



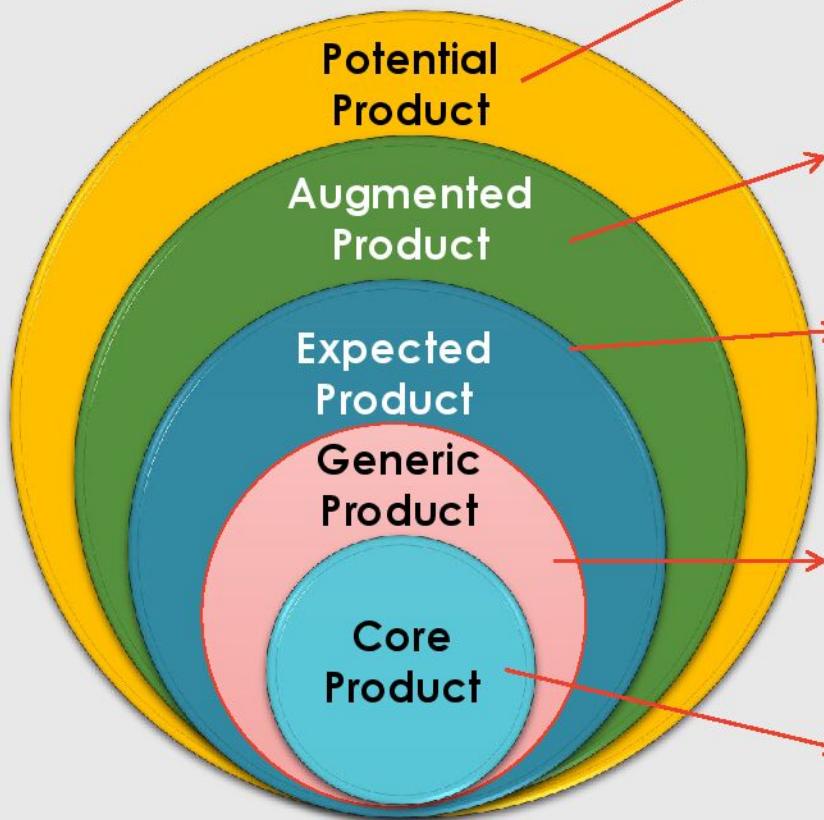
# PRODUCT DECISIONS

# What Is a Product?

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

From organization's perspective it is the **Core of the offer** made to the customers

# Levels of Product



Future updates and upgrades, compatibility & connectivity with other gadgets & devices, etc.

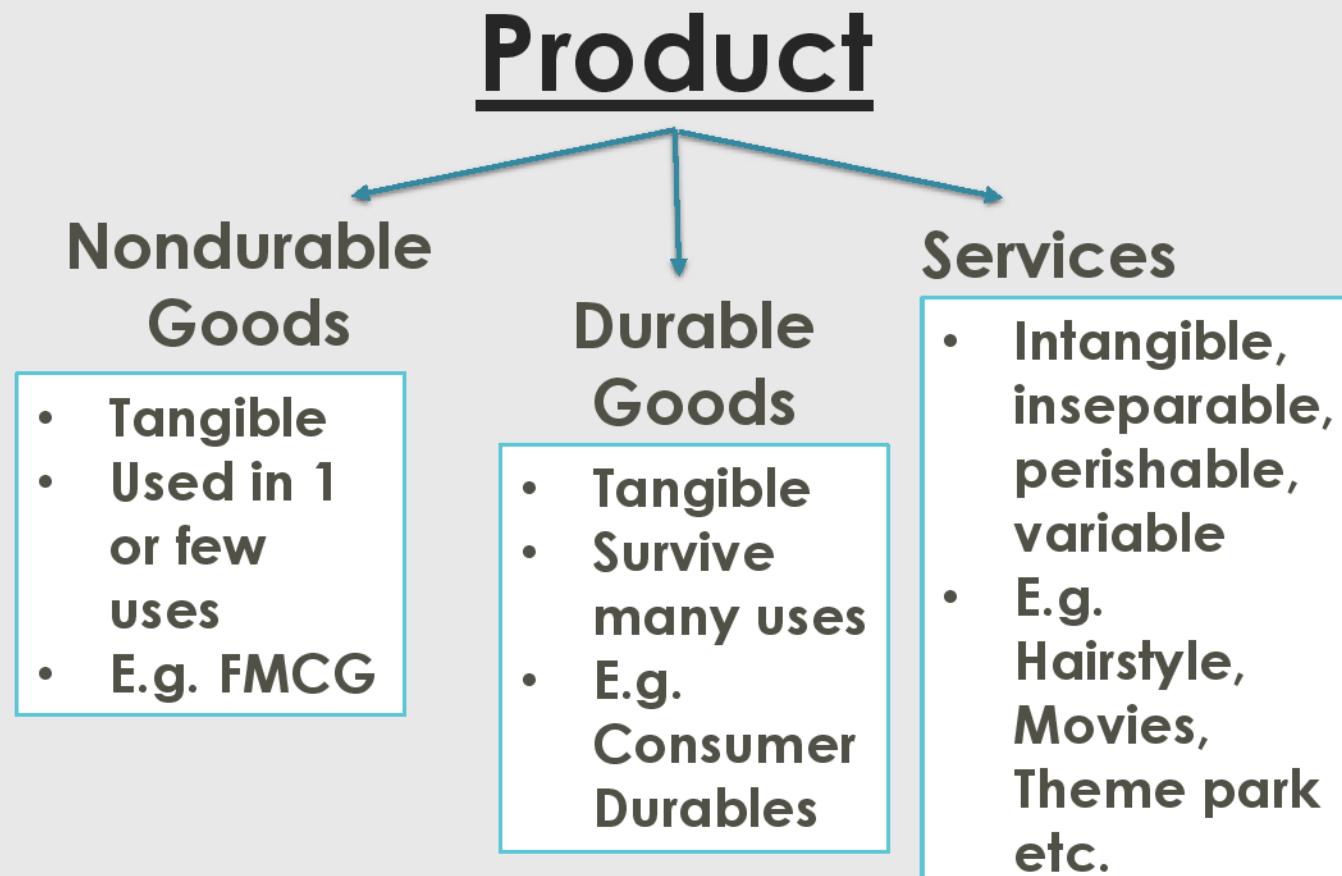
Unique & Differentiated benefits – 4K/ 8K Camera, High Refresh rate Display, latest processor, etc.

Expected benefits – Good Quality Photos, speed, longer battery life etc.

Features – Display, Camera, RAM, Battery Life etc.

Communication & Mobility

# Classification of Product (based on Durability & Tangibility)



# Classification of Product (based on Use)

- Consumer products
- Business products

# Consumer Products

**Consumer products** are products for the personal consumption

- Classified by how consumers buy them
  - **Convenience products**
  - **Shopping products**
  - **Specialty products**
  - **Unsought products**

# Consumer Products

## **Convenience products**

Customer usually buys

- Frequently
- Immediately
- With minimum comparison and buying effort

### **E.g.**

- Newspapers
- Chocolate/ Candy
- FMCG

# Consumer Products

## Shopping Products

Customer compares carefully on

- Suitability
- Quality
- Price
- Style

### E.g.

- Clothes
- Electrical Appliances

# Consumer Products

## Specialty Products

Products with unique characteristics or brand identification

A significant group of buyers is willing to make a special purchase effort

**E.g.**

- High-priced Designer Dresses
- Gold/ Diamond Ornaments
- Cars

# Consumer Products

## **Unsought products**

Customer does not know about or does not normally think of buying

Purchase of such products arises due to danger or the fear of danger and not out of a desire buy it.

### **E.g.**

- Health insurance
- Fire Extinguishers

# Business Products

Products purchased for further processing or for use in conducting a business.

Differentiates from consumer products majorly in terms of Buying Motives, Buying Process and Buying Habits

Broadly classified by the purpose for which the product is purchased

- **Materials and parts**
- **Capital Items**

# Business Products

## **Materials and parts**

Include raw materials, manufactured materials and parts, usually sold directly to the industrial users

### **E.g.**

- Lumber
- Iron
- Cement
- Plastic

# Business Products

**Capital items** are business products that aid in the buyer's production or operations

**E.g.**

- Buildings
- Elevators
- Computers/ Laptops
- Machinery

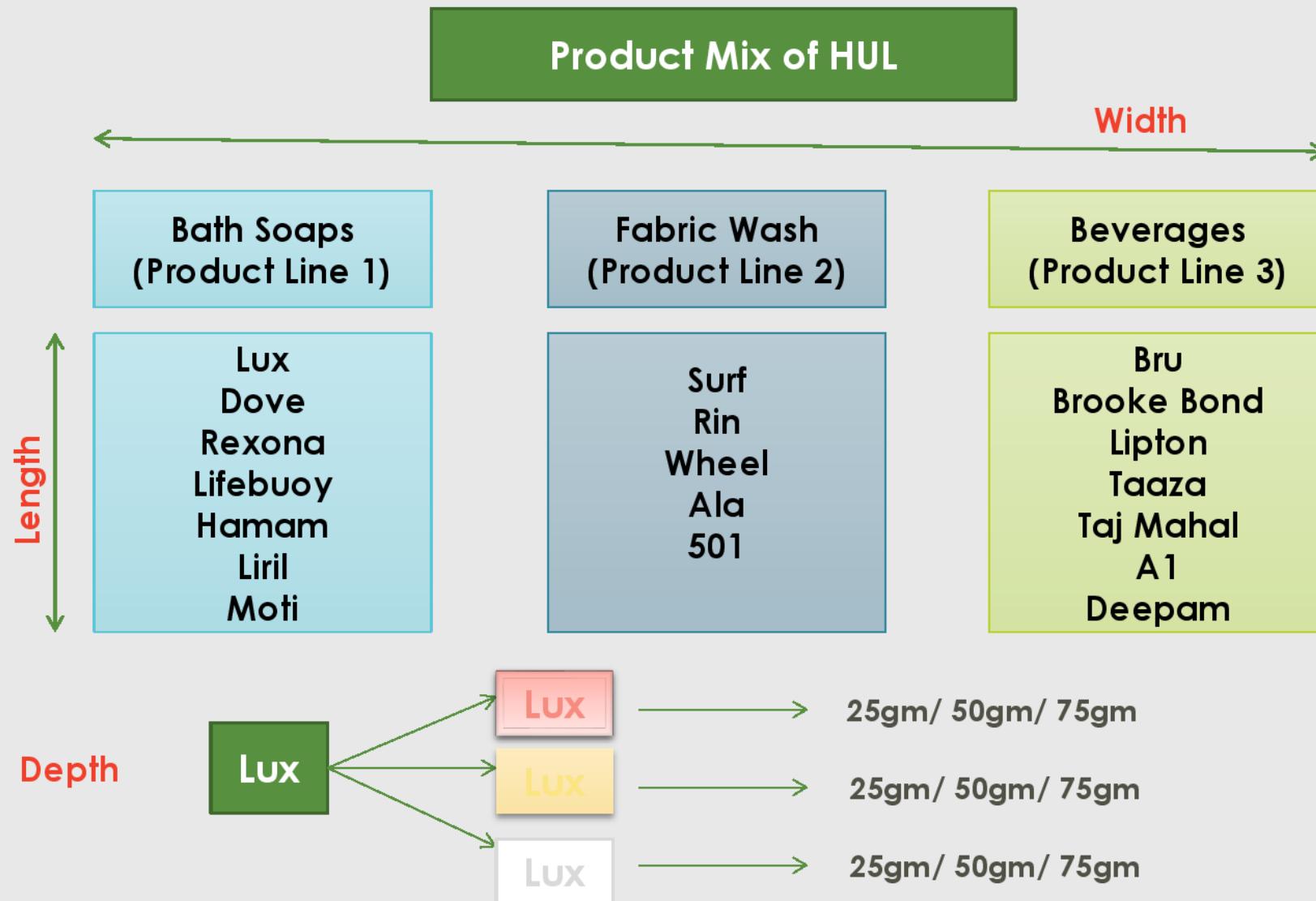
# The Components of Product Personality

- **Product attributes**
  - Quality, Features, Style & Design
- **Branding**
  - Name, Logo, Design, Symbol, Tagline
- **Packaging**
  - Look, Feel, Size, Shape, Material

