



# Price

## Marketing course

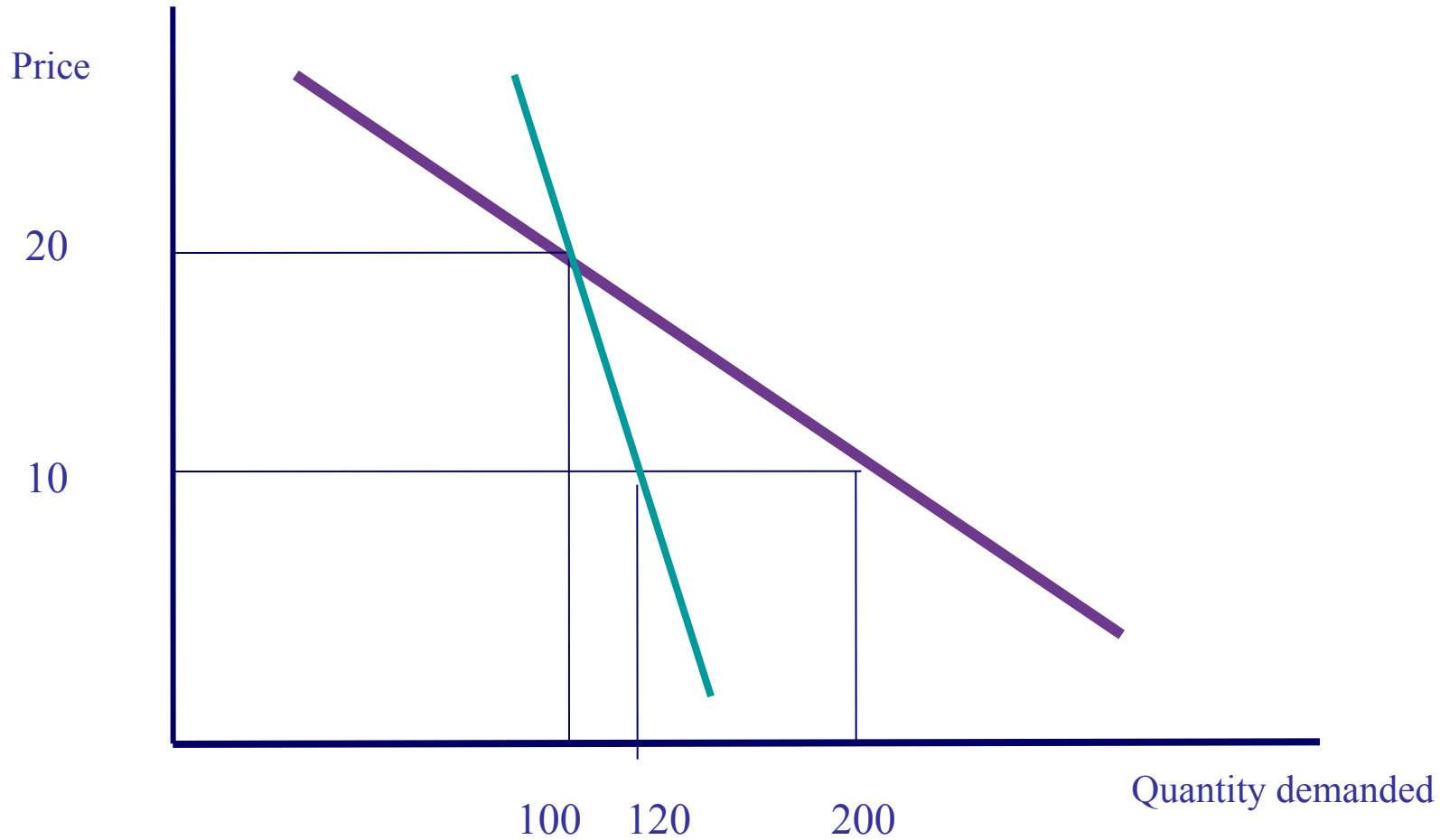
# Objectives

1. Compare the alternative pricing strategies and explain when each strategy is most appropriate.
2. Describe how prices are quoted.
3. Identify the various pricing policy decisions that marketers must make.
4. Relate price to consumer perceptions of quality.
5. Contrast competitive bidding and negotiated prices.
6. Explain the importance of transfer pricing.
7. Compare the three alternative global pricing strategies.
8. Relate the concepts of cannibalization, bundle pricing, and bots to online pricing strategies.

