

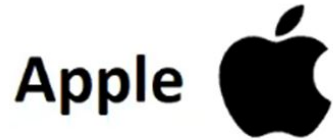
Pricing

VIVEK SUNDAR MAGESH

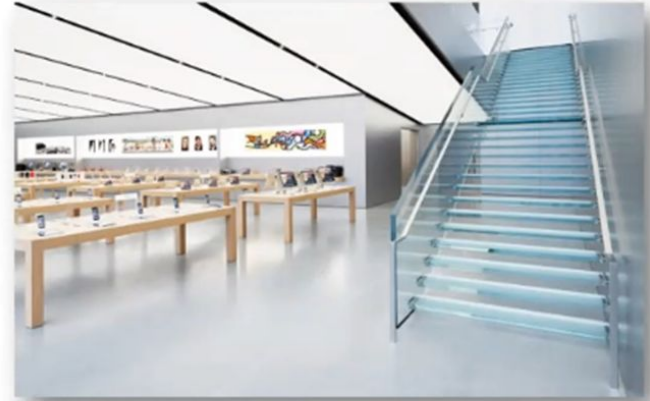
Introduction

- Sum of values consumers exchange for benefits of having or using product
- Amount of money charged for product
- Importance:
 - Most tactical of 4P's
 - Only P producing revenue
 - Inflation/Recession
 - Dynamic

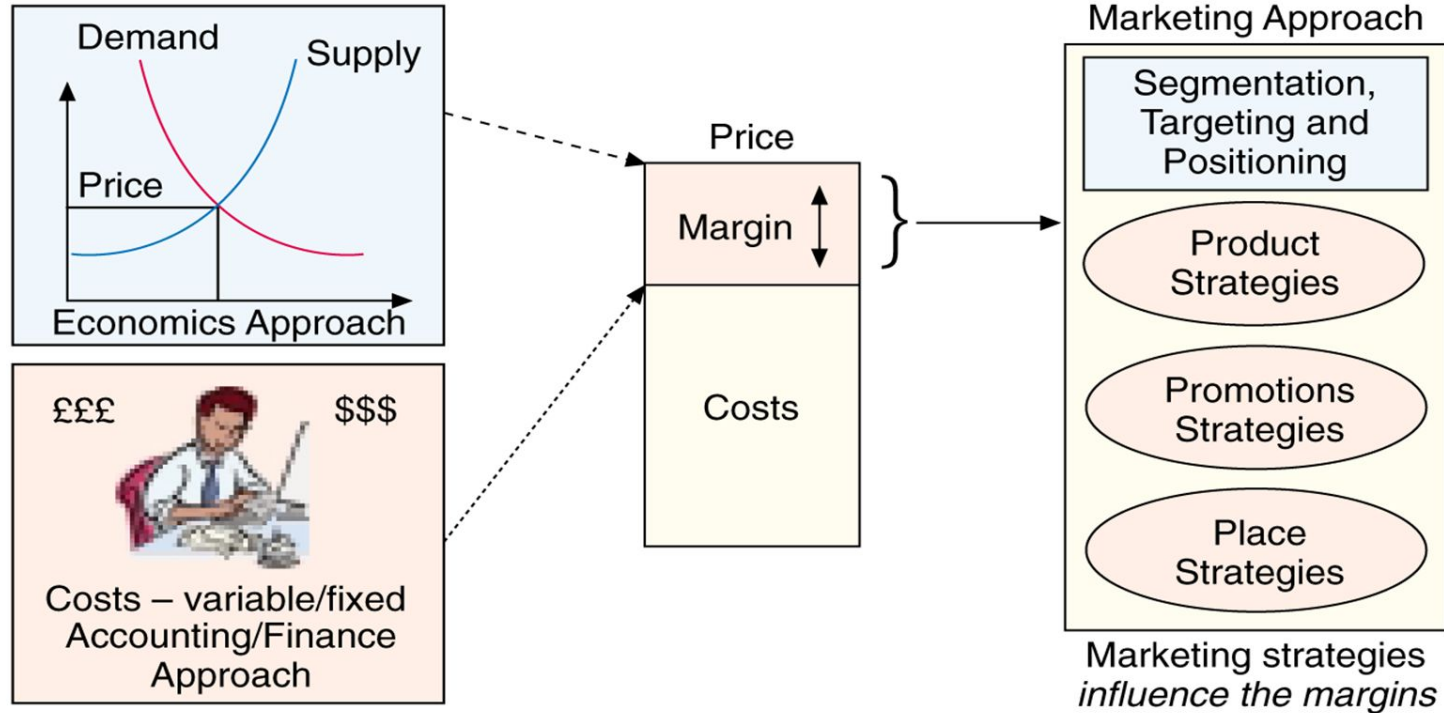
All Other Ps Incur Costs



- **Product:** In 2019, incurred US\$16.22b on R&D (vs Fiji GDP \$5.6b)
- **Place:** Staircase construction (US\$1m)
- **Promotion:** In 2015, spent US\$1.8b on advertising