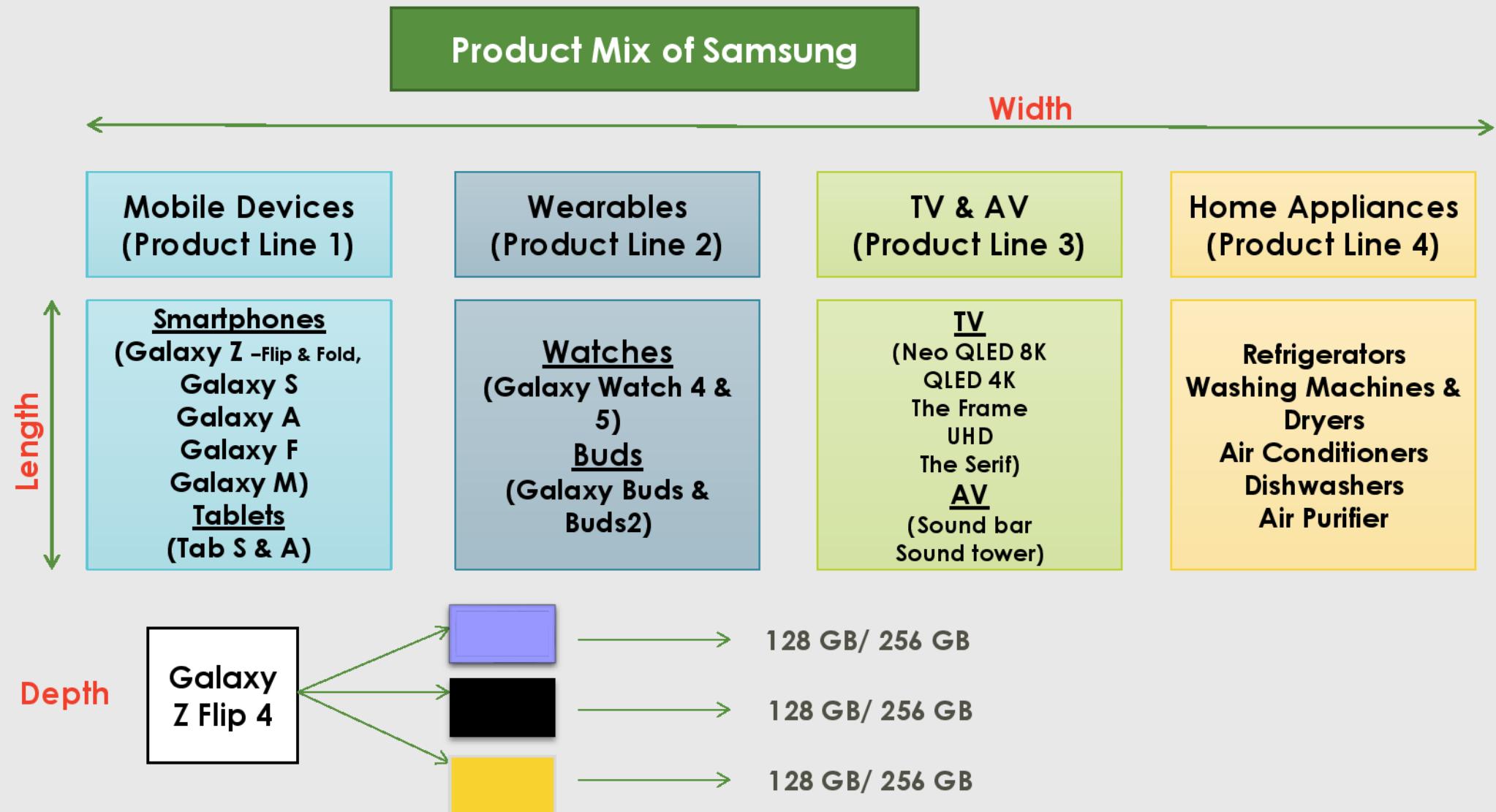
# The Components of Product Personality

- **Labeling**
  - Describes attributes & provides promotion
- **Product support services**
  - After sales service, Warranty, Repair, Replacement

# Product Mix & Product Line



# Product Mix & Product Line



# Strategies for Managing Product Line

## Product line stretching

Company lengthens its product line beyond its current range

- Downward Stretch (Samsung M series)
- Upward Stretch (Maruti Nexa)
- Two way Stretch (Combination of both – E.g. BBK Group)

## Product line filling

Companies add more items within the present range of the line

- More profits
- Satisfying dealers
- Excess capacity
- Plugging holes to fend off competitors

# Case Study: Casper Mattress



# Case Study: Casper Mattress



The advertisement features a green background with three white line-art illustrations of people on mattresses. On the left, two anthropomorphic animals (an owl and a bat) are partying on a Casper mattress. In the center, two ballerinas in tutus are dancing on a Casper mattress. On the right, a group of monkeys are sitting on a Casper mattress. Each illustration has a small 'Casper' logo on the side of the mattress. Below each illustration is a caption: 'THE PERFECT MATTRESS FOR PARTY ANIMALS', 'THE PERFECT MATTRESS FOR BALLERINAS', and 'THE PERFECT MATTRESS FOR PROVERBIAL MONKEYS'. In the center, there is a white rectangular box with a dark blue border containing the Casper logo, the text 'ONE PERFECT MATTRESS', and promotional information: '\$50 OFF WITH CODE "CHICAGO"' and 'CASPER.COM'.

THE PERFECT MATTRESS FOR PARTY ANIMALS

THE PERFECT MATTRESS FOR BALLERINAS

THE PERFECT MATTRESS FOR PROVERBIAL MONKEYS

Casper

Casper

**Casper**  
**ONE PERFECT  
MATTRESS**  
\$50 OFF WITH CODE "CHICAGO"  
CASPER.COM

# Case Study: Casper Mattress



# Product Life Cycle



# Product Life Cycle

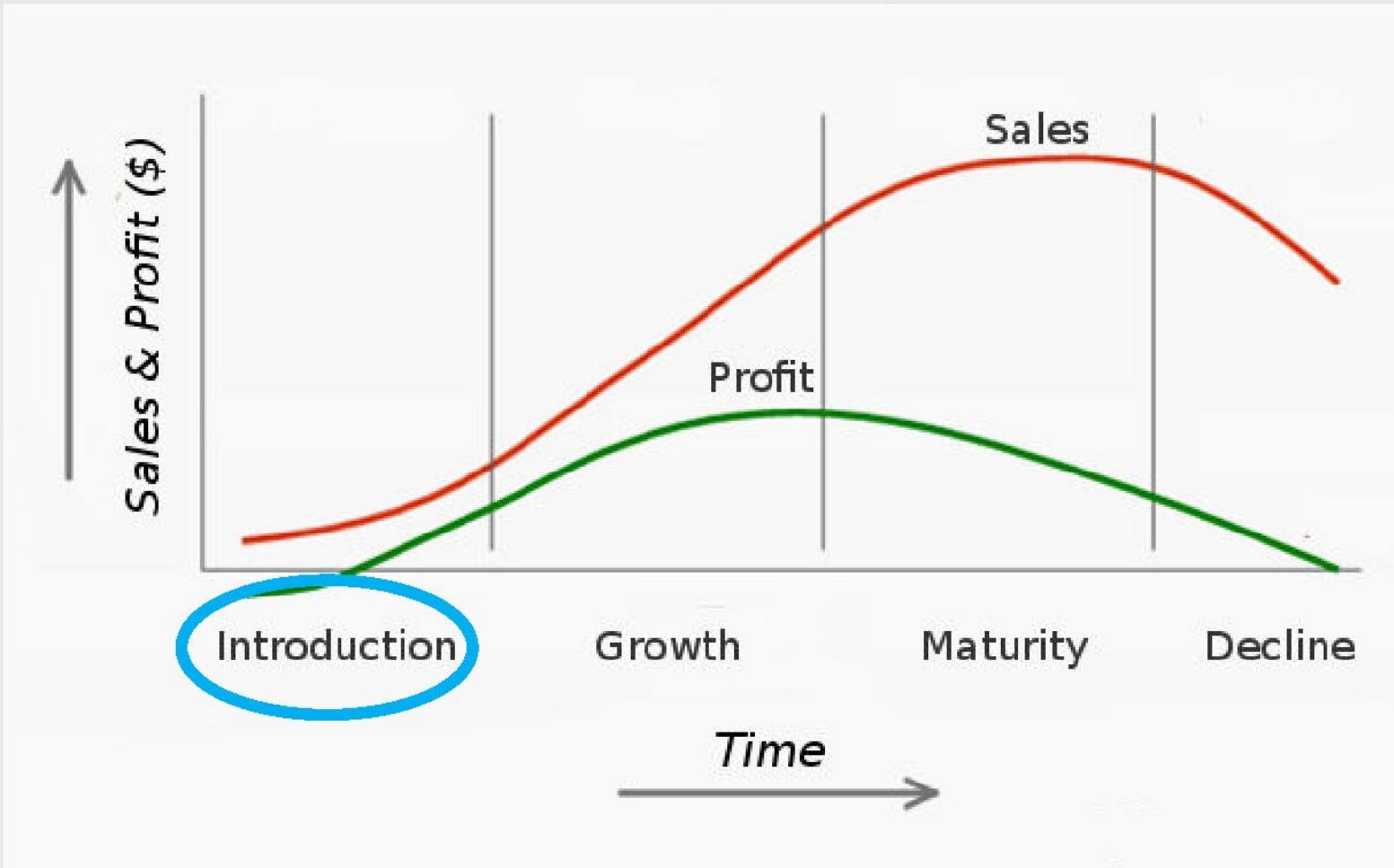
## **Four Key Assumptions:**

- Limited Life of Products
- Products' sale pass through multiple & distinct stages
- Profits rise & fall at different stages
- At each stage – different strategies for Marketing, Finance, Manufacturing, HR

# Product Life Cycle

- Applicable to analyze – Product Category, Product & Brand
- Length of PLC and each stage differs from product to product
- Helps managers to think about challenges at different stages

# Product Life Cycle



# Introduction

- Slow sales growth and nonexistent profits due to heavy expenses
- Promotional expenses to Sales ratio is highest due to the need of:
  - Informing potential consumers
  - Inducing product trial
  - Securing distribution in retail outlets

# Product Life Cycle



# Growth

- Rapid Market acceptance and substantial profit improvement
- Promotional expenses are maintained or increased to compete effectively
- Promotional expenses to Sales ratio reduces – large sales volume
- Strategies:
  - Improved offering (superior quality, new features/ styling)
  - New variants
  - New target segments
  - Increase distribution coverage
  - Lower price to attract more segments

# Product Life Cycle



# Maturity

- **3 Phases:**
  - **Growth** (Sales growth slows down, no new distribution channels)
  - **Stable** (Sales per capita flatten due to market saturation, as most potential buyers have already purchased )
  - **Decaying** Maturity (Sales starts declining, as customers starts switching to other products)

# Maturity

- **3 Remedial Ways:**

- **Market Modification**

- Expand No. of Users – Convert non-users, Enter New Segments, Attract Competitors' customers
    - Increase Usage Rate – More consumption, More occasions, New ways of consumption (E.g. Cadbury, Kurkure)

