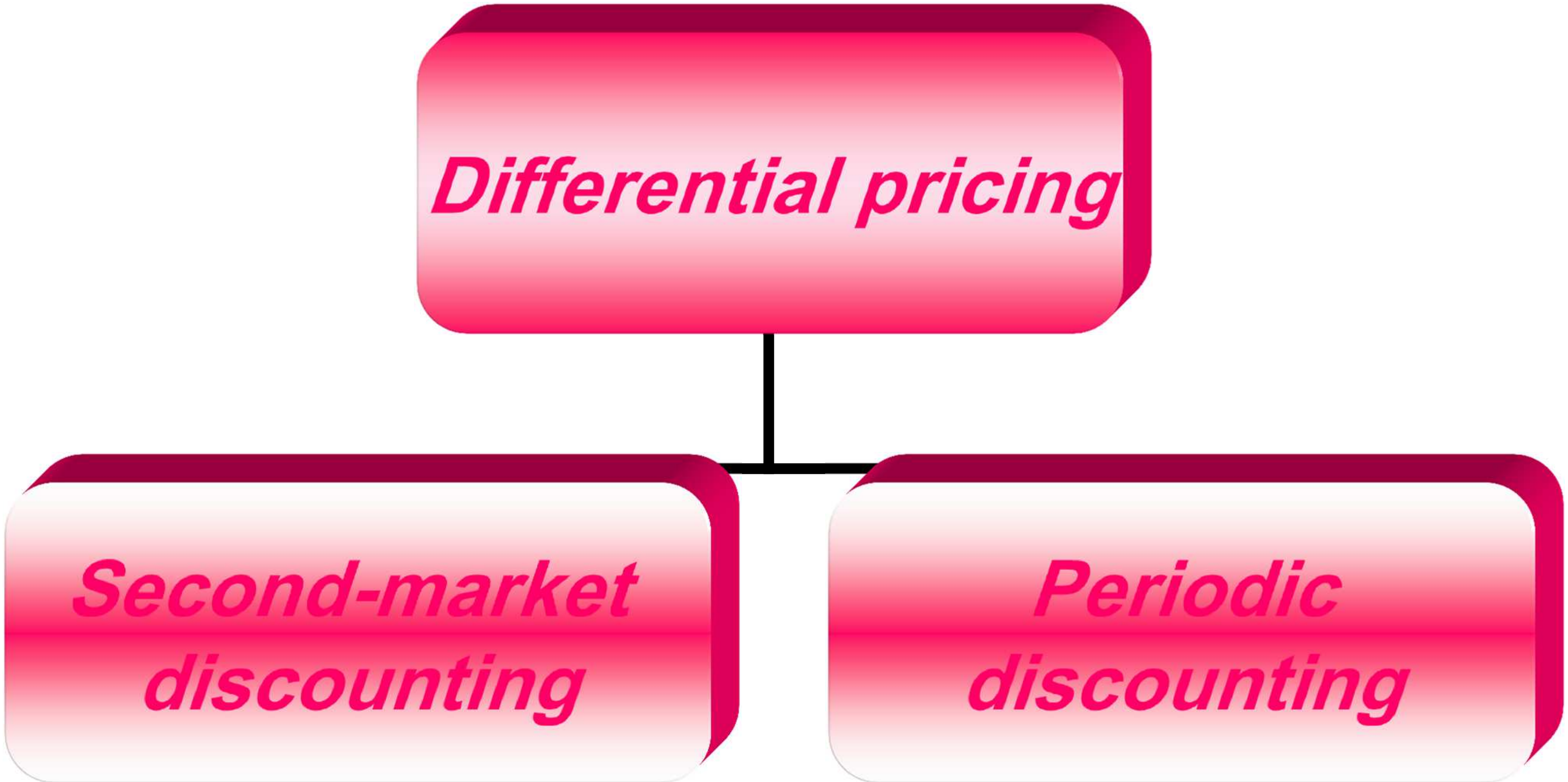
Pricing strategies

✍ **_Setting prices to achieve the firm's objectives requires the selection of specific pricing strategy or a combination of strategies._**

✍ ***The 11 pricing Strategies shown into four categories***

Differential pricing	Competitiv e pricing	Product-line pricing	Psychological pricing
Second-market discounting	Penetration pricing	bundling	Odd-even pricing
Periodic discounting	Price signalling	Premium pricing	Customary pricing
	Going –rate pricing	Partitioned pricing	One-sided claims


Differential pricing
Second-market discounting
Periodic discounting

Differential pricing

Differential pricing involves selling the same product to different buyers under a variety of prices.

this is the practice of charging <u>different buyers</u> <u>different prices</u> for the <u>same quantity & quality</u> of products or services.

