

Marketing Management

MGM612

Dr. Ayman Hassan

Lecture - **9** - Pricing Strategies



Chapter
9

Pricing Strategies

Lecture : 9

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Pricing Strategy

Definitions, Types Of Strategies, Examples, & Tactics



In the previous lecture,

We have discussed

✓ In the previous lecture, we presented the topic of the Branding, We explained a set of topics, which are as follows:

1. Explain the role of marketing communications
2. Describe How do marketing communications work
3. Discuss the major steps in developing effective communications
4. the communications mix and how should it be set
5. Explain an integrated marketing communications program

After studying this chapter you will be able to know all of the following:

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.
- ❑ A price is the (usually not negative) quantity of payment or compensation expected, required, or given by one party to another in return for goods or services.
- ❑ In some situations, especially when the product is a service rather than a physical good, the price for the service may be called something else such as "rent" or "tuition"
- ❑ Prices are influenced by production costs, supply of the desired product, and demand for the product. A price may be determined by a monopolist or may be imposed on the firm by market conditions.

- **Customer perceptions of value:**

- No demand exists above price ceiling.

- **Other internal and external considerations:**

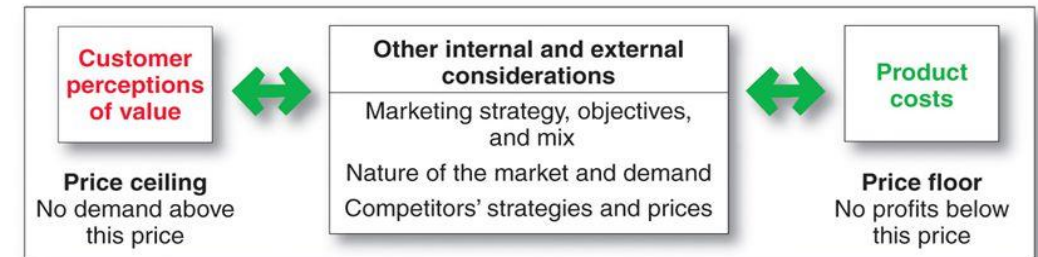
- Marketing strategy, objectives, mix.
- Nature of the market and demand.
- Competitors' strategies and prices.

- **Product costs:**

- No profits are available below the price floor.

Factors to Consider When Setting Prices

Customer Perceptions of Value



- 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:
 - 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:

- Costs set the floor for the price that the company can charge.
- Product-driven, rather than value-driven.

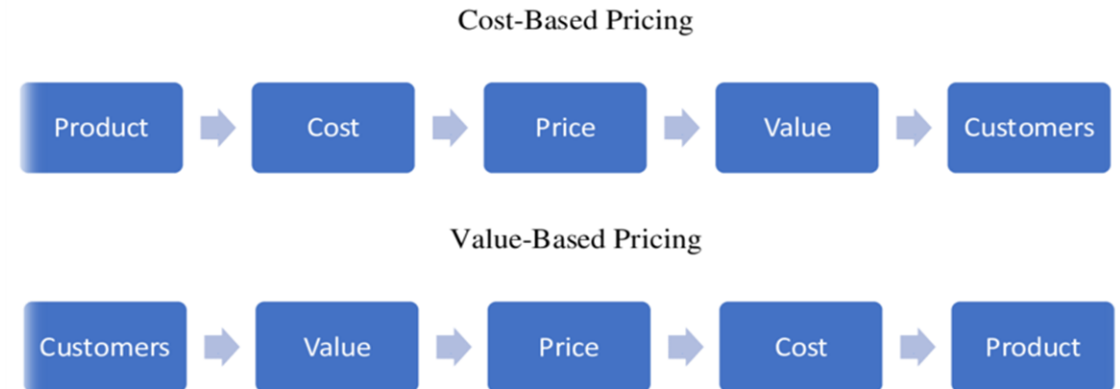
- Types of costs:

- Fixed costs:

- Do not vary with production or sales level.

- Variable costs:

- Vary directly with the level of production.



Competition-based pricing:

- 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?



- **Internal factors:**

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

- **External factors:**

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

Two Broad Strategies

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



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.



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.



Market Skimming

- ✓ Setting a high price for a new product to maximize revenues from the target market.
- ✓ Results in fewer, more profitable sales.

PRICE SKIMMING EXAMPLES



uXprice

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.



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 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

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**

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

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 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

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graph LR; A[Product Mix Pricing Strategies] --> B[Product Line Pricing]; A --> C[Optional-Product Pricing]; A --> D[Captive-Product Pricing]; A --> E[By-Product Pricing]; A --> F[Product-Bundle Pricing];
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Product Line Pricing

Setting Price Steps Between Product Line Items
i.e. \$299, \$399

Optional-Product Pricing

Pricing Optional or Accessory Products Sold With The Main Product “ i.e. Car Options “

Captive-Product Pricing

Pricing Products That Must Be Used With The Main Product
i.e. Razor Blades, Film, Software

By-Product Pricing

Pricing Low-Value By-Products To Get Rid of Them
i.e. Lumber Mills, Zoos

Product-Bundle Pricing

Pricing Bundles Of Products Sold Together
i.e. Season Tickets, Computer Makers

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



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

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

- 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.

Discount & Allowance

Reducing Prices to Reward Customer Responses such as Paying Early or Promoting the Product.

Cash Discount

Quantity Discount

Functional Discount

Seasonal Discount

Trade-In Allowance

Segmented

Adjusting Prices to Allow for Differences in Customers, Products, or Locations.

