Chapter 10 & 11

Pricing

Course: Mkt 202
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Pricing

- 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.

Walmart, the world's largest retailer, and Amazon.com, the world's largest online merchant, are at war over the hearts and dollars of online shoppers. The weapon of choice? Prices. However, although price can be a potent

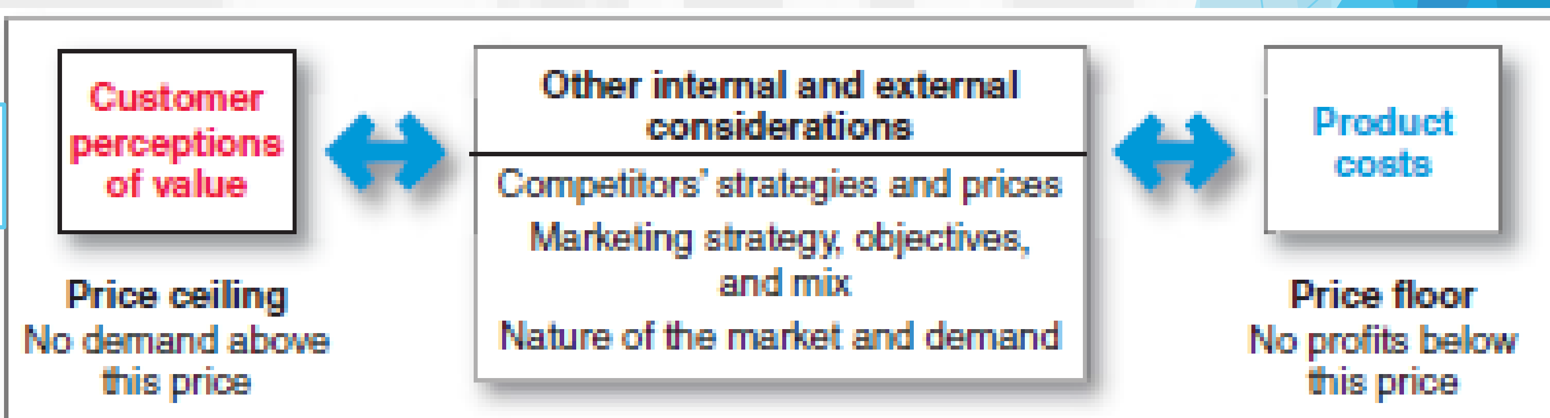
Customer Perceptions of Value

Value -Based Pricing

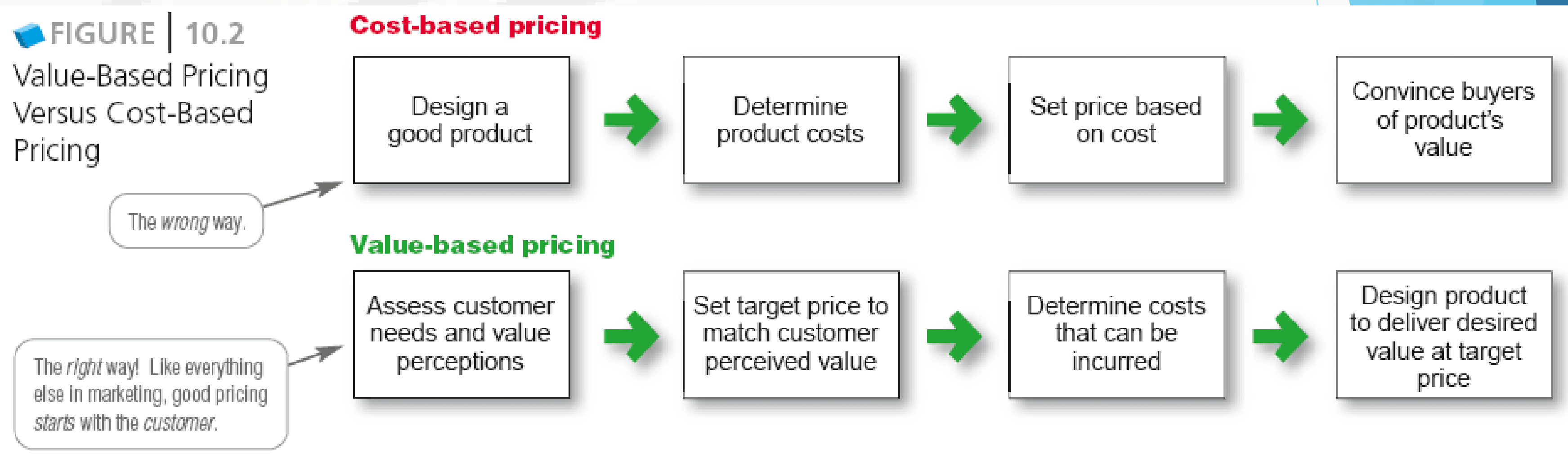
Value-based pricing uses the buyers’ perceptions of value, not the sellers cost, as the key to pricing. Price is considered before the marketing program is set.

