Marketing Mix: Price

INTRODUCTORY GUIDE TO SANITATION MARKETING
The learning objectives for this module include understanding

-- the steps to develop a marketing strategy
-- what is meant by ‘marketing mix’
-- guiding principles behind developing a pricing strategy
-- challenges in applying these principles to sanitation, and
-- some strategic options
Once the results of the formative research are available, the next step is to identify goals and develop the *marketing strategy*.

A *marketing strategy* typically has a three to five year horizon and is supported by annual marketing plans that include a detailed action plan, timeline, budget, and monitoring plan.
The sanitation marketing strategy is based on the “Four Ps” of marketing, known as the marketing mix. The Four P’s are product, price, promotion, and place.
Price refers to the cost of the product or behavior for the consumer or target population. It is usually calculated in terms of financial or economic costs.

But price can also be non-monetary – think of the time people spend if they have to travel from a remote location to reach a market stall that sells latrine pans.
Here are some principles and concepts to keep in mind:

First, there is a distinction between affordability and availability of cash.

A given product may be affordable to a segment of the population -- but they may not have the cash needed to pay it all at once. Insights from formative research can help determine if you should focus on lowering prices to increase affordability, or on improving financing mechanisms to ease cash constraints.

The second concept is around willingness to pay.

“Willingness to pay” is what a consumer will pay for a product or feature. Insights from formative research can help guide pricing. This was done in Cambodia, for example, to help price the Easy Latrine.

But keep in mind that willingness to pay will shift as consumers increase their awareness of existing options and prices.
Here are a few challenges to keep in mind:

First, at the end of the day, total price control is beyond the reach of a sanitation marketing program. You can recommend prices based on research findings, but you have limited control over their application. Because suppliers tend to look at unit margins, keeping prices within reach of lower income quintiles can be a challenge.

Another challenge is that the development of the microfinance sector varies considerably from region to region. If easing cash constraints is the preferred strategy, there may be limited opportunities to tap into formal financing mechanisms or institutions. Informal mechanisms such as savings groups might be useful.
Despite these challenges, there are some options to consider:

First, when research shows that affordability is an issue, consider using innovation and standardization. These can reduce production costs and increase affordable options. In Cambodia, the Easy Latrine design uses fewer materials. This innovation, combined with improved production methods, resulted in cost savings that can be passed on to households.
Sometimes a pricing strategy may be addressed through communications or promotion which shows you how interconnected the “Four P’s” are!

For example, if the “ideal toilet” is unaffordable to a segment of the population, consider using communications to reposition lower-end options so they are considered more desirable and aspirational. This strategy is sometimes used in commercial marketing.

Only consider this strategy if lower-cost models truly provide the benefits desired at that price level.
Sometimes the supply chain and enabling environment analysis shows that the high price of materials is due to high import tariffs or other avoidable price factors. Consider conducting advocacy to lessen or remove these impediments.

Savings can be passed on to households, resulting in improved access to both supplies and products.
Modular products – discussed under Product - have a built-in pricing strategy.

A modular approach allows households to upgrade over time as needs evolve, budgets expand, and cash constraints are reduced.

This strategy is based on the assumption that households want to address sanitation needs in the same way they handle home improvements, for example.

However, there is anecdotal evidence in countries such as Cambodia that households “hold off” for their preferred option.

Remember: any pricing strategy must be informed by insights from research.
If cash constraints are a major factor for suppliers and households, consider building up access to financing at the same time as supply and demand.

In Peru, for example, WSP established relationships with banking institutions. These institutions developed lending products that hardware stores can offer to customers.
In East Java, the more successful small businesses have tapped into local savings schemes – called *arisans* – to organize bulk buying or guarantee loan repayments for their members.

Whether you want to link suppliers and households to informal savings groups or advocate with microfinance institutes to develop products specific to the sanitation sector, financing options are a critical part of your marketing strategy.
Finally, consider targeted or smart subsidies as a price strategy when even lower cost options are unaffordable to certain segments of the population.

Some public health interventions have used subsidies to reach the poorest segments, for example, through the use of vouchers or behavioral outcomes and can provide a useful model from which to learn.

Output-based aid and other mechanisms are being tried in sanitation – see Tools & Resources. The challenge is often to ensure that the subsidies reach those who are being targeted. Untargeted or supply-driven subsidies can potentially undermine market-based approaches.
What’s Inside: Marketing Mix-Price

- Chapter 3, *Introductory Guide to Sanitation Marketing*
- PDF of this presentation
- Key Terms, Keep In Mind
- Tools & Resources

This completes the overview. To learn more, please explore the entire module. You’ll find the corresponding chapter, key terms and tips to keep in mind, and additional tools and resources.