

Pricing Strategies

Prepared by Dr. Magdy Alhaj

MGM612
Marketing Management

Lecture 9





مجموعة جامعة
الجميع الذكية
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Chapter
9

Learn outcomes

- 1. Major Pricing Strategies**
- 2. New-Product Pricing Strategies**
- 3. Product Mix Pricing Strategies**
- 4. Price Adjustment Strategies**
- 5. Price Changes**

What Is a Price?

- ☐ **Narrowly defined, price is the amount of money charged for a product or service.**
- ☐ **Broadly defined, price is the sum of all of the values that consumers give up in order to gain the benefits of having or using the product or service.**

Factors to Consider When Setting Price

- **Customer perceptions of value:**
 - No demand exists above price ceiling.
- **Other internal and external considerations:**
 - Marketing strategy, objectives, mix.
 - Nature of the market and demand.
 - Competitors' strategies and prices.
- **Product costs:**
 - No profits are available below the price floor.

Major Pricing Strategies

- **Customer value-based pricing:**
 - Setting prices based on buyers' perceptions of value rather than the seller's cost.
- **Cost-based pricing:**
 - Setting prices based on the cost of producing, distributing, and selling product at a fair rate of return.
- **Competition-based pricing:**
 - Setting prices based on competitors' strategies, costs, prices, and market offerings.

Customer Value-Based Pricing

- **Customer value-based pricing:**
 - Price is considered along with the other marketing mix variables before the marketing program is set.
 - Customer needs and value perceptions are assessed.
 - Target price is based on value perception.
- **Types of value-based pricing:**
 - Good value pricing.
 - Value-added pricing.

Cost-Based Pricing

- **Cost-based pricing:**
 - Costs set the floor for the price that the company can charge.
 - Product-driven, rather than value-driven.
- **Types of costs:**
 - **Fixed costs:**
 - Do not vary with production or sales level.
 - **Variable costs:**
 - Vary directly with the level of production.

Competition-Based Pricing

Competition-based pricing:

- Assumes consumers base their judgments of a product's value on the prices charged by competitors for similar products.
- Assessing competitors' pricing strategies:
 - How does the firm's offering compare in terms of customer value?
 - How strong are competitors; what are their pricing strategies?
 - What principle should guide pricing decisions relative to those of the competition?

Other Factors Affecting Pricing Decisions

- **Internal factors:**

- Overall marketing strategy, objectives, and the marketing mix.
- Organizational considerations.

- **External factors:**

- The market and demand.
- The economy.
- Other external factors.

New-Product Pricing Strategies

Two Broad Strategies

- **Market skimming pricing – set a high initial price**
- **Market penetration pricing – set a low initial price**

New-Product Pricing Strategies

Market skimming pricing is a strategy with high initial prices to “skim” revenues layer-by-layer from the market.

- Product quality and image must support the price.
- Buyers must want the product at the price.
- The costs of producing a smaller volume cannot be so high that they cancel the advantage of higher prices.
- Competitors should not be able to enter the market easily and undercut the high price.

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
- Production and distribution costs must fall as sales volume increases
- Low prices must keep competition out of the market.

New Product Pricing Strategies

Market Skimming

- > Setting a High Price for a New Product to Maximize Revenues from the Target Market.**
- > Results in Fewer, More Profitable Sales.**

Market Penetration

- > Setting a Low Price for a New Product in Order to Attract a Large Number of Buyers.**
- > Results in a Larger Market Share.**

Product-Mix Pricing Strategies

The firm looks for a set of prices that maximizes the profits on the total product mix.

