

# Pricing Strategies



**You don't sell through price. You sell the price.**

***Dr. Sunmeet Banerjee***

# Pricing?



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# The Learning Objectives

- Setting Pricing Policy
- Price-adjustment Strategies
- Price changes

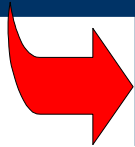
# 1.Pricing objectives

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

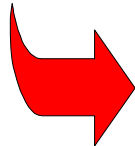


# Setting Pricing Policy

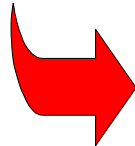
**1. Selecting the pricing objective**



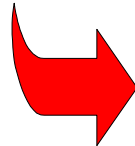
**2. Determining demand**



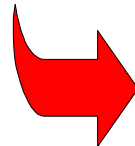
**3. Estimating costs**



**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**

High

Medium

Low

**Price**

High

Medium

Low

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

# The Three C's Model for Price Setting

**Low Price**

**No possible profit at this price**

**Costs**

**Competitors' prices and prices of substitutes**

**Customers' assessment of unique product features**

**High 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: Mahindra Tractor is Rs. **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

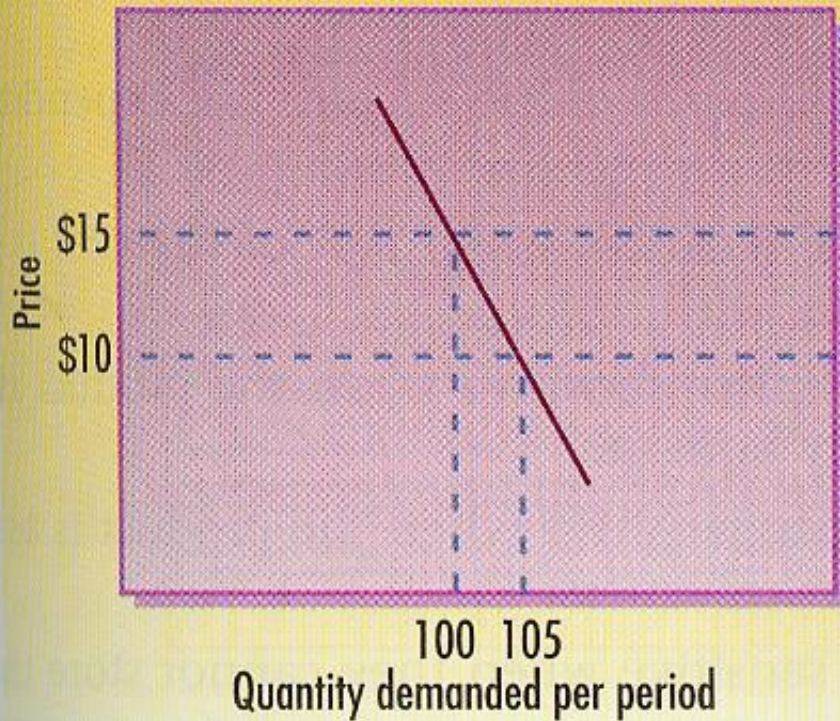
- Setting a low price for a new product in order to attract a large number of buyers and a large market share.

