Economics of Conditional Pricing Practices: A Marketing Perspective

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Conditional Promotions: Landscape

- Forward Buying, Scan-backs, Scam-backs
- Distribution of promotion pass-through rates, Cross-subsidization
- Limited ability to track and compute promotional costs and profit
- Light bulbs, Spices, Eye glasses, Athletic accessories
- Philip Morris, Cisco, Carrier, Arrow, NetApp

Conditional Promotions: Goals

- Influence Channel Price (both high and low)
- Influence Channel "Effort":
  - Shelf Space, Merchandising
  - Investment in Training, VA Services, Logistics
  - Demand Generation, Focus on Specific Customer Types and/or Product Lines
- Prevent Free-riding (other channel members and other suppliers)
- Match Supply and Demand
- Keep Smaller Dealers Competitive
- Build Economies of Scale and Scope (for both channel partners)
- Leverage Brand Equity
- Provide "Variety" to Consumers
- Match/Beat Competition

Work out a cooperative and sustainable agreement with channel (even more so in BtoB)

Conditional Promotions: Costs

- Discount/Payment Amount
- Forward Buying
- Diverting
- Monitoring
- Supply Chain
- Forecasting
- Organizational Confusion (promotional cost accounting)

Types of Funds

- Off-invoice discounts
- Customer-specific discounts
- Bill-backs, Scan-backs
- EOY or EOQ Rebates
- Cooperative Advertising Allowances
- Slotting Allowances
- Swell Allowances
- Market Development Funds
- Training, Certification, Sales Materials
- Manpower & Systems Support

Types of Conditions

- RPM, MAP
- (Share of) Features, Displays, Shelf Space
- (Share of) Certified Personnel
- Evidence of sale/quote at desired price, for desired service, or to desired customer
- Purchase/Sales volume or growth
- Share of Purchases/Sales
- Bundled Purchases
- Brand Development Index

Implications

- Promotional programs are not easy to design and implement
  - Struggle to balance goals against costs
  - Fine-tuned over time
  - Sometimes so complicated, parties lose track of rationale
- Many different types of funding and many non-funding costs
  - Difficult to assess pricing above or below cost
  - Distinction between all unit discounts and other variants not always clear
- Consumers value variety more than brands in some categories
- Suppliers can get “loyalty” without a market share discount
  - (Share of) features/displays/merchandising
  - (Share of) skills
  - (Share of) specific customer segments

Empirical References

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