- Value-based pricing is customer driven
  - Good-Value Pricing
  - Value-Added Pricing
- Cost-based pricing is product driven

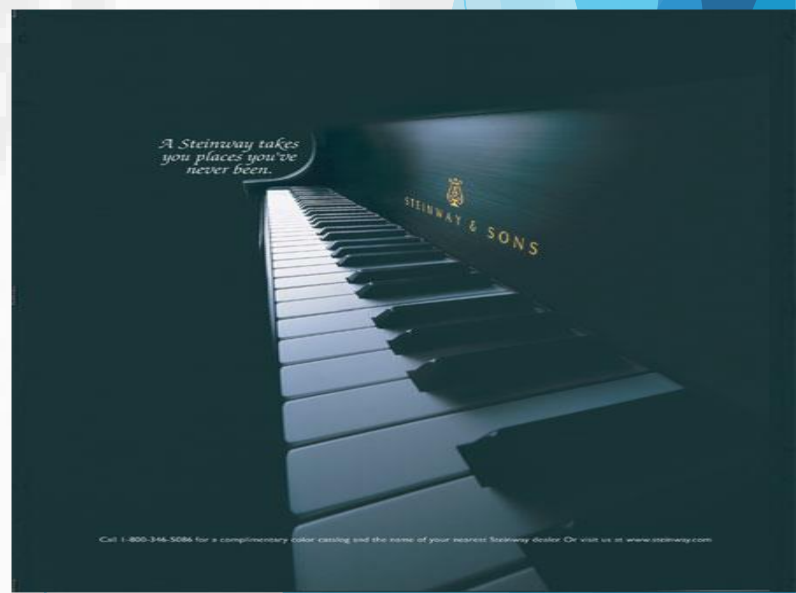
Considerations in setting price



Customer Perceptions of Value



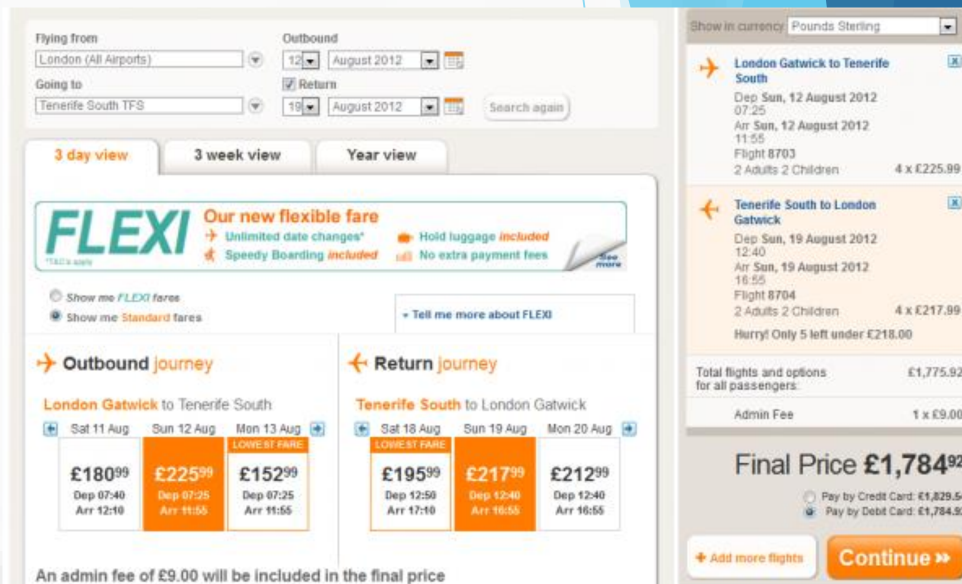
Perceived value example: A Steinway piano—any Steinway piano—costs a lot. But to those who own one, a Steinway is a great value. "A Steinway takes you places you've never been."



Customer Perceptions of Value

Value-Based Pricing

Good-value pricing offers the right combination of quality and good service to fair price.



Existing brands are being redesigned to offer more quality for a given price or the same quality for less price.

Good-value pricing example: Easyjet appears to have found a radical new pricing solution, one that customers are sure to love: Make flying free!

