

Chapter 6-2

Pricing Strategies

New-Product Pricing Strategies

- Market-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.
- Market-Penetration Pricing
 - Rather than setting a high initial price to skim off small but profitable market segments, some companies use **market-penetration** pricing.
 - They set a low initial price in order to penetrate the market quickly and deeply - to attract a large number of buyers quickly and win a large market share.

Product-mix pricing strategies

- The strategy for setting a product's price often has to be changed when the product is part of a product mix.
- In this case, the firm looks for a set of prices that maximizes the profits on the total product mix.
- Product Line Pricing
 - In **product** line pricing, management must decide on the price steps to set between the various products in a line.
 - The price steps should take into account cost differences between the products in the line, customer evaluations of their different features and competitors' prices.
- Optional-Product Pricing
 - The pricing of optional or accessory products along with a main product

Product-mix pricing strategies

- Cap Live-Product Pricing
 - Setting a price for products that must be used along with a main produce, such as blades for a razor and film for a camera.
- By-Product Pricing
 - Setting a price for by-products in order to make the main product's price more competitive.
- Product-Bundle Pricing
 - Combining several products and offering the bundle at a reduced price.

Price-Adjustment Strategies

- Discount and Allowance Pricing
 - A cash discount is a price reduction to buyers who pay their bills promptly
 - A quantity discount is a price reduction to buyers who buy large volumes.
- Psychological Pricing
 - A pricing approach that considers the psychology of prices and not simply the economics; the price is used to say something about the product.
- Promotional Pricing
 - Temporarily pricing products below the list price, and sometimes even below cost, to increase short-run sales.

Price-Adjustment Strategies

- Geographical Pricing
 - Pricing based on "where customers are located."
- International Pricing
 - Companies that market their products internationally must decide what prices to charge in the different countries in which they operate.
 - In some cases, a company can set a uniform worldwide price. For example, Airbus sells its jetliners at about the same price everywhere, whether in the United States, Europe or a Third World country.
 - However, most companies adjust their prices to reflect local market conditions and cost considerations.