Five product mix pricing situations

- **Product line pricing – the products in the product line**
- **Optional product pricing – optional or accessory products**
- **Captive product pricing - complementary products**
- **By-product pricing – by-products**
- **Product bundle pricing – several products**

Product-Mix Pricing Strategies

Product line pricing takes into account the cost difference between products in the line, customer evaluation of their features, and competitors' prices. – the price differences represent the perceived quality differences



Normal Hair
\$3.90



Anti-dandruff
\$4.90



Hair Fall Defense
\$4.90



Oily Hair
\$3.90

Product-Mix Pricing Strategies

Optional product pricing takes into account optional or accessory products along with the main product. – Decide which items to include in the base price and which to offer as options



New car with ordinary rims
\$59,000



New car with sports rims
\$60,000

Product-Mix Pricing Strategies

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

- Price the main, or driver product low and seek high margins on the supplies
- **For services: two-part pricing** is where the price is broken into fixed fee and variable usage fee.
 - Decide how much to charge for the basic service and how much for the variable usage
 - The fixed amount should be low enough to induce usage of the service; profit can be made on the variable fees

Product-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
- Producers should accept any price that covers more than the cost to cover storage and delivery.

Product-Mix Pricing Strategies

Product bundle pricing combines several products and offer the bundle at a reduced price.