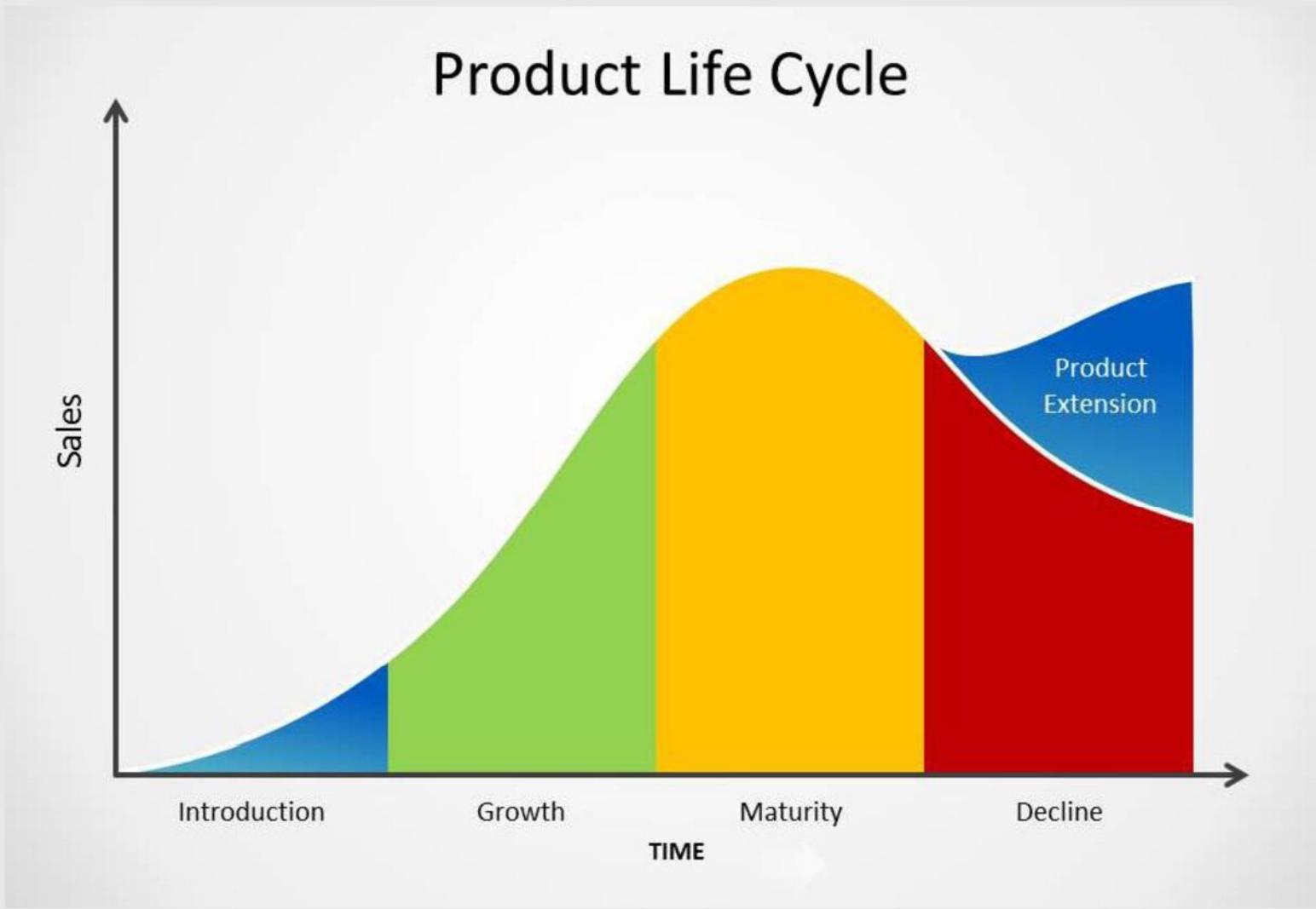
- **Product Modification**

- Quality improvement
    - Additional Features
    - Style improvement

- **Marketing Program Modification**

- Price
    - Distribution
    - Communication

# Stages of the Product Life Cycle



# Product Life Cycle



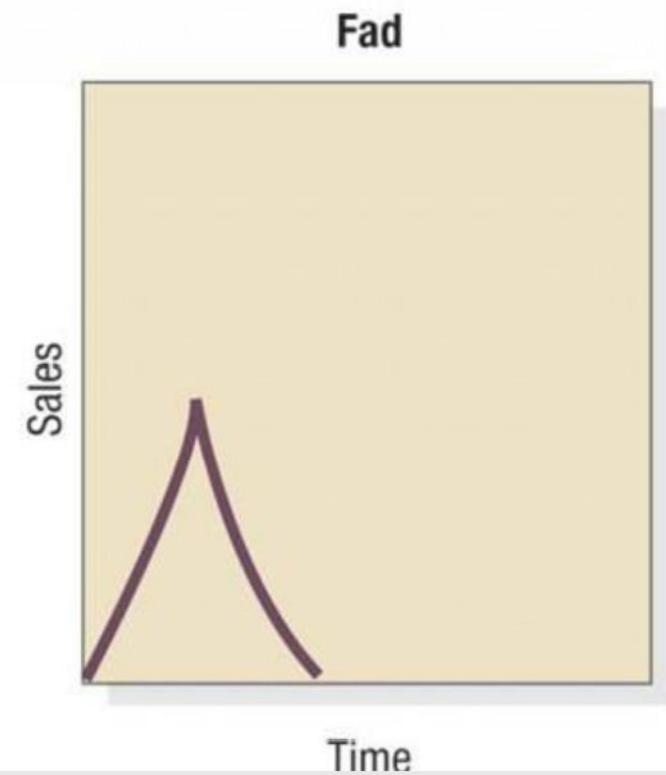
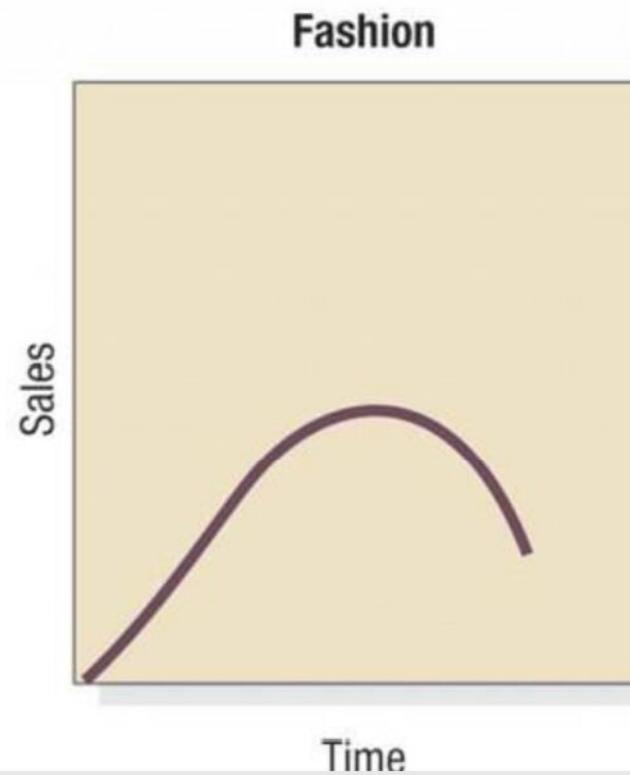
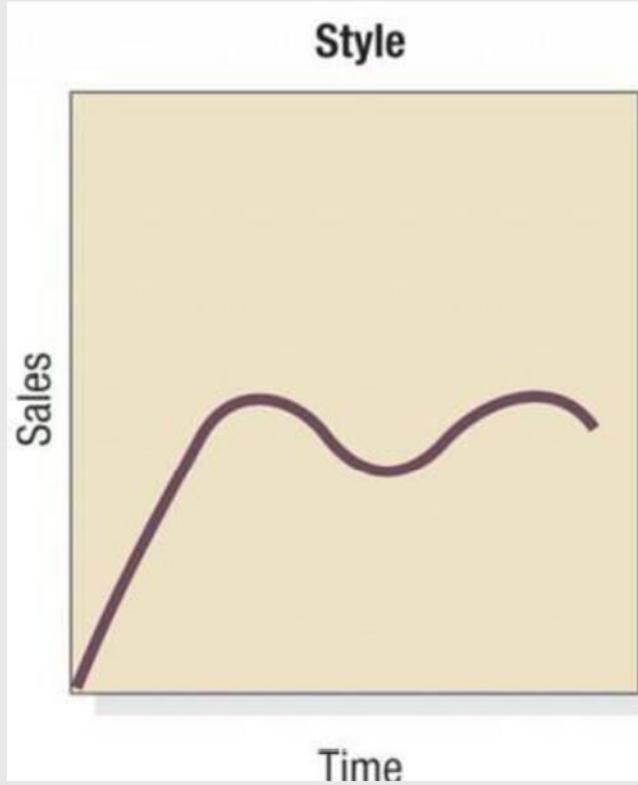
# Decline

- **Sales show downward drift, Profits erode**
- **Remedial Ways:**
  - **Eliminate Weak Products**
  - **Harvesting** (gradually reducing product's cost)
  - **Divesting** (sell it to another firm)

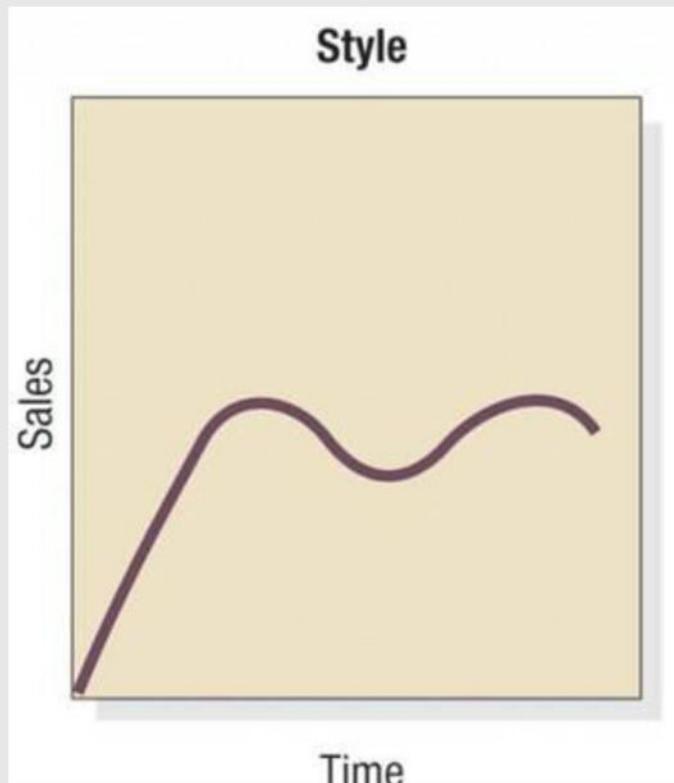
# Stages of the PLC

	Introduction	Growth	Maturity	Decline
<b>Sales</b>	Low sales	Rapidly rising sales	Peak sales	Declining sales
<b>Costs</b>	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
<b>Profits</b>	Negative	Rising profits	High profits	Declining profits
<b>Marketing Objectives</b>	Product awareness & trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure & milk the brand
<b>Product</b>	Offer a basic product	Offer product extensions, service, warranty	Diversify brand and models	Phase out weak items
<b>Price</b>	Use cost-plus	Price to penetrate market	Price to match or best competitors	Cut price
<b>Distribution</b>	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
<b>Advertising</b>	Build product awareness among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain loyal customers

# Style, Fashion, and Fad Life Cycles

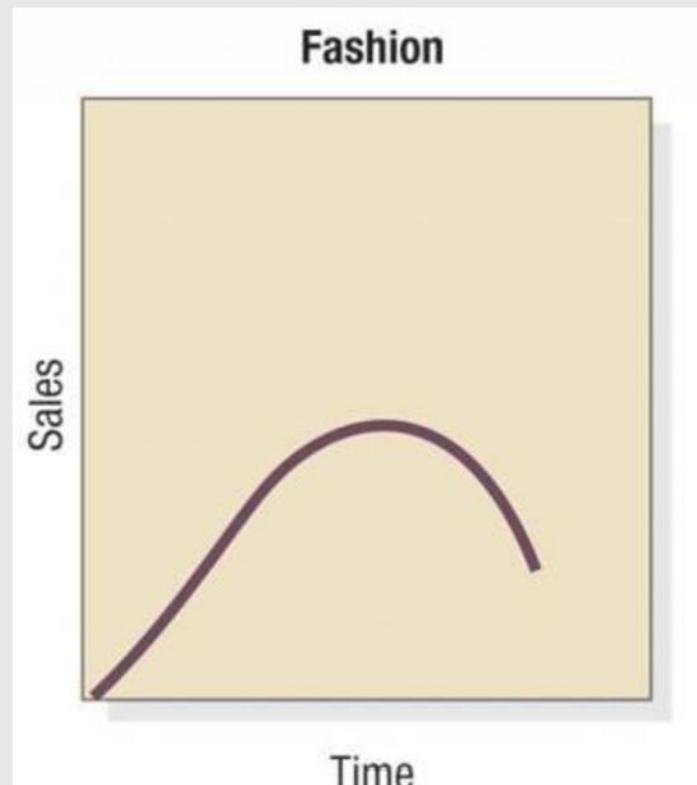


# Style, Fashion, and Fad Life Cycles



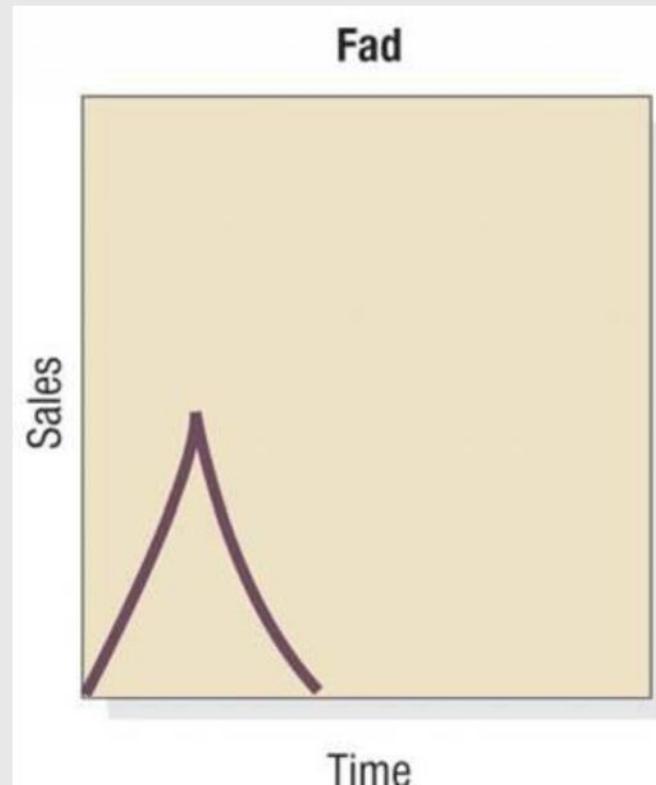
- A basic & distinctive mode of Expression
- E.g. Clothing – Formal, Business Casual, Ethnic etc.
- Style can last for generations and go in & out of vogue

# Style, Fashion, and Fad Life Cycles



- Currently accepted or popular style in a given field
- 4 stages: Distinctiveness, Emulation (Initial imitation), Mass Fashion 7 Decline
- Length is hard to predict – End when consumers look for missing attributes

# Style, Fashion, and Fad Life Cycles



- Fashion that comes quickly in public view, adopted, peak early & decline fast
- E.g. Amazon Kindle
- Decline fast because don't satisfy strong need



A decorative graphic consisting of two vertical bars. The top bar is a dark blue rectangle located on the left side of the slide. The bottom bar is a light blue rectangle located below the top one, also on the left side.

