Chapter 12
Developing Pricing Strategies and Programs

Chapter Questions
- How do consumers process and evaluate prices?
- How should a company set initial prices for its offerings?
- How should a company adapt prices to meet varying circumstances and opportunities?
- What should a company do to initiate a price change or respond to a competitor's price change?

Elements Affecting Price
- Company
- Marketing environment
- Competition
- Customers
- Marketing strategy
- Target markets
- Brand positionings

Synonyms for Price
- Rent
- Tuition
- Fee
- Fare
- Rate
- Toll
- Premium
- Honorarium
- Special assessment
- Bribe
- Dues
- Salary
- Commission
- Wage
- Tax

Consumer Psychology and Pricing
- Reference prices
- Price-quality inferences
- Price cues

Possible Consumer Reference Prices
- Fair price
- Typical price
- Last price paid
- Upper-bound price
- Lower-bound price
- Competitor prices
- Expected future price
- Usual discounted price
Price Cues

- “Left to right” pricing ($299 versus $300)
- Odd number discount perceptions
- Even number value perceptions
- Ending prices with 0 or 5
- Sale written next to price

When to Use Price Cues

- Customers purchase item infrequently
- Customers are new
- Product designs vary over time
- Prices vary seasonally
- Quality or sizes vary across stores

Steps in Setting Price Policy

1. Select the pricing objective
2. Determine demand
3. Estimate costs
4. Analyze competitor price mix
5. Select a pricing method
6. Select the final price

1  Selecting the Pricing Objective

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

2  Determine Demand

- Price sensitivity
- Estimating demand curves
- Price elasticity of demand

Table 12.1 Factors Leading to Less Price Sensitivity

- Product is more distinctive
- Substitutes are largely unknown and difficult to compare
- Expenditure is small portion of income
- Expenditure is small compared to total cost of product
- Cost is shared
- Product is differentiated
- Product cannot be stored
Demand Is Likely to Be Less Elastic When...
- There are few or no substitutes or competitors
- Price increases are not readily noticed
- Buyers are slow to change buying habits
- Buyers can justify higher prices

3 Estimate Costs
- Types of costs
  - Variable
  - Fixed
  - Accumulated production
  - Activity-based cost accounting
  - Target costing

4 Analyze Competitor Price Mix
- Does the firm offer features not offered by the closest competitor?
- Given this point of comparison, should the price be higher, lower, or the same?
- Why is the Whirlpool Duet combo priced nearly four times what some competitors charge for a comparable product?

5 Select a Pricing Method
- Markup pricing
- Target-return pricing
- Perceived-value pricing
- Value pricing
- Going-rate pricing
- Auction-type pricing

Auction-Type Pricing
- English auctions
- Dutch auctions
- Sealed-bid auctions
6 Select the Final Price

- Impact of other marketing activities
- Company pricing policies
- Gain-and-risk sharing pricing
- Impact of price on other parties

Price-Adaptation Strategies

- Geographical pricing
- Discounts/allowances
- Promotional pricing
- Differentiated pricing

Price-Adaptation Strategies

- Countertrade
  - Barter
  - Compensation deal
  - Buyback arrangement
  - Offset

- Discounts/Allowances
  - Cash discount
  - Quantity discount
  - Functional discount
  - Seasonal discount
  - Allowance

Promotional Pricing Tactics

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

Differentiated Pricing and Price Discrimination

- Customer-segment pricing
- Product-form pricing
- Image pricing
- Channel pricing
- Location pricing
- Time pricing

Product-Mix Pricing

- Product-line
- Optional-feature
- Captive-product
- Two-part
- By-product
- Product-bundling
Increasing Prices

• Delayed quotation pricing
• Escalator clauses
• Unbundling
• Reduction of discounts

Brand Leader Responses to Competitive Price Cuts

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