Customer Perceptions of Value

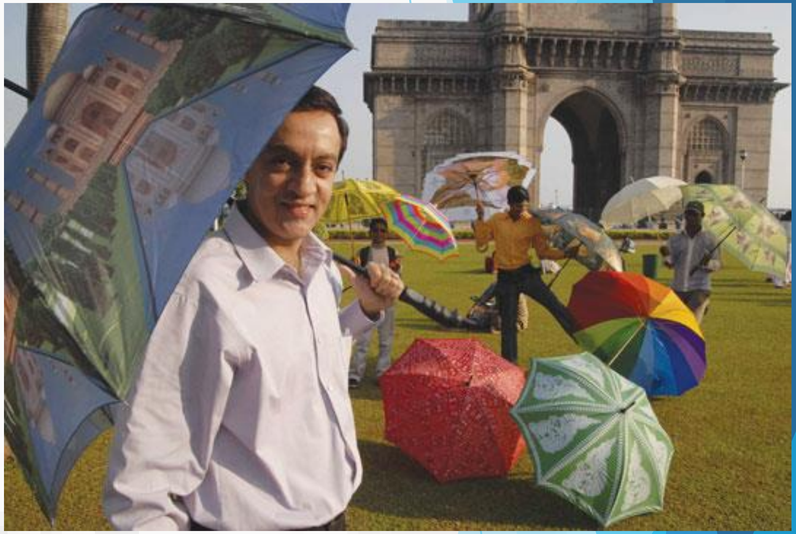
Value-Based Pricing: Good-Value Pricing

- **Everyday low pricing (EDLP)** involves charging a constant everyday low price with few or no temporary price discounts. Example: Walmart promises everyday low prices on everything it sells

- **High-low pricing** involves charging higher prices on an everyday basis but running frequent promotions to lower prices temporarily on selected items. Example: Kohl's and Macy's practice high-low pricing by having frequent sales days, early-bird savings, and bonus earnings for store credit-card holders.

Value-Based Pricing: Value-Added Pricing

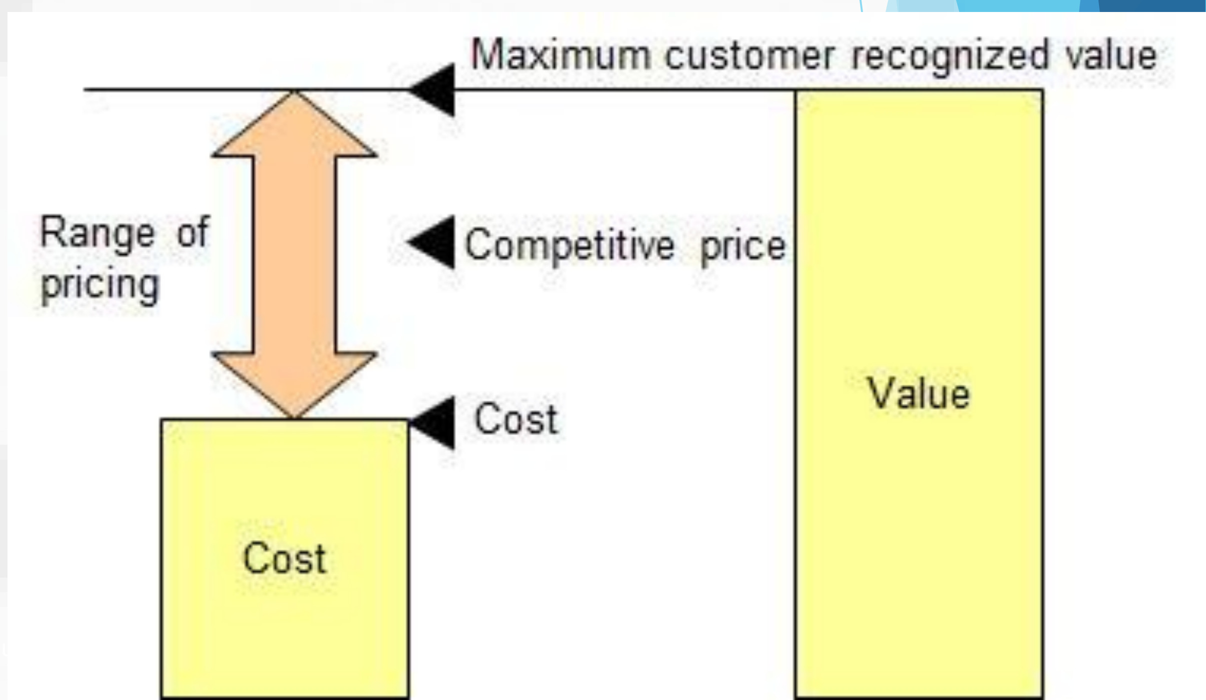
- **Value-added pricing** attaches value-added features and services to differentiate offers, support higher prices, and build pricing power.
- **Pricing power** is the ability to escape price competition and to justify higher prices and margins without losing market share.



Value-added pricing example:
Rather than dropping prices for its venerable Stag umbrella brand to match cheaper imports, Currims successfully launched umbrellas with funky designs, cool colors, and value-added features and sold them at even higher prices.

Cost-Based Pricing

- **Cost-based pricing** involves setting prices based on the costs for producing, distributing, and selling the product plus a fair rate of return for its effort and risk.



Company and Product Costs

Types of costs

- Fixed costs
- Variable costs
- Total costs

Types of costs

Fixed costs are the costs that do not vary with production or sales level.

- Rent
- Heat
- Interest
- Executive salaries

Types of Costs

Variable costs are the costs that vary with the level of production.

