

# Principles of Marketing

11-1

## Session 11

### Pricing Strategies

**Text: Chapter 11, Appendix 2**



# Outline

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



# I. New Product Pricing Strategies

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## 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

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## ➤ 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

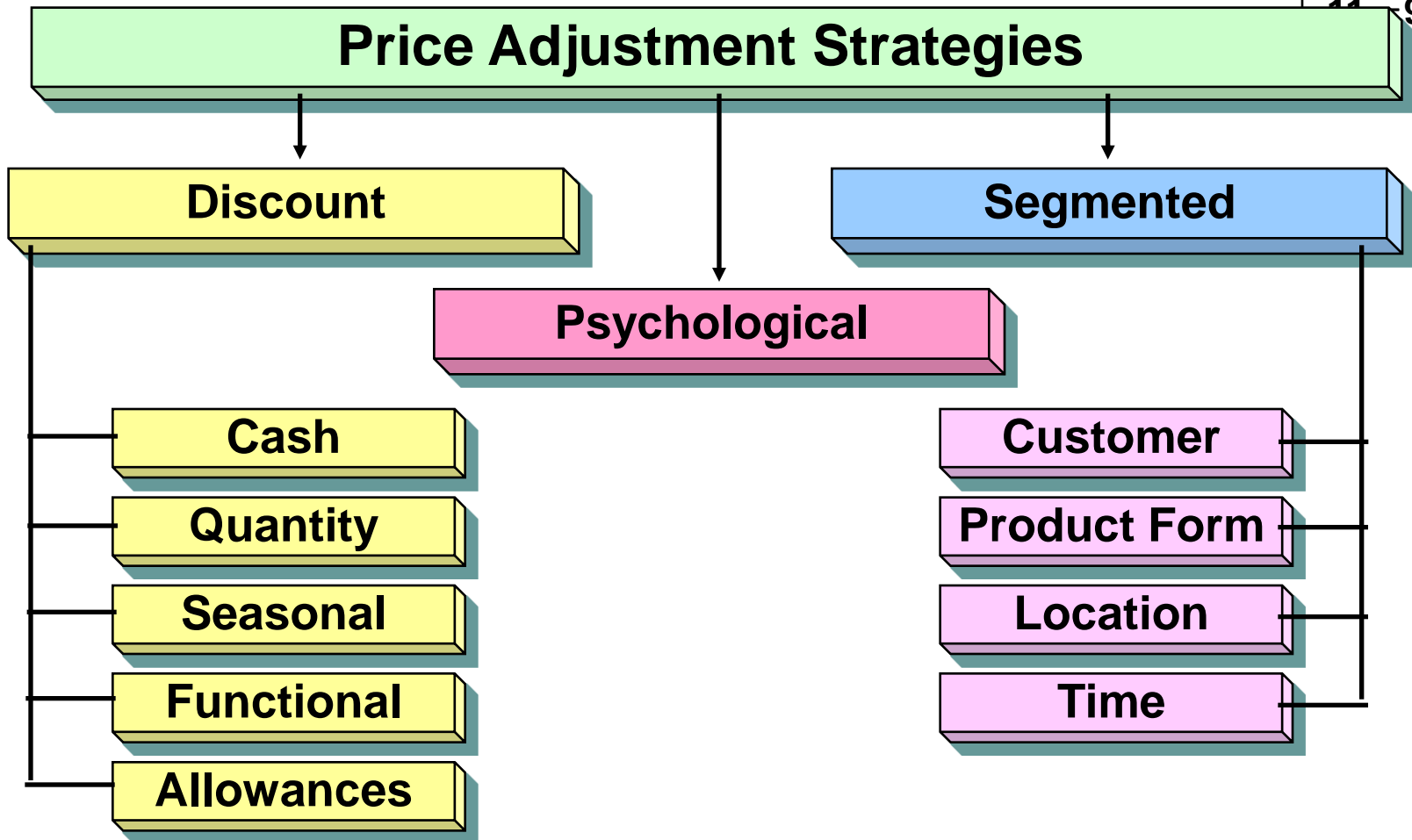
*Pricing Bundles Of Products Sold Together*



## III. Adjustment Strategies



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# Promotional Pricing Tactics

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- Loss-leader pricing
- Special-event pricing
- Cash rebates
- Low-interest financing
- Longer payment terms
- Warranties and service contracts
- Psychological discounting

