

# Price Planning Process in Multi-Product Companies from Fast Moving Customer Goods Sector

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## Summary

The following paper is methodological in nature. It examines some practical issues related to price planning.

Nowadays it is more important than ever to carry out a constant revision of the price plans and the results of pricing actions. The main reasons for this are customers' priorities, values and behaviors which are fundamentally changing as well as the wild fluctuation of commodity prices. As it is known, each manufacturer and brand faces a unique set of situational factors. It is important to notice that due to economic uncertainty they are in an ongoing state of flux. For above-stated reasons, price planning concerning the company's product portfolio is a complex process. Pricing is perhaps the most powerful tool available to marketers, so the outcome of its use is worth the efforts. The conducted research indicates that a methodological approach is needed aiming at optimizing price policy. Such an approach can be applied by the price planning process.

For the aims of elaboration of a conceptual and methodological framework of price planning, the deductive approach is applied. It includes the following stages: first - after marking some principal arguments pertaining

to price policy, the characteristics of companies from the Fast Moving Customer Goods sector (FMCG) are stated; second - the typical elements of price policy are identified and grouped in accordance with the specific features of the sector; finally - a methodological framework for price planning is proposed. The implementation of such a framework would contribute to making informed decisions related to price policy.

The paper also examines the relationship between price planning and the other strategic and tactical marketing components - differentiation and positioning, distribution, product and communication policies. It presents the main results of a survey made to investigate the implementation of price planning, conducted among a sample of companies from the FMCG sector. It determines the place of price planning within the companies' complex marketing planning process.

**Key words:** price planning, price policy, product portfolio, marketing, FMCG sector

**JEL Classification:** M31, M11

## Introduction

The features typical of the FMCG sector in Bulgaria confront the company managers with a number of challenges that they have to deal with in order to ensure the competitiveness of their companies. Thus

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they contribute to the sustainable growth of the indicators that characterize the results of business activity - sales, revenues, profits, assets, number of employees, and other indicators.

Of particular interest is the revenue which is a basic variable taking part in forming the values of all key indicators - measures of corporate performance and growth: profit, return on sales, asset turnover, return on capital, productivity, number of employees, investments, and other measures.

At the heart of the sustainable increase in revenues, which is seen as one of the main objectives of managers, lies the consideration of a number of strategic, tactical and operational marketing issues. Among those are: decisions about product and market objectives and strategies, as well as performing an adequate segmentation, targeting, differentiation and positioning. The tactical and operational issues concern the fundamental variables of the company's marketing mix - distribution, product mix, communication and price policy.

The fulfillment of these tasks requires knowledge and application of the functions essential to marketing management. One of these features is integrated marketing planning with its inherent approaches, principles, methods and stages, as well as planning of the separate specific marketing areas.

In this context, *the subject of the current paper* is defined. It covers the process of price planning as one of the specific key areas of marketing planning.

This paper holds the *view* that the characteristics of price planning are determined by the specifics of the FMCG sector and the companies' characteristics. A key feature that is considered in decision

making with regard to price planning is product diversity. The richer the company's product-market portfolio, the more complex are the pricing decisions. In this context the role of price planning is manifested, as it helps define and implement such a price policy that contributes to the implementation of marketing objectives and strategies.

*The main aim* of the current paper is to propose a methodological framework of price planning which reflects the specifics of multi-product firms and takes into account the characteristics of FMCG sector.

The main tasks of the paper are:

- *First*, to identify the main characteristics of FMCG sector;
- *Second*, to identify the elements of price policy of multi-product companies;
- *Third*, to group the elements of price policy;
- *Fourth*, to propose a principal methodological framework of the price planning process.
- *Fifth*, to identify the main principles of price policy.

### 1. Characteristics of FMCG sector

The FMCG sector in Bulgaria is characterized by a dynamically changing environment and significant product diversity. Each product class includes product categories - groups and units which show various trends driven by different stages of their life cycle. Various opportunities for segmentation, differentiation and positioning are identified, considering the specifics of the particular FMCG markets. Various distribution channels are used by the company so that its products can reach the end customers. Furthermore, the company has a wide range of communication channels and tools in place.

