

PRODUCT & PRICING



Marketing Mix

- * A company needs to develop a mixture of activities to market its products/ services.



Marketing Mix

- 4P's of marketing
 - **Product**
 - **Price**
 - **Place**
 - **Promotion**



Product



What Is a Product?

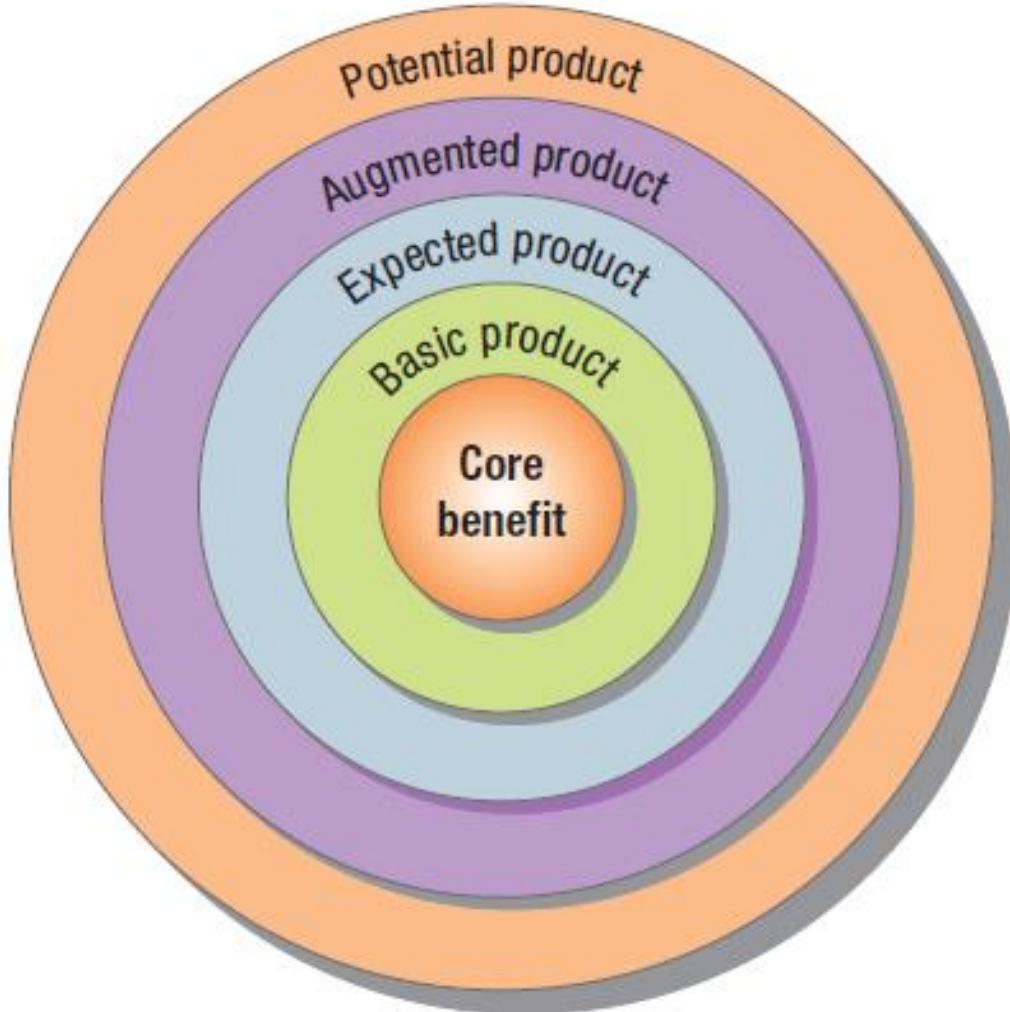
Product is anything that can be offered in a market for attention, acquisition, use, or consumption that might satisfy a need or want.

Service is a product that consists of activities, benefits or satisfaction that is essentially intangible and does not result in the ownership of anything.



Image courtesy of Stuart Miles at FreeDigitalPhotos.net

Five Product Levels



What Is a Product?