# Consumer Psychology and Pricing

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Reference Prices

Price-quality inferences

Price endings

Price cues



# Differentiated Pricing and Price Discrimination

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- Customer-segment pricing
- Product-form pricing
- Image pricing
- Channel pricing
- Location pricing
- Time pricing
- Yield pricing



## 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**



# Increasing Prices

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Delayed quotation pricing

Escalator clauses

Unbundling

Reduction of discounts

# Reactions to Price Changes

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## 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

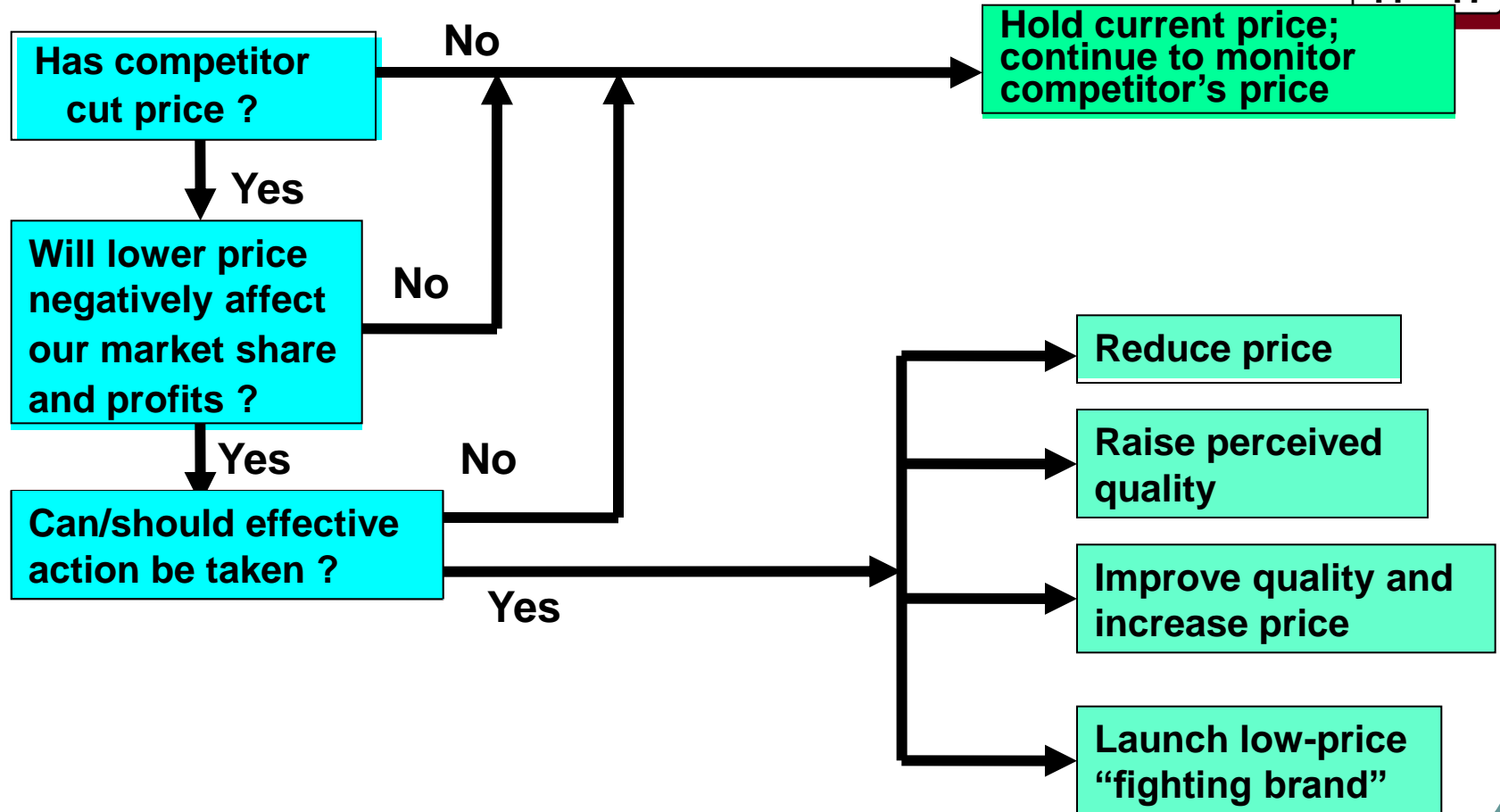
## Competitors Reactions When:

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



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

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# 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? (e.g. **Xiaomi cell phone**)
3. Can you imagine any disadvantages of such kind of price war?