The majority of FMCG markets are characterized by substitutability between the product groups, i.e. they have the nature of substitute products. The same feature is valid for the different categories included in a particular product class. However, to a lesser extent the identified feature applies to the product classes that form a specific product family.

The abovementioned circumstances may give rise to intense competition. Within the separate product classes, categories and groups strategic groups of competitors are identified. These categories and groups are formed according to size, product diversity, market coverage, the applied management concept, and the aims and strategies to achieve the company's goals. Some FMCG markets show the principles and characteristics typical of perfect competition, others – those typical of monopolistic competition. Along with the market characteristics typical of the sector, changes in prices of raw materials, packaging, containers, fuel, electricity, and other elements that are used in the manufacturing of FMCG are frequently observed. They form the main expense items of a company. The characteristics of individual companies in the sector suggest different levels of fixed expenses.

The identified features are the reason why the companies from FMCG sector are analyzed as the topic of interest in the current paper, given that they show specific examples of price policy and planning.

The companies from FMCG sector include manufacturers of:

- *perishable food products* - fresh meat, sausages, fresh fruits, vegetables, dairy products, bread, fresh fish and some frozen foods, ice cream, etc.;
- *non-perishable food products and drinks* - cans, some kinds of sausages, soft drinks, beer and alcoholic drinks;

- *household chemicals* - washing and cleaning products, fragrances, etc.;
- *cosmetics* – for men, women, children;
- *paper products* - napkins, newspapers, magazines, postcards, etc.

In fact, there is a far richer variety of FMCG on the market and its classification could be much more precise. The market circumstances and constant changes in the prices of raw materials make the issues related to pricing and price policy a key marketing and management matter for the companies from the FMCG sector.

### 2. Elements of the price policy in the FMCG sector

Previous studies made it possible to identify the typical elements of price policy for the FMCG sector (Radev, 2010). The identified elements are grouped under eight major headings (Figure 1). The importance of their development is determined by the fact that they are the main variables used in the price planning process. The identified elements are grouped following an important principle which reflects a particular aspect of the complex nature of price policy.

- *The first group* could be considered as a basic one. It includes those elements that are taken into account when determining the price (pricing). Considering the multifaceted nature of pricing in FMCG companies, all of the aforementioned elements in this group are involved. The main pricing methods used in the FMCG sector are: variable costs per unit plus the marginal contribution of unit, popular price points, positioning; break-even point analysis is also applied, grid pricing, promotional pricing (Kotler, 2011).
- *The second and third groups* reveal the dynamic nature of price policy. *The*

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*second group* includes all aspects that on one or another occasion determine a change in price policy. The elements from *the third group* complement those in the second, as they provide the basis for the identification of the factors that embody the adjustment of price policy (Kotler, 2011, McDonald, 2002, Velev, 2005, Mladenova, 2006, Klasova, 2001). The differentiation of these two groups of elements determines the necessity that companies in the FMCG sector should make periodic changes in their price policies. These changes can be either towards a price increase or towards a price reduction (second group). At the same time price policy as evidenced by the third group of elements, should be adapted to the geographical characteristics of the market, the product life cycle, the economic conditions and other factors.

The following five groups reflect the specific marketing aspects of price policy in terms of content. The emphasis on the marketing side of price policy is determined by its acceptance as one of the key elements of the marketing mix in the FMCG companies.

- *The fourth group* includes the elements which are connected with price positioning. In this respect the role of price as a key strategic tool is exposed. Thus, decision making with regard to price levels starts by adopting a competitive approach whereby the product is launched on the market.

The variants of price positioning are determined under the "price-quality" relation (customer value).

