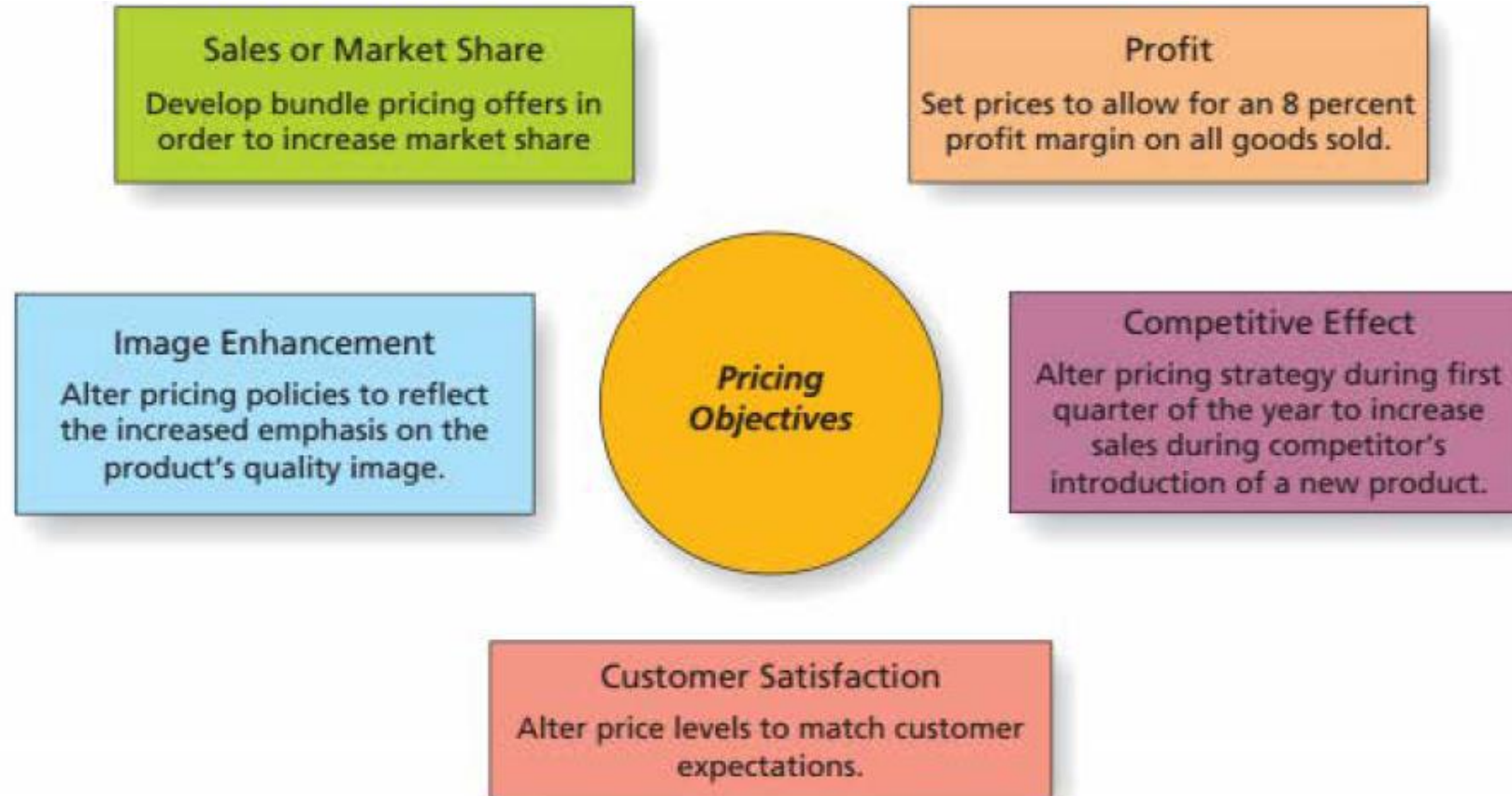


Pricing

@TW9

Webster University

Pricing Objectives



Cost-based pricing vs. Value-based pricing

Cost-based pricing



Value-based pricing



Value-based pricing

Type of pricing	What it means	Examples
Customer-value based pricing	Setting price based on buyers' perceptions of value rather than on the seller's cost.	Steinway pianos, Harley Davidson mobikes
Good value pricing	Offering just the right combination of quality and good service at a fair price.	<p>Fast food restaurants such as McDonald's, Taco Bells, EVOS offer value meals and low value menu items.</p> <p>TRESemme hair care line is marketed as a salon look and feel at fraction of the price.</p> <p>EDLP – every day low pricing by big retain giants like Walmart, Tesco, Target, Home Depot, etc.</p>
Value-added pricing	Attaching value-added features and services to differentiate a company's offers and charging higher prices.	Cineplex turns some of its multiplexes into smaller, roomier viewing rooms with luxurious features such as high-backed leather seats, food service, and even alcohol
Promo Pricing	Retail pricing strategy in which the retailer prices merchandise at list price but runs frequent, often weekly, promotions that heavily discount some products	

Cost-based pricing

Type of pricing	What it means	Example
Cost-plus pricing or Markup Pricing	Adding a standard mark-up to the cost of the product	For example, an electronics retailer might pay a manufacturer \$20 for an HDMI cable and mark it up to sell at \$30, a 50 percent mark-up on cost. The retailer's gross margin is \$10. If the store's operating costs amount to \$8 per HDMI cable sold, the retailer's profit margin will be \$2.
Break-even pricing or Target Return Pricing	Setting price to break even on the costs of making and marketing a product, or setting price to make a target return.	Breakeven volume = $\text{Fixed costs} - (\text{Price} - \text{Variable costs})$

New Product Pricing

Type of Pricing	What it means	Examples
Skimming Pricing	Setting a high price for a new product to skim maximum revenues layer by layer from the segments willing to pay the high price; the company makes fewer but more profitable sales.	Sony Playstation, iPhone
Penetration Pricing	Setting a low initial price for a new product in order to attract a large number of buyers and a large market share. This kind of pricing discourages competitors from entering the market.	Campbell Soup; Dollar stores; Any examples from UZ?

Psychological, Legal and Ethical Aspects of Pricing

