

Pricing Strategies - II

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Dynamic Product Pricing

Market Skimming

- > Setting a High Price for a New Product to Skim Maximum Revenues from the Target Market.
- > Results in Fewer, More Profitable Sales.
- > Intel's \$1,000 Chip

Market Penetration

- > Setting a Low Price for a New Product in Order to Attract a Large Number of Buyers.
- > Results in a Larger Market Share.
- > Walmart

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New Product Pricing Strategies

Market Skimming

- > Setting a High Price for a New Product to "Skim" Maximum Revenues from the Target Market.
- > Results in Fewer, But More Profitable Sales.

- Use Under These Conditions:
 - > Product's Quality and Image Must Support Its Higher Price.
 - > Costs Can't be so High that They Cancel the Advantage of Charging More.
 - > Competitors Shouldn't be Able to Enter Market Easily and Undercut the High Price.

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New Product Pricing Strategies

- Use Under These Conditions:

- > Market Must be Highly Price-Sensitive so a Low Price Produces More Market Growth.
- > Production/ Distribution Costs Must Fall as Sales Volume Increases.
- > Must Keep Out Competition & Maintain Its Low Price Position or Benefits May Only be Temporary.

Market Penetration

- > Setting a Low Price for a New Product in Order to "Penetrate" the Market Quickly and Deeply.
- > Attract a Large Number of Buyers and Win a Larger Market Share.

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Product Mix Pricing Strategies

Product Mix Pricing Strategies



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Product Mix-Pricing Strategies: Product Line Pricing



- Involves setting price steps between various products in a product line based on:
 - > Cost differences between products,
 - > Customer evaluations of different features, and
 - > competitors' prices.

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Product Mix- Pricing Strategies:

- **Optional-Product**
 - Pricing optional or accessory products sold with the main product. i.e. camera bag.
- **Captive-Product**
 - Pricing products that must be used with the main product. i.e. film.



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Product Mix- Pricing Strategies:

- **By-Product**
 - Pricing low-value by-products to get rid of them and make the main product's price more competitive.
 - i.e. sawdust, Zoo Doo
- **Product-Bundling**
 - Combining several products and offering the bundle at a reduced price.
 - i.e. theater season tickets.

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Product-Bundling Pricing Strategies

- **Pure Components Pricing**
- **Pure Bundling Price**
- **Mixed Bundling Price**

ASSIGNMENT: PRICING CASE STUDY

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Psychological Pricing



- Considers the psychology of prices and not simply the economics.
- Customers use price less when they can judge quality of a product.
- Price becomes an important quality signal when customers can't judge quality; price is used to say something about a product.

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Odd pricing

- For which pair of prices is the lower price *more* of a bargain?

First pair: \$0.89 \$0.75

Second pair: \$0.93 \$0.79

- Effect of Advertised **Odd-Price Endings on Sales** of Margarine:

Parkay brand:	Price/lb (\$)	Unit sales
Regular price:	0.83	2817
Discount price	0.63	8283 (+ 194%)
Odd discount price	0.59	14,567 (+406%)

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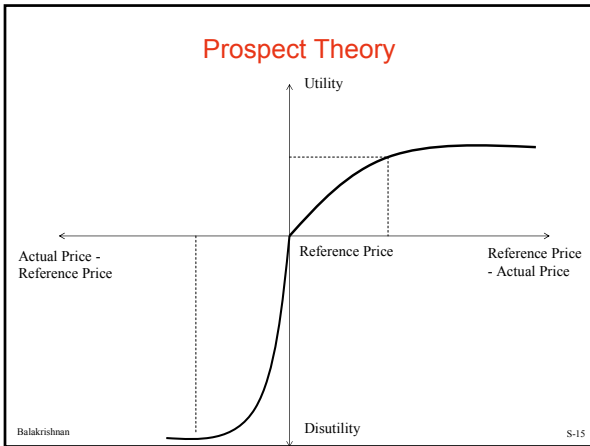
Order Effects

Reference prices when range of prices shown in:

Product	Ascending order	Descending order
Electric shaver	20.18	24.00
After-shave lotion	2.28	3.56
Dress shirt	4.85	6.69
Sport coat	39.85	44.64
Hair spray	1.02	1.41
Hair dryer	21.91	21.91
Dress shoes	15.89	17.83
Blouse	7.37	9.27

