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Positioning, branding and pricing

What makes them buy?

Key to the growth and development of most organisations is the positioning, pricing and branding strategy. As a manager it is useful to have a working knowledge of the fundamentals of this area, leading to an understanding of why customers, and in particular the decision-makers buy.

Some products and services are far more complex than others because of the perceived value or benefits associated with any given purchase. In certain cases, some products and services become elevated far beyond the basic core product, because they fulfil higher-level customer needs and therefore appeal to a particular segment of the market. A distinct product or service that combines a high price with a reputation for quality or prestige may occupy a unique position in the marketplace and may also be perceived to be superior to the other alternatives available. Conversely, some products and services that carry few additional attributes may still be popular with some segments of the market, provided the price is right.

In this theme you will:

- ◆ Evaluate the need for positioning and branding or special identity to capture a position in the market
- ◆ Review pricing policies and pricing objectives
- ◆ Understand what factors affect pricing and positioning in the market
- ◆ Identify basic buying behaviours and the key decision-makers.

Positioning

In 'Market-Driven Management' (2000), the author Jean-Jacques Lambin quotes the following definition by Ries and Trout (1981), since it passes the test of time and encompasses the key elements associated with positioning.

As suggested by the definition, positioning is all about developing a distinctive offering that is recognised and appreciated by the target market. Some products and services can be elevated, so that they are perceived as much more than a product, because of the nature of the marketing mix e.g. high price, high

Positioning is the act of designing and communicating the firm's offer so that it occupies a distinct and valued place in the target customers' mind.

Lambin (2000)

service levels and high quality Products positioned at the lower end of the market may not be valued by every market segment, although they may still be distinct and valued because they meet the needs of some customers i.e. they may be affordable.

Developing positioning strategies

In most cases, organisations do not have sole access to their target markets. To compete, suppliers therefore need to differentiate their product or service in some way, from the various other options available. This differentiation can take a tangible form e.g. based on the physical attributes of the product, or an intangible form e.g. based on perceptions and an understanding of customer psychology and buying motives.

In fact, competitive positioning requires the development of a total 'offering' that matches customer perceptions and fulfils a range of customer needs, including higher level needs, such as the need for 'status' or 'esteem'.

Common positioning strategies

The aim of any positioning strategy is to provide the customer with a basis for distinguishing the organisation from its competitors, so that it may be viewed as the preferred supplier to its target market segments. There are number of positioning options open to an organisation, depending on the particular circumstances involved.

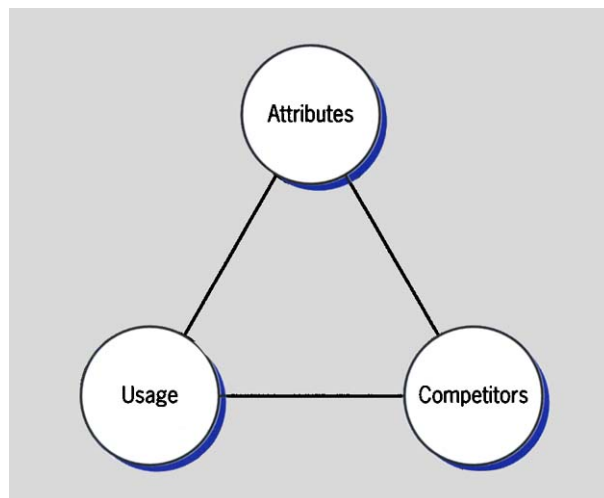


Figure 3.1 Positioning strategies

Positioning in relation to attributes

Product or service attributes include aspects such as product performance, product durability and the benefits desired by the consumer. A good example of positioning in relation to attributes involves the financial service and banking industry.

Because it is very difficult to differentiate 'financial products', financial service organisations often need reinforce other aspects such as security, reliability and stability.

Positioning in relation to usage

This involves positioning on the basis of use or consumption. Sometimes it is possible to identify particular use or lifestyle characteristics that appeal to certain users.

