



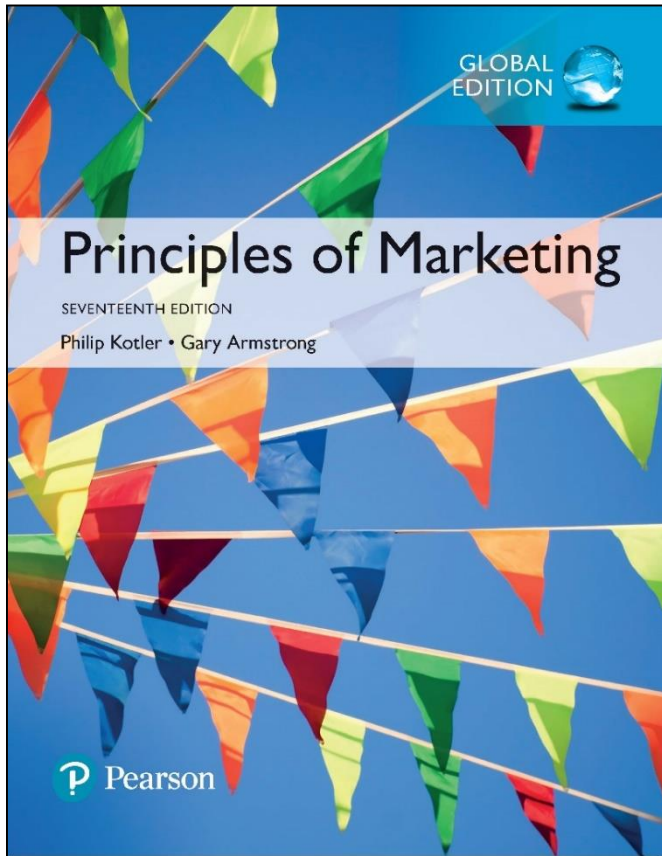
MK 201 Principles of Marketing

Pricing Strategy II

By Ajarn Suwalya K.
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Principles of Marketing

Seventeenth Edition



Chapter 10

Understanding and Capturing Customer Value

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Objective Outline

- **Objective 1:** Describe the major strategies for pricing new products.
- **Objective 2:** Explain how companies find a set of prices that maximizes the profits from the total production mix.
- **Objective 3:** Discuss how companies adjust their prices to take into account different types of customers and situations.
- **Objective 4:** Discuss the key issues related to initiating and responding to price changes.
- **Objective 5:** Overview the social and legal issues that affect pricing decisions.

Panera Bread Company: Value Isn't Just about Low Prices



Panera Bread understands that low prices often aren't the best value. Says Panera CEO Ronald Shaich, "Give people something of value and they'll happily pay for it."

Amazon vs. Walmart

A price War for Online Supremacy



Walmart versus Amazon online: Achieving online supremacy will take more than just waging and winning an online price war. The spoils will go to the company that delivers the best overall online customer experience and value for price.

Objective 1: New-Product Pricing Strategies



New-Product Pricing Strategies

- ❖ **Market-skimming pricing(price skimming):**
Setting a high price for a new product to skim maximum revenues layer by layer from the segments willing to pay the high price; the company makes fewer but more profitable sales.



New-Product Pricing Strategies

- ❖ **Market-penetration pricing:** Setting a low price for a new product in order to attract a large number of buyers and a large market share.





Penetration pricing: To lure famously frugal Chinese customers, IKEA slashed its prices. The strategy worked. Weekend crowds in many of IKEA's Chinese stores are so big that employees use megaphones to keep shoppers under control



Penetration pricing: Samsung has used low initial prices to make quick and deep inroads into emerging mobile device markets such as Africa and India.