- Price bundling can promote the sales of products

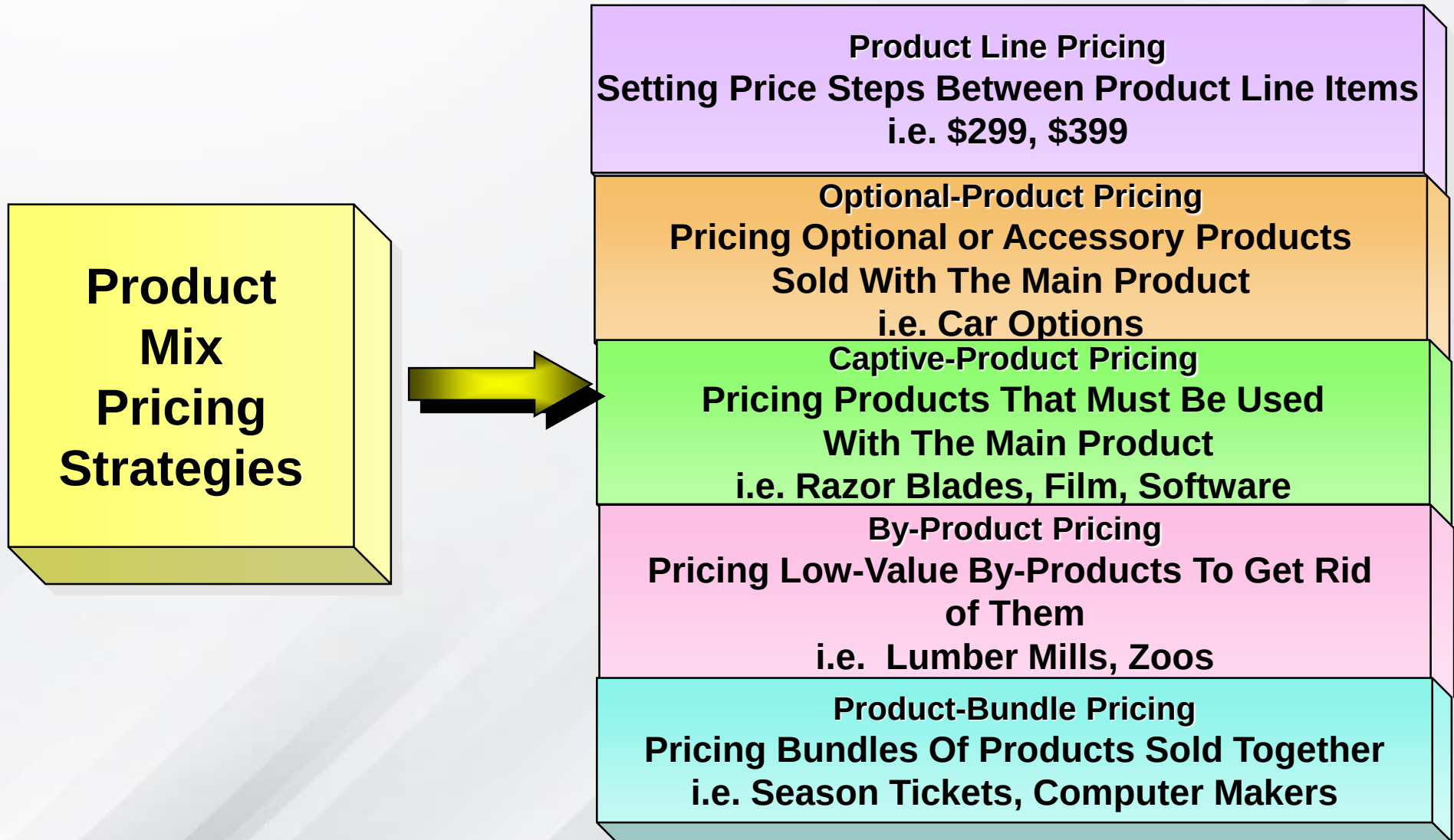


1 bottle: \$2.70



Bundled 2 bottles: \$4.90

Product Mix Pricing Strategies



Price Adjustment Strategies

Companies adjust basic prices to account for various customer differences and changing situations.

- **Discount and allowance pricing**
- **Segmented pricing**
- **Psychological pricing**
- **Promotional pricing**
- **Geographical pricing**
- **Dynamic pricing**
- **International pricing**

Price Adjustment Strategies

Discount and allowance pricing reduces prices to reward customer for certain responses such as paying early, volume purchases, and off-season buying.

- **Discounts**

- Cash discount for paying promptly
- Quantity discount for buying in large volume
- Functional (trade) discount for selling, storing, distribution, and record keeping

- **Allowances**

- Trade-in allowance for turning in an old item when buying a new one
- Promotional allowance to reward dealers for participating in advertising or sales support programs

Price Adjustment Strategies

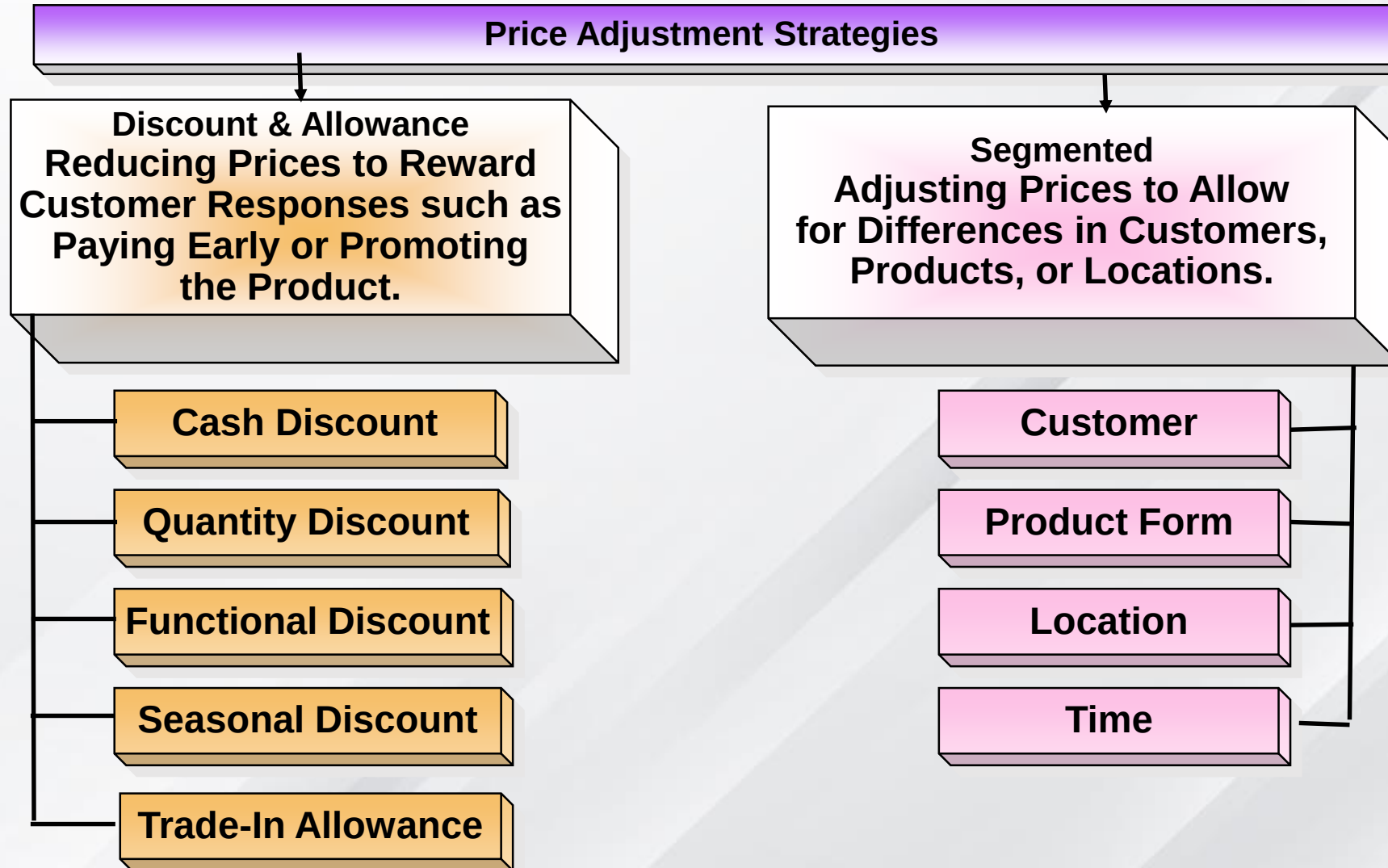
Segmented pricing is used when a company sells a product at two or more prices even though the difference is not based on cost.