Differential pricing works because

1. **the market is *<u>heterogeneous</u>***

2. *or more simply*

Differences in reactions to price exist among consumers or consumer segments in the market.

The ability to engage in differential pricing has been facilitated greatly by the ever growing number of online auction sites.

Such as

- priceline.com
- shop bots that search the web for low prices.

Second –market discounting

☑***The most common from of differential pricing second – market discounting***

☑***Occurs when***

different prices

are charged in

different market segments.

Second-market discounting

<u>is useful when:</u>

1. ***the firm has excess capacity and different market segments exist.***

☑ ***Generic brands and some foreign markets often provide opportunities for second –market discounting.***

Example

- if a firm can sell its product cost-effectively in a foreign market.
- it may be profitable to export at a price even below local prices.
- the exporting firm must have excess production capacity (so no new fixed costs are required)

Second market discounting also occurs :

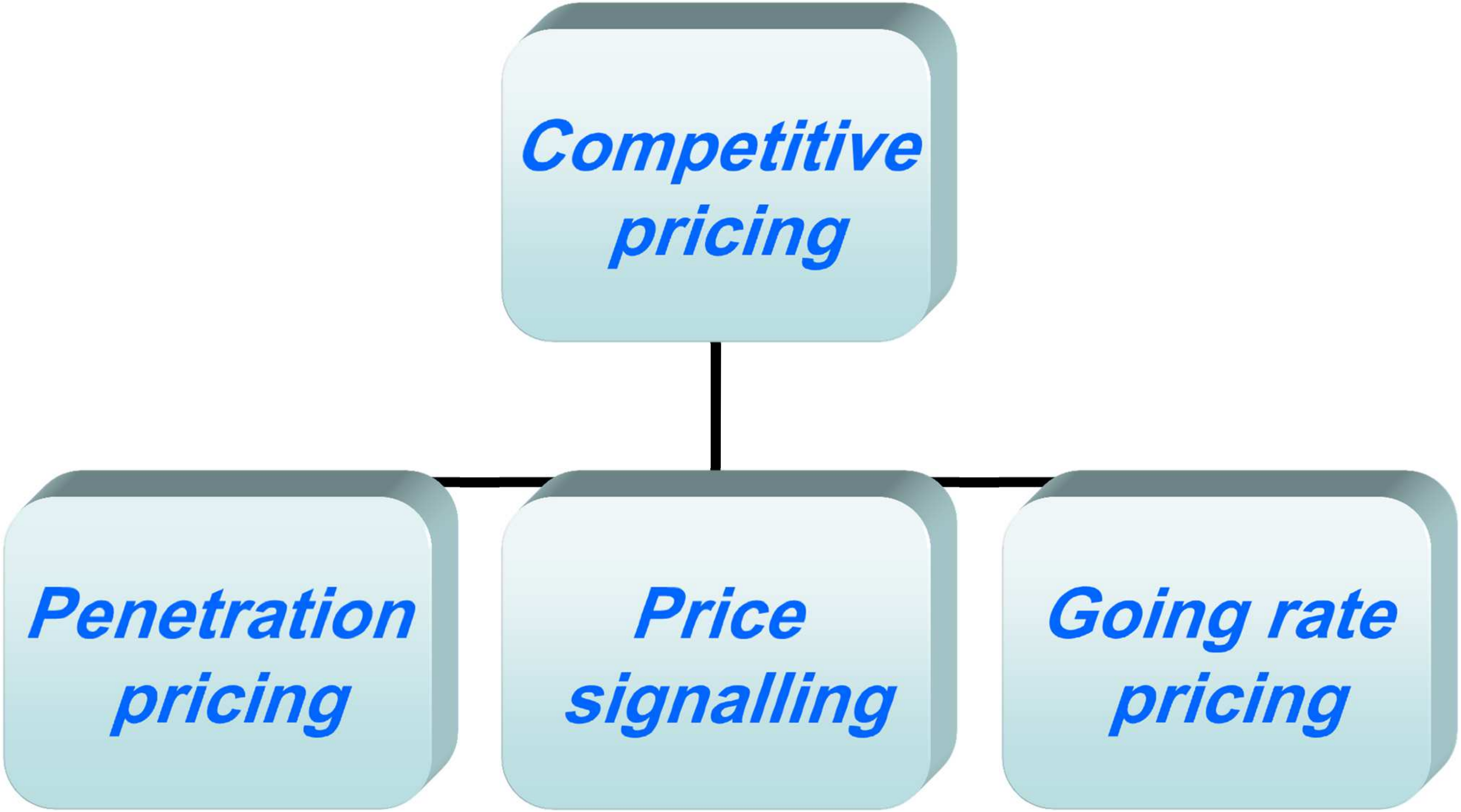
2. ***When the company sells a portion of its output as generic brands at lower prices to price –sensitive segments***

