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BUSINESS SCHOOL

Pricing

Strategies and Programs


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Introduction

- Companies should sell value, not price!
- Price** is the amount of money charged for a product or service. It is the sum of all the values that consumers give up in order to gain the benefits of having or using a product or service.
- Price** is the only element in the marketing mix that produces revenue; all other elements represent costs



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Price?

- Apartment
- Tuition
- Physician/Dentist
- Airline/Taxi/Train Services
- Express Way
- Etc.

“The amount of money charged for a product or service; the sum of the values that customers exchange for the benefits of having or using the product or service.” (Kotler and Armstrong, 2012).



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priceline.com

shop for discount travel

search over 201,000 hotels

city or airport

check-in mm/dd/yyyy

check-out mm/dd/yyyy

rooms 1 Room

search now



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Steps in Setting a Pricing Policy



- (1) Selecting the Pricing Objective
- (2) Determining Demand
- (3) Estimating Costs
- (4) Analyzing Competitor's Costs, Prices, and Offers
- (5) Selecting Pricing Method
- (6) Selecting the Final Price

Step 1: Selecting the pricing objectives



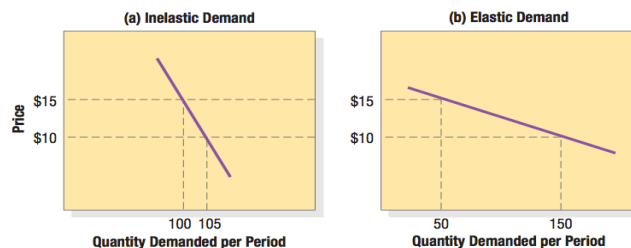
1. Survival
2. Maximize current profit
3. Maximum market share
4. Maximum market skimming
5. Product-quality leadership
6. Other objectives



Step 2: Determining demand



- Price sensitivity
- Techniques: Surveys, experiment, statistical analysis
- WTP

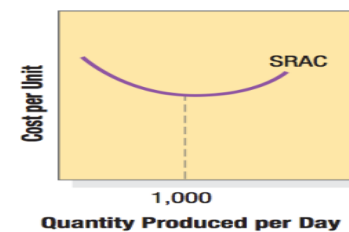


Step 3: Estimating Costs

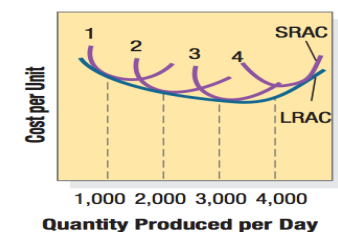


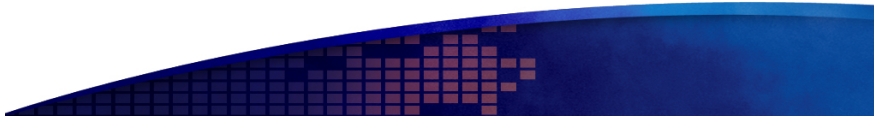
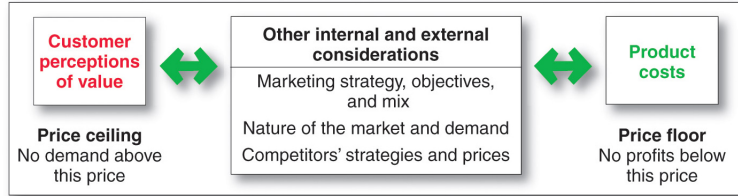
- Types of costs and levels of production
 - Variable costs – costs that vary directly with the level of production
 - Fixed costs – costs that do not vary with production or sales level
- Accumulated production

(a) Cost Behavior in a Fixed-Size Plant



(b) Cost Behavior over Different-Size Plants





Step 4: Analyzing Competitor's Costs, Prices, and Offers

- Competitors reacts in the standard way to a price being set or changed.