# **New Product Development**

# New Product Development

---

- ▶ It is a process of developing a new offering (physical good or service) for the market
- ▶ It involves development of **original products, product improvements, product modifications, and new brands** through the firm's own R & D efforts
- ▶ NPD is done either to **compete** with competitor's product/service or to **improve** an already established product



# How Amazon Built the Echo

---

## Meet Alexa

The brain behind Echo  
and built in cloud



# Types of New Product

---

## ▶ **New-to-the-world**

- ▶ An Invention
- ▶ Potential customers needs to be educated about it
- ▶ The designs can be protected through patents
- ▶ Popularity of new product can boost reputation of company
- ▶ **E.g. Amazon Kindle, Echo Dot, Walkman, Iphone**

## ▶ **New-to-the-firm**

- ▶ A product that the company has never made, but available in the market
- ▶ company does not require to create knowledge on how product works
- ▶ The product must fit the image of what the company specializes in
- ▶ **E.g. Google+**

## ▶ **Addition to existing product line**

- ▶ Launching new product variants under existing product line
- ▶ Helps in better segmentation
- ▶ **E.g. Samsung Galaxy Smartphone series**



# Types of New Product

---

## ▶ **Improved and revised**

- ▶ Existing products/ brands are further improved with features/ technology
- ▶ Actual value increased in the long run
- ▶ **E.g. Activa 7G**

## ▶ **Repositioning**

- ▶ Changing the perception in the mind of the consumer.
- ▶ Generating revenue from an existing product
- ▶ **E.g. Maggi/ Hero MotoCorp**



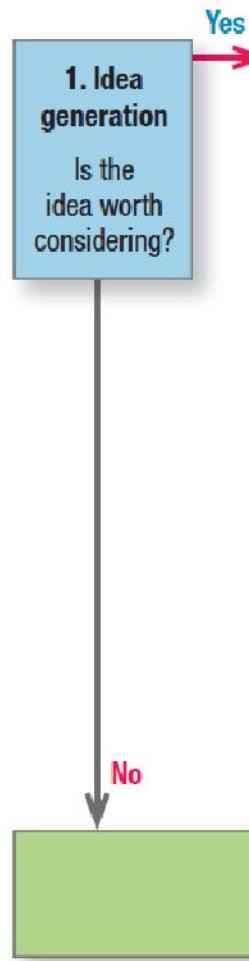
# Factors Contributing NPD

---

- ▶ Change in Consumer Preference (Smartphones)
- ▶ Change in Technology (Android)
- ▶ Govt. Policy (Tally)
- ▶ Competition (BBK)
- ▶ Environmental Threat (McDonalds/ KFC)



# NPD Process



# NPD Process

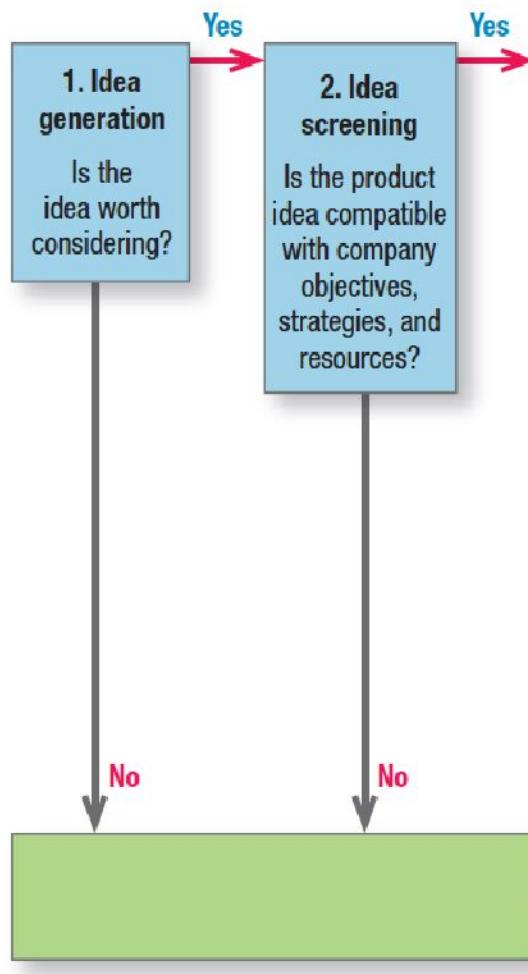
---

## ▶ **Idea Generation Tools**

- ▶ Observing Customers
- ▶ Interviewing Customers
- ▶ Interviewing Employees
- ▶ Interviewing Experts
- ▶ Analyzing the Competition
- ▶ Crowdsourcing



# NPD Process



# NPD Process

## ▶ Idea Screening

### ▶ Product-Idea Rating Device

<b>Product Success Requirements</b>	<b>Relative Weight (a)</b>	<b>Product Score (b)</b>	<b>Product Rating (c = a × b)</b>
Unique or superior product	.40	.8	.32
High performance-to-cost ratio	.30	.6	.18
High marketing dollar support	.20	.7	.14
Lack of strong competition	.10	.5	.05
Total	1.00		.69

<sup>a</sup> Rating scale: .00–.30 poor; .31–.60 fair; .61–.80 good. Minimum acceptance rate: .61

# NPD Process

---

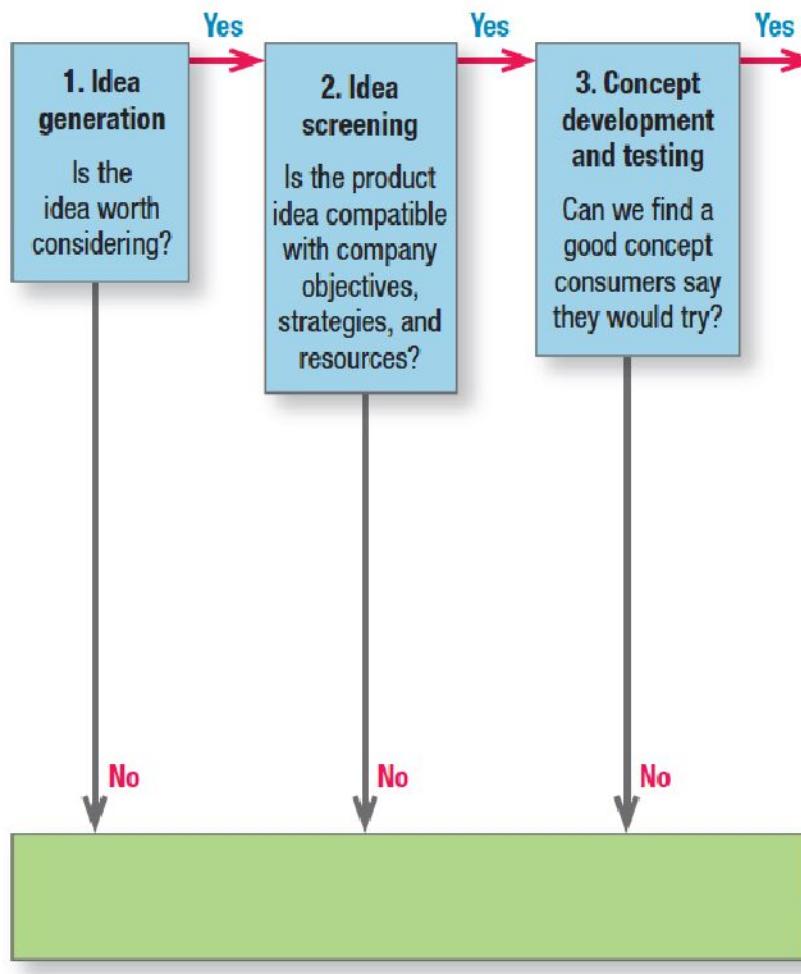
## ▶ Idea Screening

- ▶ Product-Idea Rating Device
- ▶ Estimate Product's overall Probability of Success

$$\begin{array}{lclclclcl} \text{Overall} & & \text{Probability} & & \text{Probability of} & & \text{Probability of} \\ \text{probability} & = & \text{of technical} & \times & \text{commercialization} & \times & \text{economic} \\ \text{of success} & & \text{completion} & & \text{given technical} & & \text{success given} \\ & & & & \text{completion} & & \text{commercialization} \end{array}$$



# NPD Process



# NPD Process

---

## Concept Development & Testing

Presenting the product concept to target consumers, physically or symbolically, and getting their reactions.

- ▶ **Communicability and believability**
  - ▶ *“Are the benefits clear to you and believable?”* If the scores are low, the concept must be refined or revised.
- ▶ **Need level**
  - ▶ *“Do you see this product solving a problem or filling a need for you?”* The stronger the need, the higher the expected consumer interest.
- ▶ **Gap level**
  - ▶ *“Do other products currently meet this need and satisfy you?”* The greater the gap, the higher the expected consumer interest.
  - ▶ Marketers can **multiply** the **need level** by the **gap level** to produce a **need-gap score**. A high score means the consumer sees the product as filling a strong need, not satisfied by available alternatives.



