

# Chapter 11

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## Pricing Strategies



# Pricing

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- ✚ The amount of money charged for a product or service; the sum of the values that customers exchange for the benefits of having or using the product or service.



# Customers perception of value

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- + Value –Based Pricing: uses the buyers' perceptions of value, not the sellers cost, as the key to pricing.
  - Price is considered before the marketing program is set.
  - Value-based pricing is customer driven
    - Good-Value Pricing
    - Value-Added Pricing
- + Cost-based pricing is product driven

# Major Considerations in Setting Price

Product costs

Competitors' prices and other internal and external factors

Consumer perceptions of value

## Price floor

No profits below this price

## Price ceiling

No demand above this price

## Cost-based pricing

Cost-plus pricing  
Break-even pricing  
(Target profit pricing)

## Competition-based pricing

## Value-based pricing

Professor Takada

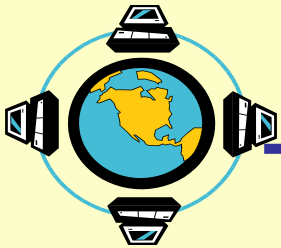
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### Cost-based pricing



### Value-based pricing

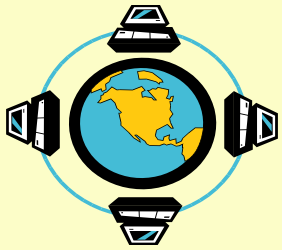




# Types of Costs

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- ✚ Fixed Costs (Overhead): remains fixed, whatever the level of production
- ✚ Variable Costs: varies with the level of production
- ✚ Total Costs:  $FC + VC$



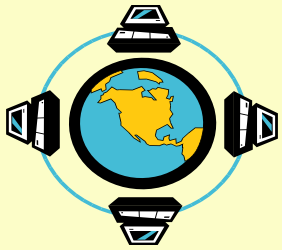
# New Product Pricing Strategies

## Market Skimming

- Setting a High Price for a New Product to “Skim” Maximum Revenues from the Target Market.
- Results in Fewer, But More Profitable Sales.

## ✦ Use Under These Conditions:

- Product’s Quality and Image Must Support Its Higher Price.
- Costs Can’t be so High that They Cancel the Advantage of Charging More.
- Competitors Shouldn’t be Able to Enter Market Easily and Undercut the High Price.



# New Product Pricing Strategies

## ✚ Use Under These Conditions:

- Market Must be Highly Price-Sensitive so a Low Price Produces More Market Growth.
- Production/ Distribution Costs Must Fall as Sales Volume Increases.
- Must Keep Out Competition & Maintain Its Low Price Position or else Benefits May Only be Temporary.

Consistently deliver in low price, rather than in short term

## Market Penetration

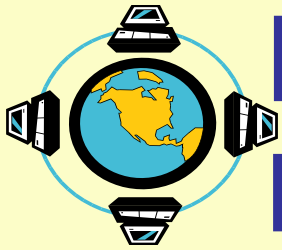
- Setting a Low Price for a New Product in Order to "Penetrate" the Market Quickly and Deeply.
- Attract a Large Number of Buyers and Win a Larger Market Share.
- Dell