Product Classifications

**Consumer
products**

**Industrial
products**

What Is a Product?

Product and Service Classifications

- ✿ Consumer products are products and services for personal consumption
- ✿ Classified by how consumers buy them
 - Convenience products
 - Shopping products
 - Specialty products
 - Unsought products

What Is a Product?

Product and Service Classifications

Convenience products

Consumer products and services that the customer usually buys frequently, immediately, and with a minimum comparison and buying effort.

- FMCG products
- Candy
- Fast food



Shopping products

Consumer products and services that the customer compares carefully on suitability, quality, price, and style.

- Furniture
- Clothing
- Home Appliances



Specialty products

Consumer products and services with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort.

- ❖ Designer clothes
- ❖ High-end electronics
- ❖ Medical services



Unsought products

Consumer products that the consumer does not know about or knows about but does not normally think of buying.

- ❖ Life insurance
- ❖ Funeral services
- ❖ Blood donations



What Is a Product?

Product and Service Classifications

Industrial products

products purchased for further processing or for use in conducting a business

- * Classified by the purpose for which the product is purchased
 - Materials and parts
 - Capital
 - Raw materials

What Is a Product?

Organizations, Persons, Places, and Ideas

Organization marketing consists of activities undertaken to create, maintain, or change attitudes and behavior of target consumers toward an organization.

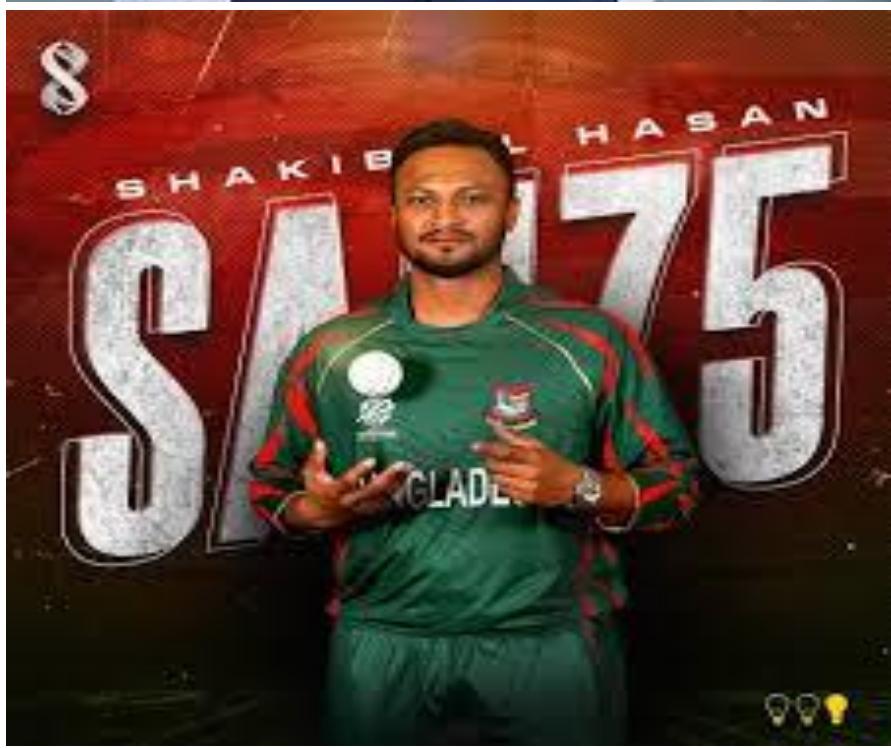


What Is a Product?

