BY PHIL PHILLIPS, PH.D.
CONTRIBUTING EDITOR
PHILLIPS@CHEMARKCONSULTING.NET

You better watch those curves... demand curves that is!

A look at how understaning the demand environment is imperative to create business opportunities.

When considering any business opportunity it is imperative to understand the demand environment within all parts of that opportunity. Each segment normally has sub-segments that demand very specific unique performance characteristics as well as requirements of lesser demand. The former usually has fewer qualified suppliers than that of the latter, where many suppliers can meet the performance demand.

When contemplating entering a new market, to that particular supplier, or a company is introducing a new product into their existing market, in either case, it will be necessary to understand this performance segmentation demand first and then apply the law of demand in setting its' entrance pricing strategy.

For example, in our ongoing study of coatings opportunities that are unfolding within the confines of the U.S. Stimulus Plan, we are finding, despite the fact that most opportunities are requiring suppliers to meet an existing specification, segments that vary in numbers of sources available to serve each. Numbers of suppliers is just one of the elements that determine price demand and therefore, profits in many cases.

LAW OF DEMAND—THE PRICE ELASTICITY OF DEMAND

The law of demand simply means that buyers usually purchase more units of goods at a low price than at a high price. The price elasticity of demand indicates the sensitivity of buyers to price change in terms of the quantities they will purchase in a given time frame. The price elasticity of demand represents the percentage change in the quantity demanded relative to a specific percentage change in the price level charged.

Therefore, each price will lead to a different level of demand and have a different impact on a company's marketing objectives. This relationship between alternative prices and the resulting current demand is illustrated in the demand curves on the next page.

DEMAND ELASTICITY IS BASED ON TWO CRITICAL CRITERIA—AVAILABILITY OF SUBSTITUTES AND, URGENCY OF NEED

When buyers believe there are many similar products/services from which to choose or, have no urgency to buy, demand is elastic and greatly influenced by price changes. Price increases lead to purchases of substitutes or delayed purchases, and decreases expand sales as customers are drawn from competitors or move up the date of their purchases. The latter, moving their date of purchase condition is not normally the case in industry where deadlines are usually fixed.

If buyers believe a company's offering is unique or there is an urgency to buy, demand is inelastic and little influenced by price changes. A striking example is when heating oil prices go up or down, demand remains relatively constant because there is often no feasible substitute and homes and offices must be properly heated.

Brand loyalty and emergency conditions also generate inelastic demand. Buyers feel their brands are distinctive and do not accept substitutes. An example of an emergency condition where price is a low priority consideration would be an emergency vehicle driver with a flat tire.

SUMMARY OF PRICE SENSITIVITY CONSIDERATIONS

1. Unique-value effect: Buyers are less price sensitive when the product is more distinctive.
2. Substitute awareness effect: Buyers are less price sensitive when they are less aware of substitutes.
3. Difficult-comparison effect: Buyers are less price sensitive when they cannot easily

compare the quality of substitutes.

4. Total-expenditure effect: Buyers are less price sensitive the lower the expenditure is as a part of their total responsibility.

5. End-benefit effect: Buyers are less price sensitive the smaller the expenditure is to the total cost of the end product.

6. Shared cost effect: Buyers are less price sensitive when part of the cost is borne by another party.

7. Sunk-investment effect: Buyers are less price sensitive when the product is used in conjunction with assets previously purchased.

8. Price-quality effect: Buyers are less price sensitive when the product is assumed to have more quality, prestige, or exclusiveness.

9. Inventory effect: Buyers are less price sensitive when they cannot store the product.

In today's business environment hammered by poor overall economic conditions on one end and the electronic ability of our customers to quickly determine their quality and price and ultimate value options, these outlined considerations must be made thoroughly but also very quickly for you to maintain or to capture paint and coatings market position.

Those who can manage these elements in a compressed time atmosphere will have the best chance of success. ***CW***