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 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

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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 may (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

- 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