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POSITIONING AND PRICE: MERGING THEORY, STRATEGY, AND TACTICS

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ABSTRACT

This article examines pricing and positioning from both an economic and a marketing perspective. A price positioning framework is developed linking these two strategic areas of hospitality management. Pricing, in particular, is recognized as both a strategic and a tactical tool, and as essential to effective strategic marketing and management in the hospitality industry. ***Key Words:*** *economics, marketing, price, positioning, strategy, tactics.*

INTRODUCTION

Key factors for a pricing decision from an economic perspective are demand, competition, and cost: demand sets the ceiling, cost sets the floor, and competition determines where on this continuum the actual price will fall. Marketers, on the other hand, view price as one of the "four P's," a controllable part of the marketing mix that helps marketers sell their products or services (The four P's are: product, price, place, and promotion). The missing link is the consumer perspective. Though implicit in the approaches outlined above, what is lacking is placing the customer as the focal point for strategic and tactical pricing decisions.

It is the customer who really determines price. This concept is not new, yet direct customer input for pricing decisions often gets buried under cost, competition, and revenue considerations. A positioning approach for pricing decisions puts the customer front and center for strategic marketing planning. Positioning, by one definition, is the customers' perception, real or perceived, of a product's value and worth to them. The price level of a product is perceived first by the buyer, followed by a perception of the product's actual price. Price level decisions, that is, minimum and maximum price positioning thresholds, are strategic pricing decisions. Actual price determination within the positioning threshold framework is tactical pricing. Thus, a positioning approach to price focuses first on price levels, then on actual price decisions for a specific product and/or product line.

The intent of this article is to address the issue of price from a strategic positioning viewpoint, that is, a price positioning framework for any and all final pricing decisions. The price positioning model presented incorporates a blending of economic theory, strategic management, and marketing tactics. It also captures recent contributions in the pricing literature drawn from several selected sources.

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Approaches to the Pricing Dilemma

Various viewpoints and treatises on pricing abound. They range from the theoretical and applied scholarly approaches, to the strategic and tactical managerial perspectives. Selected key players include Zeithaml, Tellis, Nagle, and Renaghan. A brief overview of their contributions follows.

A Theoretical Perspective

Zeithaml (1988) addresses pricing from a theoretical perspective and demand orientation. Drawing on the research of others and her own insights, Zeithaml develops a conceptual consumer model relating price, quality, and value. Her model is essentially a series of progressive propositions leading to price, quality, and value relationships from a consumer perspective. For instance, Zeithaml distinguishes between intrinsic and extrinsic attributes as cues for the consumer for perceived quality and value of a product. Intrinsic cues are largely tangible and product specific, such as specific attributes of the product itself. Extrinsic cues are more intangible and generalized and serve largely as "value signals." Depending on the consumer and on the purchase situation, intrinsic and extrinsic attributes are used in varying degrees to help make the purchase decision.

The key point in Zeithaml's message is that the price of a product is largely an extrinsic indicator of perceived quality and value for numerous segments of the buying public, especially in the purchase of services. Implicit in her argument is that the perceived quality and value can be directly linked to the desired position of the product in the marketplace.

A Managerial Perspective

Tellis (1986) approaches pricing under the heterogeneous consumer assumption. Consumers differ with respect to (1) information costs, such as time, effort, and search costs; (2) price sensitivities or "reservation" prices; and (3) transaction costs such as obtaining funds, costs of uncertainty, and switching costs. Breaking away from Zeithaml's theoretical and consumer orientation, Tellis takes a more managerial perspective through his development of a taxonomy of pricing strategies. He offers 11 pricing strategies for management consideration when making pricing decisions, such as periodic discounting, penetration pricing, image pricing, price bundling, and so forth. Tellis's strategies are not necessarily mutually exclusive. Each is recommended relative to consumer characteristics, competitive position in the marketplace, and product-line considerations. Positioning implications in his taxonomy, however, are missing. Although Tellis offers a constructive critique of pricing strategy alternatives for management consideration when making pricing decisions, a direct linkage of pricing to the issue of positioning is needed for maximum benefit.

