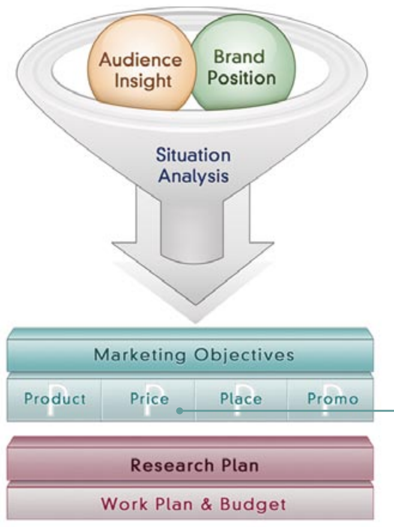
Where are we now?



Price P Strategies

Summary

There are four things to consider when setting Price P strategies for products or services.

1. Consumer Considerations
    - Willingness to Pay (W2P)
    - Price points
    - Available denominations
    - Communicating quality

2. Trade Considerations

3. Cost Recovery

4. Marketplace Dynamics

Where are we now?

PRICE P

- This is usually the most neglected P strategy. Often, we set the price when we launch the product or service and then it remains the same for years (and years and years).
- Sometimes we rationalize this by telling ourselves we have to keep prices as low as possible in order to remain affordable.
- However, if we don't at least keep up with inflation, we are actually damaging the quality perception of our brand and likely limiting our health impact.
- Furthermore, if our price is kept too low, we effectively shut out private sector competitors, hampering market development and leading to an unsustainable situation which could collapse if/when the donor exits.
- Therefore – you MUST actively manage your pricing strategy. Sustainable health impact depends upon it.

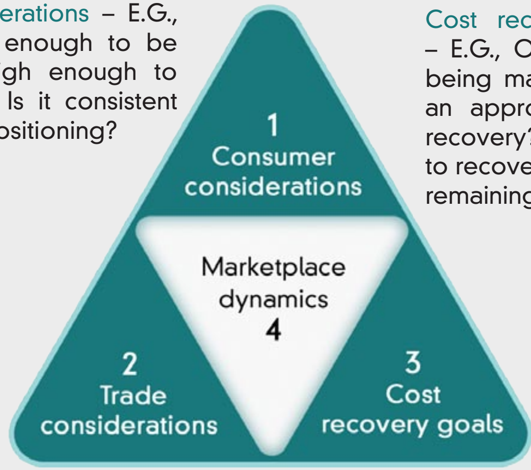
Example...

- PSI Cambodia launched their Number One condom in 1994 and kept the price the same ever since. As a result, in 2008 PSI dominated the marketplace with a 92% market share (Number One at 88% and OK, their second brand, at 4%). This, of course, was an unsustainable situation as the price was heavily subsidized by the donor and did not generate any significant cost recovery.
- Eventually the donor, USAID, caught on and asked that PSI actively work to bring more competition into the market. To that end, PSI Cambodia has since embarked upon a strategy of category segmentation by raising Number One's price and re-positioning it as a more upscale condom. OK condom, in comparison, was re-launched with a value positioning at a lower price point versus Number One.

- It is hoped that by raising the price of Number One, 'space' will be created in the market for other higher priced commercial sector brands.

There are four things we consider when setting the price of our product or service.

1 **Consumer considerations** – E.G., Is the price low enough to be affordable but high enough to convey quality? Is it consistent with the brand's positioning?



3 **Cost recovery considerations** – E.G., Over time, is progress being made towards reaching an appropriate level of cost recovery? Are there possibilities to recover more costs while still remaining affordable?

2 **Trade considerations** – E.G., Are retailers adhering to the recommended price? How do the margins compare to similar products or services?

4 **Marketplace considerations** – E.G., How have past price increases compared to inflation or changes in consumer income levels? What has been the effect of past price increases on sales? What are the trends in pricing for similar products/services?

1

Consumer Considerations
THINGS TO THINK ABOUT:

Willingness to Pay (W2P)

PSI has used several methods to determine a consumer's W2P for a product or service.

- You can examine prices paid for other similar products or services. For example, PSI Cambodia has compared the price of their upscale Number One condom to premium beers and cigarettes. Likewise, PSI Sudan has compared the price of their Waterguard product to a household's 'important but non-essential' products like tea and sugar.

- Five W2P questions can be inserted into a TRaC questionnaire to determine the price that the majority of respondents report they will pay for a product or service. A problem with this methodology is that respondents almost always over estimate what they are actually willing to pay.

- To compensate for this, you can add an additional question at the end of the W2P questions that asks respondents how sure they are about their answers. For example, "Just to confirm, you mentioned that you would be willing to buy this [product] at the price of X. How sure are you of this response? –Extremely sure; -Fairly sure; -Somewhat sure; -Not sure at all".

  Research has demonstrated that consumers report with considerable accuracy how well they have answered previous questions, making it possible to omit people that did not answer 'extremely sure'.

