

Chapter 11

PRICING STRATEGIES: ADDITIONAL CONSIDERATIONS

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TOPICS OF THE LECTURE

- 1. New Product Pricing Strategies**
 - 2. Product Mix Pricing Strategies**
 - 3. Price Adjustment Strategies**
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New Product Pricing Strategies

**Market
Skimming
Pricing**

**Penetration
Pricing**

New Product Pricing Strategies

Market Skimming Pricing

- ❑ Set a high price for a new product to “skim” revenues layer by layer from the market.
- ❑ Company makes fewer, but more profitable sales.

▶ When to use:

- ▶ Product's quality and image must support its higher price.
- ▶ Costs of smaller volume cannot be so high they cancel the advantage of charging more.
- ▶ Competitors should not be able to enter market easily and undercut the high price.

Price Skimming: Apple iPhone

 iPhone



- Initial price was as much as \$599 per phone.
- Phones were purchased only by customers who really wanted the sleek new gadget.
- Six months later, Apple dropped the price \$399 for an 8-GB model and \$499 for the 16-GB model to attract new buyers.

New Product Pricing Strategies

Penetration Pricing

- ❑ Set a low initial price in order to “penetrate” the market quickly and deeply.
- ❑ Can attract a large number of buyers quickly and win a large market share.

When to use:

- ❑ Market must be highly price sensitive so a low price produces more market growth.
- ❑ Production and distribution costs must fall as sales volume increases.
- ❑ Must keep out competition and maintain low price.

IKEA's case in China



- Prices 70% lower than other parts of the world
- Captured 43% of furniture market
- Beijing store draws 6 million visitor's annually



Product Mix Pricing Strategies

Product Line
Pricing

Optional Product
Pricing

Captive Product
Pricing

Two-part Pricing

Product Bundle
Pricing

By-product
Pricing

Product Line Pricing

- Involves setting price steps between various products in a product line based on:
 - Cost differences between products
 - Customer evaluations/perceptions of different features.

The screenshot shows the Washington Capitals website with a navigation bar at the top containing links like 'WASHINGTONCAPS.COM', 'THE CAPS', 'GAMEDAY', 'COMMUNITY', 'MULTIMEDIA', 'TICKETS', and 'STORE'. Below the navigation bar is a search bar and a 'FIND A PLAYER' dropdown menu. The main content area displays 'Ticket Plans' for the Lower Level and Upper Level.

	Section	Gate Price	Season Tickets	Per Game Savings	Weekend Plan	Pick 'Em Plan		
Lower Level	VIP Row A	\$230	\$165	\$65	N/A	N/A		
	VIP Row B	\$150	\$102	\$48				
	Centered Preferred	\$99	\$70	\$29				
	Preferred	\$80	\$58	\$22				
	Loge	\$80	\$49.99	\$30.01				
Upper Level	Side Mezzanine	\$50	\$27	\$23	\$41	\$14	\$46	\$9
	Side Balcony	\$39	\$17	\$22	\$24	\$15	\$28	\$11
	Mezzanine Ends	\$39	\$17	\$22	\$24	\$15	\$28	\$11
	Goal Zone	\$25	\$14	\$11	\$20	\$5	\$21	\$4

Optional-feature pricing

- Pricing optional or accessory products sold with the main product.
- E.g. sound system of car.



Jiangnan Alto	Specification:	Tata Nano
3,087\$	Dealer price	2,500\$

- Central locking
- Power steering
- Air Conditioning
- ABS
- Windshield wiper
- Engine
- Drive type

Captive-product pricing

- Pricing products that must be used with the main product.
- i.e. film for cameras, Blades for Razor. Ink cartridge for Printer



Two-part pricing

- Consisting of a fixed fee plus a variable usage fee.

Example- Vodafone iPhone plan-If you talk beyond the plan then you have to pay extra usage fee.

iPhone 4 16GB White plans

24 month plans

Minutes	75	300	600	900	1200	3000
Texts	250	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
Internet on your iPhone	1024MB of mobile internet & webmail					
Extras	1024MB of Wi-Fi with BT Openzone Pre-order and get free Vodafone calls for the lifetime of your contract Price plans over £40 include 5MB European data roaming					
Plan cost	£25 a month	£30 a month	£35 a month	£40 a month	£45 a month	£60 a month
Phone cost	£189	£149	£89	£59	FREE	FREE
	Select	Select	Select	Select	Select	Select

By-product pricing

- production of certain goods often result in by-products; meat.
- Any income earned on the by-products will make it easier for the company to charge at lower price on its main product if competition forces it to do so.



Product-bundling pricing

- Combining several products and offering the bundle at a reduced price.
- Burger + Chicken + fries + pepsi.
- 3 day trip to Malaysia @ TK 30,000



Price Adjustment Strategies

Even after the price is first set – in various situations the company must **adjust** its price.

Discount Pricing:

- i) **Cash discount:** e.g. University Fees 5% discount if paid in full.
- ii) **Quantity Discount:** price reduction if bought in bulk.
- iii) **Seasonal discount:** E.g. Hotels at Cox's Bazaar.

Allowance Pricing:

- i) **Trade-in allowance:** e.g. turning in a used car and buying a new car at a reduced price.
- ii) **Promotional allowance:** payments or price reductions paid to retailers/wholesalers to reward them for participating in promotions and support. Shelf space.

Price Adjustment Strategies

Segmented Pricing: Selling a product or service at two or more prices, where the difference in prices is not based on differences in costs.

- **Customer segment pricing:** e.g. Museum tickets(child, under 12, above 12).
- **Location pricing:** theater seats; Overseas students.
- **Product form pricing:** e.g. different SKUs of a product.
- **Time pricing:** During EID airline/bus/ railway tickets are higher. Airline/train ticket prices change by the minute (London to Paris).

Price Adjustment Strategies

Psychological pricing: Pricing goods and services at price points that make the product appear less expensive than it is.

E.g. a mobile phone priced at 29,500 TK rather than 30,000 TK.

E.g. Magic 30gm priced at 9TK rather than 10 TK.

Price Adjustment Strategies

Promotional pricing: temporarily pricing products below the list price, and sometimes even below cost, to increase short-run sales and reduce inventories.

- Special day event pricing: EID special price.
- Cash rebates: 10 TK CHAR!
- Low interest financing: for bank loans.

Price Adjustment Strategies

Geographical Pricing

Setting prices for customers located in different parts of the country or world.

FOB-origin pricing

Uniform-delivered pricing

Zone pricing

Basing-point Pricing

Freight-absorption pricing

Thank
You