A Strategic Perspective

Nagle (1987) also takes a managerial perspective, yet his focus is more strategic. Strategic objectives of the firm are developed after demand, competition, and cost considerations have been analyzed. Nagle defines strategic objectives as "general aspirations toward which all activities in the firm, not only pricing, are

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directed" (p. 7). Once objectives have been established, goals and tactics, which include price and price policy, are determined. Differentiating between goals and objectives, Nagle cites strategic goals as being concrete and having deadlines. Implicit here is the positioning desires of the firm. His positioning concerns are imbedded in the objectives and goals development process.

Marketing Management Perspectives

Moving from strategic management to marketing management, classic marketing introduces price as one of the four P's of the marketing mix. These elements—product, price, place, and promotion—are the marketing tools practitioners have at their disposal to implement strategic marketing planning. The marketing mix approach treats price as a tactical decision, after strategic choices have been made. Yet pricing is also a strategic issue, that is, a positioning tool, and should be dealt with at the strategic level as well.

Renaghan (1981) proposed a new marketing mix specifically for the hospitality industry. Breaking away from the traditional "four P's," he offered a three-part product-service, presentation, and communication mix:

1. *The Product-Service Mix:* recognizing and emphasizing the total offering of the hospitality product;
2. *The Presentation Mix:* elements used to increase the tangibility of the product-service mix, that is, physical plant, location, atmosphere, employees, and price; and
3. *The Communications Mix:* further emphasis on making product-service attributes tangible and communicating the message through advertising, personal selling, direct mail, and so forth.

Of issue and importance here is the placement of price in this new marketing mix proposal. Renaghan clearly places price, along with other significant aspects of the product service, in the presentation mix. All are an integral part of the positioning of the hospitality product. Though perhaps not revolutionary, it is evolutionary to align price more closely with the presentation or positioning of hotels and other hospitality products.

Positioning and Price: Closing the Gap

None of the above approaches directly address the impact that pricing has on the *positioning* of a product in the marketplace. Recent developments, however, are helping to close this gap. Lewis and Seymour bring positioning and price closer to the forefront of strategic marketing and management thinking.

Lewis directly addresses the issue of positioning for hospitality. In an earlier article (1981) and in a more recent update (1990), Lewis articulates the point that positioning is concerned with building an image, differentiating the product, and offering benefits to identified target markets. Another key point is Lewis's distinction between objective and subjective positioning.

Objective positioning focuses primarily on the objective attributes of a hotel or restaurant. Subjective positioning is more concerned with the consumer's perception

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of the product. As he notes, "[W]hen you try to influence peoples' perceptions of your operation, you are dealing with subjective positioning. The perceived image of your property does not belong to the product; it is connected with the consumer's mental processes." (Lewis, 1990, p. 86)

Lewis (1990) relates price to positioning by making the point that it is difficult to differentiate on price within a product class. Pricing "can play a larger role [as a positioning tool] in differentiating between different product classes" (p. 90). This role of price he identifies as objective positioning, such as Motel 6 offering low-cost accommodations to economy/budget market segments. It should be argued, however, that price can support both objective and subjective positioning statements. Price can help identify the product class in objective positioning. It can also enhance a consumer's perceived value for a particular purchase, such as a discounted weekend package rate, in subjective positioning. Both are strategic issues. It is the actual price set that is tactical.

Seymour (1989) also explicitly recognizes positioning as an area of strategic importance. He has developed a price planning framework from which actual price decisions can be made. Seymour notes:

> *The basic thrust of the planning framework is that management should choose a price that is consistent with the overall positioning of the product or service. The six stages of the product/service position represent a sequential set of decisions that act to frame or limit choices....Each subsequent stage acts to further qualify the price decision and, consequently, enables their attention on a more manageable set of pricing options. (p. 8)*

Seymour directly links pricing to positioning, a major step for strategic price management. Seymour's market niche stage explicitly recognizes positioning as giving upper and lower limits, or thresholds, for all pricing decisions that a firm has to make. Like Zeithaml, he recognizes that price is "used as a cue to infer the value of different product attributes" (Seymour, 1989, p. 11). He emphasizes this value inference especially when considering lower limit price decisions. There is a point when a consumer will say, "That price is too cheap, there must be something wrong with it."

