



Aalto University
School of Business

Capstone: Product and Brand Management

Lecture 5

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Pricing architecture and management

Price discrimination – Price customization

- Non-linear pricing
- Fixed prices are a product of mass manufacturing
 - Before that dynamic prices dominated

Price discrimination – Price customization

- Alternatives price discrimination
 - By product line and brand
 - *Horizontal (lifestyles)*
 - *Vertical (income tiers etc.)*
 - By customer profile and characteristics (students)
 - By transaction and channel characteristics (web vs. brick and mortar)
 - By controlled availability (movie releases)
 - Auctions

Price discrimination – Price customization

- Perceived fairness is a key reference point
 - Of two types: distributional and procedural
 - Huge implications for our ability to customize prices
 - Airplane seats vs. stadium seats
 - Considering brand and reputation damages
 - *Apple and iPhone*
 - *Amazon and DVDs*
- Too many options discourage purchasing (iTunes pricing)

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Distribution management and retail management

Managing distribution

(Lambrecht 2010)

Distribution can be a major source of competitive advantage

- Operational excellence is often given
- Competition and competitive advantage lie mainly in communication and delivery
- E.g. Nokia

Managing distribution

(Lambrecht 2010)

Distribution decisions are complex and likely to create conflicts

- Require trade-offs, e.g. service vs. cost, direct vs. indirect
- Involve people with conflicting interests

Distribution systems are extremely hard to change

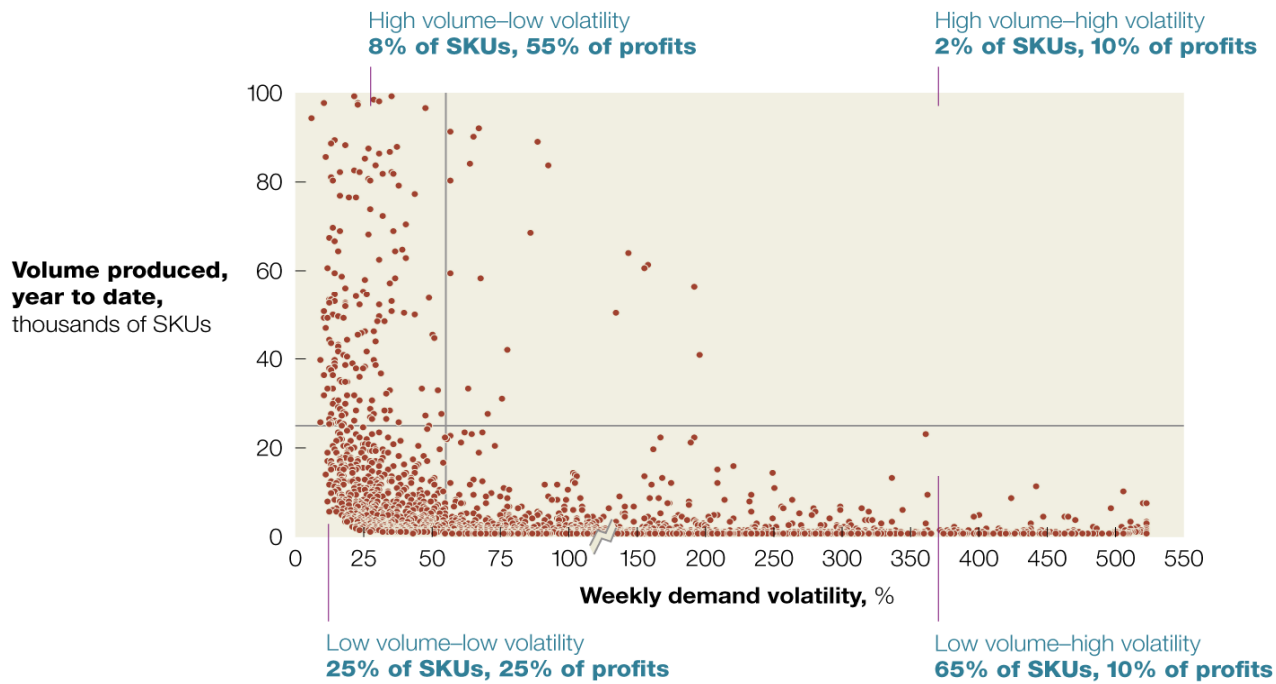
- High inertia
- High switching cost

Managing distribution

(Malik & Niemeyer & Ruwadi 2011)

Grouping products by demand volatility and overall volume can shed light on how to optimize the supply chain.