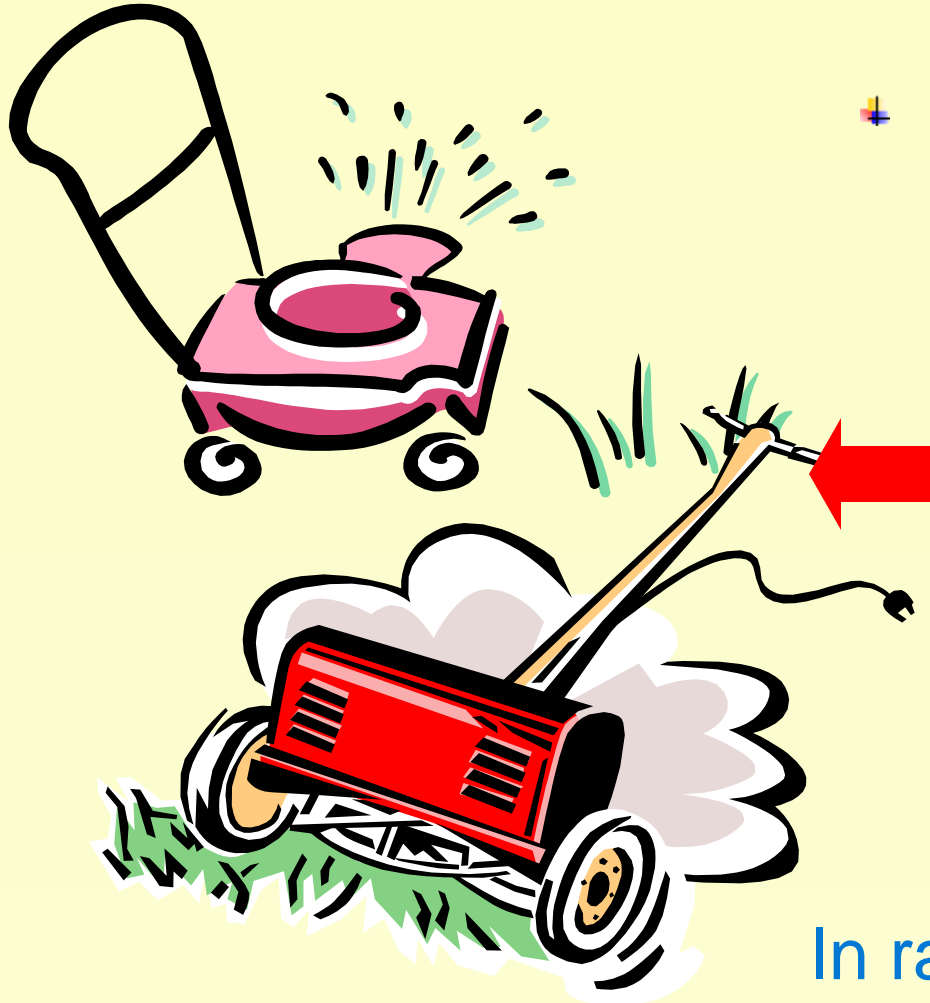
# Product Mix Pricing Strategies

Strategy	Description
Product Line Pricing	Setting price steps between line items
Optional Product Pricing	Pricing optional or accessory products <small>An optional product is an additional item or service offered alongside the main product, which is not essential to its core function but can enhance the customer's experience.</small>
Captive Product Pricing	Pricing products that must be used with the main product
By-Product Pricing	Pricing low value by-products to get rid of them
Product Bundle Pricing	Pricing bundles of products sold together



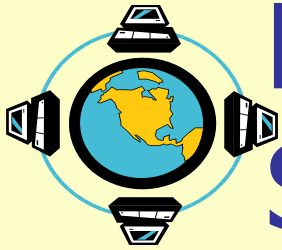


# Product Mix-Pricing Strategies: Product Line Pricing



- ✦ Involves setting price steps between various products in a product line based on:
  - Cost differences between products,
  - Customer evaluations of different features, and
  - competitors' prices.

In range



# Product Mix- Pricing Strategies

May need or take with the main product according to their preferences

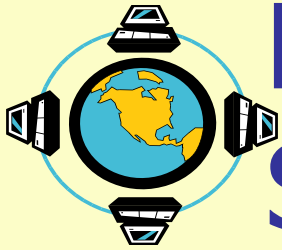
## + Optional-Product

- Pricing optional or accessory products sold with the main product. i.e camera bag.
- Decide which to offer with base price and which to provide as option

Which one to provide free with the base price and which one to provide as an optional product.

Apple previously provided charger, headphones free with its phones but now they don't.

