PRICING STRATEGY

Strouse, Karen G.(2004). Strategies for Success in the New Telecemmunications Marketplace. Artech House Telecommunication Library. London

Chapter 10

COMMODITY PRICING

- Telco providers concern that telecommunications might become a commodity
  - Customers perceive the services of all competitors to be undifferentiated from each other.
- Competition in telco just like commodities markets where they drive by the price.
  - Always find the way to win price wars by cutting costs
- Price wars produce competitive environments in which market shares remain relatively constant and profits simply shrink, creating customer centered, but unfavorable, marketplaces.

COMMODITY PRICING

- What do you think of Indonesia Telco ?
  - Is it price driven?
  - Is there any chance to differentiate from price strategy?
  - What is the reason behind the telco pricing?

COMMODITY PRICING

- Price competition show the inability of service providers to make real perceptual distinctions between services
- Service providers have used the so-called network effect to create switching costs or increase a new market
  - Voice and text whithin the same providers
- Offering innovative or proprietary content or services is emerging as a differentiator for wireless service providers.
  - VAS, content

PRICING STRATEGY

- Pricing remains a singularly critical factor in service provider success.
- It affects the acceptance rate and the profitability of new services
- Skimming strategy
  - Service provider sets a price well over cost to achieve fewer but very profitable sales.
  - As the market develops or as technological upgrades create some obsolescence for the service, the service provider can then drop the price to a smaller margin.

PRICING STRATEGY

- Market penetration strategy
  - Setting low prices to gain market share
  - Advantages ;
    - Plenty qualified prospects for a service to target
    - Sufficient market share often creates a network effect
    - Telco costs tend to drop over time, so the small margins can grow as long as competitors are not yet in the market or are unwilling to reduce competing prices as their own costs drop.

PRICING STRATEGY

- Market penetration strategy
  - Telecommunications demand is very price elastic, so usage and revenues generally rise as prices fall.
  - More market penetration means better asset utilization when large fixed costs are involved.
- Penetration strategy is also effective throughout the life cycle of the service, as long as the service provider can sustain adequate margins and differentiate the brand.

PRICING STRATEGY

- Competitive or market-led pricing
  - Pricing the same level with competitor
  - Telco which are not industry or price leader
  - Must supported with other marketing mix strategy
- Usage-based pricing
  - Simplify billing system
- Event-based pricing
- Free-based pricing

PROMOTIONAL PRICING

- Push and pull promotional strategies to create demand for their product.
- A push strategy
  - Uses the distribution channels to create demand in the marketplace.
  - Distributor is one way to share the cost of advertising and channel development while creating demand for wireless services.

PROMOTIONAL PRICING

- A pull strategy
  - bypasses the intermediaries to create demand,
  - Advertising in the mass media, Web site development, and glossy service introductions serve to create demand in the marketplace and “pull” customers to the service.

BUNDLING SERVICES

- Offering an array of services to the same customer
- Refers to a service package that includes
  - local access and long-distance services,
  - some enhanced services such as voice mail, call forwarding, and call waiting, some bonus usage minutes, and a single bill.
  - Adding data service
- Try to create your unique packages for telco customers

BUNDLING SERVICES

- Bundling offers other nonmonetary benefits for both the service provider and the customer.
  - Customers using service bundles are less likely to churn service providers.
  - Customers can select from an array of services, finding the permutation that meets their individual needs without a considerable investment in competitive research

BUNDLING SERVICES

- Failure in bundling ;
  - Customers not convinced that the bundle meets their needs.
  - The price of the bundle is not compelling enough compared with the price of the bundle components purchased separately.
  - The process of buying the bundle is too complicated.
  - The bundle does not generate incremental profits or benefit.

PRICE DISCRIMINATION

- By identifying and segmenting customers into distinct groups, service providers can practice price discrimination,
  - charging different prices to different customers for the same service.
- Price discrimination takes place because customers exhibit different willingness and ability to pay for identical services.

PRICE DISCRIMINATION

- Requirement ;
  - Providers have control to set price
  - The service can not be re-sold
- Level of discrimination
  - Charges each segment at the customer's willingness to pay (negotiation).
  - Volume discounts and competitive upgrades
  - Market segments to accomplish premium pricing from those customers willing to pay

PRICING for COMPETITIVE

- Industry leader usually become price leaders
- It is known that winning back the customer is more difficult then preventing them not to leave
- Telecommunications services is price elastic, that is, when prices fall, volumes rise sufficiently to overcome the price reduction.

