innovation Portfolio Harvard Business Review, 5/2012 (už znáte)

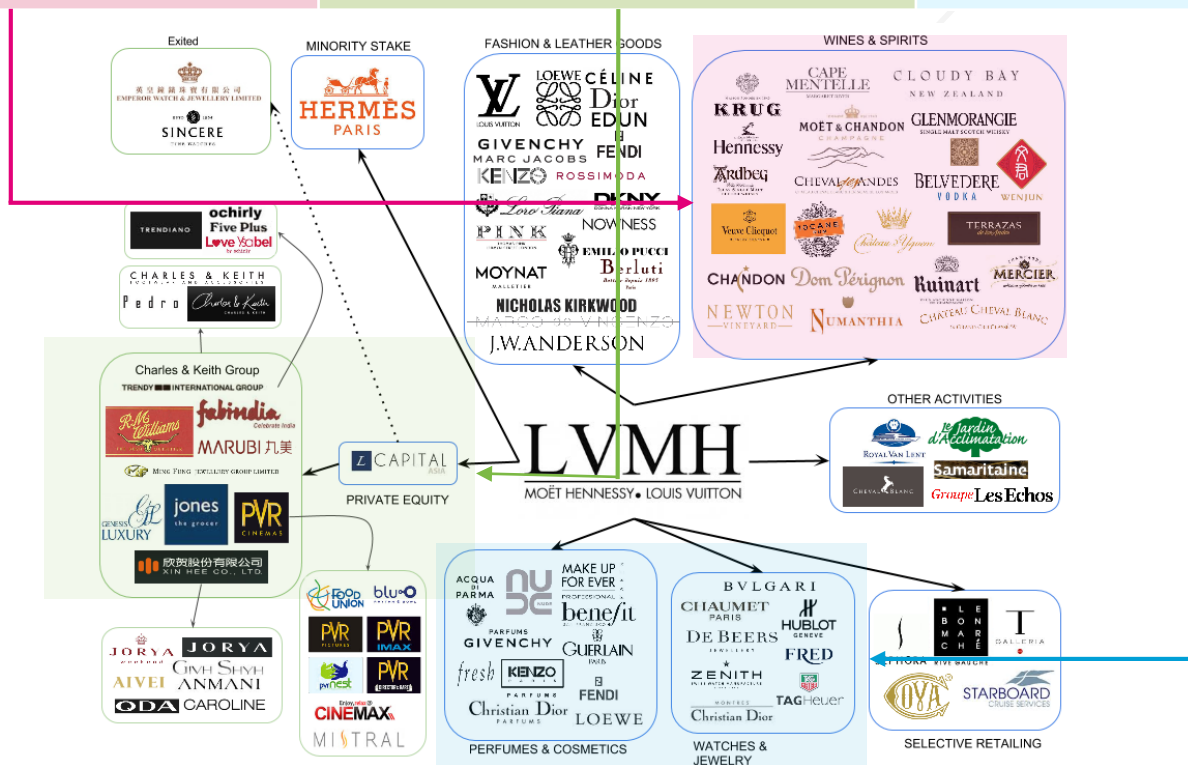
Companies can cooperate on product development (even though they compete each other on the market – [FORD and PSA Peugeot Citroën announce development of EURO 6 diesel Engines and celebrate Ten years of successful diesel Engine Co-operation](#)

Diversification Strategy

8. Diversification strategy

- When company objectives can no longer be met within the actual product/market scope
- The alternatives could be more or less demanding – i.e. a combination of new/existing product on new/existing market – for more see [Ansoff's matrix](#)

Concentric diversification	Conglomerate diversification	Horizontal diversification
New products share a common threat with the company's existing products	New products bear no relationship to the company's existing products	New products are not related to company's existing products but can be sold to the same segment



Value-marketing strategy

9. Value-marketing strategy

- Today the customers are demanding something different then they did in past. They want the right combination of product quality, good service and timely delivery .
- Value marketing strategy stresses real product performance and delivering on promises
- Related to [value delivery network/marketing channels](#), or [creating shared value](#)
- Can build on either [upstream or downstream activities](#)
- A lot of influencing aspects
 - Product quality
 - What are the attributes of quality
 - Are they distinguished by customers

SIEMENS

Quality is when our customers come back and our products don't.



