TEACHING INTEGRATED PRICING STRATEGY: COMCAST AS A CASE IN POINT

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ABSTRACT

Students in Principles of Marketing often have little appreciation for the importance of pricing strategies. Given the emphasis on promotion in the marketing mix, students at this level often view marketing as advertising or selling and consider pricing as an afterthought. Instruction on pricing perpetuates this lack of awareness when pricing strategies are presented as mutually exclusive. The Comcast case as detailed in this paper provides a comprehensive yet concise overview of several key concepts in pricing. Its main value to marketing educators is in demonstrating how a company can use an integrated pricing strategy to increase revenue and customer satisfaction.

INTRODUCTION

Students have a rather cursory knowledge of marketing concepts as they begin their first course in the discipline (LaBarbera and Simonoff 1999). Their knowledge regarding pricing in particular is almost non-existent (Ferrell and Gonzalez 2004). This represents a significant challenge for marketing educators seeking to provide a balanced perspective on the marketing profession and each element of the marketing mix.

Studies have focused on the assimilation of direct and interactive marketing, integrated marketing communications, and marketing research in the collegiate marketing curriculum (Ayers and Underwood 2007; Spiller and Scovotti 2008). Integrated marketing communications in particular has advanced in terms of integrating concepts (Everett, Siegel, and Marchant 1999); however marketing education has not kept pace with advances in industry (Kerr, Schultz, Patti, and Kim 2008). This is much the same situation for pricing except that pricing strategies are still presented as discrete entities having little alignment with an integrated pricing strategy commonly found in professional practice.

One way to overcome this situation is to help students gain a better understanding of concepts by highlighting practical relevance. This is frequently done via the case method (Weber and Kirk 2000). Using a case as part of an active learning approach is effective in communicating concepts (Drea, Tripp, and Stuenkel 2005), developing critical thinking skills (Hernandez 2002), and in integrating a variety of marketing theories and strategies (Elam and Spotts 2004). Cases also provide students with a way to extend their knowledge base by considering other business setting applications and making suggestions for future actions.

Some business areas, such as pricing considerations are underrepresented in case analysis (Heady and Smith 2000). This is particularly true when it comes to utilizing an integrated pricing strategy to increase revenue and customer satisfaction. A commodity service provider such as Comcast, where much of the differentiation in the marketing mix comes down to price is an ideal case to highlight how to effectively implement an integrated pricing strategy.

THE COMCAST CASE

Company Overview

Comcast Corporation is best known for its cable service; however, it also provides a variety of Internet and television services. Comcast offers its own TV programming, such as Versus, E!Entertainment, and **The Golf Channel**, along with partial ownership in several professional sports teams such as the Philadelphia Flyers and the Philadelphia 76ers. Comcast derives the majority of its revenue from its Internet, cable, and digital phone services. The company's core cable division has approximately 24 million subscribers and is the largest provider in the United States (ahead of #2 **Time Warner Cable**). Comcast has over 15 million subscribers to its broadband Internet service and Comcast Digital Voice has over 6.5

million customers (hoovers.com, accessed January 25, 2010). Table 1 displays Comcast's leadership position from a sales and margin perspective.

Comcast's acquisition of a majority share in NBC Universal in December 2009 raises questions about whether the integrated pricing strategy holds the same power as a differentiating factor in the marketing mix (wired.com, accessed January 25, 2010). For example, Comcast can now offer greater variety and flexibility in media and online programming services. In fact, Comcast plans on using the acquisition to extend programming for children and minority groups (nytimes.com, accessed January 25, 2010). However, these modifications are unlikely to transform an industry reliant on pricing as a competitive advantage.

Comcast and Integrated Pricing Strategy

A product or service's final price is the result of countless considerations. Before deciding on which aspects to incorporate into the integrated pricing strategy a company must first understand its marketing mix, estimate the demand curve, understand the costs associated with its product or service, and determine pricing objectives to arrive at a final price. Comcast has high fixed costs, formidable competitors and little opportunity for service differentiation. Therefore, Comcast's well-integrated pricing strategy is a key element of its marketing strategy and the company's overall success.

Comcast acquires new customers and retains current subscribers through its pricing value. New customers benefit from Comcast's low introductory penetration pricing strategy. The company then uses this approach in concert with line pricing to cater to various market segments based on consumer spending. It secures value via bundle pricing by offering customers consolidated services, convenience, and an overall low price. Each pricing strategy on its own has merit, however, it is the integration of all three pricing approaches that has fostered sustained growth in the marketplace.

