PRICING STRATEGY CARDS

BUSINESS MAKEOVER

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Pricing Strategy Cards

Pricing Strategy Cards provide you with ideas for how to price your product or service. Setting the right price is a crucial part of business success. It depends on many factors like your costs and competitor behavior. The Pricing Strategy Cards show existing pricing models that have already been tried and tested by others. Using the Pricing Strategy Cards, you can rethink the way you want to price your products.

Template & example

Use the Pricing Strategy Cards on the next pages to brainstorm about how you want to set your product's prices. Have a look at the example for ice cream parlour Da Nino (last page), to get inspired and learn about the practical application of the cards.

How to use

The Pricing Strategy Cards can be used individually but are most effective if used by a group of people. The cards will stimulate and provoke discussion about pricing options, that you never thought of before.

The Pricing Strategy Cards are a set of 18 cards. Together they provide a deck full of pricing strategies that have already been used by others. On each card a pricing pattern is explained, and illustrated with an example on the back of the card
To stimulate the use of these patterns in a creative and playful manner we present two ways of using the cards: 'Piles' and 'Clusters'. But of course, you can use the cards anyway you like.

<u>Piles</u>

An existing business or a new idea should be used as starting point. Ask one of the attendees to explain or visualize the selected business or idea. Next go through each pricing card and place them on either the 'Yes' or the 'No' pile. A pricing strategy can either be relevant for your business ('Yes'), or not ('No'). Discuss all the cards that might be interesting to find the best pricing strategy for your business.

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Clusters

The pricing cards can also be used in an open discussion. Select 3 to 5 pricing cards from the deck that seem most interesting for your business. Put them on a board or large piece of paper with enough space around. Write ideas, conditions, definitions, etc. on post-it notes. Put these post-its around the cards to get clusters. In this way you can actively brainstorm about the selected cards and their potential.

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PRICING PATTERNS

HOW TO USE (1/2)

We present two ways of using the cards: 'Piles' and 'Clusters'. But of course, you can use the cards anyway you like.

Piles

This is a straightforward way in sorting the cards. A strategy can either be relevant for your business ('Yes'), or not ('No'). Discuss all the cards that might be interesting to find the best strategy for your business.

HOW TO USE (2/2)

Clusters

Select 3 to 5 cards from the card game that seem most interesting for your business. Put them on a board or wall with enough space around. Write ideas, conditions, definitions, etc. on post-it notes. Put these post-its around the cards to get clusters. In this way you can actively brainstorm about the selected cards and their potential.

1 DYNAMIC PRICING

Dynamic pricing is a pricing strategy where prices always remain flexible. Prices are connected to competitor pricing, demand and supply, and other external factors. A price fluctuates when the customer demand changes.

Example TUI

TUI is an example of a travel agency that uses dynamic pricing. Prices are adapted to customer demand. During the holiday seasons the demand is higher, so prices will rise. Or when there is the risk that a plane will lift off half-empty, tickets will go on sale.

2 AUCTION

Auction is a pricing strategy where several potential buyers rapidly bid on goods or services, with the item being sold to the highest bidder.

Example eBay

eBay is the world's largest online marketplace, where sellers and buyers can trade freely. They also help facilitate transactions, which enables individuals and businesses to securely, easily and quickly send and receive online payments.

3 PAY WHAT YOU WANT

Pay what you want (or PWYW) is a pricing strategy where buyers decide how much the service or product is worth. In some cases a minimum price may be set or a suggested price may be guidance to the buyer.

Example Humble Bundle

The Humble Bundles are a series of collections (bundles) of digital creations that are sold and distributed online at a price determined by the purchaser. To boost sales, revenues are split between developers, creators, Humble Bundle operators and charities. With the buyer also able to set the split.

4 COST-PLUS PRICING

Cost-plus pricing is a strategy where all variable and fixed cost associated with production are allocated to individual products. On top of the total costs a mark-up is added to determine pricing. Mark-ups are a percentage added to the costs.

Example H&M

H&M is a well known fashion retailer. As many other retailers and fashion stores do, they price their product at as low as possible. This price is based on costs, with a small mark-up margin.

5 CREAMING / SKIMMING

Creaming/skimming is a strategy where the price is set relatively high at first, lowering over time. As the first demand is satisfied, price lowers to attract the more price sensitive customers.

