BUSINESS MARKETING - TECHNOLOGY FOCUS

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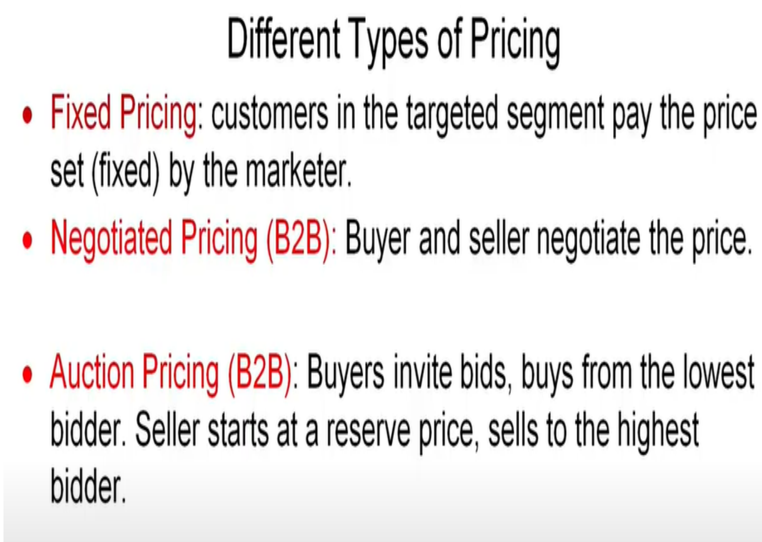
Lecture 14: B2B Pricing Basics

Hello, welcome to our next session on B2B marketing with technology focus. I am Jayant Chatterjee from IIT Kanpur. We have been discussing in the previous session about branding and we had mentioned during that discussion, during that session that brands are ultimately meant for developing a relationship with the customer and all that has effect on the commercial performance, the business performance of the firm, of the marketer. And the reason we said is that the strong brands play significant role in creating pricing strength.

It is a key component of the pricing strategic flexibility. So we will in this session and maybe couple of more will dig deeper into various aspects of pricing in the B2B context. One thing we have to remember that the price is very much counter posed with benefits. So, just like total prices mean the upfront price, it may mean also different kinds of invisible pricing elements like shipping and installation, training, repair, upkeep, financing, time and effort that are required to find, buy and use, price of accessories and disposal or recycling fees.

And these various kinds of price elements are counterposed by various kinds of benefits. And those benefits are features of key product features and certain intangibles like quality as perceived by the customer or service or availability or satisfaction.

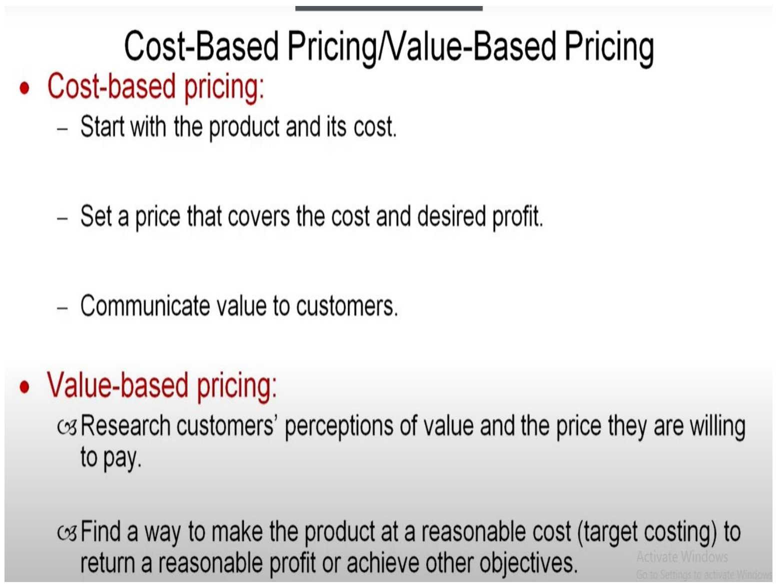
So, these benefits and total prices are weighing against each other and the key point is that we have to always ensure that in the customer mind, remember that's where the brand also resides, in the customer's mind through every transaction over a span of a relation, the feeling of benefit must exceed the feeling of cost to the customer in terms of the price charged and as we just now discussed the price which is explicit as well as various implicit elements in the price.



