The transition to the euro is helpful to the international market – cutting down on currency calculations and different exchange rates helps European and international businesses calculate costs and prices. However, there are pricing challenges for the marketer at the customer/end user part of the supply chain, which has great implications for brand positioning across Europe. What do you think are the challenges for the marketer of pricing goods in euros? Pricing challenges for marketers mainly concern price conversion. Consider, for example, the disappearance of the price point – an item priced at £9.99 in the UK converts to 5.12 euros. Psychologically this is not a good price point as customers tend to round prices down. To get to the psychologically more acceptable 4.99 euros, a supplier has to do one or more of the following:

- reduce margins
- reduce costs
- reduce quality
- reduce pack size
- change the product formulation.

These are all difficult decisions!

Price transparency will cause difficulties for marketers too. Prices for goods are instantly comparable putting pressure on high-cost producers to match their competitors' prices. As prices converge, the importance of differentiation through factors other than price becomes more important to the marketing strategy. Branding and customer service will be even more important in this new market.

The euro is probably the most profound European business challenge since the Second World War – assuming that the macro-environment continues to support the transition. Political will has to be maintained to ensure the successful introduction of the new currency. This scenario clearly shows the impact that the macro-environment has on the marketing mix. There are key strategic implications for marketers from this pressure from the political and economic environment. Pricing strategies need to be developed to respond to the challenges of the introduction of the euro if a company is to achieve its objectives.

How will this affect you?

- The reduction of trading barriers will enable many organisations to greatly extend and broaden their reach, as well as allowing companies to introduce their new products more quickly.

- Europe-wide marketing will become the norm as companies respond to the European Union's 300 million-plus consumers. This will also increase competition.

- There will be a fundamental cross-border repositioning for those brands, which currently operate, with different attributes and prices. Prices of many products, especially cars and electrical goods, will fall.

- The simultaneous dramatic growth of the new distribution channels and new cross-border alliances and mergers could cause an explosion of Internet and television shopping, as well as direct telephone selling as companies refine their targeting on a European basis.

- Having the same prices in different EU countries will put a premium on service as a differentiator.

- The removal of exchange rates will allow many companies to take a longer term view of their product and service strategies.

- Customer support centres will need to be multilingual and have systems allowing immediate access to records.

- Retailers will find it easier to operate across borders. Brand suppliers will thus be faced with even more powerful buying groups.

- There will be a growing interest in niche products, which reflect local tastes.

Source: IBM in *Marketing*, February, 1998.

Q **ACTIVITY 4.7: QUESTION**

Read Case 17, pages 316-317.

Now, put your knowledge of pricing into practice by answering the questions on page 317.

A **ACTIVITY 4.7: ANSWER**

1. Rob is only considering the costs when he is fixing the price, not what customers might be willing to pay. Susan could argue that the market research indicates that potential customers are delighted by the new features of the product and the reduced cleaning required. Thus a differential advantage over the competition has been created with this added benefit and customers will probably be willing to pay a higher price for it.

2. Taking a marketing-oriented approach to pricing then we need to look at the other factors identified in Figure 10.2, page 297. Particularly the new bathroom range will need positioning with the appropriate target market, and the benefits to the customer carefully quantified in terms of value and price. Pricing will still need to fit within the rest of Hansen's current ranges, and remain competitive with other offerings in the marketplace.

3. Alternative strategies are given in Figure 10.4, page 298. If Hansen has the resources to promote the new benefits to the target market, a rapid skimming strategy may be appropriate.

We now consider another aspect of the marketing mix – **place.**

Why is place important?

Although it is several years since the advent of business process re-engineering and the various calls for companies to re-examine the ways in which they do things, there is still a lot less emphasis on business operations than on strategy. However, there are signs that all those entreaties about processes have not entirely fallen on deaf ears. In particular, **place** has come out of the background in recent years to take a prominent position in the focus of managers.

In *Supercharging Supply Chains,* Tyndall et al (1998) argue that the ability to free cash flows through innovative supply chain management and operational excellence is a key factor in the increasing share prices of such companies as Xerox, Ford and the pharmaceuticals group Eli Lilly. Cash has always been king, but how do you get it? According to the authors, it is largely about profitable growth, cost minimisation and efficient use of working and fixed capital. 'The mandate for executives is not to understand the complexities of distribution and transportation – only to recognise that, in addition to operational efficiency, these functions have taken on significant responsibility for asset management and revenue enhancement. Competence in the basics of moving and stocking is important to customers and to the bottom lines of the companies that serve them.'

