ing a product direct to retailers or industrial buyers, the distribution investment required will be far greater if distribution is intensive (see GLOSSARY entry C.10).

- *Is Strategy Push or Pull?* If a push strategy has been designed for the product, selective distribution is called for. A pull strategy is consistent with intensive distribution (see GLOSSARY entry C.30).
- *What Is Competitive Distribution Intensity?* As the **product life cycle** proceeds and product adoption becomes more widespread, there will be competitive pressure to increase the intensity of distribution (see GLOSSARY entry A.15). To remain competitive, marketers often attempt to match the level of exposure of leading brands. However, some products seek to differentiate themselves by adopting distribution intensity that is unlike competition.

Reseller Availability and Distribution Intensity. In making the distribution intensity decision, the marketer must balance what is desired with what resellers are willing to provide. The decision must consider the availability of resellers and their willingness to cooperate with the marketer's program.

- *What Is the Level of Reseller Power?* The distribution intensity decision must take into account the power of the wholesalers or retailers in the channel. Powerful retail chains and dominant wholesalers may dictate selectivity or exclusivity that must be followed if they are to handle the product.
- *What Are the Resellers' Needs?* In most cases, resellers prefer selectivity or exclusivity because it limits their competition. One of the ways that reseller cooperation is gained is by offering them selective or exclusive distribution.
- *What Resellers Are Available?* The distribution intensity decision is sometimes constrained by the availability of resellers. Many wholesalers and agents are unwilling to carry competing products. In some territories, a marketer may be unable to find a wholesaler willing to carry the product. The intensity of retail distribution may be similarly limited. New products are likely to find intensive distribution plans thwarted because many retailers will not take on the product until it has a track record of success.
- *What Type of Reseller Has Been Selected?* If the type of reseller to be used has already been decided, the distribution intensity decision will be affected. As noted above, many wholesalers and agents require exclusivity if they are to handle the product. Retailers vary in their attitudes toward distribution intensity. Supermarkets and mass merchandisers, for example, are accustomed to selling intensively distributed goods and, competitively, need to offer the popular and widely distributed brands. Department and specialty stores, by contrast, are more interested in the benefits of selective or exclusive distribution.

SUGGESTIONS FOR FURTHER READING

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C.13 Fixed versus Flexible Pricing

CHARACTERISTICS OF FIXED VERSUS FLEXIBLE PRICING

In addition to setting product prices and the discount structure, the pricing program requires that pricing policies be set. Pricing policies are guidelines for solving recurring pricing problems. They allow rapid solution of such problems by subordinates without extensive analysis. One of the areas for which a pricing policy is frequently required is in the flexibility of prices.

Price Flexibility Policy Alternatives. A price flexibility policy defines the authority to change prices in response to changes in the environment. Policy alternatives are fixed prices and flexible prices.

A **fixed-price policy** means that all customers are charged the same price. Prices tend to remain unchanged for long periods and do not quickly adapt to changes in local conditions. Under a fixed-price policy, price changes, when they occur, are made centrally and apply uniformly to all customers.

A **flexible-price policy** means that prices are negotiable and that different customers may be charged different prices. Prices adapt quickly and frequently to changes in environmental conditions. Under a flexible-price policy, price change decisions are decentralized, often being made by salespeople in the field in response to local conditions.

Advantages and Disadvantages of Fixed and Flexible Prices. Knowing the strengths and weaknesses of fixed and flexible prices is helpful in selecting an appropriate policy.