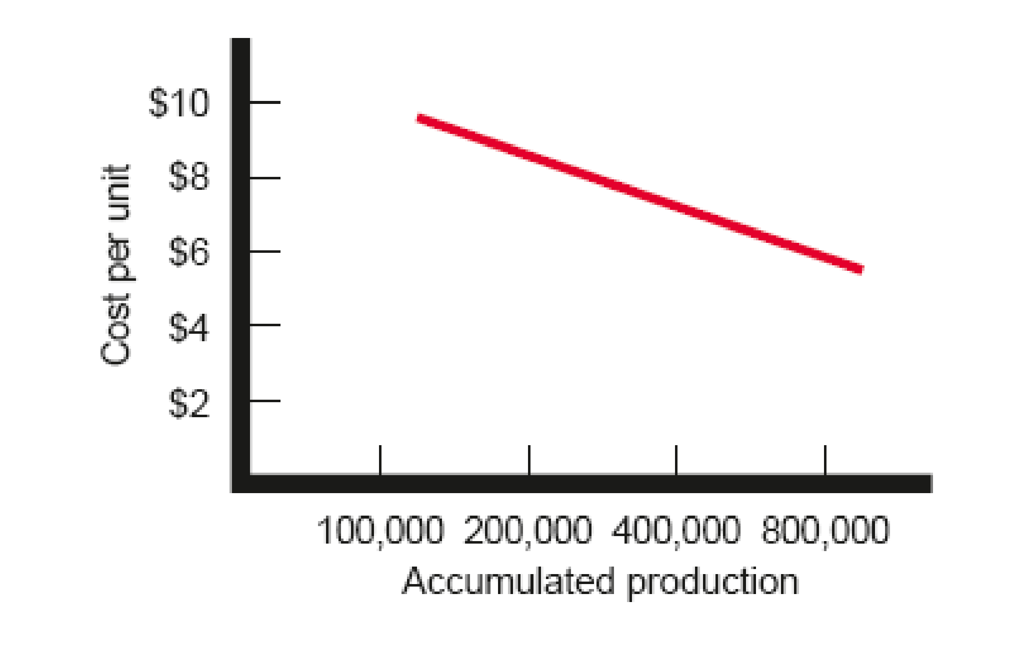
- Packaging
- Raw materials

Total costs are the sum of the fixed and variable costs for any given level of production.

Average cost is the cost associated with a given level of output.

Costs as a Function of Production Experience

Experience or learning curve is when average cost falls as production increases because fixed costs are spread over more units.