- Adjust basic prices to allow for differences in **customers, products, and locations**
- Airlines, hotels and restaurants – revenue management or yield management
- To be effective:
 - Market must be segmentable
 - Segments must show different degrees of demand
 - Watching the market cannot exceed the extra revenue obtained from the price difference
 - Must be legal

Price Adjustment Strategies

- **Customer segment pricing** is when different customer pay for different prices for the same product or service.
- **Product form segment pricing** is when different versions of the product are priced differently but not according to differences in cost.
- **Location pricing** is when the product is sold in different geographic areas and priced differently in those areas even though the cost is the same.
- **Time pricing** is when a firm varies its prices by the season, the month, the day, and even the hour.

Price-Adjustment Strategies



Price Adjustment Strategies

Psychological pricing occurs when sellers consider the psychology of prices and not simply the economics.

- **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 warranties
- Free maintenance
- Risks of promotional pricing
 - Used too frequently
 - Copies by competitors can create “deal-prone” customers who will wait for promotions and avoid buying at regular price.
 - Creates price wars.

Price Adjustment Strategies

Promotional Pricing

- **Loss leaders** are products sold below cost to attract customers in the hope they will buy other items at normal markups.
- **Special event pricing** is used to attract customers during certain seasons or periods.
- **Cash rebates** are given to consumers who buy products within a specified time.
- **Low interest financing, longer warranties, and free maintenance** lower the consumer's "total price."

Price Adjustment Strategies

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

- FOB pricing
- Uniformed delivery pricing
- Zone pricing
- Basing point pricing
- Freight absorption pricing

Price Adjustment Strategies

- **FOB (free on board) pricing** means that the goods are placed free on board a carrier. At that point the title and responsibility passes to the customer, who pays the freight from the factory to the destination.
- **Uniformed delivery pricing** means the company charges the same price plus freight to all customers, regardless of location.
- **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 that a seller selects a given city as “basing point” and charges all customers the freight cost associated from that city to the customer location regardless of the city from which the goods are actually shipped.
- **Freight absorption pricing** means that 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.
- **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 objectives

Price-Adjustment Strategies



Price Changes

Initiating Pricing Changes

- **Price cuts** is a reduction in selling price.
 - Excess capacity
 - Increase market share
- **Price increases** is an increase in selling price
 - Cost inflation
 - Increased demand and lack of supply
 - Company greed

Price Changes

Buyers' Interpretation to Price Changes

- **Price cuts**
 - New models will be available
 - Models are not selling well
 - Quality issues
- **Price increases**
 - Product is “hot”
 - Company greed