Factors Influencing Price



An Example

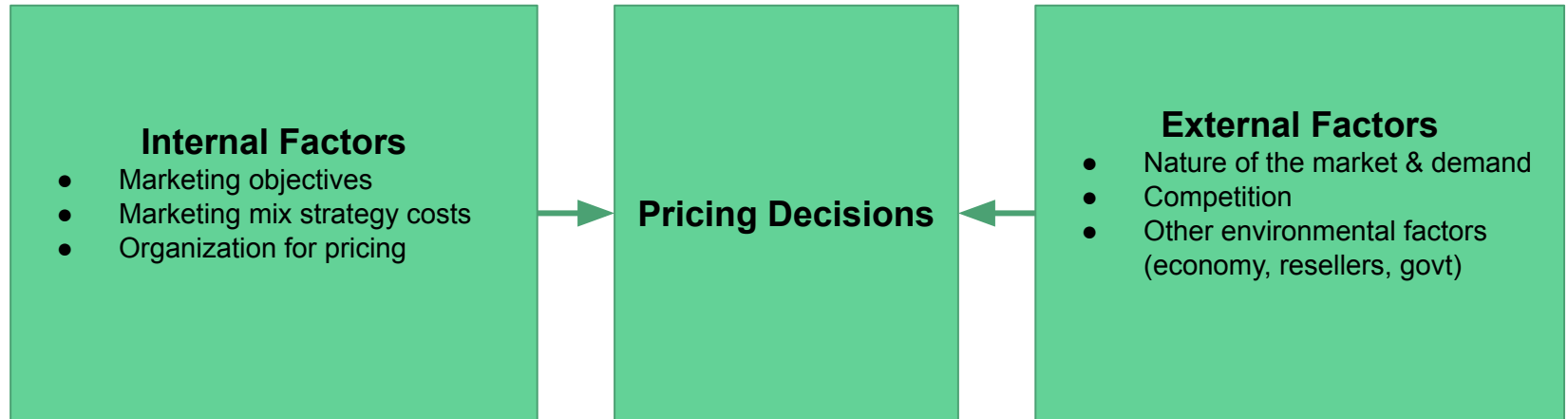
Evian Mineral Water
US\$1.50



Evian Mineral Water
Spray US\$15



Factors Affecting Pricing



Internal Factors

Marketing Objectives

- Survival
- Current profit maximization
- Market share leadership
- Product quality leadership
- Competitive entry barriers
- Reseller support
- Cost recovery (non-profit & public firms)

Internal Factors

Marketing-Mix Strategy

- Product design
- Distribution
- Promotion
- Price vs Non-price competition
- Think about Parallel Importers

How Chanel Curbs Parallel Imports

CHANEL IS CHEAPER HERE...

But for other branded handbags, you will have to buy them in Europe to enjoy significant savings. STACEY CHIA reports

The prices of these iconic Chanel handbags in the United States are more than twice as high as in Europe, but some say that they could actually get even cheaper in Asia.

In fact, in other parts of the world, such as Singapore, which has no sales tax, the prices of these handbags are significantly lower than in the United States, and in some cases, they are even cheaper than in Europe. The prices of these handbags in Singapore are as low as \$1,200, while in the United States, they are as high as \$2,500. This is a significant difference, especially for those who are looking for a high-quality handbag at a lower price.

