PRICING POLICY FOR CA'S

THE SCIENCE OF PRICING

THE 80-20 PARETO'S RULE

You earn 80% of your gross revenue from 20% of your offerings ?

What are these 20% offerings / products ?

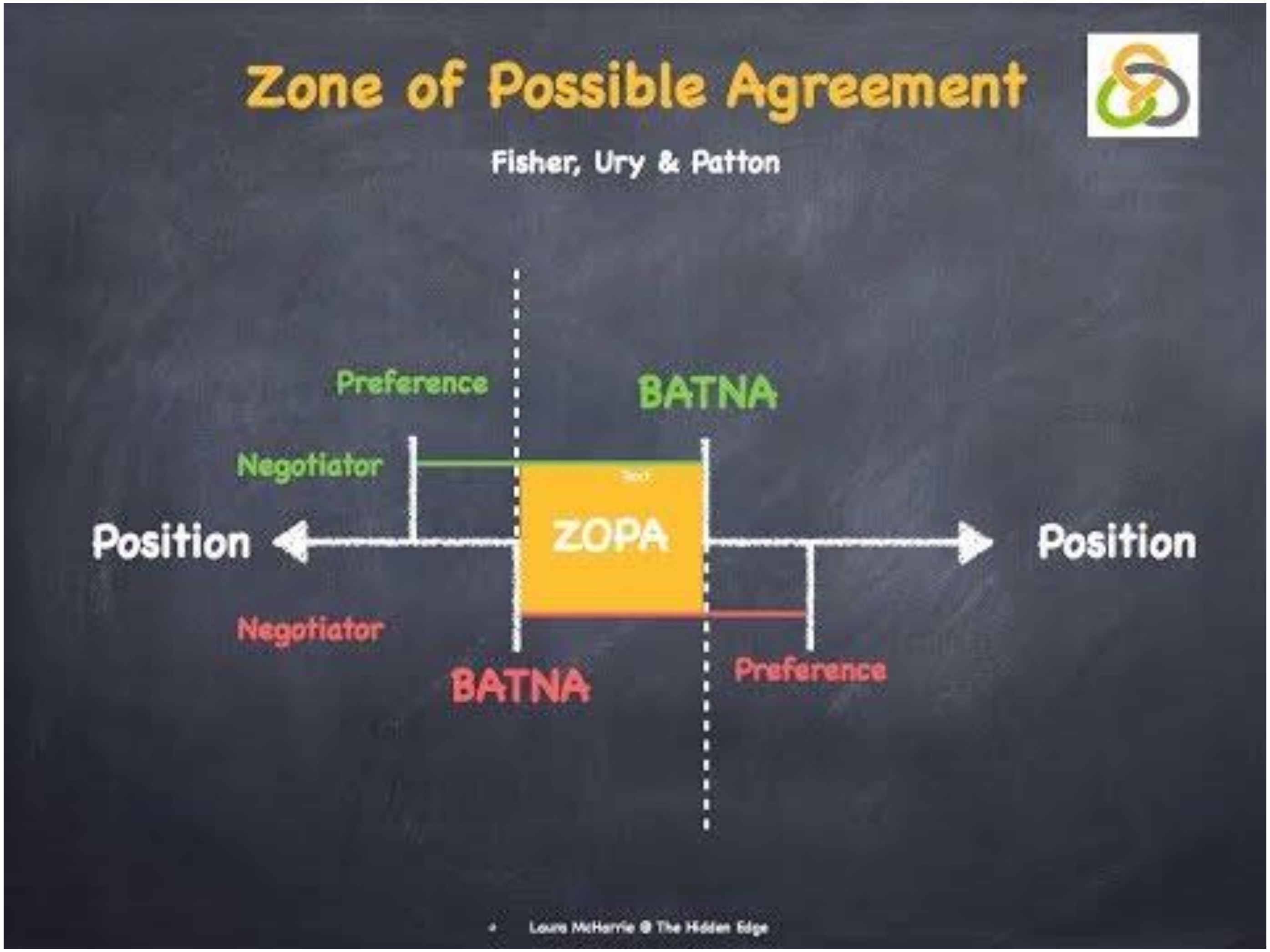
The pricing of these 20% items are not negotiable and you should not entertain any negotiation on these product(s).

Normally , these 20% products forms your core competency.

NOT NEGOTIABLE PRODUCT

Product- Price list to be prepared

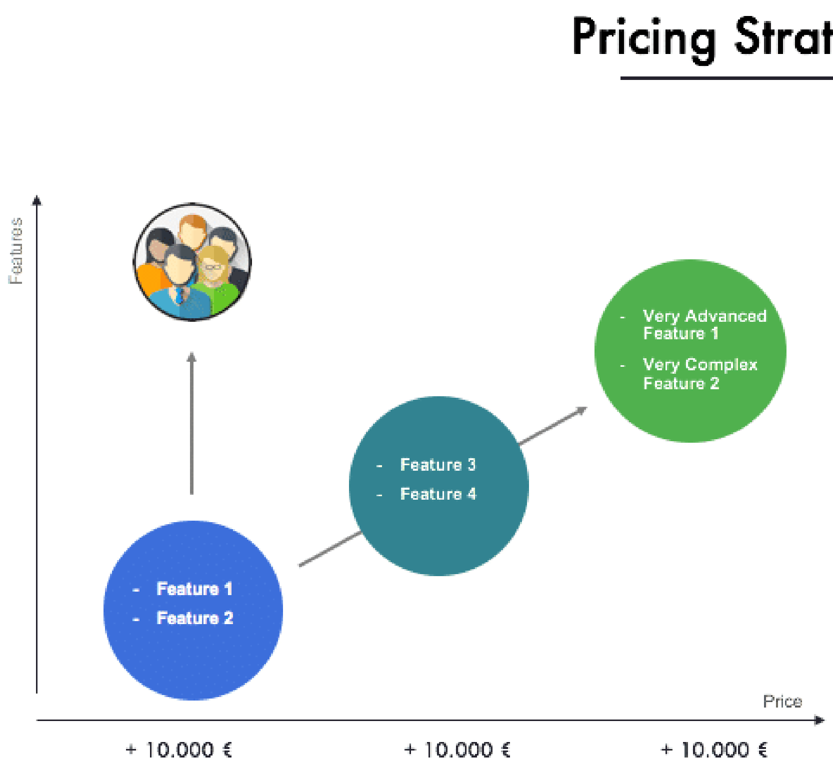
CREATE ICING ON EVERY CAKE THAT YOU OFFER WITH B.A.T.N.A.



Zone of Possible Agreement
Fisher, Ury & Patton
Preference
BATNA
Negotiator
ZOPA
Position
Position
Negotiator
BATNA
Preference

KEEP PRICING VERY MODULAR

CHARGE FOR JOURNEY AS WELL AS DESTINATION



"People don't like to be sold, but they love to buy"