Objective 2: Product Mix Pricing Strategies



Product Mix Pricing Strategies

Table 11.1 Product Mix Pricing

Pricing Situation	Description
Product line pricing	Setting prices across an entire product line
Optional product pricing	Pricing optional or accessory products sold with the main product
Captive product pricing	Pricing products that must be used with the main product
By-product pricing	Pricing low-value by-products to get rid of or make money on them
Product bundle pricing	Pricing bundles of products sold together

Product Mix Pricing Strategies

- ❖ **Product line pricing:** Setting the price steps between various products in a product line based on cost differences between the products, customer evaluations of different features, and CO

			
		WAXING	
Full Leg Wax	\$50	Shape & Polish	Allow 15 mins \$20
Top Leg Wax	\$40	Shape & French Polish	Allow 15 mins \$25
1/2 Leg Wax (up to mid thigh)	\$40	Spa Manicure	Allow 10 mins \$25
1/2 Leg Wax (includes armpits)	\$30	Foot and hands in a happy foot & hand massage. Includes nail care. Top, followed by a	
Twisting Lint	\$5	Shampooing/Conditioning and scalp massage. Includes hair treatment with a	
Shampoo/Conditioning Wax	\$20	Hot towel to relax the face.	
5-stroke Bikini	\$25	Deluxe Spa Manicure	Allow 10 mins \$30
Brazilian/Bikini Wax	\$50	Two additional treatments. Includes foot massage, pedicure, body & hand & foot massage.	
Brow Wax	\$15	Shampooing & hydrating/conditioning hair. Shampoo or conditioning hair therapy.	
Lip Wax	\$10	Includes hair treatment with a	
Chin Wax	\$10	Hot towel to relax the face.	
Face Line	\$15	Hydrating Paraffin Hand Treatment	Allow 20 mins \$30
Forearm Wax	\$20	Includes foot massage. Includes hair treatment with a	
1/2 Arm Wax	\$30	Shampooing & hydrating/conditioning hair. Shampoo or conditioning hair therapy.	
Full Leg & Bikini	\$65	Glycolic Hand Treatment	Allow 10 mins \$50
Full Leg, Bikini & Underarm	\$75	For deep penetration of glycolic acid. Includes a complimentary facial with	
1/2 Leg & Bikini	\$45	Hot towel to relax the face.	
1/2 Leg, Bikini & Underarm	\$55	Includes hair treatment with a	
1/2 Leg, Bikini, Underarm & Brow	\$65	Hot towel to relax the face.	
1/2 Leg & Back Leg	\$45	Includes hair treatment with a	
Lip & Chin	\$15	Includes hair treatment with a	
Brow & Lip	\$20	Includes hair treatment with a	
Brow, Lip & Chin	\$25	Includes hair treatment with a	
		TREATS FOR HANDS	
		MPL, ELECTROLYSIS, VEINS & SKIN TAGS	
		MPL (Multi Pulse Light) Permanent Hair Reduction	
		Please see your Therapist for consultation and pricing.	
		Electrolysis	
		Up to 15 mins - Regular	\$27
		Up to 15 mins - Casual	\$30
		Red Vein Removal	
		Up to 15 mins	\$40
		Moles & Skin Tag Removal	
		Up to 15 mins	\$40
		TANNING	
		Spray Tanning	
		Full Body	\$30
		Upper Body	\$25
		Legs	\$20
		TINTING & SHAPING	
		Lash Tint	\$25
		Brow Tint	\$15
		Brow Shaping	\$15
		Lash & Brow Tint	\$30
		Lash & Brow Shape	\$35
		Lash, Brow Tint with Shape/Tint	\$40
		Brow Tint with Shape/Tint	\$25
		MEN'S TREATMENTS	
		FEET TREATS	
		Spa Pedicure	
		Allow 45 mins \$65	
		Deep soak in hot water. Includes foot massage, pedicure, body & hand & foot massage.	
		Shampooing & hydrating/conditioning hair. Shampoo or conditioning hair therapy.	
		Includes hair treatment with a	
		Hot towel to relax the face.	
		Deluxe Spa Pedicure	Allow 60 mins \$80
		Deep soak in hot water. Includes foot massage, pedicure, body & hand & foot massage.	
		Shampooing & hydrating/conditioning hair. Shampoo or conditioning hair therapy.	
		Includes hair treatment with a	
		Hot towel to relax the face.	
		Glycolic Foot Treatment	Allow 20 mins \$50
		For deep penetration of glycolic acid. Includes a complimentary facial with	
		Hot towel to relax the face.	
		Includes hair treatment with a	
		Hot towel to relax the face.	