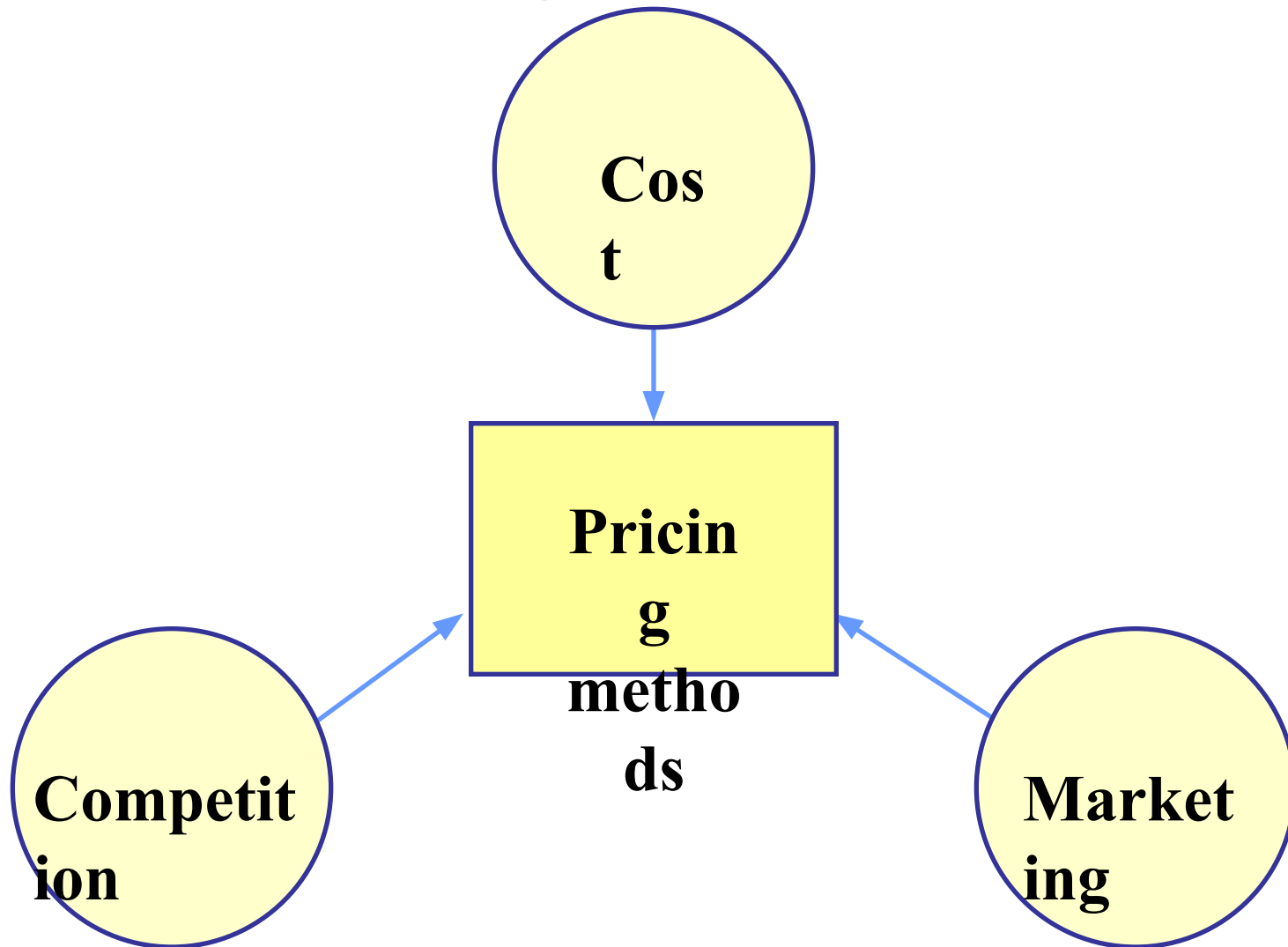
# The scope of Price

- **Price is money equivalent of**
  - » Cost + profit
  - » Customer satisfaction
  - » value

