Pricing and Positioning

As part of the marketing mix, pricing is an aspect that can help communicate and reinforce the firm's positioning. For many consumers, price also acts as a guide to quality.

In this activity, there is a key pricing decision to be made in the two situations presented. Keeping in mind the firm's/brand's positioning, outline whether these decisions are logical.

Situation One

Dick Smith Foods virtually acts as the umbrella brand for a number of independent Australian manufacturers that are trying to compete with the large international firms whose products often dominate the supermarket shelves.

Dick Smith Foods attempt to 'copy' major selling brands/products and introduce similar products. As an example, they have tried to duplicate the top-selling Arnott's Tim Tams biscuits, with a product that they have named "Temptims' (note the similar name).

Dick Smith's positioning is based on two aspects:

1. That their products are Australian made, and consumers, therefore, are supporting other Australians, and
2. That their products offer more value than other leading brands/products (as Dick Smith's products sell at a discount mainly because they don't have as advertising budget).

Assume that a series of taste-tests were conducted, with the research comparing Arnott's Tim Tams and Dick Smith's Temptims. The research revealed that 60% of consumers prefer the taste of the Dick Smith product (over Tim Tams).

As a result, the market research company has recommended that Dick Smith's should increase the price from $1.75 (below Arnott's $2.50 price) to $3.00, in order to communicate the superior quality of the product to the market.

Situation Two

BMW cars are typically associated with high status and success – a positioning that they have worked hard to achieve. Price is a key aspect of their positioning, with most of their vehicles retailing for $50,000 or more.

The management team at BMW has noticed the increasing trend of younger car consumers in buying a new car as their first car. Previously, most first-time car buyers typically bought a used car. However, with a range of small new cars available at around $15,000, more and more younger consumers were pursuing this option.

The concern at BMW is that a number of these consumers will become brand loyal. That is, if they are happy with their first car, say a Toyota, then they are more likely to buy a Toyota next time. Therefore, the concern is for the long-term erosion of BMW's future customer base.

Let's assume that a product/pricing recommendation that BMW's management team is considering is the introduction of the "BMW-Junior" – a lower quality car that will retail at around $15,000. The goal of this new product would be to gain a major share of the young consumer market.

Student Discussion Questions

1. In situation one, should this brand (which tries to provide price value) increase their price to be more reflective of their product's perceived quality?
2. In situation two, BMW pursue their goal of entering the lower-price end of the market?
3. In both of these cases, what impact will these proposed decisions have on their overall positioning?
4. Therefore, other than influencing profit margins, how important is the role of price in the firm's marketing mix?