



Seeds . . .

Issue Number 7

Pricing

During a recent pricing meeting one of our hottest debates involved whether or not to continue publishing a price list to the industry. While common as a pricing practice, market research conducted by the Allegheny Marketing Group supported the position of withdrawing price lists from the end user customer market. Findings from the research showed:

- a) The price end users were willing to pay for the same product varied by over 60%.
- b) The top end of the price range exceeded current published prices by over 15%.
- c) All competitors had each other's price lists and all published prices were nearly identical.
- d) Prices had decreased by approximately 6 – 8% in a 12 month period. Unit demand was down slightly.

These research findings were extreme but not unusual from other pricing studies conducted.

While the final conclusions cannot be divulged, the issue of publishing price lists is one companies should reconsider. A quick glance at the pros and cons of publishing prices may be helpful.

The answer varies by the type of product and the customers' purchasing process. However, if your strategy is to move your products out of the commodity category, consideration should be given to removing industry wide price lists.

Pros
<ul style="list-style-type: none">• Company employees have a mechanism to quote prices quickly.• Market channels can quote estimated prices quickly of quote final prices faster.• Price lists establish a market price structure.• Customers obtain a sense of price fairness and consistency.• Price lists can track product margins if based on product costs.

Cons
<ul style="list-style-type: none">• Price lists put a ceiling on the highest prices charged.• Company can be leaving money on the table if customers value the product offering higher than the published price.• Competitors can track your pricing levels easier.• Competitors can track your product costs.

Marketing Thoughts

Thoughts about Marketing and Sales.

- Perception is reality
- If the customer wants vanilla, give him vanilla.
- Unless constantly nurtured, nothing is as short-lived as a good customer.
- Large oaks from little acorns grow... be careful when pricing low quantity orders.

Marketing Channels

Previous *Seeds...* issues discussed factors influencing channel selection and the strengths of various channels. Another important assessment should be made – What do customers require and value? Based on Allegheny Marketing Group research, the importance of marketing channels to customers is second only to product quality.

Marketing channels, used in the broadest definition, are the link between a company’s products and services and market segments. Different channels offer varying degrees of value-added services, as discussed in *Seeds...* Issue 2. By matching the value-added services of a channel to important customer requirements of a target market, the company will be using the most effective channel. If all targeted market segments have the same important requirements, then a single market channel would be beneficial; if not, multiple channels should be considered.

A conceptual way to start analyzing marketing channels is through the use of **value-added screens**. (In later *Seeds...* issues, we will discuss coverage and cost screens.) The following example illustrates how value-added screens can be used.

Figure 1 outlines different value-added elements that link a company’s product/services to market segments. Different channels offer varying degrees of the value-added elements shown. For example, value-added distributors can often repackage products more efficiently than a direct employee channel, while the direct employee channel can usually provide technical assistance more effectively.

