

The Price of Everything

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Seminar on Economic Incentives

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structure

1. Economics and Marketing
2. Price as a marketing tool
3. New ideas needed

Economics and Marketing

Economics: we act rationally, sifting information to maximise our utility in a predictable way

An ideal used for modelling, but with real world provenance:

- Lower food prices have increased energy intake (Chandon & Wansink 2012)
- Higher prices reduce the consumption of tobacco, alcohol and energy dense foods (Garde 2016)

But we are also often far from rational. Emotion, group think, psychology, external influences all play their part.

This is where Marketing comes in

Economics and Marketing

“the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners and society at large.”

(American Marketing Association)

Three points to note:

1. The marketing industry is big and powerful

‘the ‘aggregate marketing system’ in the US employs over 30 million people, servicing 285m customers who spent five trillion dollars a year. Just counting this money would take 150 millennia; longer than the whole period of human civilisation’

(Wilkie & Moore, 2002)

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Ours is ‘a society that is, to an unusual degree, business-run, with huge expenditures on marketing: \$1trillion a year, one-sixth of the gross domestic product, much of it tax deductible, so people pay for the privilege of being subjected to manipulation of their attitudes and behaviour.

(Chomsky 1999)

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2. Who benefits?
 - I. business and investors
 - II. customers (who matter because they deliver to the first two)
 - III. way behind, society

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3. All in the pursuit of ‘value’

The meaning of 'value'

Business and investors:

- economic worth, profits and share prices
- short termism of 'quarterly capitalism'
- lack of strategic planning (eg share buy-back)

Customers:

- economic worth as shoppers
- perceived value:
 - no relation to cost
 - open to manipulation (eg the brand)
- externalities (eg health harm) are rarely costed

Society at large:

- largely ignored

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Pricing

One of the four basic marketing tools:

- Promotion: a vast array of marcomms
- Product design and packaging
- Place: point of sale activity and distribution
- Pricing
 - ✓ Not alternatives: also known as the 'marketing mix'
 - ✓ Marketers seek the ideal mix – that which best persuades the customer
 - ✓ Policies (eg sugar taxes) will influence their decisions

Pricing

A very powerful lever

‘Overall, all the studies reviewed here clearly show that pricing is one of the strongest – if not the strongest – marketing factors predicting increased energy intake and obesity, and this is why lower-income consumers are predominantly affected by these conditions’

(Chandon Brian Wansink 20???)

It's also highly prized by the marketer because:

- It is so powerful
- It connects straight to the bottom line

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- It enables endless perceptual games...

Pricing

five tactics associated with premium pricing

- I. Using ingredients that signal a higher price cue.
- II. Establishing connections with consumers via celebrity endorsements.
- III. Engaging with consumers using social media and other social efforts (e.g. exclusive groups).
- IV. Employing innovative and attractive packaging to signal a higher quality (and price).
- V. Using a sense of exclusivity and scarcity as a means to justify upscale vertical line extensions (e.g. limited editions or product launches with limited availability).

Pricing

This 'perceptual power' is epitomised in the brand

Price is at the centre of the concept of brand. "If you can't charge a premium price for your product," wrote the late management guru Peter Drucker, "then you don't have a brand!" The ability to charge premium prices is the reason why businesses that own brands are generally more profitable than businesses that do not.