The image is a screenshot of the Mr. Clean Car Wash website. On the left, there is a large image of a blue car with a 'KEEP IT CLEAN' license plate. Above the car is the Mr. Clean Car Wash logo featuring a smiling man in a white uniform. The website has a navigation bar with links: HOME, ABOUT, SERVICES, PROMOTIONS, LOCATIONS, V.I.P. CLUB, and FRANCHISING. Below the navigation bar, there are tabs for 'WASH PACKAGES', 'DETAIL SERVICES', 'OIL CHANGE PLUS', and 'MAINTENANCE'. The main heading is 'More Than Just A Wash'. Below this, a paragraph describes the company's dedication to vehicle maintenance. A 'STORE LOCATOR' dropdown menu is in the top right. The 'WASH PACKAGES' section is divided into 'INTERIOR & EXTERIOR'. The 'INTERIOR & EXTERIOR' section lists several packages with their prices and features. The 'EXTERIOR' section lists three packages: Bronze, Silver, and Gold, each with its price and features. At the bottom, there are links for Privacy, Terms, Career, Contact Us, Press Release, and Splash Net.

Mr. Clean CARWASH

STORE LOCATOR -- Select Location --

HOME ABOUT **SERVICES** PROMOTIONS LOCATIONS V.I.P. CLUB FRANCHISING

WASH PACKAGES DETAIL SERVICES OIL CHANGE PLUS MAINTENANCE

More Than Just A Wash

Mr. Clean Car Wash is dedicated to the maintenance of your vehicle. Whether it's maintaining the showroom shine of your exterior, detailing and freshening up the interior or giving your engine the upkeep it deserves, we're here for you and your car. And with a host of wash packages ranging from a quick shine to an all over detail, there's a Mr. Clean Car Wash package for everyone.

Package components vary by location. Click [here](#) to find a location near you for details and pricing.

INTERIOR & EXTERIOR

includes: Hand Dry, Clean Windows, Vacuum, Wipe Dash & Console, *John's* Odor Eliminator

Pro • 1,000-Point Soft Cloth Wash • Hand-Finished Wheels	\$14 <i>Clean</i>
Performance includes Pro Pkg. + • Under Body Wash • Single Shine Polish • Tire Shine	\$20 <i>Clean & Shine</i>
Mr. Clean Signature Shine includes Performance Pkg. + • Under Body Rust Inhibitor • Triple Shine Polish • <i>Clean</i> Surface Protectant • <i>Clean</i> Wheel Guard™ • Air Freshener	\$27 <i>Clean, Shine & Protect</i>

EXTERIOR

includes: 1,000-Point Soft Cloth Wash, Spot Free Rinse & Blow Dry

Bronze • 1,000-Point Soft Cloth Wash	\$5 <i>Clean</i>
Silver includes Bronze Pkg. + • Under Body Wash • Single Shine Polish • Tire Shine	\$8 <i>Clean & Shine</i>
Gold includes Silver Pkg. + • Under Body Rust Inhibitor • Triple Shine Polish • <i>Clean</i> Wheel Guard™ • <i>Clean</i> Surface Protectant	\$12 <i>Clean, Shine & Protect</i>

Privacy Terms Career Contact Us Press Release Splash Net

Product line pricing: Mr. Clean car washes offer a complete line of wash packages priced from \$5 for the basic Bronze wash to \$27 for the feature-loaded Mr. Clean Signature Shine package.

Product Mix Pricing Strategies

- ❖ **Optional Product Pricing:** The pricing of optional or accessory product along with main product



Product Mix Pricing Strategies

- ❖ **Captive Product Pricing:** Setting a price for products that must be used along with a main product, such as blades for razor and games for a video game console.





Captive product pricing: Nearly 73 percent of Keurig's sales come from its K-Cup portion packs. The brand must find the right balance between main-product and captive-product ideas.

Product Mix Pricing Strategies

- ❖ **By-Product Pricing:** Setting a price for by-product in order to make the main products price more competitive.



By-Product Pricing: “There’s green and money to be made in animal poop!” exclaims Dan Corum, the Woodland Zoo’s enthusiastic Compost and Recycling Coordinator (also known as the Prince of Poo, the Emperor of Excrement, the GM of BM, or just plain Dr.Doo).

- ❖ **Product bundle pricing:** combining several products and offering the bundle at a reduced price.



