

Pricing Process Strategies



Pricing Process Strategies

Learning Targets



I can

- **describe** pricing strategies that adjust the base price
- **list** steps to determine price
- **explain** use of technology in pricing function

Pricing Process Strategies

THE MAIN IDEA

Price adjustments allow businesses to stay competitive. The right pricing strategy can help increase sales and profitability.

Pricing Process Strategies

VOCABULARY

- product mix pricing strategies
- price lining
- bundle pricing
- geographical pricing
- segmented pricing strategy
- psychological pricing
- prestige pricing
- everyday low prices (EDLP)
- promotional pricing

Adjusting Base Price Strategies

- Product mix
- Geographical
- International
- Segmented
- Psychological
- Promotional
- Discounts and allowances



Product Mix Price Strategies

- Price Lining
- Optional Product
- Captive Product
- By-Product
- Bundle



Price Lining

- Sets a limited number of prices for specific groups or lines of merchandise.
- Advantage for target market to be aware of pricing & easier for sales people.



Optional Product Pricing

Setting prices for accessories or options sold with the main product.



Captive Product Pricing

Sets the price for one product low but makes up for it by pricing the supplies needed to use product high.



Examples:

- Printers are priced low But ink cartridges are high
- Cell Phone Service providers give free phones for committing to service contracts
- Razor companies price razors below cost but blade prices are high

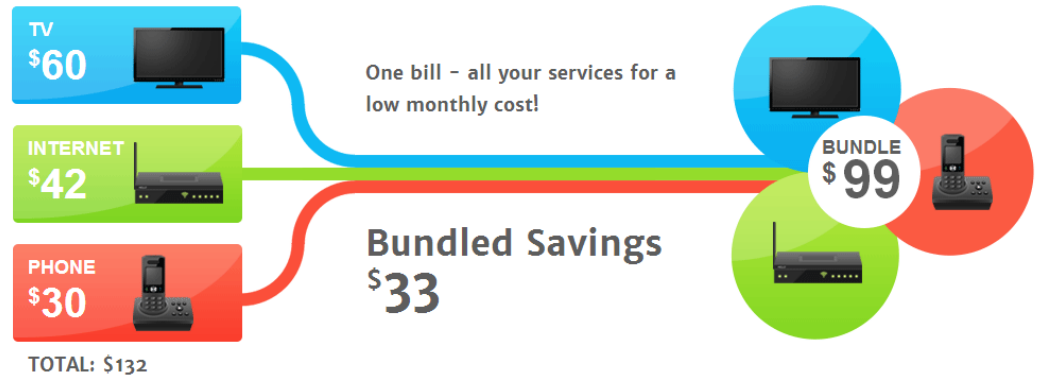
By Product Pricing

Helps businesses get rid of excess materials used in making the product.



Bundle Pricing

Offering several complimentary or corresponding products packaged and sold together.



Pricing Process Strategies

Geographic Pricing

- Pricing based on different shipping agreements
- As opposed to Free on Board (FOB) customer pays the shipping & assumes responsibility for the shipment until it reaches the buyer

International Pricing

- Considers the complexity of international trade
- Examples
 - Currency exchange rates
 - Tariffs
 - Laws
 - Regulations
 - Country's distribution system
 - Consumers
 - Competition
 - Economics

Segmented Pricing Strategies

- Segments market by price strategies
- Uses two or more different prices for a product, even if the costs are the same
- Helps businesses optimize profits & compete effectively

Four factors

1. Buyer Identification
2. Product Design
3. Purchase Location
4. Time of Purchase



Segmented Pricing Strategy

Buyer Identification

- Recognizes buyers sensitivity to price
- Examples
 - Loyalty programs
 - Senior or student discounts
 - Airline 1st Class seats v. cabin



Segmented Pricing Strategy

Product Design

- Different prices for different product styles, regardless of the cost to make the product
- Can be priced on demand for style



4.3 cu. ft. Ultra-Large Capacity with
Steam Technology
WM3370HWA

★★★★★ (42)

