

Pricing questions

- How much did you pay for X last time?
- How should we price product X?
- What products should we try and sell together / separately?

Aspects of price

- List price
- Manufacturer's selling price
- Suggested price
- Discounted price
- Actual price
- Payment terms
- *Reservation price*
- Etc.

Pricing approaches

- Cost-based pricing
- Benefits (or value based) pricing
 - The “what can we charge” approach
- Others?

Propositions:

- Few people admit do to cost based pricing
- But, in fact many do
- Unfortunately, cost-based pricing can't work

Cost-based pricing

+Variable cost of making one unit

+Variable cost of selling

distribution and other unit based cost

+A share of the fixed cost

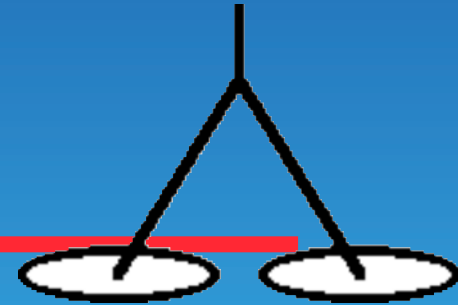
+A fair profit

Price

Profit = Revenue - Cost

- Revenue = Price x Units sold
 - Cost based-price is basing the price some on the fixed cost per unit (i.e., volume)
 - Units sold is the consumers reaction
- So, even cost-based pricing has to base price on consumers
- After all most customers don't care about the production costs (exceptions, Thaler beer)
 - If I am inefficient, would you pay me more?

Benefits-based pricing



- Trying to offset Benefits for consumer with price and other cost for consumer
- Logically this is better but very hard to do
 - Very hard to do for one person (ourselves)
 - Very hard to do for many (and different) people
 - Benefits are hard to figure out

Reservation price

- What is it?
 - This is one approach to benefits based pricing
- Where does it come from?
 - How much is a piece of chocolate worth?
- Are prices relative or absolute?
 - ADS

Questions I

- What is the pricing strategy in BK's Value meals, happy meals
 - What is the value for the consumers
 - What is the value for BK

Questions II

- What is the pricing strategy in coupons
 - Sunday paper has amazing amounts of coupons
- What are the inferences people make about coupons
- What about mail-in rebates
 - Hot and cold
 - Information about consumers

Question III

- When and what products do you buy because of their price
 - Would you buy the lowest price milk?
 - Would you buy the lowest price paper towels?
 - Others?

Question IV

- What are risks in discounts?
 - Changing reference prices
 - Questions?

- What will e-commerce do to price sensitivity?

Other Pricing strategies

- Member consumers (Star Market)
- Profit sharing
 - Get $X\%$ back
- Charity contribution
 - We will contribute $X\%$ for a certain cause
 - Vices vs. virtues

Price setting

- By manufacturers
 - No competition
 - Low price stores suffer
 - Bargain seeker suffer
- No price setting
 - Competition
 - Free riding
 - Low stores gain

Price wars

- Hippo lemonade
 - Particularly bad with high fixed costs
 - Reduce profits and quality perceptions
 - Inevitable but can be delayed
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- Differentiation and segmentation is one way to avoid price wars

Some pricing trends & issues

- “Value pricing” Deals, Every day low prices
- Understanding how consumers view pricing
- Branding
- Bundling or unbundling
- E-commerce

Summary

- Pricing is hard, particularly benefit pricing
 - It is hard to figure out who will pay what for why
- There are a lot of pricing strategies and they have serious implications
 - Prices can change fast but the effects of past prices can linger
- Price is only one element of the marketing mix (but a very visible one)
- Price is very visible and expensive can become emotional
 - Both negative, and positive