CASE THIRTEEN
Glitzz: Devising a Pricing Strategy

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Case Objectives

- To identify the elements that make up a price and influence pricing decisions.
- To examine the role of costs and revenues in determining prices and breakeven points.

Case Synopsis

- Glitzz is a cleaning agent specially formulated for precious stones, jewellery and watches made from natural ingredients.
- Glitzz's main competitors include Brilliant Restorer from the US, Connoisseurs, Powervescent, Savco , Osim uSonic, retailers such as Goldheart or Lee Hwa that provide free jewellery cleaning services, and even dishwashing liquid or tooth paste is used to clean jewellery.
- A student team from National University of Singapore (NUS) Business School was engaged to carry out market and consumer research to examine the business opportunity and to assess consumer responses.

Case Questions and Answers

Question 1
What factors influence the pricing decisions for a product such as Glitzz? Analyze these factors and comment on the range of prices that can be set for Glitzz.

- Examine 3 broad categories and the variables within them: factors related to the company, competitors and consumers.
- Company factors: revolve around internal aspects and dynamics of the firm which affect its pricing decisions, such as costs, objectives and strategy. Costs include fixed costs, variable costs, production costs, and marketing costs. Depending on the costs, the firm needs to break even and thus can derive the right pricing based on cost-volume-profit (CVP) analysis. Company objectives include profit maximization, emphasis on maximizing market share, and social responsibility. The marketing strategy helps marketers to make decisions on how to satisfy the target market and attain market positioning vis-à-vis other brands and products, showing that marketing

objectives and strategies must go hand-in-hand when deciding on the price of the product.

- Competitor factors: marketers will refer to competitors' characteristics, offerings and pricing strategies to determine how to get and decide its own prices. Competitor's factors include their prices, costs, objectives, strategies, resources, and product as well as the market structure and reaction patterns of different players in the industry. Market structure includes monopoly (where the firm does not need to be concerned about other players in its pricing strategy), oligopoly (where players in the industry watch the pricing strategy of other players very closely), and monopolistic competition (where a player's pricing strategies tend to be influenced strongly by only local players who are operating in close proximity to the company rather than those further away and have less influence in drawing customers away).

- Consumer factors: consumer demand for the product affects the pricing decision. The demand schedule, joint demand schedule, price sensitivity or elasticity, and consumers' perception of value and quality of the product, will affect the demand for the product and must be taken into account when deciding on a price.

- For Glitzz, costs are a concern. Consumer price sensitivity is another concern. Prices of competitive products and substitutes are also relevant concerns.

Question 2
What price would you recommend for Glitzz? Why?

- Students should examine various factors in Question 1 to suggest a retail price point or a narrow price range.

- In doing so, students may adopt cost-plus pricing by adding up all the costs and adding a margin to achieve profit objectives or ROI. The costs of content and packaging are about $5 per unit. Marketing fixed costs depend on the strategy adoption (under Question 3).

- Students may also adopt market-oriented pricing by examining the pricing of close competition and substitutes and consumers' perceptions of value. Examples of competitive pricing include Connoisseurs priced between $14 and $16.95 and Powervescent priced at $6.97. Research carried out by the company concluded that consumers are not willing to pay more than $20.

- Students may adopt penetration pricing (pricing relatively low to capture market volume and share) and suggest prices of $10 or $11 or $12. They may adopt price skimming and suggest higher prices of $18 or $20 to achieve higher profit margins and achieve premium perceptions.

Question 3
What strategy would you propose for Glitzz? What costs and expenses would be involved? Given your recommended price in (2), what will be the breakeven point?

- Students may suggest pull strategy through extensive advertising and brand building. Such strategies may require advertising budget of $1 to 2 million.

- Students may suggest push strategy through extensive coverage and promotion by channels and stores. Here, large trade margins of 30 percent to 50 percent may have to be paid to channel members such as jewelry stores or departmental stores. In addition, fixed expenses such as cooperative advertising expenses may have to be paid to these channel members as incentives.

- Students may also suggest direct marketing strategies such as selling the product through promotion booths. Here, commissions have to be paid to promoters and rental expenses have to be paid for the booths.

- Whatever strategy chosen by the students, they must be able to list out all the variable and fixed costs associated with the strategy and the pricing strategy and revenues associated with the corresponding strategy. With these information, breakeven or profit computations can be carried out.

- For example, if distribution through jewelry shop is suggested under the following:

  - Trade margin of 30 percent,
  - Cooperative advertising for the product with Glitzz investing $30,000 for the first year,
  - Assume overhead for labor and rental is $50.000 per year
  - Retail price for Glitzz set at $14.00

  The computation of breakeven point is as follows:

  - Margin paid to jewelry shop per unit under retail price of $14.00 is 30% of $14.00 or $4.20.
  - Revenue per unit to the company after the margin is $14.00 - $4.20 = $9.80.
  - The contribution per unit is $9.80 - $5.00 (cost of content and packaging) = $4.80.
  - Total fixed costs are $30,000 + $50,000 = $80,000
  - Breakeven = $80,000 / $4.80 = 16,667 bottles.