

Session 13

Pricing Strategies

Text: Chapter 11, Appendix 2



Outline

- I. New Product Pricing Strategies**
- II. Product Mix Pricing Strategies**
- III. Adjustment Strategies**
- IV. Initiating & Reactions to Price Changes**



1. Market Skimming Pricing

Setting a high price to maximize revenue from the target market segment.

Results in Fewer, But More Profitable Sales.

I. New Product Pricing Strategies

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2. Market Penetration Pricing

Setting a low price to attract a large number of buyers and gain a dominant market share.

Attract a Large Number of Buyers and Win a Larger Market Share.



II. Product Mix Pricing Strategies

➤ Product Line Pricing

Setting Price Steps Between Product Line Items

➤ Optional-Product Pricing

Pricing Optional Products Sold With The Main Product

➤ Captive-Product Pricing

Pricing Products That Must Be Used With The Main Product

➤ By-Product Pricing

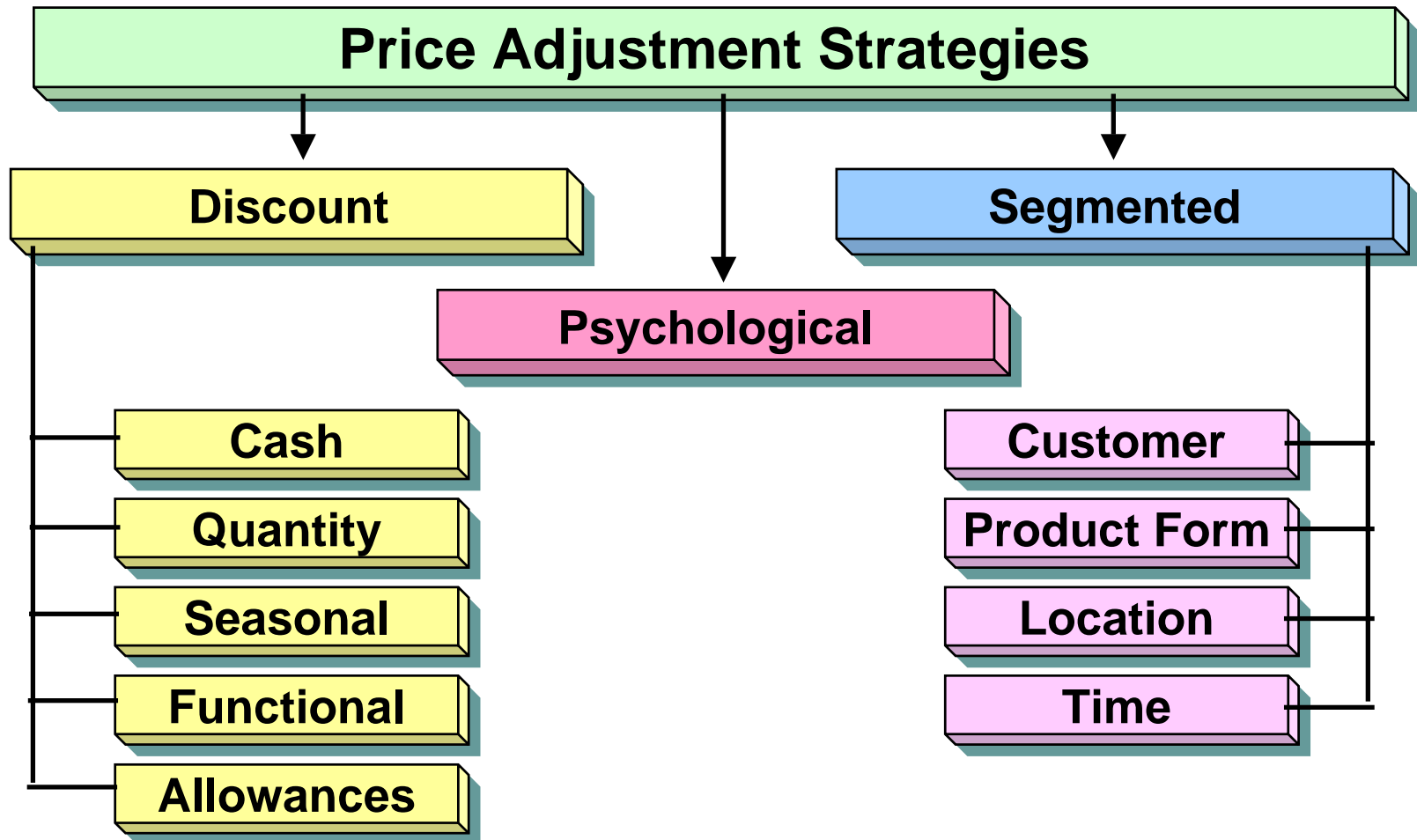
Pricing Low-Value By-Products To Get Rid of Them

➤ Product-Bundle Pricing

Pricing Bundles Of Products Sold Together

III. Adjustment Strategies - I

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More Price Adjustment Strategies