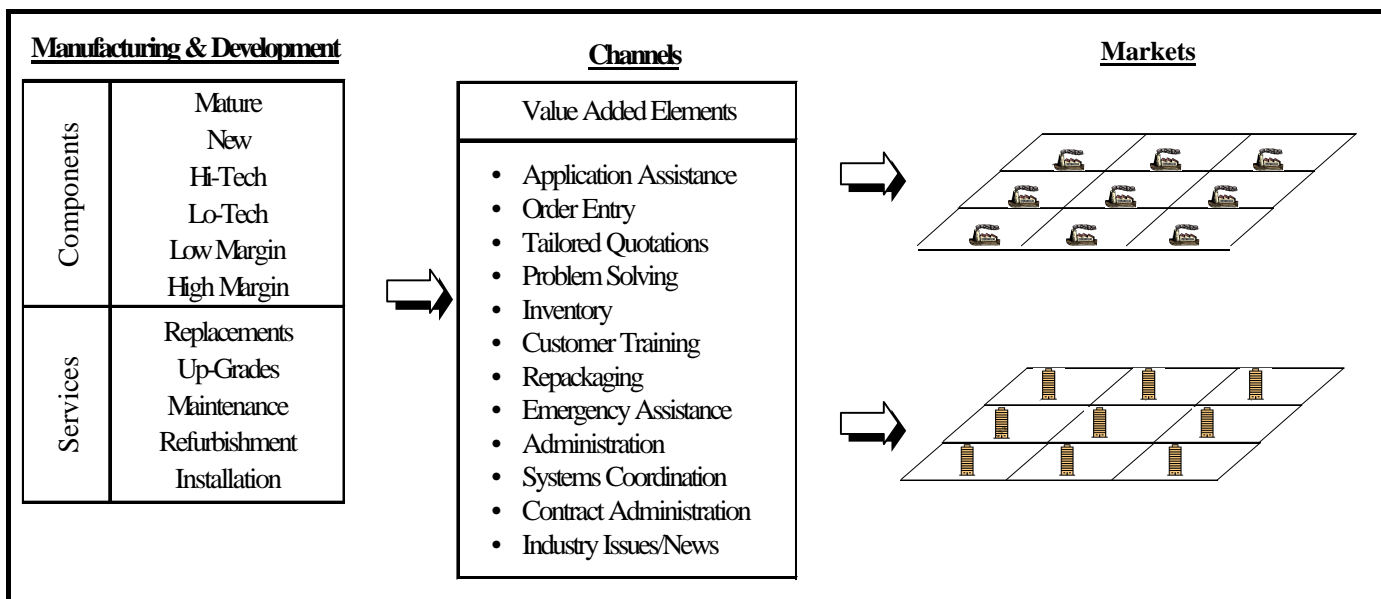


Figure 1

Figure 2 illustrates a channel value-added screen that highlights the *strengths* of a *distributor* channel (shown in the non-shaded squares). Other value-added screens would be different for other channels.

Figure 3 illustrates a hypothetical customer requirements screen. The most important requirements are shown in the non-shaded squares. These requirements change from market segment to market segment. To analyze market channel effectiveness, it is essential to understand and know customer requirements.

Marketing Channels - *continued*

Value-Added Screen

Transportation	Inventory	Problem Solving
Tailored Quotations	Customer Training	Physical Locations
Order Entry	Repackaging	Sells Multiple Products