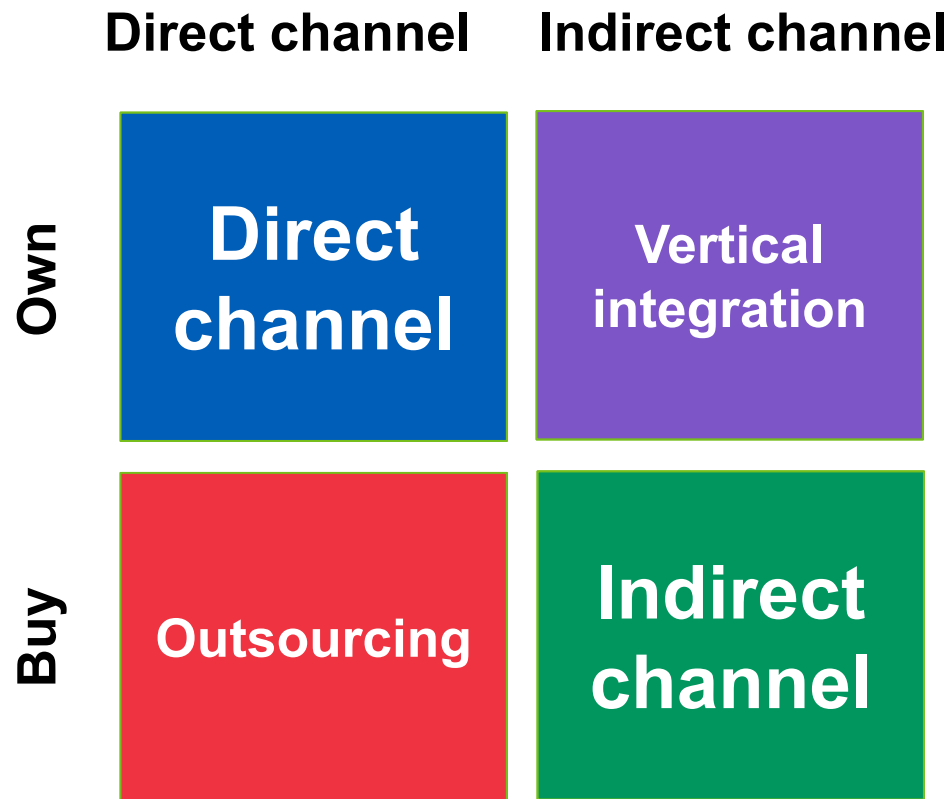
Volume and demand volatility by finished-good SKU,¹ example of US-based consumer-durables company



¹ Stock-keeping unit.

Channel system choices

(Lambrecht 2010)