Jeffrey Gitomer's

| Michael@chaomatic.com

PRICING POLICY

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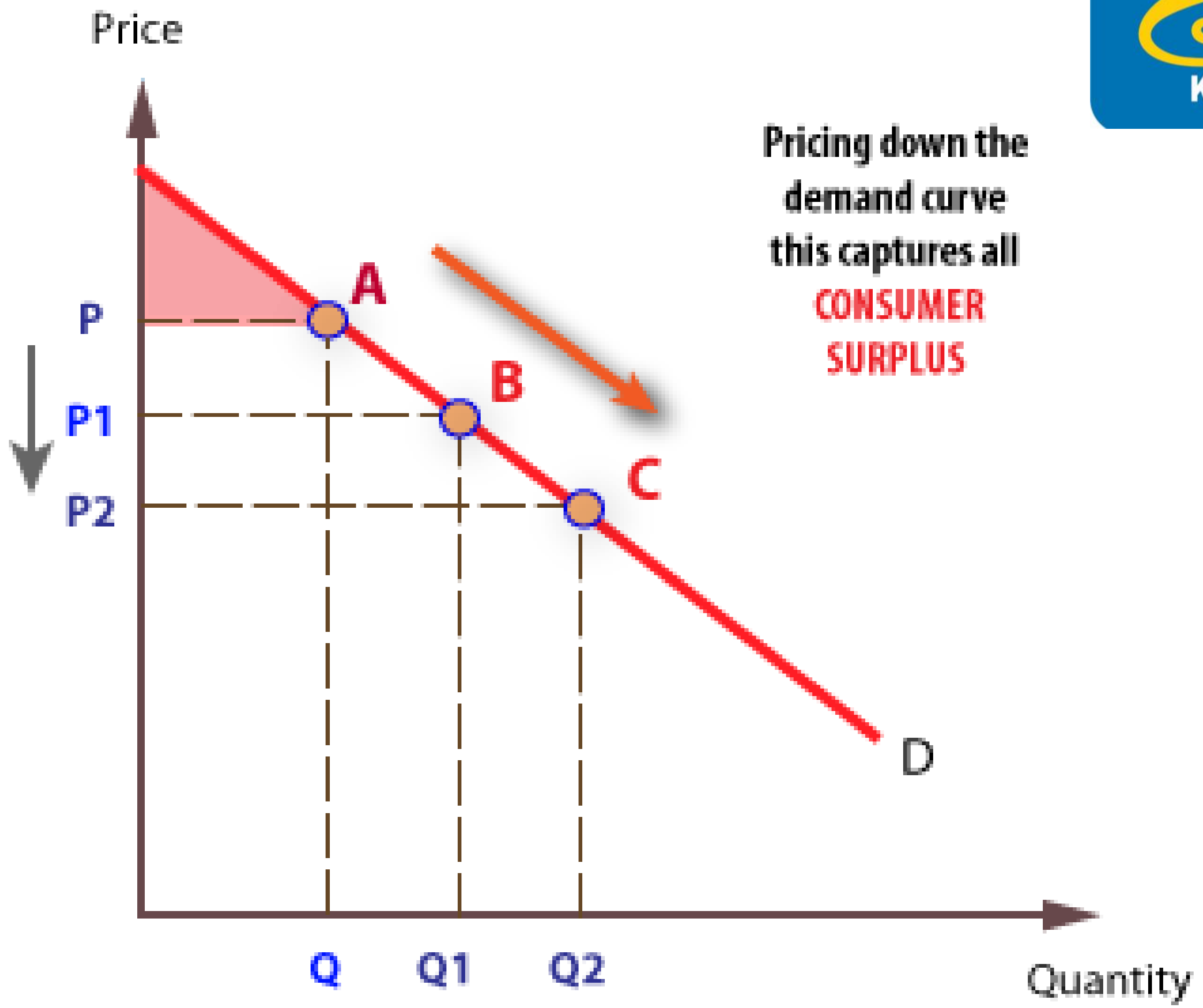
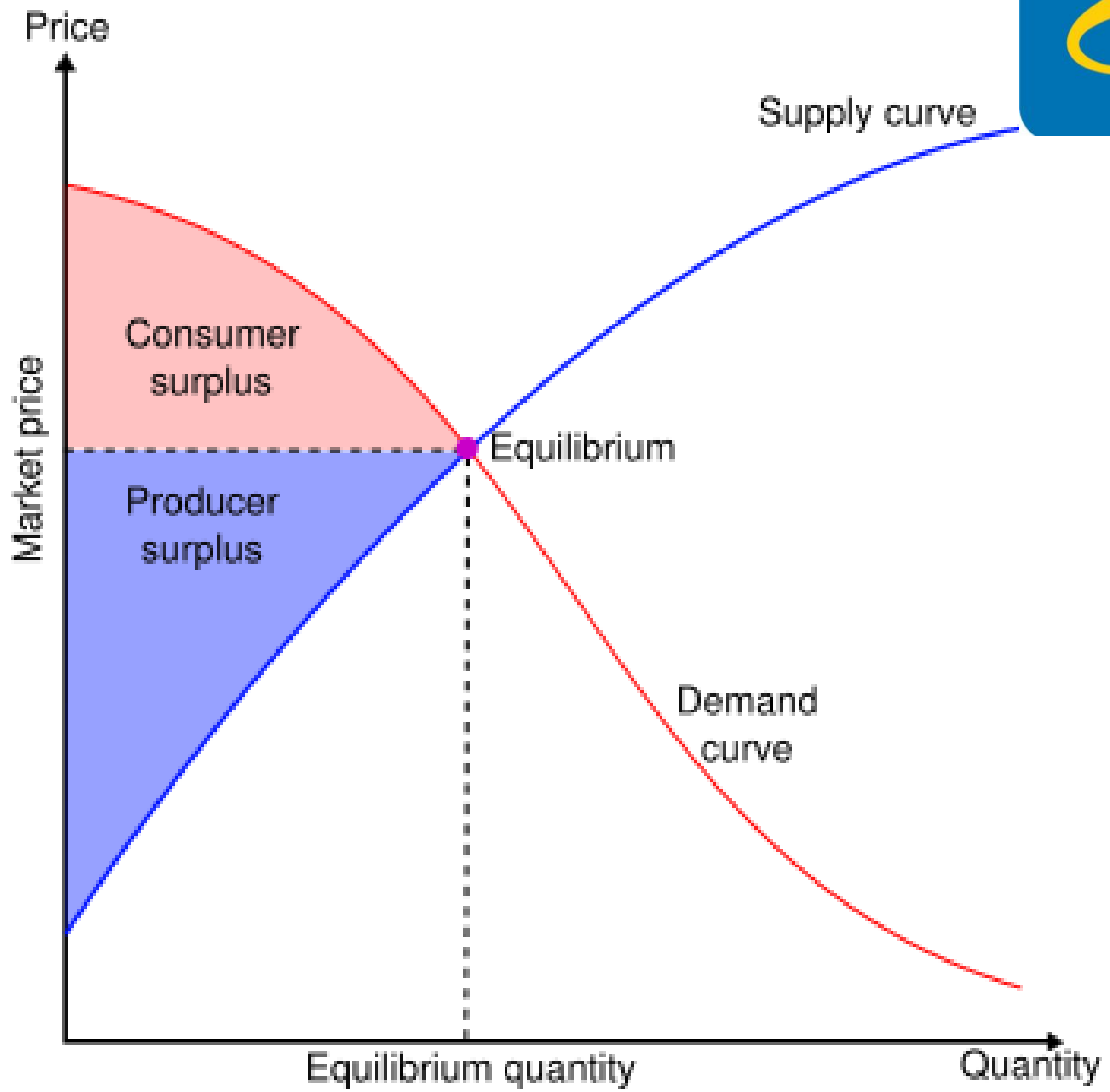

Price
Pricing down the demand curve this captures all CONSUMER SURPLUS
A
B
C
P
P1
P2
D
Q
Q1
Q2
Quantity


Price
Market price
Supply curve
Consumer surplus
Producer surplus
Equilibrium
Demand curve
Equilibrium quantity
Quantity

Pricing Objectives vs. Pricing Strategy

Profit Oriented

Sales Oriented

Status Quo Oriented

OBJECTIVES

Price Skimming

Penetration Pricing

Status Quo Pricing

STRATEGIES

Key Pricing Strategies

Three Basic Strategies

SKIMMING

- Charging premium price, top end of market
- New, Unique or Luxury products
- Risky when strong competition or low perception of value

MARKET PRICING

- Set as going market rate (by competitors)
- To preserve stability. Activity focused on product, distribution and promotions e.g. Coca Cola / Cereals

PENETRATION PRICING

- Charging a low price to achieve highest possible sales.
- Facing high competition & low incomes
- Long term profit if high market share.
- Can result in low profits / undermine brand image.