# The Economist's View



# Pricing methods



# Cost-oriented Pricing

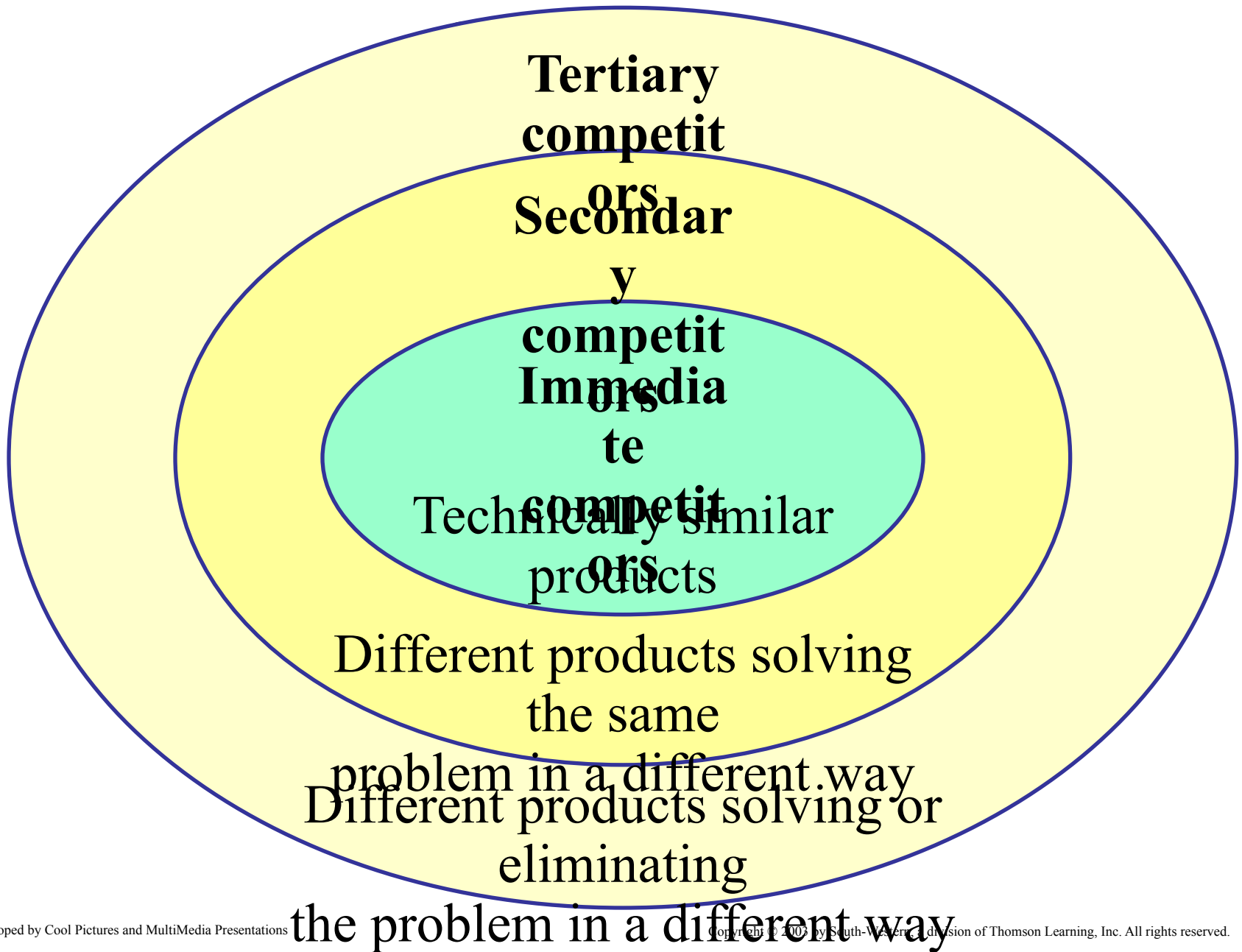
## Full Cost Pricing

- Direct Costs (per unit)     £2
- Fixed Costs                     £200,000
- Expected Sales                 100,000
- *Costs per Unit*
- Direct Costs                     £2
- Fixed Costs (200K/100K)     £2
- Full Costs                         £4
- Mark-up (10%)                 £0.4
- Price (costs + mark-up)       £4.4

## Direct (Marginal) Cost Pricing

Costs are taken into account only when they are directly attributable to the production of a particular product. Fixed costs or overheads are not included in the *marginal cost*.

- Marginal cost for the example given:
- Fixed Costs                     £200,000
- Expected Sales                 £100,000
- Marginal Cost                     £2
- Mark-up (10%)                 £0.2
- Marginal Price                     £2.2



# Alternative Pricing Strategies

**Skimming Pricing Strategies**—known as *market-plus pricing*.

- Intentional setting of a relatively high price.
- More commonly used as a market entry price for distinctive goods or services with little or no initial competition.
- Often used by marketers of high-end goods and services.



# Competitor -oriented

Sainsbury's Flowers and gifts - Microsoft Internet Explorer

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Address [http://www.sainsburysflowers.co.uk/Webstore/search\\_results.asp?ProductCode=&SearchByKeywords=&keyword=&ProductClassGroupCodeList=&ProductClassCode=FB/](http://www.sainsburysflowers.co.uk/Webstore/search_results.asp?ProductCode=&SearchByKeywords=&keyword=&ProductClassGroupCodeList=&ProductClassCode=FB/) Go

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### Flowers by occasion

- Autumn
- Fair Trade
- Birthdays
- Anniversary
- Sympathy
- Kiss & Make Up
- Thank You
- Get Well
- New Home

### Plants

- Indoor plants
- Orchids







### Flowers by price

- Under £25
- £25 to £34
- £35 to £44
- £45 or over

### Flowers by delivery method

- Flowers by post

## Search results

 <p><b>Purple Orchids - Flowers by Post</b> £18.00</p>	 <p><b>Postal Fairtrade Pink Roses</b> £18.00</p>	 <p><b>Postal Freesia</b> £18.00</p>
 <p><b>Fairtrade Cerise Postal Roses</b> £18.00</p>	 <p><b>Postal Orange Dendrobium Orchids</b> £18.00</p>	 <p><b>Postal Oriental Lilies</b> £18.00</p>

