



Pricing Strategies

Strategies in the Pricing Process

What you'll learn

- The various pricing techniques
- The steps in setting prices
- The use of technology in the pricing function

Product Mix Strategies

- Involve adjusting prices to maximize the profitability for a group of products rather than on just one item.
- One product may have a small profit margin while another may be high, balancing the effect of the lower priced one.

Product Mix Strategies

- **Price Lining** – offers merchandise in a given category at certain prices
 - Shirts at \$25, \$35, \$50
 - Upper tier is better quality premium brand
 - Middle tier is for average priced brands
 - Lower tier for price-conscious customers.

Product Mix Strategies

- Optional Product– setting prices for accessories or options sold with the main product.



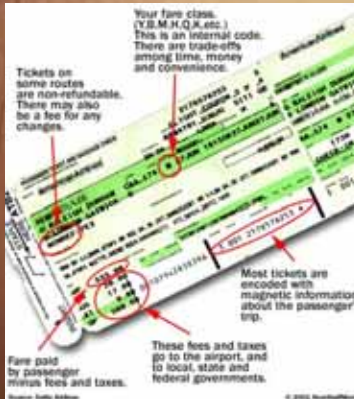
Product Mix Strategies

- Captive Product – sets the price for one product low but compensates for that low price by pricing the supplies needed to operate that product high.