\$899⁹⁹

Suggested Price

WHERE TO BUY

☐ ADD TO COMPARE



4.3 cu. ft. Ultra-Large Capacity with
Steam Technology
WM3370HRA

★★★★★ (42)

\$999⁹⁹

Suggested Price

WHERE TO BUY

☐ ADD TO COMPARE

Segmented Pricing Strategy

Purchase Location

- Pricing based on where the product is sold

Big Mac Around the World



\$4.80	US
\$7.76	Norway
\$6.83	Switzerland
\$6.82	Venezuela
\$3.35	Mexico
\$5.80	Brazil
\$5.25	Canada
\$4.93	UK
\$4.81	Australia
\$3.70	Philippine's
\$3.64	Japan
\$2.73	China

Las Vegas McDonald Prices

Las Vegas Strip • 3770 Las Vegas Blvd. South

This McDonald's across the street from the Monte Carlo boasts glitzy golden arches and prices higher than the four other restaurants sampled.

Breakfast: \$4.31

Lunch: \$7.77

North Las Vegas • 1406 W. Craig Road

A freestanding restaurant near the West Craig Road/Camino Al Norte intersection, this location falls directly in the middle in terms of pricing.

Breakfast: \$3.99

Lunch: \$6.69

Northwest Las Vegas • 7171 W. Ann Road

This Chevron-McDonald's hybrid location near U.S. 95 keeps its prices low enough to be among the cheapest sampled.

Breakfast: \$3.88

Lunch: \$6.48

South/Southwest Las Vegas • 6480 S. Durango Drive

This gas station hybrid shares building space with a Terrible's. The built-in crowd might explain why it took second in terms of highest cost.

Breakfast: \$4.10

Lunch: \$6.69

Henderson • 65 S. Valle Verde Drive

Tucked away in Green Valley, this location nabs the spot for cheapest McDonald's sampled.