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DIRECTORY

**FRESH &**  
FLOWERS

**WINE SELECTION**

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## Flowers By Post

For more information and availability, please select an arrangement below



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**18 Pink Roses By Post**  
£18.00 [VIEW](#)



**Roses And Freesias By Post**



**Dozen Orchids By Post**



**18 White Roses By Post**



# Tesco Price Check

Tesco Price Check - Online Shopping Price Comparison for Groceries - Tesco.com - Microsoft Internet Explorer

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Address http://www.tesco.com/todayattesco/pricecheck.shtml

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## Welcome to **TESCO PRICE CHECK**

**See who has the smallest prices.  
Not just the biggest claims.**

Against	Tesco is cheaper	Tesco is the same price	Tesco is more expensive	Based on no. of lines found
	NO. OF PRODUCTS	NO. OF PRODUCTS	NO. OF PRODUCTS	NO. OF PRODUCTS
Asda	1498	4636	1125	7259
Sainsbury's	3304	4591	664	8559
Morrisons	2300	3170	737	6207

Prices checked between 01 October 2007 and 03 October 2007.

Every week we check over 10,000 prices in Asda, Sainsbury's and Morrisons stores to guarantee you low prices every day. If you want to see just how low our prices really are, simply search for any product in the Price Check box and see how we stack up!

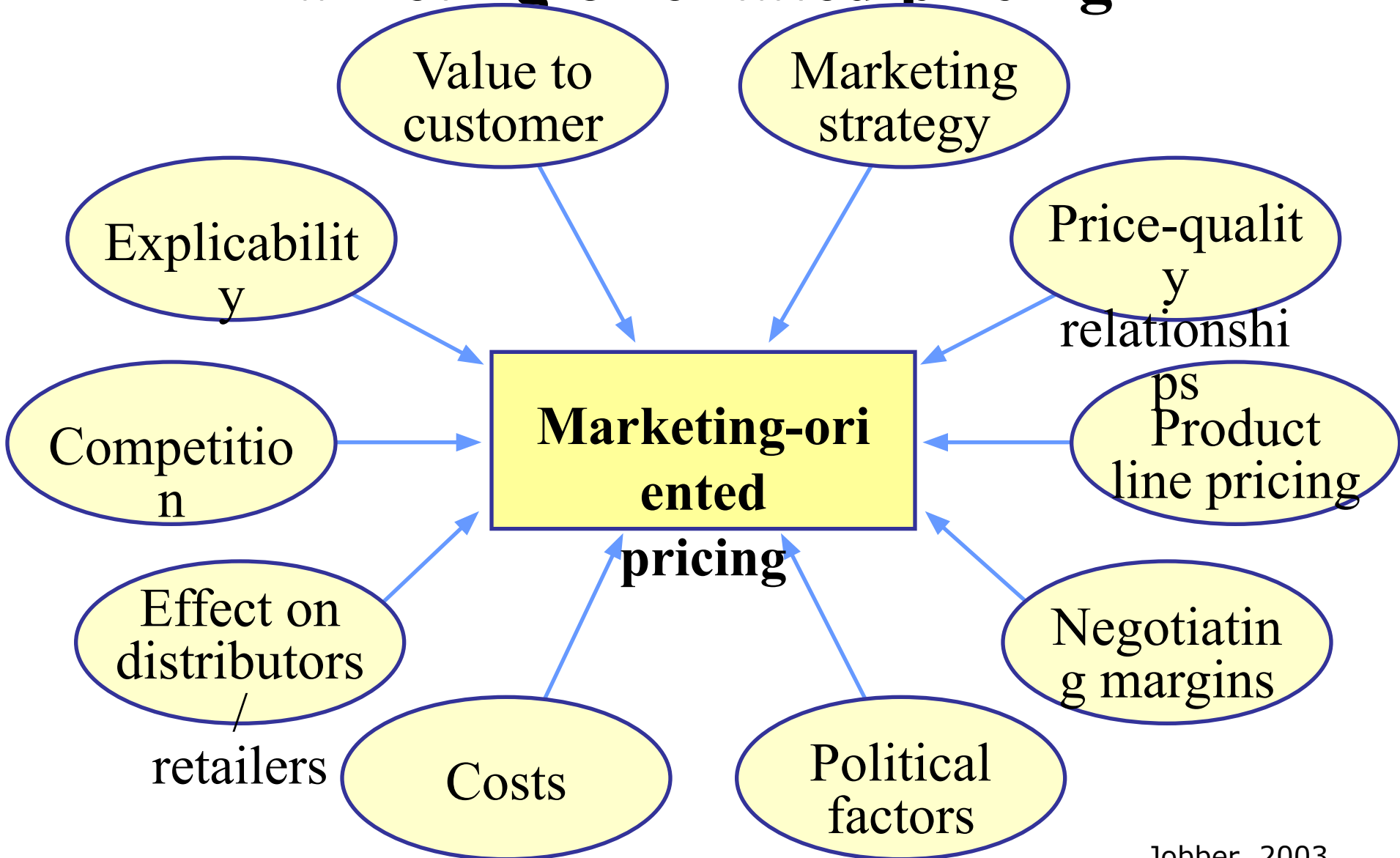
Shop for groceries online

### PRICE CHECK

Simply type in the product you want to check and click 'compare'...