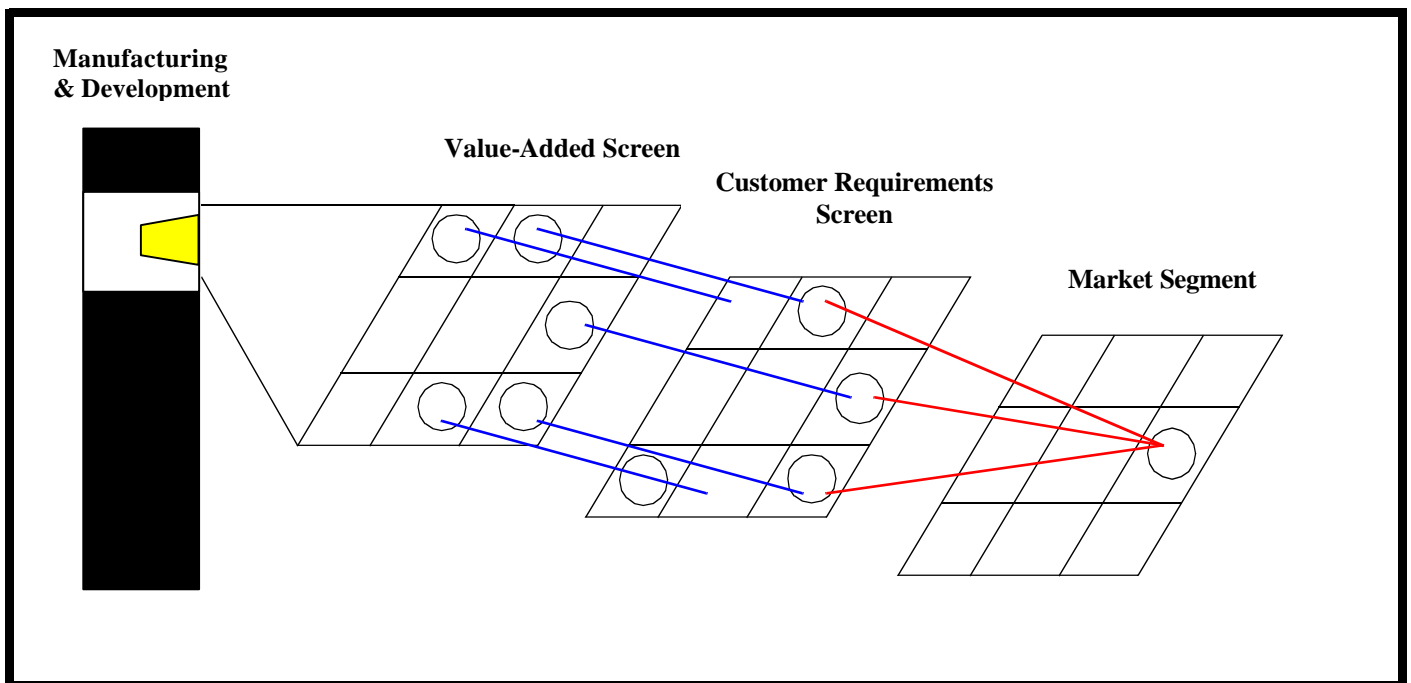
Figure 2

Customer Requirements Screen

Buys Specials	Demands Fast Response	Requires Problem Solving
Inspects Incoming Quality	Special Terms & Conditions	Wants Local Contracts
Measures Reliability	Wants Maintenance Contracts	Buys Package Purchases

Figure 3

Figure 4 shows that by placing the two screens together there is a match between selected value-added services and customer requirements. If each white oval in the screen were an open door, one could shine a light through both screens and light up the targeted market. If there were no match – no light, and not a very effective channel.



As mentioned, there are other aspects of channel analysis such as coverage and costs. In future issues of *Seeds...* we will discuss the combination of value-added services, coverage, and costs and tie them together in real-world applications.

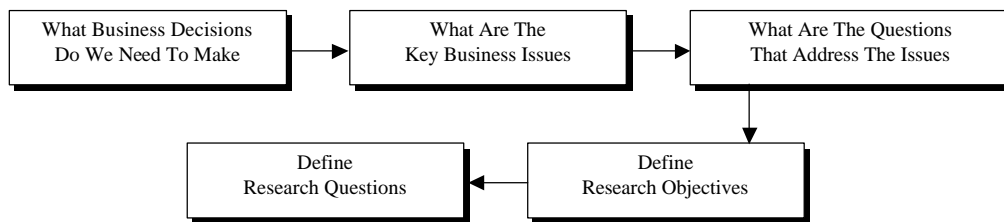
Market Research

The overriding purpose for conducting industrial market research is to provide market intelligence to make sound business decisions. The more information managers have at their fingertips, the more likely the decisions they make will be the correct ones. Reviewing over 50 market research studies in the past 18 months, the most common management decisions have been:

- Should we invest in added plant capacity?
- Should we introduce a new product line? If so, when?
- What new markets exist for the current product line?
- Do we have the right sales force?
- Should we change our pricing process and levels?
- What business processes should be changed to improve customer satisfaction and obtain competitive advantage?
- Should we be bundling or unbundling selected products and services?

While not inclusive, the above represents a good cross-section of primary reasons companies elected to conduct market research. Of course there is a case to be made that market research is often used to resolve internal company conflicts by offering third party opinions on key customer issues. Testing hypotheses can be a valuable technique to move companies off dead center on divided opinions.

Research objectives should be established that provide direct answers to key decisions. Once the correct research objectives are established, the proper line of research questioning can be developed. Using the process shown helps ensure the research is comprehensive enough to not overlook important research questions.



In the next issue of *Seeds...*, we will use examples of this process to show how different types of market research questionnaires can and have been developed.

Afterthought

The following comments are food for thought - and will be debated in future *Seeds...* issues.

- The company with the most *number* of customer always wins.
- Strategic partnerships will be a curse to most sellers in this decade.
- Marketing is being replaced as a company function by sales.

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