Breakfast: \$3.75

Lunch: \$6.37



Segmented Pricing Strategy

Time of Purchase

- Prices affected by timing
- Businesses can charge more during peak times

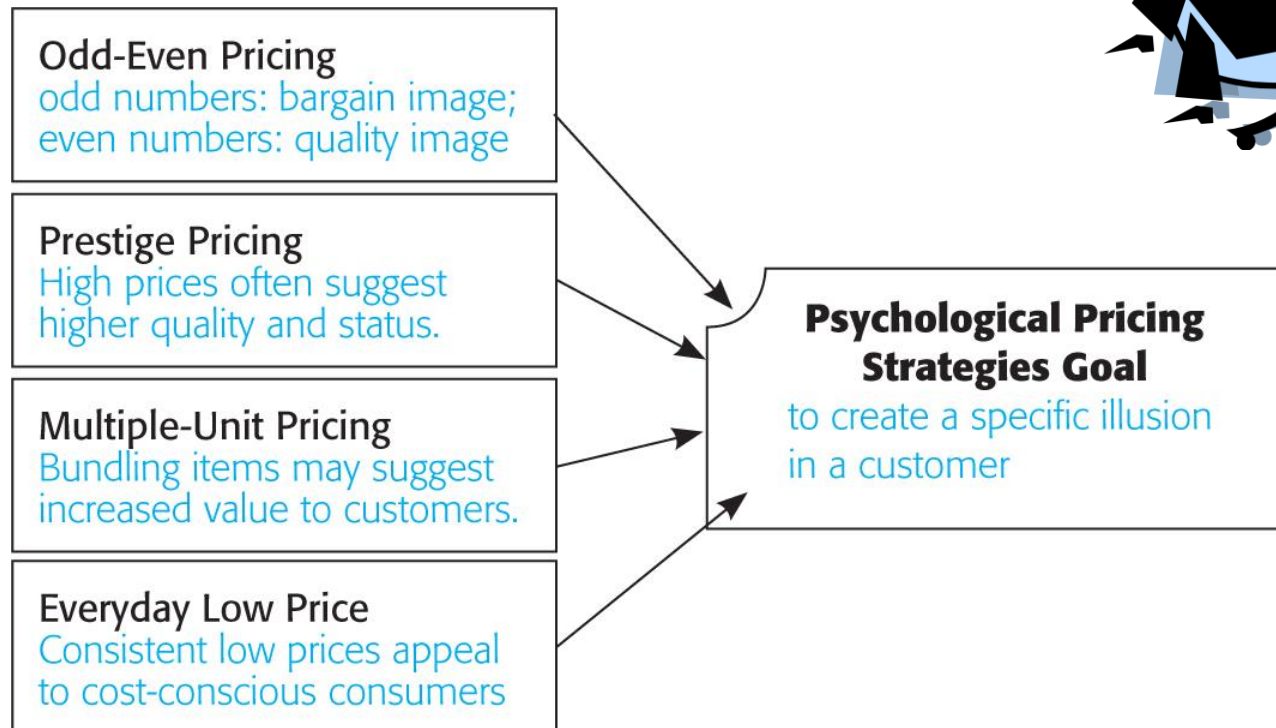


Off Season
Rates!



Psychological Pricing

- Help create an illusion to customers
- Often based on buyer's motivation



Odd/Even Pricing

- Using odd/even prices to imply a bargain
- Studies show that when prices are different, our brains interpret as a better deal
- Example:
 - TV priced at \$797 sells better than one at \$800



Prestige Pricing

- Higher prices to imply a better image
- Sometimes consumers want to pay more



Multi-Unit Pricing

- Single price for 2 or more of the same product
- Used to convince consumers it is a better deal to buy more
- Most of the time you could buy less for the same price



Everyday Low Price



Promotional Pricing

- Used in conjunction with sales promotions, where prices reduced for a short time

- Types
 - Loss Leader
 - Special-Event
 - Rebates & Coupons



Discounts & Allowances

- Seller offers price reduction for certain actions
- Types
 - Cash Discounts
 - Quantity Discounts
 - Trade Discounts
 - Seasonal Discounts
 - Allowances



Cash Discounts

- Incentive to pay bills quickly
- Terms written on invoice
- 2/10, net 30
 - 2% discount if paid in 10 days, due in 30 days

5.7 CASH DISCOUNTS

■ Examples...

	<u>% Discount</u>	<u>Discount period</u>	<u>Final payment</u>
2/10, n/30	2%	10 days	30 days
5/14, n/30	5%	14 days	30 days
10/30, n/60	10%	30 days	60 days

Quantity Discounts

- Discount for placing large order
- Cumulative (made over time)
- Noncumulative (for one order)



Trade Discounts

- Price for wholesalers or retailers
- Not really a discount, just the way prices are quoted
- Manufacturers use MSRP and give discounts to the distribution channel



Seasonal Discounts

- Discount for buying off or pre-season
- Can be used to keep inventory and manufacturing even throughout the year

