Pricing Strategies

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Pricing Strategies

You don’t sell through price. You sell the price.

1.Pricing objectives

- Survival
- Maximum current profit
- Maximum market share
- Maximum market skimming
- Product-quality leadership

Setting Pricing Policy

1. Selecting the pricing objective
2. Determining demand
3. Estimating costs
4. Analyzing competitors' costs, prices, and offers
5. Selecting a pricing method
6. Selecting final price

Types of Costs

Fixed Costs
(Overhead)
Costs that don’t vary with sales or production levels.

Executive Salaries
Rent

Variable Costs

Costs that do vary directly with the level of production.

Raw materials

Total Costs
Sum of the Fixed and Variable Costs for a Given Level of Production

Product Quality	Price: High	Price: Medium	Price: Low
High	1. Premium strategy	2. High-value strategy	3. Super-value strategy
Medium	4. Overcharging strategy	5. Medium-value strategy	6. Good-value strategy
Low	7. Rip-off strategy	8. False economy strategy	9. Economy strategy

The Three C's Model for Price Setting

Low Price	Costs	Competitors' prices and prices of substitutes	Customers' assessment of unique product features	High Price
No possible profit at this price				No possible demand at this price

Some important pricing definitions

- Utility: The attribute that makes it capable of want satisfaction
- Value: The worth in terms of other products
- Price: The monetary medium of exchange.

Value Example: Caterpillar Tractor is $100,000 vs.
Market $90,000
$90,000 if equal
7,000 extra durable
6,000 reliability
5,000 service
2,000 warranty
$110,000 in benefits -
$10,000 discount!

Examples: new-product pricing

- Market-skimming pricing
- Market-penetration pricing

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.

The conditions:

1. A sufficient number of buyers have a high current demand;
2. The unit costs of producing a small volume are not so high that they cancel the advantage of charging what the traffic will bear;
3. The high initial price does not attract more competitors to market;
4. The high price communicates the image of a superior product.