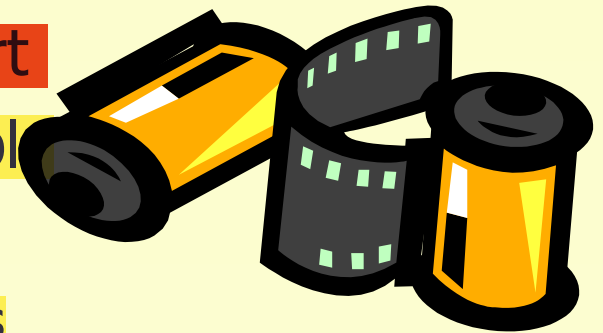




# Product Mix- Pricing Strategies

## + Captive-Product

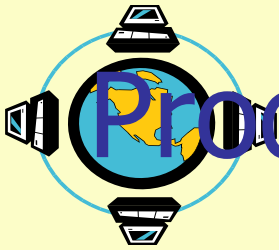
- Pricing products that must be used with the main product. i.e. film.
- Producers often have the base item marked low but the supplies marked high (low priced Gillette razors but high price on replacement blades)
- The essence is to capture the customer
- In service it is called **two-part pricing**- Fixed fee plus variable usage rate.



+ Blade for razors, Cartridge for printers

+ Entry pass for park plus separate fee for food- two part pricing

less profit in base product,  
and more profit in the  
captive product.



# Product Mix- Pricing Strategies

## + By-Product

- Pricing low-value by-products to get rid of them and make the main product's price more competitive.



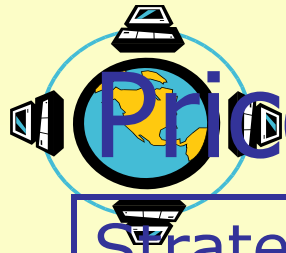
Applicable when

- By products have little or no value
- Are expensive to store and dispose
- Companies should settle for a price that covers the cost

## + Product-Bundling

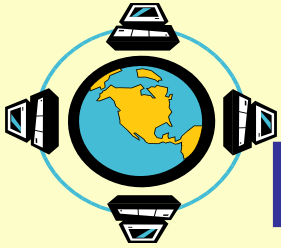
- Combining several products and offering the bundle at a reduced price.





# Price-Adjustment Strategies

Strategy	Description
Discount & Allowance Pricing	Reducing prices to reward customer responses eg. Pay early or at a time, or promote
Segmented Pricing	Adjusting prices to allow for differences in segments
Psychological Pricing	Adjusting prices for psychological effect
Promotional Pricing	Temporally reduce prices for short run sales
Geographic Pricing ✗	Adjust for geographic location
Dynamic Pricing ✗	Adjusting prices to continuously meet the needs of individual customers & situations
International Pricing ✗	Adjusting Prices for International Markets



# Discount & Allowance Pricing

Think yourself as the manufacturer

- + Cash Discount: on time ( 2/10, net 30)

- + Quantity Discount: on quantity

improving relationship

- + Functional Discount/ trade discount: offered by seller to channel member who perform certain function like selling, storing, keeping records.

- + Seasonal Discount: to balance seasonal demands

- + Trade-In Allowances- replacing old item with new item with some additional price.

- + Promotional Allowances- reward dealers to participate in promotions and advertising.



# Segmented Pricing

- ✦ Selling products at Different prices even though there is no difference in cost.
- ✦ To be effective
  - The market must be segmentable.
  - Segments must have different degrees of demand.
  - The prices should reflect the customer's perceived value.

Customer Segment	Location pricing
Product-Form	Time Pricing



# Segmented Pricing



Turkish Airlines is now offering to all students under 25 years of age, a 25% discount on domestic flights.

[www.thy.com](http://www.thy.com)



**TURKISH AIRLINES**

Senior citizen discount, Occupation (Teacher, Military), Local Residents, Foreign Visitors etc.

**Customer segment- different customer pay different price for the same product or services.**





# Segmented Pricing



**Product form-  
different packaging  
or sizes**

Packaging - can bottle,  
glass bottles diff price  
Size - 250 ml, 500 ml,  
1L diff price

**Location pricing- movie theatre vary  
their seat prices according to  
customer preference. OR out of state  
students pay more tuition fees.**



# Segmented Pricing

**FLY HER IN STYLE.  
AT HALF THE COST.**

book your tickets on Kingfisher First and get hers at half\* the cost.

