What we know about pricing strategies

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Summary
Explores the most current thinking and reading on the topic of pricing strategies, examining their impact on sales, profitability, and perceptions of the brand itself.
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Pricing strategies are crucial for sales, profitability, and market share. Understanding price elasticity and brand differentiation is essential, especially during inflation. Marketers must reclaim their role in pricing decisions to effectively capture value created during the customer journey.

Key Takeaways:

- **Marketers' Role:** Marketers should be involved in pricing decisions to leverage their understanding of customer value and brand equity.
- **Econometric Analysis:** This tool is vital for understanding pricing power and elasticity, especially in inflationary times.
- **Brand Advertising:** Maintaining brand advertising over excessive promotions strengthens brand equity and pricing power.
- **Consumer Understanding:** Brands must recognize the varying impacts of economic crises on different consumer segments to guide pricing strategies.
- **Innovation:** Strategic innovation can help brands manage pricing pressures and maintain consumer loyalty.

In conclusion, effective pricing strategies require a blend of market understanding, brand strength, and innovative approaches to navigate economic challenges.

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- Generate a list of key strategies or actions

Prime Video, an OTT service, commissioned a leading filmmaker to host its biggest event, Prime Video Presents India, which announced 41 titles, its foray into original movie producti…

Amazon Prime India ran a campaign for the second series of its original show, The Family Man, to build fandom, grow character affinity and drive social media engagement.

Amazon Prime spy thriller The Family Man got fans in India excited for its second season with a fictional job hunt for its main character, prompting a social media conversation and drivin…

Samachar

Streaming platform Amazon Prime Video built hype around the second season of its show Mirzapur with a video content series in India.

Pricing strategies can have a substantial impact on sales, profitability and market share, and are therefore a key marketing decision. An over-reliance on price promotion can have negative consequences on perceptions of the brand and marketers should consider price elasticity when analysing the effectiveness of pricing strategy. In a time of inflation, understanding price elasticity – by category and consumer segment – and brand differentiation is particularly important to make the right pricing decisions. Econometric modelling and experiments are key tools to understand a brand's pricing power and its drivers.

Definition

Pricing strategies are the strategies that are put in place concerning price when selling a product or service.

Key Insights

1. Marketers need to regain their role in determining pricing

Pricing is the moment marketers capture the value their efforts have created during the customer journey. However, too many are locked out of the pricing decision because they are stuck in communication siloes, leading to a belief that they do not have the business acumen for pricing. This leaves them out of what is a very important marketing decision that can make or break a brand's marketing. Pricing is the most important lever to drive profits, a key way of signalling the nature and quality of the brand's offering and in supporting the brand equity. Marketers should, therefore, reclaim their role in determining pricing by reminding others in the business that it is *their* efforts that drive price. They can begin by focusing on three essentials:

- The voice of the customer – research into what people want, where they find value, what they will pay for and how much.
- The price-to-value equation – managing brand equity to create value, purchase desire and pricing power.
- Brand investments as profit investments – building the brand with the most profitable target market.

Read more in: Three essential components that can help marketers take back their pricing power

2. Econometric analysis helps understand and support pricing during a time of inflation

Les Binet, group head of effectiveness at adam&eveDDB, suggests econometrics has fallen out of fashion partly because people have grown accustomed to many brands' prices being static for a long time but it is an essential tool to guide brands in times of inflation when brands need to plan around price. Binet reminds that "econometric models not only can measure price elasticity, they must measure price elasticity in order to get all the other stuff right". And because managing pricing is so critical in inflationary times to protect profit margins, going back to econometric analysis will be the diagnostic foundation for brands to plan around maximising profit rather than revenue or ROI by understanding pricing and the marketing levers that protect it over the long as well as short term.

Maintaining brand advertising and avoiding excessive promotion is key. The majority of promoted sales are subsidising existing sales, with only a small fraction being incremental – Nielsen has found that 84% of price promotions are not profitable. Repeated price promotion increases price sensitivity, reduces pricing power and erodes margins. On the other hand, brand advertising strengthens the brand, helps support pricing, reduces elasticity, increases pricing poer and margins.