Quality is our best assurance of customer allegiance, our strongest defense against foreign competition, and the only path to sustained growth and earnings

Peter Drucker: Quality in a service or product is not what you put into it. It is what the client or customer gets out of it



TQM, Lean management, Six Sigma, ...?

What cars are more reliable? Fiat or Bentley?
[Honda named most reliable car for eighth year in a row while Bentley hits back at claim](#)
[86% of cars suffered faults last year.](#)

[Not-stick coating Ketchup bottle?](#)

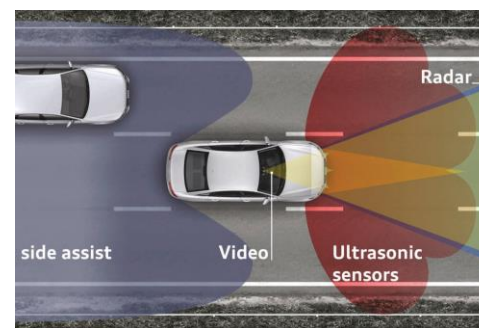


Product parameters - achieving much or more than competition ([differentiation, focus](#)), unique parameters or elimination of unfavoured characteristics(creating [blue ocean](#))

What are the core parameters for a new car?

Reliability?
 Fuels-consumption?
 Safety?
 Assistant systems?
 Laser LED light?
 Entertainment systems?
 Artificial intelligence?

[Forbes: The Hottest New-Car Features For 2014](#)



Value-marketing strategy

- Sales Support Services
 - Related to [product layers](#)
- Style and design
 - For many products the only way how to differentiate from the competition



[After 26 Months, Hyundai Assurance Program Gets Its Walking Papers,](#)







































- Branding
 - Related to [positioning](#)

David Ogilvy: The intangible sum of a product's attributes: its name, packaging, and price, its history, its reputation, and the way it's advertised.

Roberto Goizueta, the late CEO of Coca-Cola: All our factories and facilities could burn down tomorrow but you'd hardly touch the value of the company; all that actually lies in the goodwill of our brand franchise and the collective knowledge in the company.

- [Distribution](#) (speed, availability, reliability, ...)
- [Packaging](#)
- ...

01  +21% 119,863 \$m	02  +15% 107,439 \$m	03  +3% 81,563 \$m	04  -8% 72,244 \$m	05  +3% 61,154 \$m	06  -3% 45,480 \$m	07  +15% 45,462 \$m	08  +20% 42,392 \$m
09  +1% 42,254 \$m	10  +8% 34,338 \$m	11  +7% 34,214 \$m	12  -8% 34,153 \$m	13  +14% 32,223 \$m	14  +6% 30,936 \$m	amazon 	
16  +8% 25,980 \$m	17  -8% 23,758 \$m	18  -9% 22,845 \$m	19  -9% 22,552 \$m	20  +17% 21,673 \$m	21  +16% 21,083 \$m		
22  +16% 19,875 \$m	23  +11% 19,510 \$m	24  +7% 19,119 \$m	25  +4% 17,340 \$m	26  +15% 15,865 \$m	27  +5% 14,470 \$m	28  +9% 14,358 \$m	30  +8% 14,078 \$m
29 		31 		32  +4% 13,442 \$m	33  +8% 13,142 \$m	34  +3% 13,024 \$m	35  +9% 12,456 \$m
+86% 14,249 \$m 		+23% 13,716 \$m 		36  +12% 12,126 \$m	37  +6% 11,702 \$m	38  +7% 11,406 \$m	39  +18% 10,876 \$m



That's all Folks!