E-Content

BBA402- Marketing Management

Lecture 23- Pricing Strategies

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Other Pricing Strategies

- Profit objective: For example, “Increase net profit in 2016 by 5 percent”
- Competitive objective: For example, “Capture 30 percent market share in the product category”

Break-Even Price

The break-even price is the price that will produce enough revenue to cover all costs at a given level of production.

$p = (Vn + FC) / n$

$n = FC / (p - V)$

p is price

n is number of units sold

V is variable cost per unit

FC is fixed costs

Competitive Pricing

- Matching competitor price requires competing on the other parts of the marketing mix
- Pricing above competition requires a clear advantage on some nonprice element of the marketing mix
- Pricing below the competition to increase sales volume with lower profit margins is effective if a significant segment of the market is price sensitive and/or the organization's cost structure is lower than competitors
- The risk of competing on price is a price war

Value-based Pricing

- “Price is what you think your product is worth to that customer at that time.” This approach regards the following as marketing/price truths:
- To the customer, price is the only unpleasant part of buying.
- Price is the easiest marketing tool to copy.
- Price represents everything about the product.
- Still, value-based pricing is not altruistic. It asks and answers two questions:
- What is the highest price I can charge and still make the sale?
- Am I willing to sell at that price?

Tactical Recommendations from Value-based Pricing

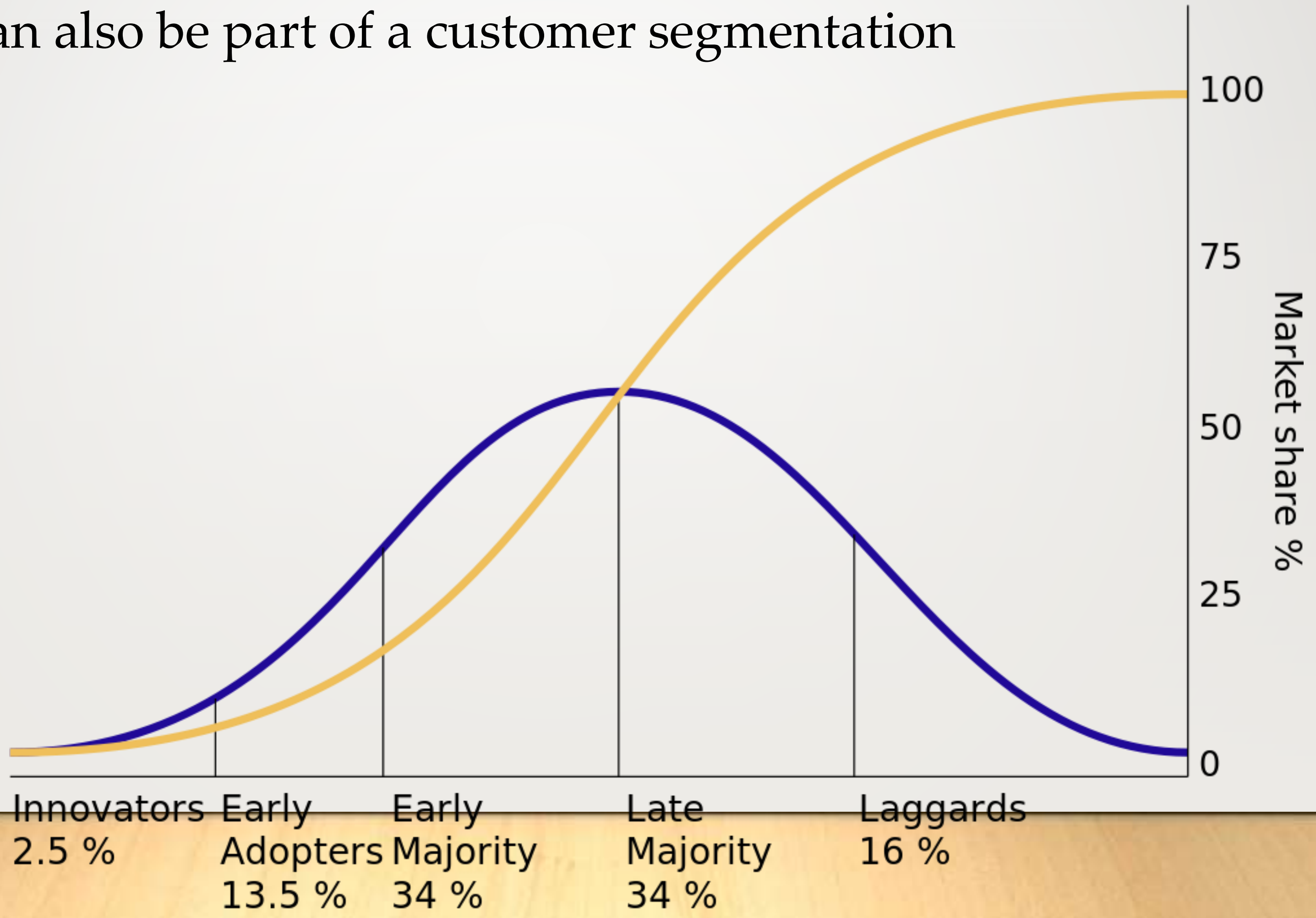
- Employ a segmented approach toward price that considers how each group of customers assesses value
- Establish the highest possible price level and justify it with comparable value
- Use price as one component in the mark … value across all elements of the offering