Objective 3: Price-Adjustment Strategies



Price-Adjustment Strategies

Table 11.2 Price Adjustments

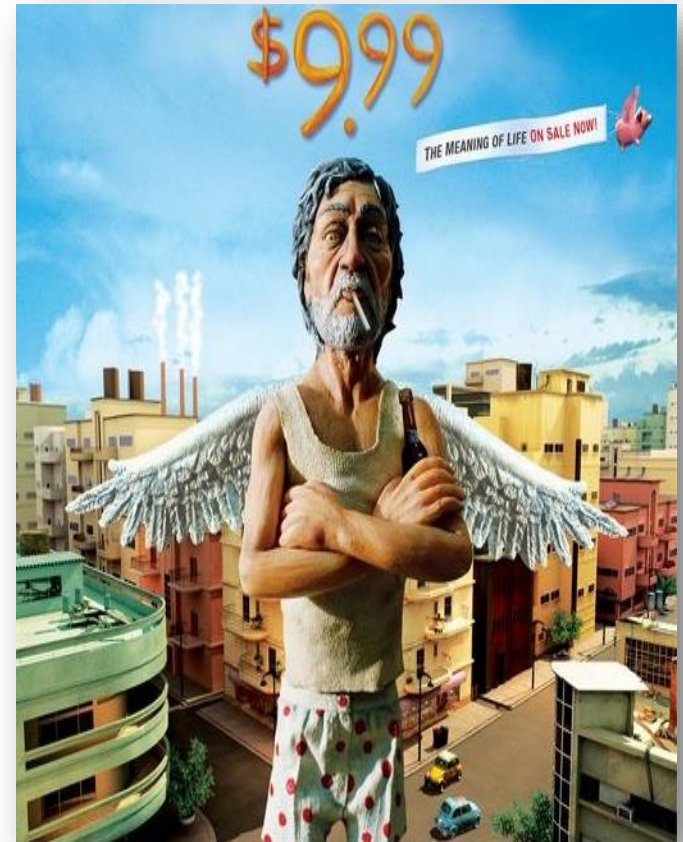
Strategy	Description
Discount and allowance pricing	Reducing prices to reward customer responses such as volume purchases, paying early, or promoting the product
Segmented pricing	Adjusting prices to allow for differences in customers, products, or locations
Psychological pricing	Adjusting prices for psychological effect
Promotional pricing	Temporarily reducing prices to spur short-run sales
Geographical pricing	Adjusting prices to account for the geographic location of customers
Dynamic pricing	Adjusting prices continually to meet the characteristics and needs of individual customers and situations
International pricing	Adjusting prices for international markets

Price-Adjustment Strategies

- ❖ **Discount:** A straight reduction in price on purchases during a stated period of time or in larger quantities.
- ❖ **Allowance:** Promotional money paid by manufactures to retailers in return for an agreement to feature the manufacturer's products in some way.
- ❖ **Segmented pricing:** Selling a product or service a two or more prices, where the difference in prices is not based on differences in costs.

Price-Adjustment Strategies

- ❖ **Psychological pricing:** Pricing that considers the psychology of prices and not simply the economics; the price is used to say something about the product.
- ❖ **Reference prices:** Prices that buyers carry in their minds and refer to when they look at a given product.





Product-form pricing: A roomier business class seat on a flight from New York to London is many times the price of an economy seat on the same flight. To customers who can afford it, the extra comfort and service are worth the extra charge.

Quick, What's a Good Price for..? We'll Give You a Cue

Pricing cues provided by retailers, such as sales signs and prices ending in 9, can provide helpful price hints to consumers, telling them whether a given price is relatively high or low.



Price-Adjustment Strategies

- ❖ **Promotional Pricing:** Temporarily pricing products below the list price, and sometimes even below the cost, to increase short-run sales.



Price-Adjustment Strategies



Promotional pricing: Companies offer promotional prices to create buying excitement and urgency.

Price-Adjustment Strategies

- ❖ Geographic pricing: Setting prices for customers located in different parts of the country or world
- ❖ FOB-origin pricing: A geographical pricing strategy in which goods are placed free on board a carrier; the customer pays the freight from the factory to the destination.
- ❖ Uniform-delivered pricing: A geographical pricing strategy in which the company sets up two or more zones. All customers within the zone pay the same total price; the more distant the zone, the higher the price.
- ❖ Basing-point pricing: A geographical pricing strategy in which the seller designates some city as a basing point and charges all customers the freight cost from that city to the customer.
- ❖ Freight-absorption pricing: A geographical pricing strategy in which the seller absorbs all or part of the freight charges in order to get the desired business.