Responding to Price Changes

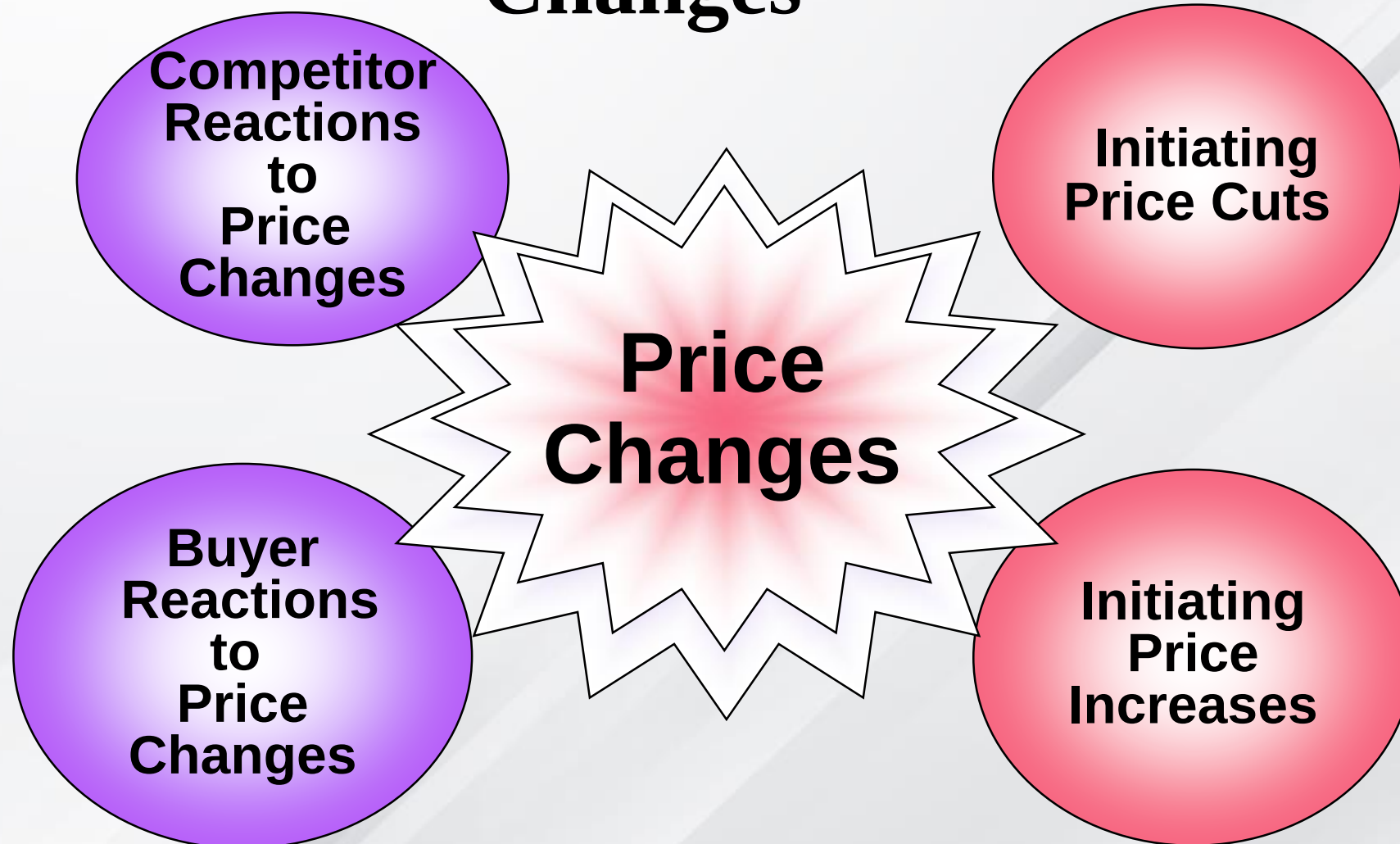
- **Questions**

- Why did the competitor change the price?
- Is the price cut permanent or temporary?
- What is the effect on market share and profits?
- Will competitors respond?