This is true for all product classes, from the high-end Four Seasons product to the low-end Motel 6 product. Would you purchase a room at the motel for $10? Probably not. Even if this rate covered the variable costs, somehow a $10 room connotes a lack of credibility or lack of security.

Positioning on Price: A Strategic Decision

Drawing on the theoretical, strategic, and managerial approaches to pricing presented thus far, and returning to the basic tenet of supply and demand, price and positioning are strategic decisions for hospitality management. From the economic or market perspective, demand, competition, and cost are key factors for pricing decisions.

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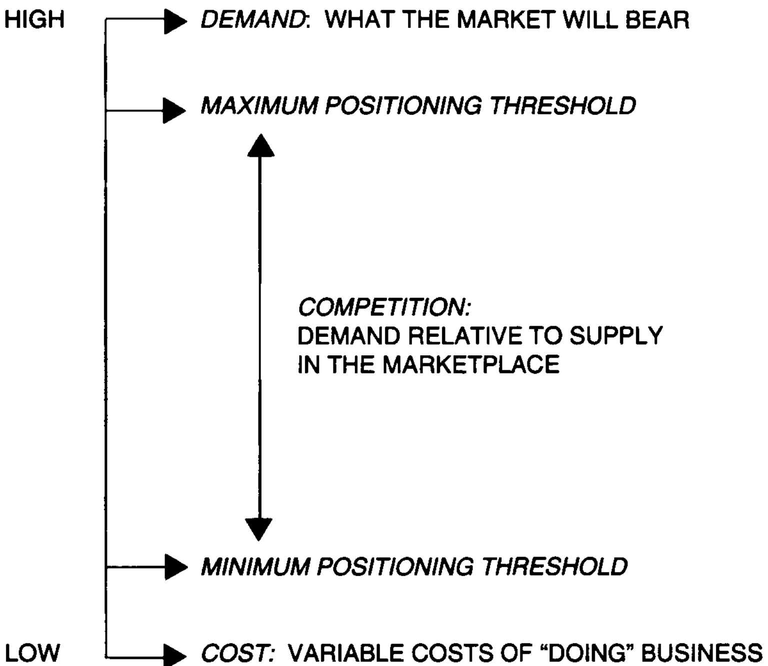
As noted by Meek (1938), a renowned and respected leader in the field of hospitality:

> *The classical analysis explaining price in terms of supply and demand has passed through many examinations and revisions, but still stands in its essential idea as the most satisfactory, most generally acceptable explanation of the phenomena of price determination. (p. 2)*

Meek's statement, made more than 50 years ago, remains true today.

The strategic marketing perspective of the 1990s, however, mandates positioning in the marketplace as of great importance as well. An integration of these two perspectives can be used to develop a price positioning framework from which all pricing decisions can be made. Key aspects of this framework are shown in Figure 1.

Figure 1
Price/Positioning Framework Model: A Strategic Choice



STRATEGIC PRICING: PRICE LEVEL DETERMINATION SETTING MINIMUM AND MAXIMUM PRICE POSITIONING THRESHOLDS

TACTICAL PRICING: ACTUAL PRICE DETERMINATION WITHIN POSITIONING THRESHOLD FRAMEWORK

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Demand sets the ceiling for pricing decisions, that is, what the market will bear. Costs, variable costs in particular, set the floor. From an accounting perspective and in the short term, any price set above the variable cost of doing business contributes something to the fixed cost of being in business. The competitive environment, or supply relative to demand for any given period, helps to determine where on this continuum actual prices will be set. During peak periods, when demand is greater than supply, higher prices are achieved. During off-peak periods, when supply is greater than demand, prices will fall. The debate centers on how high, or how low, the actual price should be. The concept of positioning helps resolve this debate.