Price impact: The advertising premium

Again dangerous disconnect between price and cost

Pricing

Supported by sales promotions

sales promotions

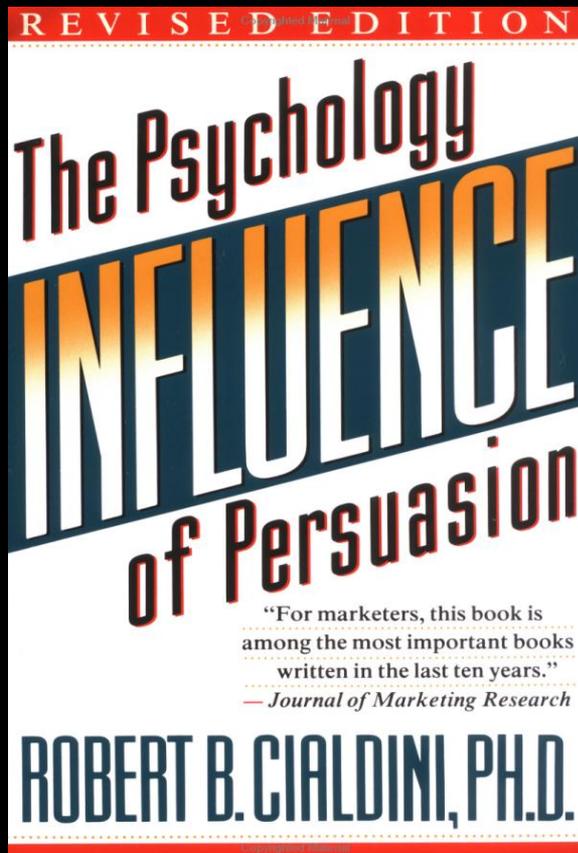
Type of promotion	What this does	Examples
Discount pricing	Gets us in the shop or online. Often incites price wars.	January sales; Asda Price campaign.
Money-off coupons	Encourages us to buy and start or continue to buy certain products.	Supermarket coupons; toy-shop coupons.
Refunds	Looks like a good deal; cheaper than discounts cos non-redemption.	cashback offers.
Samples	Encourages us to start or continue to buy particular products.	Free shampoo samples.
Payment terms	Reduces the real cost rather than price. Helps with seasonal demand.	Interest-free credit offers; Buy-now-pay-later deals.
Multipacks / multibuy	Gets us to buy and consume more than we intend	Supermarket 2 for 2 offers.
Special features	Suggests if we don't buy	'special' or 'limited' editions.
Quantity increases	Looks like a good	often offer 25% extra free.
In-pack premiums	Free extra item lu	boxes.
In-mail premiums	Chance of winning	timed online.
Piggy-back premiums	Immediate increa	Kleenex for Men.
Competitions	Lures us into buyi	prizes; cream egg treasure Hunt.
Information	Brings the shop to	brochures; investment guides.
Valued packaging	Added game, activ	es; recipes on food items.
Loyalty cards	Keeps us loyal. Promos sent to us directly – building their databases.	Supermarkets; Boots Advantage Card; Nectar cards.
Gift coupons	Gets us to repeat purchases. Our details on their databases.	Offered in petrol stations, with draught beer etc.
Product trials	Customers try product before buying - increases likelihood of buying.	Home testing of computers.
Guarantees	We think we're getting best deal; relies on people not checking prices.	Supermarket refund the difference deals.
Cashback offers	Cheaper than discounts if people don't redeem cashback - companies can insure themselves against 'over-redemption'.	Buyback pledges.
Clubs	Keeps us loyal. Makes us feel special. Our details on their databases.	Marriott Hotels' Rewards scheme; BK's Kids Club.

- many and various
- once again no link to costs of production
- extremely powerful

Pricing

Supported by sales promotions

As Cialdini shows, we are helpless before these pitches



Budgets reflect this power

*“the total amount spent by marketers on promotional marketing in the UK in 2013 was **£55 billion**” (IPM 2016)*

*“advertising spend is predicted to break the **£20bn** barrier in 2016”*

(Advertising Association 2016)

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New ideas

- Marketing should be a privilege not a right
- Price needs to be linked much more closely to cost:
 - Business should pay the full costs of doing business. Internalise the externalities
 - Consumers need to know about these costs – critical marketing skills
- Pricing (along with all other marketing levers) should be used to encourage responsible consumption. The burden of proof that it does so should be on the marketer
 - These are radical suggestions; but we need to think big
 - The long term dangers of current practice are profound

New ideas

“sow a thought and you reap an action;
sow an act and you reap a habit;
sow a habit and you reap a character;
sow a character and you reap a destiny”

emerson

New ideas

- The first lesson of pricing: pay the full costs of doing business. Internalise the externalities
- Marketing should be a privilege not a right
- Pricing (along with all other marketing levers) should be used to encourage responsible consumption
- The burden of proof should be on the marketer

These are radical suggestions; but we need to think big
The long term dangers of our current course are profound