Pricing Objectives

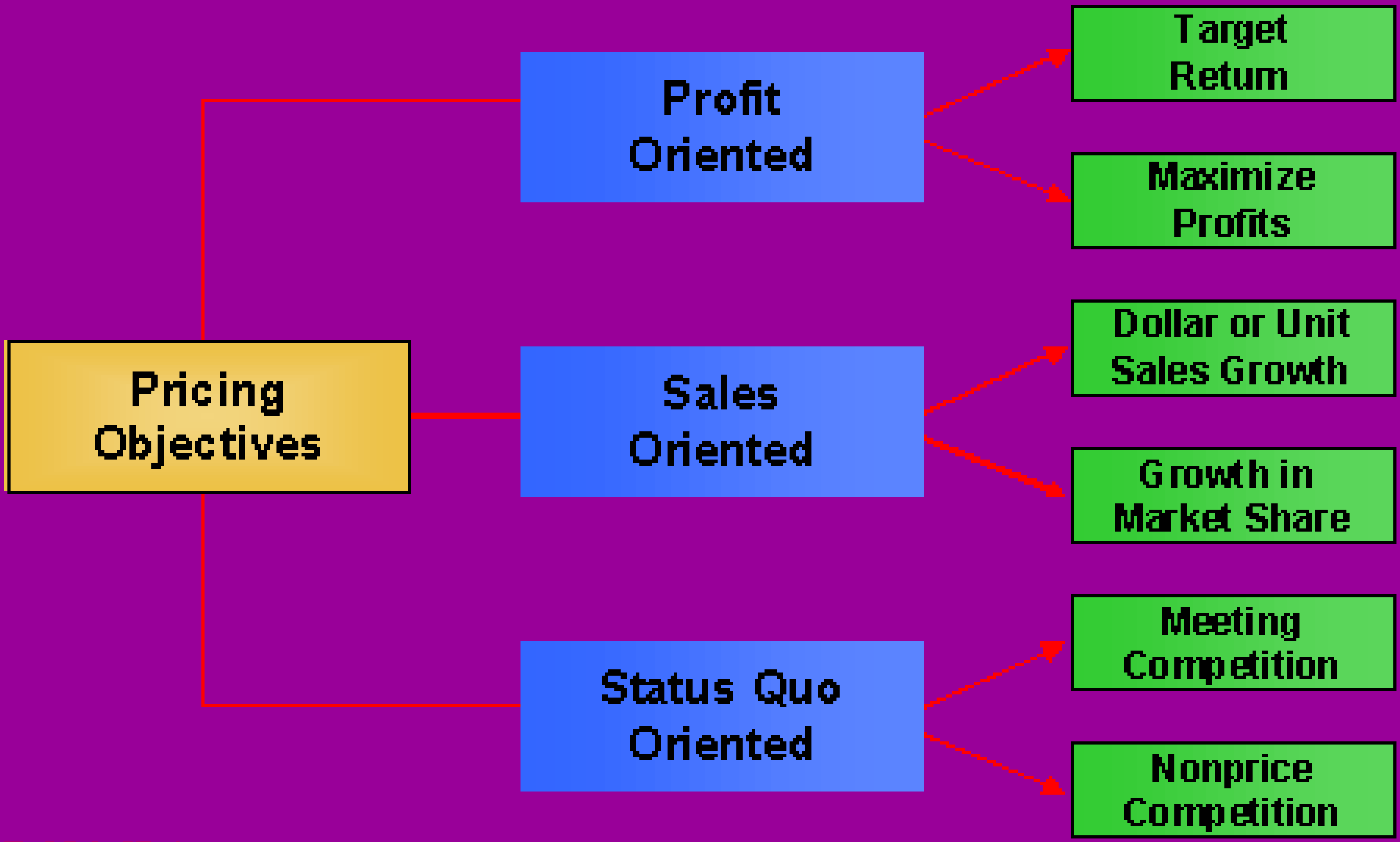


Exhibit 17-4

Status Quo Pricing Objectives

Status Quo Pricing Objectives

- **Maintain existing prices**
- **Meet competition's prices**

LO2

Pricing:

Objectives – Policies – Strategies - **Techniques**

Techniques:

Prestige

HIGH PRICES to target a specific market segment

Short-Term Strategy

The Common "Sales"

Market Penetration Strategy

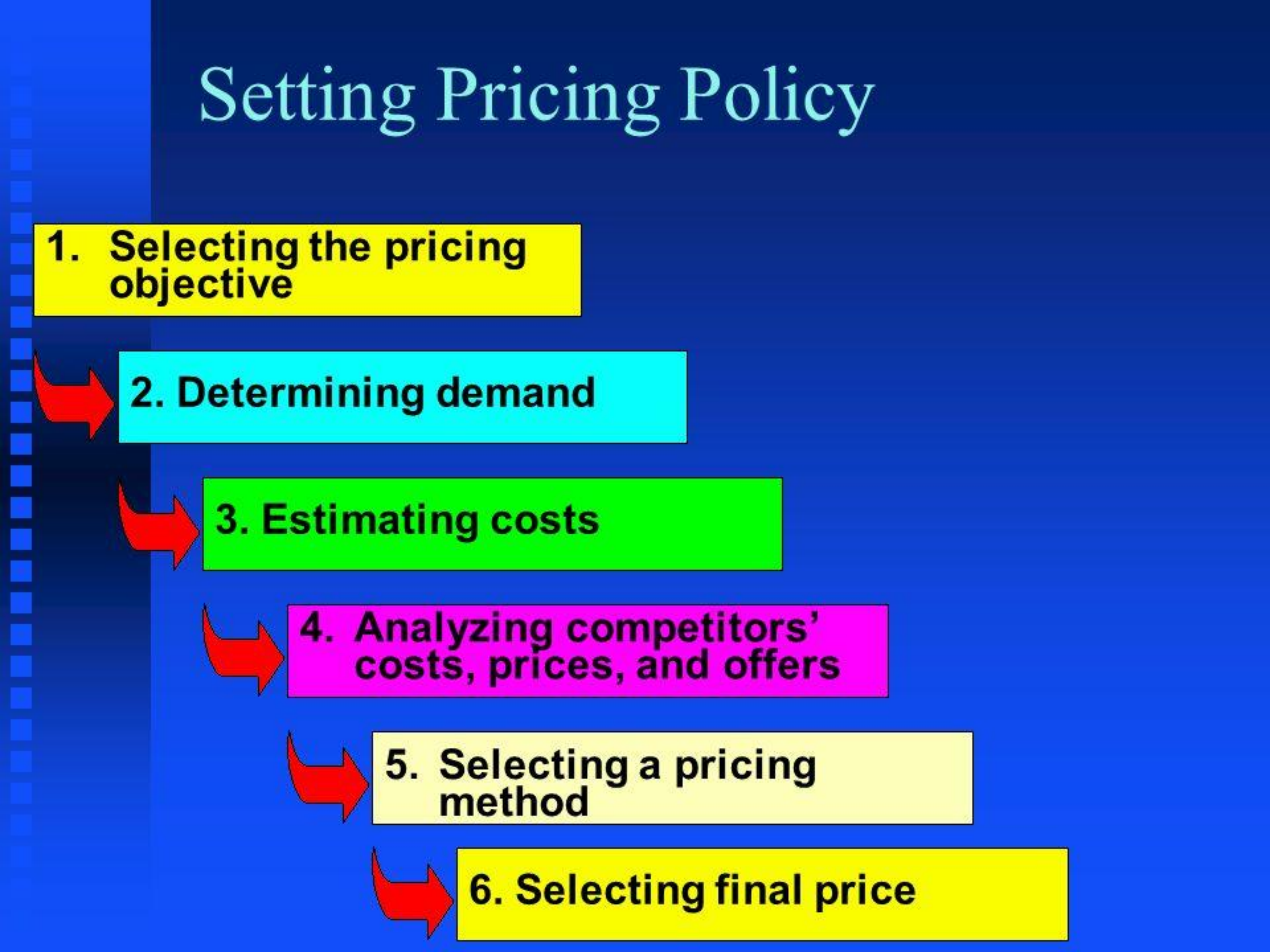
Low Prices to get into a Market

Loss Leader

Set prices lower than cost - make-up in other areas

Status Quo

Just do what others are doing


Setting Pricing Policy
1. Selecting the pricing objective
2. Determining demand
3. Estimating costs
4. Analyzing competitors' costs, prices, and offers
5. Selecting a pricing method
6. Selecting final price

ONE PRICE POLICY

One Price Policy
is one in which all customers are charged the same price for all the goods and services offered for sale.
An example of One Price Policy is anything you buy at a store that is non negotiable or can only be bought at one price, like a 2 liter bottle of Sprite.

Price Lining

Price lining,
is a marketing process where products or services within a specific group are set at different price points. The higher the price, the higher the perceived quality to the consumer, and it also helps to lead people to the price range they can afford.
For instance, a store that sells jeans at $20, $40, and $60 which shows the customers which price range the belong to and may sway them into buying the more expensive pair.

Multiple-Unit Pricing

Multiple-Unit Pricing is used to set a single price for two or more of the same product. It is used to convince the customer that they are getting a benefit by purchasing more than one product at a good price.

For example, one two liter of Pepsi might be $1.80, while you can purchase five two liter bottles for $5. It makes the customer want to buy 5 instead of only 1.

Bundle Pricing

Bundle Pricing
is a form of promotional price adjustment that offers discounted pricing when customers purchase several products at the same time.

For example, businesses that sell computer hardware often use bundle pricing to sell software that may not have sold otherwise. The customer thinks their getting a package deal and will end up paying more money then they intended.

Odd/Even Pricing

Odd/Even Pricing

Is when a business uses odd/even pricing technique to make their customers think they are getting a bargain. Studies show that when the prices are different, like $197 triggers in our brain as cheaper.

For example, Walmart might have the brand new plasma screen TV and you think it's a bargain because it is set at $797, but if it was set at $800 you might not even think of buying it.

FLEXIBLE PRICE POLICY

Flexible-Price Policy
offer the same product to customers at different negotiated prices.

An example of Flexible Price Policy is cars, because you usually buy cars at negotiated contracts. For example if you buy a yellow or red Camero, you have to pay $500 more.

PRESTIGE PRICING

Prestige Pricing

Is used to foster a higher image. Cheap products are not taken seriously by some buyers unless they are priced at a particular level.

For example, if you saw a shirt at Nordstrom and you saw the same shirt at Men's Warehouse, you would most likely buy it from Nordstrom because you believe its better quality because of the higher price; when in reality they are the same shirt.