Organizations, Persons, Places, and Ideas

Person marketing consists of activities undertaken to create, maintain, or change attitudes and behavior of target consumers toward particular people





What Is a Product

Organizations, Persons, Places, and Ideas

Place marketing consists of activities undertaken to create, maintain, or change attitudes and behavior of target consumers toward particular places

Social marketing is the use of commercial marketing concepts and tools in programs designed to influence individuals' behavior to improve their well-being and that of society



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Services Marketing

Nature and Characteristics of a Service

Intangibility

Services cannot be seen, tasted, felt, heard, or smelled before purchase

Variability

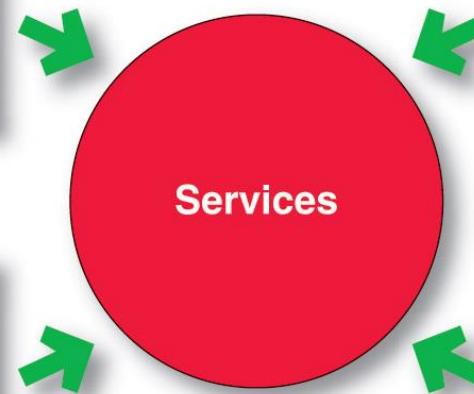
Quality of services depends on who provides them and when, where, and how

Inseparability

Services cannot be separated from their providers

Perishability

Services cannot be stored for later sale or use



7 P's of Services Marketing



Product Line Analysis

- ✿ Sales and profit
- ✿ Market profile and image
- ✿ Line stretching
 - Down-Market stretch
 - Up-Market stretch
 - Two-Way stretch
- ✿ Line filling
- ✿ Line modernization, featuring, pruning