Example LG OLED

Practically all 'tech gadgets' use this type of pricing. An example is LG OLED TV's, while the offering is still exclusive, the price is set high. Early adopters are willing to pay this full-price, while other customers wait for the inevitable price drop.

6 DECOY PRICING

Decoy pricing is a strategy where a 'third option' is introduced, next to a cheap and premium version of a product, to stimulate the customer to buy the premium version. In other words, the middle option is a decoy that is there to make the most expensive option appear like a better deal.

Example TomTom Spark

An example of this type of pricing is TomTom sports watches: offering a basic fitness watch, two alternate versions and a version which combines all features for a seemingly discounted package price. To stimulate customers to buy the premium version.

7 HIGH-LOW PRICING

High-low pricing is the practice of setting the price of most products equal to or higher than the market rate, while offering a small number of products at a discount. By doing so, a retail store wants to attract customers to the store with its low-price offerings and tries to sell some more expensive products as well.

Example Kohl's

Retail stores, such as Kohl's, routinely issue a continuing stream of advertisements that feature low prices for specific items. Since most grocery shoppers need to buy a large number of items every time they enter the store, the business is nearly guaranteed to sell a number of high-priced items along with the low-priced items.

8 LOSS LEADER

Loss leader is a strategy in which a business offers a product or service at a price that is not profitable. This is a common practice when a business first enters a market; a loss leader introduces new customers to a service or product in the hope of building a customer base and securing future revenues.

Example Gillette

A well-known example is that of complementary services or products. A classic is Gillette's razor and blades model. Gillette essentially give their razor units away for free, knowing that customers will have to buy their replacement blades, which is where the company makes all of its profit.

9 MARGINAL COST PRICING

Marginal cost pricing is a strategy where the price of a product is set at or slightly above the variable cost to produce it. With marginal pricing the fixed costs of the company are ignored. This kind of pricing is useful if a company has some unused production capacity available and customers willing to pay at least the marginal cost.

Example Bakery Alink

A local bakery decided to bake bread throughout the day as customers want fresh bread also at the end of the day. Obviously, always some bread is left over and can be either thrown away or sold the next day as 'yesterday's fresh bread' using marginal cost pricing, i.e. sold at the marginal cost of producing the bread.

10 MARKET ORIENTED PRICING

With market oriented pricing, companies compare the prices of their products with similar products on the market. Depending on if the product has more or less features than the competition, prices could be set higher or lower than the prices of competitors.

Example McDonald's

Companies that are well known for their market-oriented pricing are fast food restaurants. Their prices are based on market prices, i.e. on prices that the market will bear. The market has a set price for a cheeseburger, and restaurants must follow that price. If McDonalds offers a $15 cheeseburger, a vast majority of their current customers (if not all) will not buy it.

11 ODD PRICING

With odd pricing, retail prices are often expressed as odd prices: a little less than a round number, e.g. €19.99 or €2.98. Consumers tend to perceive odd prices as being significantly lower than they actually are, tending to round to the next lowest monetary unit. Thus, prices such as €1.99 are associated with spending €1 rather than €2.

Example Fresh Food People

Odd pricing can be found everywhere, especially in retail. That is why items are priced $4.95, $14.99 or $19.99 instead of just saying it costs $5, $15 or $20. Staying right under that next whole number somehow makes the product more appealing.

12 PENETRATION PRICING

Penetration pricing is a marketing strategy that is used to attract customers to a new product or service. Penetration pricing is the practice of offering a low price for a new product or service during its initial offering in order to attract customers away from competitors.

Example WALMART

Discount stores such as Walmart use penetration pricing. They offer new products through their stores at prices much lower than its competition, hoping that their customers will buy more than that one product once they are in the store. They are willing to lose money on the new product as a way to get more customers to their stores.

13 PREMIUM PRICING

With premium pricing a company tries to assign a premium value to a product. This price is not really in accordance with the cost of production. But precisely the premium price is what attracts a specific target group. This strategy is often used for new products like designer clothes.

Example Beats by Dr. Dre

A company that is well-known for their premium pricing strategy is Beats by Dr. Dre. Beats offers premium consumer headphones. It is the first audio brand that took branding and packaging of headphones very seriously. It does an outstanding job of getting celebrity endorsement, which adds to their prestige as a high-quality product. None of this means that the Beats headphones are the best.