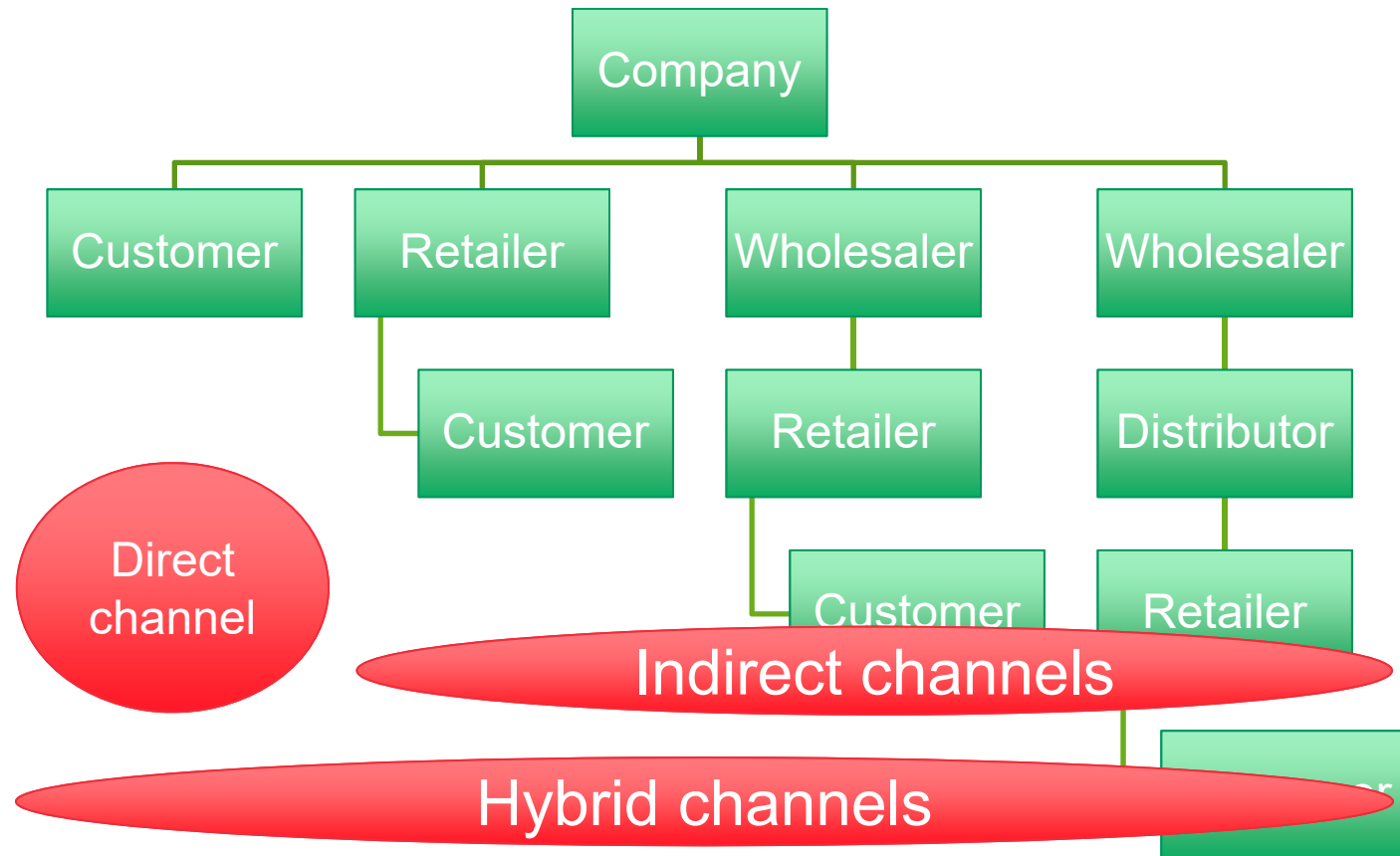


Go-to market strategies and distribution

From masses to few

- **Intensive distribution** –
Majority of resellers stock the 'product' and price competition may be evident
- **Selective distribution** –
Intermediate choice
- **Exclusive distribution** –
Only handpicked resellers or authorized dealers are allowed to sell the 'product'

Go-to market strategies and distribution



Power and control (Lambrecht 2010)

•Control programs

- Control programs are specifications (both formal and informal) of behavior patterns for channel members
- designed to ensure performance of desired service levels
- Resistance from channel members

Power and control (Lambrecht 2010)

•Power in the channel

- Ability to influence the actions of others
- Required to induce compliance with control programs
- Demanding control programs need to be backed by higher levels of supplier power

Power and control (Lambrecht 2010)

- **Assessing power**

- Stage I: Value of brand to the reseller
- Stage II: Quality of relations and support programs
- Stage III: Reseller switching costs

Vertical integration (Lambrecht 2010)

- “L’Oreal acquires three professional hair care distributors in the US”
- The market fails to provide a good outsourcing solution
 - *Transaction-specific assets*
 - *Contracting with third parties impractical, costly or risky*
 - *Qualified distributors unavailable (markets unserved or underserved)*

Vertical integration (Lambrecht 2010)

- **Vertical integration more profitable**
 - Capturing downstream margin
 - Performing channel functions more efficiently
 - Economies of scale?
 - Avoiding “double marginalization”

Vertical integration (Lambrecht 2010)

- **Difficulties in monitoring performance in the channel**
 - Non-selling activities important or sales process long, but hard to monitor and track effort and hard to implement control
 - Providing management with greater sense of control over critical activities

Vertical integration (Lambrecht 2010)

- **Improve market intelligence**

- Better knowledge of customer shopping behavior – “test bed”
- Track downstream changes

Partial vertical integration (Lambrecht 2010)

- **Partially integrating downstream by owning some company outlets while continuing to use independent retailers**
- **Benefits of partial vertical integration**
 - Increasing branding efforts
 - Controlling access and message to customers
 - Increasing prices
 - Learning about market and customer needs

Partial vertical integration (Lambrecht 2010)

•Risk of partial vertical integration

- Igniting channel conflict
- Perhaps not core competence a - potentially very costly effort
- Increased commoditization requires differentiation

Channel conflict

(Lambrecht 2010)

Horizontal conflict

- Overlapping sales coverage provided by parallel channels
- Small degree of overlap is inevitable and a sign that the firm is obtaining good market coverage
- High degree of overlap can rapidly lead to deterioration in channel performance

Channel conflict

(Lambrecht 2010)

Vertical conflict

- Associated with a breakdown in the relations between the supplier and a channel intermediary
- Occurs when parties' expectations are not met