Prices in Singapore versus prices in Europe:

1. Goyard Jeanne: \$4040 vs \$2808 (in Europe)
2. Bottega Veneta: \$4220 vs \$3278 (in Europe)
3. Louis Vuitton: \$2590 vs \$1996 (in Europe)
4. Loewe: \$3990 vs \$2830 (in Europe)
5. Christian Dior: \$5500 vs \$4319 (in Europe)
6. Celine: \$4200 vs \$3127 (in Europe)

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Cut prices in Singapore by \$1000
Increase prices in Europe by 20%

1. Goyard Jeanne
\$4040 vs \$2808 (in Europe)
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Internal Factors

Costs

- Costs → Floor Price
- Demand → Ceiling Price
- Types of Costs:
 - Fixed
 - Variable
 - Total
 - Average
 - Marginal

Major Considerations in Setting Price

Product
costs

Competitors' prices and other
internal and external factors

Consumer
perceptions
of value

Price floor

No profits below
this price

Price ceiling

No demand above
this price

Nano → World's Cheapest Car

Cheap and good: (right) India's Tata Group chairman Ratan Tata at the launch of Nano in New Delhi on 10 Jan.

(Far right) The interior of Nano, a hatchback that retails for about half the price of the current cheapest car in the market.

pictures | reuters

MAKING WORLD'S CHEAPEST CAR WAS VERY LONELY

Friends who doubted billionaire's dream to make \$3,700 car kept him at arm's length

FOLLOWING EXAMPLE

LIKE a marathon runner, Tata Group chairman Ratan Tata, 70, had to press on for the long haul in making the Nano, the car that costs 100,000 Indian rupees (\$3,700).

In an interview with the Times of India last week, Mr Tata spoke about the lonely four year journey that has resulted in the most eagerly-awaited launch in the history of India's car industry.

He said: "Right now, I am in a very lonely phase. It's attracting a lot of attention, positive and negative. Everybody is taking potshots at this car."

"There was a fair amount of ridicule when the project started. People said that it can't be done. As one went along and it became clear that something was happening and that we were going forward, suddenly, sadly, everybody is against the small car (saying) it's going to pollute, it is going to congest, it is going to impair safety," said Mr Tata.

"But we decided to make a car that will not compromise. We designed a car that would meet all international norms on safety."

"We have a very fuel-efficient engine. It is also going to pollute less."

Nano meets the environmental criteria that many of the other small cars or micro cars in Europe do not, something Mr Tata is "quite pleased" about.

Other Price Differentials

- **McChicken**
 - \$2 at Junction 8, Toa Payoh
 - \$3.95 at Lucky Plaza, Shaw Theatres Lido
- **Double Cheeseburger**
 - \$3.90 at Bugis Junction
 - \$4.90 at Lucky Plaza, Shaw Theatres Lido
- **Thai Milk Tea Ice Cream**
 - \$1 at V Hotel
 - \$1.60 at Lucky Plaza, Shaw Theatres Lido



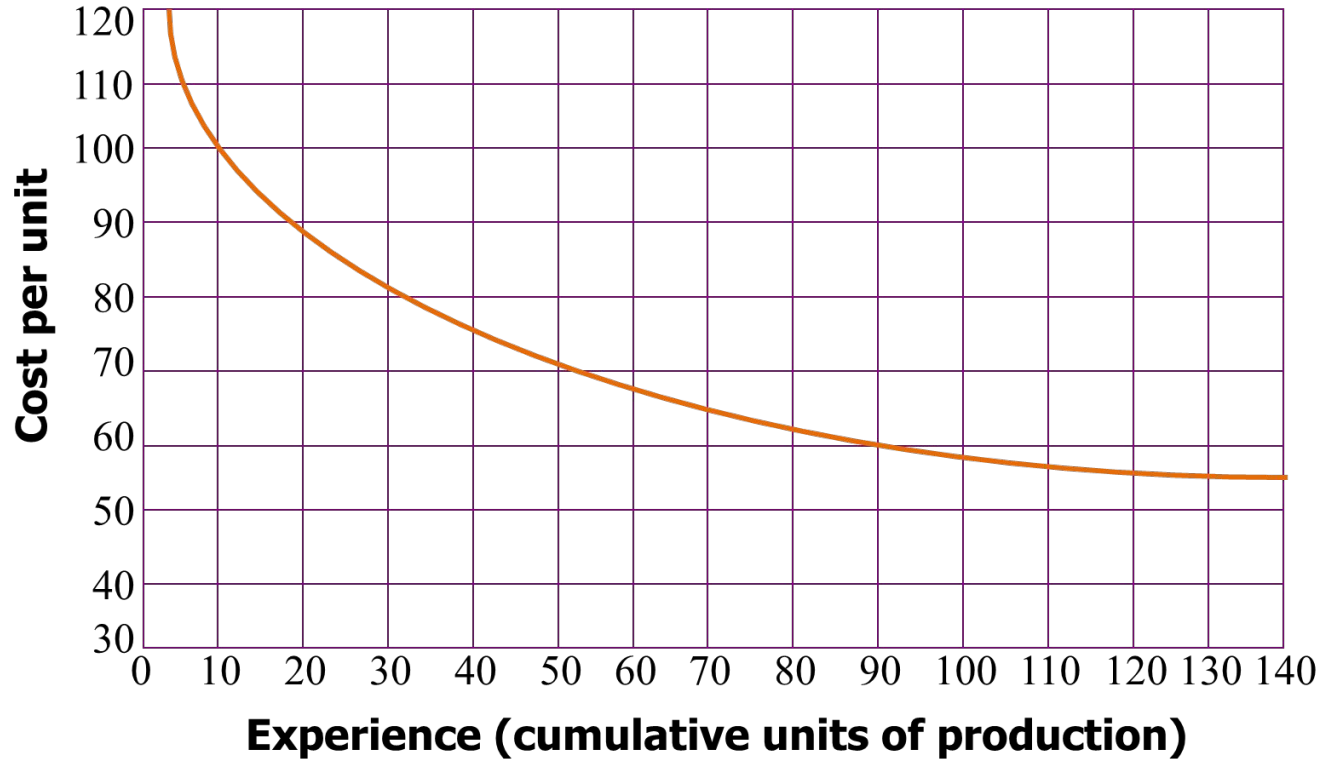
How Much Do iPhone 7, 8, X & 11 Cost?

