Ripe

Welcome to enrich, Ripe Strategic's newsletter

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In this issue:

Unlike the sun, the price value equation is everywhere you look this summer. Whether you are selling hotel rooms to London Olympics visitors or buying a pram for your newborn, it's inescapable. Read on and we'll tell you about how even Hollywood has got in on the act.

Moneyball – Hollywood's lesson in pricing strategy

Hollywood blockbusters about the **price value equation** don't come along that often, so make the most of **Moneyball**, Brad Pitt's latest film, which could give you some ideas on how to get better value or gain a market advantage. So grab your popcorn, settle down in front of the big screen, and pick up some tips on how to become the Brad Pitt of your company.

Based on the **Michael Lewis book** of the same name, Moneyball tells the true story of Billy Beane (Brad Pitt), who starts out as a professional baseball player. A team's success depends on the owner's wallet being big enough to lure so-called stars of the future like Billy. But stardom is defined by a set of questionable metrics handed down through generations of scouts – and Billy's career as a player turns out disappointingly average despite their rosy predictions. But that's how it's always been done in baseball and that's the way it'll stay…

Until Billy Beane becomes manager of The Oakland A's, that is. Billy takes a revolutionary approach to picking his team. He applies principles similar to those used in **sabremetrics** to objectively analyse baseball statistics, giving him more reliable predictors of player and team success. He uses this strategy in buying and selling players and deciding which new players are worth considering, making his limited dollars go much further.

Billy sees that his **competitors** are overvaluing the benefits top players can bring (and consequently paying them too much). And undervaluing those who don't fit the traditional model of scouting, but deliver results (and paying them little or nothing). He uses this knowledge by paying rock bottom prices for players other teams reject. When these players prove their skills with The Oakland A's, Billy sells them on at a higher price to teams with deeper wallets. Billy Beane is the first man to determine the value of hits, wins and league positions in hard currency.

Billy's strategy means he can compete with teams spending $3 for every $1 The Oakland A's are spending. His experience demonstrates the competitive advantage you can gain by truly understanding and exploiting the price value equation.

Not a baseball fan? Don't let that put you off. It's a film about baseball where, for once, very little action takes place on the field!

Pricing and product life cycle

The price of a product can fluctuate enormously depending on the stage that product is at in its lifecycle. This is reflected in strategies such as price skimming, where you set a relatively high price for a product at first, and then lower it over time. But why do these fluctuations occur? Here's the Ripe Strategic take on the changes in price as the product moves through its lifecycle.

The word 'new' is a powerful term in marketing. Being new can offer consumers a massive benefit, and that benefit can be reflected in pricing. When a radical new product hits the market it usually appeals to a relatively small group of people who are more concerned about its features and benefits than its cost. They want reassurance that their money won't be wasted with an unreliable new product, but are keen as mustard to own it. This gives the product owner the opportunity to set a premium price.

As consumers become used to the idea of this once new product, competitors enter the market. To gain competitive advantage over the first product they position their version at a lower price. At this point, consumers are more confident about the reliability and performance of

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the idea, and see the value in buying brands other than the original innovative product (although of course, it pays to get there first).

Over time, more and more producers enter the market. In order to attract customers, they need to offer either increased perceived benefits or a lower price. A sophisticated market with a number of niches and segments develops, each with its own particular pricing idiosyncrasies.

Pricing relative to your product's position in the product lifecycle is important, but more important is the product's position and benefits relative to others in the category. And remember that through marketing initiatives, the product life cycle can always be adapted.

The Olympics – an opportunity for a price increase?

With only 100,000 hotel rooms in London, booking one during the Olympics was never going to be easy. The demand curve appeared to be at a peak making the market ripe for price increases. Hotel owners, unsurprisingly, decided to go for gold. But the increased prices have dampened the demand.

London hotels have increased their room rates considerably for the Olympic period, with hotel wholesaler JACTravel quoting average room prices moving from a relatively modest £80-£120 per night to a whopping £200-£415 per night for the duration of the Olympics. In the same report, JACTravel indicates that London hotels have priced themselves out of the market, with bookings down by about a third compared to the same period last year, despite more tourist events happening in the capital - the Jubilee as well as the Olympics.

The tourists are still flooding in – flight bookings to London are up 13% on this time last year. In theory that should keep room prices high. But it's worth remembering that people always have other options – renting houses, staying with friends and relatives, or travelling in from the suburbs for instance. The hotel owners' problems have been exacerbated by an unforeseen number of rooms coming back onto the market - 8% of London's hotels rooms previously earmarked for athletes, officials, media and sponsors have now been released by the Olympic organisers.

It seems unlikely the tourism industry will be setting a new world record in London this season. The lesson is, if you want to guarantee a win, make sure you take all the potential risk factors into account before inflating your prices.

Pram buyers beware!

Since our last newsletter, one of the team is about to become a proud parent for the first time. Being a wily pricing consultant, they were determined to get the best deal on the array of wildly expensive nursery equipment required for the new arrival.

The parents-to-be tracked down their perfect pram at a cost of £800. Despite claims by some retailers that no discounts were available, they found the same model at 17.5% less than the quoted price. But it meant buying from a store over 600 miles away.

This presented them with a dilemma – what if the pram broke? Our pricing person immediately spotted the **price value equation** at work. They had two options. Take the £140 saving and risk having the hassle of packing up a broken pram and shipping it back to the retailer or pay the full price and take it round the corner and get a replacement pram while theirs was fixed. The question they asked was "Is there more than 17.5% chance of the pram breaking down?"

They took the cash!

Wise Words

Our last issue was about promotions and our wise words for this issue come from one of our subscribers…

Peter told us, that a review of a recent promotion run by his business, revealed a loss of value. Yes, they'd attracted new customers with a lower price, but the gain was negatively offset by the volume increase of existing customers, who now buy at the cheaper price.

We'd love to hear from you. Keep the comments and feedback rolling in and we'll publish more wise words from readers in future issues.

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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