Product:

# Marketing-orientated pricing



# Price-Quality Strategies

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

Kotler 2003

# Premium Strategy

Häagen-Dazs® Shops - Microsoft Internet Explorer

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# Good Value

aD'Orable Carte d'Or - Microsoft Internet Explorer

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**Carte D'OR**

aD'Orable

## All the Ingredients



you need for an amazing alfresco affair.

Crema di Mascarpone

**Hello fellow ice cream adorer.**

It's lovely of you to drop by the adorable Carte D'Or site. As we're all into al fresco entertaining right now, we'd really love to hear your tips and ideas for creating a heavenly alfresco affair... is it the music? Is it candles? Cocktails? Decorations? Do you have a delicious dessert recipe that's a guaranteed favourite?

We've put aside a special space for you opposite so you can let your imagination wander. And if you leave your name, your ideas could be featured in a delicious Carte D'Or mailing in the future. Don't forget to click 'submit' when you're done.

**Have fun, and good luck!**

Adorably yours,

*kumi + Pi*

*Pioneering ever more sensational dessert experiences.*

## Alfresco Affair

Title

First Name

Surname

**Tell us your Alfresco Affair tips here**  
(max 5,000 characters)

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# Price and Product Launch

3 pricing strategies:

- Market Skimming
- Competitive pricing
- Market Penetration

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

# Market Skimming

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 > ACCESSORIES > MINI COVER QUOTE AND BUY > MINI UNITED > HOT NEWS

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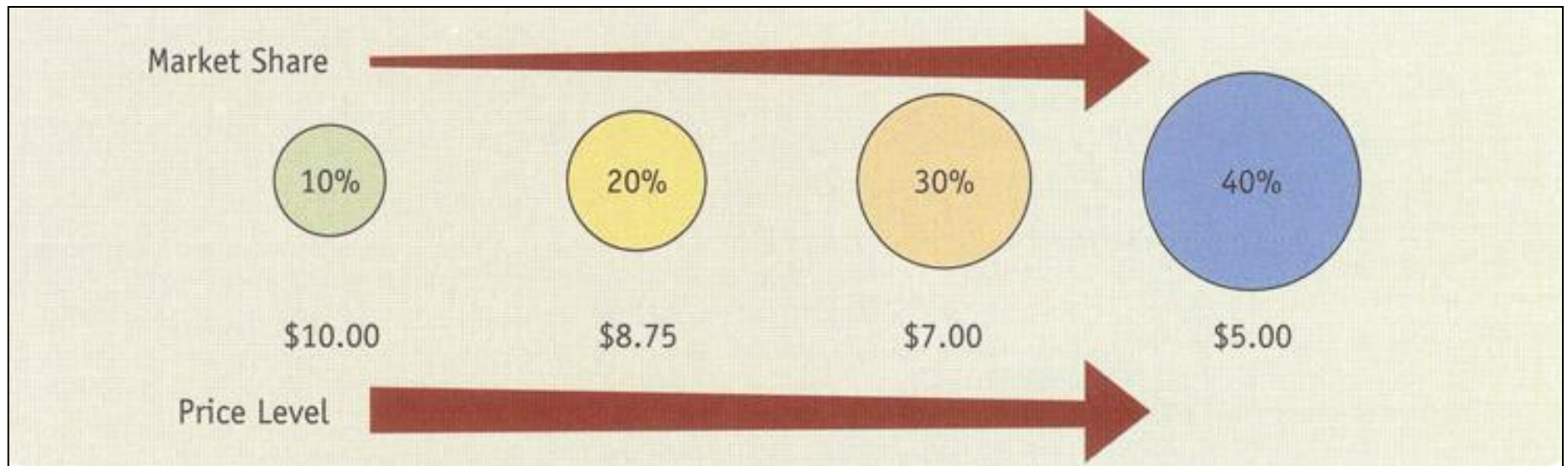
# Skimming Strategy Benefits

1. First, it allows a manufacturer to quickly recover its research-and-development (R&D) costs.
2. Second, it allows a firm to maximize revenue from a new product before competitors enter the field.
3. It is also a useful tool for segmenting a product's overall market on price.
4. Permits marketers to control demand in the introductory stages of a product's life cycle.

