



*Marcom Class 2017*

# Pricing: capturing value

Ing. Paolo Pettenello

Rome, June 10, 2017



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.





# **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