# NPD Process

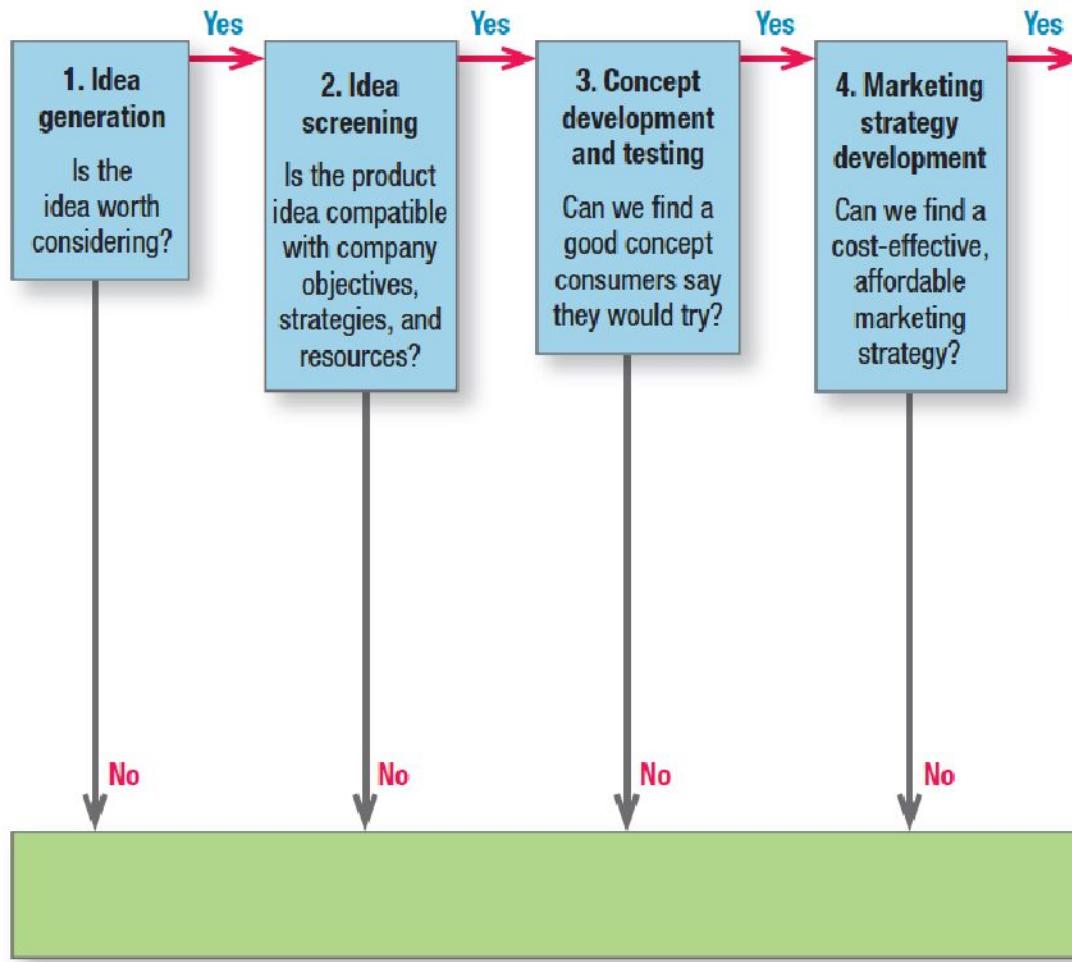
---

## Concept Development & Testing

- ▶ **Perceived value**
  - ▶ “***Is the price reasonable in relationship to value?***” The higher the perceived value, the higher is expected consumer interest.
- ▶ **Purchase intention**
  - ▶ “***Would you (definitely, probably, probably not, definitely not) buy the product?***
- ▶ **User targets, purchase occasions, purchasing frequency**
  - ▶ “***Who would use this product, when, and how often?***



# NPD Process



# NPD Process

---

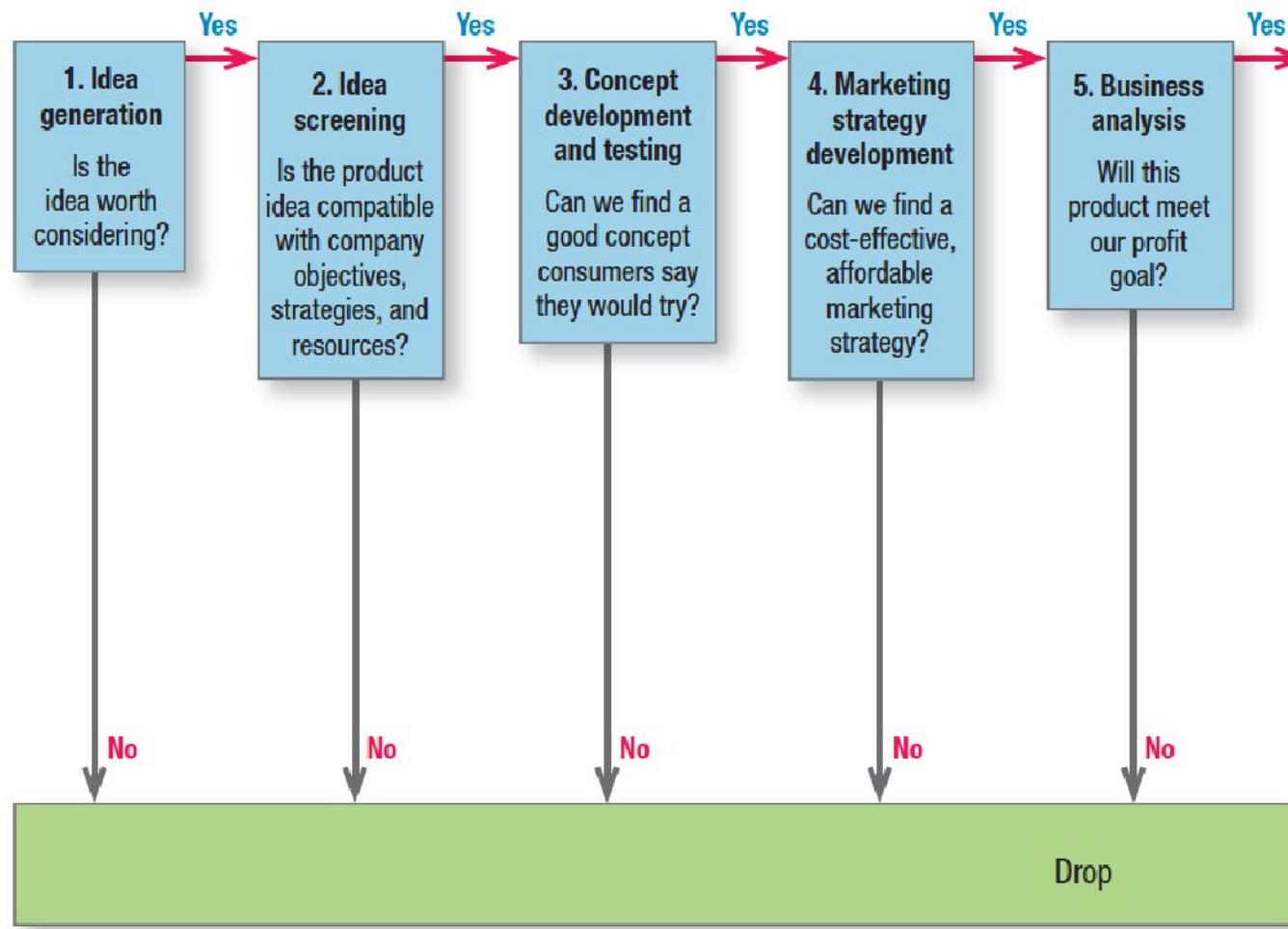
## Market Strategy Development

### ***Essential aspects to be considered***

- ▶ Target market's size, structure, & behavior
- ▶ Planned brand positioning
- ▶ Sales, Market share & Profit goals in first few years
- ▶ Planned price, distribution strategy, and marketing budget for the first year
- ▶ Long-run sales & profit goals and marketing-mix strategy over time



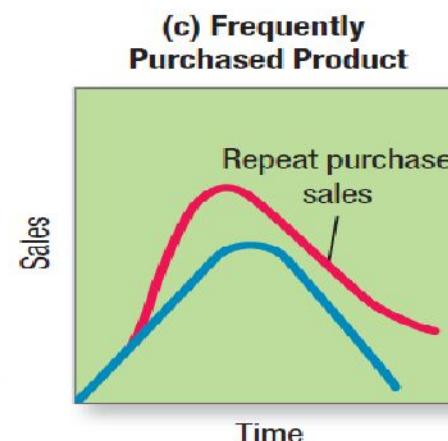
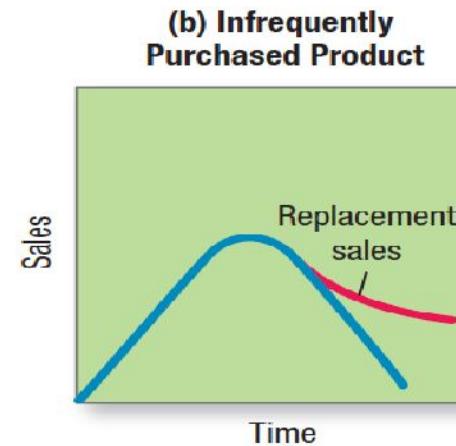
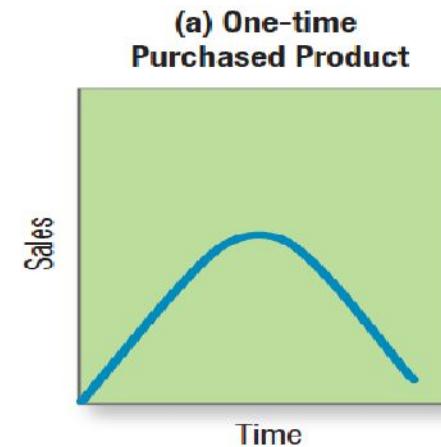
# NPD Process



# NPD Process

## Business Analysis

- ▶ Estimating total sales
- ▶ Product Life-Cycle Sales for 3 Types of Products



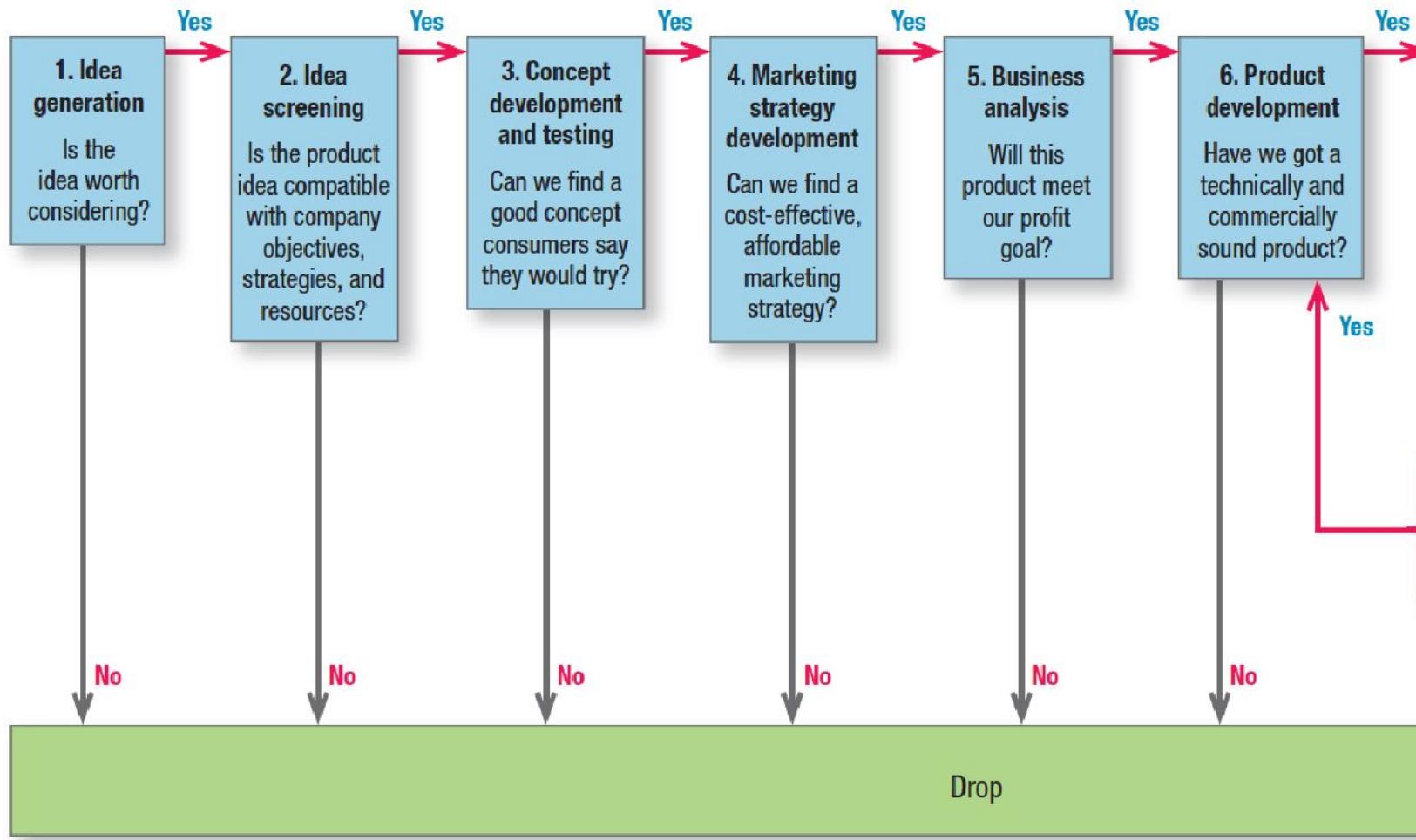
# NPD Process

## Business Analysis

### ► Estimating Costs & Profits

Projected Five-Year Cash Flow Statement (in thousands of dollars)						
	<b>Year 0</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
1. Sales revenue	\$0	\$11,889	\$15,381	\$19,654	\$28,253	\$32,491
2. Cost of goods sold	0	3,981	5,150	6,581	9,461	10,880
3. Gross margin	0	7,908	10,231	13,073	18,792	21,611
4. Development costs	-3,500	0	0	0	0	0
5. Marketing costs	0	8,000	6,460	8,255	11,866	13,646
6. Allocated overhead	0	1,189	1,538	1,965	2,825	3,249
7. Gross contribution	-3,500	-1,281	2,233	2,853	4,101	4,716
8. Supplementary contribution	0	0	0	0	0	0
9. Net contribution	-3,500	-1,281	2,233	2,853	4,101	4,716
10. Discounted contribution (15%)	-3,500	-1,113	1,691	1,877	2,343	2,346
11. Cumulative discounted cash flow	-3,500	-4,613	-2,922	-1,045	1,298	3,644