This means the product or service can be developed and promoted to meet the needs of the target market, such as in the case of low-cost telephone calls after 6 pm or over the weekend in the case of UK 'home users' of the Internet.

Positioning in relation to competitors

There are three basic approaches to this form of positioning.

Positioning directly against competitors

This could involve developing a product with comparable features to those of the main competitor, which is sold at a lower price than the competitive product.

Positioning away from competitors

Although a product or service might perform similarly to that of a competitor, in this case it will be positioned in such a way, as to promote the differences between itself and the competitive product.

Positioning in relation to a different product class

This involves the use of a slightly different type or 'class' of product or service, to compete with the more common alternatives that may exist. In some cases a less traditional or common option, can still meet the needs of the consumer.

Common positioning errors

Due to the complex nature of positioning, there are many potential problems associated with the development of a positioning strategy. From a strategic point of view, these problems can be grouped into four main areas.

<i>Positioning Error</i>	<i>Possible Causes</i>
Under positioning	The organisation either fails to successfully position, or does not even attempt to position or 'brand' the product.
Over positioning	Because of a very strong focus on one or a small number of attributes, consumers take a narrow view of the nature of product or the company concerned.
Confused positioning	This is usually the result of following too many options, or the diverse strategies of the competition, leaving the consumer confused about the image and values of the company.
Implausible positioning	This can occur when the claims made or the image created, does not appear to be possible or 'plausible' in the eyes of the consumer.

Table 3.1 *Common positioning errors*

What is a brand?

When a product occupies a distinct position in the marketplace it could be described as a brand.

According to McDonald (2002) a brand is about a relationship with the customer and in particular a relationship that is personified either by the company's name or by the brand name on the product itself. Here is what McDonald has to say about company and product brand names:

IBM, BMW and Shell are excellent examples of company brand names. Persil, Coca-Cola, Fosters Lager, Dulux Paint and Castrol GTX are excellent examples of product brand names.
McDonald (2002)

Developing and maintaining a brand (branding) is important to many suppliers, since individual brands are recognised by many customers. Branding a product or service allows a product or service to take on an additional 'personality'. In a sense a brand is rather like an individual, with its' own unique personality. A brand communicates with customers in various ways and can also be associated with certain values. If the values of the brand can be matched to the values and perceptions of a particular market segment, there is an opportunity to appeal to a particular market.

Branding can make it easier for a manufacturer to match a product or range of products to a market. However, it must be said that before a brand can be successfully established, there is usually a high cost involved. This is because a brand must be built and established over time, usually by undertaking extensive advertising and promotion.

Product and brand positioning

Brand strategies broadly divide into two main positions:

Brands which emphasise the corporate origins of a product or service – such as Heinz. Heinz makes a wide range of individual products all principally branded Heinz.

Bands that emphasise the differentiation of the product or service. Typically an organisation will promote individual sections of the range without alluding to the company name. This is common for organisations in the chemicals and cosmetics industries for instance.

There are a number of in-between positions where an organisation promotes the branding of a range or both the corporate and individual brands. Some organisations hide their brands completely from the end user and rely on endorsement from other brands, such as supermarket own brand labels, to sell the goods.

There are a number of advantages and disadvantages of branding strategies.

<i>Brand strategy</i>	<i>Advantages</i>	<i>Disadvantages</i>
Corporate brand	Strength of brand associated with all products in the range Promotional costs are spread across the range	New products have to fit with the brand values so more difficult to change direction New product failures reflect on the brand
Multi brand	Allows differentiation of brands – there could be a low value and high value product available from the same company Existing brands are insulated from new product failure	Each brand needs to be promoted separately Market sectors need to contain enough potential to support more than one brand
Range brand	The strength of the brand is conveyed to all the products in the range Promotional costs are spread across all the products in the range	New products have to fit with the range brand values so more difficult to change direction New product failures reflect on the range brand

Table 3.2 *Advantages and disadvantages of branding strategies*

Source: Adapted from Brown and McDonald (1994)
in Dummond and Ensor (2005)

Activity 8

Positioning and branding

Objectives

This activity will help you to:

- ◆ evaluate how branding and positioning can contribute to the development of products or services in your organisation
- ◆ understand the impact of common positioning errors.