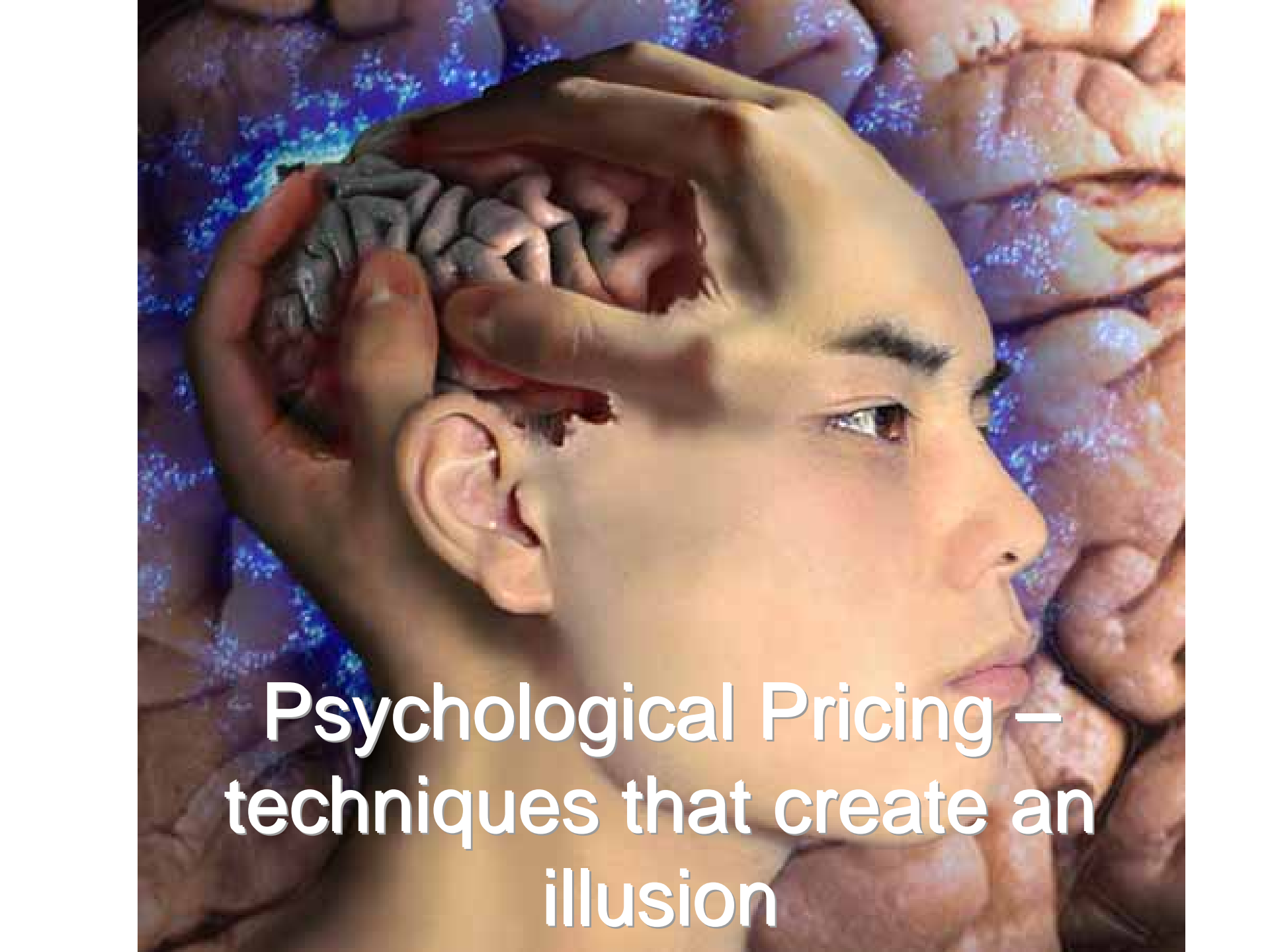
Product Mix Strategies

- **Bundle Pricing** – several complementary products sold at a single price.
 - Travel services
 - Computers and software



Product Mix Strategies

- Geographical Pricing – refers to price adjustments required because of the location of the customer for delivery of products.
- The manufacturer assumes responsibility for the cost and management of product deliver.

A composite image featuring a human head in profile on the right side, with a brain visible inside. The background is a textured, glowing blue and purple brain scan or neural network visualization. The text is overlaid on the lower part of the image.

**Psychological Pricing –
techniques that create an
illusion**

Illusions

- Illusions are very interesting.
- If you'd like to see some, click on the one pictured below. These illusions don't really have a lot to do with pricing strategies, but they are interesting and powerful. (As are pricing illusions.)



Psychological Pricing

- **Odd-Even Pricing**

- Odd numbers convey a bargain image --
\$.79, \$9.99, \$699



- Even numbers convey a quality image --
\$10, \$50, \$100

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Psychological Pricing

- **Prestige Pricing** – sets a higher than average price to suggest status



Psychological Pricing

- **Multiple-Unit Pricing** – 3 for \$.99
- Suggests a bargain and helps increase sales volume.
- Better than selling the same items at \$.33 each.



Psychological Pricing

- **Everyday Low Prices** (EDLP) – set on a consistent basis

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ALWAYS LOW PRICES.

Always.

Walmart★com

Promotional Pricing -- Used with sales promotion

- Loss Leader Pricing – offering very popular items for sale at below-cost prices
- Special-Event
 - Back-to-school specials
 - Dollar days
 - Anniversary sales
- Rebates and Coupons



Discounts and Allowances

- **Cash Discounts** – offered to buyers to encourage them to pay their bills quickly.
 - 2/10, net 30
- **Quantity Discounts** – offered for placing large orders
- **Trade Discounts** – the way manufacturers quote prices to wholesalers and retailers.

Discounts and Allowances

- **Seasonal Discount** – offered outside the customary buying season



Discounts and Allowances

- **Allowances** – go directly to the buyer. Customers are offered a price reduction if they sell back an old model of the product they are purchasing.

Steps for Determining Prices

- **Establish Pricing Objectives**
 - Increase sales volume?
 - Prestigious image?
 - Increase market share?



Steps for Determining Prices

- **Study Costs**
 - Can you make a profit?
 - Can you reduce costs without affecting quality or image?



Steps for Determining Prices

- Estimate Demand
 - What do customers expect to pay?
 - Prices usually are directly related to demand.



Steps for Determining Prices

- Study Competition



Steps for Determining Prices

- **Decide on a Pricing Strategy**

- Price higher than the competition because your product is superior.
- Price lower, then raise it once your product is accepted.



Steps for Determining Prices

- **Set Price**

- Monitor and evaluate its effectiveness as conditions in the market change.



Pricing Technology

- Smart Pricing – decisions are based on an enormous amount of data that Web-based pricing technology crunches into timely, usable information.
- Communicating Prices to Customers – electronic gadgets that provide real-time pricing information such as electronic shelves, digital price labels



Pricing Technology

- RFID Technology – wireless technology that involves tiny chips imbedded in products. The chip has an antenna, a battery, and a memory chip filled with a description of the item.