Penetration Pricing Strategy

Penetration pricing is defined as a strategy adopted for quickly achieving a high volume of sales for a product or service. To achieve quantity maximization, penetration pricing uses a low introductory price. This approach is most appropriate when (a) demand is expected to be highly elastic; that is, customers are price sensitive and the quantity demanded will increase significantly as price declines, (b) large decreases in cost are expected as cumulative volumes increase, (c) the product is of the nature of something that can gain mass appeal fairly quickly, and (d) there is a threat of impending competition (Armstrong and Kotler 2010). Under this approach, a product or service is widely promoted and its introductory price is kept comparatively lower than competitors. The market also has to be highly price-sensitive for the low price to stimulate rapid market growth (Baker and Hart 2007).

Comcast's Use of the Penetration Pricing Strategy

Comcast is the number one cable provider in the United States, as well as one of the largest Internet and telephone companies. Therefore, Comcast's current products are not necessarily new to the market, but penetration pricing is still implemented to reach new customers, increase market share and thus generate economies of scale.

Comcast utilizes the penetration pricing strategy in most of its TV cable, Internet, and telephone services. Comcast offers special prices for new TV cable customers for $39.99 (for the first 6 months) which is 46.7 percent

TABLE 1
GROWTH SUMMARY STATISTICS FOR COMCAST AND ITS COMPETITORS

Measure	Comcast	DIRECTV	DISH Network	Time Warner Cable
2008 Annual Sales ($ mil)	34,256.0	19,693.0	11,617.2	17,200.0
2008 Net Profit Margin	8.76%	6.25%	5.79%	(41.8%)
36–Month Revenue Growth	15.5%	14.4%	11.3%	25.0%
36–Month Net Income Growth	40.0%	65.4%	(15.8)	

– (hoovers.com accessed January 25, 2010) lower than the regular price (comcast.com, accessed January 25, 2010). This introductory price is kept lower than the regular price usually for a period of 6 or 12 months as a tactic to gain new consumers. As a result, the hard part for Comcast is getting customers on board with the service initially. Once they actually become customers, they will typically remain so for the long term because psychologically they find it difficult to switch providers after installation.

A penetration policy is even more attractive if selling larger quantities results in lower costs because of economies of scale (Armstrong and Kotler 2010). This includes spreading out the high fixed costs associated with advertising, human resources, and capital structures to a greater number of customers thus lowering the cost per customer serviced. Given its position as the market leader in the industry, Comcast already takes advantage of economies of scale which allows the company to offer more attractive introductory prices compared to its competitors.

Penetration pricing can also be beneficial when marketers suspect that other competitors could enter the market easily. If penetration pricing allows the marketer to gain a large market share quickly, competitors may be discouraged from entering the market. Clearly, Comcast, Time Warner Cable, and DirecTV dominate the TV cable, Internet, and telephone markets. Consequently competitors are discouraged from entering the market already dominated by Comcast and its rivals. In areas where Comcast is the only cable provider with services available to the general public, penetration pricing still encourages consumers to subscribe and likely be retained should other cable providers, who would then be deterred from even trying, gain access in the future.

Line Pricing Strategy

Line pricing occurs when the company sells different configurations of a product within the same product line. Line pricing is also referred to as *versioning* when it is applied to services or technical products (Linde 2009). A trial or very basic version may be offered at a low price or for free, for example, with upgrades or more services available at a higher price. This caters to customers in various market segments based on income or willingness to pay for the services offered. Line pricing is considered a pricing strategy in this case because different versions or configurations of the product are just variations of that product.

Comcast's Use of the Line Pricing Strategy

In TV cable, for example, which is Comcast's main product, the company currently offers five different configurations. Each of these configurations offers a different number of channels and features that are priced according to the number of available options. Table 2 displays the major differences between products and how they are priced to the consumer.

The more channels or features a specific version of a product offers, the more expensive the version. It is strategically important for companies like Comcast to understand how much its customers are willing to spend by product, how the consumers will react when some versions of the same product are made available and most importantly, to determine the most effective pricing strategies for the future. Line pricing is important to Comcast because the pricing levels allow penetration into many markets.