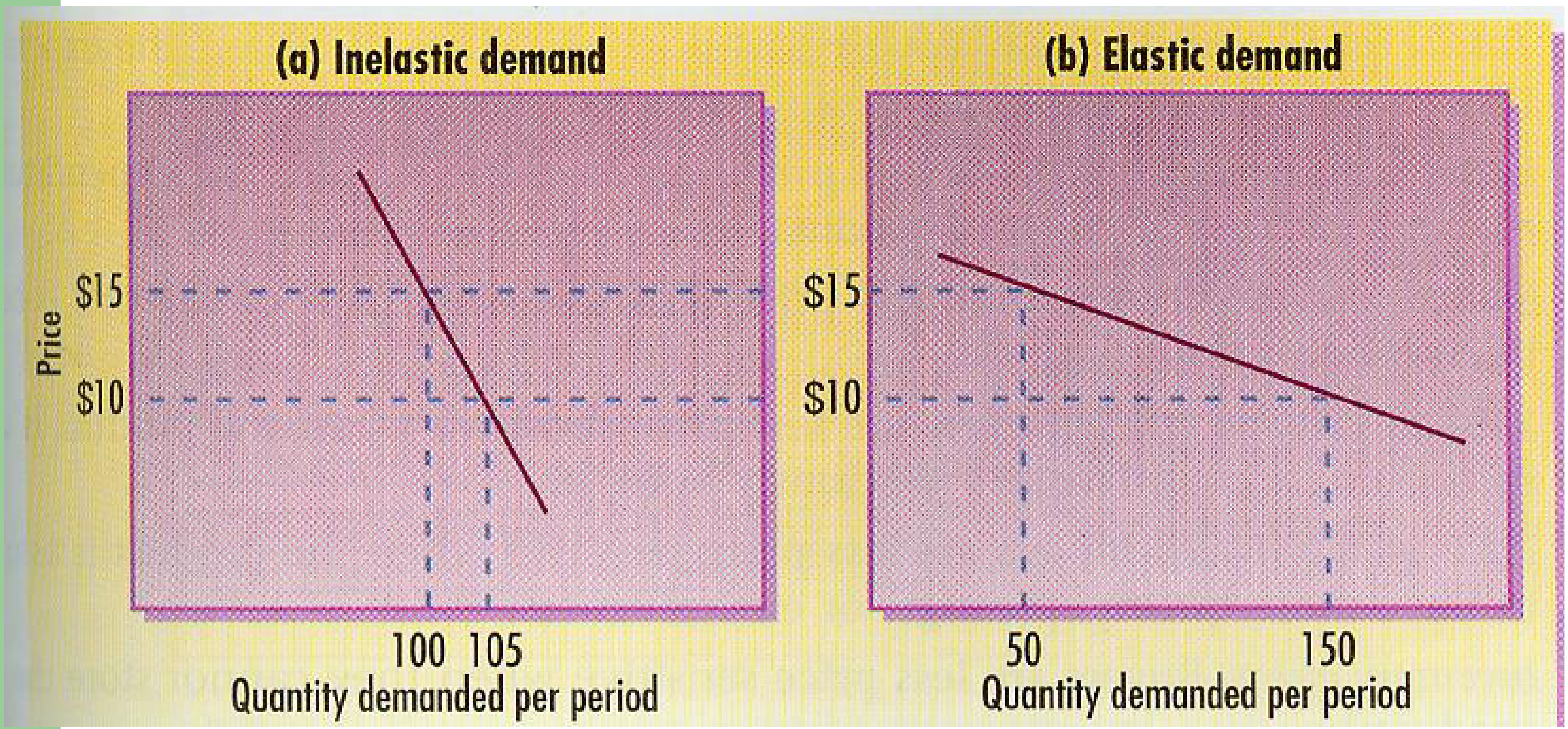
Market-penetration pricing

- Setting a low price for a new product in order to attract a large number of buyers and a large market share.

The conditions:

1. The market is highly price sensitive,and a low price stimulates market growth;
2. Production and distribution costs fall with accumulated production experience;
3. A low price discourages actual and potential competition.

Price sensitivity



Examples: product mix pricing

- Product line pricing
- Optional-product pricing
- Captive-product pricing
- By-product pricing
- Cash rebates
- Low-interest,longer warranties,free maintenance

2.pricing-adjustment strategies

- Discount and allowance pricing
- Segmented pricing
- Psychological pricing
- Promotional pricing
- Geographical pricing

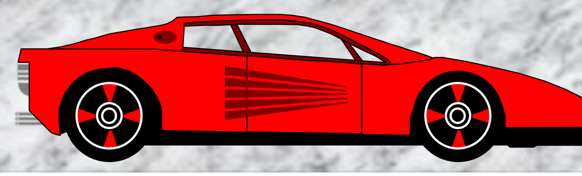
Discount and allowance pricing

- Cash discount
- Quantity discount
- Functional discount
- Seasonal discount
- allowance

Discriminatory Pricing

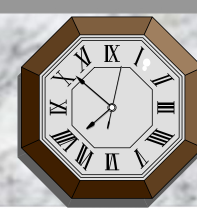
Customer Segment

Product-form

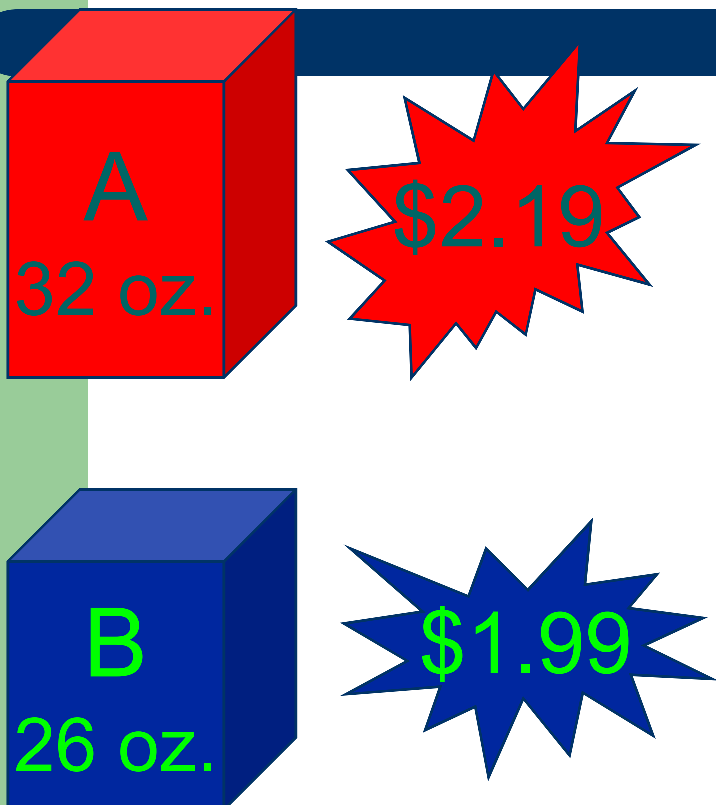


Location

Time



Psychological Pricing



- Most Attractive?
- Better Value?
- Psychological reason to price this way?

