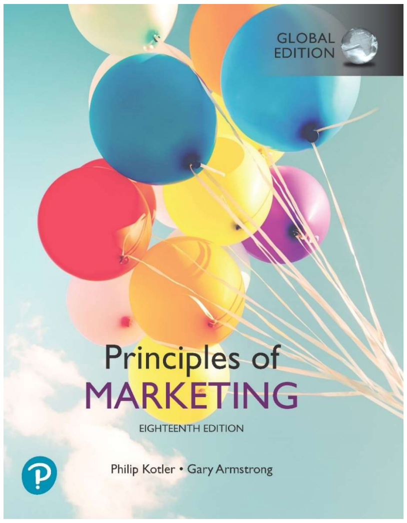
Principles of Marketing

Eighteenth Edition, Global Edition



Chapter 11

Pricing Strategies: Additional Considerations

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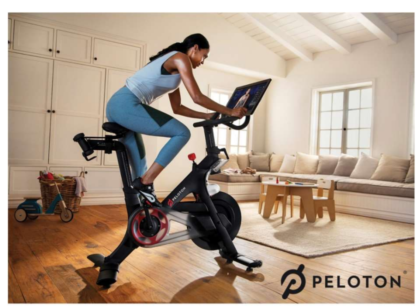
PELOTON: Premium Priced. But It's Not about the Price

For the Peloton faithful, it isn't just about the price of a Peloton bike. It's about the values received from membership in the dynamic, closely connected Peloton community.



Peloton Interactive

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Learning Objectives

11.1 Describe the major strategies for pricing new products.

11.2 Explain how companies find a set of prices that maximizes the profits from the total product mix.

11.3 Discuss how companies adjust their prices to take into account different types of customers and situations.

11.4 Discuss the key issues related to initiating and responding to price changes.

11.5 Discuss the major public policy concerns and key pieces of legislation that affect pricing decisions.

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Learning Objective 1

Describe the major strategies for pricing new products.

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New Pricing Strategies (1 of 2)

Market-skimming pricing strategy sets 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.

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New Pricing Strategies (2 of 2)

Market-penetration pricing involves setting a low price for a new product in order to attract a large number of buyers and a large market share.

Penetration pricing: Amazon used penetration pricing for Amazon Prime Video in more than 240 international markets to build a customer base and make headway against higher priced Netflix.

BigTunaOnline/Shutterstock

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Learning Objective 2

Explain how companies find a set of prices that maximizes the profits from the total product mix.

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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 (1 of 3)

Product Line and Optional Product Pricing

Product line pricing takes into account the cost differences between products in the line, customer evaluations 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 (2 of 3)

Captive product pricing sets prices of products that must be used along with the main product.

Captive-product pricing: Nintendo makes little or no profit on its Switch video game console but makes up for it through sales of higher-margin video games.

Wachirawit Iemlerkchai/Alamy Stock Photo

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Product Mix Pricing Strategies (3 of 3)

Product Line and Optional Product Pricing

By-product pricing sets a price for by-products in order to make the main product's price more competitive.

Product bundle pricing combines several products at a reduced price.

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Learning Objective 3

Discuss how companies adjust their prices to take into account different types of customers and situations.

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Price Adjustment Strategies

Table 11.2 Price Adjustments

Strategy	Description
Discount and allowance pricing	Reducing prices to reward customer responses such as volume purchases, 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 spur short-run sales
Geographical pricing	Adjusting prices to account for the geographic location of customers
Dynamic and personalized pricing	Adjusting prices continually to meet the characteristics and needs of individual customers and situations
International pricing	Adjusting prices for international markets

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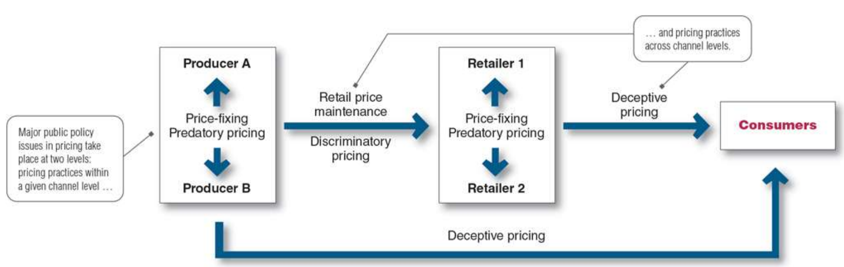
Figure 11.2 Public Policy Issues in Pricing



Source: Adapted from Dhruv Grewal and Larry D. Compeau, "Pricing and Public Policy: A Research Agenda and Overview of the Special Issue," *Journal of Public Policy and Marketing*, Spring 1999, pp. 3–10.