PRODUCT LINE STRETCHING

DOWNWARD
STRETCH



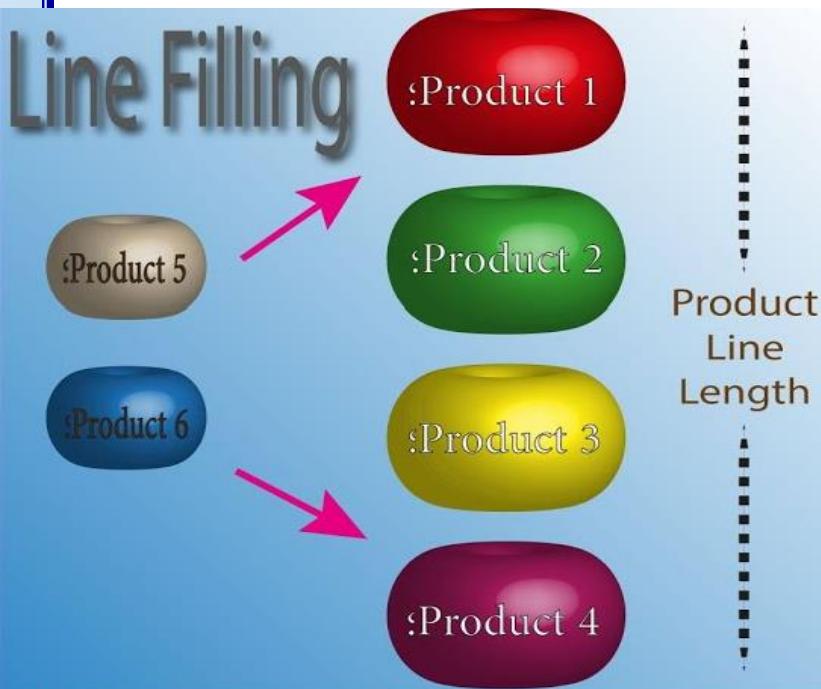
UPWARD
STRETCH



TWO-WAY
STRETCH



Line filling



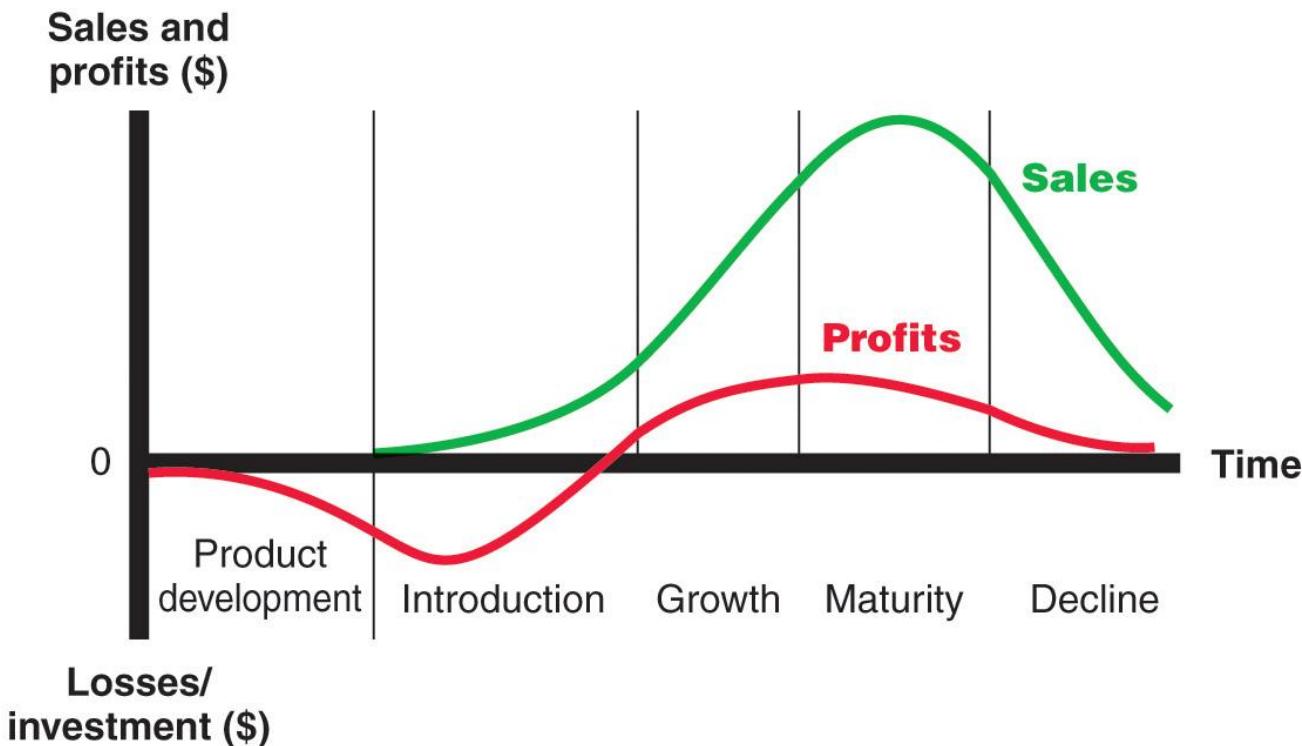
Packaging

- ✿ Achieves a number of objectives
 - Identifies the brand
 - Convey descriptive and persuasive info
 - Facilitate product transportation and protection
 - Assist at-home storage
 - Aid product consumptions



Product Life-Cycle Strategies

Product Life Cycle



	Introduction	Growth	Maturity	Decline
<h2>Characteristics</h2>				
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number beginning to decline	Declining number
<h2>Strategies</h2>				
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brand and models	Phase out weak items
Price	Use cost-plus	Price to penetrate market	Price to match or beat competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Advertising	Build product awareness among early adopters and innovators	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain most loyal customers
Sales Promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level



Pricing

PRICE

Price is the only element of the Marketing Mix that produces revenue; other elements produce cost.

Price also communicates the company's intended value positioning of its product or brand.

Pricing decisions are complex and must take into account many factors-the company, the customers, the competition, and the marketing environment.

Understanding Pricing

- **Price-Quality inferences**
- **Price endings**
- **Pricing in a digital world**
 - **Buyers can -**
 - ❖ Do instant price comparisons
 - **Sellers can -**
 - ❖ Monitor customers and tailor offers
 - **Both buyers and seller can negotiate price in online auctions**

Major Pricing Strategies

Cost-based pricing

Setting prices based on the costs for producing, distributing, and selling the product plus a fair rate of return for effort and risk (price floor)

Customer Value-based Pricing

Understanding how much value consumers place on the benefits they receive from the product and setting a price that captures that value (price ceiling)

