

# MARKETING MANAGEMENT

*12<sup>th</sup> edition*

**14**

## **Developing Pricing Strategies and Programs**

*Kotler*

*Keller*



# Chapter Questions

- How do consumers process and evaluate prices?
- How should a company set prices initially for products or services?
- How should a company adapt prices to meet varying circumstances and opportunities?
- When should a company initiate a price change?
- How should a company respond to a competitor's price challenge?



# Synonyms for Price

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



# Common Pricing Mistakes

- Determine costs and take traditional industry margins
- Failure to revise price to capitalize on market changes
- Setting price independently of the rest of the marketing mix
- Failure to vary price by product item, market segment, distribution channels, and purchase occasion




# Consumer Psychology and Pricing

- Reference prices
- Price–quality inferences
- Price endings
- Price cues



## Table 14.1 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



## Table 14.2 Consumer Perceptions vs. Reality for Cars

### Overvalued Brands

- Land Rover
- Kia
- Volkswagen
- Volvo
- Mercedes

### Undervalued Brands

- Mercury
- Infiniti
- Buick
- Lincoln
- Chrysler



# 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

- Select the price objective
- Determine demand
- Estimate costs
- Analyze competitor price mix
- Select pricing method
- Select final price



## Step 1: Selecting the Pricing Objective

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



## Step 2: Determining Demand

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



## Step 3: Estimating Costs

- Types of Costs
- Accumulated Production
- Activity-Based Cost Accounting
- Target Costing



# Cost Terms and Production

- Fixed costs
- Variable costs
- Total costs
- Average cost
- Cost at different levels of production



## Step 5: Selecting 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



## Step 6: Selecting 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
- Yield pricing



# 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