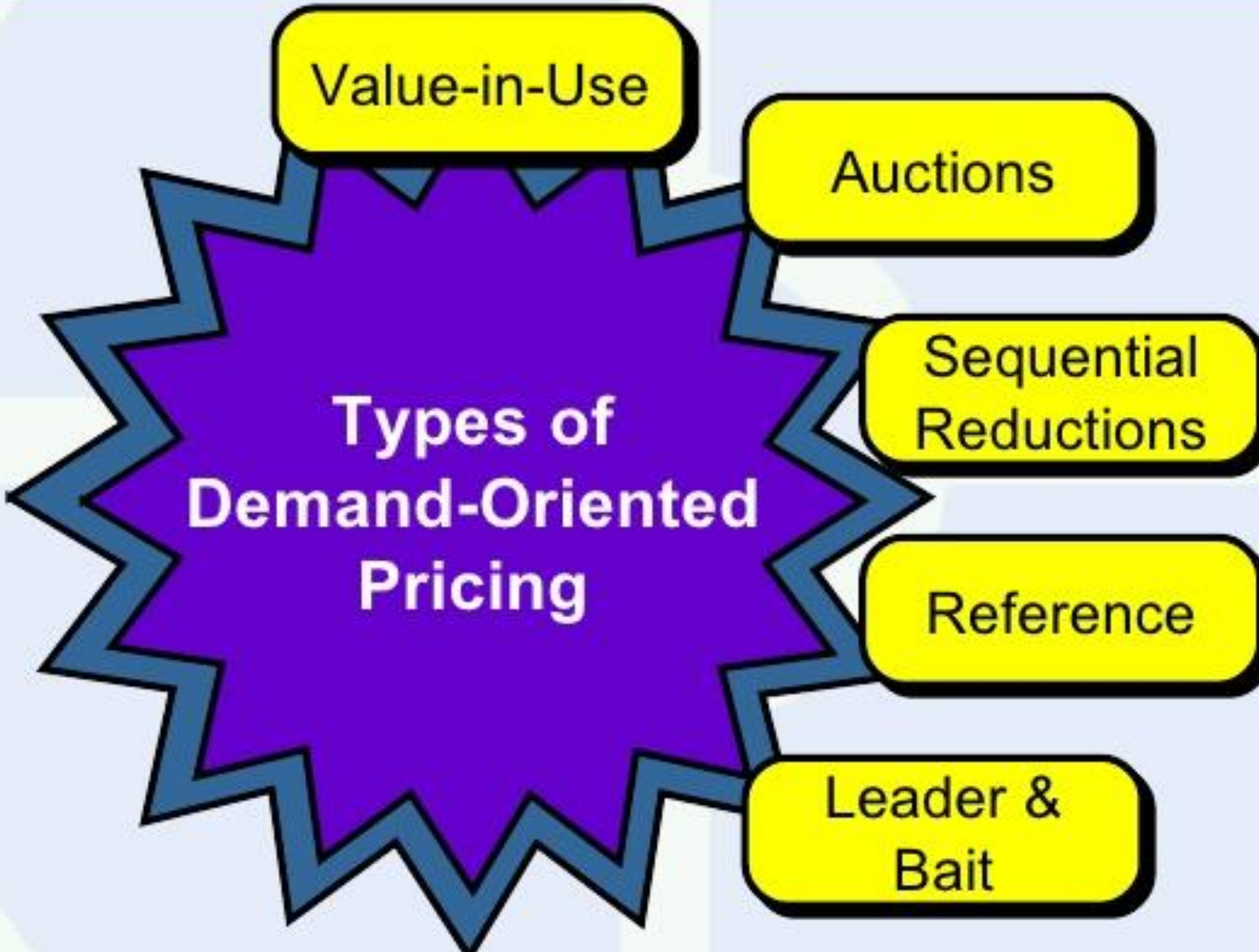
Promotional Pricing

Promotional Pricing
Is a policy that involves reducing the price of a product or service to attract customers ; its usually a temporary sale that attracts a lot of customers.

For example, McDonalds might come out with new popcorn chicken bites and for the first 2 weeks there only $2 per box. After they attract all the customers and get people to try and like their new chicken, they raise the price up.

Demand-Oriented Pricing

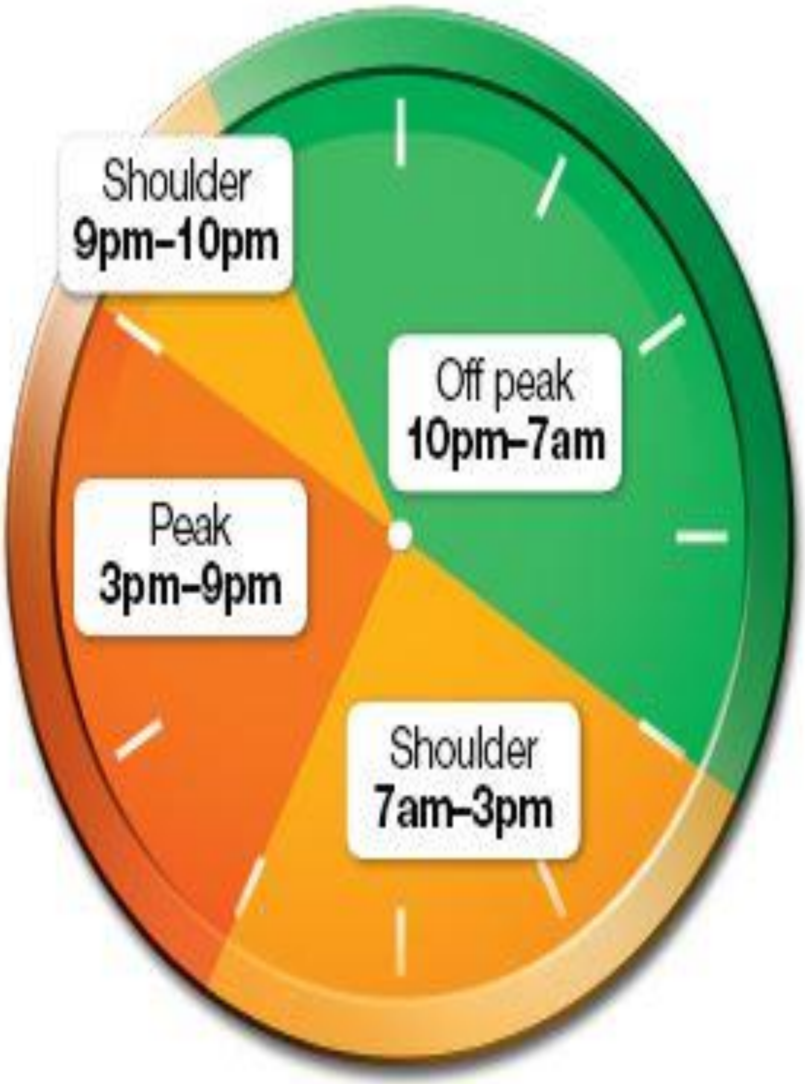
More Demand-Oriented Methods



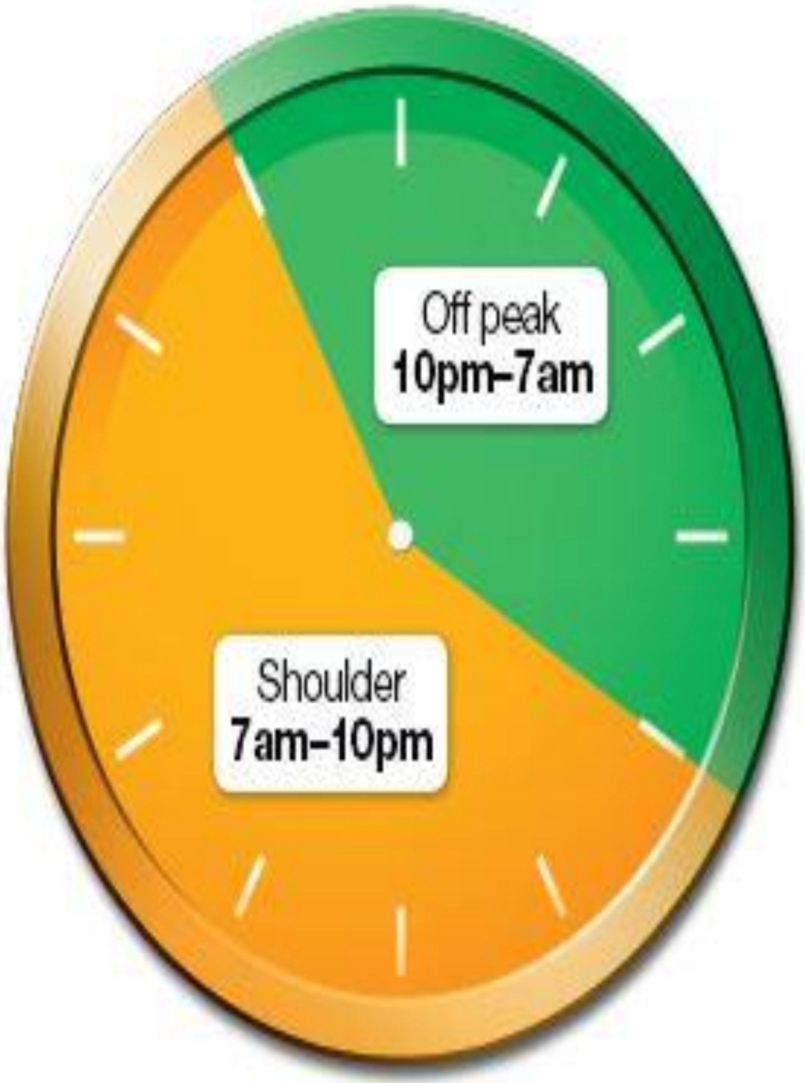
Key Terms

- Price
- Target return objective
- Profit maximization objective
- Sales-oriented objective
- Status quo objectives
- Nonprice competition
- Administered prices
- One-price policy
- Flexible-price policy
- Skimming price policy
- Penetration pricing policy
- Introductory price dealing
- Basic list prices
- Discounts
- Quantity discounts
- Cumulative quantity discounts
- Noncumulative quantity discounts