Setting the Price

- 1 Pricing Objective
- 2 Determine Demand
- 3 Estimate Costs
- 4 Competitor Analysis
- 5 Price Method
- 6 Select Final Price

Selecting the pricing objective

* Survival

- Overcapacity, intense competition, changing consumer wants
- Short run objective

* Maximum Current Profit

- Assumes that the firm knows its demand and cost functions

* Maximum Market Share/Market Penetration Pricing

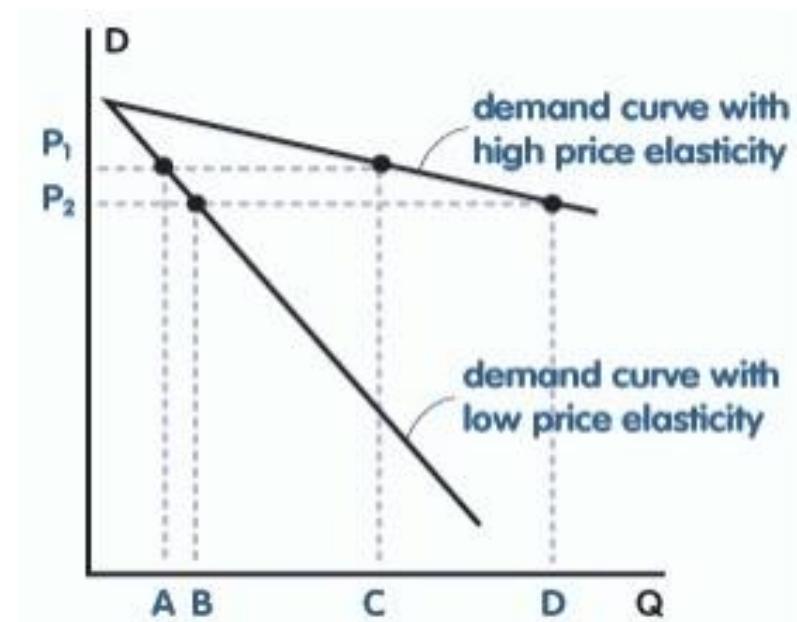
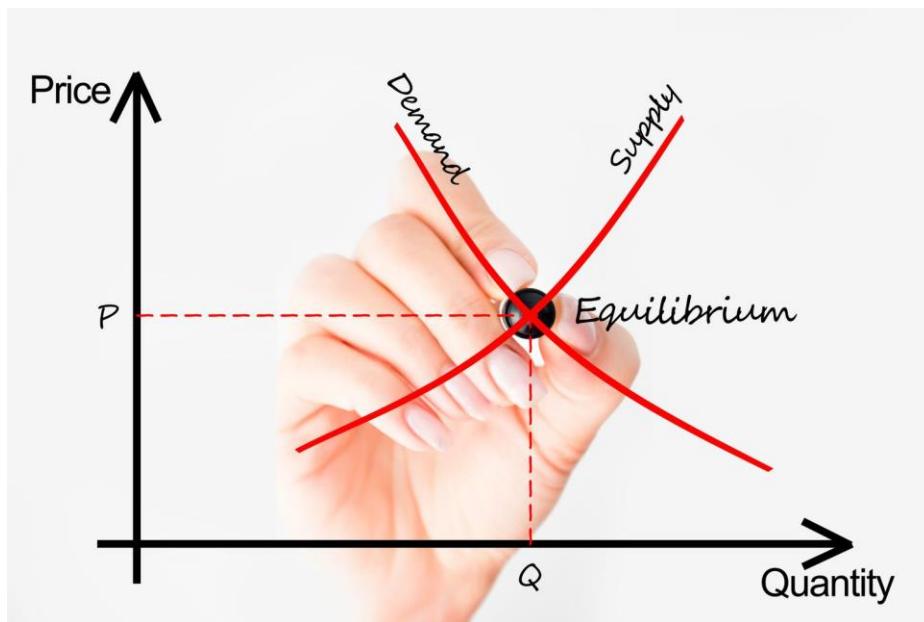
- Market is highly price sensitive
- Accumulated production experience (production and distribution)
- Low price discourages competition