Task

- 1 Note down the key products or services produced by your organisation.

- 2 Make notes about these products under the following headings:

Positioning in relation to attributes

Positioning in relation to usage

Positioning in relation to competitors

- ◆ Positioning directly against competitors
- ◆ Positioning away from competitors
- ◆ Positioning in relation to a different product class

What risks would be associated with changing your brand?

Consider the brand – does it have a particular personality or identity?

Is the brand(s) part of a corporate, multi or range brand? And what are the advantages and disadvantages for your products of their branding?

<i>Brand strategy</i>	<i>Advantages</i>	<i>Disadvantages</i>

Feedback

This activity is designed to structure your thinking about positioning and branding in your organisation. It may be worth talking to someone in your marketing department or someone with branding expertise. Do you feel you know enough about the brand and how customers perceive your brand? Remember that a brand can be an asset and a liability depending on market conditions, performance and customer perceptions. It is an area of the business that needs to be constantly reviewed to check that it reflects the values you think you are selling.

Is the price right?

Pricing decisions are often the most difficult to make and price is not always the easiest element of the marketing mix to adjust. This is because many factors can affect the price of a product or service. Besides needing to consider the constantly changing micro and macro environmental factors, marketers must also take many other issues into consideration. Profitability and corporate image may be at risk if the wrong pricing decisions are made, so it is very important to understand the factors involved in pricing setting. Setting a price is therefore often much more complex than it first appears and is not just a financial decision.

Pricing approaches

Various approaches can be adopted when it comes to pricing a product or a service. Often the following approaches are used:

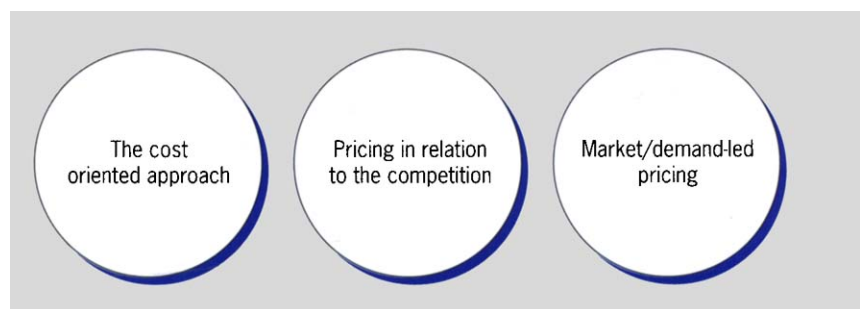


Figure 3.2 Pricing approaches

The cost oriented approach

The cost oriented or 'cost-plus' approach involves basing the final price on the cost of producing the product or service, plus an agreed profit margin. Although this approach is very simple to understand and in theory it might be a good way of establishing a desired profit margin, in practice this method can be a little dangerous. This is because the 'cost-plus' approach takes no account of the prices offered by the competition, or the price the market is willing to pay.

Pricing in relation to the competition

Pricing with consideration to the prices offered by the competition is a very a logical approach. The approach is based on the assumption that all competitors have similar cost structures and there is a little differentiation of the product or service involved. In practice no two firms have the same cost structure and it is not always easy to set a pricing structure, because of the other factors involved in positioning and branding.

Market/demand-led pricing

Market-led pricing is perhaps the best single method of setting an appropriate price, since it involves establishing the price that customers are prepared to pay in the market place. Using this approach may enable suppliers to maximize profit by charging a price significantly higher than they would have done by using a 'cost-plus' approach. On other hand, the price customers are prepared to pay may actually be below the cost of production, which would result in a loss unless other measures could be taken to reduce costs e.g. sourcing the product ready made from foreign markets to reduce direct costs.