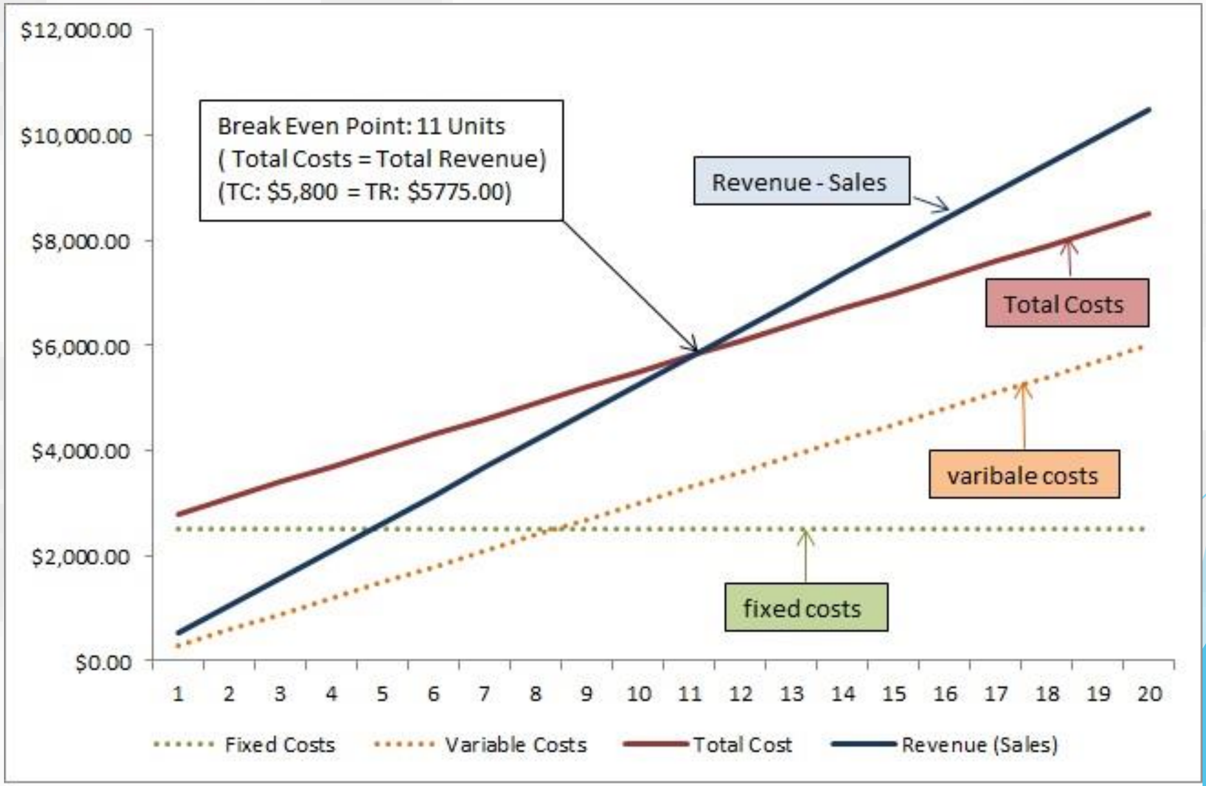
Cost-Plus Pricing

- Cost-plus pricing adds a standard markup to the cost of the product Benefits.
  - Sellers are certain about costs
  - Prices are similar in industry and price competition is minimized
  - Consumers feel it is fair
- **Disadvantages**
  - Ignores demand and competitor prices

Break-Even Analysis and Target Profit Pricing

Break-even pricing is the price at which total costs are equal to total revenue and there is no profit.

Target profit pricing is the price at which the firm will break even or make the profit it's seeking.

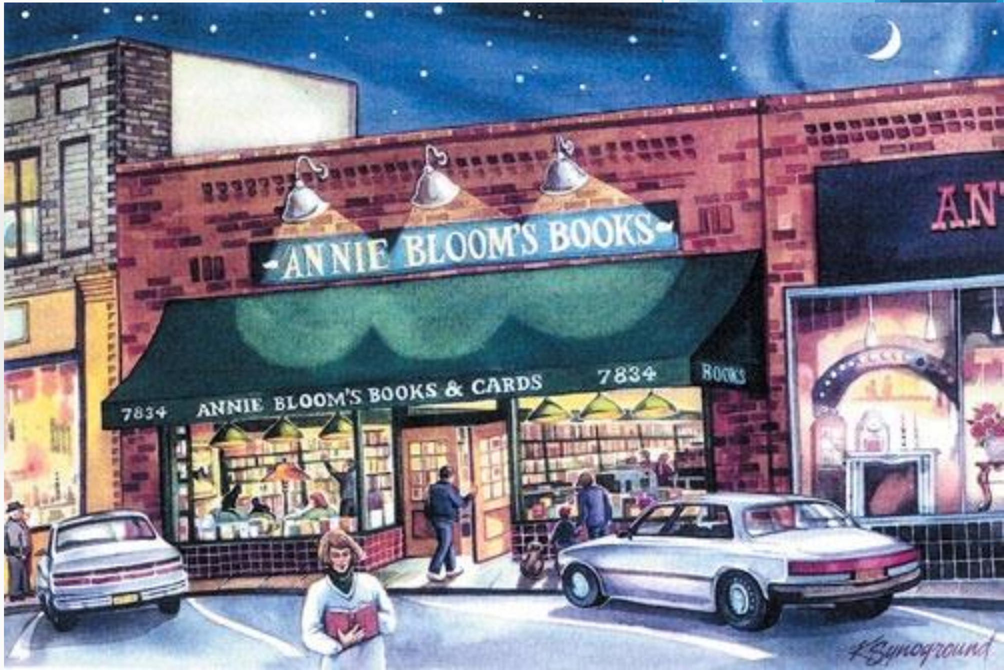


Company and Product Costs

Competition-Based Pricing

- Setting prices based on competitors' strategies, prices, costs, and market offerings.

Pricing against larger, low-price competitors: Independent bookstore Annie Bloom's Books isn't likely to win a price war against Amazon.com or Barnes & Noble. Instead, it relies on outstanding customer service and a cozy atmosphere to turn booklovers into loyal customers.

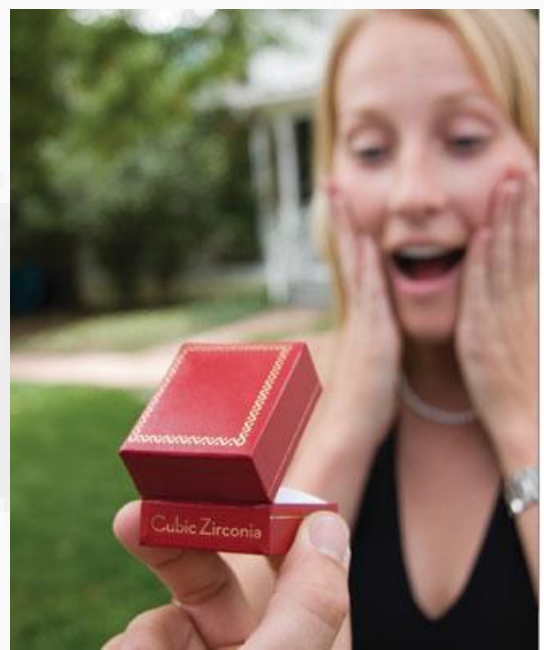


Other Internal and External Considerations Affecting Price Decisions

Overall Marketing Strategy, Objectives, and Mix

Target costing starts with an ideal selling price based on consumer value considerations and then targets costs that will ensure that the price is met.