- An alternative method is the Van Westendorp method, which asks respondents for four price parts.

  How much is...

  1. too expensive;
  2. expensive, but still within reason;
  3. too inexpensive; and
  4. inexpensive, but still within reason?

Work with...

- your Regional Researcher to determine which methodology is best for your situation.

  Answers are then plotted on a graph to reveal the range of acceptable prices and the optimal price. See the example that follows from PSI Somaliland.
  This method should only be used when respondents express some interest in purchasing the product.

- PSI is also piloting an alternative method in Myanmar that solicits people in their homes to actually buy the product in question at randomized prices.

- Similar to this, you could test market different price points at different outlets and then monitor changes in sales.

- And beyond this, PSI has used outside agencies to conduct more sophisticated statistical methods for setting prices, such as a conjoint analysis or discrete choice modeling.

Consumer Considerations, continued...
THINGS TO THINK ABOUT:

Price points

Some prices can act as psychological thresholds, above which the consumer is less likely to pay. For example, PSI Zambia understood that 5000 Kwacha is considered by their target to be 'real money', whereas amounts below this are not. In other words, if someone on the street asks for 3000K, you are likely to give it. If they ask for 5000K, you are not. This helped them decide to increase their HIV CT price from 1000K to 3000K and not to 5000K.

Available denominations

Consider how the retailer will make change if the consumer pays with larger bills or coins. In the example above if 1000K or 2000K were not common bills, a 3000K price would be impractical. Obviously, the easier it is for the consumer to pay or get correct change, the easier it will be for him/her to purchase.

Communicating quality

If the price is too low, people may perceive it to be of inferior quality. This is especially true for categories they are not familiar with (e.g., a safe water product launch in a new market). Think about what else the target can purchase for the same price and use your judgment as to whether this price point connotes quality.

Some common TOOLS for influencing the final retail price include...

- printing the retail price on the packaging,
- advertising the retail price in the media,
- issuing coupons, vouchers or rebates.

Trade Considerations

THINGS TO THINK ABOUT:

When setting prices, a common mistake of PSI is to not learn what margins are common within the industry for similar products or services.

- Compare your margins and sales volume/total profit to others in the category for each step in the distribution chain – distributors, wholesalers, retailers, etc.

A margin is the difference between your cost and your selling price. It can be expressed in units or percents. E.G.,

0.12 = buying price
0.15 = selling price
0.03 = unit margin

20% = 0.03 ÷ 0.15 = percent margin

- Compare your margins to other PSI countries in the same region or with similar per capita GDP. Use PSI's 2007 global pricing study and/ or ask your PM or APM in Washington for this information.

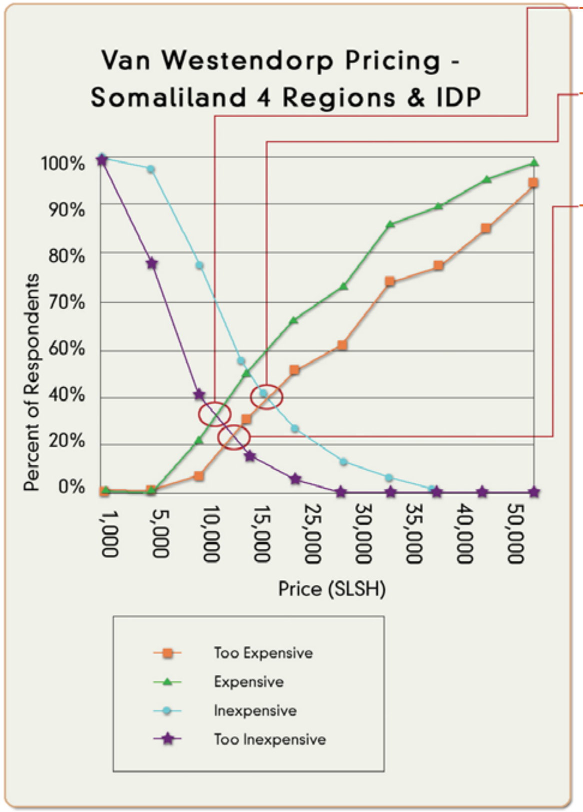
Considering the Product's Life Cycle Stage

Sometimes, higher than average margins are set when launching a new product in order to win distribution. Over the years, as the product matures in the marketplace and generates higher volumes, margins can be brought down to average or even lower than average levels.

An example of considerations 1 and 2

When PSI Somaliland launched their Badbaado bed net, they surveyed consumers and the trade to find the optimal price point.

1 With consumers, they used the Van Westendorp method with the following results. The range of acceptable prices fell between the intersections of…



- Too Inexpensive and Expensive at 11,000 SL Sh.
- Too Expensive and Inexpensive at 18,2000 SL Sh.