So, different types of pricing are there and they are fixed price which is often applicable in case of B2C and in some cases of B2B where long term contracts or rate contracts are set up. But usually the two types of pricing which are very relevant or dominant in the B2B context, one is negotiated pricing. That means there is a price that is quoted by the supplier to start with and then there are discussions between the buyers and sellers of various pros and cons and various plus and minus some features, some facilities and then a price is negotiated. That means what is quoted in the beginning is not the price at which the order gets finalized.

The other interesting type of pricing which is really a feature of B2B or professional market and that is the auction pricing. The auction pricing are kind of two types. One is where the, this is the most often, this is the tendering process or the quotation process where the buyer invite bids and the order is decided in favor of the lowest bidder. But there is also another kind of auction where the seller indicates a reserve price or a starting price and then the buyers quote, they bid different prices and the sale happens to the highest bidder. So, auction pricing is again a nature of, for example, in case of disposal sale of scraps, which is a regular feature of say metal companies or in the B2B context.

So, they will be selling a lot of metal scraps to the remelters or to the other kinds of businesses and they will indicate a reserve price and then different bidders will bid for will quote prices and the sale will happen to the highest bidder. On the other hand, when a company is buying machines, then they will invite bids and different companies will quote different prices and the order will go to the lowest bidder. So, both are aspects of auction pricing and it can also be blended with negotiated pricing.



Now when we talk about pricing, the most normal or I would the simpler way of thinking about pricing is cost plus pricing. That means you start with the product and its cost and then set a price that covers the cost and the desired margin sought by the seller. And then you communicate that cost plus the intended margin to the customer.

On the other hand, there is a value based pricing, which is what is a little bit more complex, but is what. will be attempted in every B2B transaction because cost plus pricing as we will just now see has some advantages by way of simplicity or by way of a sense of fairness but on the other hand it has a lot of drawbacks. Value based pricing on the other hand will research the different that up to what level price which is explicit can be blended with various implicit price elements and can finally become a price which actually gives a sense of value in the customer acquisition process.

So, as we discussed right in the beginning that the customer must always feel that the value received by the customer by way of tangible and intangible benefits exceed the value transaction by the customer as price.

Pricing to Meet the Internal Objectives

- The pricing strategy must be consistent with the firm's overall mission, direction, goals and marketing plan objectives.
- Due to market realities, organizations may have to trade off market share growth with profitability.

So, the influence on pricing decisions is what will lead us to this value-based pricing versus cost-based pricing. So, pricing has to meet certain internal objectives that is the pricing strategy must be consistent with the organization's overall mission, direction, goals and marketing plan objectives.

Remember that price is just one element in the marketing mix and so it is a constituent process of the marketing plan execution. So, pricing must meet all those internal objectives and due to marketing realities, due to market realities the organizations may have to trade off those internal objectives with the market situation for profitability balanced with market share and growth.

Samples of Pricing Objectives

Type of Objective	Sample Pricing Objective
Financial	▪For profitability: Set prices to achieve gross margin of 40%.
Marketing	▪For higher market share: Set prices to achieve a market share increase of 5% within 6 months.

So, when we look at the objectives, there can be internally, there can be objectives, financial objectives, which are very easy to understand that we need to get 40% overall gross margin in the next period. That is the kind of financial objective that will guide pricing. But correspondingly, it has to be balanced with marketing objectives like higher market share for which there may be a certain kind of pricing strategy needed. So, our market share has to increase by 5% over the next 6 months and because of the price versus quantity demand and the demand graph where quantity has sold as a relationship with the price, we have to look at certain modification in our price objective that may come from financial consideration.

External Pricing Influences

- Customers
- Competitors
- Channel Members
- Legal, Regulatory, and Ethical Concerns

External pricing influences are customers, competitors, as well as channel members. These are the 3Cs of external price influence that will persuade organizations to modify the price with which they may originally start in terms of their financial objectives. And then there are of course other legal, regulatory and ethical considerations that may also affect pricing.

