

**OPPORTUNITY**

CAREFULLY DESIGNED PRICING STRATEGIES CAN HAVE SIGNIFICANT BOTTOM LINE IMPACTS, IN MANY INSTANCES INCREASING PROFITS BY 10-20%.

ANDREW STERN, BOOZ-ALLEN & HAMILTON

**BUT BEWARE**

"PRICE IS LIKE AN ATOMIC BOMB, AN EFFECTIVE BUT DANGEROUS COMPETITIVE WEAPON. THINK TWICE BEFORE YOU TOUCH PRICE."

SLOAN MANAGEMENT REVIEW 1992.

Pricing Definition

**THE SUCCESS FAMILY**

Pricing Definition

**DETERMINING PHASE: Target Pricing Performed for Cornerstone Products**

**INPUTS**

**WHO?** Business Unit Marketing, Competitive Research and Corporate Strategy Group

**WHAT?** 1. Business Unit Marketing:  
 • Cornerstone product for each product class with features and characteristics that are to be developed.  
 • Test results and "House of Quality" information including: product's reference value, priority and value of the product and its functions and features as perceived by the customer, price sensitivity/elasticity data, preference ratings.  
 • Steelcase "like" product data including: product, function and feature data with price value as perceived by the customer; sales volume of products and features; composite price for this product and complementary products when used in common application—these products should have a price relationship to each other (i.e. an upper storage bin should not be priced higher than a desk).  
 2. Competitive Research and Business Unit Marketing:  
 • Competitive data including: product, function and feature data with price and customer preference ratings; sales volume of competitive products, strengths and weaknesses of each competitor's product functions relative to the product being developed; competitive product cost information.  
 3. Corporate Strategy Group:  
 • Steelcase price structure and policies for target segment including: option pricing on similar products (e.g. pneumatic height adjustment on a chair); Steelcase services or features which historically carry a price; marketing strategies and policies (discounts, rebates, etc.) that are appropriate for the target segment (These items relate to the dealer and customer waterfall).

**STEPS**

**WHO?** Business Unit Marketing uses the inputs.

**HOW?** 1. Review price structure and policies for target segment.  
 2. Determine basis for price differentiation. Establish the set of product, customer and purchase characteristics which impact price levels. Price levels may vary based on customer price sensitivity or valuation, differences in cost-to-serve or differences in competitive situation.  
 • Product structure reviewed (base product versus options).  
 • Target market segments reviewed (customer groups and demographics that can be isolated and impacted by price).  
 • Purchasing characteristics reviewed (includes services which customer values).  
 • Internal cost structure and cost-to-serve considered.  
 3. Identify base product and optional features for cornerstone products. Identify the set of product features which define the base product as well as the optional features and services as defined by customer price sensitivity or valuation, cost-to-serve or differences in competitive position.  
 4. Understand feature/price/volume trade-offs. Review segment price sensitivity/elasticity data and profile acceptance data to determine customer reaction to prices being targeted for the product or feature. Consider source of volume and cannibalization issues. Provide suggestions for differentiation to product planning group working on statement of line.  
 • Identify source of volume (cannibalization competition, etc.). Generate "substitution percentages" (% of time the new product will be substituted for an existing product, either Steelcase or competitive).  
 • Understand relative importance of marketing variables on volume.  
 • Review impact on volume of price changes using available price sensitivity data.  
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**OUTPUTS**

**WHAT?** End user target price for cornerstone product with all price options

**WALLY I. WIDGET**

The HCD team reviews in detail the findings from the research and the associated House of Quality to set the appropriate prices for the cornerstone products. The team uses the pricing process and examines the feature/price/volume trade-offs associated with the HCD. They assign the following end user and dealer target prices for the base EDC.

	EUTP	DTP
Base Vacuum Package	\$ 8,250	\$6,395
Option 1 Package	\$ 9,750	\$7,558
Option 2 Package	\$11,500	\$8,915

**Pricing Worksheet**

Base Vacuum End User Target Price and Dealer Target Price Calculation

End User Target Price	\$ 8,250	\$ 8,250
High End User Target Price	\$ 9,750	
Low End User Target Price	\$ 7,250	
Dealer Target Price		\$ 6,395
% to Dealer Gross Profit (EUTP as a Decimal)	0.22	
% to Dealer Installation Expense (EUTP as a Decimal)	0.05	
% Total (0.22 + 0.05)	0.27	
Dealer Target Price Calculation = EUTP / (1 - 0.27)		\$ 6,395

In addition to determining end user and dealer target prices, the WWI marketing group also determined the elements of the price structure that would impact the revenue flow into WWI. They did this piecewise by using the price waterfall. The pocket price is the amount of money that WWI can plan to receive on average for each sale.

**Price Waterfall for WWI Hovering Cleaning Device**

Target List Price	\$9,900
End User Target Price	\$8,250
Dealer Target Price	\$6,395
WWI Pocket Price	\$5,850

Price Waterfall Breakdown:

- Target List Price: \$9,900
- Less: \$495 Order Size Discount
- Less: \$1,165 Dealer to Customer Competitive Discount
- End User Target Price: \$8,250
- Less: \$1,855 WWI to Dealer Competitive Discount
- Dealer Target Price: \$6,395
- Less: \$255 Annual Volume Discount
- Less: \$100 Payment Terms Discount
- Less: \$100 Freight
- WWI Pocket Price: \$5,850

developed with:  
**Steelcase**

# Quality Function Deployment and Target Pricing Methodology

Developed target pricing methodology to transform user needs and expectations into subsystems and component parts to establish cost targets for product development and manufacturing development.