Positioning on high price: Titus features its lofty prices in its advertising—"suggested retail price: $7,750.00."



New-Product Pricing Strategies

1. Market Skimming Pricing
2. Market Penetration Pricing

New-Product Pricing Strategies

Market-skimming pricing is a strategy with high initial prices to "skim" revenue layers from the market.

- Product quality and image must support the price
- Buyers must want the product at the price
- Costs of producing the product in small volume should not cancel the advantage of higher prices
- Competitors should not be able to enter the market easily

New-Product Pricing Strategies

Market-penetration pricing sets a low initial price in order to penetrate the market quickly and deeply to attract a large number of buyers quickly to gain market share.

- Price sensitive market
- Inverse relationship of production and distribution cost to sales growth
- Low prices must keep competition out of the market

মূল্য (টাকা)	ভলিউম	মেয়াদ (অ্যাক্টিভেশনের দিনসহ)	অ্যাক্টিভেট করতে ডায়াল
১০	৩০ MB	২ দিন	*121*781#
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Product Mix Pricing Strategies

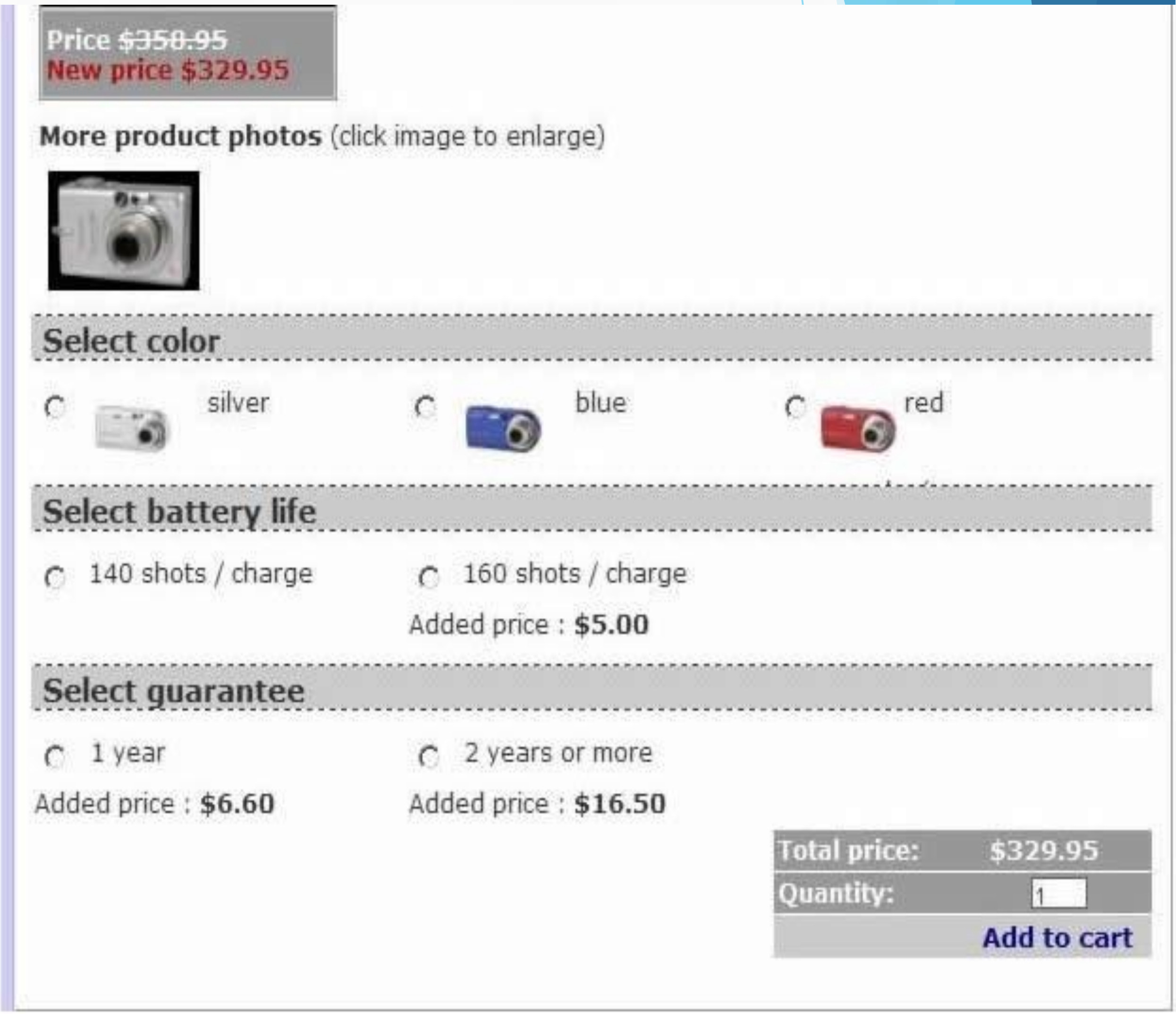
- Product line pricing
- Optional-product pricing
- Captive- product pricing
- By-product pricing
- Product bundle pricing

Product Mix Pricing Strategies

Product line pricing takes into account the cost differences between products in the line, customer evaluation of their features, and competitors' prices.