- *Ease of Administration.* Fixed prices are easier to administer than flexible prices. With fixed prices, only one price needs to be recorded and published, and it tends to change infrequently. This is particularly advantageous to a firm (including retailers and wholesalers) with many products.
- *Ability to Control.* Fixed prices are easier to control than flexible prices. With fixed prices, prices are set centrally, usually by senior marketing managers; changes are also made centrally. Flexible prices can usually be changed in the field by salespeople. Senior marketing managers, unable to observe the situation, have difficulty in evaluating these pricing decisions and are not in a position to control the actions of the field operatives. A common problem with flexible prices is that salespeople, having the authority to lower prices, may cut price too readily rather than making the sale based on product attributes. The result can be a permanent reduction in price and an erosion of profits.
- *Customer Needs.* This pricing policy affects the firm's ability to meet customer needs. Flexible pricing allows the firm to tailor prices to meet the needs of individual customers. However, flexible prices can also be the source of customer ill will. If a customer finds that another firm, particulary a competitive one, has received a more favorable price, there is a likelihood of considerable dissatisfaction. Fixed prices, because they treat everyone the same, may be perceived as fairer. Fixed prices are also far easier to communicate to customers than are flexible ones.
- *Competitive Response.* An advantage of flexible pricing is that it permits rapid response to competitive price moves. By contrast, reaction to competitive price actions is slow under fixed prices, and the result can be loss of market share.
- *Response to Environmental Variables.* As in the case of competitive response, a flexible pricing makes adjustment to changing environmental variables easier and faster. During times of high inflation, many firms switch to flexible pricing so that prices can be quickly adjusted to recapture higher product costs. Flexible pricing offers the same advantage when technology is changing rapidly (see GLOSSARY entry A.4 on **environmental variables**).
- *Legal Problems.* Fixed pricing, under which all customers are charged the same price, runs less danger of legal problems. Flexible pricing that results in similar customers paying different prices may, under some conditions, violate price discrimination laws (see GLOSSARY entry D.2).

SELECTING A PRICE FLEXIBILITY POLICY

Both flexible and fixed-price policies have advantages and disadvantages. The choice of policy depends upon the situation facing the product and the firm.

Increasing Use of Flexible Pricing. Reports from industry indicate that flexible-price policies are increasingly being employed.[1] According to one analysis, "The chief characteristics of the new price strategy are flexibility and a willingness to cut prices aggressively to hold market shares."[2]

[1]This section based on "Flexible Pricing," *Business Week* (December 12, 1977), pp. 78–88.

[2]Ibid., p. 78.

What conditions account for a move away from fixed prices and toward greater price flexibility? Two factors are the competitiveness of markets and instability in the economy. Although U.S. markets are still predominantly oligopolies, many of them have become less stable as many firms have pressed to increase market share under the increasingly popular belief that greater long-term profits accrue to market leaders. To gain share, these firms have adopted far more aggressive pricing policies and their competitors have been forced to adopt flexible pricing to protect their market positions. This competitive price aggressiveness has been increased in many markets by foreign competitors, notably the Japanese, who have effectively used price as a means to enter U.S. markets. Price leadership as a means of stabilizing markets is seen less often today. Instead, markets have become less stable, requiring more flexible responses, especially for price.

Economic instability also leads to greater use of flexible pricing. The rapid inflation of the 1970s led many firms to adopt more flexible pricing policies. It became essential during this period to review and change prices often as the cost of materials and labor rose. Technological change, which seems to appear at an accelerating rate, also calls for more flexible pricing. Both the firms with the new technology and those whose products are threatened by it, need to be able to adjust price to reflect their changed competitive position.

Criteria for Choosing between a Fixed- or Flexible-Pricing Policy. Criteria for selecting a price flexibility policy can be used to establish the policy initially or to analyze a problem situation to determine whether or not the price flexibility policy in effect should be modified.