**Chief disadvantage:** It attracts competition.

# Price Reductions

## Increase Market Share



# Market Penetration

Renault Clio Campus 1.2 8V Offer Details - Microsoft Internet Explorer

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### Clio Offers

#### Clio Campus 1.2 8V



**CASH PRICE £6,895**  
After a customer saving of **£1,000**  
**11.2% APR** Typical

**You pay**

- Cash price £6,895 after £1,000 customer saving
- Deposit of £499.00
- First payment of £131.96 plus £99 acceptance fee
- 41 monthly repayments of £131.96
- Optional final payment £2,471 including £89 Credit facility fee and £10 option to purchase fee
- Total amount payable £8,611.32 based on 10,000 contracted miles per annum

**You get this included**

- Delivery to dealer
- Number plates

**Previous offers viewed**

My Current Offers Go

View offers on another car →

**BOOK A TEST DRIVE**

- Online →
- Through my dealer →
- Through Renault UK →

**MORE ABOUT THE OFFER**

- Adjust my deposit →

**MORE INFORMATION**

- Find my nearest dealer →
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- Value my car →
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**FUTURE OFFERS**

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# Penetration Pricing Strategy

1. Sets a low price as a major marketing weapon.
2. Retailers may use penetration pricing to lure shoppers to new store.
3. Works best for goods or services characterized by highly elastic demand.
4. May be appropriate in market situations in which introduction of a new product will likely attract strong competitors.

# Everyday Low Pricing

- Closely related to penetration pricing.
- A strategy devoted to continuous low prices
- Retailers like Wal-Mart compete by consistently offering consumers low prices on a broad range of items.

# Competitive Pricing

Car Prices - Mercedes A Class - a new and used guide - Microsoft Internet Explorer

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## Mercedes A Class

### Overview of the Mercedes A Class



It is said that Mercedes-Benz design chief Bruno Sacco told his staff to "forget everything you have learned so far" when unveiling details of the A-class concept to his advanced Design Team. Certainly, the final result of their efforts was like no other Mercedes. The company's first-ever entry in the growing upermini sector is part-mini MPV, part-family hatchback and part-supermini. Yet, despite its diminutive dimensions, it offers interior room comparable with a C-class. Mercedes' first attempt at a front-drive car displays considerable ingenuity. The whole length is one single passenger compartment with the mechanicals lying underneath below a unique 'sandwich' floor design. In a crash the engine is designed to slide underneath the floor, instead of into the cabin. Passengers are also out of range in many side-impact accidents because they're sitting higher than usual. That also makes the car easier to enter and exit.

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# Competitive Pricing

- Reduce the emphasis on price competition by matching other firms' prices and concentrating their own marketing efforts on the product, distribution, and promotion elements of the marketing mix.
- A price reduction results in financial effects throughout an industry as other firms match the drop.
- Nearly two-thirds of all firms set prices using competitive pricing

# Price Quotations

- Depends on:
  1. Competitive trends,
  2. Cost structures,
  3. Traditional practices,
  4. Policies of individual firms.
- Most price structures are built around *list prices*—the rates normally quoted to potential buyers.

# Reductions

## Cash Discounts

- Reductions in price in exchange for prompt payment of bills.
- Usually specify exact time periods

## Trade Discounts

- Payments to channel members for performing marketing functions
- The Robinson-Patman Act allows trade discounts as long as all buyers in the same category receive the same discount privileges.

## Quantity Discounts

- Price reductions granted for large-volume purchases.
- Justify these discounts on the grounds that large orders reduce selling expenses.
- May specify either cumulative or noncumulative terms:
  - **Cumulative quantity discounts** reduce prices in amounts determined by purchases over stated time periods.
  - **Noncumulative quantity discounts** provide one-time reductions in the list price
- Many businesses have come to expect quantity discounts from suppliers.
- Marketers typically favor combinations of cash, trade, and volume discounts.

# Reductions

(Continued)

## Allowances

- Resemble discounts by specifying deductions from list price.
- Major categories of allowances are trade-ins and promotional allowances.

## Rebates

- A refund of a portion of the purchase price.
- Appear most prominently in automobile promotions

# Methods of Handling Transportation Expenses

1. The buyer pays all transportation charges.
2. The seller pay all transportation charges.
3. The buyer and the seller share the charges.

# Four Basic Types of Pricing Policies

1. Psychological Pricing
2. Price Flexibility
3. Product-line Pricing
4. Promotional Pricing

# Psychological Pricing

- Belief that certain prices or price ranges make products more appealing.
- *Odd Pricing*, marketers set prices at odd numbers just under round numbers.
- *Unit pricing* states prices in terms of some recognized unit of measurement.
- 9.99 instead of 10
- *7 instead 8*

# Price Flexibility

- Variable pricing is more likely to be applied in marketing programs based on individual bargaining.
- May conflict with provisions of the Robinson-Patman Act.
- May also lead to retaliatory pricing by competitors.
- May stir complaints among customers.