Periodic discounting

✓ ***Periodic discounting** enables a firm to take advantage of the presence of consumer segments that differ in price sensitivity.*

This approach include

- ✓ ***<u>price skimming</u> where an initial high price is determined for new products to skim the market.***


Competitive pricing
Penetration pricing
Price signalling
Going rate pricing

Competitive pricing

- ***Competitive pricing strategies based on the firm’s position in relation to its competition include:***

❶penetration pricing

❷Limit pricing

❸Price signalling

❹Going-rate pricing.

Penetration pricing

❶Penetration pricing

- *Calls for a low initial price to generate sales volume .*
- *it is often used when the marketer wants to maximize sales growth or market share.*

Penetration pricing may be particularly beneficial

i. when there are a significant number of price-sensitive consumers in the market

(demand is price-elastic)

ii. Or the firm fears early entry of a competitor if prices are set high & margins appear attractive.

Limit pricing

- *penetration pricing*
- *Limit pricing*
- *Price signalling*
- *Going-rate pricing.*

❷Limit pricing

Another term for low penetration pricing also entails setting prices to discourage new competition.

- ***In situations in which competitive reaction is unlikely***

Firms may engage in price skimming described earlier

■ *Price signalling*

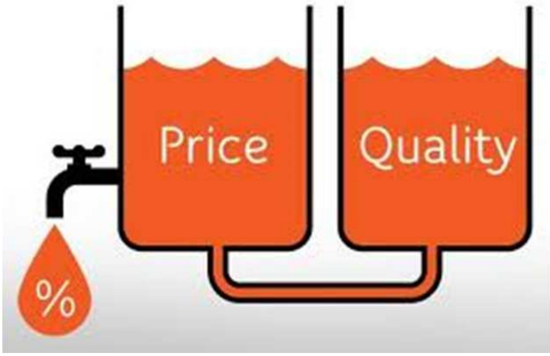
3 Price signalling

Unethical behaviour

- Puts high prices on low-quality products.

