Ripe

Welcome to enrich, Ripe Strategic's newsletter

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How is pricing affecting your brand value?

One way of looking at brand value is seeing its key components as market share, price and loyalty (Moran's model). While brand market share and brand loyalty are strong considerations in calculating brand equity, pricing is equally important. Pricing underpins your ability to capture market share and drive loyalty.

So, for example, if you have an aggressive drive for market share, pricing will play a role alongside your other marketing tools. Imagine you are managing a chain of coffee shops called Caffè Bianco.

Effective Market Share - that's your share of the coffee shop segment, weighted by the segment's percentage of brand sales. The higher your market share, the stronger your brand. Say Caffè Bianco has a 50% market share and the segment takes 50% of brand sales.

Relative Price is the price of your product (Caffè Bianco charges £2.00 on average for a coffee) divided by the average market price (£1.80). So your pricing gives you a price index of 1.11. Price indexes above 1 represent a price premium and a strong brand.

Loyalty can be calculated on how many of your brand's customers you expect to repeat purchase in the next year. Let's say Caffè Bianco decides all it's customers will repurchase - the brand enjoys strong loyalty and scores 1.

Effective Market Share (%)	X Relative Price	X Loyalty Index	=	Brand Equity Measure
25%	x 1.11	x 1	=	0.2775

If the price of coffee was the market average the brand equity measure would be 0.25, 11% lower.

Succeeding with pricing means succeeding with brand equity. Any improvement in brand equity can drive your business .and be banked on your balance sheet

How to increase your price without increasing your price

Cadbury made headlines again recently by reducing the size of its bars, in effect increasing the price. Playing with product and SKU sizes works well for a number of industries and is a valid way of looking at your pricing.

Be warned – it needs to be managed with care. Cadbury's – partly because it had already got itself a bad name over last year's Kraft takeover - suffered an enormous backlash to its price rise. Given the distrust aroused by the changes Kraft eventually implemented, a stronger and more honest message about why the change occurred might have helped implement the new pricing with less pain.

If you do decide to change the perceived value equation on the quiet, it's advisable to **have a statement prepared** for use if there is a reaction from the media or consumers. In the case of Cadbury, they could have positioned the change around allowing loyal Cadbury consumers to have their great product at the same key price point despite cocoa prices increasing by x%. We think the effect on Cadbury will be short-lived; for their loyal consumers, the benefits of Cadbury over the competition will outweigh their irritation.

So when increasing your price without increasing your price **remember 3 things**:
- History counts
- Communications are critical
- Plan your "what if" scenarios in advance

If you need help, give us a call. We have a framework that will help you objectively review your history, look at your communications and plan your "what ifs".

Carroll vs Torres - who got the best bang for their buck?

The record-breaking prices paid by Liverpool for Carroll and by Chelsea for Torres makes you question who got the best value for the extreme sum of money. The prices reflect the simple economics of supply and demand.

The Chelsea dilemma
It's December 2010 and you need a great striker now if you are to have any hope of winning the Champions League. The January transfer window is looming and the pickings are slim. But Torres is available. Some say he's been out of form for the latter part of last season. And the World Cup wasn't exactly his finest hour. But he has got a great reputation for being a prolific scorer, and he does have experience in Europe. He's a bit of a gamble but you've got six critical games coming up so you buy him.

Judging from his first few games – he has yet to score - Chelsea may have paid over the odds. But if he scores that crucial goal that gets Chelsea into the lucrative Champions League next year and follows it with more during the qualifying rounds, that will equate to a minimum of 80% of Torres value. If he increases the position in the league and ups Chelsea's shirt sales (which sold 9:1 – Torres vs the rest of team when he was transferred) he's worth even more.

The Liverpool dilemma
Liverpool faced similar questions and options. On paper, Carroll is a big risk - he's injured and has a chequered personal past. But again, he's been a strong goal scorer and presence in the box. And there's little choice.
To date, the transfer of Suarez to Liverpool (largely thanks to the Chelsea money for Torres) has generated more value for the new shareholders after his strong performances against Chelsea, Man United and West Ham. So far that money appears better spent. But Carroll's value, maybe greater in the long term – taking into account his age and Liverpool's reputation for developing players.

What does this mean for your brand?
When considering pricing, always take into account
- Your long- and short-term goals
- Your competitors' positions
- Your ability to make it happen

As for Chelsea and Liverpool, time will tell which team got the better value for money!

Wise Words on...

... whether having a long term price positioning statement is a good thing.

The answer is that it can be. John Lewis has been "never knowingly undersold" for as long as most of us can remember. Why has it worked?
- Their price positioning links clearly to their strategic positioning
- It's integral to their organisational culture
- It's reflected in their marketing communications

...when a consumer buys a product they will see the packaging and the price, they may never have seen your advertising, highlighting their importance as a brand communication.

Want to discuss your pricing issue with an expert?

We'd be delighted to hear from you. Our contact details are below.

Kaye Coleman

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