- *The fifth group* reveals the need for price policy to take into account the specific features of different distribution channels, as well as the role and functions performed by their members, expressed in discounts, bonuses, and other parameters. (Vasileva u Katrandjiev, 2002; Dutta, 2011; Gupta, 2009). Companies from the FMCG sector use multiple and diverse distribution channels. They all set specific requirements for price grid, discounts, credit policy, and other elements of the company's policy.
- The elements from *the seventh group* emphasize the relationship between price and product policy. For multi-product FMCG companies the price policy is determined by individual product units, product lines and product range in general. Important aspects to be considered in this context are the issues associated with the "cannibalism" between products (Chitale, 2011; Oosterhuis, 1996; Baleva, 2002). In multi-product companies from the FMCG sector there arises the need for making individual pricing decisions for each product and for the adoption and implementation of a comprehensive coordinated price policy by applying the portfolio approach.
- The last *eighth group* reviews the credit terms that the business organization provides to wholesalers and retailers. Even though these issues concern the distribution policy, they are considered separately as they are of a financial nature (Klasova, 2001; Kotler, 2011; Mladenova, 2006). The reason for the formation of this group is related to the

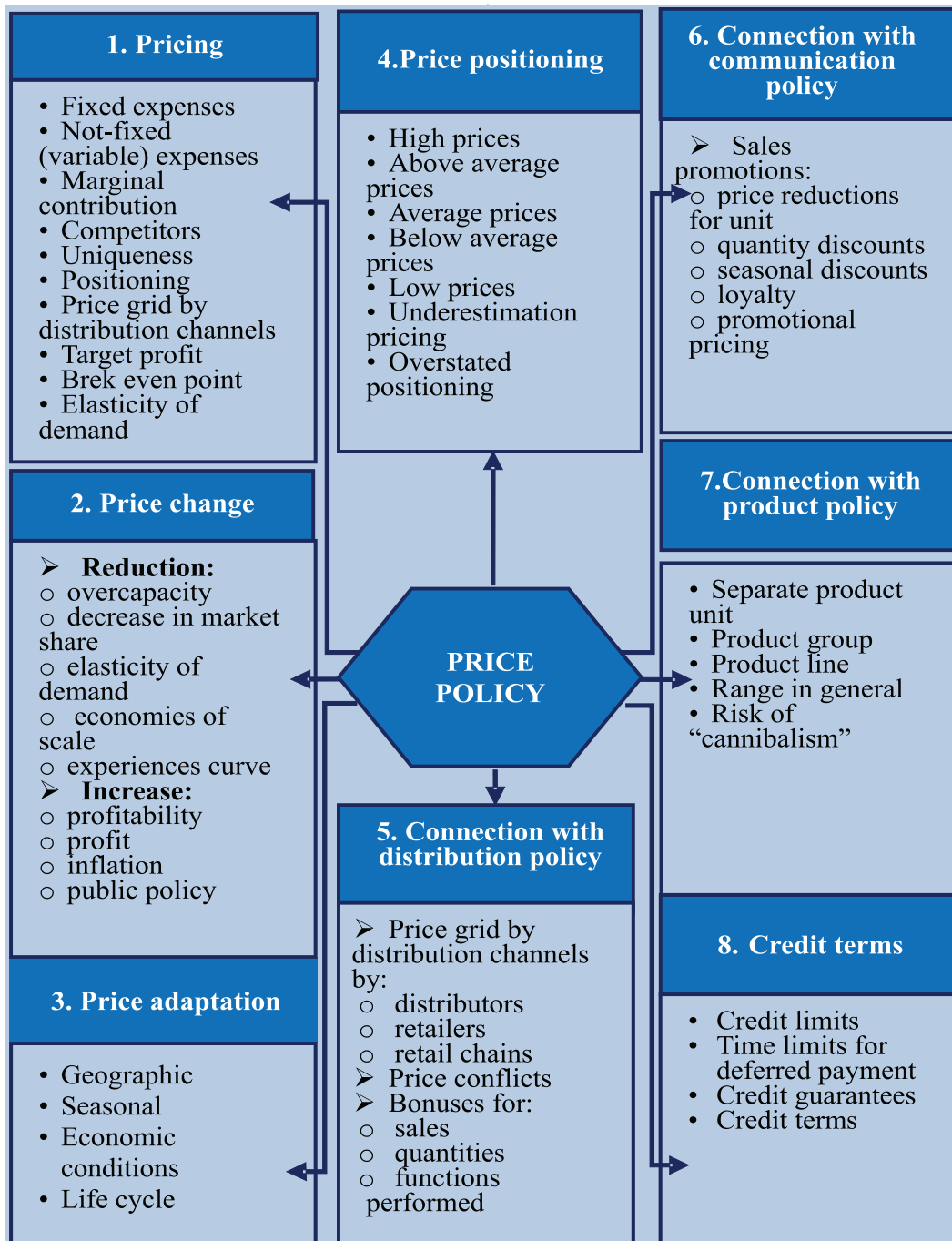


Fig. 1. Elements of price policy  
Source: Own work

fact that by nature this aspect of price policy is a financial matter that requires financial and legal argumentation.

The identified groups of elements reflect different aspects of the price policy of the business organizations from the FMCG sector. Presenting them in the manner outlined above allows for the identification of all major components that should be analyzed in the price planning process. In multi-product FMCG companies a particular methodological approach should be introduced that reflects at once the complexity of price policy and its specific manifestations in different products and markets. The author of the current paper regards the price planning process as such an approach.