	iPhone 7 (32 GB)	iPhone 8 (64 GB)	iPhone X (64 GB)	iPhone 11 Pro Max (64 GB)
Retail Price	\$649	\$699	\$999	\$1099
Cost	\$225 - \$219 for parts <ul style="list-style-type: none"> - Display \$43 - Baseband system \$33.90 - A10 processor \$26.90 - \$5 for mftg/labor	\$286.60 - Aluminum casing \$21.50	\$357.50 Samsung S8=\$308 Samsung S9+= \$379.50 - Stainless steel casing \$36	\$490.50 Screen: \$66.50 Battery: \$10.50 Triple Camera: \$73.50 Processor, Modem, & Memory: \$159 Sensors, Holding Material, Assembly & Others: \$181
Markup (\$)	\$424	\$412.40	\$641.50	\$608.50
Markup (%)	288%	244%	279%	224%

Experience and Experience Curves

- **Experience:** Combined effects of learning, volume, investment, & specialization
- **Experience Curve** illustrates relationship between cumulative production & per unit costs

Experience Curve Pricing

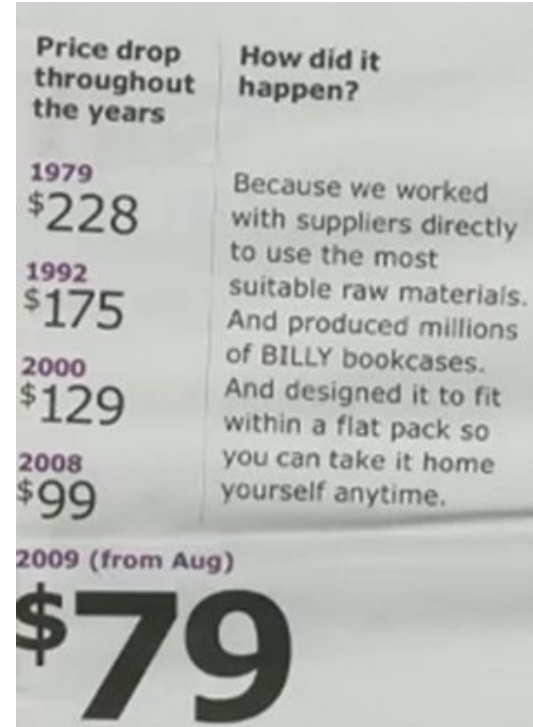


Example

Experience Curve drives price down

BILLY Bookcase

- Started in 1978
- Priced at \$228
- Sold over 60 million
- 1 for every 100 people
- Now, costs much less than in 1978
- Factory makes 37 times more bookcases, but number of employees only doubled



Still sells for \$79

Internal Factors

Organization

- Who sets?

