

Brand Management
Professor Abhishek Kumar
Dept. Of Management
Army Institute of Management, Kolkata
Week - 07
Lecture – 33

Hello all, welcome to another lecture on Brand Management. As you know that in this series of lectures, we are looking at brand management activity from multiple perspectives. We are looking at various questions that a brand manager will deal with when he is going about doing his work. We have started with questioning what really is a brand and what is the management of that brand. And then we have seen the entire activity, the chain of activities that constitute brand management function. And if you recollect, we talked about a brand management continuum, a continuum which began with product and ended with iconic brand.

We also saw that perhaps that continuum is not really a linear continuum, it is a circular continuum which means there is no beginning and no end. So, as brand managers and as students of marketing, you would appreciate that when you join an organization when you begin brand management activity, you may enter at any point of time when in the linear or non-linear continuum of brand management. So, this is where we began and then we have gone through several stages within this brand management course. These stages were in some on some occasions, these stages were concrete and on some occasions they were very abstract.

When we were talking about products, they were very concrete. If you remember, we were talking of not only product levels where Philip Kotler had given five product levels and in through those product levels, we tried to understand what really is a product in its concrete form. Even in concreteness, we found five levels. On one stage, we saw brand management operating at a very concrete level. On another stages, on another occasion, we saw brand management or brands operating at a very abstract level.

For example, ideas like brand personality or brand identity are very abstract ideas, brand loyalty, brand equity, etcetera are very abstract ideas because they are second level of abstraction. Because as we have seen product is a concrete idea and on product when we impose a brand which is actually an idea, idea plus product becomes an abstraction. And then when we impose another order of idea like a brand personality or brand identity, it becomes a second order of abstraction. It is an idea about an idea. So in brand management course, generally we deal with such second order level, second order of abstractions and that is why this course can be very exciting and it can also be inexhaustive which means you can continuously think about these ideas and there can be

no end to it.

Now if you recollect that last few lectures, we are focusing on brand extension, brand architecture and then brand pricing. Pricing as a tool is what we have discussed in the last class. The classes before that we discussed brand architecture where brand managers are responding to challenges in the marketplace with the help of a structure. So what they are offering is a solution which is a structure, a structured solution and brand architecture was considered to be that structure through which brand managers can address the challenges of the marketplace. In the last class, we discussed 8 principles that we must keep in mind when we try to use pricing as an intervening mechanism to maintain brand positioning and those 8 truths or 8 principles told us that pricing is not a very simple tool.

It is a complicated tool and it should be used with caution and it should be used with full awareness of its consequences. So in the last class, we have seen pricing as a tool for brand positioning. Today in this lecture, we will look at pricing in a little more abstract manner. We will try to do an interrogation of this idea of pricing. While pricing in the last class we have seen that it is a complex phenomena and it is a difficult decision, even a controversial decision to make when you tinker with your pricing.

But in today's lecture, we will look at pricing not just as an amount that we charge for a certain product or service, but we will also see what happens behind this idea of pricing. In the last class, we said that one man's price is other man's cost. So what is this cost that is hidden behind this idea of price? This is something that we would explore today. We would also explore how this idea of cost and cost in its widest possible sense can be interpreted socially. And when I say socially, it means that how it structures our society, how it structures relationship between man and man, between buyer and seller, between manufacturer and consumer and so on.

And when it structures the relationship, the social relationship in society, in family, what happens is the changes happen at the level of the value system. And when the value system gets modified or conditioned, what happens is the consumer's tastes and preferences change. And when consumers tastes and preferences change, the structure of management per se will have to change. Because those whom we thought as consumers with certain characteristics are no longer the consumers with the same characteristics. What is driving them is different from what we thought is actually driving them.

So if management changes, obviously brand management will also change. So this is the task before us today that we will look at pricing as a social idea, as an economic idea, as an idea which is an abstract idea behind which many activities are taking place in

which we will try to get a glimpse. So we will take a deeper look at this idea of pricing. So we will begin with something that is simpler and easier to understand. Now what you see on the screen is a packet of Parle G Biscuit.