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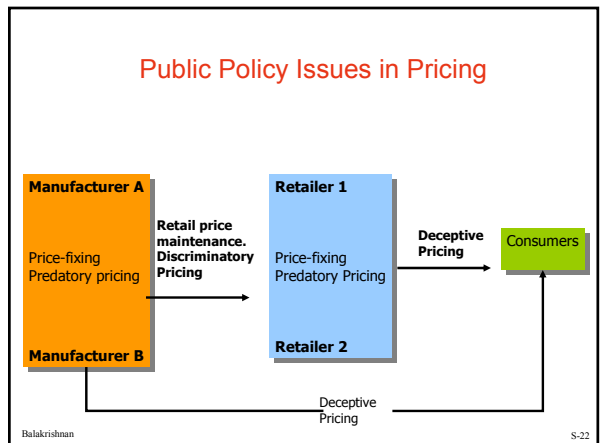
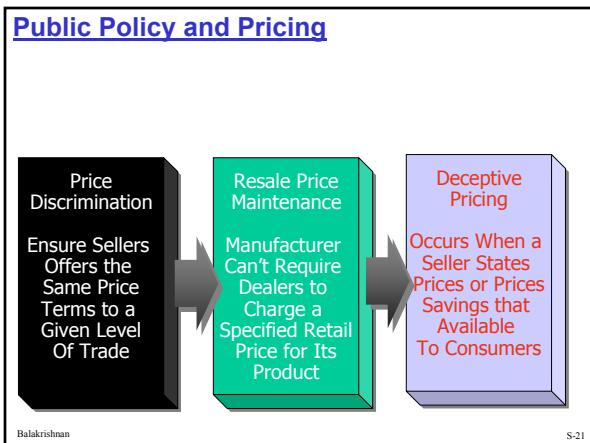
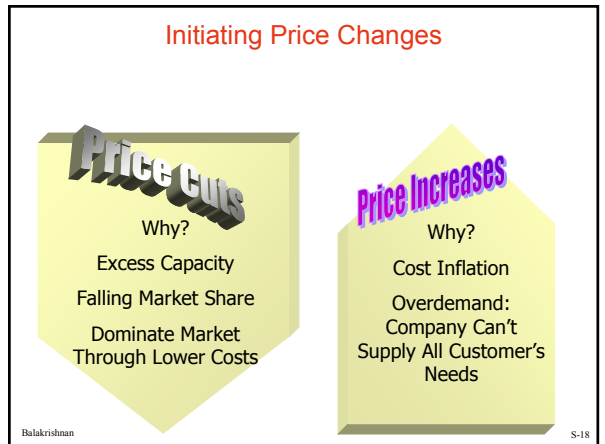


- ### Reference Pricing
- put low priced good next to high priced good.
 - put “regular” price next to “sale” price (- “was \$999, now \$799”)
 - order effects: reference prices influenced by what is seen first.
 - endowment effect: de-couple acquisition and payment by first endowing buyers with the product. “Buy now, pay later”.
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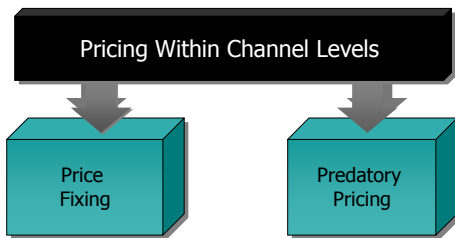
Reference Price Effect of a High-end Product

Microwave Oven Model:	Choice (%)	
	Group 1	Group 2
Panasonic II (1.1 cu ft; regular price \$199.99; sale: 10% off)	-N.A. -	13%
Panasonic I (0.8 cu ft; regular price: \$179.99; sale: 35% off)	43%	60%
Emerson (0.5 cu ft; regular price \$109.99; Sale price: 35% off)	57%	27%

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Public Policy Issues in Pricing



Both Are Prohibited by Law

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8 Steps to a Pricing Decision

1. Assess what value your customers place on the product or service
2. Look for variation in the way customers value the product
3. Assess Customers' Price Sensitivities
4. Identify an Optimal Pricing Structure
5. Consider Competitors' Reactions
6. Monitor Prices Realized at Transaction Level
7. Assess Customers' Emotional Response
8. Analyze Whether Returns are Worth the Cost to Serve

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