Customer

Product Form

Location

Time

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

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.

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."

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

- 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.

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

Psychological Pricing

- Adjusting Prices for Psychological effect.
- Price Used as a Quality Indicator.

Promotional Pricing

- Temporarily Reducing Prices to Increase Short-Run Sales.
- i.e. Loss Leaders, Special-Events

Geographical Pricing

- Adjusting Prices to Account for the geographic Location of Customers, i.e. FOB-Origin, Uniform-Delivered, Zone Pricing, Basing-Point, & Freight-Absorption.

International Pricing

- Adjusting Prices for International Markets.
- Price Depends on Costs, Consumers, Economic Conditions & Other Factors.

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



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”





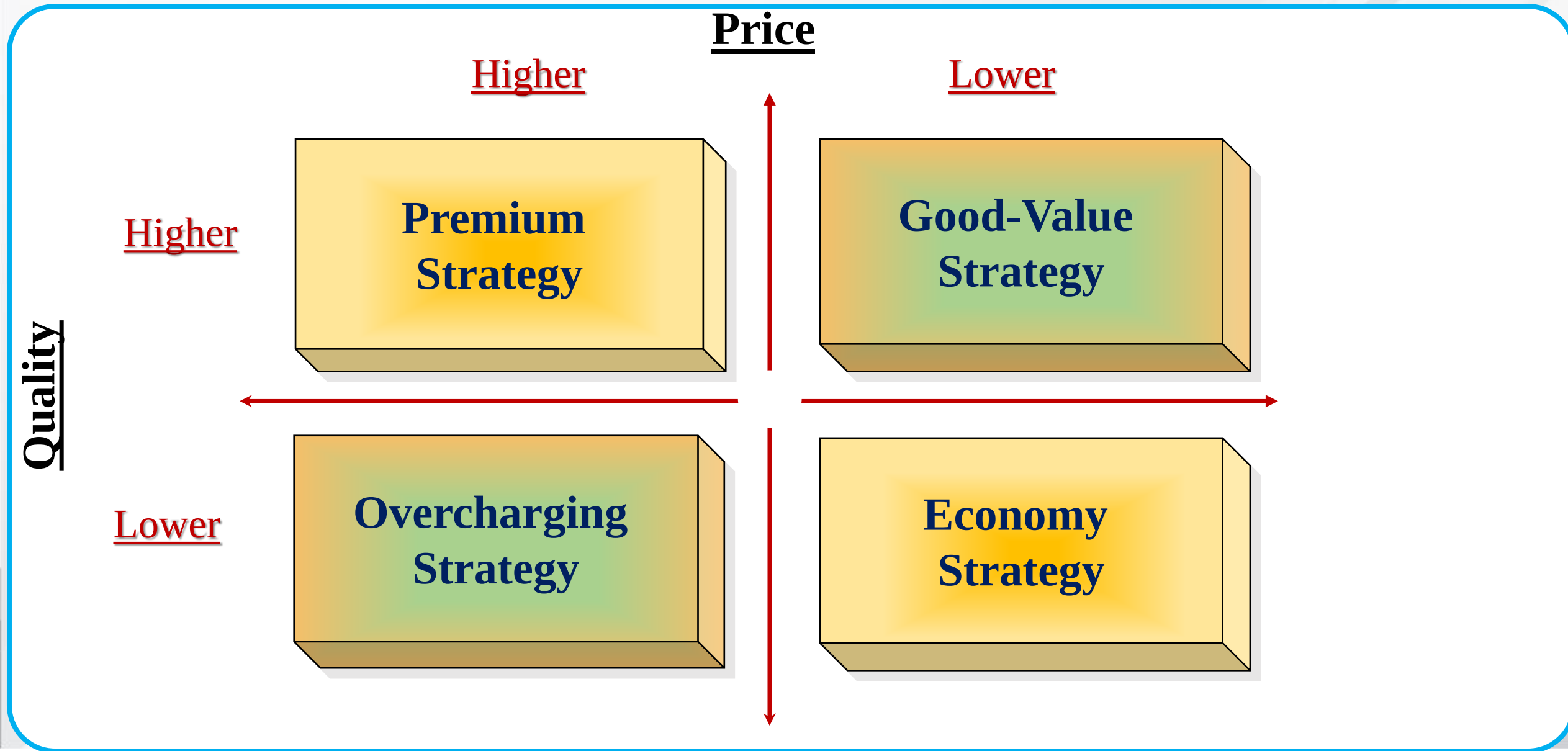
Competitor
reactions to price changes

Initiating
Price Cuts

Price
Changes

Buyer
Reactions to Price Changes

Initiating
Price
Increases



○ Has Competitor Cut Price?

No

Hold Current Price
Continue to Monitor competitor's Price.

○ Will Lower Price negatively affect Our
Market Share & Profits?

No

○ Can/ Should Effective Action be Taken?

No

Yes

Reduce Price

Raise Perceived Quality

Improve Quality & Increase Price

Launch Low-Price "Fighting Brand"

See you in the next lecture

Resources and References

[The Ultimate Guide to Pricing Strategies & Models](#)

[Cost-Based vs. Value-Based Pricing | Download Scientific Diagram](#)

[Penetration Pricing: Easy Market Entrance](#)

[Captive Product Pricing. What it is, How it Works, Examples.](#)



*Thanks for listening.
Best wishes
Dr. Ayman Hassan*