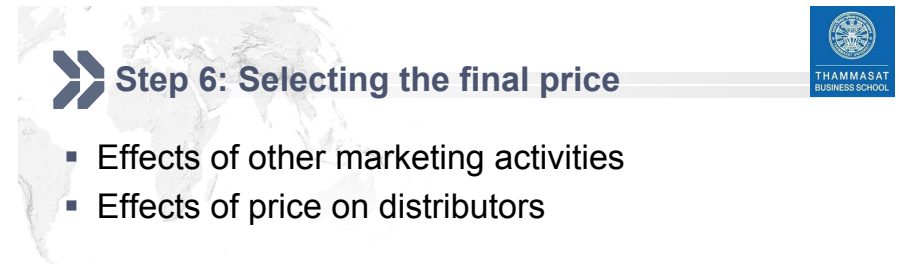
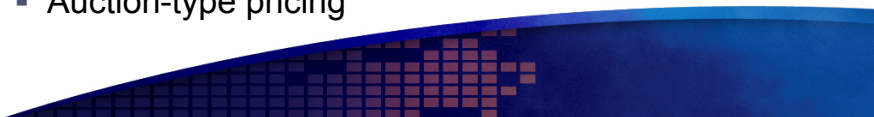
Step 5: Selecting a pricing method

- Markup pricing (on cost/on selling price)
 - Selling price: Baht 20, Cost: 15
- Target-return pricing

$$\text{Target - return price} = \text{unit cost} + \frac{\text{desired return} * \text{invested capital}}{\text{unit sales}}$$

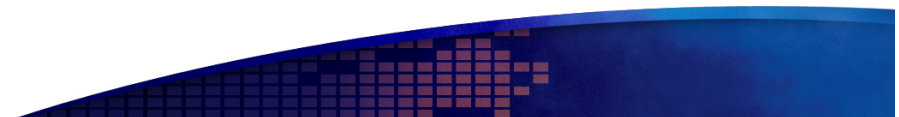
$$\text{Break - even volume} = \frac{\text{fixed cost}}{\text{price} - \text{variable cost}}$$

- Perceived-value pricing
- Going-rate pricing
- Auction-type pricing



Step 6: Selecting the final price

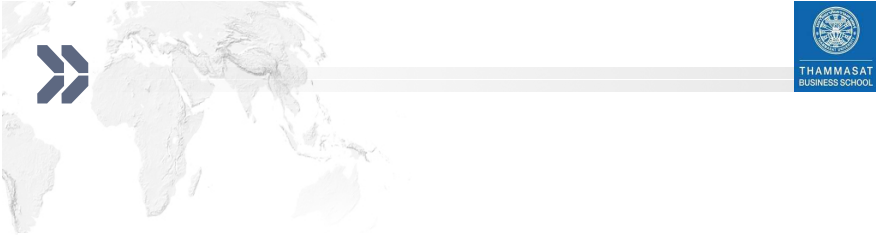
- Effects of other marketing activities
- Effects of price on distributors





Behavioral Component of Pricing

You are lying on the beach on a hot day. All you have to drink is ice water. For the past hour, you have been thinking about how much you would enjoy a nice cold bottle of your favorite beer. A friend gets up to make a phone call and offers to bring back a bottle of your favorite beer from the only nearby place where beer is sold — a small, run down-grocery store. He says that the beer might be expensive and asks how much you are willing to spend. He says he will not buy the beer if it costs more than the price you state. What price do you tell your friend?



You are lying on the beach on a hot day. All you have to drink is ice water. For the past hour, you have been thinking about how much you would enjoy a nice cold bottle of your favorite beer. A friend gets up to make a phone call and offers to bring back a bottle of your favorite beer from the only nearby place where beer is sold — a fancy resort hotel. He says that the beer might be expensive and asks how much you are willing to spend. He says he will not buy the beer if it costs more than the price you state. What price do you tell your friend?



You set off to buy a Sony Walkman at what you believe to be the cheapest store in the area. Upon arriving, you find that the Walkman you want costs \$29, a price consistent with your prior expectations. As you are about to make the purchase, a reliable friend tells you that the very same Walkman is selling for \$10 less at a store approximately 10 minutes away. Do you go to the other store to buy the Walkman?



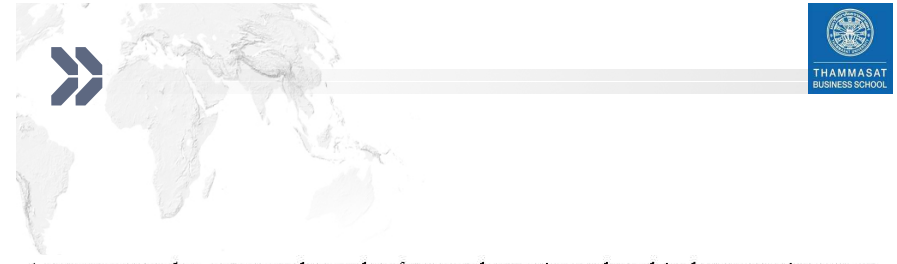
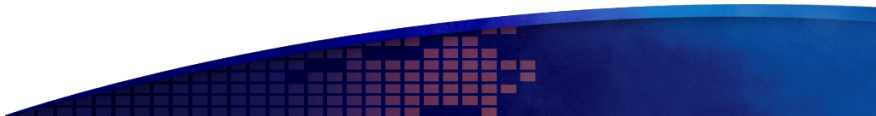
You set off to buy a Sony Camcorder at what you believe to be the cheapest store in the area. Upon arriving, you find that the Camcorder you want costs \$495, a price consistent with your prior expectations. As you are about to make the purchase, a reliable friend tells you that the very same Walkman is selling for \$10 less at a store approximately 10 minutes away. Do you go to the other store to buy the Camcorder?