<p><u>Psychological Issues in Pricing</u></p> <ul style="list-style-type: none">• Buyer' Expectations• Internal Reference Prices• Price-Quality inferences	<p><u>Psychological Pricing Strategies</u></p> <ul style="list-style-type: none">• Odd-Even Pricing• Price Lining• Prestige Pricing
<p><u>Legal and Ethical Issues in B2C Pricing</u></p> <ul style="list-style-type: none">• Bait-and-Switch• Loss-Leader pricing	<p><u>Legal and Ethical Issues in B2B Pricing</u></p> <ul style="list-style-type: none">• Price Discrimination• Price-Fixing• Predatory Pricing

Product Mix Pricing

Type of Pricing		What it means	Examples
Product Line Pricing		Setting the price steps between various products in a product line based on cost differences between the products, customer evaluations of different features, and competitors' prices.	Samsonite offers some 20 different collections of bags, from its Aramon NXT line of laptop bags that range in price from \$20 to \$35 to its high-end Cosmolite luggage line, where a small suitcase retails for more than \$500.
Optional-Product Pricing		The pricing of optional or accessory products along with a main product..	For example, new cars offer sound systems, Bluetooth, GPS systems, and many other options; new computers and phones can come with hardware and software extras, and service plans.
Captive-Product Pricing		Setting a price for products that must be used along with a main product, such as blades for a razor and games for a video-game console.	Examples of captive products are razor blade cartridges, video games, and ink cartridges for printers. Producers of the main products (razors, video-game consoles, and printers) often price them low and set high mark-ups on the supplies
By-product Pricing		Setting a price for by-products to make the main product's price more competitive. The by-products themselves can even turn out to be profitable— turning trash into cash.	<p>Producing products and services often generates by-products. If the by-products have no value and if getting rid of them is costly, this will affect the pricing of the main product.</p> <p>Animal bedding pellets are made from furniture manufacturers' wood by-products</p>
Product Pricing	Bundle	<p>Combining several products and offering the bundle at a reduced price.</p> <p>Price bundling can promote the sale of products that consumers might not otherwise buy, but the combined price must be low enough to get them to buy the bundle.</p>	<p>Fast-food restaurants bundle a burger, fries, and a soft drink at a "combo" price.</p> <p>Sarkor Telekom bundles TV, Internet, and phone services at a low combined price</p>