Assume

Geographical pricing

- FOB-origin pricing
- Uniform-delivered pricing
- Zone pricing
- Basing-point pricing
- Freight-absorption pricing

Promotional Pricing

- Loss-leader pricing
- Special-event pricing
- Cash rebates
- Low-interest financing
- Longer payment terms
- Warranties & service contracts
- Psychological discounting

3. Pricing changing

- Initiating price cuts
- Initiating price increases

Discussion

- Please explain the reasons for price cuts.
- Please explain the reasons for price increases.
- Please describe the advantage and disadvantage of price cuts and increases.

The reasons for price cuts

- Excess capacity
- Price competition

The reasons for price increases

- Cost inflation
- overdemand

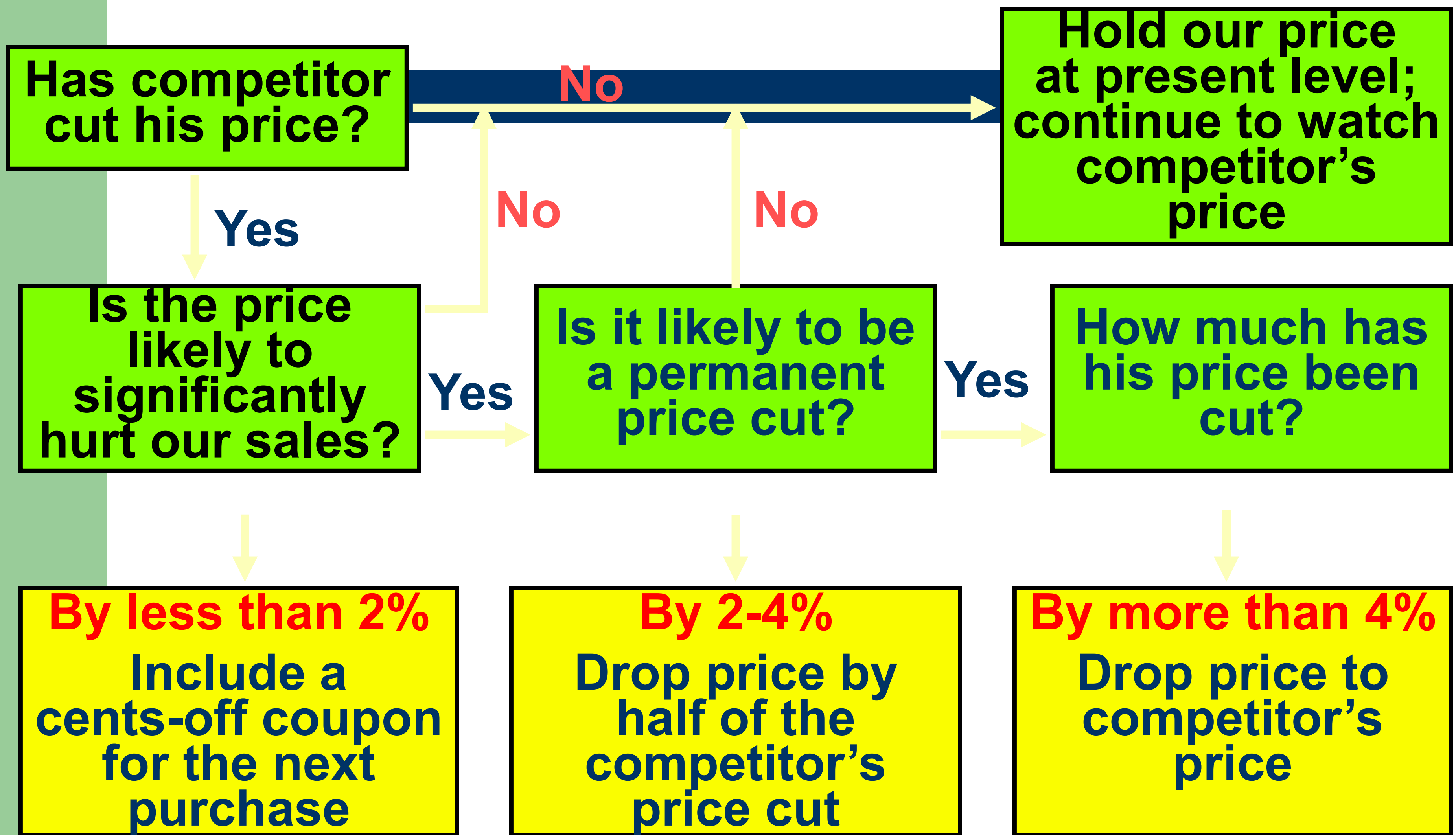
