<u>Making a Price Decision</u>

In this activity, your task is to set the price for a new home-delivered spring water (the large bulk bottles) company. To complicate matters, you have a few different viewpoints on the best pricing approach. What would you decide?

How to Price Water?

Spring water is a product that has become popular over the past 25 years or so. During the growth phase of the market, a number of businesses were set up to deliver 'bulk' (large bottle) spring water directly to offices, businesses, and homes. consumer's homes.

This case looks at a <u>home-delivered</u> spring water firm that used door-to-door sales (canvassing) as their main promotional method. This approach was adopted to ensure that their customers were all located in close geographical proximity (in order to reduce delivery time).

One of the firm's three owners believes that by using this promotional method the firm can set its price at a <u>premium</u> level, as consumers are not in a position to compare prices. He said:

- *"These consumers are not in a supermarket and cannot compare prices. We turn up at their door unexpectedly and say we can deliver spring water in bulk to your home at a good price, which compared to their normal small bottle purchase that sounds like a great deal. Therefore, I think we should charge $7.50 for our bottles."*

However, the second owner did not want to be so aggressive on price. According to her:

- *"I think that we should <u>under-cut</u> the market. Currently, the cheapest bottle on the market is $5, so let's go out there with at a $4 price. At that price we will win a lot of customers. Then, later on, we can price the increase every six months or so – first to $5, then to $6, and finally to $7. That means that we'll have lots of customers all paying $7 per bottle.*

The third owner wasn't sure about either of the first two approaches. His view was:

- *"I think that we should be a <u>price follower</u>. We know that the market is willing to pay between $5 and $6.50 per bottle. Personally, I think it would be risky to price outside that range. We don't know whether the market will pay more, and we also don't know if our customers will be happy with a series of price increases."*

Student Discussion Questions

1. Given the pricing views of the three owners, what price would you set? Why?
2. Would it be feasible to start by under-cutting the market to grow market share and then increase prices to the captive customer base? Why/why not?
3. Other than competitor pricing, what other factors should the management team take into account when setting their prices?