### **3. The price planning process in companies from the FMCG sector**

The proposed process of price planning takes into consideration the specificity of the FMCG sector. Applying such an approach provides for planning by separate product units, markets and distribution channels, while at the same time ensuring a coordinated price policy for the entire product range. It establishes such a price policy that contributes to the implementation of marketing and sales objectives in coordination with other strategic and tactical marketing tools: product diversity, characteristics and properties; company distribution and communication policy; product differentiation and positioning. The levels and structure of expenses for manufacturing, marketing, sales, logistics, management of the company, its direct and indirect competitors are taken into consideration, i.e. all of the above-discussed aspects (elements).

#### **3.1. Conceptualized framework of price planning process**

The identified characteristics of FMCG sector and the elements of the price policy are the foundation for the proposed methodological framework of price planning process. It consists of a sequence of 10 stages. They reveal the complex and iterative character of the price planning process (Figure 2).

The proposed methodological framework of price planning process encompasses the following stages:

- *The first stage* performs a preliminary overview of the company's marketing objectives - sales, revenues, market share, relative sales in comparison to the main competitor, etc; an overview of the marketing strategies is carried out. The stage focuses on the systematic approach from the perspective of which price planning should be considered as a specific area of the integrated marketing planning. It serves as the starting point for the following stages.
- *The second stage* analyzes price policy depending on the company's product-market profile. Product diversity is determined depending on the breadth, length and depth of the sales range considering the offered product lines, major product units and their various options. The product characteristics and properties are identified, as well as the achieved differentiation and positioning; the market segments, geographic regions and distribution channels are analyzed.
- *The third stage* performs an analysis of the company's expenses in the context of the aims of pricing. These are direct