TABLE 2
COMCAST'S PRODUCTS AND PRICING

Product	Versions	Features or Options	Regular Price
TV Cable	Basic Cable	Only Local Channels	$9.45
Digital Starter	Over 80 Digital Channels	$56.98	
Digital Preferred	Over 100 Digital Channels	$74.98	
Digital Preferred Plus	Over 150 Digital Channels	$99.99	
Digital Premier	Over 200 Digital Channels	$115.99	
Internet	Economy	U: 1Mbps D: 348k bps	$24.95
Performance	U: 15Mbps D: 3M bps	$42.95	
Blast!	U: 20Mbps D: 4M bps	$52.95	
Ultra	U: 30Mbps D: 7M bps	$62.95	
Phone	Local with More	$0.05 per minute	$24.95
Comcast Unlimited	Unlimited	$39.95	

(comcast.com, accessed January 25, 2010)

Bundle Pricing Strategy

A bundle is any grouping of products or services sold together as a single unit. The strategy behind bundling lies in having combined products or services priced less than each of the components purchased separately. The benefit with bundling is found not only in reduced prices but also in building awareness for new products that are bundled with well established items (Kyle 2002). Customers may value the convenience of having to deal with only one provider for different products or services if an issue were to arise. Having one company as a point of contact translates into saving time for the customer. One provider also means one bill providing benefits for customers and vendors alike.

Bundling can be a competitive advantage if more items or services are offered compared to just one item or service for the same price. A company that offers this value added option attracts more customers and increases the average revenue per customer (Lee and Lee 2008). As an added benefit, offering additional products or services allows customers to explore products they had not previously considered. Exposing customers to additional services perceived to be beneficial can lead to greater customer satisfaction. The greater customers are satisfied with a provider, the less likely they are to switch to a competitor.

Bundling is usually a win-win situation. Companies offering products or services in a more convenient manner for a lower price will retain long-term consumers and create brand loyalty. Each company should determine which method of bundling is most in alignment with its goals. There are various types of bundling options, such as: pure, unbundled, or mixed, found across many industries (Olderog and Skiera 2000). In *pure bundling* the products are available only in the bundled form and cannot be purchased separately (Kim, Bojanic and Warnick 2009). Purchasing an individual item is referred to as *unbundling*. When customers can decide whether to purchase several item together (bundling), or an individual item (unbundling), the company is operating under a *mixed-bundling* strategy (Olderog and Skiera 2000).

However, many customers do not like bundling because they believe that they could design the best value by choosing their own package of desired products and services (Ferrell and Hartline 2010). Pure bundling in particular can be viewed as disadvantageous when consumers feel as though they are being forced to purchase additional items that they do not need. Thus companies should implement bundling strategies that help achieve company goals, increase revenue, and increase customer satisfaction.

Comcast's Use of the Bundle Pricing Strategy

The bundle pricing strategy is not unique to the Internet service provider industry: its use in selling automobiles or books and services including resort packages is common (Clay, Krishnan, and Wolff 2001; Johnson, Herrmann, and Bauer 1999; Naylor and Frank 2001). Comcast offers customers the option to bundle its three main services; Internet, television, and telephone into one package. To aid in bundling, Comcast allows customers to customize orders depending on their needs. The ability to customize orders promotes bundling. Given the commodity-type service environment, bundling helps Comcast stay competitive.

High switching costs (i.e., monetary, search time, and psychological) make it more difficult for customers to walk away from Comcast. This is especially true if customers get used to their new found Internet speed or new exciting channels; they will be more reluctant to give them up. Marketers might wish to encourage bundle purchases to extend brand preference or to encourage consumers to spend more (Harris and Blair 2006). The added entertainment not only makes it harder for Comcast customers to leave, but in their minds it also helps justify the price for services.

Currently, the most aggressive bundle pricing strategy used by Comcast is its integrated pricing approach including penetration pricing. Although customers can choose Double Play, which includes two combined services, the most common bundle in this market is known as Triple Play which is composed of TV cable, Internet, and telephone services. Although there are different versions of the products, Comcast offers starter packages 29.8 percent less expensive than the starter package from the second largest provider, Time Warner Cable (timewarnercable.com, accessed January 25, 2010). Bundling and penetration pricing used together makes sense because bundling results in lower prices which is the basis of penetration pricing designed to capture a larger market share.

At first glance, it appears that bundling services offers significant saving to consumers compared to purchasing each component separately. However, the savings are not as great as initially perceived with the Comcast Digital Double Play bundling as an example. The Digital Double Play consists of Comcast High Speed Internet with Powerboost plus the Comcast Digital Starter Package. The price is $69.99 for the temporarily discounted bundle, however after six months the price jumps to $109.90 per month (comcast.com, accessed January 25, 2010).

If each component is separated from the bundle, the end price is $19.99 per month for high speed Internet plus Powerboost for six months; afterwards it becomes $42.95 per month. As a separate component the Comcast Digital Starter Package is offered as a promotion for $29.99 per month after six months the price is elevated to $59.90. Each package could be ordered separately for $49.99 per month for six months and $102.90 after six months. The price for the bundle is $69.99 per month and $109.90 after six months. This does not end up being the bargain promoted by the bundled price.

