Pricing Strategies

Lectures in Marketing
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The end is a place from which we begin.

Thus it is with Pricing
We return to review much of what you learned in economics and accounting
Understanding Cost helps to understand pricing, and
Understanding markets is the key to successful pricing

Therefore:

Began with a review of cost curves and their derivation
Then continued on to demand and the various revenue curves
The goal is to arrive at an understanding of
– How profits are generated in markets, and
– How profits respond to changes in price and demand in the marketplace
# Pricing Strategies

- Differential pricing strategies
- Competitive pricing strategies
- Product-line pricing strategies
- Psychological and image pricing strategies
- Distribution-based pricing strategies

## Differential Pricing Strategies

### Types:
- Variable Pricing: Automobiles
- Price Discrimination: Second-Market Discounting
- Periodic discounting: end of season sales
- Random discounting: featured prices to entice customers to act now!
- Skimming  (on next slide)

## Price Skimming

- Pricing high, usually at the beginning of a product’s life cycle – then gradually reducing price over time as the market demand changes assumes
- inelastic demand curve and/or
- little competition

Examples:
- personal computers
- CDs
- electronics
Competitive Pricing Strategies

Types:
- Meeting competition: avoids competing on price
- Undercutting competition: aggressive use of price
- Price leadership: usually market leader
- Follow the leader: smaller competitors
- Predatory pricing: The illegal use of price to eliminate competition
- Traditional: telephone calls and candy bars
- Inflationary: used with high levels of inflation
- Penetration pricing (on next slide)

Penetration Pricing

- Low introductory price to establish product quickly in market

When to use:
- Elastic demand
- Economies of scale
- Threat of strong competition in the short run

Product-Line Pricing Strategies

- Captive pricing
- Leader and Bait pricing
- Price-bundling & Multi-unit
**Psychological & Image Pricing**

<table>
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<tr>
<th>Reference Pricing</th>
<th>Prestige Pricing</th>
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<tbody>
<tr>
<td>$1.87</td>
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<tr>
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<table>
<thead>
<tr>
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<th>Prestige Pricing</th>
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<tbody>
<tr>
<td>$175</td>
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**Odd/Even Pricing**

**Distribution-Based Pricing**

- F.O.B : Free on Board, either seller or buyer
- Delivered
  - Zone : Fed Ex, UPS
  - Uniform : USPS
- Basing-point : used mainly for commodities
- CIF : Cost, Insurance and Freight prepaid usually to the buyers’ international border

**Arriving at prices in Markets**

- Prices are determined in the marketplace
- They arrive there through many channel partners
- We speak of Mark ups on selling price=
  - (Selling Price – COG sold) / selling price
    - At each level in the channel
    - Mark downs, however, may be different
Price Adjustments

- Cash discounts
- Trade discounts
- Quantity discounts
- Seasonal discounts
- Chain discounts
- Promotional allowances

Break-Even Analysis:
BEP = fixed Cost / (Price – variable cost)

Pricing and the Law

ROBINSON-PATMAN ACT OF 1936
Discriminatory prices (charging different customers different prices) illegal.
unless….
- Charged to meet competition – particularly intense price competition in certain markets, but not in all.
- Justified by cost savings - such as quantity discounts.
Pricing and Ethical issues

Are corporate social policy and corporate profit motive compatible?

Is it Ethical to make a profit?