Weekdays



Weekends



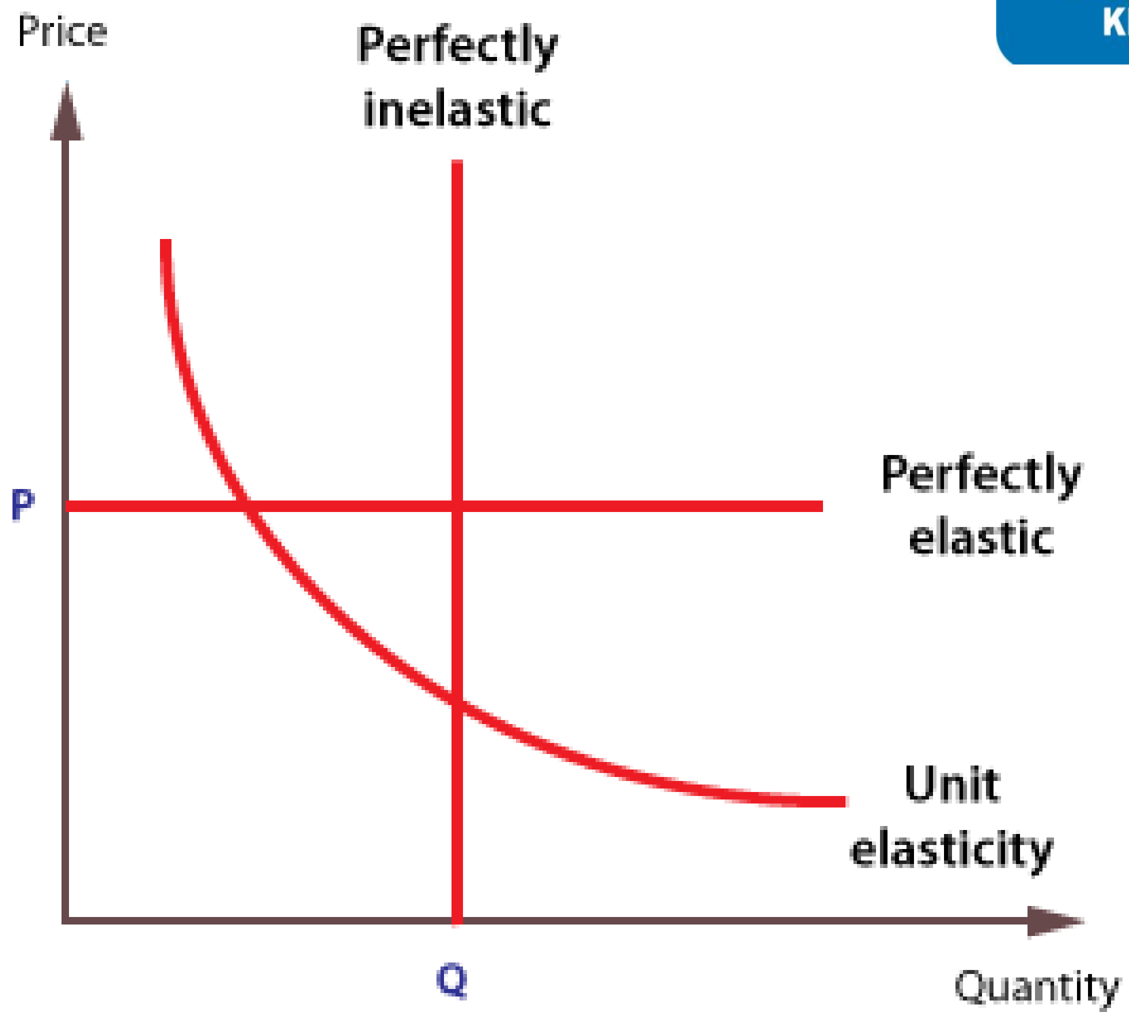
Specific Pricing Strategies

Customary pricing	The retailer sets prices for goods and services and seeks to maintain those prices over an extended period of time.
Variable pricing	Recognizes that differences in demand and cost necessitate that the retailer change prices in a fairly predictable manner.
Flexible pricing	Encourages offering the same products and quantities to different customers at different prices; used for personal selling; costs can dramatically increase, and revenues decrease, as customers begin to bargain for everything.
One-price policy	Establishes that the retailer will charge all customers

LO 2

ELASTICITY OF DEMAND

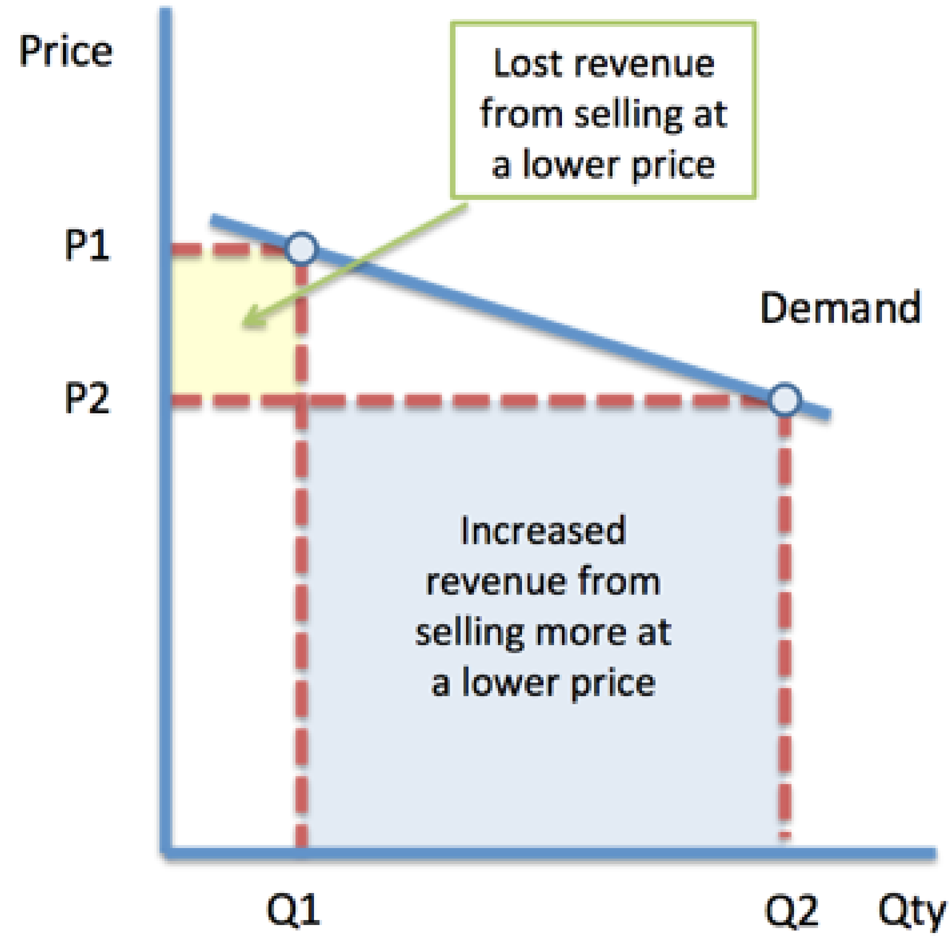
- Demand varies with price. But the variation is not uniform in all cases.
- Sometimes demand is greatly responsive to price and at times nominal or not so responsive.
- Economists use the term "Elasticity" for this response.
- To measure the E of D , 2 variables are considered-
    - **Demand and**
    - **Determinants of demand.**
- For Measuring the E coefficient , thus a ratio is made of the two variables.
- E of D= % change in qt. demanded / % change in determinant of demand
- There are 3 elasticities of D
    - **Price E**
    - **Income E**
    - **Cross Price E or just Cross Elasticity**


Price
Perfectly inelastic
P
Perfectly elastic
Unit elasticity
Q
Quantity

Elastic Demand (Ped > 1)

If the co-efficient of price elasticity of demand >1, then demand is said to be price elastic i.e. highly responsive to a change in price