# Product-Line Pricing

- The practice of setting a limited number of prices for a selection of merchandise.
- Retailers practice extensive product-line pricing.
- A potential problems with product-line pricing is that once marketers decide on a limited number of prices to use as their price lines, they may have difficulty making price changes on individual items.

# Promotional Pricing

- A lower-than-normal price is used as a temporary ingredient in a firm's selling strategy.
- Retailers rely most heavily on promotional pricing.
- **Loss Leaders:**
  - goods priced below cost.
  - States with unfair-trade laws prohibit the practice.
- **Leader Pricing:**
  - Prices slightly above cost.

# Promotional Pricing Pitfalls

- Some buyers are not attracted by promotional pricing.
- By maintaining an artificially low price for a period of time, marketers may lead customers to expect it as a customary feature of the product.

# Three Export Pricing Strategies

1. Standard Worldwide Price
2. Dual Pricing
3. Market-Differentiated Pricing

# Influences on the Internet on Pricing

- **Cannibalization** secures additional sales through lower prices that take sales away from the marketer's other products.
- **Bots**, also known as robots or shopbots, act as comparison shopping agents.
- **Bundle pricing** is offering two or more complementary products and selling them for a single price.

# Consumer considerations

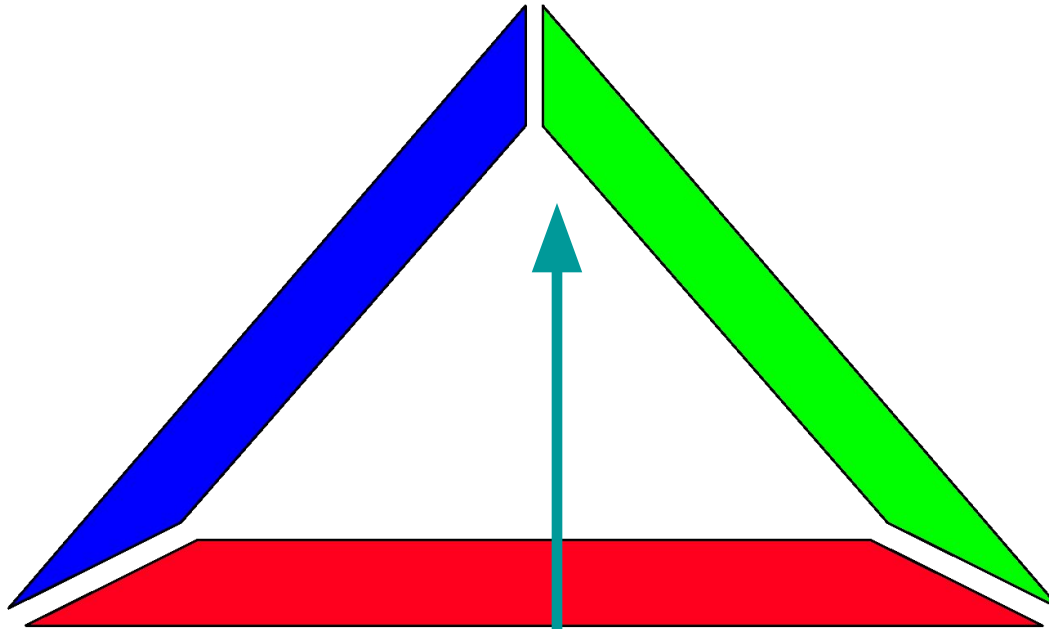
Customer psychology important:

- Need to pay
- Price expectations:
  - market segment: some price range in mind
  - fair/just price: perceptions of cost
  - past prices: as *remembered*
  - quality perceptions
  - value for money:
    - (price, quality, service, image)



# Strategic considerations

**FOCUSED**



**COST LEADERSHIP**

**DIFFERENTIATION**

**LOW COST**



# Lowest Cost Provider

Welcome to Primark Stores, trading as Penneys in Ireland - Microsoft Internet Explorer

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# PENNEYS

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# VFM as a key value proposition

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# VFM as a key value proposition

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# VFM as a key value proposition



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Reduced Ironing Rinse Plus Intensive Wash

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Maxi Performance

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Our reputation for quality, reliability and performance may give the impression that a Bosch washing machine is beyond your reach. In actual fact the price of owning a Bosch is a lot less than you might think. When it comes to choosing your next washing machine, Bosch have the perfect solution at a price you can afford. For further details call 0870 727 0446 for a free brochure, or visit [www.boschappliances.co.uk](http://www.boschappliances.co.uk)

# Differentiation

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 **TOASTED DELI SANDWICHES** **EAT SMART** **BE ACTIVE** **KIDS ZONE** **WHAT'S ON** **GOOD WORKS** **CAREERS** **CONTACT US**