Customers

- Customers
  - Perceptions of value, behavior, and attitudes all affect customers' reaction to pricing.
- Business Customers
  - Globalization has increased range of choices.
  - Customers frequently search for the lowest price.
  - Emphasis on building relationships, thereby increasing switching costs.

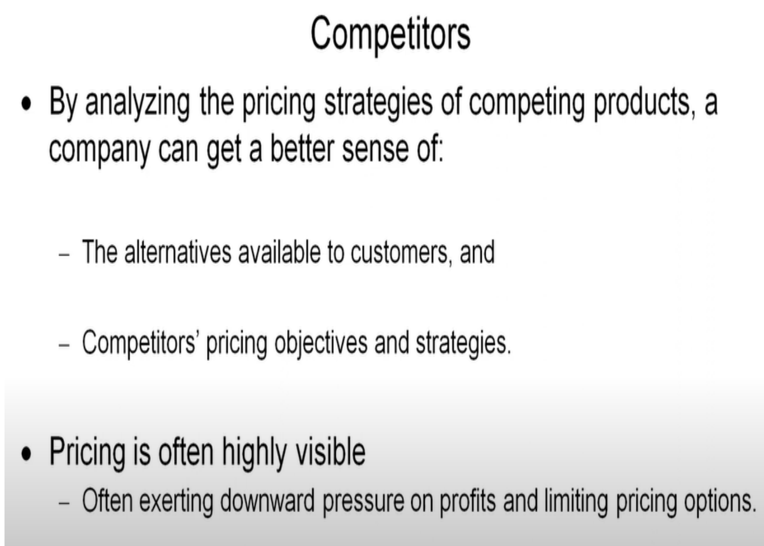
Let us look at the details of each one of these. So, customers ultimate advisor of the pricing because it is customers perception of value that will affect the transaction and that will affect the final results of the marketer. So, perception of value, behaviour and attitude all affect customers reaction to pricing. So, the value that is perceived by the customer, the behaviour of the seller.

Not exactly the person-to-person behavior, but the whole organization-to-organization behavior of which to person-to-person behavior is an element. And the perception of attitude of the seller in the customer's mind, these are all elements of customers view of the price. Now you can easily understand that in case of B2B as we have discussed earlier, decisions are taken by decision making units as opposed to individuals and decisions are taken after lot of analysis, lot of data interpretation, lot of data gathering.

And today, due to the globalization of the market, customers do a lot of research to understand that what are the prevalent prices, both explicit and implicit prices, what kind of service levels go with it, prices and what kind of facilities post sales facilities go with it all those can be researched by customers today because of internet and other facilities available to them and they can get global perspective on this and customers therefore often will do enough research to look at what is the lowest possible and the best possible not implicit advantages that they can get before they even get into the marketplace with their tender, with their inquiry. So, sellers therefore, their ultimate aim is to build relationships in the B2B, you know, that is the most important aspect of B2B marketing today and therefore, they try to build.

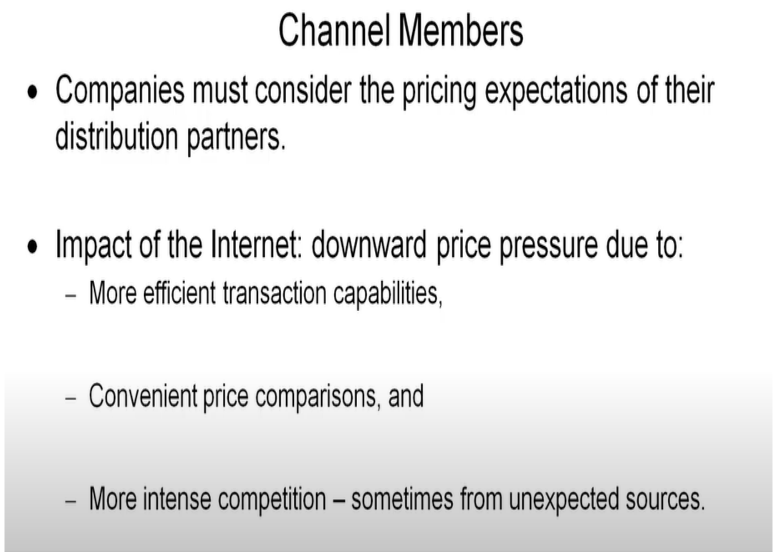
They try to enhance through the relationship and through the various infrastructure they create at the customer's facility by way of service centers, spare parts storage, etc. So they try to increase the switching costs. So, even if sometimes the price may be of a competitor, may be neck to neck, the winner will be the one who already has developed a certain kind of support infrastructure at the customer location.