And if you read the point above, it says maintaining positioning through pricing. Now, and what positioning? Value for money positioning. Value for money positioning is a simple concept where consumers when they spend a certain amount, they expect good value for that amount. So this is called value for money positioning. This is not a luxury positioning.

This is a value for money positioning. This is a positioning that is perhaps prevalent in a country like India, which is widely prevalent in a country like India where people are not very rich and most people want to extract maximum value for the money they spend. Now the same issue lies here in the situation that Parle G was facing at one point of time. Now let me tell you a little history of Parle G. Parle G started in 1939 and it was earlier called Parle Glucose.

It was a glucose biscuit and it served as energy booster. It was for middle class, lower middle class and poor people and also used for children as a supplement for food. Obviously, it was priced at a lower level so that everybody is able to afford this Parle G biscuit. Now I am not going to give you the exact price because price kept changing over a long period of time. But the point I am trying to make is it was priced modestly so that everybody thinks that Parle G is an affordable biscuit to purchase.

Now at one point of time and it was perhaps sometime in 1990s that the general manager of Parle G brand was facing a pricing issue. What he realized was that the cost of raw material, whether it was butter, whether it was atta, whether it was various other ingredients, all of them were going up drastically. And because of that, the margin that they were able to make per packet of Parle G biscuit was shrinking. It was shrinking so fast that at one point of time it became less than 10%. Which means that every time you sell a biscuit of 5 rupees, the money that the company was making was less than 50 paise.

Now the general manager of Parle G at that time felt very insecure. He felt threatened and he felt that if we continue this pricing, we will not be able to sustain this brand and it will start making losses. Now he had another concern. He knew that this Parle G brand is a value for money brand. So earlier, he had that history in his mind that when in the past the price of Parle G was increased by 50 paise, the consumption, the demand of Parle G had gone down substantially.

So even for a 50 paise increase in the price, a large number of people decided that they

will not buy Parle G because they could not afford it. So this awareness he had that in the past about 8-10 years back, when they had increased the price by 50 paise, the demand for the biscuit had gone down. Then he also had this mind that a few years back, they had again increased the price, but what they had done was they had reduced the gramage. So while if the biscuit is a 200 gram biscuit for say 8 rupees, they made 200 gram into 180 gram and they kept the price as 8 rupees. So this is how they tried to manage, they kept the price at 8 rupees, but they brought the number of biscuit in the packet from 10 to 8.

So things like this was done in the past, so that Parle G continues to make profits, continues to survive in the marketplace and still retain the value for money positioning. Now again, the general manager of Parle G was facing the same issue and this was happening after about another 8-10 years when the last time price was revised. He was at a pricing dilemma, he was facing a pricing dilemma that should he increase the price, should he not increase the price. What should he do is a question that all of you as students of brand management must think about and try and answer. So what did he do? He of course analyzed that how much cost is coming, how much increase has happened in ATA and all other ingredients and what are the real possibilities in front of him.

Should he again try to reduce the gramage and keep the price as same or should he increase the price and not bother about the change in demand. So these were his concerns. He also knew that he is the brand leader in the segment. So the highest market share in that category was Parle G. Parle G was the highest selling brand in the glucose biscuit category.

He was also aware that there are two more players in the marketplace and who are these players? One is Britannia Tiger glucose. Now Tiger glucose was also launched by Britannia to compete against Parle G. And Britannia you know is an equally big organization. Parle is big, Britannia is equally big. So perhaps it is even bigger than Parle.

And then following Britannia, ITC which is also a very big organization, they also launched a glucose biscuit called Sun Feast glucose. Now the general manager of Parle G was aware that whatever he does, no matter what decision he takes, whether he increases the price or he decreases the price, these two players are at his neck. And if he increases, they may decrease the price and all the customers will go to either Britannia or to ITC. So these are the threats that Parle G was facing and he did not know what to do. Again, I would invite you to think about this situation and decide as a general manager of Parle G what he should be doing.