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**GREAT TASTES OF AMERICA**

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## WELCOME

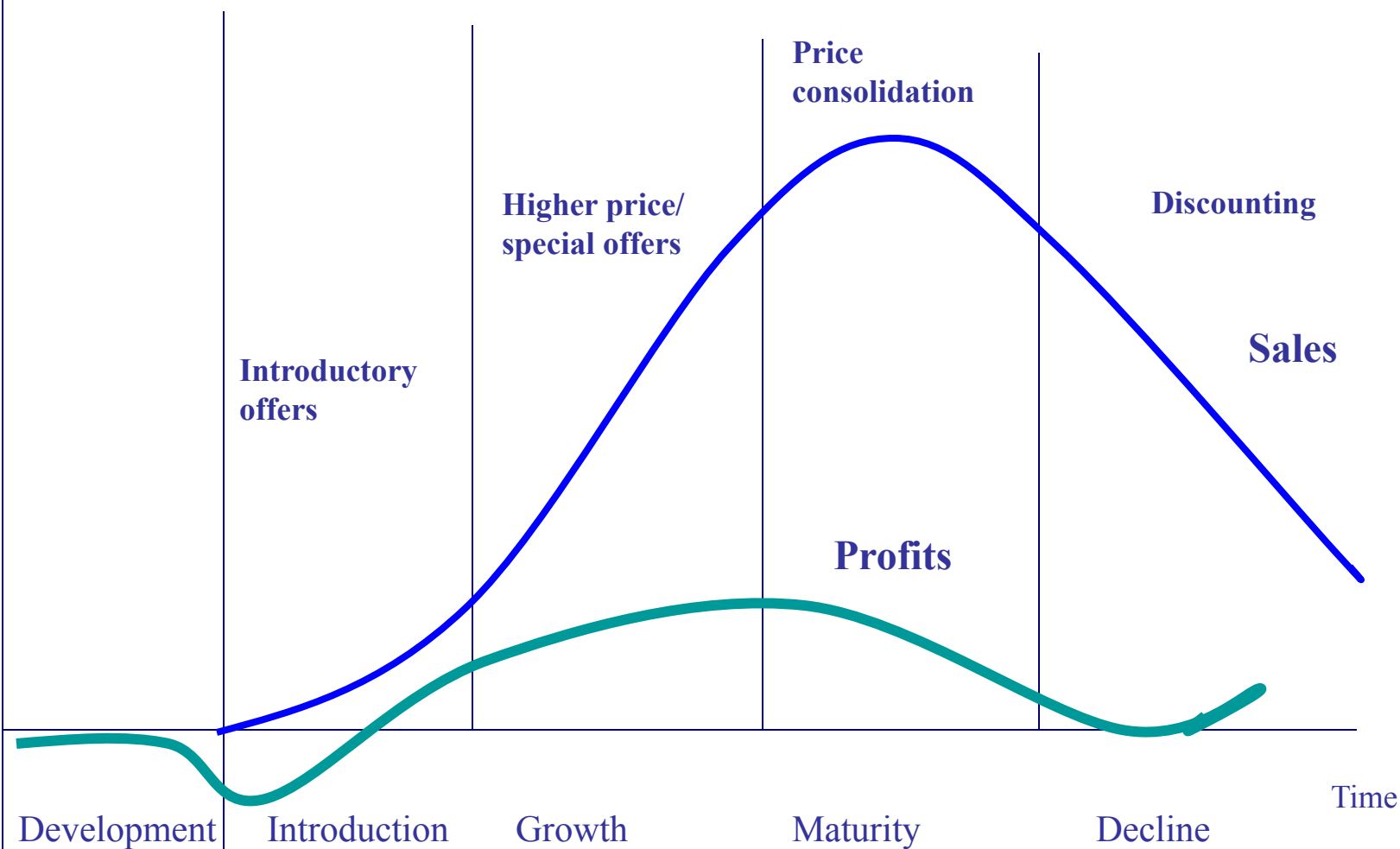
GILBERT has been manufacturing the highest quality rugby balls since Willian Gilbert first supplied Rugby School in 1823. With the advent of new materials, GILBERT pioneered and perfected the use of new synthetic technologies, once again moving to the forefront of matchball development. The continued evolution of GILBERT's match ball technology ensures that it remains in the position as the market leader.

The modern GILBERT is however, much more than just balls. Over the last decade the comapny has expanded into all areas and is now one of the few brands capable of equipping clubs with all their rugby needs.



# PLC – relationship with Price

Sales & profits



# In Summary

1. Compared alternative pricing strategies.
2. Described how prices are quoted.
3. Identified pricing policy decisions that marketers make.
4. Related price to consumer perceptions of quality.
5. Contrasted competitive bidding and negotiated prices.
6. Explained the importance of transfer pricing.
7. Compared the three alternative global pricing strategies.
8. Related the concepts of cannibalization, bundle pricing, and bots to online pricing strategies.



# Homework

- Reading: Chapters 10&11
- Two Company cases for a group presentation
  - Southwest Airlines: Waging War in Philly, p 302
  - ExxonMobil: Achieving Big Profits During Hard Times, p 329