Why variable pricing fails at the vending machine?

Technology

The article throws light on the marketing blunder by Coca Cola when its Chief Executive Mr. Douglas Ivester announced the development of new Coke vending machines fitted with temperature sensing circuits that raised the price of the Coke can when the weather gets hot. This news did not go well with the public. The news spread like wildfire and caused a furor as the common consumers viewed this idea as a scheme to make them spend more for the same product. This idea fell flat on its face and Coke had to withdraw the statement.

Demand for most products may increase or decrease according to the circumstances that alter the needs and wants of the consumers. The basic economic theory states that in a market economy when demand for a product goes upwards so does the price of the product. In the case of cold drinks, for instance, the heat in the summer drives up the demand for cold drinks. Its common to find producers and suppliers of cold drinks take advantage of the situation and increase the price of the product discreetly for gaining that extra profit. Such discreet price increments are absorbed, accepted and ignored by the consumers.

What Coke Management missed, however is to keep the plan “ discreet”. Instead of announcing that the company has found an ingenious way to increase the price of cold soda on summer days by installing vending machines equipped with thermometers, the market would have accepted the idea if he said that it was developing a new vending machine that would lower prices when the weather got cold. As a result, within no time, Coke’s competitors and even die-hard coke fans also joined the attack by giving the news a lot of negative publicity, Coke made a hasty retreat and saved its face by announcing that they were shelving the whole idea.

It should have been obvious to the Coca-Cola think tank that the public is going to look down upon any innovation that seems even remotely designed to gouge moremoneyout of their pockets. (Yigitoglu, 2005) If price increases are affected in a hurried and haphazard manner without considering the various aspects like the competition pricing, brand pull etc. , the consumers are likely to respond by avoiding the product, especially for low value products like soft drinks, magazines etc..

In the case of Coco-cola company’s vending machine, the economic theory of Demand and Supply reflecting the price stands true. The management’s idea of collecting a few pennies more for a coke on a hot day was in line with the economic theories. The fact is that the idea of charging different prices to groups of customers with different levels of demand for the product has been put to use by a lot of companies in markets world over. Economists have named this practice " pricediscrimination” and even suggests as a fair tactic to maximize profits and to maintain bottom-lines under tough market conditions.

They recommend companies to constantly monitor the subtle change in Equilibrium Price and to develop a system to forecast the demand so that companies can plan their price discrimination strategies. This is considered a great opportunity to maximize their profits. In the Essentials of Economics, Bradley R. Schiller defines Equilibrium Price as the price at which the quantity of a good demanded in a given time period equals the quantity supplied by the producers. (Schiller, 1999) The above graph shows the relationship between price, quantity and demand.

(NetMBA, 2007) The quest of the corporate world to find a system to achieve equilibrium price on an on-going basis is what results in price discrimination. This is one idea that has found great success in the marketing schemes of all kinds of different companies and products. In any economy, wants are unlimited and resources are limited. This forms the basis for achieving price equilibrium on a continuous basis. If price discrimination did not exist, the resources cannot be allocated appropriately to satisfy the neediest of those resources.

That means, that if the price is not increased with an increase in demand, the availability of that product will decline. This creates a shortage resulting in a situation where only a part of the market consumes the product while the rest remains unsatisfied. Therefore, to balance this factors in the economy, prices should increase when demand goes up. When price is increased to a certain level, the consumers will start to avoid its purchase there by reducing the demand. This creates a balance. (Baumol, 2008)

Many industries with high value products, Airline companies for instance, have been practicing price discrimination very openly and with tremendous success. Airtickets if bought months in advance is cheaper by a significant amount. The price increased gradually till it reaches astronomical levels on the day of the flight. Public the world over has come to accept this practice and this is considered “ fair” on all people concerned. This way the price sensitive customers can avail lower tariffs by booking early and the airline gets their profits from selling tickets to those who need to fly at short notice and those who do not mind paying more.

This arrangement satisfies all the parties concerned. Airlines are happy to get the flights reasonably full weeks before the flight. They can make up the losses on late bookings. The author cites several examples to establish this point that this kind of price adjustments has become a part of the new economy. Conclusion: - The author has succeeded in giving a detailed account of the trends and methods of price discrimination practiced by the corporate world.

The author provides sufficient proof that price discrimination exists in the market and is more common in high cost products and services where the its difficult for consumer to determine its intrinsic value, like flight tickets or club memberships. The author cautions the corporate to use the theory of price discrimination with caution and take complete care so as to communicate it to the customer in the most acceptable manner unlike what coca-cola did with their advanced vending machines. List of References

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