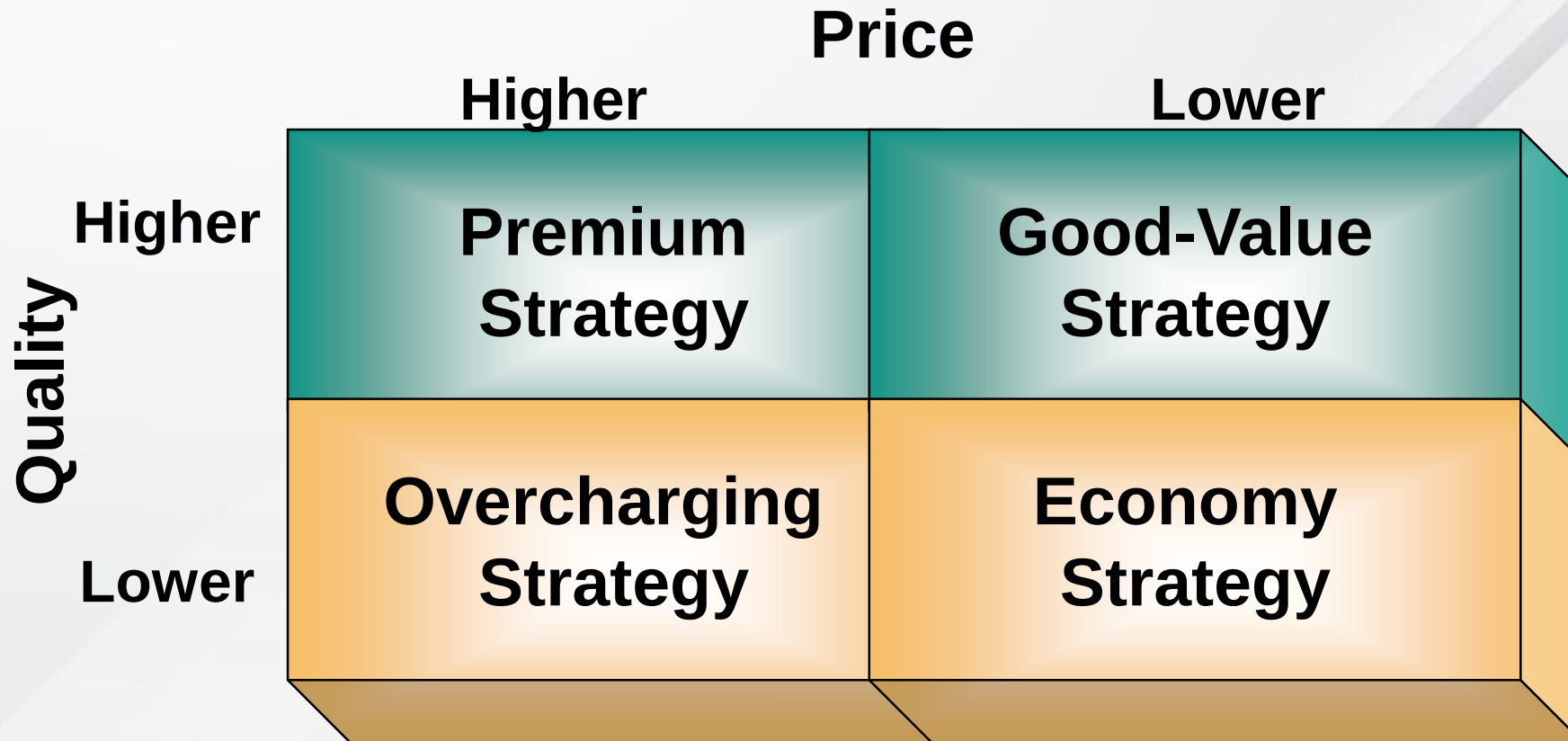
- **Solutions**

- Reduce price to match competition
- Maintain price but raise the perceived value through communications
- Improve quality and increase price
- Launch a lower-price “fighting brand”