# NPD Process



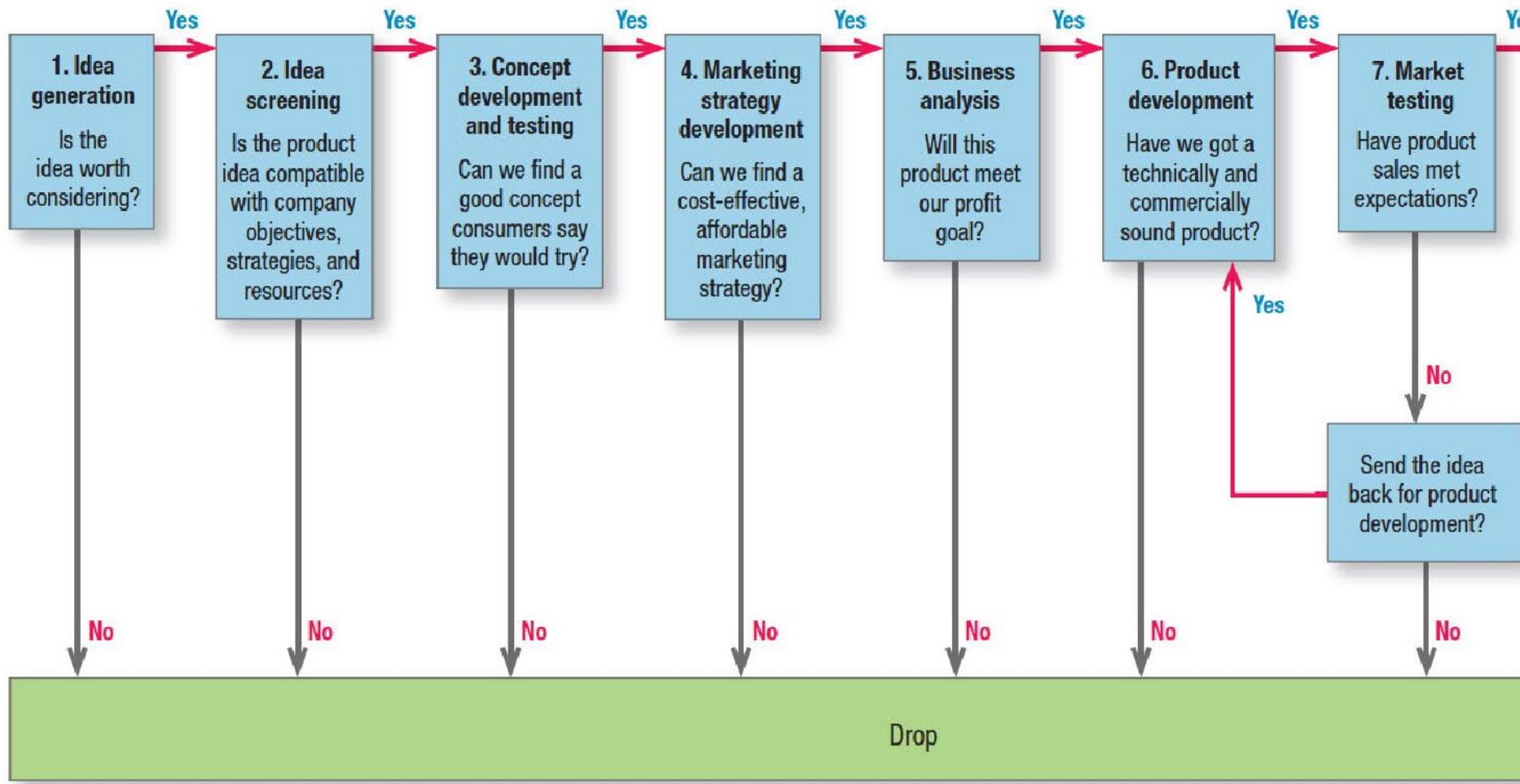
# NPD Process

## Product Development

- ▶ Physical prototypes
- ▶ Customer tests: alpha & beta testing
  - ▶ **Alpha** testing helps validate the **quality** of the product
  - ▶ **Beta** testing helps to obtain **real-world feedback** to ensure you're building products that your customers actually like



# NPD Process



# NPD Process

---

## **Market Testing**

- ▶ Consumer-goods market testing
- ▶ Business-goods market testing



# NPD Process

---

## Market Testing

- ▶ **Methods**
  - ▶ Sales-wave research
    - ▶ A technique used to **test consumer reaction** to new products prior to full-scale commercialization
  - ▶ Simulated Test Marketing
    - ▶ Consumers are **exposed to a simulated purchase situation** to gauge the their reactions to a product, advertising or marketing mix variations



# NPD Process

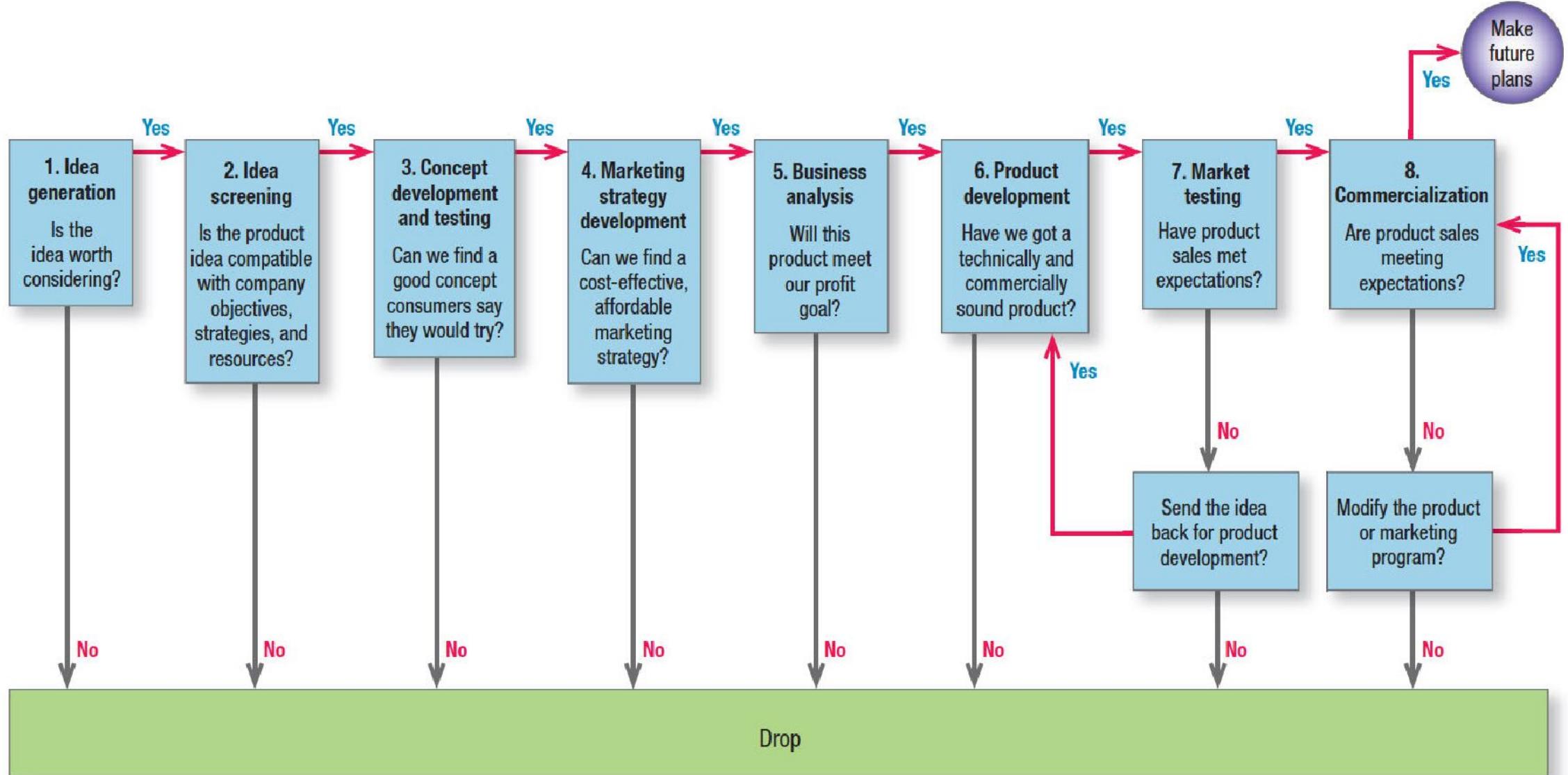
---

## Market Testing

- ▶ **Methods**
  - ▶ Controlled Test Marketing
    - ▶ Researcher offers the marketer a panel of stores, where the checkout scanner data is monitored to measure initial and repeat purchases, along with the sales of competitive products
  - ▶ Test Markets
    - ▶ The company selects a **small number of representative cities** in which to trial the full marketing mix prior to a new product launch



# NPD Process



# NPD Process

---

## **Commercialization**

- ▶ Where (Geographic Strategy)
- ▶ To Whom (Target-Market Prospects)
- ▶ How (Introductory Market Strategy)





# Pricing Decisions



# What is Price?

Rent

Fee

Fare

Commission

Gifts

Premium

Tax

Toll

Salary

Bonus

EMI

Interest

Retainer



## Overview of Pricing

- The amount of **money charged** for a product or service, or the sum of the values that **consumers exchange for the benefits** of having or using the product or service.
- The only element among the 4Ps, that **generates revenues**
- The **most flexible element** of Marketing mix
- Important **determinant of the profitability** of business
- One “P” that has been **dramatically affected by** the use of the **Internet**.



## Overview of Pricing

- **How companies price**
  - Small companies: boss
  - Large companies: division/product line managers