Product Mix Pricing Strategies

Optional-product pricing takes into account optional or accessory products along with the main product.



Product Mix Pricing Strategies

Captive-product pricing involves products that must be used along with the main product.

For Services, it is called **Two-part pricing.**

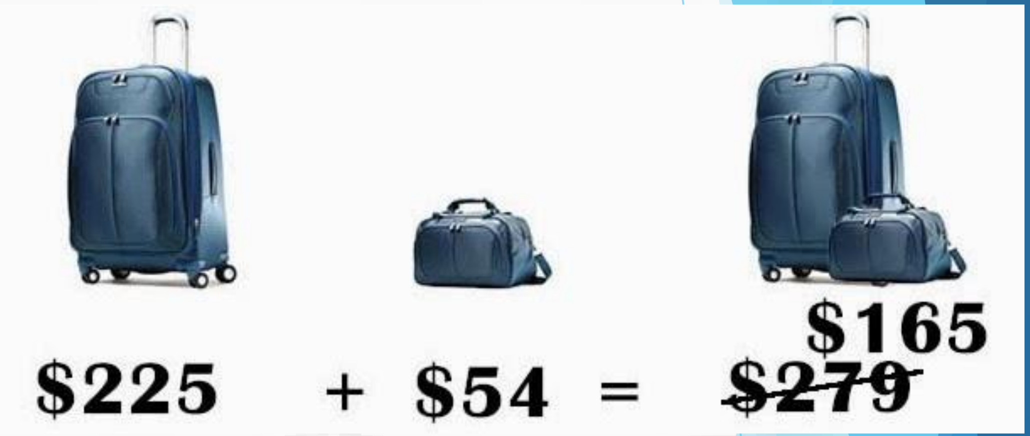
- Fixed fee
- Variable usage fee

Price Mix Pricing Strategies

By-product pricing refers to products with little or no value produced as a result of the main product. Producers will seek little or no profit other than the cost to cover storage and delivery.

Price Mix Pricing Strategies

- **Product bundle pricing** combines several products at a reduced price.



Price-Adjustment Strategies

- Discount and allowance pricing
- Segmented pricing
- Psychological pricing
- Promotional pricing
- Geographic pricing
- Dynamic pricing
- International pricing

TABLE | 11.2 Price Adjustments

Strategy	Description
Discount and allowance pricing	Reducing prices to reward customer responses such as paying early or promoting the product
Segmented pricing	Adjusting prices to allow for differences in customers, products, or locations
Psychological pricing	Adjusting prices for psychological effect
Promotional pricing	Temporarily reducing prices to increase short-run sales
Geographical pricing	Adjusting prices to account for the geographic location of customers
Dynamic pricing	Adjusting prices continually to meet the characteristics and needs of individual customers and situations
International pricing	Adjusting prices for international markets

Price-Adjustment Strategies

Discount and allowance pricing reduces prices to reward customer responses such as paying early or promoting the product.

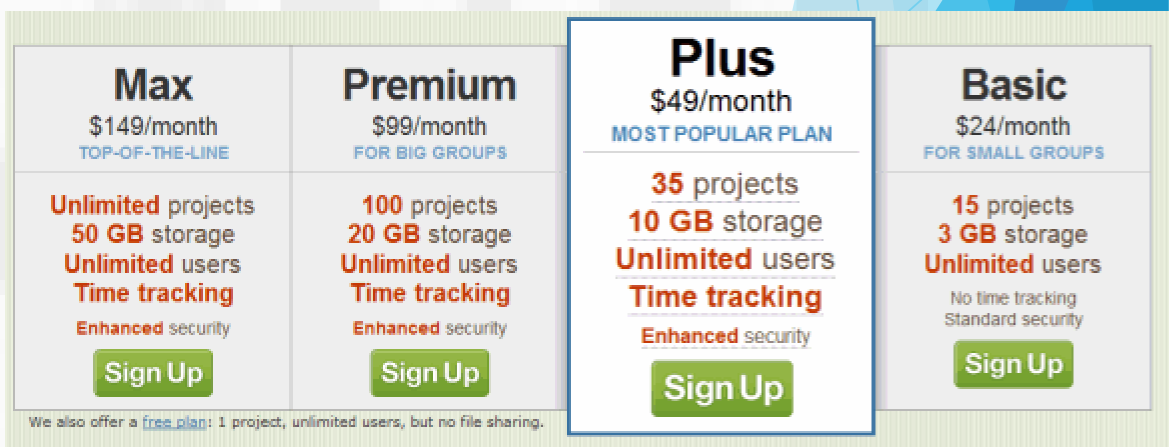
- Discounts: cash, quantity, functional, seasonal

Price-Adjustment Strategies

Segmented pricing is used when a company sells a product at two or more prices even though the difference is not based on cost.