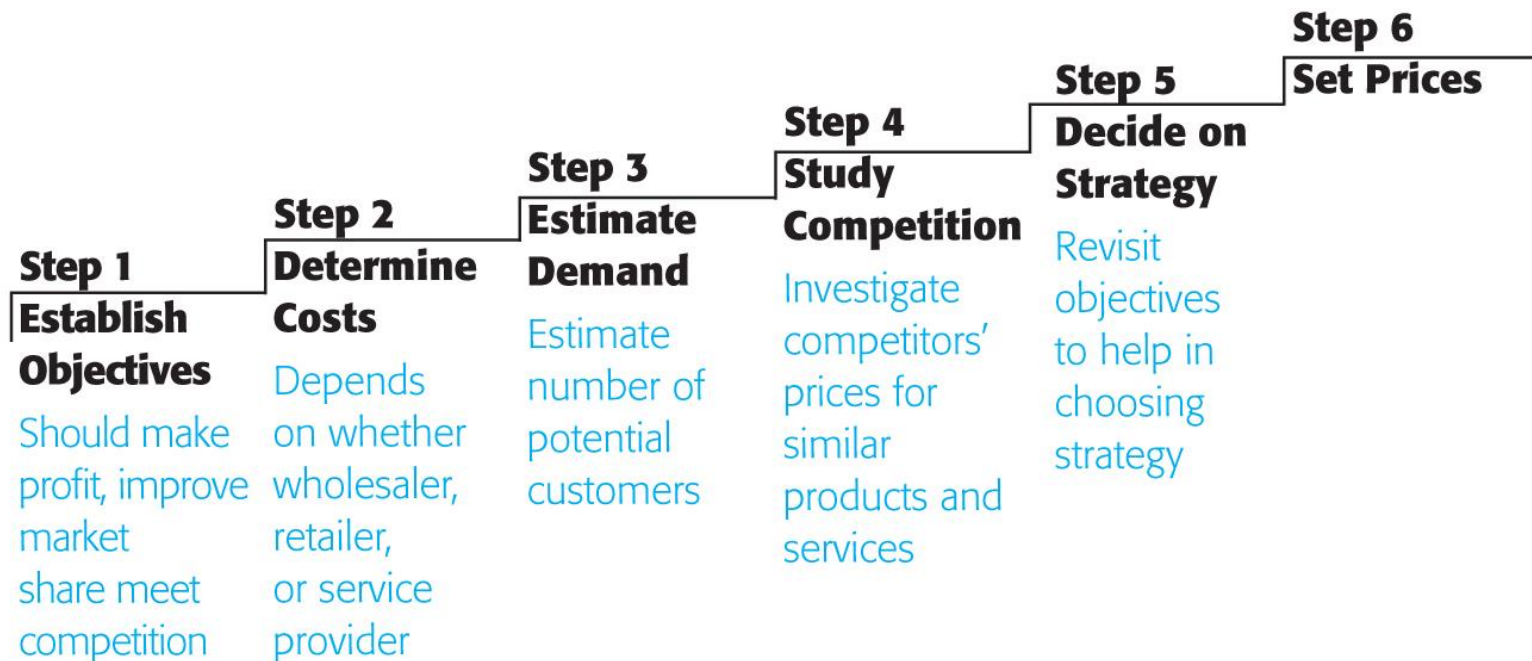


Allowances

- Trade-in allowances go back directly to the buyer
- Price reduction if you trade in an old model
- Used with new cars and appliances



6 Steps to Determine Prices



Pricing Technology

Smart Pricing

Decisions are based on large amounts of data.



Communicating Prices to Customers

Electronic gadgets and kiosks provide consumers with real-time information.



RFID Technology

Radio frequency identification (RFID) transmits information wirelessly.



Basic Pricing Policies

1. **Name** the types of businesses that use markup to determine prices.

Markup is used primarily by wholesalers and retailers who are involved in acquiring goods for resale.

Basic Pricing Policies

2. **Explain** why manufacturers consider the final consumer with a suggested retail price when calculating the price to charge wholesalers.

Manufacturers will often do research to determine the price the final consumer is willing to pay for an item. That price becomes the manufacturer's suggested retail price (list price) from which the company expects wholesalers and retailers to take their customary markups. Customary markups are well known in each industry.

Basic Pricing Policies

3. **List** the advantages of using a one-price policy.

The advantages of using a one-price policy are that they offer consistency and reliability, which allows retailers to estimate sales and profit because they know the set price.

Pricing Process Strategies

PREDICT Why do you think prices change over time?

Pricing Process Strategies

1. **Identify** the key factor in deciding price lines.

The key factor in deciding price lines is the differential between the levels of pricing. The prices within the line must be far enough apart so that the customer can perceive that there are significant differences between the groups.

Pricing Process Strategies

2. **Explain** why bundling discourages comparison shopping.

Bundling discourages comparison shopping because the grouping of products in the package may differ among competitors, making it difficult to see which one is the better deal.

Pricing Process Strategies

3. **Compare** everyday low pricing with promotional pricing.

In everyday low pricing, the prices are low and they remain low with no intention of changing them in the future. In promotional pricing, prices are lowered for a short period of time, after which they go back up to the original price when the promotion is over.