- ***Firms can purchase it successfully if several condition are satisfied:***

I. There must be a segment of buyers who believe firms spend more to provide higher quality



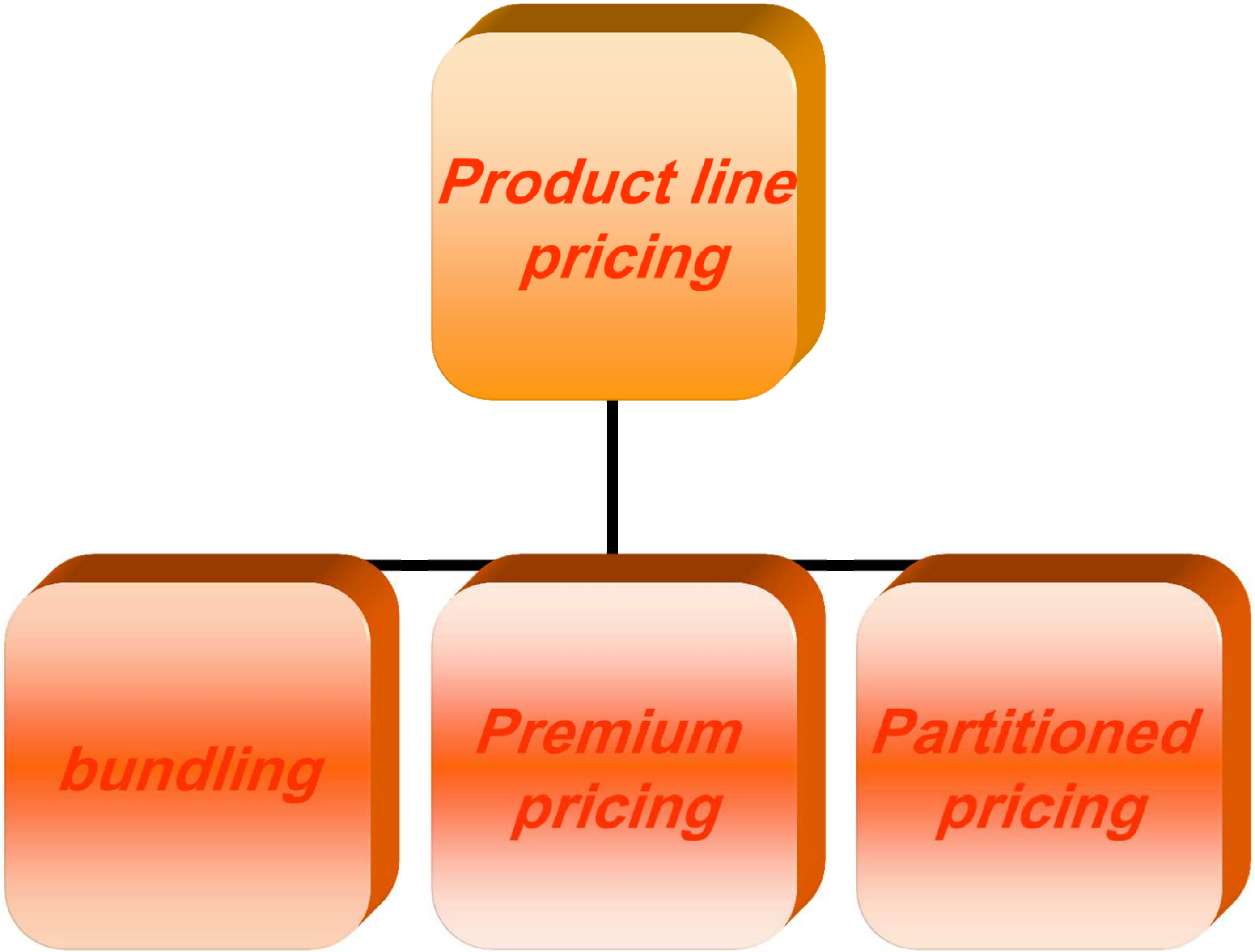
II. Information on the level of quality should be hard for buyers to obtain.

Going-rate pricing

4 Going-rate pricing

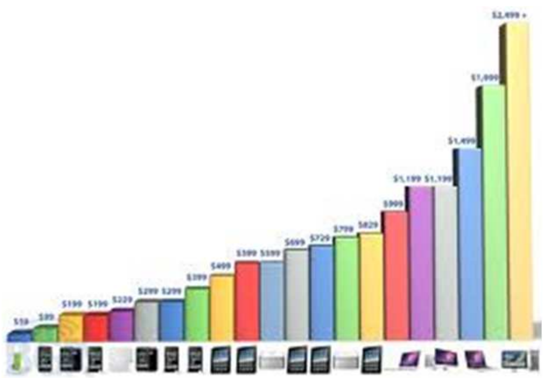
- ***This approach is used when products compete on the basis of attributes or benefits other than price.***

✓ ***Going-rate pricing has the additional advantage of lessening the threat of aggressive price wars –which may be unprofitable to all competitors***