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Price Adjustment Strategies (1 of 12)

Discount pricing reduces prices on purchases during a stated period of time or of larger quantities.
Allowances discount list prices by providing promotional money in return for an agreement to feature the manufacturer’s products in some way. Allowances include *trade-in allowances* and *promotional allowances*.

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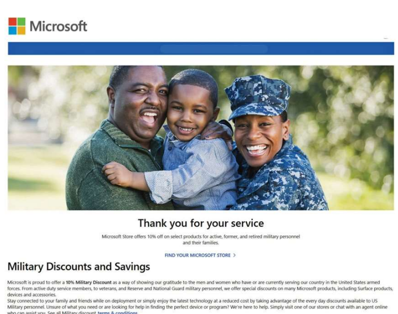
Price Adjustment Strategies (2 of 12)

Segmented pricing involves selling a product or service at two or more prices, where the difference in prices is not based on differences in costs.

- Customer-segment pricing: Microsoft and other electronics brands have launched dedicated online stores for military members, veterans, and their families, with discounts of 10 percent or more on the wide range of products offered there.



Microsoft Corporation

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Price Adjustment Strategies (3 of 12)

Segmented Pricing

- Customer-segment pricing
- Product form pricing
- Location-based pricing
- Time-based pricing

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Price Adjustment Strategies (4 of 12)

Segmented Pricing

For segmented pricing to be effective:

- Market must be segmentable
- Segments must show different degrees of demand
- Costs of segmenting cannot exceed the extra revenue
- Must be legal

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Price Adjustment Strategies (5 of 12)

Psychological Pricing

Psychological pricing considers the psychology of prices and not simply the economics; the price is used to say something about the product.

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

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Price Adjustment Strategies (6 of 12)

Promotional Pricing

Promotional pricing is characterized by temporarily pricing products below the list price, and sometimes even below cost, to increase short-run sales. Examples include:

- special-event pricing
- limited-time offers
- cash rebates
- low-interest financing, extended warranties, or free maintenance

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Price Adjustment Strategies (7 of 12)

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

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

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Price Adjustment Strategies (8 of 12)

Geographical Pricing

FOB-origin (free on board) pricing is a geographical pricing strategy in which goods are placed free on board a carrier; the customer pays the freight from the factory to the destination.

Uniform-delivered pricing is a geographical pricing strategy in which the company charges the same price plus freight to all customers, regardless of their location.

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Price Adjustment Strategies (9 of 12)

Geographical Pricing

Zone pricing is a strategy in which the company sets up two or more zones where customers within a given zone pay the same price.

Basing-point pricing means that a seller selects a given city as a “basing point” and charges all customers the freight cost from that city to the customer.

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Price Adjustment Strategies (10 of 12)

Geographical Pricing

Freight-absorption pricing is a strategy in which the seller absorbs all or part of the freight charges in order to get the desired business.

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Price Adjustment Strategies (11 of 12)

Dynamic pricing involves adjusting prices continually to meet the characteristics and needs of individual customers and situations.

Dynamic online pricing benefits both sellers and buyers. Consumers armed with instant access to product and price comparisons can often negotiate better in-store prices.

Yakobchuk Viacheslav/Shutterstock

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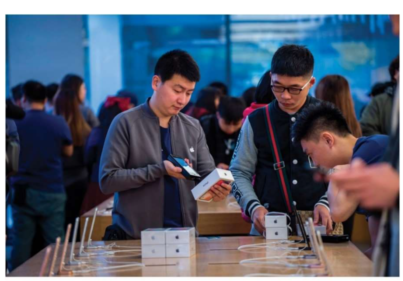
Price Adjustment Strategies (12 of 12)

International pricing involves adjusting prices continually to meet the characteristics and needs of individual customers and situations.

