

*it's good and  
good for you*

# Chapter Eleven

## Pricing Strategies


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# Pricing Strategies

## Topic Outline

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



**think**

Is it smarter to save money on a printer or save money on ink?  
(Hint: you only buy the printer once)

With most inkjet printers, you'll need to replace ink cartridges often. Our PrintJet 4000 is the only inkjet printer that uses a single ink cartridge. It's the only inkjet printer that prints 200 pages on a single cartridge. It's the only inkjet printer that prints 200 pages on a single cartridge. It's the only inkjet printer that prints 200 pages on a single cartridge.

PrintJet 4000 \$149.99

PrintJet 4000 \$149.99

**Kodak**

**think**

Available exclusively at Best Buy stores and BestBuy.com. Offer is for a limited time.

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# New-Product Pricing Strategies

## Pricing Strategies

- Market-skimming pricing
- Market-penetration pricing



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# 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



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## 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



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## Product Mix Pricing Strategies

**Product line pricing**

**Optional-product pricing**

**Captive-product pricing**

**By-product pricing**

**Product bundle pricing**



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## 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-product pricing** takes into account optional or accessory products along with the main product



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## Product Mix Pricing Strategies

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



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## 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.



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## Price Mix Pricing Strategies

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



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## Price-Adjustment Strategies

Discount and  
allowance  
pricing

Segmented  
pricing

Psychological  
pricing

Promotional  
pricing

Geographic  
pricing

Dynamic  
pricing

International  
pricing



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## Price-Adjustment Strategies

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

- Discounts
- Allowances



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## 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



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## 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



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## 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



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## 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



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## 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



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## 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



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## 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



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## 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



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## 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



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## Price-Adjustment Strategies

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



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## 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



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## 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



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# 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



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# 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?



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# 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

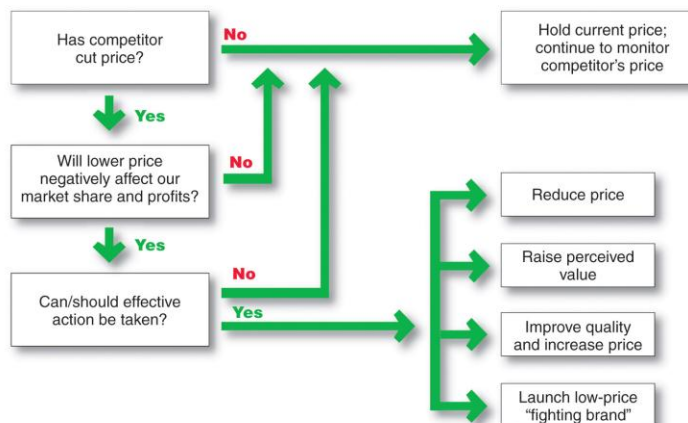


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# Price Changes

## Responding to Price Changes



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## 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



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## 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



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## 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



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## 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



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## 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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