- **Customer:** different customers pay different prices for the same product or service. Museums and movie theaters may charge a lower admission for students and senior citizens
- **Product form:** different versions of the product are priced differently but not according to differences in their costs
- **Location:** a company charges different prices for different locations, even though the cost of offering each location is the same.

Example: Product form segmented pricing



Max	Premium	Plus	Basic
$149/month	$99/month	$49/month	$24/month
TOP-OF-THE-LINE	FOR BIG GROUPS	MOST POPULAR PLAN	FOR SMALL GROUPS
Unlimited projects	100 projects	35 projects	15 projects
50 GB storage	20 GB storage	10 GB storage	3 GB storage
Unlimited users	Unlimited users	Unlimited users	Unlimited users
Time tracking	Time tracking	Time tracking	No time tracking
Enhanced security	Enhanced security	Enhanced security	Standard security
Sign Up	Sign Up	Sign Up	Sign Up

We also offer a free plan: 1 project, unlimited users, but no file sharing.

Price-Adjustment Strategies

Psychological pricing occurs when sellers consider the psychology of prices and not simply the economics. Another concept is based on the theory that certain prices have a psychological impact.

Reference prices are prices that buyers carry in their minds and refer to when looking at a given product.

- Noting current prices
- Remembering past prices
- Assessing the buying situations

Price-Adjustment Strategies

Promotional pricing is when prices are temporarily priced below list price or cost to increase demand.

- Loss leaders
- Special event pricing
- Cash rebates
- Low-interest financing
- Longer warrantees
- Free maintenance

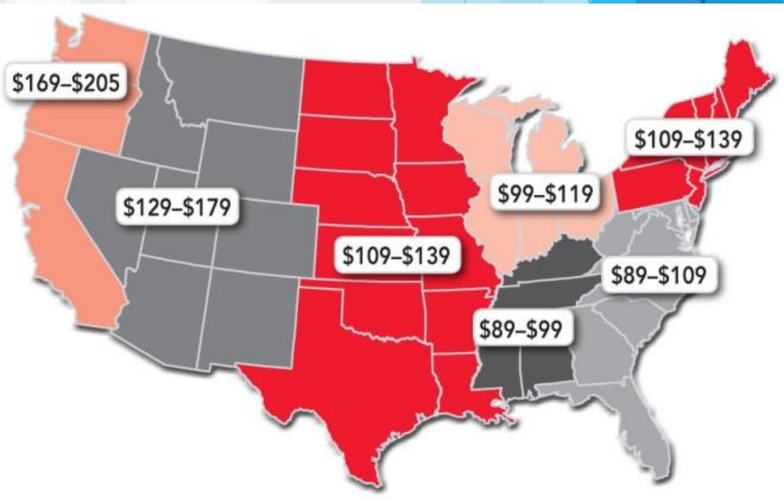
Promotional pricing: Companies offer promotional prices to create buying excitement and urgency.

Price-Adjustment Strategies

Geographic Pricing

Geographical pricing is used for customers in different parts of the country or the world.

- FOB-origin pricing
- Uniformed-delivered pricing
- Zone pricing
- Freight-absorption pricing



Price-Adjustment Strategies

Geographic Pricing

- **FOB-origin (free on board) pricing** means that the goods are delivered to the carrier and the title and responsibility passes to the customer.

- **Uniform-delivered pricing** means the company charges the same price plus freight to all customers, regardless of location.

Price-Adjustment Strategies

Geographic Pricing

▶**Zone pricing** means that the company sets up two or more zones where customers within a given zone pay a single total price.

▶**Basing-point pricing** means the seller designates some city as a basing point and charges all customers the freight cost from that city to the customer.

▶**Freight-absorption pricing** means the seller absorbs all or part of the actual freight charge as an incentive to attract business in competitive markets.

Price-Adjustment Strategies

Dynamic pricing is when prices are adjusted continually to meet the characteristics and needs of the individual customer and situations.

Dynamic pricing: The Internet seems to be taking us back into a new age of fluid pricing. At Priceline.com, you can "name your own price."

Price-Adjustment Strategies

Pricing Strategies

International pricing is when prices are set in a specific country based on country-specific factors.

- Economic conditions
- Competitive conditions
- Laws and regulations
- Infrastructure
- Company marketing objective

International pricing: To lower prices in developing countries, Unilever developed smaller, more affordable packages that put the company's premier brands within the reach of the cash-strapped customers.

Price Changes

Initiating Pricing Changes

Price cuts occur due to:

- Excess capacity
- Increased market share

Price increase from:

- Cost inflation
- Increased demand
- Lack of supply

Price Changes

Buyer Reactions to Pricing Changes

Price increases
- Product is “hot”
- Company greed

Price cuts
- New models will be available
- Models are not selling well
- Quality issues

Price Changes

Competitor Reactions to Pricing Changes

- Competitors usually react when:
  - The number of firms involved is small
  - The product is uniform
  - The buyers are well informed about products and prices