Place is the element of the marketing mix concerned with making the product available and accessible to buyers and potential buyers. Think back to Vignette 3.2, page 67. Muller had a product it wanted to sell in the UK. It needed to put the product somewhere where a consumer could see it and purchase it. Because people don't usually buy processed foods directly from the producer, but go to a supermarket or other retail outlet, Muller needed a retailer to participate in the distribution channel. The distribution channel for the Muller Fruit Corners was:

Muller →	Tesco →	Consumer
Producer	Retailer	Buyer

Note that there are three participants in the channel – the buyer, the retailer and the producer. Some distribution channels have fewer participants; some have many more.

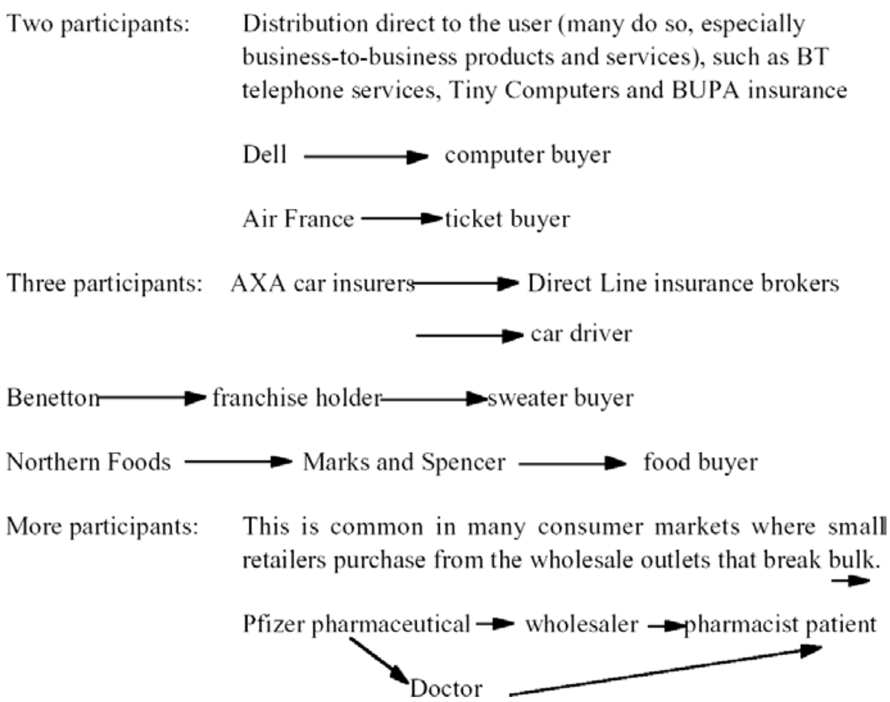
ACTIVITY 4.8: QUESTION

Consider some examples of distribution channels that have two participants, some with three participants, and some with more participants. Now, think of some advantages of each form, and some of the disadvantages for the producer of the various formats of distribution channel.

ACTIVITY 4.8: ANSWER

You might have thought of:

Two participants: Distribution direct to the user (many do so, especially business-to-business products and services), such as BT telephone services, Tiny Computers and BUPA insurance



These chains of distribution need not be mutually exclusive; a computer manufacturer may sell to local dealerships; or sell directly to high-street shops; or sell to high-street shops via a wholesaler if there is a minimum order size; or use an agent overseas.

Who uses distributors?

PIMS data on over 1,800 businesses (PIMS 1998) suggests that about 50% of industrial businesses involve distributors for some portion of their market, whilst distributors are the norm for consumer markets. We can summarise the characteristics of those who use middlemen in the following chart:

Characteristic	***Use distributors***	***Sell direct***
Market type *Product life cycle* *Product and service type* *Technological environment* *Customer base* *Unit price* *Importance of purchase* *Buying centre*	Consumer • Mature • Generic • Moderate change • 1000+ • Low • Low, moderate • Professional advisors specify	• Introduction, growth, • decline • Customised • Rapid change • Below 1000 • High • High • Buyer specifies

Whilst these findings show general patterns, there are a number of questions individual businesses need to answer before deciding on their own distribution strategy. These include:

- Should we sell direct to the customer, or channel our goods via channel intermediaries?
- What benefits are there to us as producers in using intermediaries?
- How would the use of such intermediaries affect the relationship with our customers?
- What does the use of intermediaries mean for the organisation? Could it mean a reduction in direct sales force? Or an extra burden of administrating supply channels? Or a gain of economies of scale?