Price-Adjustment Strategies

- Dynamic and Internet Pricing
 - ❖ **Dynamic Pricing:** Adjusting prices continually to meet the characteristics and need of customers and situations.
 - LL Bean, Amazon.com or Dell.com mine their databases to gauge a specific shopper's desires, measure his or her means, instantaneously tailor to fit that shopper's behavior and price products accordingly.



Real Marketing 11.1

Dynamic Pricing: The Wonders and Woes of Real-Time Price Adjustments



Uber's "surge-pricing": App-based car service Uber uses dynamic pricing to adjust its rates to meet market conditions. Some customers are shocked, but Uber alerts customers in advance about its pricing.



Shop Smarter

RedLaser is a free shopping app for iPhone, Windows Phones, and Android that has been downloaded over 18 million times.

Download App!



Dynamic and Internet Pricing: Using mobile apps such as eBay's RedLaser, consumers can scan barcodes or QR codes while shopping in store and receive product reviews, availability information, and comparison prices for online and nearby stores.



Price Check for iPhone and Android

Is that deal really a deal? Take Price Check by Amazon with you to make sure.



Get extra savings on December 10

Get a 5% discount (up to \$5) on select items in electronics, toys, sports, music, and DVDs, just by checking a price. Redeem this offer up to (3) times - a savings of up to \$15.

Check prices instantly: Scan It, Snap It, Say It or Type It

Use barcode scanning, camera, speech or text search to find the lowest prices from Amazon.com and our merchants.

Share in-store prices

With every in-store price you share, you help ensure our prices remain competitive for our customers.

Download the free Price Check app to get started

If you're already a Price Check user, simply download the latest version.



Download from the
Amazon Appstore for
Android



Search for "Price Check by
Amazon" in the Android
Market

Dynamic and Internet Pricing: Using mobile apps such as Amazon's Price Check, consumers can get instant price comparisons on millions of products.

Price-Adjustment Strategies

- International Pricing



Companies that market internationally must decide what prices to charge in different countries.

Price-Adjustment Strategies

- International Pricing



International pricing: To lower prices in emerging markets, such as Indonesia shown here, Unilever developed smaller, single-use packets of Sunsilk, Ponds, Dove, and other brands that are at prices even the world's poorest consumers can afford.

Real Marketing 11.2

International Pricing: Targeting the Bottom of the Pyramid



To lower prices in developing countries, Unilever developed smaller more affordable packages that put the company's premier brands within the reach of cash-strapped customers.

Objective 4: Price Changes



Price Changes

- Responding to price changes



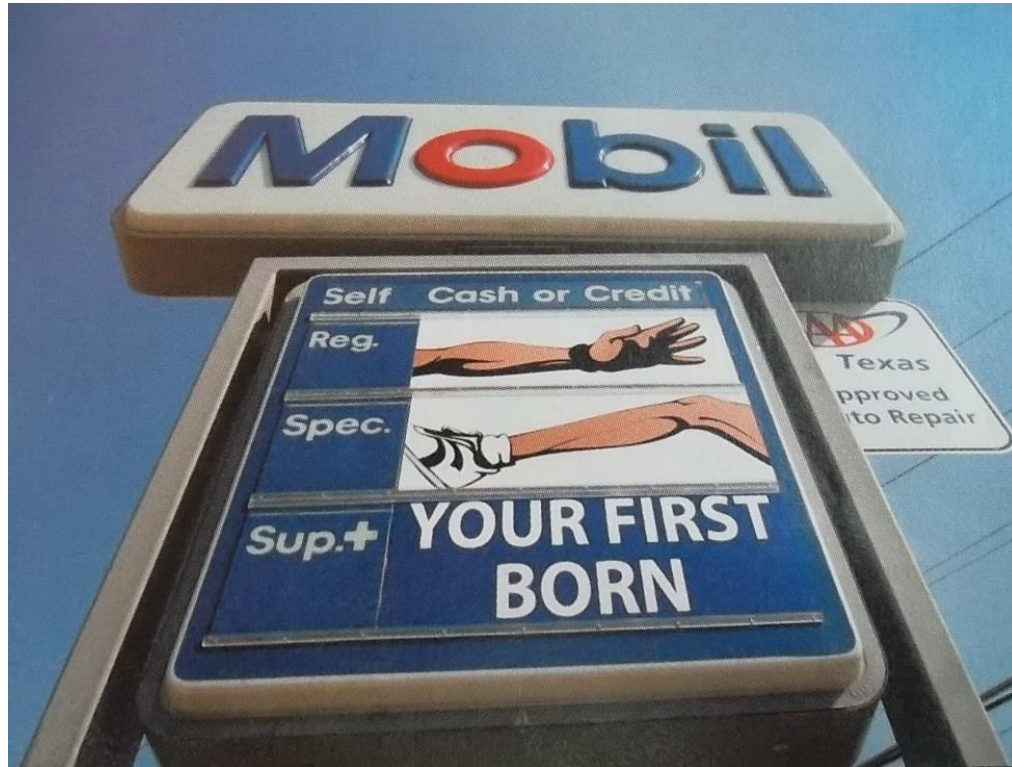
Fighter brands: Starbucks has positioned its Seattle's best Coffee unit to compete more directly with the "mass premium" brands sold by Dunkin' Donuts, McDonald's and other lower-prices competitors