External Factors

Market and Demand

- Form of Competition
 - Pure
 - Monopolistic
 - Oligopolistic
 - Monopoly
- Price Elasticity of Demand
 - Elastic vs. Inelastic Demand
 - Cross-Elasticity (Substitute & Complementary Products) Think about Apple's ecosystem

External Factors

Consumer Perceptions

- Price-Quality Relationship
- Price used in absence of other cues

Example

Price-Quality Relationship



External Factors

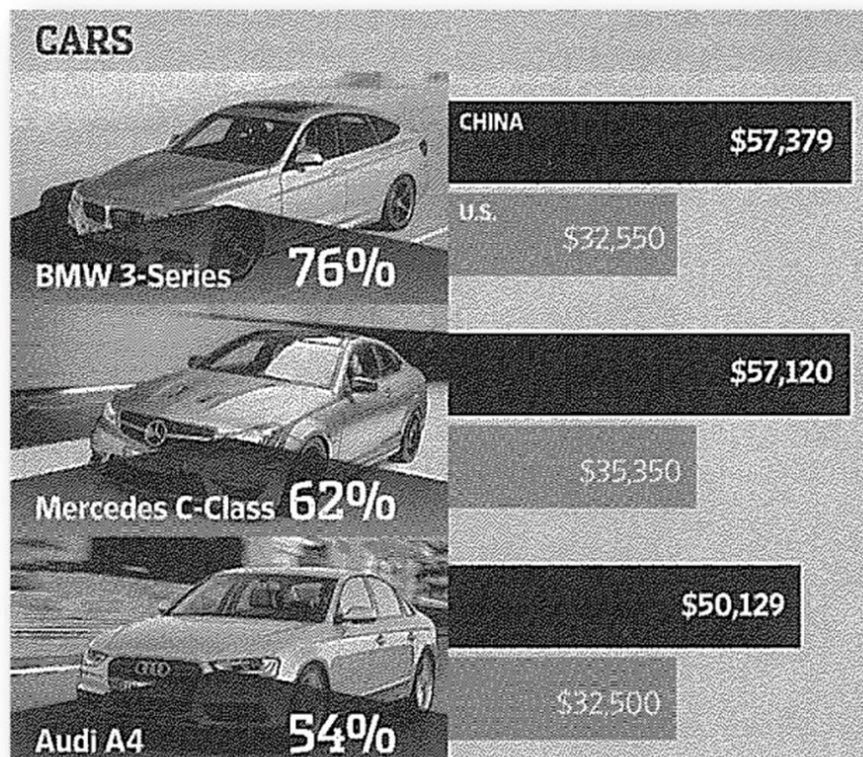
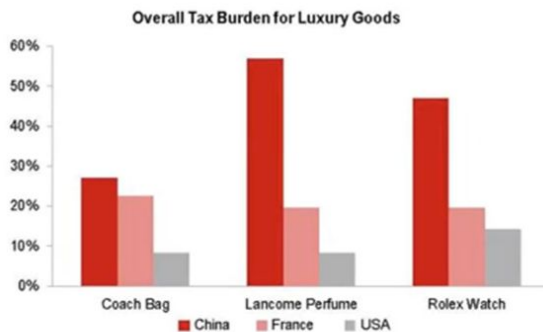
Competitors

- Reference Point
- Responsiveness
- Product homogeneity
 - More price sensitive

Other

- Economic Conditions
- Distributor Reactions
- Government

Example: Taxes



Methods and Strategies: New-Product Pricing

- Price Skimming
- Price Penetration

Price Skimming

- Set a high price for a new product to “skim” revenues layer by layer from the market
- Company makes fewer, but more profitable sales
- When to use:
 - Segmentation on price elasticity
 - Image supportive
 - Safety/Hedge
 - Costs of smaller volume cannot be so high to cancel advantage of charging more
 - No immediate competition

Price Penetration

- Set a low initial price to “penetrate” the market quickly and deeply
- Can attract a large number of buyers quickly and win a large market share
- When to use:
 - Consumers price sensitive
 - Experience curve effects operative
 - Potential competition

Example: Breaking Perception of Expensive Skincare Products



OLAY

Under \$30.
More effective than the department store cream costing \$350.*
(You just don't get a chic shopping bag.)

regenerist
micro-sculpting cream

Olay Regenerist Micro-Sculpting Cream. When stacked up against several department store brands costing \$100, \$200, \$300 and more, this little beauty hydrates better and longer according to Good Housekeeping. It's time to bag the more expensive creams and discover the beautiful affordability of Olay Regenerist.