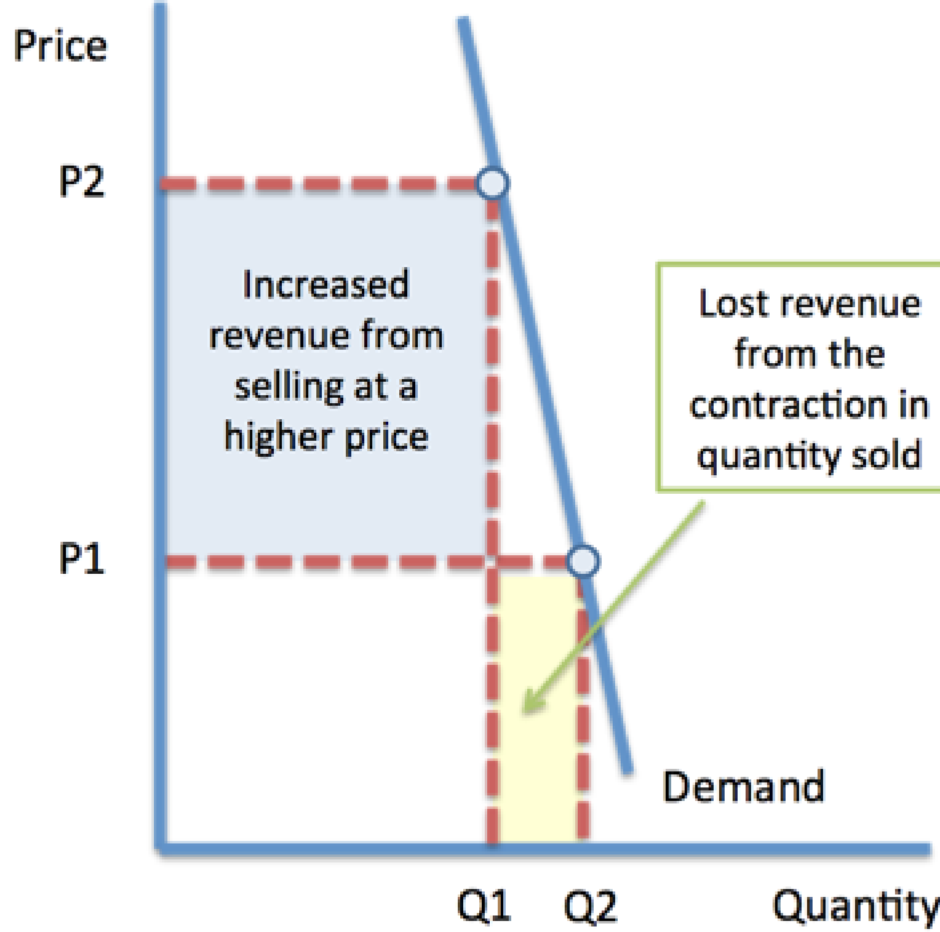
- If demand for a product is price elastic, a supplier stands to gain extra revenue if they reduce their prices.
- The change in quantity demanded will be proportionately higher than the reduction in price. This is shown in the diagram opposite.



Inelastic Demand (Ped < 1)

If the co-efficient of price elasticity of demand <1, then demand is said to be price inelastic i.e. unresponsive to a change in price

- Following a change in price, the total revenue earned by the producing firm will depend on the PED for its product
- If the coefficient of PED is <1, a rise in market price (e.g. from P1 to P2) will lead to an increase in total revenue



Perfectly Inelastic Demand (Ped = 0)

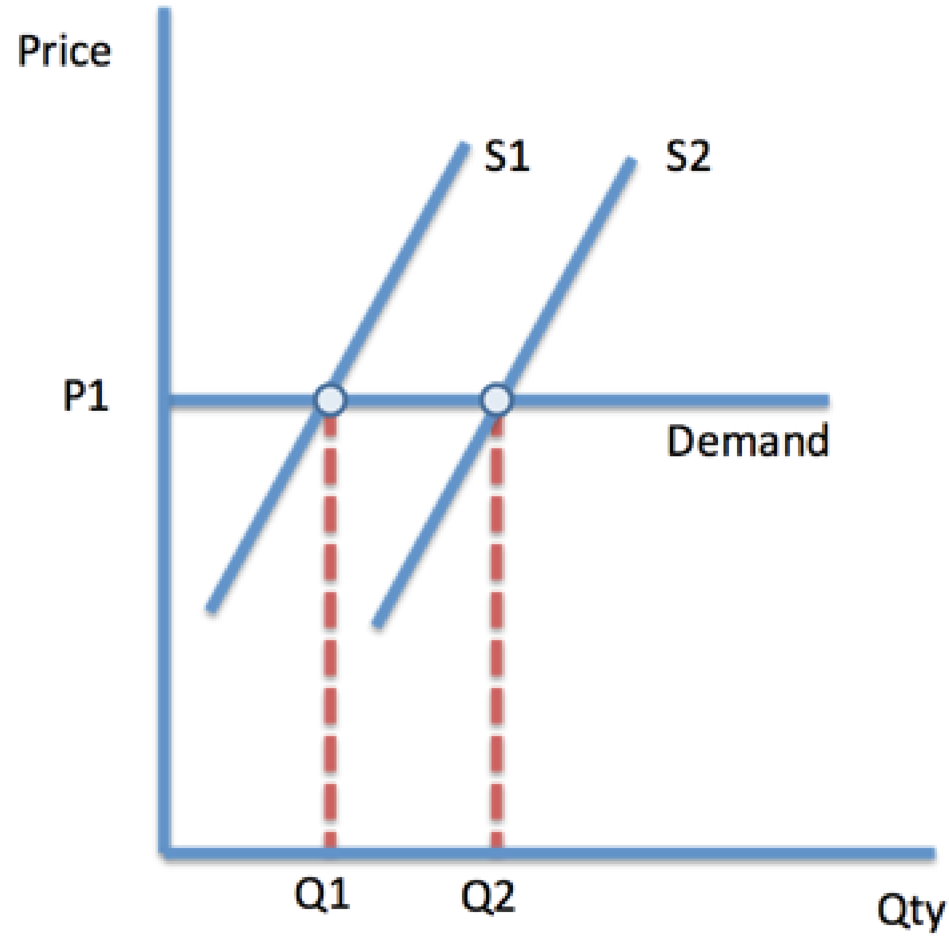
If the co-efficient of price elasticity of demand = zero, demand is perfectly inelastic i.e. demand does not vary with a change in price

- A perfectly inelastic demand curve is an extreme case for it implies that consumers are willing and able to pay any price for the product. If supply falls, equilibrium market price can rise without any contraction in the quantity demanded

Perfectly Elastic Demand (Ped = infinity)

If the co-efficient of PED = infinity, then demand is perfectly elastic – there is one price at which consumers are prepared to pay

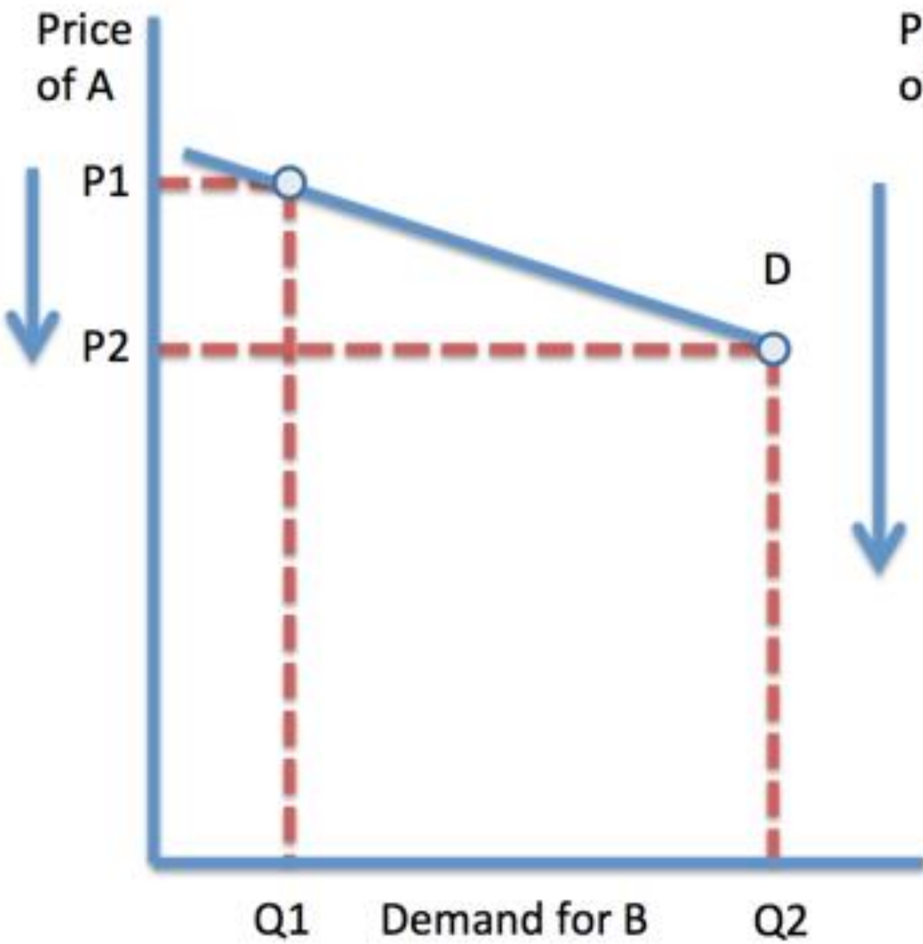
- If demand for a product is **perfectly elastic**, a change in market supply (shown on the right as an outward shift of supply) will not lead to any change in the equilibrium price. This demand curve applies to highly **competitive markets** where no supplier has any "pricing power"