A grocery store has no peanut butter in stock, but is about to receive a new shipment. Prior to delivery, the owner finds out that the wholesale price of peanut butter has increased 20% and will affect this new shipment. The owner decides to increase the price of the new peanut butter by 20%. Is this retailer's actions fair or unfair?



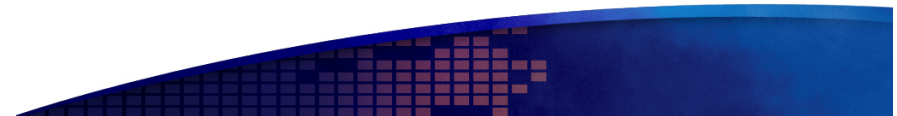
In 1996, baseball's Seattle Mariners made it to the American League playoffs. During the season, general admission to a Mariners game cost \$15. For the playoffs, the Mariners raised the price of general admission tickets to \$20. Is this fair or unfair?

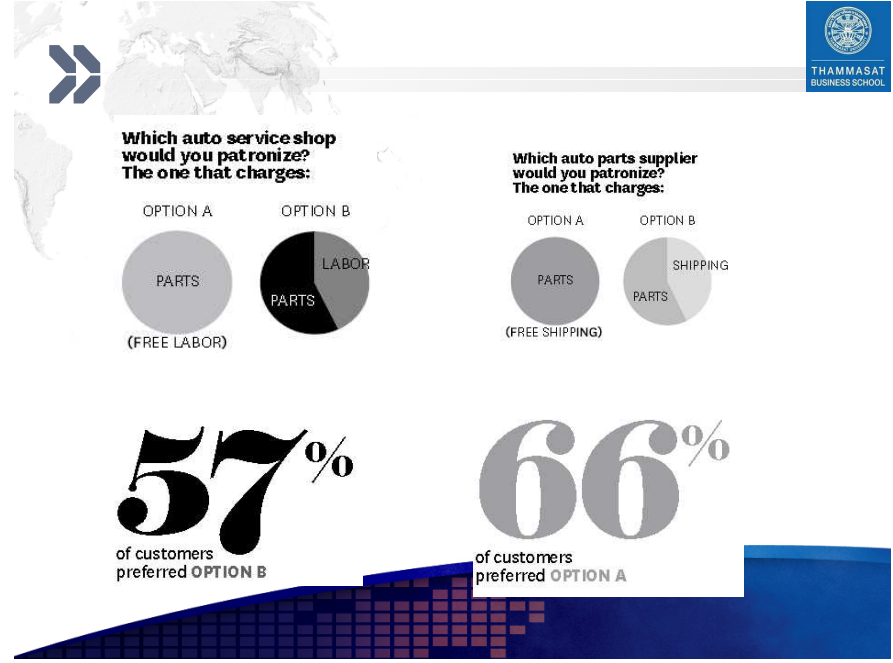
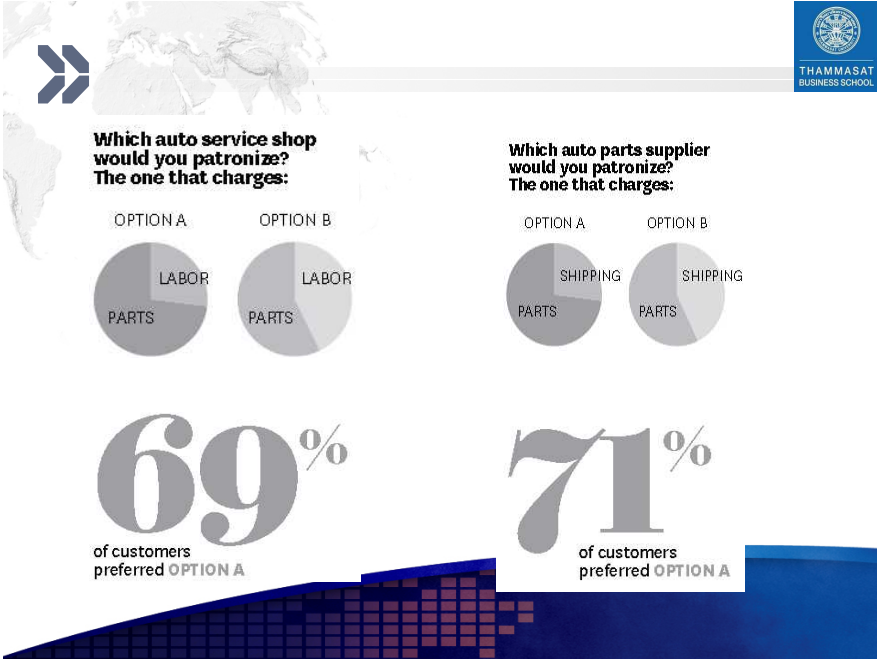


