Opinion
Volume 11:09, 2022

Accounting & Marketing

ISSN: 2168-9601 **Open Access**

Pricing and Marketing Efforts that Occur Frequently in a Distribution Channel

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Introduction

The majority of research on channel cooperative advertising programs assumes that retailers and manufacturers simultaneously decide on pricing and marketing strategies. This paper examines the best time to make decisions about pricing and marketing for a distribution channel and evaluates this fundamental assumption. For both the manufacturer's ME mix strategies and the retailer's ME, we create a game-theoretic model that takes into account pricing at each level of the channel. Under various vertical interaction scenarios, we obtain solutions for a bilateral channel; when the manufacturer, the retailer, or all members of the channel make decisions about their marketing mix simultaneously. For each channel member, we compare the effects of pricing and ME decision periodicity on outputs. The main findings suggest that only for sufficiently high levels of the manufacturer's effects is simultaneous pricing and ME decision-making optimal. The sequential play of pricing and ME enables channel members to implement equilibrium strategies and achieve maximum profits that would not be possible with simultaneous decision-making for very effective marketing efforts. In a distribution channel, this demonstrates the significance of loosening the simultaneous play assumption of pricing and ME.

Description

Dispersion channels contribute an enormous level of their showcasing spending plans into an assortment of non-cost showcasing endeavors like marketing exercises, nearby publicizing, shows and elements by the retailer and public publicizing and direct customer advancements by the producer. The manufacturer's promotional mix also includes cooperative advertising programs with the goal of sharing the costs of retail promotions. The impact of such programs on distribution channels has been the subject of a growing body of research, which has demonstrated their significance in coordinating strategies and increasing channel efficiency as a whole. Some marketing scholars have argued that marketing efforts and prices are decided at different stages rather than simultaneously by each channel member and that this is due to the discrepancy in the periodicity, i.e., the timing and frequency of these decisions. In these papers, the marketing effort decision in the channel, namely advertising, has been assumed to precede prices. However, the existing research about coop advertising programs considering endogenous pricing decisions relies on the assumption that each channel member decides simultaneously of its pricing and marketing. This is based on the observation that, in some industries, advertising is typically set for a longer period of time than prices are, so it should be decided earlier, particularly for national advertising campaigns in traditional media outlets. When looking at a wider range of marketing strategies, evidence from coop advertising programs demonstrates that prices can be set more frequently than rates and promotional budgets, particularly for consumer goods that sell quickly. In point of fact, examples of coop advertising programs that are fixed throughout the entire year are provided in the National Register Publishing (NRP) for coop advertising programs, whereas price negotiations may occur more frequently throughout the year. On the other hand, showcasing exertion financial plans could likewise be more regular choices than costs. For instance, manufacturers whose brands enjoy high levels of customer loyalty typically avoid making frequent price adjustments because doing so could harm the image of their brands. If the retailer adopts a strategy of everyday low pricing and agrees with the manufacturer to fix wholesale prices in order to avoid uncertainty, pricing may also be a decision that is made less frequently than marketing efforts. For non-price promotions that educate customers about the product's features, increase store traffic, or provide additional in-store customer service, marketing efforts may be more important than prices in such instances. Lastly, the manufacturer and the retailer would not have to commit a significant amount of money to some marketing initiatives, such as ongoing online advertising, local advertising, and in-store promotional activities. The NRP, for instance, provides examples of coop program agreements that are decided on an ongoing basis rather than annually. These various examples demonstrate that marketing efforts can influence pricing decisions more frequently than prices do, and as a result, pricing decisions may fail. From an empirical standpoint, it has been suggested that the issue of periodic pricing and marketing effort has a significant impact on our comprehension of these strategic decisions. However, this issue has not been investigated. As previously mentioned, "the possible difference in the periodicity of decision-making regarding price versus other decisions, such as advertising" is a "tricky issue" primarily due to the fact that, in practice, we can observe circumstances in which these decisions can be simultaneous or sequential, as demonstrated in the examples that have come before. We are aware that the empirical research does not clearly explain why such a disparity might exist; which suggests that it could be attributable to a variety of factors, including commitments made to media agencies or channel members, managerial practice, or Different marketing goals may also be the cause of different choices regarding pricing and marketing efforts' periodicity. This study suggests that the distribution channel can endogenously determine the frequency of pricing and marketing efforts for businesses with comparable conditions and marketing goals. A decision like this can, in fact, have a significant impact on the strategies and profits of the retailer and manufacturer. For instance, if advertising is chosen annually, prices for subsequent quarters, months, or weeks would be determined based on the chosen advertising for that time period. On the other hand, when there are long-term price agreements in the channel, marketing efforts like advertising in weekly retail flyers and consumer promotions are chosen after prices [1-5].

Conclusion

The sequence of pricing and other marketing effort decisions can be altered and endogenously chosen by channel members rather than assumed ex ante because, in practice, the periodicity of these decisions varies as shown in the previous examples. The purpose of this study is to investigate how the periodicity of marketing and pricing efforts affects equilibrium outcomes. We focus on investigating the impact of distinct decision periods for pricing and marketing efforts on equilibrium strategies and outputs in a vertical interaction scenario, similar to the related literature, and assume that channel leadership is determined exogenously. When the manufacturer or retailer is

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Date of Submission: 02 September 2022, Manuscript No. jamk-22-81195; **Editor assigned:** 04 September 2022, PreQC No. P-81195; **Reviewed:** 16 September 2022, QC No. Q-81195; **Revised:** 21 September 2022, Manuscript No. R-81195; **Published:** 28 September 2022, DOI: 10.37421/2168-9601.2022.11.393

the channel leader, or when both members of the channel are not leaders and simultaneously decide on their pricing and ME decisions (vertical Nash), this is the case. The paper tries to figure out, in particular, if channel members should play the pricing game at the same time as marketing efforts, as is commonly assumed in the literature. Three scenarios result from this. Specifically, each channel member, given a predetermined vertical interaction in the channel; One chooses its price and marketing efforts simultaneously (benchmark), two choose first its price and then its marketing efforts, and three choose marketing efforts first and price second.

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How to cite this article: Kantarjian, Hagop. "Pricing and Marketing Efforts that Occur Frequently in a Distribution Channel." J Account Mark 11 (2022): 393.