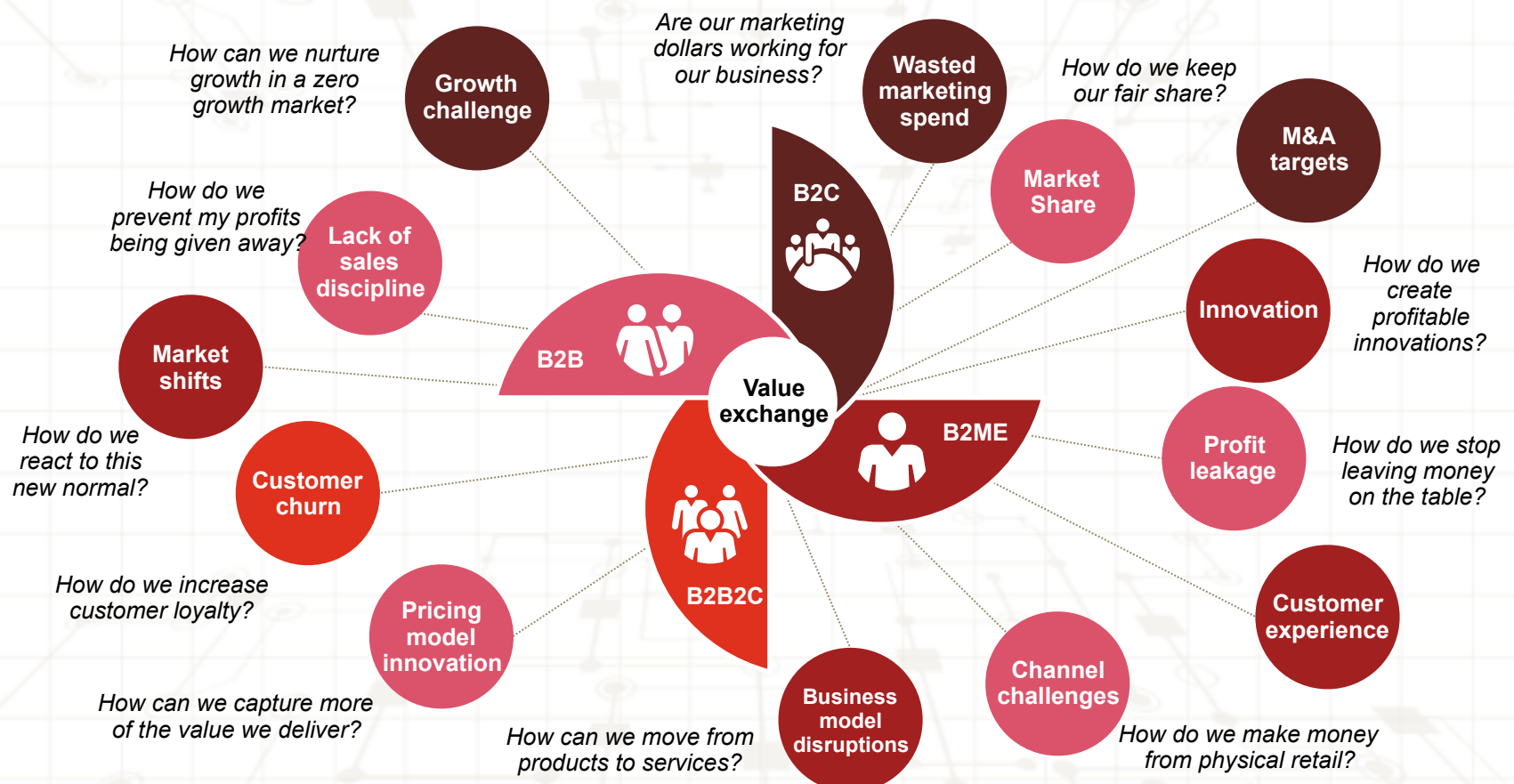


# Pricing overview

## What causes pricing issues?



Click each item to learn more.

# *Pricing overview*

Why is setting the right price critical to an organization?



**Pricing provides tremendous power to shape the destiny of an organization.**

# Pricing overview

Why is setting the right price critical to an organization?

