Managing Pricing

+ Perceived Benefits

Objective Price → Perception of Price → Perceived Value → Willingness to Buy

- Perceived Sacrifice

Price and Perceived Value

The Three C’s Model for Price Setting

<table>
<thead>
<tr>
<th>Low Price</th>
<th>Costs</th>
<th>Competitors’ prices and prices of substitutes</th>
<th>Customers’ assessment of unique product features</th>
<th>High Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>No possible profit at this price</td>
<td></td>
<td></td>
<td></td>
<td>No possible demand at this price</td>
</tr>
</tbody>
</table>

Types of Costs

- Fixed Costs (Overhead): Costs that don’t vary with sales or production levels.
  - Executive Salaries
  - Rent

- Variable Costs: Costs that do vary directly with the level of production.
  - Raw materials

Total Costs: Sum of the Fixed and Variable Costs for a Given Level of Production
Break-Even Analysis

Break-Even Point = \frac{Total~Fixed~Cost}{Contribution~Per~Unit~to~Fixed~Cost\,(P-VC)}

Price Elasticity of Demand

Pricing Setting Process

1. Selecting the pricing objective
2. Determining demand
3. Estimating costs
4. Analyzing competitors’ costs, prices, and offers
5. Selecting a pricing policy and method
6. Selecting final price
**Price - Quality Strategies**

<table>
<thead>
<tr>
<th>Quality</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher</td>
<td>Premium Strategy</td>
</tr>
<tr>
<td>Lower</td>
<td>Overcharging Strategy</td>
</tr>
</tbody>
</table>

**Initial Product Pricing Strategies**

<table>
<thead>
<tr>
<th>Skimming Price</th>
<th>Penetration Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; Setting a High Price for a New Product to Skim Maximum Revenues from the Target Market.</td>
<td>&gt; Setting a Low Price for a New Product in Order to Attract a Large Number of Buyers.</td>
</tr>
<tr>
<td>&gt; Results in Fewer, More Profitable Sales.</td>
<td>&gt; Results in a Larger Market Share.</td>
</tr>
<tr>
<td>&gt; Ex.: Plasma HDTVs</td>
<td>&gt; Ex.: Generic drugs</td>
</tr>
</tbody>
</table>

**Product Mix Pricing Strategies**

- **Product Line Pricing**
  - Setting Price Steps Between Product Line Items I.e. $299, $399

- **Optional-Product Pricing**
  - Pricing Optional or Accessory Products Sold With The Main Product I.e. Car Options

- **Captive-Product Pricing**
  - Pricing Products That Must Be Used With The Main Product I.e. Razor Blades, Film, Software

- **Product-Bundle Pricing**
  - Pricing Bundles Of Products Sold Together I.e. Season Tickets, Computer Makers
Psychological Pricing

- Prestige Pricing
- Loss-Leader Pricing
- Odd-Even Pricing
- Product Line Pricing

Pricing at relatively high levels so as to convey an image of high quality or exclusivity.

Demand Curves for Normal and Prestige Products

Normal Products

Prestige Products
Psychological Pricing

- Prestige Pricing
- Loss-Leader Pricing
- Odd-Even Pricing
- Product Line Pricing

- Offers products at prices below or near cost to attract consumers from competitors’ stores

Psychological Pricing

- Prestige Pricing
- Loss-Leader Pricing
- Odd-Even Pricing
- Product Line Pricing

- Price lining is marketing multiple products at different price points
- Bundling is marketing two or more products in a single package for a special price

Psychological Pricing

- Prestige Pricing
- Loss-Leader Pricing
- Odd-Even Pricing
- Product Line Pricing

- Odd pricing refers to a price ending with an odd number just under a round number
- Even pricing is used to convey high quality
Professional Pricing

- Standard Fee regardless of the problem involved
- Used to convey an image of professional ethical responsibility