Reactions to price changes

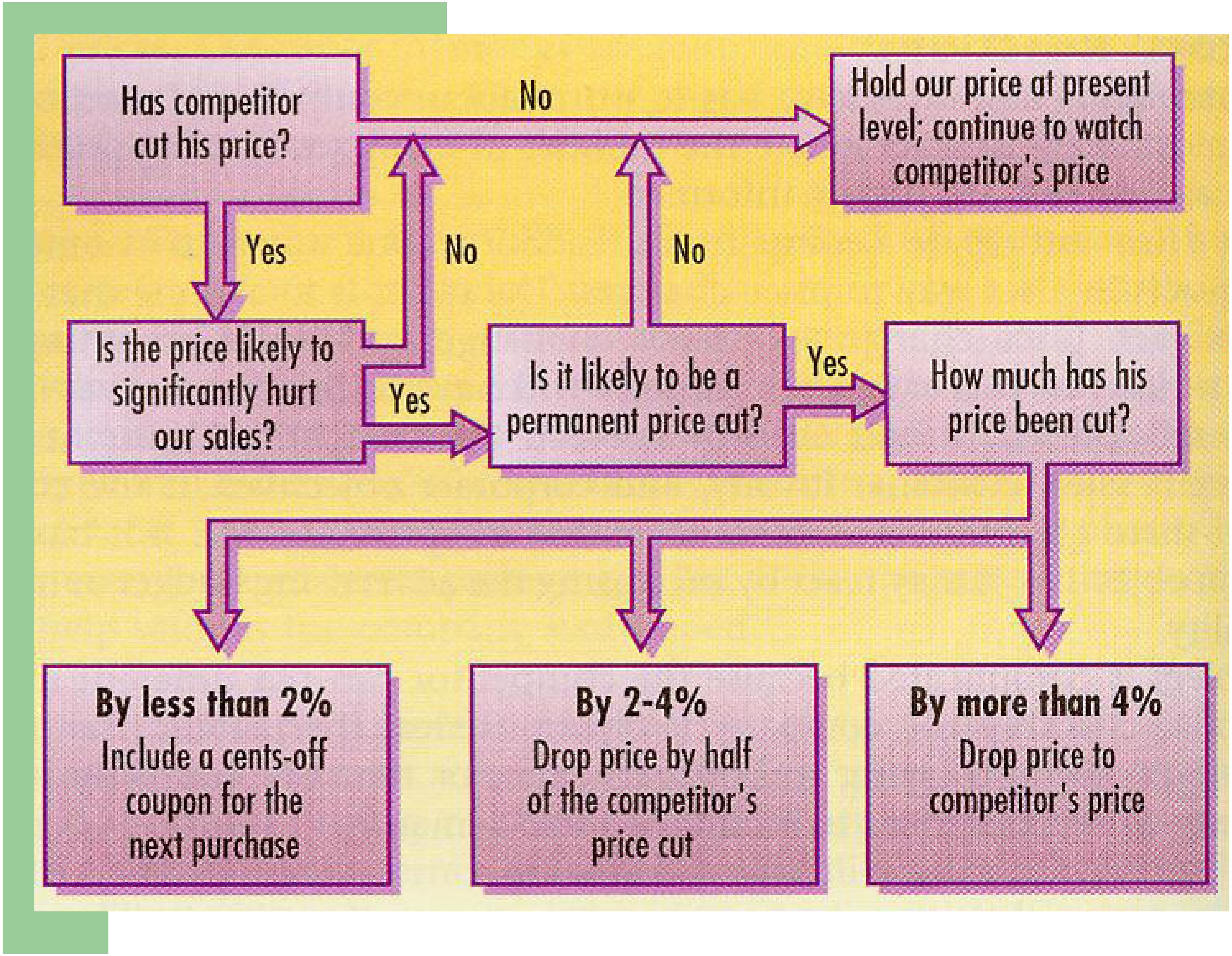
- Customers’ reactions
- Competitor’s reactions

Responding to competitors' price changes

- Maintain price
- Maintain price and add value
- Reduce price
- Increase price and improve quality
- Launch a low-price fighter line

Price-Reaction Program for Meeting a Competitor's Price Cut




Has competitor cut his price?
No
Hold our price at present level; continue to watch competitor's price
Yes
No
No
Is the price likely to significantly hurt our sales?
Yes
Is it likely to be a permanent price cut?
Yes
How much has his price been cut?
By less than 2%
Include a cents-off coupon for the next purchase
By 2-4%
Drop price by half of the competitor's price cut
By more than 4%
Drop price to competitor's price

END