

Pricing Strategies for Non-Separable Markets

In today's globally connected world, products are not only subject to competition among each other; a product also competes with itself in case it is offered at different prices in different countries or market segments. If markets with distinct price levels cannot be separated completely from each other, an unwanted flow of products may occur.

Ad-hoc solutions to overcome this undesired in-house competition mainly focus on two approaches:

- ▶ The gaps in the willingness to pay between the markets are ignored and one unique price for all markets is defined. Thus, any product flow between markets is avoided.
- ▶ The optimal (local) price for each market is set, and the flow of products is controlled by non-pricing strategies, e.g. controlled product supply for the low price market.

In fact, both approaches are not optimal. The first strategy leads to a decline in sales in the markets with a low willingness to pay, while in markets with a high willingness to

pay the maximal profit cannot be realized. The second approach, however, potentially causes a high volume of unwanted product flow if the established control measures fail. Moreover, these control measures require high managerial efforts while facing the risk to be in conflict with commercial and/or international law.

To overcome the drawbacks of these two solutions, Produkt + Markt recommends an integrated pricing approach that determines market-specific prices while maximizing the overall company profit. This approach respects the price-demand function for each market as well as information about product flows among markets, summarized as so-called arbitrage function.

The price-demand functions can be determined by means of the discrete choice method or Price Sensitivity Meter. The arbitrage functions are either based on survey results or estimated on the basis of secondary data, e.g. panel data.

Based on our experience from international pricing studies, we conclude that this integrated optimization approach not only in-

creases the overall company profit but also helps to improve the following aspects:

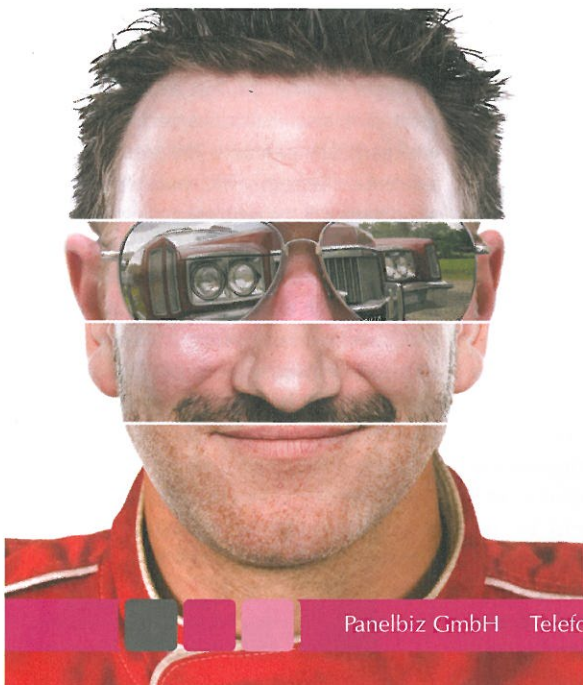
- ▶ The volume of undesired product flows is kept to a minimum.
- ▶ Trouble with distributors, who would be affected negatively by unwanted product flows, is avoided.
- ▶ Flexibility in pricing is maintained, i.e. one can adapt prices within a certain range to markets' needs.
- ▶ The overall pricing system becomes more stable.



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Many opinions – one result

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- > Exclusive special panels (for instance B2B, mothers with babies and young children, automotive, IT decision-makers...)
- > Current data through regular profiling
- > Strict compliance with the standards set by industry associations: ESOMAR, BVM, DGOF, VSMS



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