A grocery store has a one week supply of peanut butter in stock and is due to receive a new shipment in the near future. Prior to delivery, the owner finds out that the wholesale price of peanut butter has increased 20% and will affect the new shipment. The owner decides to immediately increase the shelf price on his current stock of peanut butter by 20%. Is this retailer's actions fair or unfair?



A hardware store had been selling snow shovels for \$15. The morning after a large snowstorm, the store raises the price of its snow shovels to \$20. Is this fair or unfair? ¹¹





“Rethinking the way prices are set can expand the pie for everyone.”

---Bertini and Gourville (2012)

▪ The way most companies make money is not just broken; it's destructive!



- September 2011: Charging a \$5 monthly debit card fee.



- July 2011: 60% price increase for customers who both rented DVDs and streamed video



- 2008: Charging 2 pounds more for bras with large cups

MARKS &
SPENCER

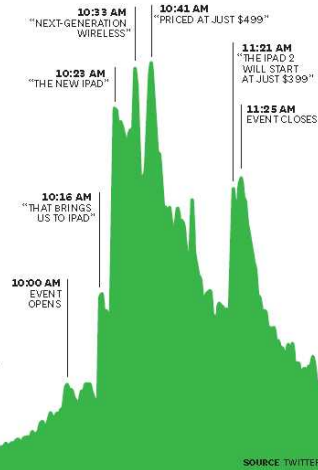


- Companies must compete with their customers to appropriate as much value as they can.
- Firms have presumed that they are the rightful owners of value and are therefore entitled to charge whatever the market will bear.
- Value neither originates with nor belongs solely to the firm.
- Value must be shared by a firm and its customers.



The Importance of Price

The reaction on Twitter to Apple's most recent iPad introduction reveals just how interested consumers are in price. The number of tweets per minute during the public presentation on March 7, 2012, reveals which aspects of the new iPad created the most buzz. Activity was highest—at well over 10,000 tweets per minute—not when the product was unveiled or its technological features were described but the moment its price (\$499) was announced. Tweets also spiked when Apple announced the repricing of the iPad 2 (\$399).



- Pricing is no longer “running the numbers”.
- But it means viewing customers as partners in value creation--- a collaboration that increases customers’ engagement and taps their insights about the value they seek and how firms could deliver it. The result is a bigger pie, which benefits firms and customers alike.

5 Pricing Strategies

- Focus on relationships, not on transactions
- Be proactive
- Put a premium on flexibility
- Promote transparency
- Manage the market’s standards for fairness



London 2012 Olympic Games



12,000 athletes



26 sports



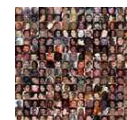
16 days



8 million



About 20 - 2000



Everybody's games

➤ Pricing Strategy # 1

- Focus on relationships, not on transactions

Use pricing to communicate that you value your customers as people, not as wallets.

➤ Pricing Strategy # 1(Cont'd)

- Focus on relationships, not on transactions

Use pricing to communicate that you value your customers as people, not as wallets.

World Triathlon Corporation (WTC) **IRONMAN**

- Acquired by a private equity firm
- People who finished half-Ironman races should also call themselves "Ironmen".
- Expansion of licensing leads to too many Ironmen-branded products
- Membership allowing preferential access to hard-to-enter Ironman events (\$1,000 annual fees).



➤ Pricing Strategy # 1 (Cont'd)

- Focus on relationships, not on transactions

Use pricing to communicate that you value your customers as people, not as wallets.