Price Changes

- Initiating Price Cuts?
- Initiating Price Increases?
- Buyers Reactions to Price Changes?
- Competitor Reactions to Price Changes?



Price Changes

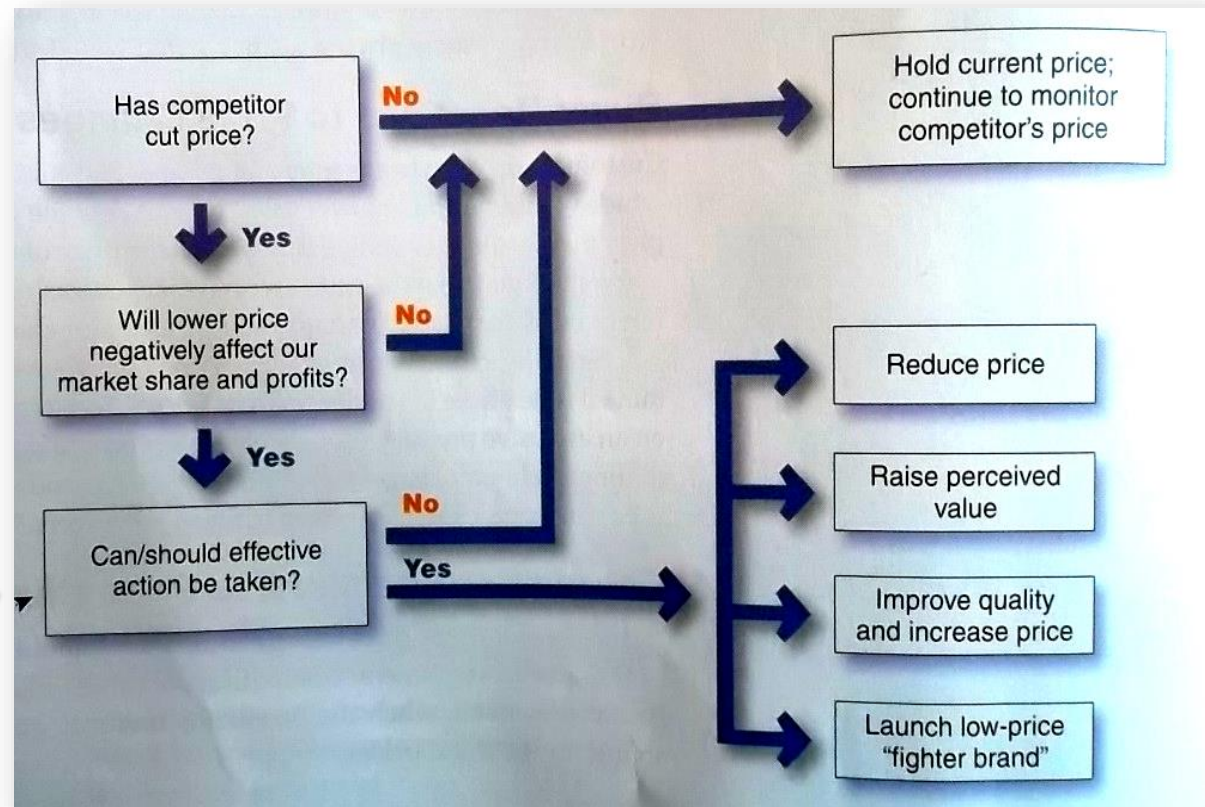


Initiating Price Increases: When gasoline prices rise rapidly, angry consumers often accuse the major oil companies of enriching themselves by gouging customers.