Let me tell you actually what happened. After a large or an extended deliberations on this issue, what this person did, the general manager of Parle G, what he did, he realized that he is the leader in the marketplace. He is the leader of this product category. Parle G enjoyed highest market share and he felt that no matter what he does, all others, both Britannia and ITC will follow suit. Most likely, they will also do the same thing what Parle G is going to do because the kind of margins, the pressure on the margins he has been facing, he was sure that ITC and Britannia were also facing.

So he decided to go ahead with the increase in the price of Parle G biscuit without any decrease in the gramage of the product of the package. And he increased the price and he was happy to see that both the brands followed suit and they also increased the price of their biscuits. So this way, all of them continued to remain in business and today all of them exist and Parle G has a market share, reasonable market share and similarly other two also have reasonable market share in the brand. So what I am trying to say is that here we have seen a simple application of a pricing dilemma and how that pricing dilemma can be overcome by a decision which is made after full awareness, in full awareness of various factors that may influence the business and then you with courage, you go ahead and take a decision. So this is what we have seen so far in this case.

Now I want to talk to you about something which I have alluded to in the beginning is that which happens behind the scene when we are thinking of the idea of pricing. Now let me try and explain it with an example. If you look at this slide, in this slide, you see there are two types of spoons. One spoon is made by machine. It is a steel spoon and this is a spoon that perhaps all of us use while we are having food.

In most of our houses, we will find this spoon which is made out of steel and it may have been made by some machine. On the left hand side, you see there is a silver spoon and this silver spoon does not seem to be very smooth which means what? It is a hand route silver spoon which means it is not made by machine but it has been chiseled by a human hand which means there must have been a handicraft person who has taken silver and who has given it the shape of a spoon and he has carved some design on this spoon. It is not difficult to understand that the silver spoon is a unique spoon and you may not be able to find one more spoon of this type. Whereas the steel spoon which is made by machine, we might be able to get hundreds and thousands of such spoon in the market place. Another factor that we must keep in mind is what do you think will be the price of these two spoons and which one do you think will be cheaper? It is not difficult to understand that the steel spoon will be much cheaper than the silver spoon and the difference would perhaps be enormous.

So steel spoon may cost about 10 rupees or 20 rupees but the silver spoon may cost 200

rupees or 500 rupees or things like that. Now given these two options, if I invite you or if I invite any person who is reasonably well off in society to decide which spoon would you like to use if you want to have food. Now some people may say I will use steel spoon, some may say I will use silver spoon but what I am trying to say is that a large number of people if they don't have to buy, they just have to use. Many of them will say that perhaps I would like to use the silver spoon. Why do you think people would like to use silver spoon? Because they feel that it gives a richer experience.

Having food in a silverware with a silver spoon which is a unique spoon which is handcrafted spoon made out of silver and not made out of steel is something that is of great value. And when I have food with that spoon, I feel better, I feel good, I feel richer compared to when I have food with a silver spoon. Now what is the source of feeling this richness? The source is that what has gone into making these two spoons. The kind of human effort that has gone into making these two spoons. As we know that the steel spoon is made by the machine and it is made in bulk.

Maybe thousands of spoons were made by one machine in a matter of one hour. Whereas to handcraft this silver spoon, a person may have taken a couple of hours. So you can imagine the kind of time, effort that has gone into making silver spoon is much more than that has gone into a silver spoon. So when we enjoy and feel that richness, when we use silver spoon, we are feeling that richness because a lot of human effort and time and talent has gone into creating this silver spoon. So the richness of our experience comes from that so much of time and effort and talent and handcraft and so on that has been spent to create this to handcraft this silver spoon.