International prices: Companies often must change their pricing strategies from country to country. For example, Apple sells its latest phones at premium prices to affluent Chinese customers but is under pressure to target China’s mid-range customers with lower-priced phones.



FRED DUFOUR/AFP/Getty Images

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Learning Objective 4

Discuss the key issues related to initiating and responding to price changes.

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Price Changes (1 of 5)

Initiating Price Changes

Price cuts occur due to:

- Excess capacity
- Increased market share

Price increases occur due to:

- Cost inflation
- Increased demand
- Lack of supply

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Price Changes (2 of 5)

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 (3 of 5)

Competitor Reactions to Pricing Changes

- Why did the competitor change the price?
- Is the price cut permanent or temporary?
- Is the company trying to grab market share?
- Is the company doing poorly and trying to increase sales?
- Is it a signal to decrease industry prices to stimulate demand?

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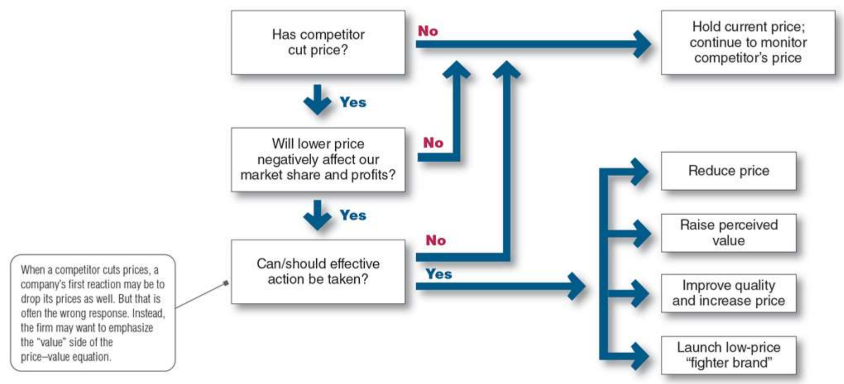
Price Changes (4 of 5)

Figure 11.1 Responding to Competitor Price Changes



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Price Changes (5 of 5)

Responding to Pricing Changes

Effective Action Responses

- 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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Learning Objective 5

Discuss the major public policy concerns and key pieces of legislation that affect pricing decisions.

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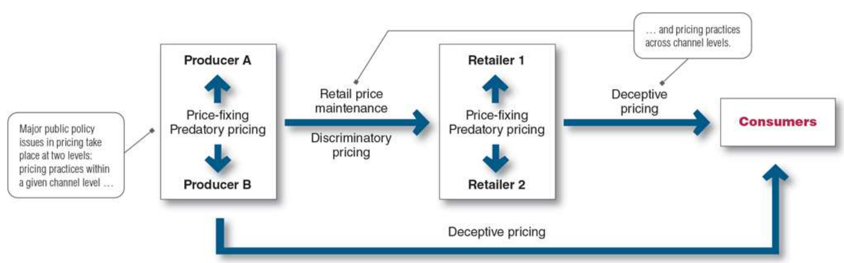
Public Policy and Pricing (1 of 5)

Figure 11.2 Public Policy Issues in Pricing



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Public Policy and Pricing (2 of 5)

Pricing Within Channel Levels

Price fixing legislation requires sellers to set prices without talking to competitors.

Predatory pricing legislation prohibits 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 (3 of 5)

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.

Price discrimination is allowed if the seller:

- can prove that costs differ when selling to different retailers
- manufactures different qualities of the same product for different retailers

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Public Policy and Pricing (4 of 5)

Pricing Across Channel Levels

Retail (or resale) price maintenance is when a manufacturer requires a dealer to charge a specific retail price for its product, which is prohibited by law.

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Public Policy and Pricing (5 of 5)

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.

- Bogus reference or comparison prices
- Scanner fraud and price confusion

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