# **Which Factors Affects the Pricing Decisions from Organization's Perspective?**



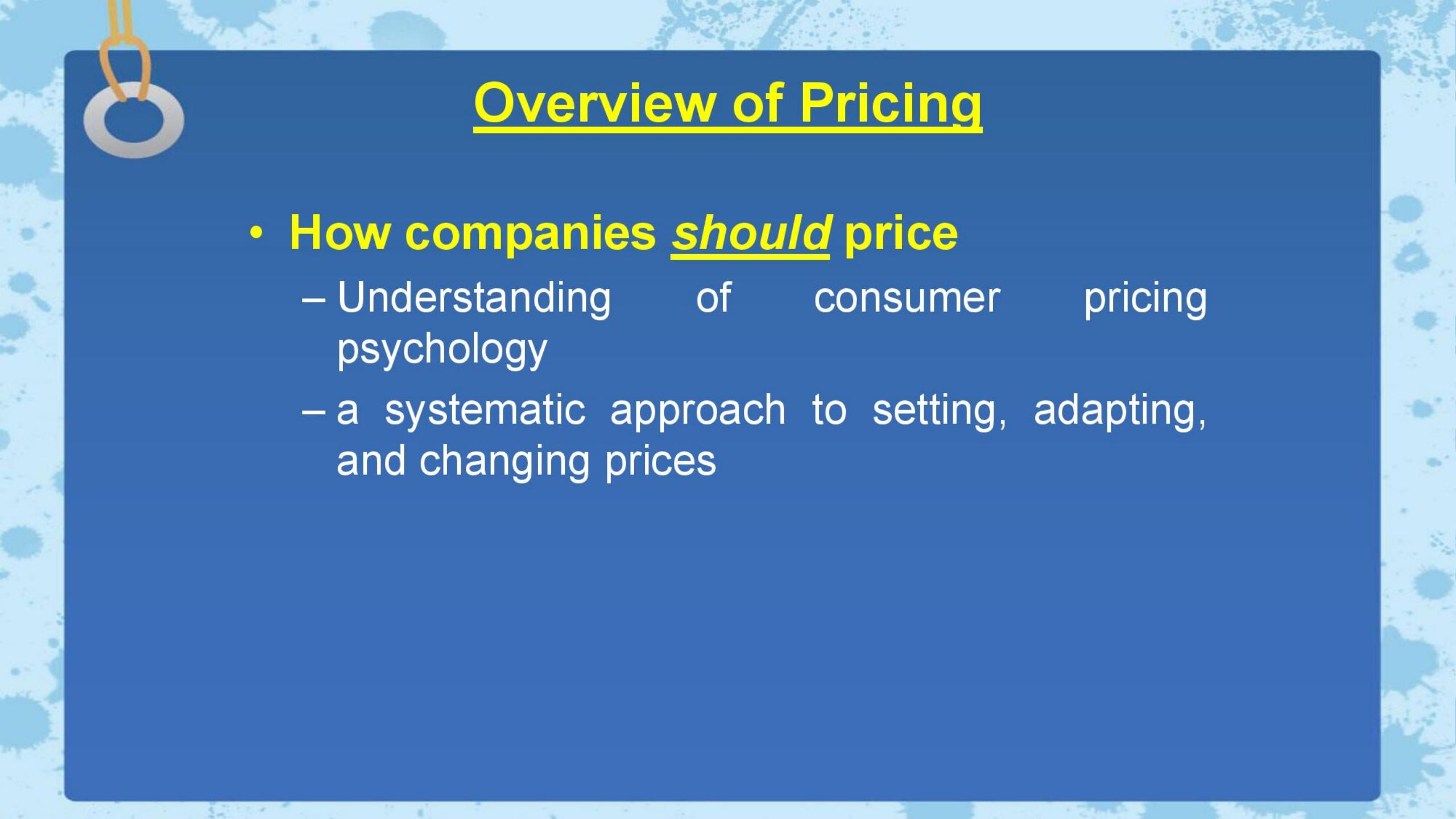
# Internal Factors

- **Marketing Objectives**
  - Survival/ Profit maximization/ Market share leadership/ Product quality leadership
  - E.g. LG
- **Marketing Mix Strategies**
  - Careful coordination with other marketing mix elements
  - E.g. McVities Digestive Biscuits
- **Costs**
  - Variable/ Fixed/ Total Costs
- **Organizational Considerations**
  - Price setters: CEO/ Top Mgt. in small companies, Product line Mgr. in large companies



# External Factors

- **Nature of Market and Demand**
  - Monopoly/ Monopolistic/ Oligopoly; price elasticity of Demand
- **Competition**
  - Competitors' Costs, Prices and Offers
- **Other Environmental Elements**
  - Political, Economical, Social, Technological, Legal



## Overview of Pricing

- **How companies should price**
  - Understanding of consumer pricing psychology
  - a systematic approach to setting, adapting, and changing prices



# Consumer Psychology and Pricing

- *Purchase decisions*
  - How consumers perceive prices
  - What they consider the current actual price to be
- *Customers may have predetermined perceptions on:*
  - **Lower price threshold** - below which prices signal inferior or unacceptable quality
  - **Upper price threshold** - above which prices are prohibitive and the product appears not worth the money



# How Consumers arrive at their Perceptions of Pricing?

- **Reference Prices**

- Comparing an observed price to **internal reference** price they remember (previously advertised/ paid price) or an **external frame of reference** such as “regular retail price” by the competitors

## Possible Consumer Reference Prices

- “Fair Price” (what consumers feel the product should cost)
- Typical Price
- Last Price Paid
- Upper-Bound Price (reservation price or the maximum most consumers would pay)
- Lower-Bound Price (lower threshold price or the minimum most consumers would pay)
- Historical Competitor Prices
- Expected Future Price
- Usual Discounted Price



# How Consumers arrive at their Perceptions of Pricing?

- **Image Pricing**

- Consumers perceive price as an **indicator of quality**
- Effective with **ego-sensitive products** such as perfumes, expensive cars, and designer clothing

- **Pricing Cues**

- Customers perceive an item priced at \$299 to be in the \$200 rather than the \$300 range
- Useful when there is a mental price break at the higher, rounded price



# How to Set the Price?





# How to Set the Price?

- **Step 1: Selecting the Pricing Objective**
  - **Short term Profit**
    - Maximize current profits, cash flow & rate of ROI
    - Based on the demand estimates & costs associated with alternative prices
  - **Market Penetration**
    - Maximize Market share and increase the sales volume by setting lower price (E.g. OYO Rooms, Jio)
  - **Market Skimming**
    - While unveiling a new technology/ experience set high prices to ‘skim the cream’ off the market & then slowly drop the price (E.g. Sony)
  - **Quality Leadership**
    - Positioning of Quality leader in the market (E.g. Starbucks, BMW, Apple)



## How to Set the Price?

- **Step 2: Determining Demand**
  - To understand what affects price sensitivity
    - Customers are less price sensitive when:
      - (1) There are few or no substitutes or competitors
      - (2) They do not readily notice the higher price
      - (3) They are slow to change their buying habits
      - (4) They think the higher prices are justified
      - (5) Price is only a small part of the total cost of obtaining, operating, and servicing the product over its lifetime



# How to Set the Price?

- **Step 2: Determining Demand**

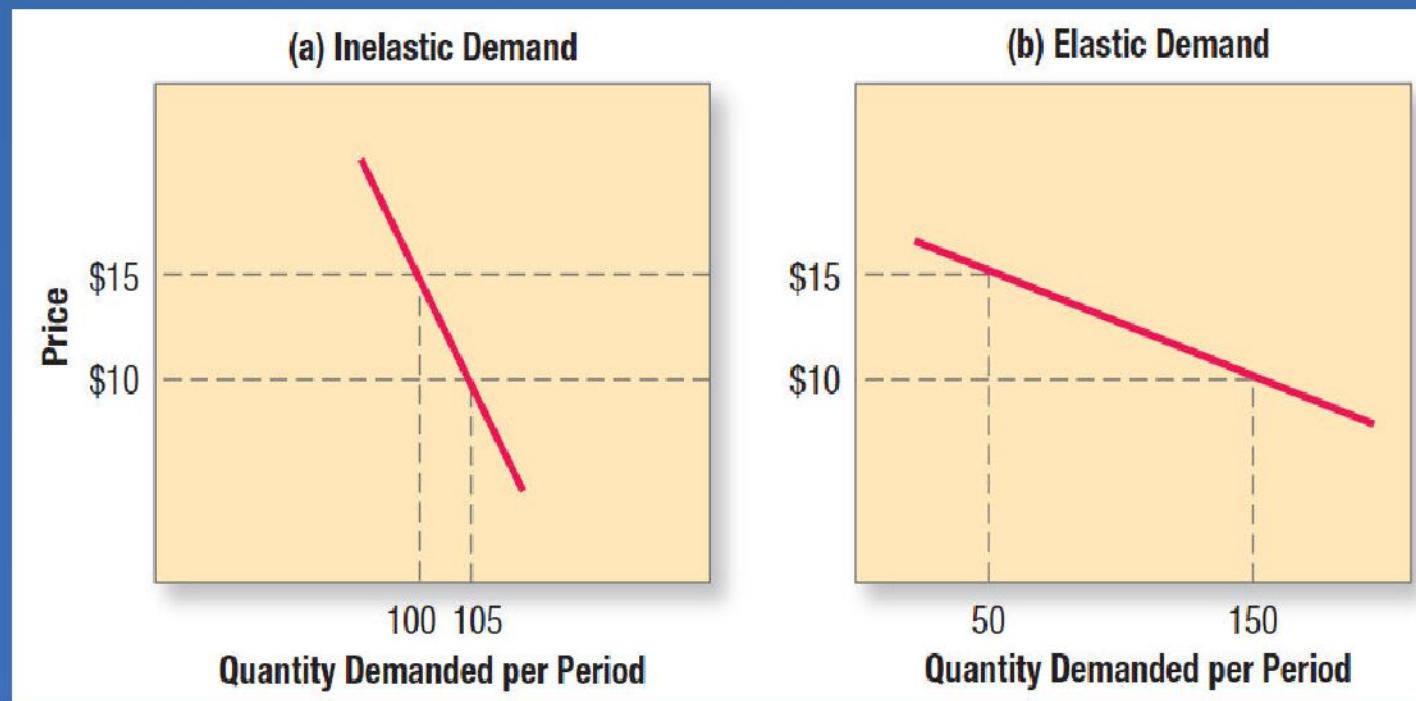
## Factors That Reduce Price Sensitivity

- The product is more distinctive.
- Buyers are less aware of substitutes.
- Buyers cannot easily compare the quality of substitutes.
- The expenditure is a smaller part of the buyer's total income.
- The expenditure is small compared to the total cost of the end product.
- Part of the cost is borne by another party.
- The product is used in conjunction with assets previously bought.
- The product is assumed to have more quality, prestige, or exclusiveness.
- Buyers cannot store the product.



# How to Set the Price?

- **Step 2: Determining Demand**
  - Estimating demand curves
    - Surveys, price experiments, & statistical analysis

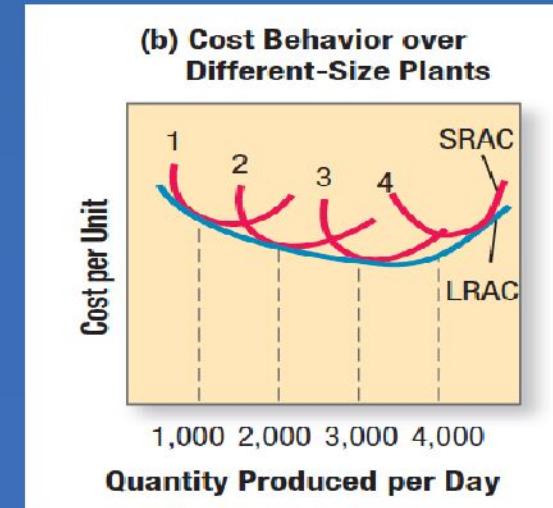
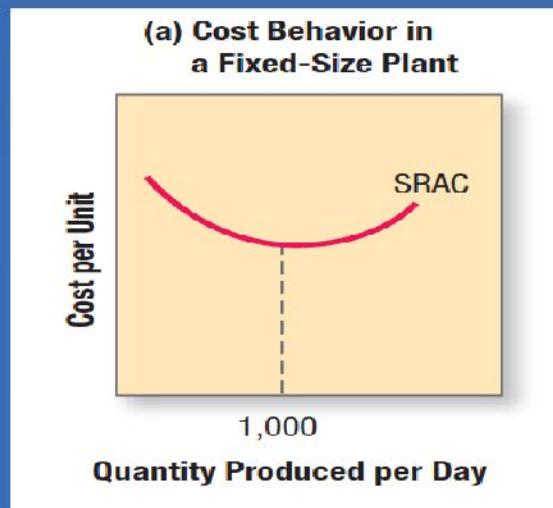




# How to Set the Price?

- **Step 3: Estimating Costs**

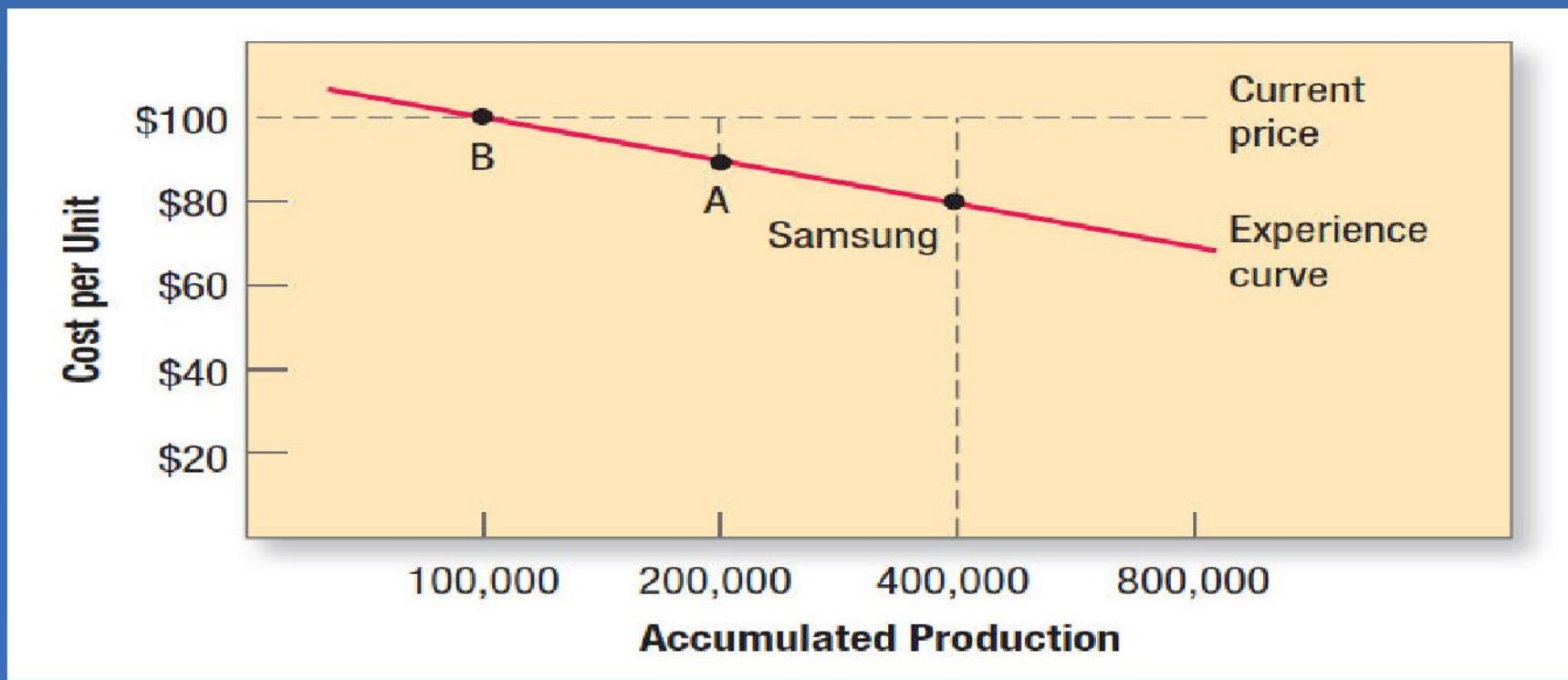
- Charge a price that covers cost of producing, distributing, promoting and selling the product, including a fair return for its effort and risk
- Fixed Vs. Variable Costs; Total Costs; Average Cost (cost per unit)