In reality, each of the three methods indicated, should be considered when developing a pricing strategy. The final pricing decision can then be made with due regard to all the issues involved.

Pricing objectives

When establishing pricing objectives, it is important to understand and distinguish between pricing tactics and pricing strategy.

Pricing tactics and pricing strategy

Tactics relate to the short-term and strategy relates to the long-term.

Short-term pricing tactics such as the use of discounts, may be used in response to adjustments of the marketing mix by the competition, to reduce stock or to increase market share.

Long-term pricing strategies such as the adoption of a price 'skimming' policy, may be used to differentiate an organisation from the competition, or to support the positioning/branding policy of a 'high quality supplier'.

Increasing market share

Market penetration involves increasing market share, by selling existing products or services to more of the same target market.

A reduction in price would therefore seem to be a logical strategic option, when attempting to increase market share. Increasing promotional activity, or making it more effective is another way to gain market penetration. The combination of increased/more effective promotional activity and reduced prices might therefore also be a further (and more costly) option.

However, there are some dangers associated with the adoption of a price reduction strategy to gain market share. For example, price reductions could initiate a 'price war', as competitors will not be keen to lose their share of the market. There is also the possibility that price reductions could cheapen the brand image.

Increasing revenue or profits

Pricing policies also need to take the organisation's short-term and long-term revenue or profit objectives into consideration.

For example, in the short-term there may be a need to increase revenue for cash flow purposes. In this case, tactical pricing could provide the solution by moving stock more quickly through the distribution channel to generate the necessary cash flow.

In the long-term, bearing in mind that a company must satisfy its shareholders and its institutional investors, a desired level of profitability will need to be achieved. A long-term pricing strategy should therefore aim to achieve the required return on investment, while also maintaining the necessary degree of fit within the overall marketing mix.

Price penetration

Price penetration can be used both tactically and strategically. Tactically – this can mean setting low prices to gain market share. Strategically – this can mean setting low prices as part of a positioning approach. A note of caution must be exercised prior to embarking on any tactics or strategies that involve price reduction. Depending on the nature of the market and the competition price reductions could result in price wars, which of course can be extremely dangerous as far as the participants are concerned.

Price skimming

Price skimming can also be used both tactically and strategically. Tactically – this can mean setting high prices after launch because of little or no competition and the need to recover research and development costs. Strategically – this can mean setting high prices as part of a long-term positioning approach.

Factors that affect pricing

A wide range of factors can influence pricing decisions, which means price setting must not be undertaken in isolation.

When developing a pricing strategy, the following factors often need to be considered.

- ◆ Branding and how it relates to the price and values
- ◆ Competitors' prices and possible reactions to changes in price
- ◆ Corporate image and the effect of any changes in price
- ◆ Distribution channels and associated costs
- ◆ Political factors (taxes, foreign currency implications etc)
- ◆ Prevailing economic climate
- ◆ Product positioning and how it relates to price and value

- ◆ Price elasticity of the product or service concerned
- ◆ Recovery of research and development costs
- ◆ Return on investment targets
- ◆ Stage of the product life cycle.

Activity 9

An approach to pricing

Objectives

This activity will help you to:

- ◆ identify pricing strategies used in your organisation
- ◆ understand the influences on pricing in your organisation.

Task

- 1 Which of the following pricing strategies has your company used? Make notes on whether they were short-lived or longer-term, and how effective they were or are.

<i>Pricing strategy</i>	<i>Duration</i>	<i>Effectiveness</i>
Cost		
Competition		
Market led		
Strategic or tactical?		
Increasing market share		
Increasing revenue profit		
Price penetration		
Price skimming		

2 What are the main factors that influence pricing in your organisation?

Feedback

This is an essential part of the product offer and one that often influences all elements of the operation. Make sure that you understand the range of pricing strategies and whether they tend to work best as short or longer-term strategies. You may be able to find examples from people in your organisation of strategies associated with pricing that you were not aware of. Only by assembling as much information as possible can an appropriate pricing strategy be determined.