**“ The single most important decision in evaluating a business is *pricing power*. ”**



*"If you've got the power to raise prices without losing business to a competitor, you've got a very good business. And if you have to have a prayer session before raising the price by 10 percent, then you've got a terrible business."*

**Warren Buffet**

# Pricing simulator

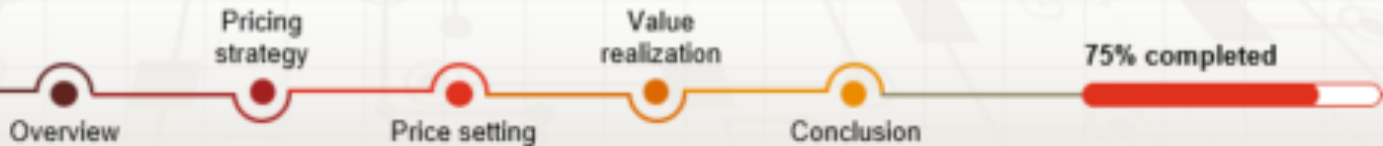


Having completed this simulation, what do you think are some considerations for Fruitizer when making pricing decisions in a real world setting?

- a. Company's strategic and financial goals [correct]
- b. Product's value proposition compared to competitors [correct]
- c. Competitors and reactions to Fruitizer's pricing decisions [correct]
- d. Pricing impact on volume [correct]
- e. Pricing impact on profitability [correct]

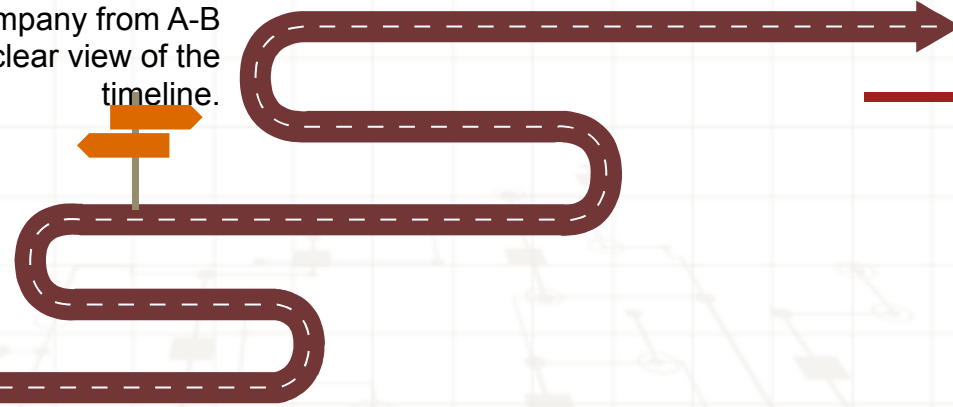
Submit

Course progress >>>



# Pricing strategy

**Pricing strategy**  
Defined pricing actions that will take the company from A-B with a clear view of the timeline.



Pricing strategy

Value realization

75% completed

Course progress >>>

Overview

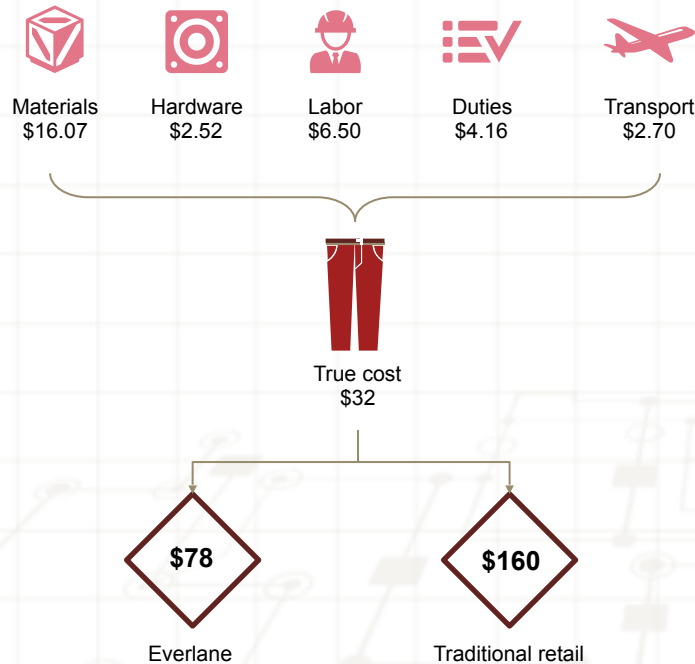
Price setting

Conclusion

# Pricing strategy example

## Transparent Pricing

We believe customers have the right to know what their products cost to make



**How does it support the company's objective? What are the specific pricing actions?**

- Aligned with the company's overall objective of creating value and sharing it in a transparent way with the customer.
- Direct price comparisons to competitors on every item is shared on the website
- Price levels that are 3-5x below the competition to pass value to customers
- Simple pricing instead of traditional discounts.