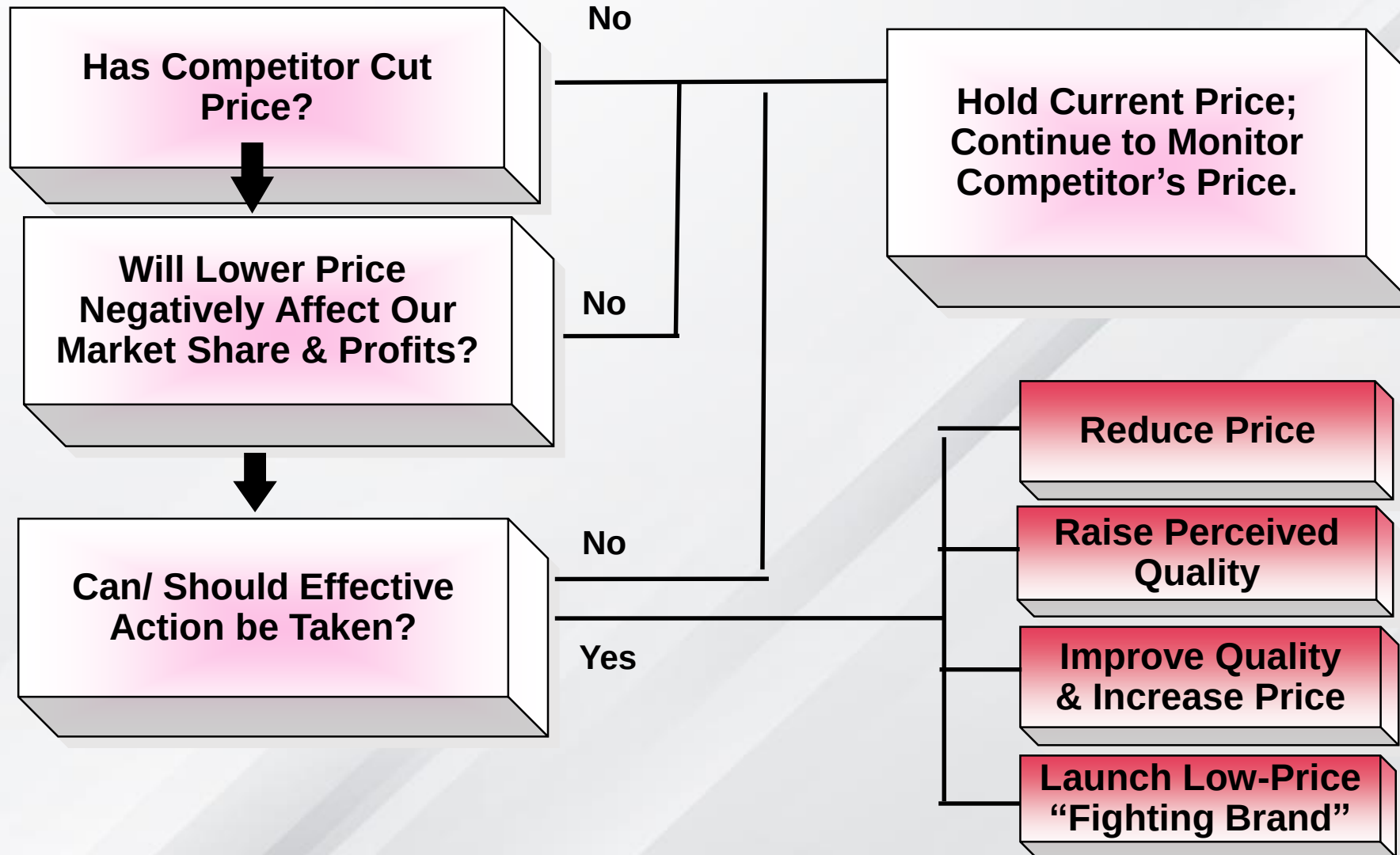
Initiating and Responding to Price Changes



Price - Quality Strategies



Price-Adjustment Strategies





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Thank You