# The conditions:

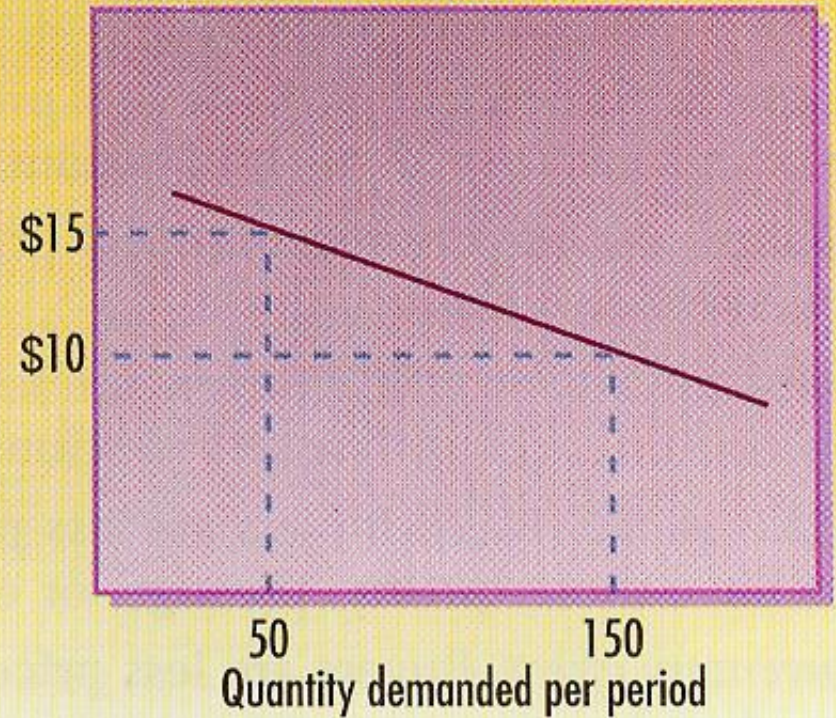
1. The market is highly price sensitive, and a low price stimulates market growth;
2. Production and distribution costs fall with accumulated production experience;
3. A low price discourages actual and potential competition.

# Price sensitivity

(a) Inelastic demand



(b) Elastic demand



# 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

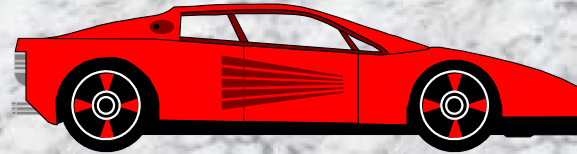
- Cash discount
- Quantity discount
- Functional discount
- Seasonal discount
- Allowance

# Discriminatory Pricing:

**Customer Segment**



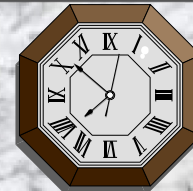
**Product-form**



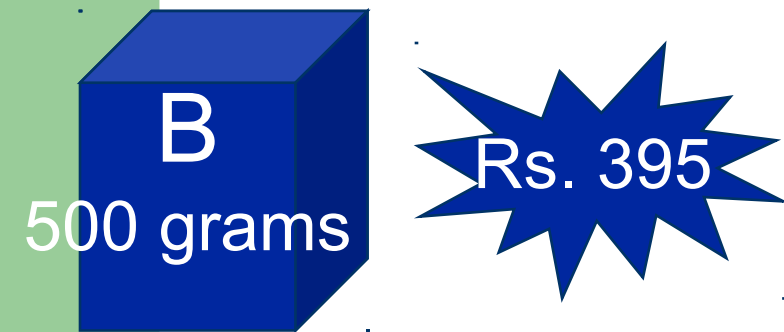
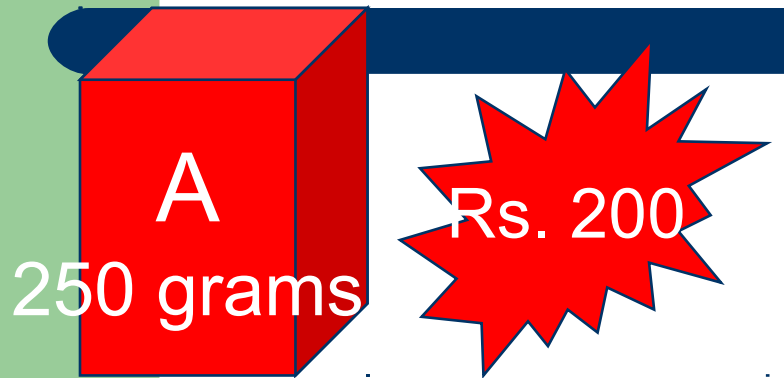
**Location**



**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

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- Cost inflation
- Over demand

# 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