14 PRICE DISCRIMINATION

Price discrimination is a practice where a company sells largely similar products for different prices in different markets. These price differences aim to benefit from differences in willingness to pay with different markets. A different price can be set for each customer, a group, or even a product.

Example Levi's Jeans

While a normal Levi's jeans is sold for approximately $40 in the United States, it is sold for $90-$120 in Western-Europe. Levi's is quite successful in promoting their brand as a high-end brand in Europe while it promotes itself as a low-priced jeans maker in the United States. Levi's has successfully adopted the price discrimination strategy and knew how to play it in various markets with differences in the willingness to pay.

15 VALUE-BASED PRICING

Value-based pricing occurs when the price of a product or service is based on the benefits it provides to consumers. It is often used by companies with unique or high valuable features or services. The optimal price is a reflection of the value a consumer perceives in a product or service.

Example Starbucks

Starbucks has mastered value based pricing. Using research and customer analysis Starbucks formulates prices that capture the greatest amount consumers are willing to pay without driving them off. Starbucks targets a loyal, higher-income consumer base. The higher price is used to separate Starbucks from competitors and to reinforce the premium image of their brand.

16 COMPETITIVE PRICING

With competitive pricing, prices are matched to what the competition is charging. This strategy is used when competitors sell similar products or services. Prices will either match the market leader or are set within a comparable range.

Example Amazon

Amazon is a master of competitive pricing; they make millions of price changes daily. Amazon does not have the lowest prices across the market, but identifies the most popular products on its site and consistently prices them lower than its competitors.
Having the lowest prices on the highest-viewed and best-selling items drives the perception that Amazon has the best prices overall.

amazon.com®

17 GROUP PRICING

Group pricing is a strategy where companies divide the market in segments and charge a different price for each segment. Usually this happens when particular groups of consumers can be identified. Making it possible to adjust prices to the groups' willingness to pay.

Example Adobe

Adobe has put segmentation into practice by identifying several groups of customers: individuals, business, educational institutions and students and teachers. Students and teachers pay a completely different price, €19.66 a month for all apps, compared to individuals that pay €60.49 a month. Adobe requires an institutional affiliation as proof of being a student or teacher.

18 BUNDLE PRICING

With bundle pricing, companies sell a bundle of goods or services for a lower price than if the consumer bought all items separately. Consumers receive a discount for buying the bundle. Bundles can also be named ‘package deal’, ‘compilation’ or ‘solution’.

Example Playstation

Playstation is well known for selling a variety of bundles. A consumer can buy bundles consisting of a specific game, like Call of Duty, with a 500GB or 1TB PS4 system. The price of the bundle is lower than the prices of the individual products together. In addition, Playstation is also offering limited editions bundles, for which they can ask a higher price since the items are not available individually.

Pricing Patterns – Example based on ice parlour Da Nino

Da Nino is a renowned downtown Italian ice parlour. While he has a good reputation, he is not the only parlour in town and his sales last summer have been slightly lower than normal. During wintertime, Da Nino's owner sits down to rethink his pricing strategy and uses the pricing strategy cards to be inspired and come up with new ideas. He creates a 'Yes' and 'No' pile. For each pricing strategy on the 'Yes' pile he writes down how the strategy may help him.

Pricing cards on the *Yes* pile	How the pricing strategy can be used...
Dynamic pricing	On bad weather days Da Nino could lower his prices to seduce customers to buy ice cream.
Auction	Sometimes Da Nino creates really nice and one-of-a-kind ice cakes which could be sold using an auction
Cost-plus pricing	This is the approach Da Nino currently uses. An updated cost analysis may be useful to improve current pricing.
Decoy pricing	Da Nino currently sells small and large cones with ice. Introducing a medium version may make the large cone a better deal.
Market oriented pricing	What are the competitors offering? Maybe adding some feature like toppings can justify a price increase and boost sales.
Odd pricing	Da Nino's current prices are round numbers like €1 or €2. Maybe setting them to €0.99 or €1.99 could increase sales.
Premium pricing	Da Nino's prides himself with premium ice making skills offering flavours nobody else has. These 'premium' flavours could be sold for premium prices.
Bundle pricing	Rather than just selling single cones and cups with ice cream, Da Nino may sell 'family bundles' consisting of a number of cones for a reduced price.

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