Who are the decision-makers?

Recognising decision-makers in the buying decision is a fundamental part of the customer relationship process. There are four basic buying situations:

- ◆ Complex new purchase – something new for which buyers may have limited expertise.
- ◆ Limited decision new purchase – something for which buyers need relatively little information.
- ◆ Straight rebuy – a routine purchase to the same specification.
- ◆ Modified rebuy – a more complicated purchase that is similar, but not the same as, a previous purchase.

Each may require a different decision-maker and various influences can be identified.

For instance, a straight rebuy may be purchased by a **user** of the product or service.

A **buyer** who has the authority to sign orders and make the purchase may handle any one of the buying situations. On occasions there may be a **decider** who makes the final buying decision – this could be the same as the buyer. There are also often **influencers** who affect the buying decision in different ways – i.e. through technical specifications, contacts, and previous experience.

On the other hand, there may also be **gatekeepers**. It is the role of the gatekeeper to ensure compliance with legal and internal purchasing policies.

Navigation through the decision-making process can be a complex process, but what influences do you need to look out for in the decision-maker or the set of people that makes the decision (decision-making unit). Proctor (2000) has identified 10 characteristics of buyers that may impact on the buying decision.

<i>Buyer characteristics – Psychological factors</i>	
Motivations	Organisations need to know what motivates people to buy, what benefits they perceive. Given this information it may be possible to realize a competitive advantage. Motivations may be subconscious and difficult to understand or they may be related to needs where the most basic survival needs should be met first. An understanding of where a customer is now and their perceived and actual needs is a good starting point.
Learning	Most human behaviour is acquired as a result of learning from experience – this applies to the purchase of goods and services. Drives, stimuli, cues, responses and reinforcement underpin the learning process. So a drive becomes a motive when experience tells us we need something. The stimulus reminds us of that need. Cues are used to motivate people towards the stimulus. Responses from the customer are rewarded with reinforcement. Marketing and sales professionals use stimuli, cues and reinforcement to elicit drives and responses from potential buyers.
Beliefs and attitudes	People have beliefs and attitudes that affect their purchasing behaviour. Brands are related beliefs and attitudes and may be deeply ingrained. Marketing aims to set up positive attitudes and change negative beliefs if required.
Personality	Personality can often be categorised into types or groups. Personality may be defined in terms of life style, politics, culture etc. Marketers will look for relationships between products and personality groups and link them to images they can portray in marketing communications.
Life-style	Life-style groups can be identified and categorised to achieve an accurate portrayal of their key characteristics. Marketers use such groupings to target communications. For instance, people may be grouped according to their interests, their TV viewing habits, their habits in socialising or their family groupings.
<i>Buyer characteristics – Social factors</i>	
Roles and status symbols	People often buy products that relate to or reflect their role and status.
Family influence	Perhaps the strongest reference group which influences consumer behaviour is the family. As a consequence, marketers are interested in the roles and relative influence of the various members of the family in the purchasing decision.
Age and life-cycle	Different buying patterns are exhibited at every stage in the life-cycle.
Reference groups	Reference groups are made up of people who directly or indirectly influence a person's attitudes or behaviours. Marketers may make use of the language, terminology or media most prevalent in the reference group to target communications.
Social class	Members of a social class have similar values and attitudes in common. It tends to recognise job roles, pay, wealth, education and value orientation. Social class groupings tend to have distinct product and brand references.
Social background	People's social background is reflected in their culture, values, perceptions, preferences and behaviours. These may vary considerably across the world, and what may be deemed attractive in one part of the world may be of no consequence in another.

Table 3.3 *Buyer characteristics* Source: Adapted from Proctor (2000) p151-3

Individual buyers make up organisational decision-making units. The difference in organisational buying is that they tend to be more proactive. Their primary concerns are delivery, price and service.