Price Changes

Responding to change

Figure 11.1 Assessing and Responding to Competitor Price Changes



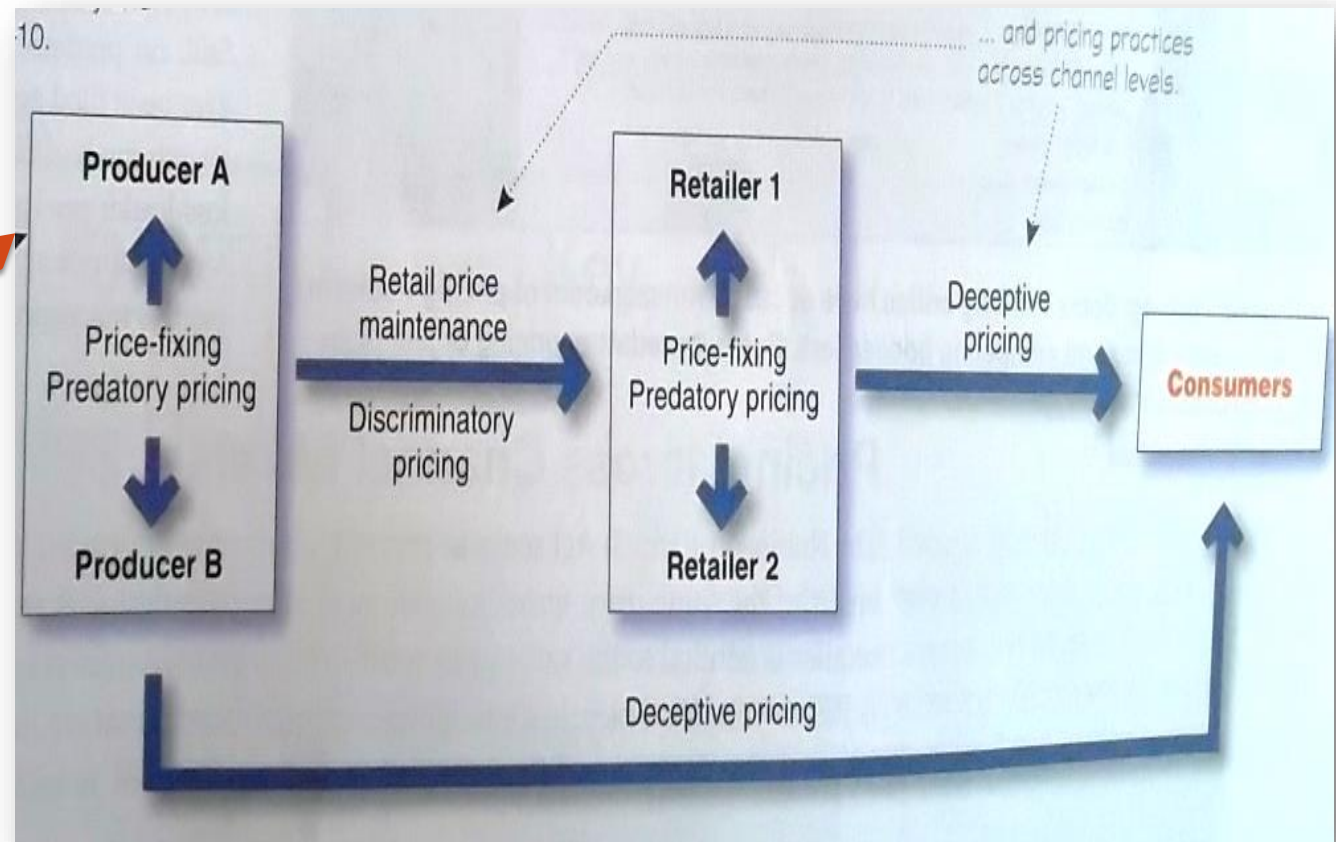
When a competitor cuts prices, a company's first reaction may be to drop its prices as well. But that is often the wrong response. Instead the firm may want to emphasize the "value" side of the price-value equation.