Read more in: Les Binet: Optimising marketing investment in inflationary times

3. Experiments add understanding of long-term pricing effects on pricing power and ROI

is particularly difficult to measure via econometric modelling, especially when price has not changed significantly over the input period of the model, because it tends to be built indirectly over a very long period of time. However, experiments can supplement understanding of pricing power and how advertising impacts it. For example, a natural experiment in the UK insurance category, where the Privilege and Churchill brands sold like-for-like products via the same acquisition channels, found that with vastly different ad spend and brand equity levels Churchill was able to achieve a price premium and increased margin - 33% of customers bought a Churchill policy even when it was £10–19 more expensive than the Privilege equivalent. Attributing the price effects to ad investments transformed reported ROI.

Read more in: It's time to bring pricing power into the business case for advertising

4. Category and consumer understanding should guide pricing decisions in inflationary times

There are four key price-led lessons for brands in economically challenging times, which should guide their pricing decisions:

- *The effects of the crisis will be unevenly felt* – brands must understand their 'reserve price', the maximum amount a buyer is willing to pay (as well as the minimum a seller is willing to accept). This will vary depending on the category – essential or luxury? – and the buyer's socio-economic bracket.
- *For customers, every brand sits between status symbol and personal satisfaction* – in the latter case the brand will need to be clear on the genuine difference it makes in a customer's life to justify its worth. However, in a status symbol market, there is a choice – to capitalise on brand strength and product scarcity to put prices up or understand demand elasticity, the point the price outweighs the value of the signal.
- *Acknowledge that a crisis won't stop consumers from consuming* – but understand how behaviour may change to assess whether the route to market needs to evolve, and how to communicate any price rises.
- *Recognise, above all, that fairness rules* – people know that prices must go up, and sometimes costs have to be passed on, but there is a point where a price rise moves from being understood to being a real issue.

Read more in: Pricing thoughtfully: Four lessons to ensure your brand survives the cost-of-living crisis and The WARC Guide to The Consumer Crunch: Navigating inflation & the threat of recession

5. Advertising strengthens a brand's price sensitivity

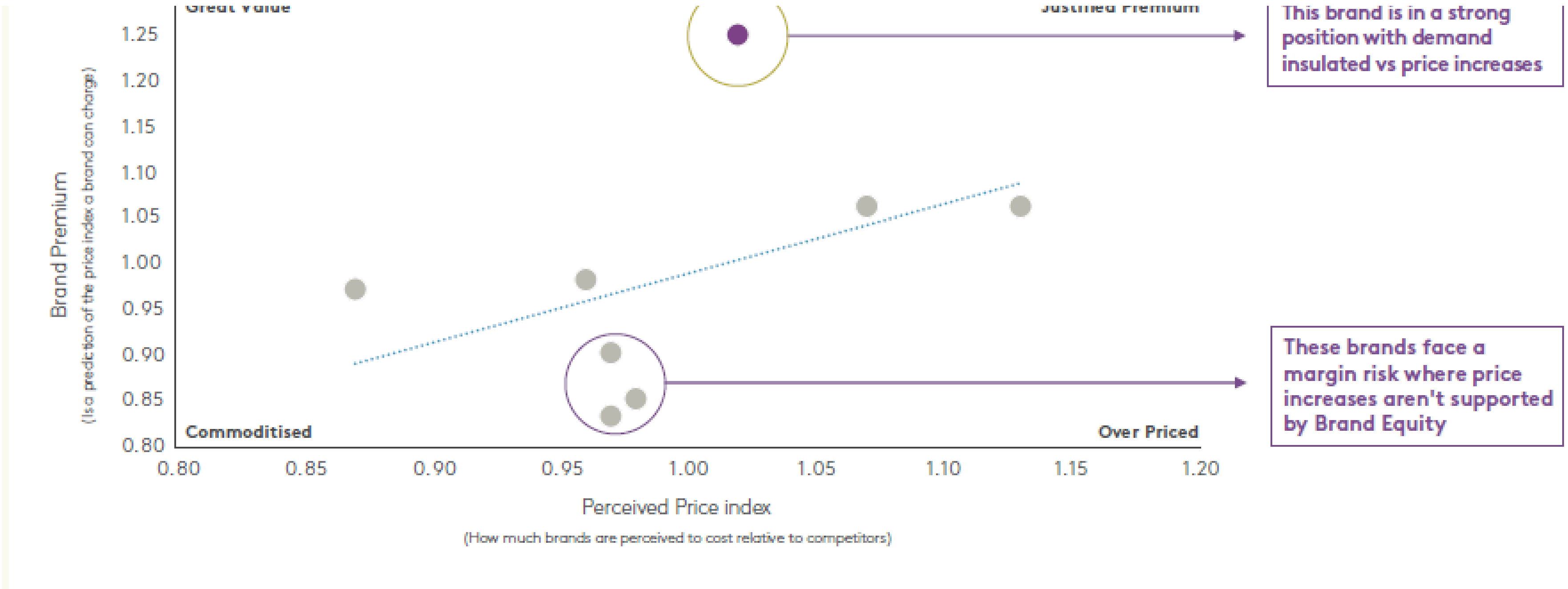
Economists measure price sensitivity using a metric called price elasticity – the percentage change in expected sales from a 1% increase in price. Price elasticity is always negative, but it is important to know whether the price elasticity is a little bit negative (-0.1%) or a lot negative (-2%). It is possible to measure changing price sensitivity as a result of advertising, with multiple case studies demonstrating that consistently airing quality advertising and investing in the brand create associations that diminish price elasticity because they make a brand easy to buy - even if a consumer checks the price. Conversely, willingness to pay is eroded by too many promotions and not enough brand investment. This shows that willingness to pay a high price is something marketers can affect.