- ◆ Centralised purchasing has a number of implications for marketing of goods and services. There are more opportunities for the purchaser to strengthen the bargaining position and obtain lower prices by offering to buy a higher volume of services or products.
- ◆ There are more opportunities for the customer to develop a trusting relationship with individuals within a centralised purchasing function.
- ◆ Purchasing is more likely to be formalised in tenders.
- ◆ Structural ties can be formed to prevent defection of the customer.

However a decision is made, the consumers making the purchasing decision are individuals and there will be individuals who exert more influence at crucial stages of the decision than others.

Activity 10

Decision-makers

Objectives

This activity will help you to:

- ◆ identify ways in which you can influence attitudes amongst your team
- ◆ understand the importance of the internal relations in generating a customer focused approach.

Task

- 1 Consider one organisational customer or group of individual purchasers. Identify who are the:
 - ◆ Buyers
 - ◆ Influencers
 - ◆ Deciders
 - ◆ Gatekeepers
- 2 Choose a key one of these and complete an analysis of the buyer characteristics.

Buyer characteristics – Psychological factors

Motivations

Learning

Beliefs and attitudes

Personality

Life-style

Buyer characteristics – Social factors

Roles and status symbols

Family influence

Age and life-cycle

Reference groups

Social class

Social background

Feedback

This analysis will support your understanding of your customers and their buying behaviours. You need to consider how typical this purchaser is and whether it can inform the way you work with a customer. Your customer could be an internal customer. The analysis will work in the same way.

Action list

Review the activities you have completed for this theme and write down any action points that you can use to support you and your team in creating or improving the market or customer focus in your organisation.

◆ Recap

Evaluate the need for branding or special identity to capture a position in the market

- ◆ Positioning is all about developing a distinctive offering that is recognised and appreciated by the target market.
- ◆ Branding a product or service allows a product or service to take on an additional 'personality'.

Review pricing policies and pricing objectives

- ◆ Setting a price is not just a financial decision. Pricing needs to consider market and sectoral factors, internal economics and positioning in the market.
- ◆ Pricing objectives include:
 - Pricing tactics and pricing strategy
 - Increasing market share
 - Increasing revenue or profits
 - Price penetration
 - Price skimming

Understand what factors affect pricing and positioning in the market

The factors that affect pricing and positioning in the market are:

- ◆ Branding and how it relates to the price and values
- ◆ Competitors' prices and possible reactions to changes in price
- ◆ Corporate image and the effect of any changes in price
- ◆ Distribution channels and associated costs
- ◆ Political factors (taxes, foreign currency implications etc)
- ◆ Prevailing economic climate
- ◆ Product positioning and how it relates to price and value
- ◆ Price elasticity of the product or service concerned
- ◆ Recovery of research and development costs

- ◆ Return on investment targets
- ◆ Stage of the product life cycle

Identify basic buying behaviours and the key decision-makers

- ◆ Key decision-makers can be individual or organisational purchasers. There may be people who influence the purchaser and people who impose restrictions on purchasing.
- ◆ Buying behaviours are affected by a range of organisational and social factors.

▶▶ More @

Drummond, G. and Ensor, J. (2005) *Introduction to Marketing Concepts*, Elsevier Butterworth-Heinemann

This text introduces the reader to basic marketing concepts. Chapters 7 and 11 are particularly relevant covering pricing and positioning, targeting and segmenting.

Kotler, P and Keller, K. (2005) (12th Edition) *Marketing Management*, Prentice Hall

Marketing Management is a resource designed primarily for future marketing managers. The twelfth edition incorporates new material brand management and includes strong sections on connecting with customers and communicating value.

Piercy, N. F. (2002) *Market-Led Strategic Change: A Guide to Transforming the Process of Going to Market*, Butterworth-Heinemann

Piercy covers positioning and market attractiveness in Chapter 8 and pricing in Chapter 12. This is a useful text to support further learning on the theories that underpin marketing practice in organisations today.