*Based on a Good Housekeeping Research Institute test of 100+ face creams.

Love the skin you're in.

For your best skin in years, get your personalized regimen @ OlayForYou.com

Methods and Strategies: Cost-Oriented Strategies

- Most common approach

Methods and Strategies: Cost-Oriented Strategies

Markup Pricing based on Cost

- Predetermined percentage added to product cost
- EG: 25% markup on product costing \$1.00
- Sales Price = $\$(1 \times 1.25) = \1.25
- Simple & easy to use
- Equitable for buyer & seller
- Focuses on cost to neglect of demand

Variation – Markup based on Sales

Methods and Strategies: Cost-Oriented Strategies

Target Return or Target Profit Pricing

- Predetermined return on capital used to produce & market product
- Target return based on Standard Volume

$$P = DVC + \frac{FC}{X} + \frac{rK}{X}$$

where

P = Price

DVC = Direct Variable Cost

FC = Fixed Cost

X = Standard Volume

r = Desired Rate of Return

K = Capital used

Example

DVC = \$4.20, FC = \$500K, X = 500K units, r = 15%, & K = \$1m

$$\begin{aligned} P &= \$4.20 + \frac{\$500K}{500K} + \frac{15\%(\$1m)}{500K} \\ &= \$(4.20 + 1 + 0.30) \\ &= \textbf{\$5.50} \end{aligned}$$

- Requires good demand estimates

Methods and Strategies: Demand-Oriented Pricing

- Methods based on & used to affect consumer perceptions & behavior

Methods and Strategies: Perceived-Value Pricing

- Price based on buyer's perception of value
- Soundest approach
 - Consistent with marketing concept



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Perceived Value

HOW CAN YOU MAKE TWO MONTHS'
SALARY LAST FOREVER?



THE DIAMOND ENGAGEMENT RING. HOW OFTEN WILL YOU GIVE HER SOMETHING SHE'LL CHERISH FOR THE REST OF HER LIFE? VISIT OUR WEB SITE AND DESIGN AN ENGAGEMENT RING SHE'LL LOVE. CHOOSE THE PERFECT DIAMOND, SETTING AND SIDE STONES OR BROWSE THROUGH MORE THAN 7500 DESIGNS. YOU'LL ALSO LEARN ABOUT THE 4C'S: CUT, COLOR, CLARITY AND CARAT WEIGHT, TO HELP YOU SURPRISE HER WITH THE PERFECT DIAMOND RING. WWW.ADIAMONDISFOREVER.COM


A DIAMOND IS FOREVER

Methods and Strategies: Odd or Psychological Pricing

- Set prices below even-dollar amounts (e.g., \$9.99)
- Used to connote lower price level through rounding down

Methods and Strategies: Loss-Leader Pricing

- Set prices on selected products at low levels to increase sales of others, store traffic, & overall profits



Why does IKEA charge so low a price on a rainy day?

Methods and Strategies: Optional-Product Pricing

- Sell accessory products with main product
- To include as option or not?

Tune Hotels



- Part of AirAsia Group
- When booking online, “Please select your add-on purchase”
 - Air-conditioning
 - Towel & toiletries kit
 - Television access
- No swimming pool, business centers

Methods and Strategies: Captive-Product Pricing

- Products that must be used with main product
- Captive products expensive; main product cheap.



Methods and Strategies: Bundled Pricing

- Several products combined and sold as bundle at reduced price
- Promote sales of products that customers may not usually buy



Methods and Strategies: Price Discrimination

- Time
 - Peak vs Off-peak
- Place
 - ERP: Downtown or outskirts
- Customer
 - Adults vs Child vs Senior citizens

Example



Universal Studios Singapore One-Day Ticket

Each regular-priced ticket is valid for one visit, within 30 days from the selected visit date.

- Adult (Age 13-59) - SGD79
- Child (Age 4-12) - SGD59
- Senior (Age 60 and above) - SGD41

References

Much of this presentation is derived from the course textbook: Principles of Marketing, An Asian Perspective by Philip Kotler, Gary Armstrong, Ang Swee-Hoon, Leong Siew-Meng, Tan Chin-Tiong and Oliver Hong-Ming Yau, 4th edition, Pearson.