CHAPTER SIX
PRODUCT PRICING

6.1 DEFINITION OF PRICE

- **Price** is the amount of money charged for a product or service, or the sums of the values that consumers exchange for the benefits of having or using the product or service.
- Note that values exchanged need not be money – e.g. waiting time or clipping a coupon is a part of price.

6.2. FACTOR AFFECTING PRICING STRATEGIES

A. Internal factors affecting pricing strategy

- Marketing objectives
- Marketing mix strategy
- Costs
- Organizational consideration

B. External factors affecting pricing strategy

- The market and demand
- Competitor's costs, prices and offers
- Other external factors

6.3 GENERAL PRICING APPROACH

1. **Cost –plus pricing**: is the simplest pricing method that adds a standard markup to cost of the product in order to determine the price of a product.
2. **Break-even or target profit pricing**: when a firm tries to set its price at a level that equates its cost to sale or makes the target profit it is seeking. In this method the company will determine what price will make it break even or desired profit at a given level of sales.
3. **Value based pricing**: is to be determined in such a way that the combination of the quality of the product along with its service are reasonable enough to justify the benefits customers expect to get from the product (at a fair price).
4. **Competition based pricing**: is a method that considers the competition as the most important factor to determine the price of a company.

6.4 NEW PRODUCT PRICING STRATEGY

1. **Market skimming strategy**: it is an approach that advocates setting initially high prices to skim revenues layer by layer from the market.
2. **Market penetrating strategy**: a company may set a low initial price to penetrate the market quickly deeply – to attract a large number of buyers quickly and win a large market share. Thus the high sales volume results in falling costs, allowing the company to cut its price even further.

6.5 PRICE-ADJUSTMENT STRATEGIES

A. Discount and Allowance Pricing

- A **cash discount** is a price reduction to buyers who pay their bills promptly.
- A **quantity discount** is a price reduction to buyers who buy large volumes.
- A **functional discount** (also called a trade discount)
- A **seasonal discount** is a price reduction to buyers who buy merchandise or services out of season
- **Allowances** are another type of reduction from the list price; reductions given for turning in an old item when buying a new one.

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b. Segmented Pricing

- **Under customer-segment pricing**, different customers pay different prices for the same product or service. Eg Museums
- **Under product-form pricing,** different versions of the product are priced differently but not according to differences in their costs.
- **Using location pricing,** a company charges different prices for different locations
- **using time pricing,** a firm varies its price by the season, the month, the day, and even the hour.

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c. Psychological Pricing: consumers perceive higher-priced products have higher quality.

d. Promotional pricing: Companies will temporarily price their products below list price and sometimes even below cost. Eg. Supermarkets and department stores will price a few products as loss leaders to attract customers to the store in the hope that they will buy other items at normal markups.

e. Geographical Pricing: A company also must decide how to price its products for customers located in different parts of the country or world.

f. International Pricing: Companies that market their products internationally must decide what prices to charge in the different countries in which they operate. In some cases, a company can set a uniform worldwide price.

6.6 PRODUCT MIX PRICING STRATEGIES

a) Product Line Pricing: Companies usually develop product lines rather than single products.

b) Optional-Product Pricing: Many companies use optional-product pricing—offering to sell optional or accessory products along with their main product. Eg , a car buyer may choose to order power windows, cruise control, and a CD changer. Pricing these options is a sticky problem. Automobile companies have to decide which items

c) Captive-Product Pricing: Companies that make products that must be used along with a main product are using captive product pricing. Examples of captive products are razor blades, camera film, video games, and computer software.

d) By-Product Pricing: In producing processed meats, petroleum products, chemicals, and other products, there are often by-products.

e) Product Bundle Pricing: Using product bundle pricing, sellers often combine several of their products and offer the bundle at a reduced price


Thank You !!!