Product line pricing
bundling
Premium pricing
Partitioned pricing

Product-line pricing

Firms often offer a line of multiple versions of the same product



- ***Marketers must be sensitive to price changes in the product line.***

- ***A price change in one product can detract from sales of other products in the line because they are often substitutes for one another***

bundling


iPadBundles
APPLE IPAD BUNDLES
16GB
32GB
64GB
WiFi
- Keyboard Doc
- Case
- iDoc
Available APR 3
$72 monthly
Apply Now
$80 monthly
Apply Now
$99 monthly
Apply Now
WiFi + 3G
- Keyboard Doc
- Case
- iDoc
Available Late APR
$85 monthly
Apply Now
$95 monthly
Apply Now
$109 monthly
Apply Now
iPad All-in-One Packages Exclusively @ 800HighTech.com
Each Bundle Includes:
Keyboard
Case
Dock

Bundling

- ***Bundling is marketing two or more products or services in a single package .***

The practice is seen frequently in the marketing of :

- ***Hotel services***
- ***Restaurant meals***
- ***Computer systems***
- ***Stereo systems***

Definitions:

✓ **Bundling: sale of two or more separate products (&or service) in one package**

☺ **Such as opera tickets**

✓ ***Price bundling*** ***:the sale of two more separate products as a package at a discount, without any integration of the products***

☺ ***Variety pack of cereals***

✓ ***Product bundling*** ***the integration & sale of two or more separate product at any price***

☺ ***Sound systems***

✓ ***Pure bundling*** **:a strategy in which a firm sells only the bundle and not (all) the products separately**

☺ ***IBM's bundling of tabulating machines & cards***

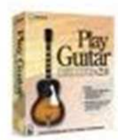
✓ ***Mixed bundling*** ***a strategy in which a firm sells both the bundle & all the products separately***

☺ ***Telecom bundles***

➯ *Premium pricing*

Premium pricing

- ***Premium pricing sets higher (premium) prices on more deluxe product versions.***



When a firms offers several alternative models ,it often use a premium pricing strategy

Partitioned pricing

Partitioned pricing

✓ ***Many firms divide the prices they charge into parts in lieu of charging a single price.***