# How to Set the Price?

- **Step 3: Estimating Costs**
  - Accumulated production
    - Experience/learning curve





## How to Set the Price?

- **Step 3: Estimating Costs**
  - Target costing
    - $(\text{Price}) - (\text{desired profit margin})$
    - Examine each cost element — design, engineering, manufacturing, sales — and bring down costs
    - But Cost cutting should not affect the brand promise and value delivered (E.g. Tata Nano)



# How to Set the Price?

- **Step 3: Estimating Costs**

- Target costing

- E.g. Despite the early success of the PT Cruiser, Chrysler chose to squeeze out more profit by avoiding certain redesigns and cutting costs with cheaper radios and inferior materials. Once a best-selling car, the PT Cruiser was eventually discontinued





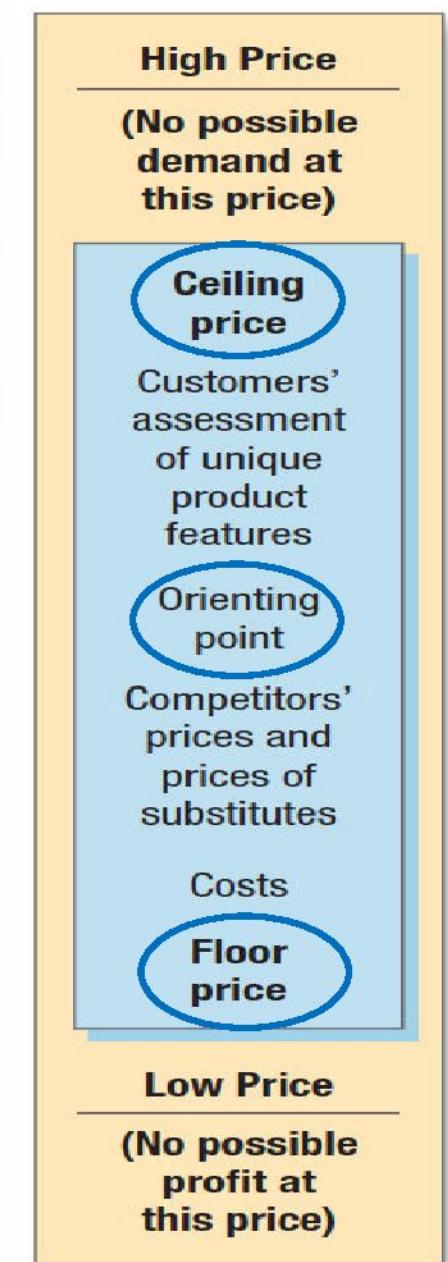
## How to Set the Price?

- **Step 4: Analyzing Competitors' Prices**
  - Analysis of competitors' costs, prices, & reactions
    - Value-priced competitors (powerful combination of low price and high quality)
    - E.g. Southwest Airlines, Walmart



# How to Set the Price?

- **Step 5: Selecting a Pricing Method**
  - Three major considerations in price
    - Costs = price floor
    - Competitors' prices = orienting point
    - Customers' assessment of unique features = price ceiling





## How to Set the Price?

- **Step 5: Selecting a Pricing Method**
  - Markup pricing

$$\text{Markup price} = \frac{\text{unit cost}}{(1 - \text{desired return on sales})}$$

$$= 1000 / (1 - 20\%)$$

$$= 1000 / 0.8$$

$$= 1250$$



## How to Set the Price?

- **Step 5: Selecting a Pricing Method**
  - Target-return pricing
    - Price that yields its target rate of return on investment

$$\text{Target-return price} = \text{unit cost} + \frac{\text{desired return} \times \text{invested capital}}{\text{unit sales}}$$

$$= 1000 + [(20\% \times 500,000)/ 1000]$$

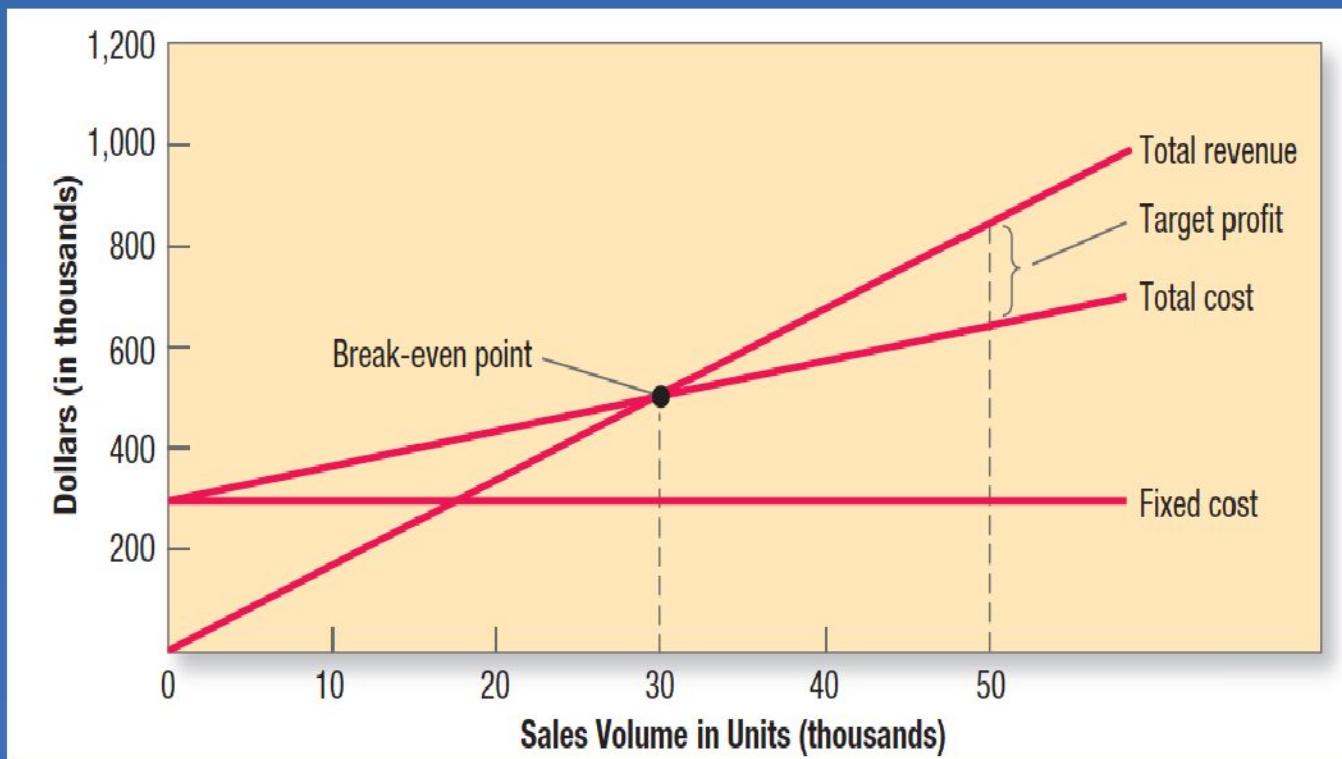
$$= 1000 + [100,000/ 1000]$$

$$= 1100$$



# How to Set the Price?

- **Step 5: Selecting a Pricing Method**
  - Target-return pricing
    - Break-Even for Target-Return Price





## How to Set the Price?

- **Step 5: Selecting a Pricing Method**
  - Perceived-value pricing
    - Based on
      - Buyer's image of product
      - Channel deliverables
      - Warranty quality
      - Customer support
      - Softer attributes (e.g. reputation)
    - To communicate and enhance perceived value in buyers' minds - Brands use the marketing program elements (advertising, sales force, and internet)



## How to Set the Price?

- **Step 5: Selecting a Pricing Method**
  - Value pricing
    - Fairly low price for a high-quality offering to win loyal customers
    - Focused on re-engineering the company's operations to become a low-cost producer without sacrificing quality to attract a large number of value-conscious customers
    - E.g. IKEA & Southwest Airlines



## How to Set the Price?

- **Step 5: Selecting a Pricing Method**
  - EDLP
    - A retailer using everyday low pricing (EDLP) charges a constant low price with little or no price promotion or special sales (e.g. Walmart)
  - High-low pricing
    - Retailer charges higher prices on an everyday basis but runs frequent promotions with prices temporarily lower than the EDLP level



## How to Set the Price?

- **Step 5: Selecting a Pricing Method**
  - Going-rate pricing
    - Brands bases its price largely on competitors' prices
    - Useful where costs are difficult to measure or competitive response is uncertain
    - Reflects the industry's collective wisdom



## How to Set the Price?

- **Step 5: Selecting a Pricing Method**
  - Auction-type pricing
    - English auctions (ascending bids) - one seller and many buyers - seller puts up an item and bidders raise their offer prices until the top price is reached (e.g. Used cars/Properties)
    - Dutch auctions (descending bids) –
      - One seller and many buyers - auctioneer announces a high price for a product and then slowly decreases the price until a bidder accepts
      - One buyer and many sellers - the buyer announces something he or she wants to buy, and potential sellers compete to offer the lowest price



## How to Set the Price?

- **Step 5: Selecting a Pricing Method**
  - Auction-type pricing
    - Sealed-bid auctions - suppliers submit only one bid; they cannot know the other bids (e.g. Govt. or Company tenders)



# Other Pricing Approaches & Strategies

- **Skimming**
  - Products are sold at higher prices so that fewer sales are needed to break even
  - This strategy is employed only for a limited duration, to target “Early adopters”
- **Loss Leader**
  - Product sold at a low price to stimulate other profitable sales. This would help the companies to expand its market share as a whole.



# Other Pricing Approaches & Strategies

- **Penetration Pricing**
  - Setting the price low in order to attract customers and gain market share.
- **Differential Pricing**
  - Different price for the same product in different segments to the market
- **Premium Pricing**
  - keeping the price of a product or service artificially high in order to encourage favorable perceptions among buyers, based solely on the price



# Other Pricing Approaches & Strategies

- **Psychological Pricing**
  - Pricing designed to have a positive psychological impact.
  - E.g. Rs. 99/- 149/- 199/-
- **Dynamic Pricing**
  - A flexible pricing mechanism made possible by advances in information technology
  - E.g. App based taxi services, Airlines, E-commerce
- **Freemium Pricing**
  - offering a product or service free of charge (typically digital offerings such as software, content, games, web services or other) while charging a premium for advanced features.
  - E.g. LinkedIn, Hotstar



## How to Set the Price?

- **Step 6: Selecting the Final Price**
  - Additional factors to select final price
    - Impact of other marketing activities
      - Brand's quality and Advertising relative to the competition
    - Company pricing policies
      - E.g. bank charges, Travel cancellation charges
    - Gain-and-risk-sharing pricing
      - Guarantee for promised value
    - Impact of price on other parties
      - Stakeholders - Dealers, Distributors, Sales force, Government, Competitors