A 2016 academic study found that advertising led to lower price elasticity mainly by directly reminding consumers about a brand they know, use and prefer. However, price elasticity is also affected indirectly by increasing brand consideration or particularly brand preference. The revenue effect of reduced price sensitivity was found to be stronger for more expensive brands in more complex and frequently purchased categories.

Read more in: Sensitivity to price is a marketing outcome, Raising prices? How advertising strengthens your brand's pricing power and The WARC Guide to The Consumer Crunch: Navigating inflation & the threat of recession

6. Brand is the key to maintaining a premium strategy in a time of rising prices

As inflation grows, the role of brands in justifying pricing becomes ever more fundamental. Strong brands are less price elastic so can better support prices in a crisis. The strength of a brand's ability to do this can be measured by comparing the relative price the consumer sees against the breadth and depth of their positive perceptions: a measure called Premium, based on how meaningfully different a brand is in the mind of the consumer. Kantar BrandZ's database has these measures for over 40,000 brand cases, and around one third show brands whose equity does not support their perceived price. This kind of analysis helps to identify whether the brand's price point is a risk or an opportunity in a crisis.



Brands should try to avoid the "promotional spiral of doom" – propping volume up with promotions. It tends to squeeze margins such that innovation and marketing budgets suffer, which undermines penetration and just puts further pressure on margins. Better to drive perceived value by focusing consistently on the meaningful differentiation of the brand, which accounts for 94% of pricing power and can help justify pricing. In particular, differentiation is a key driver of lower price elasticity.

Read more in: Brand: Your first defence against rising prices, Inflation? Brands need empathy and consumer understanding, How meaningful difference helps brands grow and The WARC Guide to The Consumer Crunch: Navigating inflation & the threat of recession

7. The right innovation can reduce pricing vulnerability in inflationary times

It's suggested there are four ways that brands can use innovation to reduce their vulnerability to changing consumer behaviour in inflationary times:

- Look to elasticity for innovation – Understand the price elasticity of the brand, category and specific consumer segments to guide where to focus with added value offerings to manage profit pressures within the portfolio.
- Increase price, just indirectly – Consider packaging, tiering or bundling innovations to keep product offerings fresh and demonstrate value to different demographics; keep necessities at compelling price points.
- Innovate to drive repeat purchases – Look to innovative approaches to points, discounts and loyalty programmes to support repeat purchases.
- Look to 'incremental innovation' – Goods and services that reduce inconvenience and wasted time can support a premium; sustainable innovations can increase permissibility to pay a premium; relevant new product launches can entice consumers to buy the brand.

According to Ipsos, differentiation is particularly important for premium new launches in inflationary times to minimise price elasticity. Looking at innovation concept performance and pricing resilience, it has found that a KPI which always stands out as showing high correlation with price resilience is differentiation. Innovations that offer distinctive benefits reduce substitutability and consistently outperform competitors in withstanding price increases. For example, a Brazilian company in the instant coffee category was looking for innovations to bring the brand out of severe pricing competition while offering premiumisation. After several rounds of development, it landed on a highly unique proposition for an "Instant Espresso" concept that claimed a cafélike experience aimed at indulgence occasions. Consumers viewed the proposition as highly differentiated and hence much less substitutable. In the pricing pressure test that followed, this unique proposition was revealed to have only a fraction of the price elasticity vs. the category leader in share of choice.