Price Skimming

- A firm charges the highest initial price that customers will pay
- As the demand of the first customers is satisfied, the firm lowers the price to attract another, more price-sensitive segment

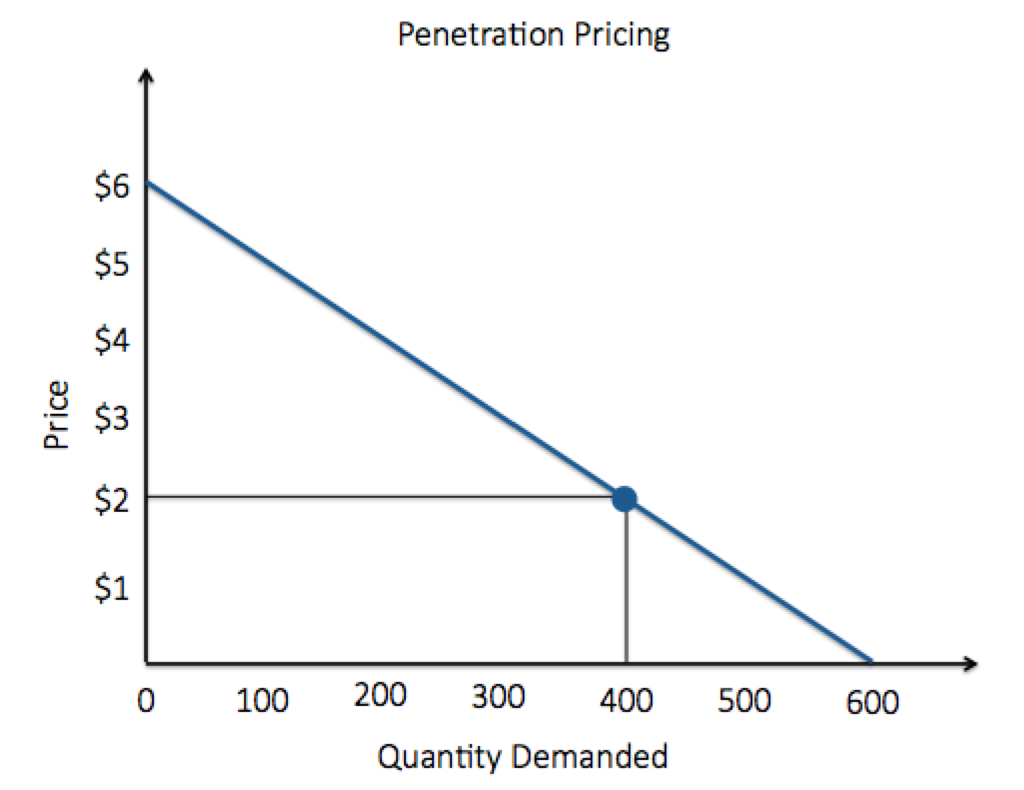
Price Skimming and Customer Segmentation

- Price skimming can also be part of a customer segmentation strategy.



Penetration Pricing

- The price of a product is initially set low to rapidly reach a wide fraction of the market and initiate word of mouth to enlarge market share and exploit economies of scale



Advantages of Penetration Pricing

- It can result in fast diffusion and adoption across the product life cycle
- It can create goodwill among the Innovators and Early Adopters
- It establishes cost-control and cost-reduction pressures from the start, leading to greater efficiency
- It discourages the entry of competitors and takes existing competitors by surprise
- It can generate high stock turnover throughout the distribution channel, which creates important enthusiasm and support in the channel

Disadvantages of Penetration Pricing

- Can create long-term price expectations for the product and image preconceptions for the brand and company that make it difficult to raise prices later
- low profit margins may not be sustainable long enough for the strategy to be effective

Cost-plus Pricing

Cost-plus pricing, sometimes called *gross margin pricing*

- Most widely used pricing method
- The manager selects as a goal a particular gross margin that will produce a desirable profit level
- Gross margin is the difference between how much the goods cost and the actual price for which it sells
- This gross margin is designated by a percent of net sales
- The percent chosen varies among types of merchandise

Markup

- When middlemen use the term markup, they are referring to the difference between the average cost and price of all merchandise in stock, for a particular department, or for an individual item

Discounting Strategies

- Quantity discounts
- Seasonal discounts
- Cash discounts
- Trade discounts (given to middlemen)

- Personal allowances (rewards to salespeople)
- Trade-in allowances (cars)
- Price bundling (cable) package)