Price Adjustment Strategies

Type of Pricing	What it means	Examples
Discount	A straight reduction in price on purchases during a stated period of time or on larger quantities.	Cash discount (price reduction to buyers that pay their bill promptly), Quantity discount (price reduction to buyers that buy in large volumes), Seasonal discount (price reduction to buyers who buy merchandise or services out of season)
Allowance	Promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer's products in some way	Trade-in allowances are price reductions given for turning in an old item when buying a new one. Promotional allowances are payments or price reductions to reward dealers for participating in advertising and sales support programs
Segmented Pricing	Selling a product or service at two or more prices, where the difference in prices is not based on differences in costs.	<u>Customer-segment pricing</u> - different customers pay different prices for the same product or service. For e.g., museums may charge lower admission for students; senior citizen discounts, student discounts, etc. <u>Product-form pricing</u> – different versions of the product are priced differently but not according to differences in their costs. For example, a round-trip economy seat on a flight from Toronto to London might cost \$1200, whereas a business-class seat on the same flight might cost \$5000 or more. <u>Location-based pricing</u> - company charges different prices for different locations, even though the cost of offering each location is the same. For instance, sports arenas and theatres vary their seat prices because of audience preferences for certain locations. <u>Time-based pricing</u> - a firm varies its price by the season, the month, the day, and even the hour. Movie theatres charge matinee pricing during the daytime. Resorts give weekend and seasonal discounts.

Price Adjustment Strategies

Type of pricing	What it means	Examples
Psychological Pricing	Pricing that considers the psychology of prices and not simply the economics; the price is used to say something about the product	Consumers usually perceive higher-priced products as having higher quality. For example, who's the better lawyer, one who charges \$50 per hour or one who charges \$500 per hour? Most of us would simply assume that the higher-priced lawyer is better.
Reference Pricing	Prices that buyers carry in their minds and refer to when they look at a given product.	A company could display its product next to more expensive ones to imply that it belongs in the same class, as when a grocery retailer shelves its store brand of bran-flakes-and-raisins cereal priced at \$3.99 next to Kellogg's Raisin Bran priced at \$5.29
Promotional Pricing	Temporarily pricing products below the list price and sometimes even below cost to increase short-run sales.	Electronics retailers such as Best Buy typically offer promotional pricing (i.e., discounts) in November and December to attract Christmas shoppers into stores.
Geographical Pricing	Setting prices for customers located in different parts of the country or the world.	College and university text books are priced differently in different countries.
Dynamic Pricing	Adjusting prices continually to meet the characteristics and needs of individual customers and situations.	Airline ticketing, train ticketing, bus ticketing

Other types of Pricing

Type of Pricing	What it means	Examples
Trial Pricing	Pricing a new product low for a limited period of time to lower the risk for a customer	Health clubs, Salons, Internet Pricing
Peak Load Pricing	A pricing plan that sets prices higher during periods with higher demand	Theatres (offer lower daytime ticket prices); Restaurants (offer early bird discounts); Cost of beach resorts higher during summer; Cost of winter/slope resorts higher during winter
Surge Pricing	A pricing plan that raises prices of a product as demand goes up and lowers it as demand slides	Yandex, MyTaxi
Bottom of the pyramid pricing	Innovative pricing that will appeal to consumers with the lowest incomes by brands that wish to get a foothold in bottom of the pyramids markets/countries	Sell non-durable goods in smaller packages for just a few cents; Sell a TV/cellphone/fridge for an entire village to share

Assessing and Responding to Competitor Price Changes