	INSTANT ESPRESSO INNOVATION	CATEGORY LEADER
Price increase 4%	-2.2%	-10.6%
Price increase 11%	-4.5%	-19.4%

Source: Brazil instant coffee portfolio pricing test

Read more in: Brand innovation in inflationary times: How to reduce pricing vulnerability, The WARC Guide to The Consumer Crunch: Navigating inflation & the threat of recession and Innovation in inflationary times

8. Being strategic, not just tactical, enables FMCG brands to raise prices in a period of inflation

Inflation puts pressure on FMCG brands to raise prices, risking volume and/or profit in turn. If increasing list price, it is important to maintain key consumer price points – on both promoted and non-promoted items – and stick to the defined pricing strategy versus competition. It is also important to avoid vacating the category 'entry' price point. "Shrinkflation" – reducing content while maintaining price – can be one way to manage that as well as softening the blow of pricing up across all sizes. For this to be effective, maintaining parity usage experience is key. Launching premium products can reduce the pressure to price up on existing items, but need to be seen by consumers as delivering additional value. Launching "basic", lower-priced products appeals to consumers contemplating trading down, while larger "super value" packs can attract the smart shopper looking for a better deal and online shoppers. Reducing promotion depth and frequency can preserve profit if deciding not to increase price.

Read more in: Five levers for price increase in FMCG

9. Effective value advertising can help premium brands maintain pricing strategy in a recession

In the 2008 recession, private label was a big winner as retailers pushed own-label goods, meeting the need for lower prices and affordable quality across all income groups. Promotions and price cuts can help national brands defend sales but need to be balanced with longer-term growth strategies such as innovation – including more basic versions as US detergent Tide did with Tide Simply Clean – and value communication. Exploiting product multifunctionality, creating new products for new audiences, promising quality products that reduce long-term spend, giving customers the chance to choose their level of spend to suit their budget and appealing very clearly to consumers' scrimp or splurge mindsets are also proven ways to deliver value through innovation and communication. Examples from the 2008 recession show how advertising a value proposition can help brands maintain higher prices:

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- UK supermarket Sainsbury's addressed the perception that it was more expensive than its rivals with its 'Feed your family for a

Research firm IRI suggests that national brands should seek to meet all income ranges and focus on understanding the different value needs of different consumers created by financial constraints that go beyond just income level. Maintaining advertising spend and communicating an appropriate value proposition can limit the room for private label to steal share as well as ensuring the right level of price, promotions and retailer programmes.

Analysis of European Effie winners has shown that with the right growth strategy and using advertising as an accelerator, premium brands can achieve growth in recessionary times. This requires: continuing to advertise; shifting to a balance between market share and volume, even if margin suffers; focusing on growing penetration among a clear target whose needs the brand can satisfy; featuring product innovation; using an emotional approach; and using high-reach broadcast channels are key – mostly TV, with digital channels in tandem.

Read more in: Marketing in a cost-of-living crisis: strategies for products, The WARC Guide to communicating value, Six key lessons for CPG brands and retailers from the last recession, In cash-strapped times brands should build value, not discount prices, IRI's recession guidelines for CPG brands and The worst of times, the best of times

10. Behavioural science can help brands enhance value perception

Marketers often overweigh the role of system 2, rational decision making, in informing price and value perceptions. In reality, price and value are governed by system 1 factors and are therefore subject to a host of subconscious biases. Behavioural science can be leveraged to enhance communication of value and drive sales, by understanding insights such as anchors, scarcity, priming and social proof. Brands can seem more valuable when compared to the right reference point, when they appear to be scarce or when they seem to have lots of satisfied customers. Words and visuals can prime value perception as can approval from someone the customer knows or relates to.

