Developing Pricing Strategies and Programs
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

<table>
<thead>
<tr>
<th>Overvalued Brands</th>
<th>Undervalued Brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Rover</td>
<td>Mercury</td>
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<tr>
<td>Kia</td>
<td>Infiniti</td>
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<td>Volkswagen</td>
<td>Buick</td>
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<td>Volvo</td>
<td>Lincoln</td>
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<tr>
<td>Mercedes</td>
<td>Chrysler</td>
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</tbody>
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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