



Marcom Class 2017

Pricing: capturing value

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ROME BUSINESS SCHOOL

Agenda (I)

- Business Administration is performance
- Competing in the Age of Knowledge & Digital Business
- What is value?
- What is pricing?
- The shelf as a first moment of truth
- Pricing from a Consumer's viewpoint
- Pricing from a Buyer's viewpoint



Agenda (II)

- Increasing the “average selling price”: key account management and relationships
- Valuation of a business: the ultimate captured value
- Class workout: from frozen yogurth to frozen cakes
- Class workout: selling a software
- Ask yourself on Monday morning: what’s in it for my job?
- Final discussion & questions



Business Administration is Performance



What is business performance?

1. Financial results (sales, profit)
2. Metrics (share of consumers above all)
3. Ratings (consumer, customer, banks, shareholders, employees..)
4. Behaviours (individual and team)



**We are living and competing in the Age of
Knowledge and Digital Business**

**This has strong implications on capturing
value**

What is value?

- Value is our ability to create longterm relationships based on trust with our Consumers and Clients



What is pricing?

- The “right” pricing leading to sustainable profitability is the reward for our trustworthy relationships with our Consumers and Clients



The ultimate test for profit

Long-term Value = (Repeat sales) – (Cost of service+cost of first sales)



Consumer vs. Customer

- A Consumer is a single person actually using a product and having a full experience with a brand (B2C)
- A Customer is an entity (a single store, a retail chain, an enterprise) buying and/or reselling a product to its clients (B2B). The Buyer is the key manager



The shelf as the first moment of truth

- Luxury niche (flagship store or direct delivery)
- Premium Brands (upper positioning)
- Private label/Value Brand (central positioning)
- Low price labels (lower positioning)
- Internet (direct delivery)





DA OGGI PUOI SCOPRIRE
L'ORIGINE DELLE MATERIE PRIME
DEI NOSTRI PRODOTTI:

SOLO COOP LO FA.

coop
LA COOP SEI TU.

yogurt
alla banana
coop
INTEGRO





An example of report from a store check in a supermarket in Italy



Pricing from the Consumer's viewpoint

- Retail price including VAT
- Promotions and discounts
- Buying on internet (give them contents for free!)
- Price is part of a full experience with our brand
- Packaging as a perception of pricing on the shelf



Long-term consumer pricing in an established company

- Satisfaction Ratings for loyalty and consumption long-term
- Sustainable cost of usage of the product
- Closing the gap vs competition on the shelf
- Can the younger generation of consumer pay for the current price?



Strategic pricing for a start-up

- Dissatisfied users of the target product category will be the first to try a new offer
- Non-users of the target product category will try later. They will compare the price of the new offer with the alternatives they have today



Pricing from the Buyer's viewpoint

- The Buyer's full experience of service from suppliers: 1) invoiced price, 2) filling orders, 3) shipping on time, 4) general requests
- Our satisfaction ratings vs competition to measure our relationship with the Buyer
- List price and discounts
- Profit per meter of shelf is the key metric for the Buyer
- ROI in a B2B business when the company makes an investment (high price)
- It is all about building a personal relationship in the Age of Digital Business



An example of a ROI analysis for a software solution

Pricing break-down in an established company

- The company average selling price
- Single channel's profitability
- Single client's profitability



Increasing the average selling price

- Key account management means relationships
- Increasing the list price is possible only with strong ratings from the Consumer and the Buyer
- Changing the mix of the products sold is a smart way to increase our average selling price for the Client



Valuation of a business

- We have to look at both the Consumer and Client pricing in perspective (5 years)
- We need to prepare a sensitivity analysis to identify possible future risks for the pricing of our products or services
- The pricing of the whole company is the ultimate way to capture value in the market



Class workout: from frozen yogurth to frozen yogurth cakes



A leading manufacturer of frozen yogurth wants to expand into other food segments. Some research has indicated that it can enter the segment of “cakes” launching a frozen yogurth cake. The average retail price in the market for one box of cake is euro 5.

The retail price in the grocery channel of a single pack of 150 grs of frozen yogurth is euro 1,60. The frozen yogurth cake will have a weight of 450 grs. The company wants to launch this new cake saying to its loyal consumers that **the retail price of the cake is 10% less than the yogurth's one.**

Under this assumption, what will the retail price of one box of frozen yogurth cake be?



Class workout: selling a software solution to a big company



A software company is preparing an offer for a new client. There is an annual maintenance of euro 10k and the total implementation cost in the first year is euro 40k. The amortization period is 5 years.

There are 5 potential users of the software and their average cost is euro 30k/year for each employee. The software will save 60% of their time.

What is the maximum price for the software license to have a payback within the first 12 months?

Ask yourself on Monday morning

- Do we have trustworthy relationships with our Consumers and Clients?
- Is our average selling price right? Are we profitable long-term?
- Can we go into the accounting details of distribution channels and single clients?
- Can we increase our list price or change the mix of products favourably?



Final questions and conclusions