Read more in: The WARC Guide to communicating value and Behavioural science toolkit to aid pricing and value communication

11. Strong brand equity is what sustains a premium price strategy

The most useful brand strength indicators should go beyond understanding brand associations and encompass how they convert to financial worth. One such measure is price premium – the additional price that a brand can charge versus own label or a close competitor. The idea that strong brands can command a price premium is supported by data, insights and consulting company Kantar. Brands that are salient, meaningful and different, according to its established equity model, grow value share at six percentage points higher than other brands, with growth driven largely by commanding a higher price. This is on average 14% higher than competitors. This shows that the ability to charge a price premium over a sustained period is a good indicator both of a strong brand and of likely future growth.

Read more in: Top five business metrics to track the strength of your brand

12. Big brands are developing specific tools to inform pricing decisions

Beverage company Diageo has developed an integrated brand pricing framework in India to improve profitability. It encompasses the following three dimensions: consumers' current sensitivity to brand price measured in market mix modelling (MMM), a behavioural equity measure relative to brand price and drivers of equity. The framework enables the company to manoeuvre pricing in the market for the short-term while getting the right balance between price and total brand value, as perceived by consumers, in the longer run. The outcome is improved profitability for the business, while also ensuring continued consumer delight by avoiding over-pricing.

UK telecommunications brand BT had a wide variety of pricing intelligence and insights but they were fragmented and complex. It therefore set out to create a single point of view on pricing, democratising pricing insights across every level of the organisation. BT built a unified model of customer behaviour and statistically analysed it to quantify how consumer choices change in response to pricing. A pricing model was then built into an interactive simulator to forecast the impact of pricing changes. This simulator has become the reference tool for pricing decisions in the organisation.

Read more in: Integrated pricing strategy: Holistic leveraging of pricing to drive short and long-term competitive advantage and BT: Democratising pricing insight

13. Brands should try to stick to their pricing strategy during a recession, not discount

Discounting is tempting during a recession, particularly for brands trying to defend market share from lower-priced private label or low-cost brands, but it creates downward pressure on ma[Skip to content]all consumers will trade down as purchase decisions will be driven by household budgets. Households with cash fl[...]ithout or delay purchases rather than trading down.

Rather than discounting by default, brands should get creative about pricing. Fast moving consumer goods (FMCG) brands can consider adding value for the consumer through formats, innovation, pack sizes or 'special-editions' around key selling moments. In response to the COVID-19 crisis, Coca-Cola is rolling out new pack sizes and product offerings to meet differing consumer needs and Procter & Gamble is serving consumers with relevant pack sizes designed to hit key price points for those who need to make week-to-week purchase decisions. And Hershey's.is looking at a range of different pack sizes and price points for Halloween to meet the budget needs of different consumers.

Marketers can ask a whole series of questions around pricing to help brands rethink and reframe the value they offer and set the right recession pricing strategy. These include:

- Category purchase dynamics such as how essential it is, how emotional it is, how variable consumption is
- Brand fundamentals such as values and principles, key drivers of value
- Segmentation considerations looking at the most deserving and valuable consumers and what they need
- Looking at the short-term and long-term to see what is needed to survive and the long-term impacts of short-term actions

Read more in: The WARC Guide to Marketing in the COVID-19 recession, More than trading down: How consumers really shop and buy during a recession and Pricing in a recession: Four factors for setting strategy

More on this topic

WARC topic page: Pricing Strategy

WARC Talks 360: Pricing in a recession – setting the strategy

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The WARC Podcast: WARC Talks: Pricing

The WARC Podcast: WARC x IPA EffWorks: Brands & pricing power, plus digital creative excellence

The WARC Podcast: WARC Talks: Behavioural science in an age of volatility

WARC Webinar: A behavioural science toolkit to aid price and value optimisation

WARC at Cannes Lions: Think different: The DNA of breakthrough brand shareholder growth

Further reading

Key insights for marketers in the cost-of-living crisis

How premiumization and pricing are driving success at Beam Suntory

Little Moons taps econometrics for guidance through uncertainty

How Tyrrells broke free from unprofitable price promotions

The power of pricing: How brands can power ahead in difficult times

China's discounting dilemma: Balancing brand value and revenue growth

Loyalty schemes: A brand's secret weapon or a cause for concern?

Preferences as a determinant of the Measurement-Unit Effect for unit prices

'It's a market share game': Domino's embraces value to ride out inflation crisis

Conagra Brands tackles the cost-of-living crunch with mental availability, innovation and targeted price rises

Finding 2022's 'togetherness': How food and beverage brands can tackle the cost-of-living crunch

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