Positioning is the customers' perception—real or perceived—of a product's value and worth to them. It provides the true minimum and maximum thresholds for initial price level decisions. A $250 room rate for a first class, full-service hotel in Toronto, for example, seems high but not outrageous. A $400 rate for the same accommodation *is* outrageous. There may be a few individuals who would pay this amount, but it defies good positioning for, say, a Four Seasons or Hyatt hotel. The primary target market willing to pay $250, but initially quoted $400, will probably book elsewhere. In this example, the $400 is the absolute ceiling set by demand, but the $250 more closely approximates the true maximum threshold from a positioning perspective.

Similarly, using the motel example mentioned earlier, minimum positioning thresholds will by-and-large be higher than the actual variable cost to produce the product or service. A discounted $10 room rate at Motel 6 or Journey's End, which serves the low-end budget/economy markets, is too low a rate even for these highly price-sensitive markets. This rate may very well cover variable costs, but it does not cover the perceived image of clean, safe, and secure lodging accommodations.

Thus, the true minimum and maximum thresholds for pricing, from both a managerial and consumer perspective, are the desired and perceived positioning, respectively. This is the strategic level for price decision-making. Within these thresholds are where tactical price decisions are made.

Consumers' Price Perceptions: A Pilot Study

Krim (1990) conducted a pilot study in western Massachusetts measuring consumers' price perceptions of economy/budget, mid-tier, and upscale hotel markets. Respondents were asked at what price a hotel room was cheap/too cheap and expensive/too expensive for each of the hotel market categories. This approach is a direct application of the minimum/maximum price positioning concept. Though the results are inconclusive because it was a pilot study nature of the study, the data collected (from 122 respondents) demonstrate how the model can work from a broader industry perspective.

Figure 2 summarizes the high, the low; and the range of rates that the respondents gave for budget/economy, mid-tier, and upscale hotel accommodations. The initial results are not surprising. For budget/economy lodging accommodations the range was from $30-$62, for mid-tier from $40-$92, and for upscale from $60-$145. Upscale had the broadest range which also could be expected. The key point here is that each of the high/low points of resistance represents the minimum/

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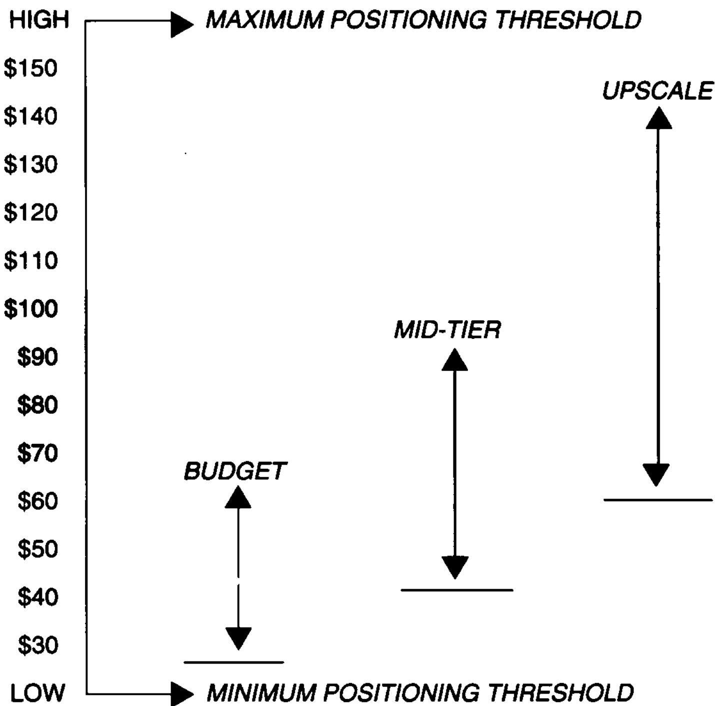
Figure 2
Consumers' Price Perceptions of Economy/Budget, Mid-Tier, and Upscale Hotel Markets: A Pilot Study