**A small price to pay for a big impression.**

**KINGFISHER** *first*  
REDEFINING BUSINESS

Kingfisher First is available to all locations

**IBERIA**

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**Lufthansa**

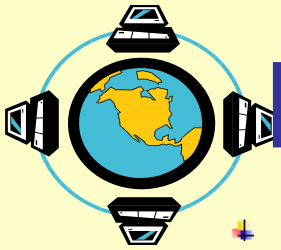
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**Time pricing-  
ex: weekend  
Vs weekdays  
price**

**Offer Code**

**Continental Airlines**

Discounts on all  
fares thru **12/31/08**



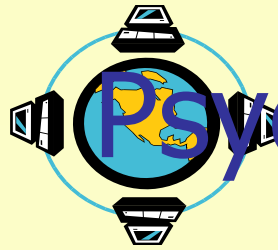
# Psychological Pricing

- ✚ Many consumers use price to judge quality.

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- ✚ When consumers cannot judge due to lack of information or skill or experience, price becomes an indicator of quality.
- ✚ Higher price indicates high quality
- ✚ **Reference Prices-** prices that buyers carry in their minds when looking at a given product.
  - can be formed by noting current price or remembering past price
  - Product placement and visibility- placing a product next to expensive ones to show off its quality.
  - Sale signs- Sale!!!, Reduced, Now 2 for only.....
  - Prices ending in 99
  - Signpost Pricing or loss-leader pricing- low prices on product for which you have accurate knowledge. It suggests that the stores other prices must be low as well.
  - Price Matching guarantees prices are low than other stores.





# Psychological Pricing

Value \$22.00

Sale \$14.99

Considers the psychology of prices and not simply the economics.



Odd pricing





# Promotional Pricing

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- ✦ Companies temporarily price their products below list price or even below cost to create urgency and excitement.
- ✦ If used too frequently, the brand loses the novelty and also, no one would buy them at regular price anymore. (deal-prone)
- ✦ However, since it's the easiest thing to do, to increase short run sales, and reduce inventories; it is quite addictive.



# Promotional Pricing



Loss Leaders

Special-Event Pricing

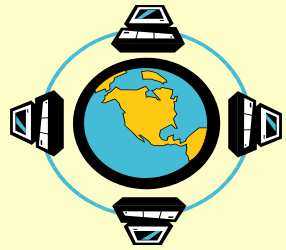
Cash Rebates

Low-Interest Financing

Longer Warranties

Free Maintenance

Temporarily Pricing  
Products Below List  
Price to Increase  
Short-Term Sales  
Through:



# Promotional Pricing

**Take a year of  
InsideEdge  
for just £5.00**

**SAVE  
90%**



**Buy 1 Case,  
Get 1 Case Free**

Oral-B® FlossAction®



Oral-B® Ortho



Oral-B® Power Tip®

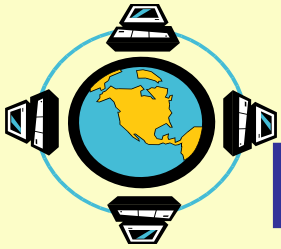




# Geographical Pricing

- ✦ FOB-origin pricing- Free on board — customers pay the freight.
- ✦ Uniform Delivered Pricing: charges same price plus freight to all customers regardless of locations. Easier to manage and advertise nationally.
- ✦ Zone Pricing: Rather than individual city or town, pricing is done on a zone basis.
  - The more distant the zone, higher the price
- ✦ Basing-Point Pricing: use another city as base and charging freight cost from that city regardless of the city from which the goods are actually shipped .
- ✦ Freight Absorption Pricing: Absorb all or part of the cost to penetrate the market.

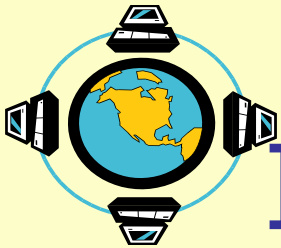




# Dynamic Pricing

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- ✦ Adjust prices continuously to meet the characteristics and needs of customers.
- ~~✦ Particularly effective for internet marketing.~~
- ✦ Opposite of maintaining fixed price policies.



# International Pricing

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- + Uniform worldwide price
- + Most companies have to change their pricing
- + Consumer perceptions
- + Product life cycle
- + Costs-resulting in price escalation



# Price Changes

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## + Initiating Price cuts

- Excess capacity
- Falling demand
- Dominate market through lower costs

## + Initiating Price Increases

- Cost inflation
- Over-demand
- Must be supported by communication
- Use low visibility price moves
- However, whenever possible, company should look for other alternatives without raising prices