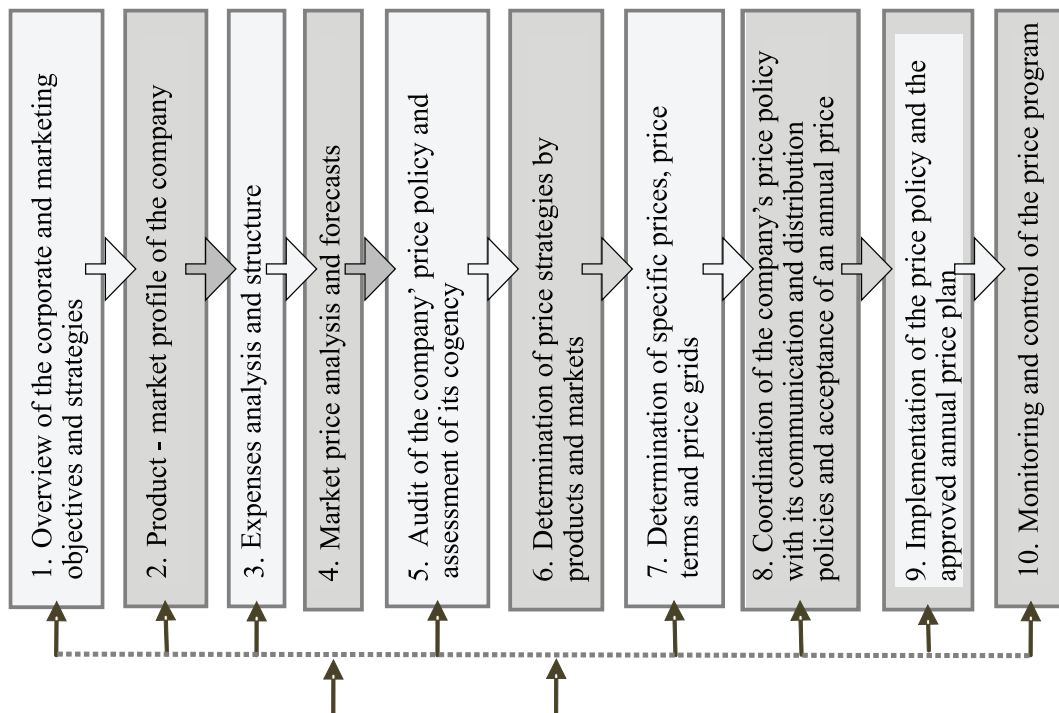


Fig. 2. Conceptualized framework of price planning process

Source: Own work

and indirect costs of production, including materials costs, energy costs and salaries. At this stage the expenses for logistics, marketing and sales, management and other activities are also analyzed. An important result from the stage is the differentiation between fixed and non-fixed (variable) expenses, and the determination of their levels and structure.

- *The fourth stage* is also an analytical one. Within its limits the following tasks are performed: the market price analysis and forecasts concerning the direct and indirect competitors by products and markets; price grids and price terms by individual distribution channels; the sensitivity of end customers to price changes is examined,

i.e. the elasticity of demand to price. The analysis and forecasts of direct and indirect competitors concerns their price policy, credit policy, typical price grids, discounts, pricing, positioning, cost structure, price promotions, etc.

- *The fifth stage* requires conducting an audit of the company's price policy and an assessment of its cogency. It is implemented for the existing company's product range, individual product lines, brands, various variants and concerns: price and price positioning, pricing methods, pricing grid, credit policy, discounts, pricing, positioning, cost structure, promotions, marketing strategies and programs.

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- *The sixth stage* determines the price strategies by products and markets, considering the strategies of differentiation and positioning of the company's products. It facilitates decision making related to the strategic aspect of the company's price policy. In this regard, a positioning can be selected that matches the product's consumer value. It could be underestimated or overestimated. Depending on the marketing strategy, a simultaneous application of different price policies can be observed.
- Within the limits of *the seventh stage* specific prices, price terms, pricing grids and price policy for the product range in general, for its various product lines and units by markets, segments and distribution channels are set.
- *The eighth stage* aims to establish a price policy and to adopt an annual price program. This is accomplished after consulting with the product, promotion, distribution policies and annual programs. At this stage the critical point of sales in different limits calculated within the sales prices and the expected fixed expenses are analyzed. The adoption of price policy requires the identification of the possible presence of "cannibalism" among the products included in the company's range, and later on offsetting the expected effect if it is undesirable.
- *The ninth stage* emphasizes the practical significance of price policy and the

implementation of the annual program that should be carried out in compliance with the programs for the other elements of marketing mix. This stage determines the need for the practical implementation of the price policy.

- The final *tenth stage* includes control of price policy and program, which refers to their implementation, adequacy and effectiveness. Considering the possible changes in market conditions and in the prices of raw materials, this stage facilitates the establishment of the flexibility and adaptability of price policy for the individual products and the company's product range as a whole.

