

Question 2

2.1

Short term retail pricing policy

In determining WW's short-term pricing policy they should look at the 4c's of pricing, this includes:

Cost

WW should consider the cost of supplying water and removing waste water to make sure they are covering the costs of this. However, this is regarded as quite insignificant for the actual supply of water itself. Although WW should take into consideration the original infrastructure of the WW plant. This has been high in some regions than others and is shown relative to the prices that have been charged.

WW charges \$1.55 which in comparison to the other water companies is in middle ground, it isn't the highest and it isn't the lowest. WW would need to look at the leases with the Hokitika government on their water reservoirs to establish how much this is going to cost them.

Customers

What are customers going to be willing to pay for their water in comparison to what they are already charged and what other competitors around WW will be charging. WW would need to establish the prices that customers pay now and how much you can charge before you could potentially lose a customer to another water supplier.

Corporate objectives

- 2 What are the corporate objectives of WW, do they want to be a low cost provider in comparison to other water suppliers, do they want to be providing the best customer service so that customers stay loyal and stay with them after the deregulation has taken place. WW would need to identify what their objectives are as an independent wholesaler of water.

Competitors

WW would need to establish what other competitors are going to be charging after the deregulation so that WW can try and compete with them. You need your prices in line with competitors and the industry after deregulation to try and entice customers to come to WW for their water supply.

WW could also look at their price strategy in terms of how they price. For WW I would say price penetration would be the best way to keep customers after the deregulation has happened. You want to keep your prices low to keep as many customers as you can after the deregulation has occurred. Other options could include:

Premium pricing
Price skimming
Going rate
Price discrimination

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4 **Impact of deregulation on long-term competitiveness**

Porter's Five Forces

Porter's five forces looks at competitive rivalry, threat of substitutes and new entrants, bargaining power of customers and suppliers.

Competitive rivalry

The competitive rivalry of the water supply industry will significantly change after deregulation takes place. Deregulation will affect threat of substitutes and new entrants, bargaining power of customers and suppliers which will increase the competitiveness of the industry.

Threat of new entrants

Deregulation will encourage new companies to enter the water supply industry. Companies will see a new opportunity in the market that would have potential for considerable amount of growth. However, entering this market could be difficult as it would require an initial outlay of capital for building and a water reservoir which would be a considerable amount of cost.

Some companies has already shown an interest in entering the market and as long as they have the capital to do so there is no regulations stopping them anymore. Wholesale prices are still regulated so this could be a barrier to entry for new entrants.

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Threat of substitutes

Through deregulation this will open up the industry for substitutes as customers can easily switch between companies as they are no longer required to stick to their region for their water supply.

Bargaining power of suppliers

This is relatively low as the prices of wholesalers are still monitored by the government so there isn't a knock on effect to customers in terms of price.

Bargaining power of customers

Customers would have low bargaining power as they wouldn't have much say in the prices in which competitors charge but they can easily switch from one company to another as regulation is no longer there.

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Conclusion

WW should take into consideration the pricing of other competitors significantly as deregulation will increase the amount of competitors in the market along with what customers are willing to pay for water. The competitive rivalry in the industry in Holika will increase substantially through the deregulation. However, the barriers to entry could be reduced by the large initial capital outlay for water reservoirs.

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9		Before		After						
10	Major	\$9.6m		Major	\$3.6m					
11	Minor	\$3.76m		Minor	0					
12		13.36			3.6					

2.2

The annual cost for the new technology is \$1.1m, WW would need to weigh up if the costs of the technology outweigh the costs of not having it in the long run.

Risk Mitigation

Having the technology WW would face having no minor events in the future, this accounts for £3.76m worth of events. The risk mitigation in terms of minor events is substantial as no events would occur. The new technology would only stop minor events and not major ones. However, it could be minor events that could potentially lead to major events and this could help to minimise major events as much as possible.

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WW states that it is an industry leader in corporate responsibility and environmental sustainability. This technology would be good for WW to introduce for risk mitigation to its reputation as a company and would be good for the company in terms of PR. Holika is highly regulated and this sort of technology could be something that is brought in as regulation for the environment. It is a lot cheaper to have regulated yourself than it is to introduce imposed regulation, this could be most costly for the company.

Potential cost savings

The new technology costs annually \$1.1m, however, in comparison to the affect that this will have on WW they would save money by implementing the new technology. Minor cost event would decrease by 3.76m to nothing and major events would decrease 6m. Annually WW would be saving money by implementing the new technology in the future. Some of the events that could happen would also be unknown and there could be more costs attached to them events if the technology wasn't implemented. However, you do need to take into consideration that the technology could break and would need repairs and this could create costs for WW as well as the annual cost itself.

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Conclusion

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WW should install the new equipment as the costs of not installing it would be far higher than if they did with the annual cost of 1.1m, the minor events could lead on to major events and the major events should be completely gone. Through the equipment you can monitor why major events have happened and try to stop these from happening in the future.