# Understanding a company's position in the market

- Customer**
- Attributes
  - Purchase habits
  - Willingness-to-pay
  - Needs

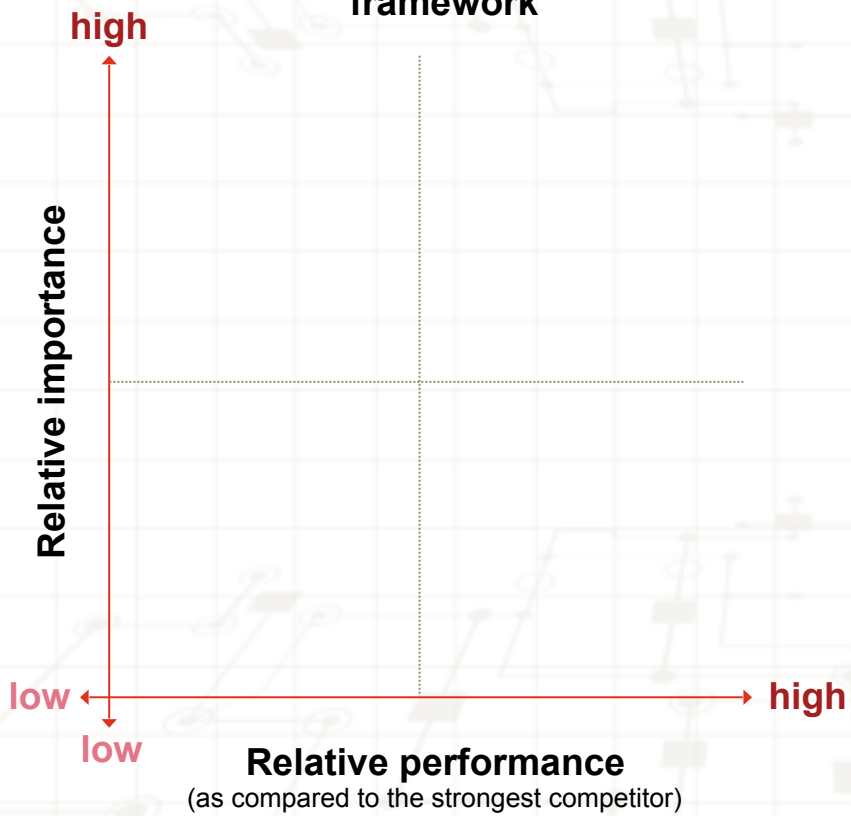
- Company**
- Brand
  - Services
  - Products
  - Value proposition

- Competitor**
- Brand
  - Services
  - Products
  - Value proposition



# Understanding a company's position in the market

## Competitive advantage graph/ framework



Strategic competitive advantages must be:

- a. Important to customers
- b. Perceived by customers
- c. Sustainable

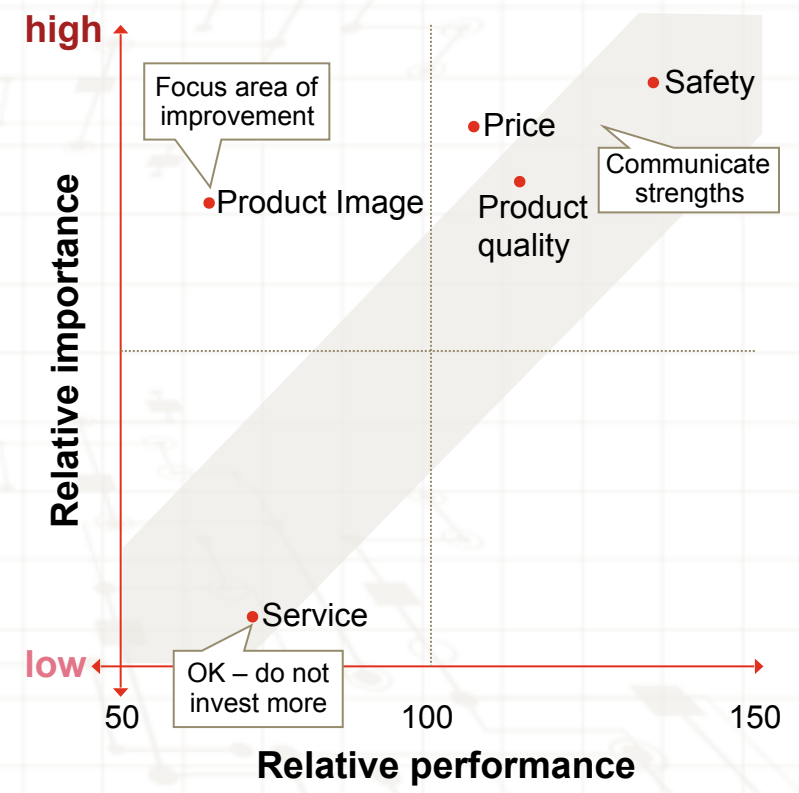


*Understanding a company's position in the market*

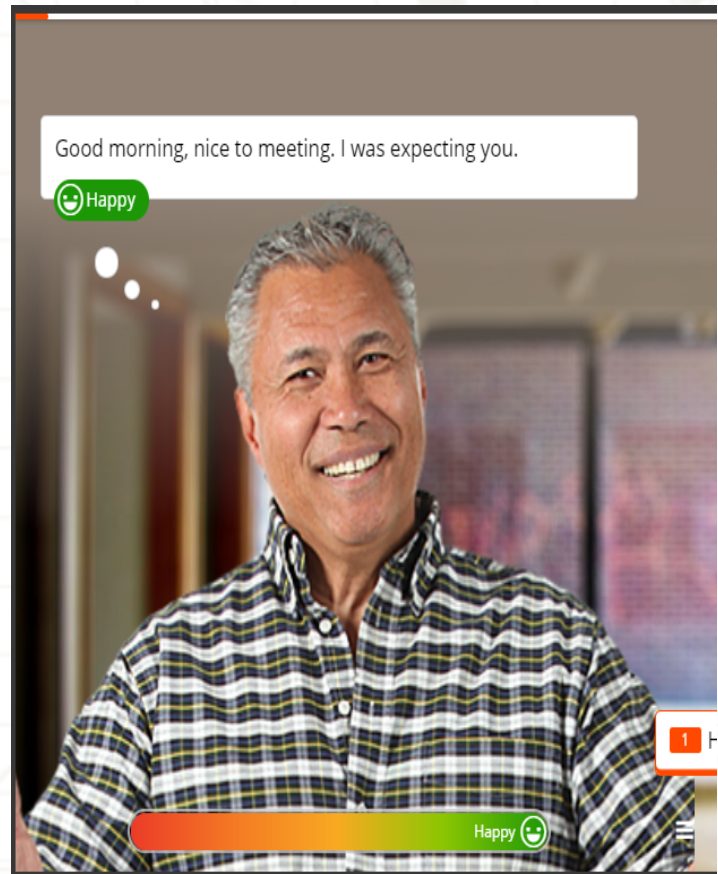
## Attributes

- Safety
- Price
- Quality of service
- Product quality
- Brand

Competitive advantage graph/framework



# Meet the Client



? On what you know so far about the company, should Fruitirizer do to improve market share?

- A. Aggressively reduce price.
- B. Spend more on packaging.
- C. Spend more on service. [Correct]



# Four perspectives should be accounted for when setting prices

More accurate Higher effort

 Value pricing


Placeholder for text

 Competition matching

Placeholder for text

 Cost plus

Placeholder for text

 Historical pricing

Placeholder for text

Less accurate low effort

Click each item to learn more.



# Four perspectives should be accounted for when setting prices

## Value pricing



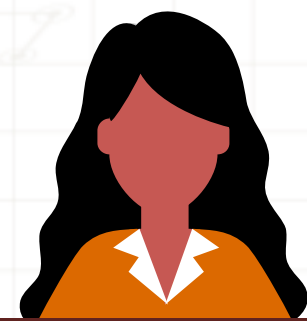
Cost Plus

Finance



What does  
here?

