

foodlines

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*Be not the first by whom the new are tried,
Nor yet the last to lay the old aside.*

-- Alexander Pope, An Essay on Criticism

Perrier shows the way

The pricing system of the world is undergoing a massive dislocation. Two of the foundation pillars of the old system are crumbling:

- The Law of the First Price. When a "new" commodity hits the market, the first price established will tend to dictate all future prices. This law at one time virtually guaranteed cheap oil, textiles and foods.
- Cost based pricing. When manufacturers' pricing considerations are based primarily on their costs (including commodities) they self-limit their profitability. They are constrained by what may be an irrational First Price.

The coming world pricing system is based on **value**. In other words, "I will pay the price based on what it will do for me rather than on what it costs the seller." But value is a tough thing to define, so we tend to slip back into cost thinking.

Perrier Shows the Way

Water is water is something to drink. The **intrinsic** value and **cost** of these three waters is essentially the same. The marketing and distribution costs do of course, vary. But look at the price per glass:



0¢



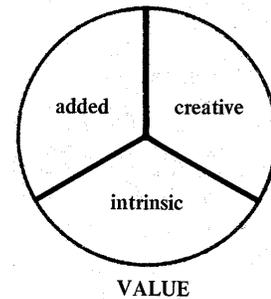
4¢



26¢

If we take a vote with the public on which of these prices reasonably represents the **value** of the product, we will find a significant number selecting the 26¢ per glass. These are the Perrier customers who value the image of health and implied success. For them, Perrier is a suitable alternative to wine, beer or soft drinks.

Perrier illustrates three components of value of a food or beverage:
Intrinsic value – What it is worth as a commodity.
Added value – What it costs to process the commodity and deliver it to market.
Creative value – Intangible value perceived by the customer due to image, position or personal need.



The size of the market for Perrier and the level of profitability are primarily due to the creative component. In fact, **to create is to profit**. Because unit costs are low for creative value, creative value is nearly pure profit. (It may cost something to create a good **idea** or **image** but the idea can be sold many times without re-incurring the cost of creation.) Perrier represents an extreme. It takes a product of very low **intrinsic value**, **adds** modest value through packaging and distribution and through **creative** positioning establishes a very high price; which agrees with the consumer's idea of value. But the principle is valid for reviewing any product line. What low margin products do we have with limited intrinsic and added value? These are good candidates for profiting through creativity.

Intrinsic Value?

But surely the intrinsic value of water is not low. According to Maslow's theory of the hierarchy of need, if we are deprived of a need, all needs lower in the hierarchy become irrelevant. Is not this hierarchy of needs then, the natural value system of human existence?

AIR WATER
FOOD

These are our highest needs. We may live a few minutes without air, a few days without water and a few weeks without food. These, then have the highest intrinsic value. In fact air is so valuable that it is **priceless**. Water is nearly so. And food (which the world unwisely prices by cost) is of even greater value than petroleum. Gasoline is worth a lot more than 35¢ a gallon. Gasoline is **worth** a lot more than \$1.35. Just as the value of gasoline will continue to press its price upward, so food prices must also move. Movement from a cost based society to a value based society demands growth in food prices greatly in excess of inflation. And until the prices of food commodities rise to their intrinsic worth, the difference represents potential for the marketer of foods.