### 3.2. Price planning principles

The proposed methodological framework reflects the six principles for successful price planning in the FMCG sector. They are singled out on the basis of expertise by Lackey (2009) and include<sup>1</sup>:

- 1) Decision making with regard to the price policy in the FMCG sector should be based on the supply and demand in sector. Considerations along the supply side begin with the cost of goods sold, marketing and sales expenditures, administrative costs, logistics costs, profit requirements, capacity, etc. On the demand side, marketers should analyze consumer price elasticity and competitors' relative price. FMCG are quickly sold and at a relatively low cost. The profit margin made on FMCG products is relatively small for retailers and producers/suppliers. They are generally sold in large quantities. FMCG is probably the most classic case of low margin/high volume business.

<sup>1</sup> For more details look at: Lackey, M., 2009, Six Keys for Successful Price Planning in a Shaken Economy Proven approaches and best practice information for Brand Managers, Market Researchers and key pricing stakeholders, The Nielsen Company, Available at : <http://www.nielsen.com>



3) The price planning process must be driven by certain metrics – current and expected cost of goods sold for each brand and size of packaging (box, bottle, etc.), current price list, current gross margin, etc. This principle is based on the assumption that decisions need accurate pricing of the individual product business units. The variable costs per unit of production are calculated, including the costs for raw materials, electricity, and other costs. This principle reflects the philosophy of the marketing concept in determining pricing, and apart from the costs per unit the following are also analyzed: the desired brand positioning; peculiarities of distribution channels and ongoing communication policy for the particular product unit.

4) The portfolio approach is also necessary to be accepted in the companies producing FMCG. This principle is essential when the company under consideration is a multi-product one. By applying such an approach planning by separate product units, markets and distribution channels is implemented. At the same time, a coordinated price policy for the entire product range is conducted. All leading FMCG companies usually offer a diverse product intended for different target markets, which requires the identification of individual pricing for each main product. At the same time the price planning must ensure the achievement of coordination and adoption of a uniform price policy for the company as a whole. Thus a unity in the price policy of various products is achieved, both from a strategic perspective of price positioning and in tactical and operational terms when conducting price promotions and distribution.

5) Price planning in FMCG companies must be considered as an ongoing and

flexible process. Nowadays price planning must include constant reviews and revisions because of the constantly changing external conditions. They are connected with the supplies, the one hand and with the market, that is, customers, distribution channels and competitors, on the other. Typical of the manufacturers from the FMCG sector is that within a short planning period the individual characteristics of pricing can possibly undergo changes, depending on the direction and strength of the influence of external factors. The impact could be generated both by suppliers (by the prices of raw materials, components, packaging) and the market agents (a decrease in demand, aggressive actions by competitors, requirements for additional discounts from distributors, extraordinary promotion and more).

5) The ongoing and flexible price planning process needs KPIs (Key Performance Indicators) and milestones. They raise managers' awareness of how to implement the plan. If some discrepancy between the plan and its implementation is identified, the managers can act in the appropriate way in their attempts to improve implementation or modify the pricing plan.

6) For the price policy endorsement and enforcement to be effective, the portfolio pricing process needs to be endorsed by the highest levels of management and enforced across the organization. This requires managers' awareness and knowledge of the different pricing methods and other elements of the price policy.

## Conclusion

In the current conditions of a dynamically changing environment and intense competition, price policy as a key element

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of marketing is an essential factor for the implementation of business strategies and the achievement of the pursued objectives.

Issues related to price policy are crucial for multi-product companies. With the increase of the offered product diversity and serviced market segments, decision making with regard to price policy is becoming considerably complicated. It involves issues such as the particular product unit and brand, as well as the separate product lines and the product range in general.

Therefore the elaboration of an adequate price policy requires knowledge about the price planning process which reflects the specificities of the multi-product companies and their internal characteristics.

The identified elements of price policy and the proposed methodological framework of price planning provide the foundations to carry out empirical research. Furthermore they allow for the determination of the level of their practical implementation. It is on this basis that the relevant gaps are identified and recommendations made.

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