As demonstrated with Comcast, the main purpose of bundling is to have customers *perceive* that there is an exaggerated cost savings whether or not this is actually the case. By bundling services, Comcast stresses savings for consumers on its website, but also the convenience of having one bill and one provider.

Comcast could do well with just using any one of penetration pricing, line pricing, and bundle pricing. However, the cumulative benefits of utilizing all three as an integrated pricing strategy in terms of revenue and customer satisfaction make the coordinating efforts worthwhile. In the same way that integrated marketing communications brings a consistent and connected message to a brand proposition, the integrated pricing strategy fosters brand value. This approach appeals to consumers encouraging service trial and continued subscription.

FURTHER INTEGRATION

Students could also be challenged on how they could improve on Comcast's already sound integrated pricing strategy. The decoy effect (Ariely 2008), is a good example.

The Decoy Effect

In marketing, the decoy effect occurs when consumers tend to have a specific change in preference between two options when also presented with a third option that is asymmetrically dominated (Huber, Payne, and Puto 1982). For example, a consumer is presented with two items: Item A appears better in quality while Item B is offered at a lower price. The choice is made easier when a third item, Item C, similar to Item A but offered at a higher price is introduced. Consumers will tend to purchase Item A because it now appears much better than Items B and C even though there is no change in the relative benefits between Items A and B.

Comcast's Use of the Decoy Effect

Comcast, through a combination of pricing strategies, can offer customers a different version of a product to stimulate sales of another version. For example, if TV cable customers can decide between options (a) Digital Preferred or (b) Digital Preferred Plus which have 100 and 150 channels, and cost $74.98 and $99.99, respectively, around half of the customers will choose option (a), and around half of the customers will choose option (b). The first option is better in terms of price, and the second one is better in terms of number channels. However, if Comcast wants to stimulate sales of the Digital Preferred Plus version (option b), the company can create an option (c) with 125 channels for $110.00, for example. As a result, the Digital Preferred Plus version will be perceived as the dominating option and will be chosen more often than before, since option (c) is just a decoy to increase sales of option (b).

CLASS DISCUSSION QUESTIONS

1. How would introducing each of the following into Comcast's integrated pricing strategy increase revenue and customer satisfaction?
   (a) offering no contracts on new service,
   (b) providing customers with a limited-time free trial,
   (c) introducing a rewards program,
2. What obstacles might Comcast face with each of these approaches?

CLASS DISCUSSION QUESTION POTENTIAL RESPONSES

1. (a) No Contracts – Customers that use Comcast services are currently put into a binding contract. Depending on the services used, the length of the contract can range from twelve to twenty-four months. Any addition to service could also result in an elongated contract. Early release from the contract results in fines. To stay in line with competition Comcast should offer services without a contract to its customers. This will entice consumers that are hesitant of being trapped in a long term contract to use Comcast services.
1. (b) Free Trials - For customers, there is always an element of risk in purchasing from a new provider. Will I find a better deal or a more appealing offer with another provider? Buyers often ask this type of question and fear they may experience cognitive dissonance or buyer's remorse. Comcast could eliminate one barrier of entry by offering free service time-limited trials.
1. (c) Rewards Program - Rewards can be an excellent way to recognize loyalty and significantly boost engagement and aid retention. This is particularly true when customers can tailor the rewards program to fit their interests. Creating a rewards program can greatly enhance Comcast's integrated pricing strategy as it will make customers feel their contributions are noted and valued.
2. Comcast must consider the flaws accompanied with the three preceding suggestions. Not all households are wired for cable, and the investment to wire homes for free trials may not be financially viable. Therefore, these and other pricing considerations may conceivably be limited to cable ready homes only.

CONCLUSION AND FUTURE RESEARCH

Students often graduate without an appreciation for the interrelatedness of marketing concepts taken among various courses or even within particular courses (Bobbitt, Inks, Kemp, and Mayo 2000). The Comcast case introduces basic concepts in pricing and then demonstrates how one company developed an integrated pricing strategy. It goes on to challenge students with points of discussion regarding an even more advanced integrated pricing strategy. Using the Comcast case raises student awareness regarding marketing concept connections and the benefits of using an integrated pricing strategy to increase revenue and customer satisfaction. The case can also be useful in upper level undergraduate marketing courses where students with more content knowledge and potentially professional experience can relate the integrated pricing strategy to other elements of the marketing mix.

Future research regarding the Comcast case can focus on the assessment of student learning. Soliciting student feedback regarding the clarity of concepts presented can assist in determining level of understanding related to pricing strategies and utilizing an integrated pricing strategy in particular. Asking students to develop an integrated pricing strategy for another commodity-service provider may also demonstrate whether students can make appropriate application of the integrated pricing strategy approach.

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