Selecting the pricing objective

- ✿ Maximum Market Skimming
 - Exclusive R&D is a must: Sony, Samsung, Apple
- ✿ Product-Quality Leadership
 - Affordable luxuries: BMW, Starbucks
 - Combination of quality, luxury, and premium prices
- ✿ Other objectives
 - Nonprofit and public organizations aims for *partial cost recovery*

Determining Demand

- ✿ Price sensitivity
- ✿ Demand curves
- ✿ Price elasticity of demand



Estimating Costs

- ✿ Fixed costs
- ✿ Variable costs
- ✿ Total costs
- ✿ Average costs
- ✿ Accumulated production
- ✿ Target Costing



Analyzing competitors

- Consumers will base their judgments of a product's value on the prices that competitors charge for similar products.
- Analyzing competitors' –
 - Costs
 - Price
 - Offers

Competitor Analysis



Our Offering vs. The Competition

		 Bing	 Baidu 百度	 YAHOO!	 Yandex
Shows Most Relevant Results	✓				
Load Time < 1 Second	✓	✓	✓	✓	✓
Shows > 8 File Types	✓	✓	✓		
Largest Ad Inventory Volume	✓				
Owes Mobile Operating System	✓				

Please Note: This slide is for example purposes only and does not necessarily reflect the competitive position of companies in the search market.

Selecting a Pricing Method

- ❖ Markup Pricing
- ❖ Target-Return Pricing
- ❖ Perceived Value Pricing
- ❖ Everyday Low Price (EDLP)
- ❖ Going-Rate Pricing
- ❖ Auction-Type Pricing

Selecting the final price

- ✿ Impact of other marketing activities
- ✿ Company pricing policies
- ✿ Impact of price on other parties:
distributors, retailers

Product Mix Pricing Strategies

Captive-product pricing involves products that must be used along with the main product



Price Mix Pricing Strategies

Product bundle pricing combines several products at a reduced price



Plans	Good	Better	Best
Users	5 users	20 users	100 users
Features	Basic Functionality	Basic Functionality + Feature A	Basic Functionality + Feature A + Feature B + Feature C
Storage & Value Metric	10 MB storage 1 project	50 MB storage 3 projects	250 MB storage Unlimited projects
Transaction	\$ per year \$ per additional 10 MB storage	\$ per year \$ per additional 20 MB storage	\$ per year \$ per additional 50 MB storage
			Total users Active users Concurrent users
			# of uses # of downloads length of time/use

Price-Adjustment Strategies



Customer segment pricing is when different customers pay different prices for the same product or service. (Business class-economy class in a plane)



Product form segment pricing is when different versions of the product are priced differently but not according to differences in cost.

Price-Adjustment Strategies



Geographical pricing is a practice of adjusting the price of a product or service depending on the geographical location of the buyer. The adjusted price often reflects the costs of shipping, local taxes, market competition, or willingness to pay.

Price-Adjustment Strategies

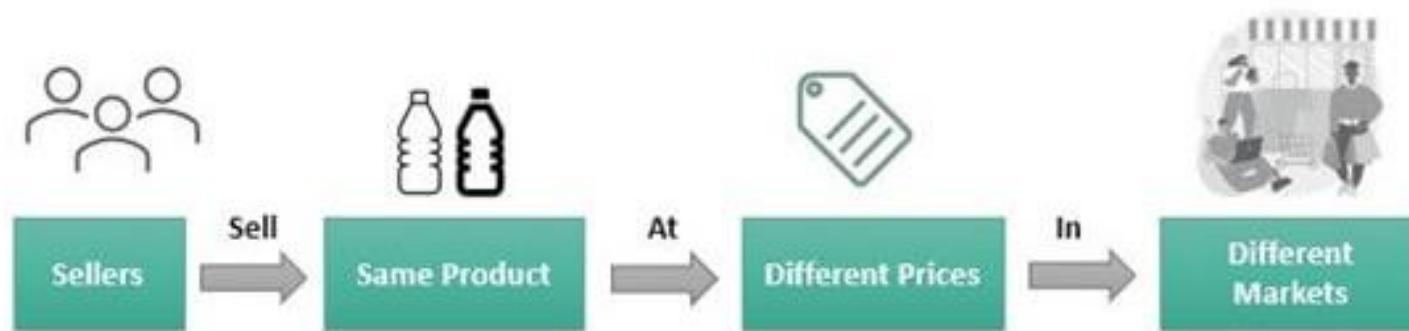
Promotional pricing is when prices are temporarily priced below list price or cost to increase demand

