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Launch Pad

Pricing strategies at Fairchild Semiconductor

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How would you establish the proper pricing for 10,000 products? What are your strategies to establish the value of new components at launch? Visions *Launch Editor Mark Hart reports on one company's approach to pricing strategies for commodity and specialized components. This article is a complement to the Pricing Strategy at PRICEX article in the September 2007 issue of* Visions.

According to its Web site, "Fairchild Semiconductor is the #1 global supplier of power analog, power discrete, and optoelectronic components that optimize system power." The company sells proprietary, differentiated products under the Analog and Functional Power divisions, and standard, undifferentiated products under the Standard Products division. The standard products produced by Fairchild are generally priced as commodity components because multiple vendors provide similar components that have similar specifications. Fairchild's proprietary products, however, require a different approach.

Rodrigo Brumana has been involved in setting up pricing strategies, policies, and systems as Senior Manager, World Wide Pricing at Fairchild (*www.fairchildsemi.com*). In June 2007, Brumana spoke at the 20th PRICEX Conference. The title of his presentation was "10,000 products. Which one should I sell and how much should I charge? Supply, Demand, and Channel Optimization—an effective way to price." In subsequent interviews, he shared his pricing strategies for undifferentiated products; and he presented a framework for establishing the value of Fairchild's new, differentiated products.

Pricing for differentiated components

How is the value calculated for new, differentiated components? According to Brumana, "Factors that typically increase the value of an electronic component that fulfills a specific function include: reducing the circuit board space requirements, reducing design time, reducing the pin count, or lowering the power requirements. These attributes allow designers to create products more quickly and lower production costs while packing more functionality into a given electronic device."

Like other new product development efforts, Fairchild's projects produce internally generated estimates of the value of the component that are refined throughout the development process. Brumana reports, "A procurement officer from a large global company is not likely to adopt a new technology based on elusive value propositions. Besides being meaningful to solve the customer's need, the value of a product brought to market must be quantified in order to be a compelling value proposition for rational, sophisticated B2B buyers."

Brumana and Fairchild's marketing team developed robust strategies to establish the value of new components at launch. Value pricing strategies are based on a framework called EVC (Economic Value to Customer; see Exhibit 1) that identifies and quantifies all the benefits the customer will get by buying a certain new component instead of the best available solution in the market—the so-called reference value. With value calculated, price is then determined. After estimating the value of the new product, during or right after the development phase, Fairchild may partner with customers willing to be the first to adopt the new technologies. Such partnerships help Fairchild validate the value proposition and enable those customers to improve their offering by capitalizing on new technologies.

Value pricing

Companies like Fairchild have seen the benefits of a value pricing approach to differentiated products and services. According to Brumana, "During negotiations with other prospects, company representatives are able to focus on the proven value of their components and how Fairchild's offering will solve the customer's need rather than be distracted by discussions about discounts."

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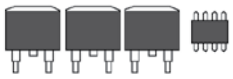
Exhibit 1: Economic Value to Customers

$$EVC = V_{ref} + V_{pos} - V_{neg}$$

	Definition	Example
V_{ref}	**Reference Value is based on the value of the components being replaced**	 3 x 60 mm² + 30 mm² = 210 mm²
V_{pos}	**Positive Differentiation Value** **Contributions include:** ● Design time savings ● Manufacturing cost savings ● Procurement cost savings ● Power requirements reduction ● Size/pin count reduction	 new module = 64 mm²
V_{neg}	**Negative Differentiation Value** **Contributions include:** ● Any switching costs	

Source: The Author