Cross Price Elasticity of Demand - Complements

Close complements: A small fall in price of A causes a large rise in demand for B

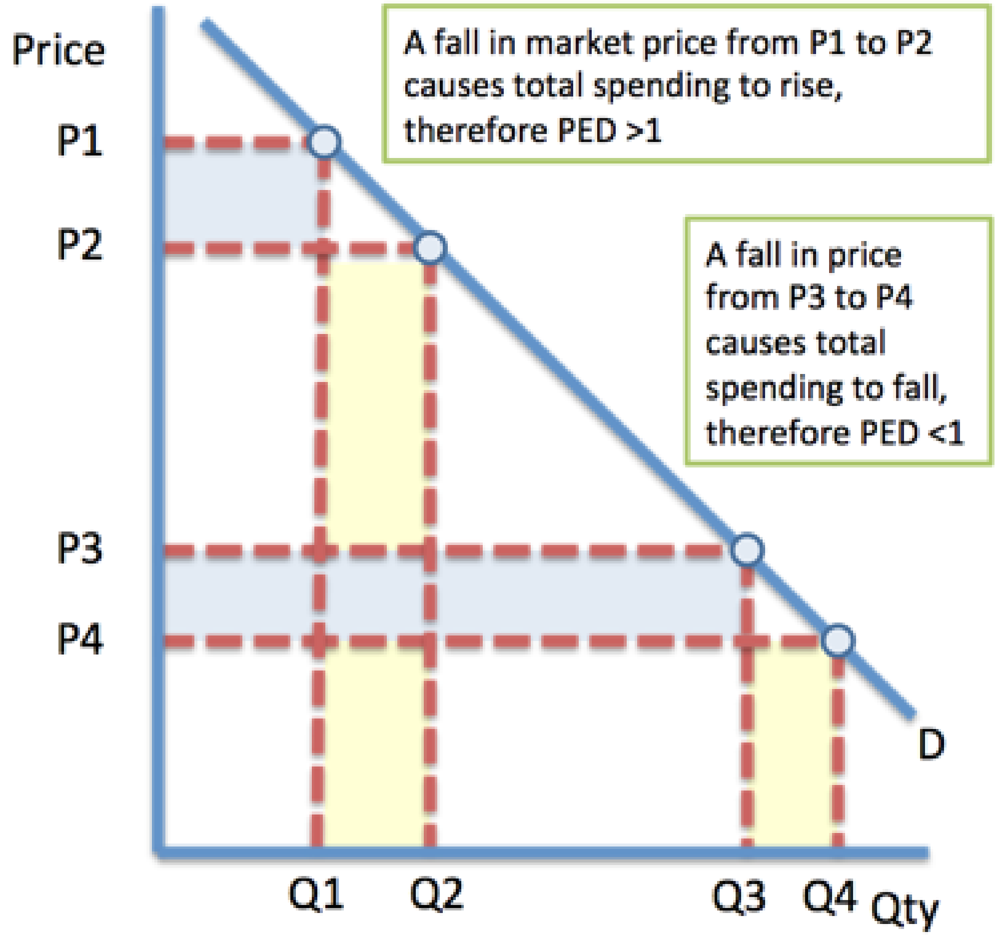
Weak complements: A large drop in price of E causes only small rise in demand for F



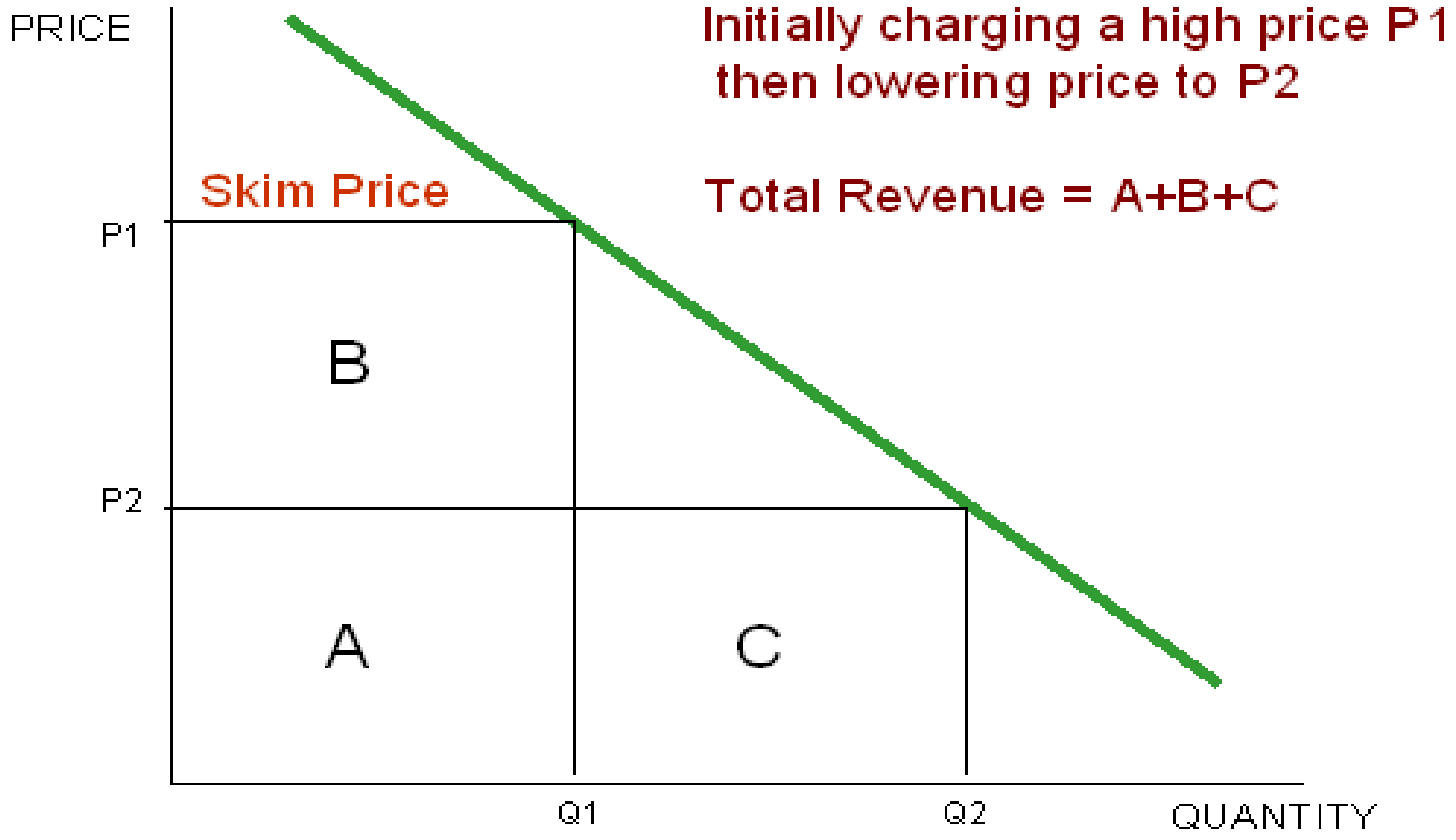
Co-Efficient of PED along a linear demand curve