- ✿ Special event pricing
- ✿ Longer warranties
- ✿ Free maintenance



Price-Adjustment Strategies

- ✿ Price discounts and allowances
- ✿ Differentiated Pricing
 - Price discrimination: issuing coupons, applying specific discounts, and creating loyalty programs for repeat customers.



Price changes

- Initiating Price Cuts

- Low quality trap
- Fragile-market-share trap
- Shallow-pocket trap
- Price-war trap

- Initiating Price Increase

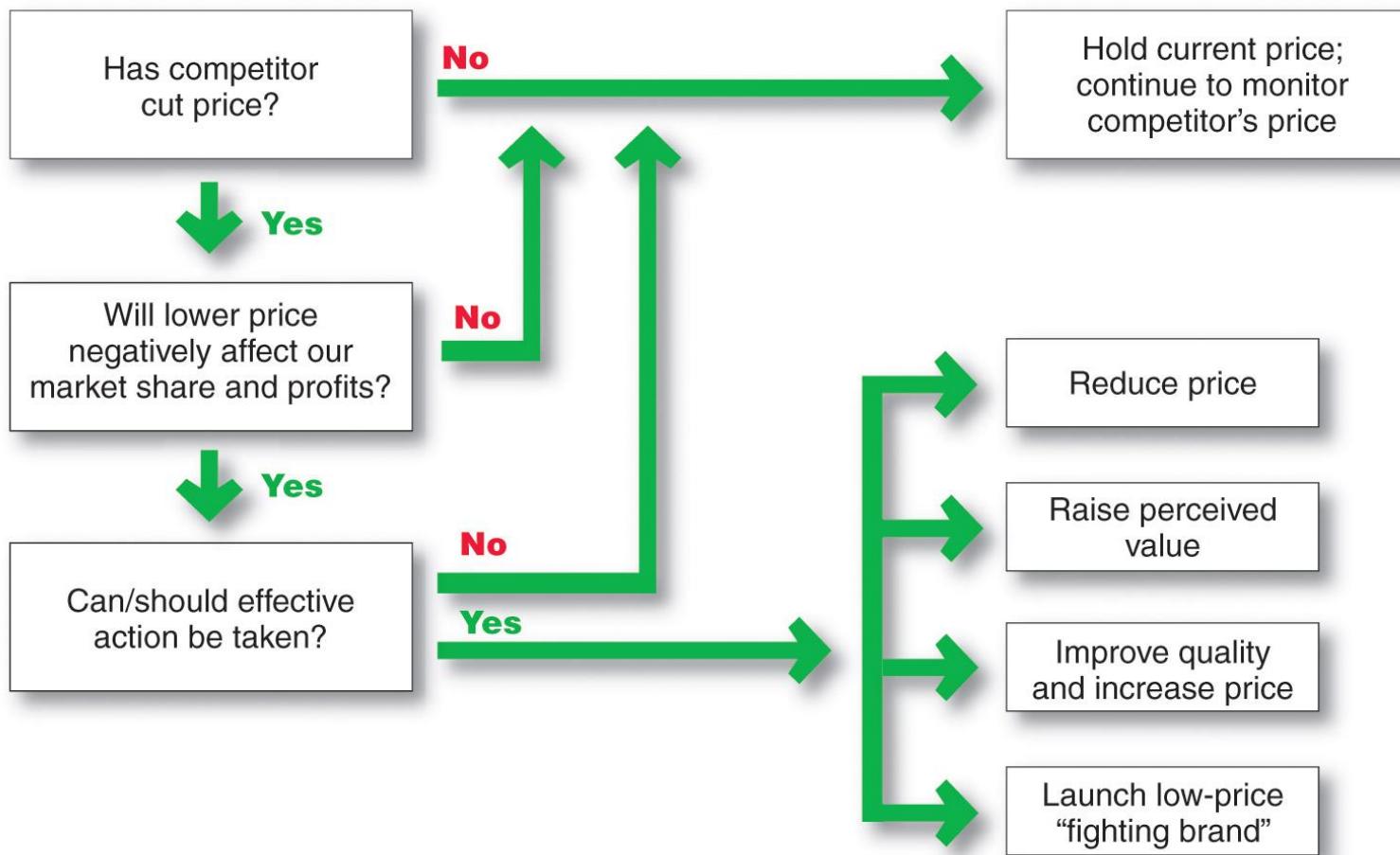
- Cost inflation
- Over demand

Price changes

- ✿ Anticipating competitive responses
- ✿ Responding to competitors' price changes
 - Why does the price change?
 - Temporary or permanent?
 - What will happen to market share and profit?
 - Other firms' responses

Price Changes

Responding to Price Changes



The Internet Changes the pricing environment – By Providing Information

Software pricing

Plans	Good	Better	Best
Users	5 users	20 users	100 users
Features	Basic Functionality	Basic Functionality + Feature A	Basic Functionality + Feature A + Feature B + Feature C
Storage & Value Metric	10 MB storage 1 project	50 MB storage 3 projects	250 MB storage Unlimited projects
Transaction	\$ per year \$ per additional 10 MB storage	\$ per year \$ per additional 20 MB storage	\$ per year \$ per additional 50 MB storage

Total users
Active users
Concurrent users

of uses
of downloads
length of time/use

Software Development Pricing Models

Fixed Price
Model



Time and Material
Pricing Model



Milestone Pricing
Model



Dedicated Team
Pricing Model



- ✿ **Fixed price model**

In a fixed-price pricing model, the software development company agrees to deliver a software solution to the client for a predetermined price.

- ✿ **Time and material pricing model**

- In the time and material (T&M) pricing model, the client pays the software development company for the actual time and materials used to develop the software solution.