Objective 5: Public Policy and Marketing



Public Policy and Marketing

- Figure 11.2 Public Policy Issues in Pricing

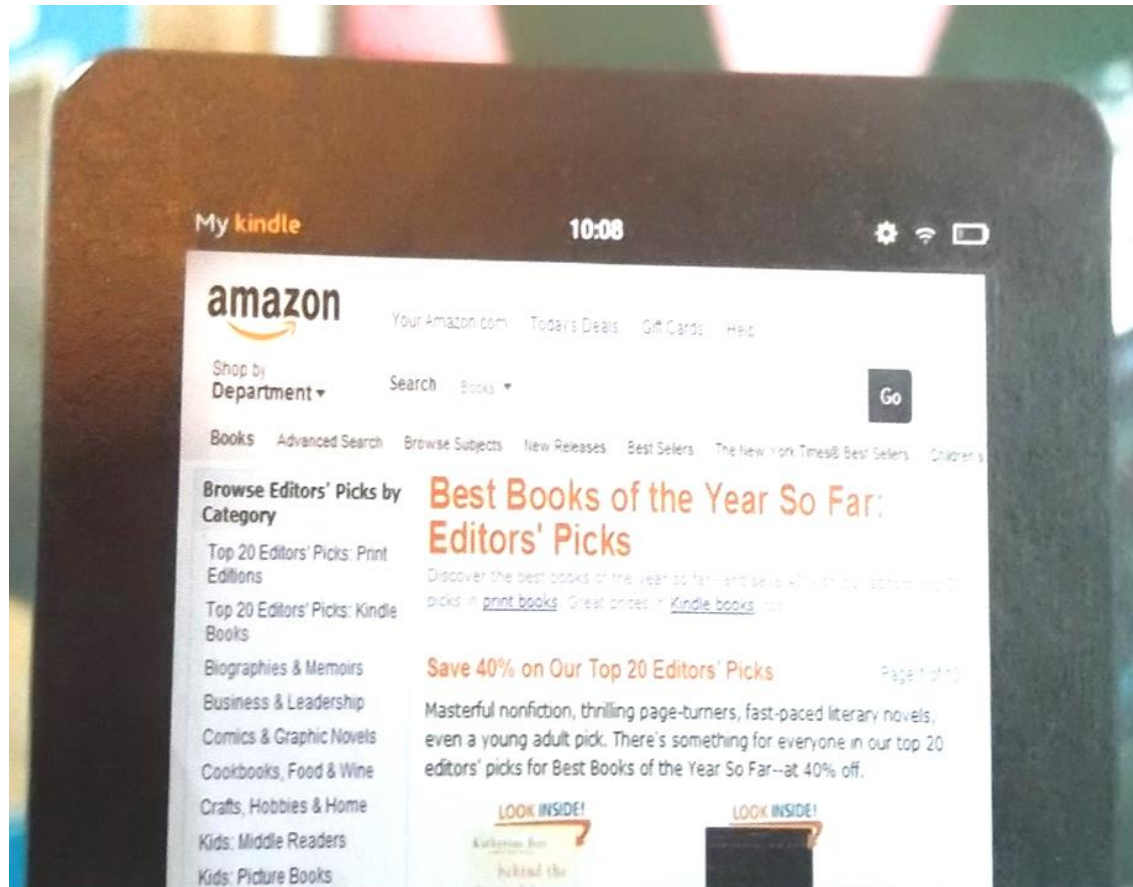


Public Policy and Marketing

- Pricing with Channel Levels
 - ❖ **Predatory pricing: Selling below cost with intention of punishing a competitor or gaining higher long-run profits by putting competitors out of business.**



Public Policy and Marketing



Predatory pricing: Some industry critics have accused Amazon.com of pricing books at fire-sales prices that harm competing book sellers. But is it predatory pricing or just plain good competitive marketing?