For a straight-lined demand curve, the PED varies along the curve

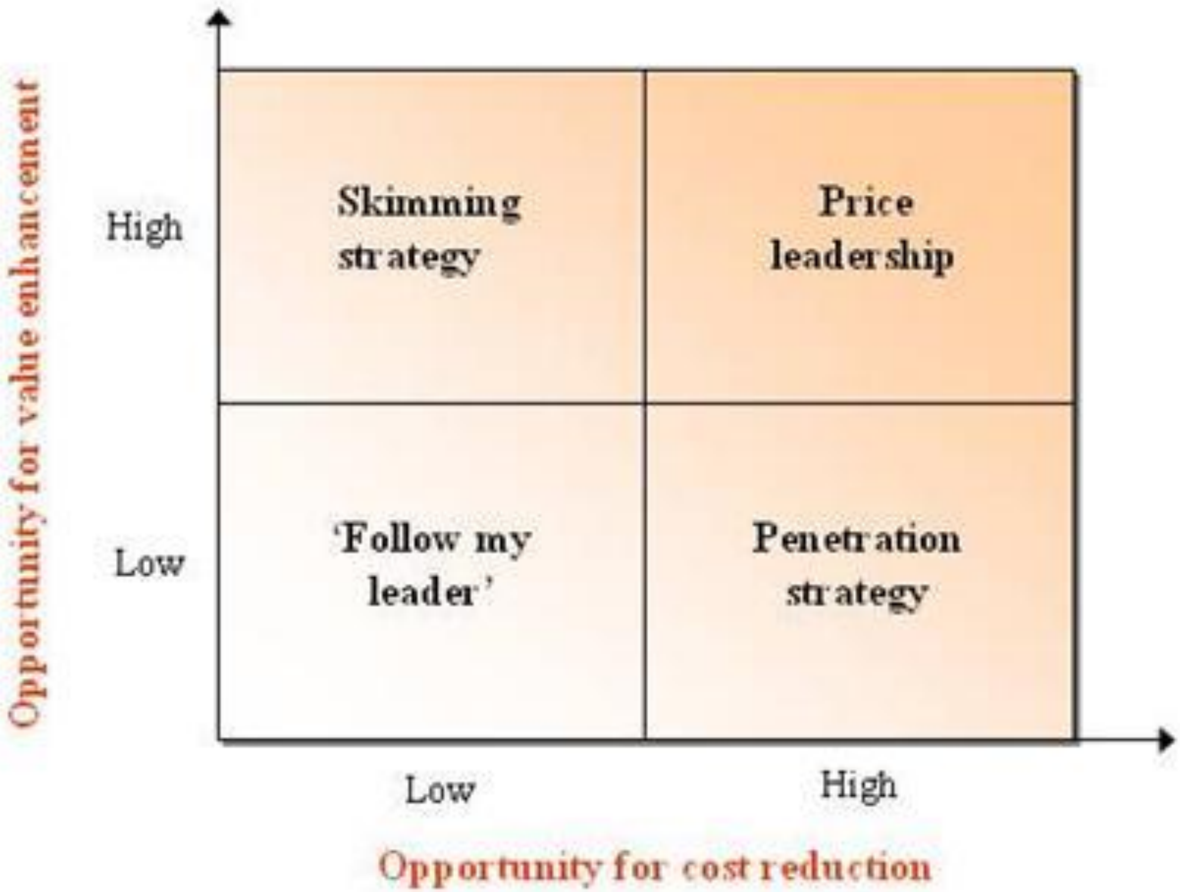
- Price elasticity of demand along a straight line demand curve will vary
- At high prices, a reduction in price will have an elastic price response – lower prices cause total revenue to rise
- Demand is price inelastic at lower prices



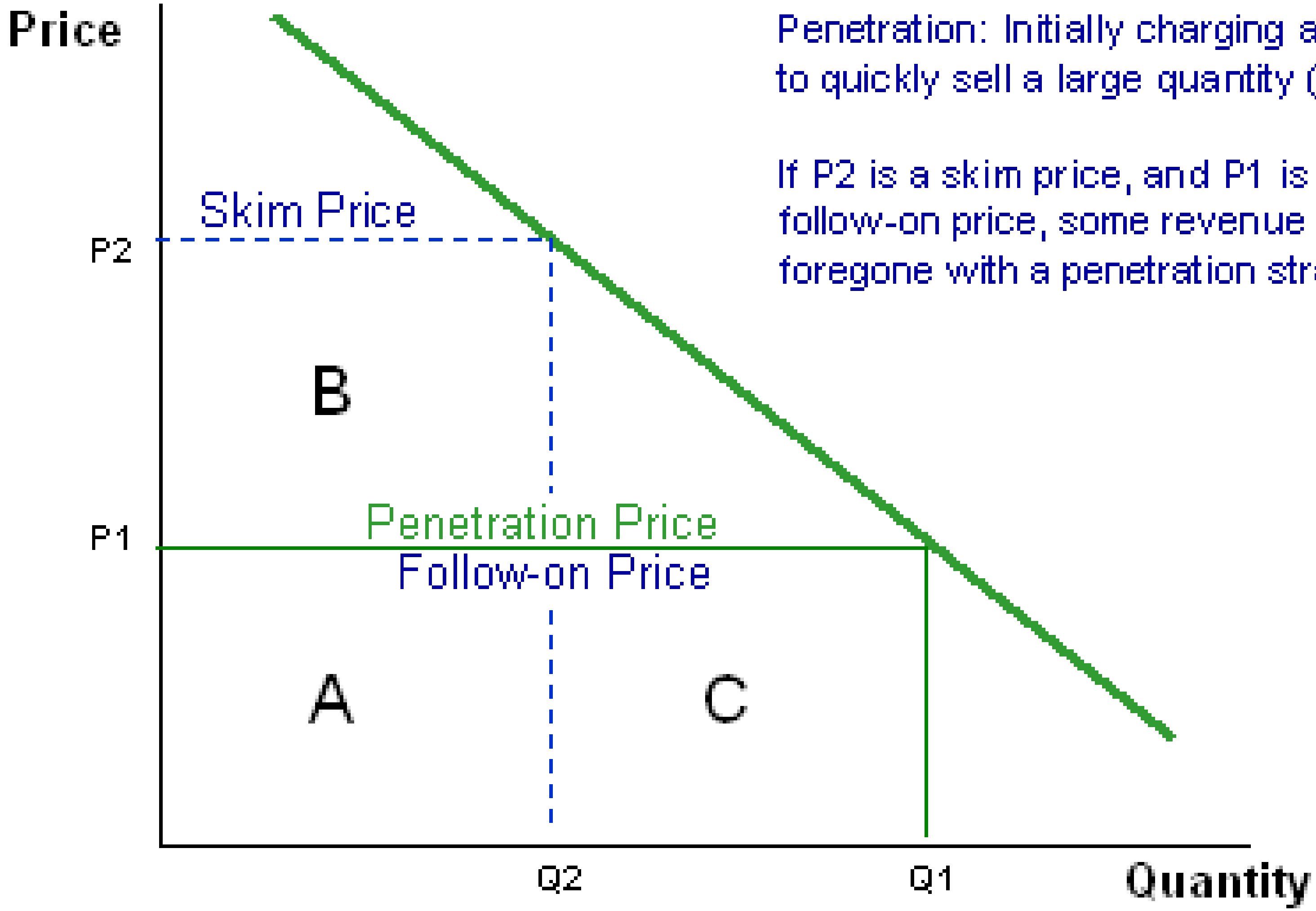
Price Skimming



Appropriate Pricing Strategies



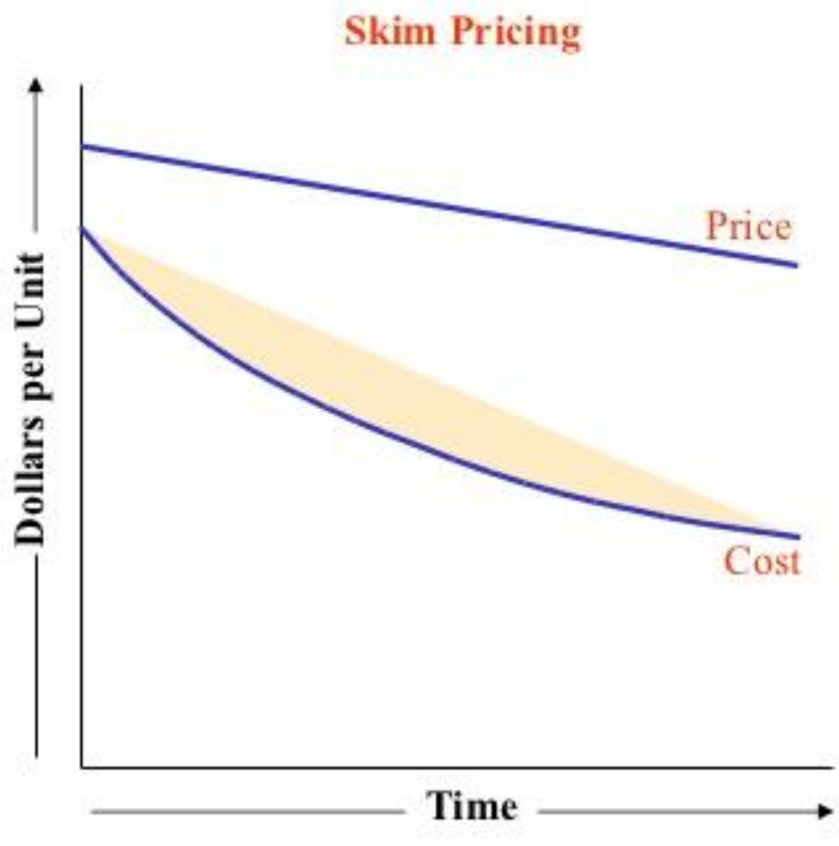
Skim vs. Penetration



Penetration: Initially charging a low price (P1) to quickly sell a large quantity (Q1)

If P2 is a skim price, and P1 is also a follow-on price, some revenue (B) is foregone with a penetration strategy

Skim Pricing



Favorable Conditions

Considerable Differentiation

Quality-Sensitive Customers

Sustainable Advantage

Few Competitors

Few Substitutes

Difficult Competitor Entry

Thanks