* **Milestone based pricing model**

- Milestone-based pricing is a model where payments are made at predefined stages of the project.
- Each milestone represents a significant portion of work that has been completed and approved.
- By breaking down payments into milestones, both clients and vendors can manage risks more effectively.

* **Dedicated team pricing model**

- In the dedicated team pricing model, a client hires a team of software developers, designers, and other professionals to work on their project.
- This model is traditionally considered an alternative to outsourcing.

FACTORS AFFECTING THE COST OF SOFTWARE

① Project scope

⌚ Flexibility of requirements

> Software engineers

❓ Licenses & certifications

▣ Additional services

Business analyst

UI/UX designer

Systems architect

QA engineers

Software Pricing Strategies

- ✿ **Tip 1: Listen to Your Customers and Price by Value**

- Do your customers trust your brand?
- Do customers feel respected when engaging with your technical support team?
- Do customers rate your product as a reliable solution?

Software Pricing Strategies

- ✿ **Tip 2: Factor in the Market, Not Just the Price of Goods**
 - Many software providers operate in a mature market. When you're in a market with more products (supply) than buyers (demand), the supply tends to decrease prices.
 - On the other hand, if there are only a handful of software providers in your niche compared to the number of buyers, the price will start to go upward.

Software Pricing Strategies

- ✿ **Tip 3: Make Data-Driven Decisions Based on Your Competitor's Pricing Strategy**

- Evaluate how each of your competitors are pricing their solutions
- Deciding the right price for your software will be a combination of understanding
 - ❖ your customers
 - ❖ market conditions in the economy, and
 - ❖ your competitor's pricing strategy

Thank you!