So the source of that richness is in that effort and that effort contributes towards luxury because you are consuming that effort. When we are eating food with a silver spoon, we are consuming that effort that has gone into making that silver spoon. So that is why not only the price of the spoon is high but that price reflects the effort, the talent of people who have worked on creating that spoon. So that is the source of luxury because when you see often we think of buying a designer dress. Now when we go to a boutique and we look at the price tag of the designer dresses, we realize that these are very expensive dresses.

A dress which is in a showroom if you wish to buy in a branded showroom, a dress which costs say 5000 rupees, a similar dress in a designer showroom may cost 50000 or 5 lakh rupees. The reason is the same because there it is a unique dress. It is specially created for you and all the material that has been used has been bought only for that one dress. Whereas when you buy a dress in a branded showroom, it is not a unique dress. It has been made in large numbers and anybody and anywhere in the world can buy.

So what you are paying for the price of that product, that object is in the effort, is in the material which is uniquely created for that product, that object. And that has to be reflected in the price of the object. And because the more the effort, the greater the price. And that is how we establish or we create luxury brands and therefore luxury pricing.

Let us move forward. I will give you another example. Now on the screen, you can see the cabin of a car called BMW. We are all familiar with the BMW logo which you can see at the center of the steering wheel. Now I would like to relate to you a story that was told by the design manager of the BMW car. What he said was, one fine day, one of his team mate designer came to him and she came with a piece of cloth. And she said that we are not getting a piece of cloth exactly which matches our requirement for the BMW car.

So he asked which cloth are you talking about, why are we not getting, why is it so important, such questions he asked. So she explained that and I invite all of you to think about it, that in every car you have a front row and the back row. If you are seated on the back row, you will see that behind the front row seat, there are pockets. So behind both the seats, there are pockets. Now what she was saying is that when you put your hand in that pocket while you are seated in the back row, you have that experience of a cloth inside.

There is a cloth which makes the pocket which is at the back seat of the front row seats. Now what she was saying is that if you put your hand in the pocket, your experience of that cloth which makes that pocket should be very good. It should be silky, it should be satiny and it should be rich experience. Now she was very worried because she said that I am not able to find the quality of cloth that we would like to put in that pocket. And she had gone to the engineer and engineer was saying that it is no big deal if you are not finding that cloth, you put some other cloth.

So she said that she does not have to make it so expensive because nobody really puts their hand in that pocket in the back pocket of the front seat. Nobody really puts. So whether you put a, you make that pocket with a very expensive cloth or you make it with a not so expensive cloth, it does not matter because hardly anybody places their hand in that pocket. So she was very concerned and she came to me, me in the sense she came to the designer, head designer and she said that it does not matter whether 1 in a million or 10 in a million or 100 in a million put their hand in the pocket. Even if one person puts their hand in the pocket, it has to be of topmost quality because it is coming from the BMW brand.

So you can see the tussle, the tussle of the designer and the tussle between the designer and the engineer. Designer is looking at it from a luxury positioning angle, and she is saying that if it is BMW product concept is BMW, everything has to be top class, whether it is used or it is not used. Similarly, the engineer was looking at it from an utilitarian value. He is saying anyway, anyway, nobody is going to use. So what is the point in putting something so expensive? So this was the point for discussion or decision and head designer had to make a decision and he made a decision.

He made a decision in favor of the designer because he felt that the BMW should have top class of all products that is used inside or outside the cabin and not go by mere utilitarianism. So anyway, what we are trying to today understand is the things that happen behind the idea of pricing. So pricing is not an independent concept. It goes along with the positioning of the brand. Whatever is the positioning of the brand decided by you, the pricing must follow.

And here you have seen that in these two cases, whether it is the silver spoon or it is the BMW car cabin, we are going by the same positioning. We are deciding the we are making pricing decision on the basis of positioning rather than utilitarian value. So in both cases, even though it is cheaper to have or to have food in steel spoon, but we will feel it richer, we find it a richer experience if we eat with a silver spoon. Similarly, here, even if we do not put our hand in the pocket, the cloth that should be used to make that pocket be of highest quality. Thank you very much. .