A price flexibility policy may be set individually for each product, but if the products and customers of a business are similar, a uniform policy will result in less confusion for both the company and its customers. In making a choice between a fixed-price or flexible-price policy these factors should be considered:

- *Customer Strength.* If a firm has few, large customers, they may insist on negotiating price. Failure to negotiate could mean loss of such vital customers. In such cases, a flexible price policy is essential.
- *Product Characteristics.* Marketing of commodities or standardized products usually requires flexible pricing. Demand for such products of individual producers will be highly elastic. Response to competitive price cuts must be prompt to forestall market share loss. However, if a product is unique or differentiated, brand demand will be more inelastic and price differentials can be withstood. A fixed price policy may be feasible if the differentiation is substantial (see GLOSSARY entry A.14 on **price elasticity**).
- *Shopping Behavior.* There are some products for which buyers expect to be able to negotiate price. Automobiles are an example. For such products, a flexible-price policy is needed to permit the negotiation. For other products, consumers expect a fixed price and would not invest time in negotiating the price. Products sold through supermarkets, such as food and household cleaning items, would be examples. For these items, a fixed-price policy would be appropriate. The **consumer and industrial goods classification systems** give good guidance (see GLOSSARY entries A.3, A.7). Among consumer goods, shopping goods are more likely to require flexible prices while convenience goods use fixed prices. In the industrial goods field, low-cost supplies tend to use fixed prices, but prices for most other classes (accessories, components, installations, and professional services) tend to be flexible.
- *Competitive Environment.* If competitors, particularly market leaders, use a flexible-pricing policy, there will be a tendency to follow their practice to prevent them from gaining competitive advantage through pricing activities. In other markets, the tradition is to use fixed prices in an attempt to maintain pricing stability in the industry. Fixed-price policies are also more likely in markets where there is active price leadership, an effort, again, to maintain price stability. In such cases, especially if the firms's pricing objective is stability, a fixed-price policy will be favored.
- *Market Structure.* If the market structure is one

of oligopoly, marketers frequently attempt to maintain stable prices and focus competitive efforts on nonprice elements of the marketing mix in order to prevent destructive price retaliation. When competing in such market conditions, fixed-price policies reduce instability and reduce the chance of a competitor's misunderstanding a firm's pricing activities. However, as discussed above, there seems to be a trend toward more aggressive use of price, even in oligopoly situations. In markets that approach pure competition, the marketer has little choice but to adopt a flexible-price policy. In monopolistic competition and in monopoly, fixed-price policies are more feasible (see GLOSSARY entry A.1 on **competitive market structure**).

- *Economic Environment.* When the economic environment is stable, a fixed-price policy is more feasible. When economic conditions are uncertain and changing rapidly, such as in periods of inflation, a flexible-price policy is favored because it permits rapid response to changing conditions.
- *Sales Force Ability.* Implementation of a flexible-pricing policy requires a considerably more talented sales force than does a fixed-price policy. If salespeople are primarily order takers and have a low level of training, a fixed-price system may be essential.

SUGGESTIONS FOR FURTHER READING

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C.14 International Market Entry Strategy

MARKETING PLANNING FOR INTERNATIONAL MARKET ENTRY

Introducing products into international markets requires marketing planning just as do domestic market entries. The **marketing planning process** provides an appropriate framework for developing the strategy for a product entering international markets (see GLOSSARY entry Ch. 4). This entry will focus on the differences likely to be encountered in developing a marketing strategy for international markets.

The International Market Opportunity Analysis. The first step in developing an international market entry strategy is to conduct an **international market opportunity analysis.** The objective of this analysis is to determine whether or not a market offers a marketing opportunity for a product and to determine the characteristics of that market that the entry strategy must address. The analysis should ordinarily examine the suitability of the product to international markets by examining the scope of the proposed market, the environment of the international market, the product's points of superiority over competition, and its ability to meet the needs of the international market consumer. The process for conducting an international market opportunity analysis is examined in detail in GLOSSARY entry A.8.

The International Market Entry Strategy. The second element in planning for international markets is to develop an international market entry strategy. The entry strategy, like the marketing strategy for a domestic product, has two components. The first sets broad strategic direction for the international market entry. This includes deciding how the product should be positioned, a key directional element in the entry strategy. In addition, it must be decided whether many or a few markets will be entered and with what intensity, and the extent to which the

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