Marketing

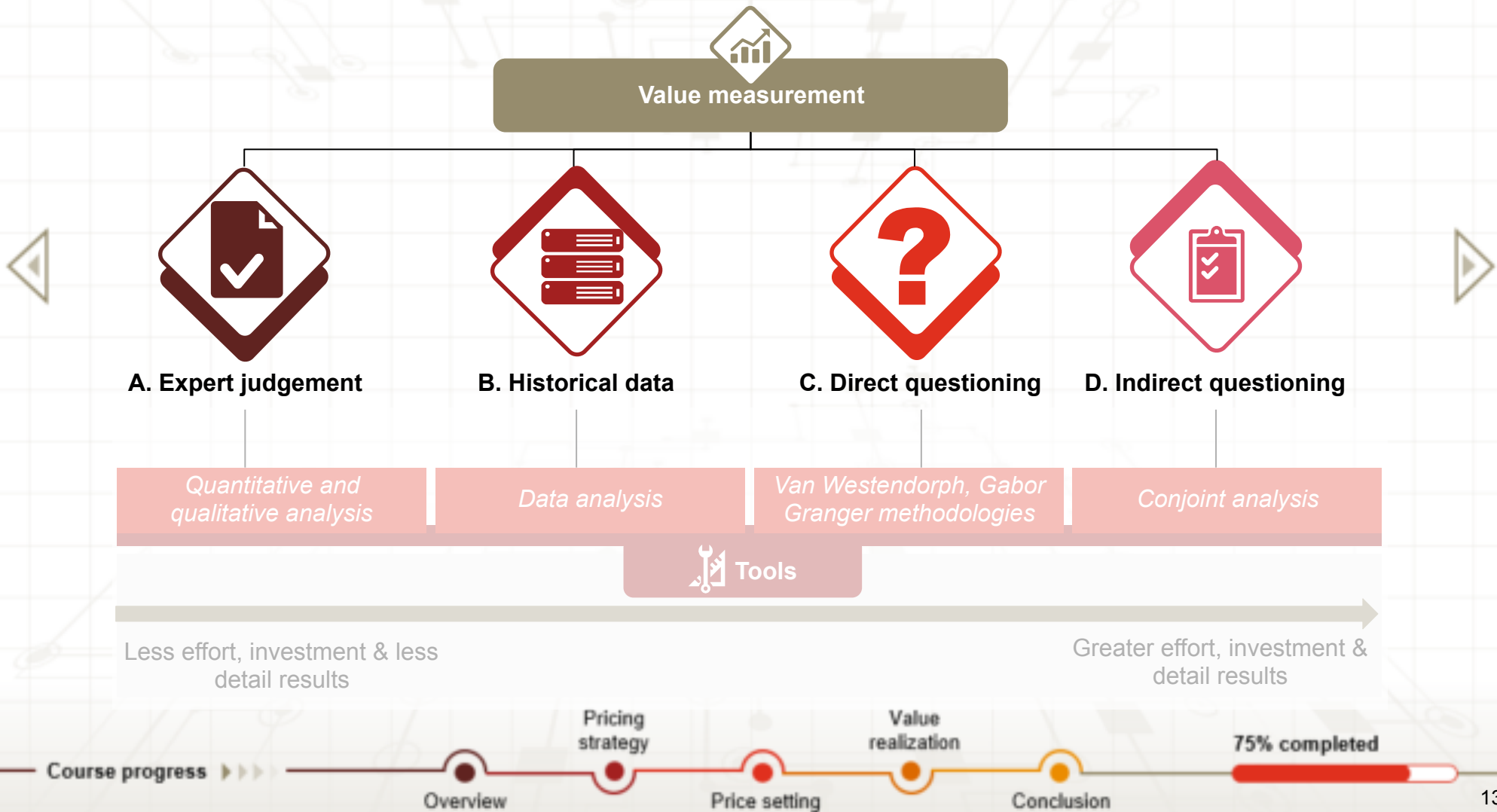


Competition  
matching

Sales

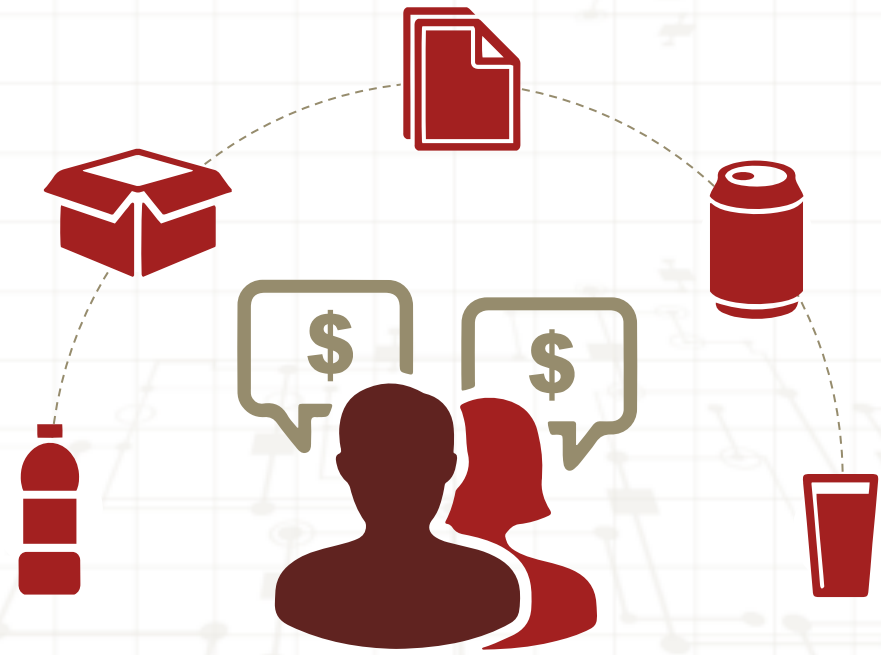


# Common ways to measure value



# Price elasticity of demand

$$\text{Price Elasticity} = \frac{\% \Delta \text{ Volume}}{\% \Delta \text{ Price}} = \frac{\quad}{\quad} =$$



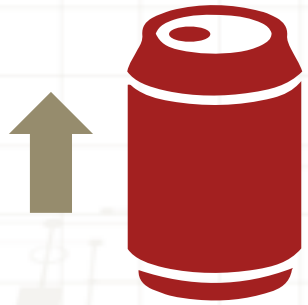
# Calculating and interpreting price elasticity

$$\text{Price Elasticity} = \frac{\% \Delta \text{Volume}}{\% \Delta \text{Price}} = \frac{-10\%}{5\%} = -2\%$$

Volume 0 = 100 units

Price 0 = \$1.00

5%  
price increase



10%  
volume decrease

Volume 1 = 90 units

Price 1 = \$1.05

# Calculating and interpreting price elasticity

$$\text{Price Elasticity} = \frac{\% \Delta \text{ Volume}}{\% \Delta \text{ Price}} = \frac{-10\%}{5\%} = -2\%$$

Value	Descriptive terms
$E_d = 0$	Perfectly inelastic demand
$-1 < E_d < 0$	Inelastic or relatively inelastic demand
$E_d = -1$	Unit elastic, unit elasticity, unitary elasticity or unitary elastic demand
$-\infty < E_d < -1$	Elastic or relatively elastic demand
$E_d = -\infty$	Perfectly elastic demand



# Our recommendation to the client

## The Problem

The company's goal is to grow market share by from 18% to 25% in the mid term subject to the following considerations:

- Keep producing high quality beverages
- Margins do not fall below 10%
- Short term volume does not drop by more than 5%

## Recommendation


To meet these objectives we suggest that the client increase price by 7% to \$3.48 and simultaneously reduce packaging costs by \$0.2