Note: From a pilot study conducted by Karen Krim, University of Massachusetts/ Amherst, 1990, under the supervision of Dr. Margaret Shaw.

maximum thresholds for price positioning for the three market categories. Strategic implications are that these points help "define" the product class through price positioning, and that price setting within each product class helps define the product. Tactical implications are where to set the price, given specific market conditions, within identified thresholds.

Prices can and do vary for the same core product, yet they lie within parameters set forth by the minimum and maximum positioning threshold framework. This positioning threshold concept lies within the economic prescription of demand, competition, and cost.

Managerial Implications

From an educator and/or practitioner perspective, the message is to think

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strategy first, that is, to consider positioning. Have you identified your minimum and maximum price positioning thresholds? If you're a first class, full-service hotel in downtown Toronto, for example, you may determine that $75 is your minimum threshold. Given the current economic conditions in the Northeast corridor, a maximum threshold might be set at $175. Once these thresholds have been identified, then specific (tactical) price decisions can be made for the various market segments targeted by this hotel. During peak demand periods the lowest rate, in all likelihood, will be well above the minimum threshold. Yet during off-peak demand periods, the maximum threshold of $175 may never be reached.

The model explicitly recognizes that positioning, and not contribution margin pricing, sets the minimum threshold for pricing decisions. If the variable cost for this hotel is $30-$40, contribution margin pricing would accept a short-term price of $40+; that is, at a minimum contribution margin pricing would recoup the variable cost and contribute something to fixed overhead. Positioning on price, however, in this example, raises the minimum level to $75. Any price below this threshold puts the hotel at too great a risk to undermine its overall position in the marketplace.

It should be noted that setting a minimum threshold too high can also be problematic in that potential revenues may be lost. Hotel management has to repeatedly ask where the "cut-off" is to maximize revenues yet minimize damage to the positioning statement of the hotel. There is no magic formula or crystal ball to turn to, but the question nonetheless needs to be addressed.

The positioning on price model supports the "art" and "science" of pricing. Contribution margin pricing is the science side and is well-grounded in the literature. Positioning on price (which is not widely written about) is the art side of pricing, a judgment decision based on a solid understanding of the marketplace. Both educators and operators often want neat, quantifiable formulas to arrive at final pricing decisions. The positioning on price model, however, promotes the notion that unquantifiable factors have a very prominent place in pricing decisions. Positioning decisions are not readily quantifiable, yet their strategic importance is imperative for effective pricing management.

SUMMARY AND CONCLUSIONS

Recently published in *Fortune*, Henkoff (1990) suggests that "[W]hen it comes to thinking and acting strategically, managers still have to depend, to some degree, on a few devilishly unquantifiable factors, like experience, instinct, guesswork, and luck" (p. 70). Positioning on price, indeed, involves a bit of instinct, guesswork, and luck. It is also a learned art separate and distinct from the tactical or scientific side of pricing decisions.

Positioning on price is a strategic level decision. The price level of a product is perceived first by the buyer, and price level helps define the product class category for the consumer. Actual price determination is a tactical decision. It supports the positioning decision and can be especially important for incremental sales consideration. Even lowering a price, as long as it is within the positioning threshold, can actually increase revenues in the short run. Overall positioning has not been thwarted, and increased customer satisfaction has been achieved. Again, the

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weekend package concept is an excellent example of discounting prices to secondary markets, yet pricing to be compatible with an operation's overall positioning to its primary target market(s).

Am I trying to oversimplify price? No. Am I trying to bring price into the strategic arena? Yes. Recognition of its importance as a strategic tool as well as a tactical tool, and distinguishing between these two perspectives is essential to the effective management of hospitality and pricing decisions.

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