Channel conflict

(Lambrecht 2010)

Supplier actions

- Supplier begins direct sales, competing with indirect channels
- New product is assigned to a new channel

Channel changes

- New formats emerge (online, social shopping)
- Resellers merge or consolidate

Channel conflict

(Lambrecht 2010)

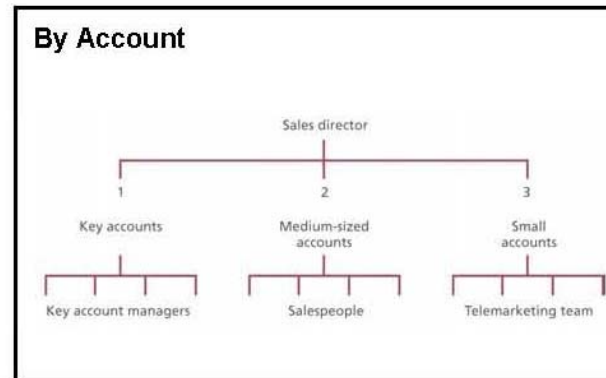
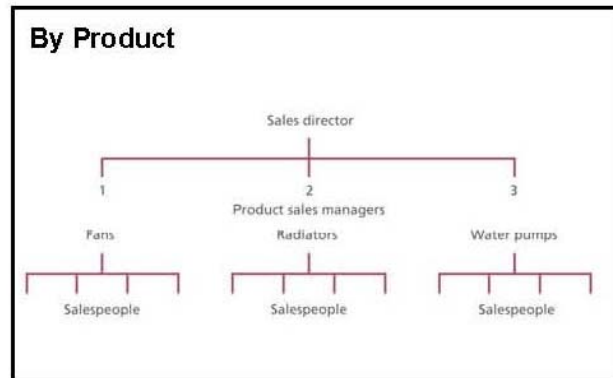
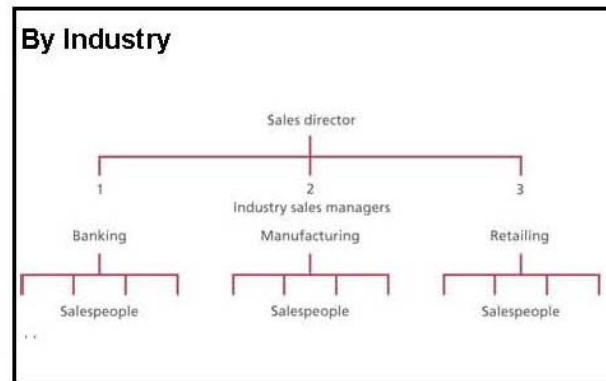
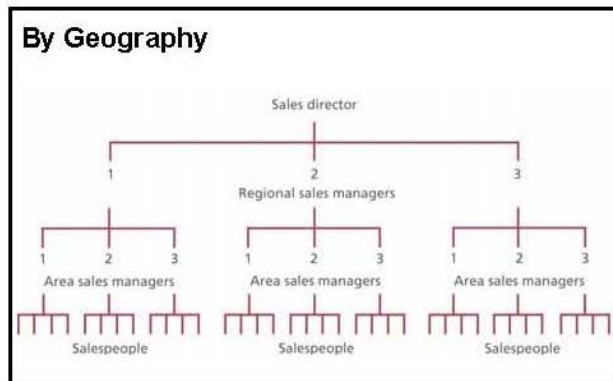
Customer buying behavior changes

- Change in information/logistics needs
- Adoption of digital channels
- Economic downturn

Sales force (Lambrecht 2010)

- **Specialists – Reps focuses on a subset of customers / products / activities**
 - Knowledge helps to convey complex information more efficiently
 - Better knowledge of customer needs
- **Generalists – Reps carry entire line**
 - Small territories, less travel time
 - Higher proportion of time spent with customers
 - Lower cost per call

SOME COMMONLY USED SALES FORCE STRUCTURES



(Lambrecht 2010)

Sales force (Lambrecht 2010)

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Sales force (Lambrecht 2010)

•Efficiency

- Segmenting customers
- Structuring and organizing sales force
- Allocating (territories, offerings, customers)
- Sizing (account coverage, call rate) sales force

•Effectiveness

- Compensating sales force (fixed vs. variable incentives)
- Setting sales quotas
- Training, coaching, evaluating sales force