- ✓ ***These part prices are often termed the base price and the surcharge.***

- ***Example:***

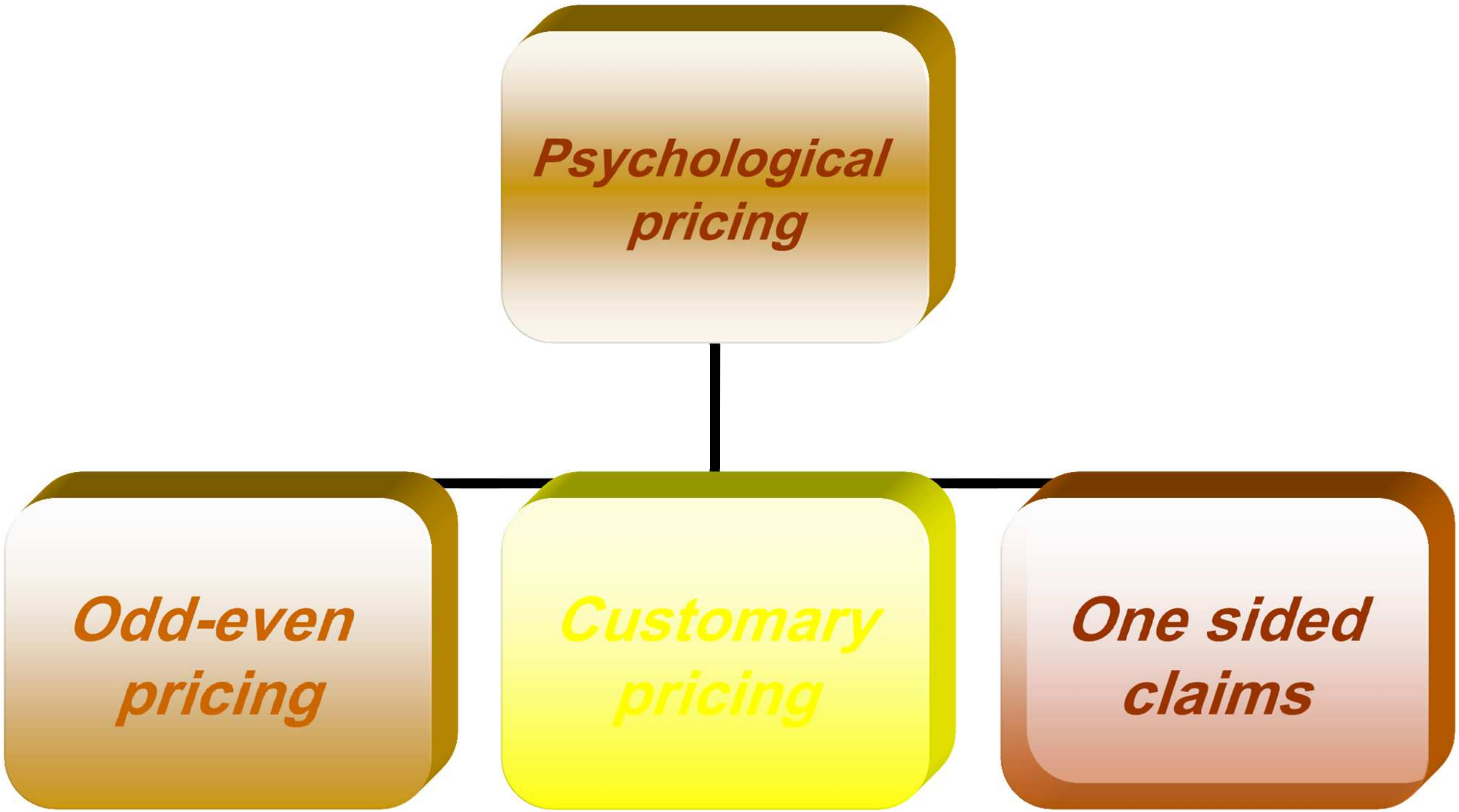
Sony telephone

(from a mail catalogue)

☎ ***$69.95***

☎ ***Plus $12.95 for shipping & handling.***

Psychological pricing


Psychological pricing
Odd-even pricing
Customary pricing
One sided claims

Psychological pricing

- ***Psychological pricing recognize that buyer perceptions & beliefs affect their price evaluations.***

Prestige or premium pricing & comparing competitors ' price with a firm's lower sale price deal with the psychological aspects of consumer reactions to price

- ***ODD-even pricing***

ODD-even pricing

- Present prices at values just below an even amount ,a common practice.

- ***Example: instead of pricing content lenses at $200***

➢ ***The price is set at $199.95***

Customary pricing

- ***Customary price beliefs represent consumers' strongly held expectations.***

pricing strategies that set customary prices typically modify the quality features or services of a product without adjusting the price.

⇘ **Example :**

⇘ **new versions of & joy hand washing dish detergents**

⇘ **Offered by P&G**

◎ **Smaller bottles at the same price**

◎ **The taller containers are designed to look bigger and pour faster adding up an effective 12% price increase.**

One –sided price claims

One-sided price claims

- ***Concerns arise regarding the implications of one sided price claims in which superiority in price for one attribute or offering is made.***

Geographic pricing

Geographic pricing

- ***Companies with geographically dispersed customers sometimes adjust prices because of costs resulting from distance.***

Geographic pricing

- **FOB origin pricing**
- **Zone pricing**
- **Freight absorption pricing**

FOB origin pricing

✓ ***One of the more commonly used method is FOB origin pricing.***

FOB stands for Free on board

- ***<u>Meaning:</u>***

the goods are placed on a carrier (truck-train-barge) and shipped to the customer

FOB pricing requires:

customers to pay the unit cost of the goods plus ship pricing costs which differ with location or market.

- ***Uniform delivered price***

Uniform delivered price

- ***An opposite strategy is to charge the same price & transportation cost to all customers.***
- ***using a uniform delivered price ,the company charges each customer an average freight amount.***

Zone pricing

Zone pricing

- ***zone pricing is an approach between FOB and uniform delivered pricing.***

- ***Customers within an area are charged a common price .more distant zones or areas are charged higher freight amounts.***

Freight absorption pricing

Freight absorption pricing

- ***Is another form of geographic pricing.***

- Here the seller absorbs fright costs – offers free or reduced costs of delivery to attract more business .

- This practice occurs when competition among sellers is heavy.