PRICING for COMPETITIVE

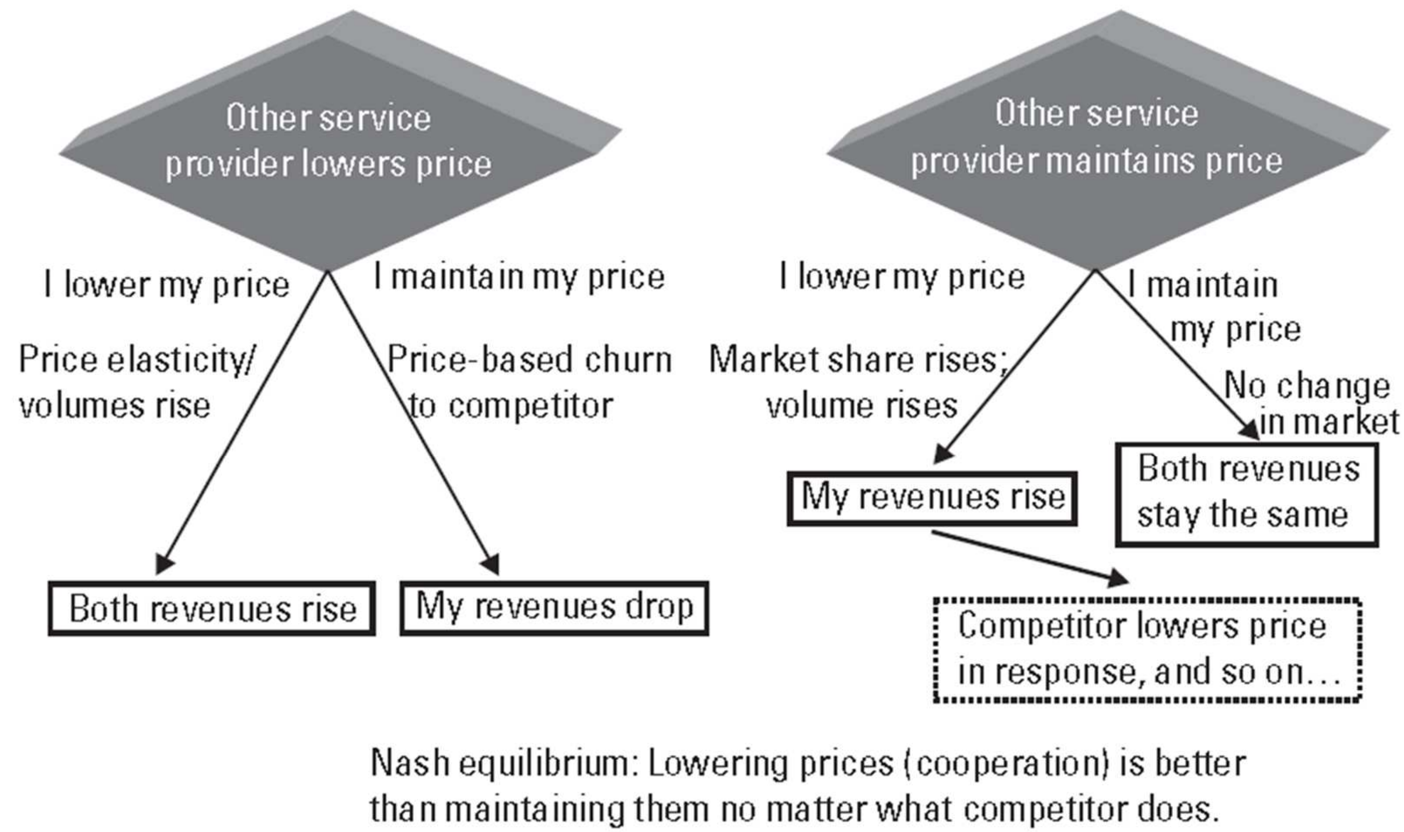

Figure 10.1 Game theory pricing strategy.

PRICING MODEL

- **Cost-plus pricing**
  - The firm calculates the cost of producing the product and adds on a percentage (profit) to that price to give the selling price (cost + mark-up).
- **Creaming or skimming**
  - Goods are sold at higher prices so that fewer sales are needed to break even. Target "early adopters" of a product or service.

PRICING MODEL

- **Limit pricing**
  - Price is the price set by a monopolist to discourage economic entry into a market (illegal in many countries)
  - Price that the entrant would face upon entering as long as the incumbent firm did not decrease output.
- **Loss leader**
  - Sold the product at a low price (i.e. at cost or below cost) to stimulate other profitable sales. This would help the companies to expand its market share as a whole.

PRICING MODEL

- Market-oriented pricing
- Penetration pricing
- Price discrimination
- Premium pricing
- Predatory pricing
- Contribution margin-based pricing
- Psychological pricing
- Dynamic pricing
- Price leadership
- Target pricing
- Absorption pricing
- High-low pricing
- Premium decoy pricing
- Marginal-cost pricing
- Value-based pricing
- Pay what you want
- Freemium
- Odd pricing

THINGS TO CONSIDER

- Regulations
- Cost and investment
- Competition
- Quality of product
- Market segment
- Customer perception/expectation
- Pricing goals
  - Penetration
  - Premium service

PRICE ALTERNATIVES

- Think several ways of pricing which unique compare to recent practices

PRICE ALTERNATIVES

- Low price with advertising
- Premium with dedicate line
- Very segmented product
- Buy now, discount later