- **Promotional**
- **International**
- **Value**
- **Geographical**

IV. Initiating Price Changes

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Price Cuts

- Excess Capacity
- Falling Market Share
- Dominate Market Through Lower Costs

Price Increases

- Cost Inflation
- Over demand:

Company Can't Supply All Customer's Needs



Reactions to Price Changes

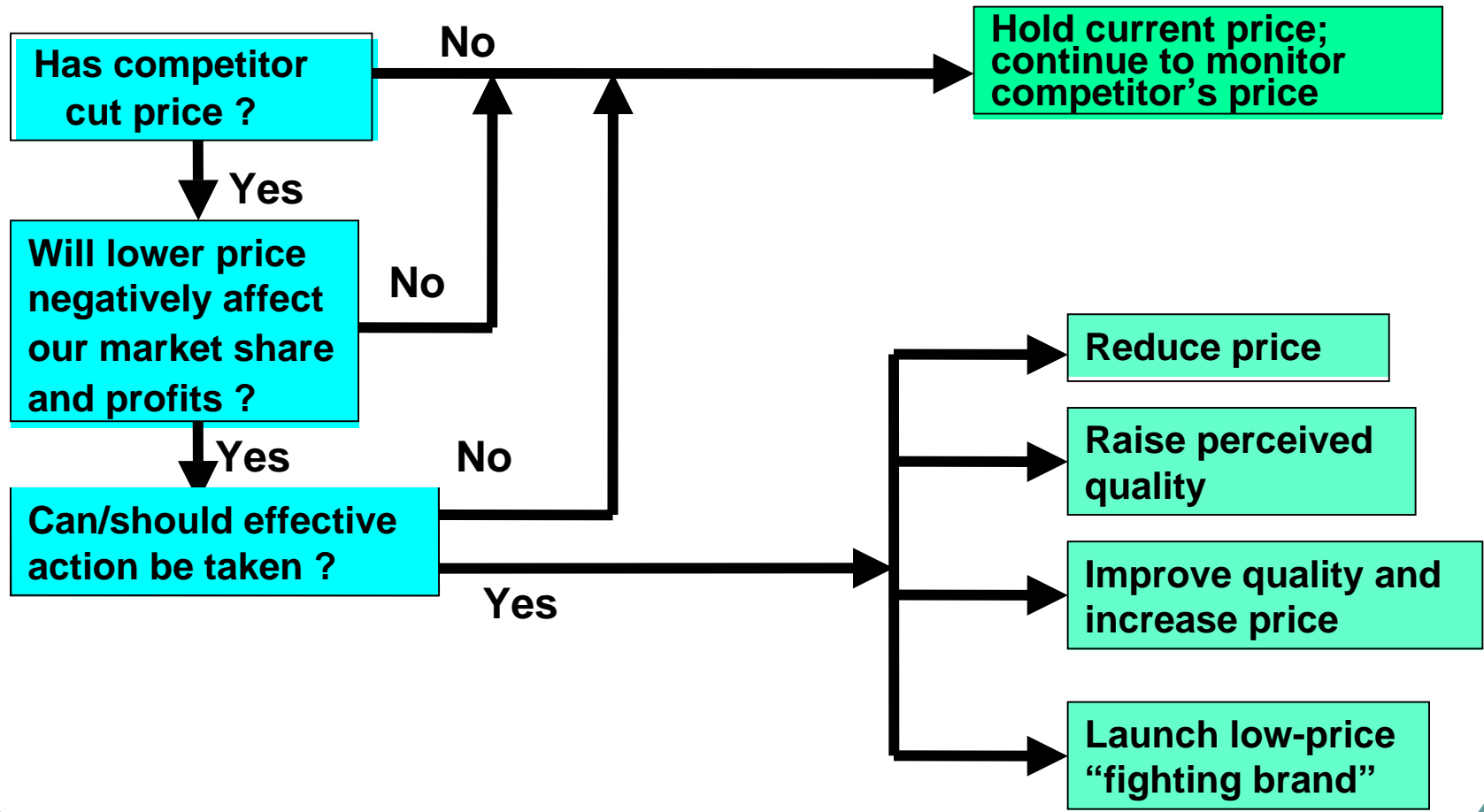
Price Cuts Are Seen by Buyers As:

- Being Replaced by Newer Models
- Current Models Are Not Selling Well
- Company is in Financial Trouble
- Quality Has Been Reduced
- Price Comes Down Further

Competitors Reactions When:

- ✓ Number of Firms is Small
- ✓ Product is Uniform
- ✓ Buyers are Well Informed

Assessing/Responding to Competitor's Price Changes (Fig. 11.1)



Questions for Discussion

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- 1. What do you think about the price war of air-conditioner with approaching of the hot summer ? Is it reasonable?***
- 2. Do you agree that pricing is the most effective tool of competition in this industry?***
- 3. Can you imagine any disadvantages of such kind of price war?***

