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Chapter Eleven

Pricing Strategies

Pricing Strategies

Topic Outline

- New-Product Pricing Strategies
- Product Mix Pricing Strategies
- Price Adjustment Strategies
- Price Changes
- Public Policy and Marketing

New-Product Pricing Strategies

Pricing Strategies

- Market-skimming pricing
- Market-penetration pricing

11- 3

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

11- 4

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

11- 5

Product Mix Pricing Strategies

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

11- 6

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

Optional-productpricing 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

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

Price-Adjustment Strategies

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

- Discounts
- Allowances

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

Price-Adjustment Strategies

Segmented Pricing

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

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 warrantees
- Free maintenance

Price-Adjustment Strategies

Risks of promotional pricing

- Used too frequently, and copies by competitors can create “deal-prone” customers who will wait for promotions and avoid buying at regular price
- Creates price wars

11- 17

Price-Adjustment Strategies

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

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

11- 18

Price-Adjustment Strategies

- **FOB-origin (free on board) pricing** means that the goods are delivered to the carrier and the title and responsibility passes to the customer
- **Uniformed-delivered pricing** means the company charges the same price plus freight to all customers, regardless of location

Price-Adjustment Strategies

- **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 a “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

Price-Adjustment Strategies

- **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

Price-Adjustment 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

11- 23

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**

11- 24

Price Changes

Buyer Reactions to Pricing Changes

Price increases	Price cuts
• Product is "hot" • Company greed	• New models will be available • Models are not selling well • Quality issues

Price Changes

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?

Price Changes

Responding to Price Changes

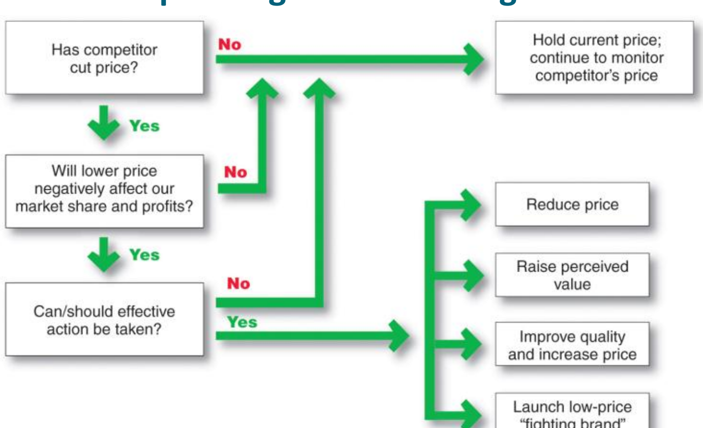
Solutions

- 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

11- 27

Price Changes

Responding to Price Changes



11- 28

Public Policy and Pricing

Pricing Within Channel Levels

Price fixing: Sellers must set prices without talking to competitors

Predatory pricing: Selling below cost with the intention of punishing a competitor or gaining higher long-term profits by putting competitors out of business

Public Policy and Pricing

Pricing Across Channel Levels

Robinson-Patman Act prevents unfair price discrimination by ensuring that the seller offer the same price terms to customers at a given level of trade

Public Policy and Pricing

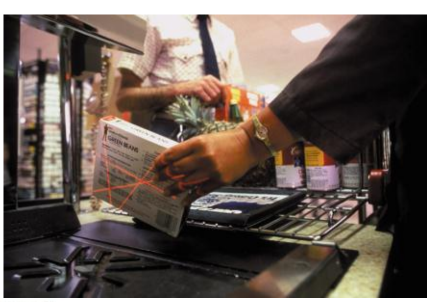
Pricing Across Channel Levels

Robinson-Patman Act

- Price discrimination is allowed:
  - If the seller can prove that costs differ when selling to different retailers
  - If the seller manufactures different qualities of the same product for different retailers

Public Policy and Pricing

Pricing Across Channel Levels



Retail (or resale) price maintenance is when a manufacturer requires a dealer to charge a specific retail price for its products

Public Policy and Pricing

Pricing Across Channel Levels

Deceptive pricing occurs when a seller states prices or price savings that mislead consumers or are not actually available to consumers

- Scanner fraud failure of the seller to enter current or sale prices into the computer system
- Price confusion results when firms employ pricing methods that make it difficult for consumers to understand what price they are really paying

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