Hilti



- European maker of high-end power tools
- Hilti's Fleet Management Program
- Pay a monthly fee but provide a customized service to fit business models.
- "We manage your tools, so you can manage your business."
- Demonstration of a share-valued approach.



➤ Pricing Strategy # 1 (Cont'd)

- Focus on relationships, not on transactions

Use pricing to communicate that you value your customers as people, not as wallets.

- In various relationships--British government, British public, International Olympic Committee
- 20% of the games' revenue, but 80% of an organizer's headaches if done wrong.
- (1) increase the number of pricing tiers for many sports
- (2) Pay-your-age pricing plan
- (3) High and low price points for the opening ceremony (2012 and 20.12 pounds)
- (4) No free tickets to avoid hassles like in the previous Olympics.



➤ Pricing Strategy # 2

- Be proactive!

Set prices in ways that encourage customer behavior that benefits both the firm and your customers.

➤ Pricing Strategy # 2(Cont'd)

- Be proactive!

Set prices in ways that encourage customer behavior that benefits both the firm and your customers.

- Price proactively guided by the knowledge of which customers they want to serve and how those people are likely to react to various pricing schemes.
- Baggage fees



➤ Pricing Strategy # 2(Cont'd)

- Be proactive!

Set prices in ways that encourage customer behavior that benefits both the firm and your customers.

- Amazon
- 30% increase in sales; 300 % increase in share price.

AmazonPrime™



➤ Pricing Strategy # 2

- Be proactive!

Set prices in ways that encourage customer behavior that benefits both the firm and your customers.

- Decision not to bundle tickets to a more popular sport with less popular ones.
- Let the ticket of every sport stands on its own (26 pricing plans to promote and reach appropriate specific target customers).
- Bundle the ticket price with public transportation.



➤ Pricing Strategy # 3

- Put a premium on flexibility

Design pricing so that it can change in response to shifting consumer needs and ensure that equitable sharing of value.

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Design pricing so that it can change in response to shifting consumer needs and ensure that equitable sharing of value.

- Firms often try to find the single "right" price that will maximize revenue and profits.
- Different consumers value the same product differently
- Unlimited "all-you-can-eat" usage of mobile internet.
- Pricing the incremental value created in each partnership



➤ Pricing Strategy # 3

- Put a premium on flexibility

Design pricing so that it can change in response to shifting consumer needs and ensure that equitable sharing of value.

- Pricing all events more than a year and a half in advance to have clear understanding of demand.
- Increase the number of price tiers across events
- Do not assign a fixed number of seats to each tier, but promise that someone paying higher would get a better view.
- Allow the committee to gauge the demand of each price points and allocate seats accordingly.



➤ Pricing Strategy # 4

- Promote transparency

Provide the rationale for your pricing to consumers.

Pricing Strategy # 4

- Promote transparency

Provide the rationale for your pricing to consumers.

- Create goodwill and trust among customers.
- Engaged customers cost less to retain.



Pricing Strategy # 4

- Promote transparency

Provide the rationale for your pricing to consumers.

- England ---subject to severe public scrutiny!
- Limit negative media attention.
- Issue continuous flow of info to consumers and media about the rationale and process of ticketing, the major dates in the ticketing timeline, the distribution of tickets to corporate sponsors and the general public.



Pricing Strategy # 5

- Manage the market's standards for fairness

Make sure that your pricing meets customers' expectations about what is fair and that the pricing process is clear.

Pricing Strategy # 5

- Manage the market's standards for fairness

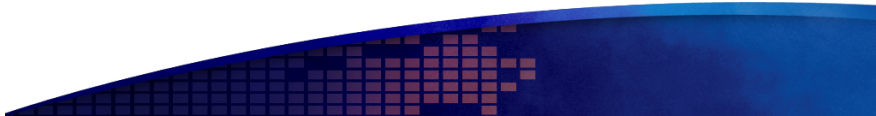
Make sure that your pricing meets customers' expectations about what is fair and that the pricing process is clear.

- Not everyone will be able to obtain a ticket and some tickets may be unreasonably priced.
- From the moment the ticketing process began, there was an announcement of the pay-your-age scheme.
- Reject any suggestion to auction the tickets in the highest demand or to allow secondary exchanges above face value.





- Think about ‘the benefits to be gained by increasing the pool of value in the marketplace and sharing it with customers, any firm that is not evaluating its pricing through a shared-value lens should ask whether it can afford not to.’



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Thank You !

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