## Analysis


This recommendation is based on the following observations about the market:

- Customers are not that price sensitive and do not perceive pricing to be the problem
- The primarily issue with low market share is poor service – long wait times that's driving away business.
- To fix this problem Frutisizer needs to install new equipment in their stores, which means investing \$1M today
- In order to support this investment the company should consider the 7% price increase coupled with less spend on packaging (where they are overspending today) so that margins stay at 10%


Poor contract management 


Unstructured discounting 


Mis-aligned incentives 


Lack of sales effectiveness 



 Insufficient pricing monitoring

 Poor understanding of cost to serve

 Lack of defined processes

 Unclear price communication

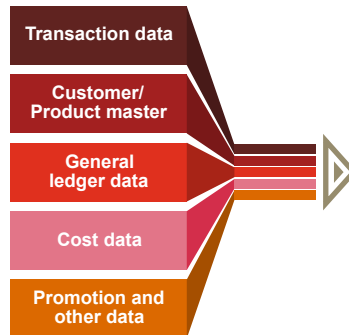


## Approach for realizing value

### 0 Gather information (And define the analytical foundation)

Identify data sources required

#### Data sources



Define structure that brings disparate data sources together under one data model (analytical foundation)

#### Analytical foundation



Leverage price analytical tools required to make insights actionable

- Volume price analysis
- Price waterfall

# Assessing price leakages

**?** Based on what you learned in the interview with the Regional Manager, which of the following do you think is contributing to the leakage issue? Check all that apply.  
(A and B are correct)

A. Insufficient price monitoring [Correct]

B. Misaligned incentives [Correct]

C. Unstructured discounting

D. [Please add distractor]