The optional price point was at the intersection of the Too Expensive and Too Inexpensive lines at 13,300 SL Sh.

2 For the trade, they asked wholesalers and retailers…

- are they willing to stock the bed net;
- if so, at what price are they willing to purchase it; and
- at what price are they willing to sell it, in order to make a profit and still be affordable to their customers?

Both exercises pointed to a price around 12,000 SL. or USD 2.00.

An additional learning could be that approximately 20% of respondents may not be able to afford this price and could have to rely on free distribution.

Cost Recovery & Marketplace Considerations
THINGS TO THINK ABOUT:

3 Cost Recovery

Although cost recovery is not a main priority at PSI, it needs to be a consideration because:

- Prices that are too low, in essence, over subsidize those who are willing and able to pay more.
- Spending too much on subsidies means we have less to spend in other program areas, such as IPC outreach or mass media.
- Robust cost recovery increases the amount of program income, and, thus, funds available for investment in marketing activities. This can create a 'virtuous feedback loop' as more investment fuels more sales growth (and health impact) which then creates more program income, etc.
- Some donors are becoming less and less willing to fund commodity costs, thus, expecting us to cover more and more of these costs ourselves.
- Programs that sell their product into the trade channel are usually not tasked with serving the poorest of the poor. That target is more appropriate for public sector or free distribution programs.

Does your program have a cost recovery goal? Below are PSI's four levels of cost recovery.

Level	Description
Level 1	Cost of Goods Sold (COGS)
Level 2	COGS + marketing expenses
Level 3	COGS + marketing expenses + its fair share of fixed program costs
Level 4	COGS + marketing expenses + its fair share of fixed program costs + profit

4 Marketing Dynamics

Compare...

... historical price changes with their accompanying changes in sales volume. Include competitors in such an analysis.

... annual price increases versus changes in inflation and your target groups' income levels.

... your intended retail price versus the actual retail price in various outlets. If the actual price is higher, then you might be selling into the distribution chain at too low of a level. You have either not kept up with inflation or an increasing willingness to pay, and, thus, are missing out on increasing your cost recovery.

In 2007, PSI conducted a global pricing study and found that the gap between our intended retail price and the actual price charged by retailers amounted to a staggering $16,000,000 – more than $13,000,000 of which was from condoms alone.

In other words, had PSI closed that gap by selling into the distribution chain at a higher price, it could have recouped that $16,000,000 and spent it elsewhere. Instead, this money went to the profit margins of distributors and retailers, thus distorting the marketplace and making it more difficult for private sector companies to compete.

Consider this example of PSI Mozambique's launch of their malaria treatment product.

1 CONSUMER CONSIDERATIONS:

Currently, the target, Teresa, pays the following amounts for malaria treatment:

- In public hospitals → 6 Mtn
- For herbal remedies → 20-50 Mtn
- For a traditional healer → 150 Mtn
- In private pharmacies → 130 – 340 Mtn

2 TRADE CONSIDERATIONS:

In Mozambique, trade margins are set by the state, as are fees paid to pharmaceutical importers.

3 COST RECOVERY:

The donor required full recovery of COGS in order that PSI Mozambique may continue purchasing the product on its own.

4 MARKETPLACE DYNAMICS:

This was not applicable as the product had not yet launched.

In the end, a price somewhere in the range of 50-75 Mtn was chosen because it was…

LOW enough

- to be affordable to Teresa; and
- to make it attractive versus the opportunity cost of waiting in a long queue at the public hospital. territories…

HIGH enough

- to connote quality; and
- to still recoup the COGS considering the state-imposed trade margins.

Non-monetary Costs

There is an additional Price P concept for social marketers called non-monetary costs. The most common are listed below. Note these are usually addressed as part of other P strategies. For example…

1. Time – e.g., to travel to a clinic
2. Effort – e.g., to remain abstinent
3. Psychological risk – e.g., stigma of getting tested for HIV
4. Physical discomfort – e.g., pain during recovery period of male circumcision

Strategies to Address Each Non-monetary Cost

1 Time

E.G.,
- Extending working days/ hours to weekends/ evening (Product P)
- Increasing mobile outreach (Place P)

2 Effort

E.G.,
- Increase the 'benefit' of abstinence by positioning it as a form of resisting peer pressure. (Brand strategy & Product P)

3 Psychological risk

E.G.,
- Normalize HIV testing through celebrity endorsements (Promotion P)

4 Physical discomfort

E.G.,
- Change type of pain killers provided to the patient after the procedure (Product P)

Pricing Structure for PSI Mozambique's Malaria Treatment Product

	COGS	Service Tax	COGS + Tax	PSI Margin	Distributor Price	Distributor Margin	Retail Price	Retail Margin	Consumer Price
USD	1.23	5.0%	1.30	4.4%	1.36	11.7%	1.54	37%	2.45
MTN	34.57	5.0%	36	4.4%	38	11.7%	43	37%	68