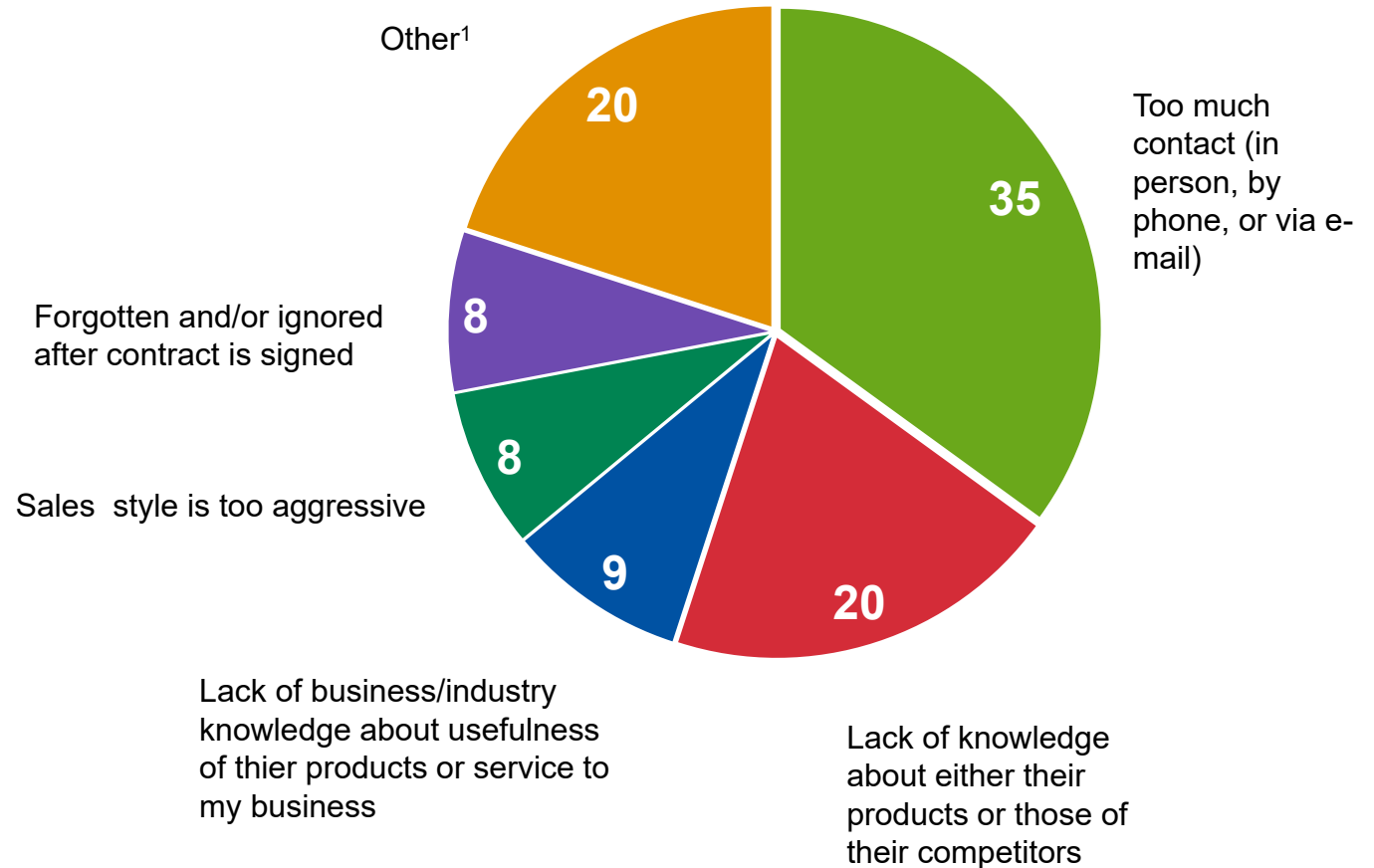
Strategic sales management (HBR 1998)

Old Approach	Necessary New Approach
1. Get New Accounts	1. Retain Existing Accounts
2. Get the Order	2. Become the Preferred Supplier
3. Pressure Your Company To Cut Price	3. Price For Profit
4. Give Service To Get Sales	4. Understand Cost Implications and Manage For Profitability
5. Manage All the Accounts the Same Way	5. Manage Each Account For Maximum Long-Term Profitability
6. Sell to Anyone	6. Concentrate On the High Profit Potential Accounts

Where sales reps go wrong?

(Boaz & Murnane & Nuffer 2010)

% of US and European customers selecting given sellign activity as "most destructive," Dec 2009, (n=1252)



Sales response function

- How does selling cost vary with sales force size?
- Linear assumption
- May also need to account for variable compensation
- How does revenue contribution vary with sales force size?
- Diminishing marginal returns expected

Sales response function