That can be by way of the system integrators available, that can be by way of support staff available at beck and call, that can be in terms of spare parts depot created by the marketer.



Now, competitors, how they affect price because a bidder, a seller, a marketer will always be analyzing pricing strategies of competing products and a company can get a better sense of alternatives available to customers to fine tune their offering and they have to also get into lot of market intelligence by way of studying the competitors at trade shows, at various kinds of technological expositions, seminars, they have to understand the competitors package objectives which is price as well as various kinds of implicit benefits offered. So pricing in today's world is often highly visible, particularly in B2B since a lot of purchases happen through the bidding process, through the tendering process. So, each sender yields a lot of data with respect to what was the final deciding bid and what kind of prices were secured, what kind of terms and conditions were secured.

This we have discussed earlier also. That in B2B, the price which is the X factory price or the price of the product delivered at the customer site is one thing, but there are other elements like terms of payment or the warranty. These are all implicit elements or sort of apparently invisible elements of the price. But terms of payment also plays a very significant part in the evaluation of the price by the customer. But all these conditions offered by the competitors are well known and therefore, each competitor influences this decision of the other competitors and kind of an ecosystem develops, each one contributing to the other and ultimately some sort of price mahol gets created.



Now, the other people who influence pricing are the channel partners because remember that the channel partners like the distributors or retailers, they are also looking for their own commissions. So, they in a way are actually the first line of customers. They are like the customers between the ultimate customers and the marketer. So, they also negotiate for the best deal so that they can maximize their margin.

So, therefore, they have certain price expectation and the marketers, the companies have to take that into account. And because of the internet impact, even the intermediaries, the channel partners, they will also be hard negotiators. They may do a very soft style negotiation, but they actually will negotiate for the best possible price they can get because ultimately the price in the marketplace minus the price from the marketer to the intermediary is what the intermediary will try to maximize for their margin. Convenient price comparisons are today very prevalent and sometimes the internet may give rise to unforeseen competition and even unforeseen pressure from the intermediaries. So, all that are facts of today's B2B business.

And lastly, we will look at some of the legal and regulatory concern. So certain pollution control rules, certain rules related to disposal of electronic waste or industrial waste, all that may add to the cost and will therefore affect the pricing. Also in B2B, since the number of competitors are limited and for a particular type of item, there may be only two or three players. Temptation for collusion, for price fixing is very high.

So, the regulators have to keep a watch and particularly where the customer may be under high pressure where they may not have any option but to buy from A and B. Say for example, in case of electricity, usually there will be only two or three options. Sometimes in many cases, there will be a single option. So, in Delhi, for example, there may be two or three options, the company from which you can buy your electricity. But in Calcutta, there may be only one option. So, in these cases the regulator will have to keep a watch that the customers are not unduly fleeced and because the customer may not sort of be in a no option situation and that is why on pricing the regulators play significant part.

Also authorities, the government and their various agencies keep a watch in the B2B market that at the time of emergency, say for example, if there is some kind of epidemic, the hospitals may be in critical need of various kinds of medicines and vaccines and at that time their pharmaceutical companies may be tempted to charge higher or to extract sort of proverbial power of flesh but the regulator will have to see that that does not happen. So, these are regulatory and legal influences that also decides pricing in the B2B situation. There are many agencies that are set up by government called the competitive monitoring agency or competition monitoring agency and their role is to see that all these things don't happen like the predatory pricing, somebody, some big company trying to force smaller companies out of the picture and so on. So, that is end this particular session and we will go to the next part of pricing in the next session.

Thank you.