PRINCIPLES OF MARKETING / 14C

IBMS /
University of Applied Sciences

Raymond Reinhardt

3R Business Development
raymond.reinhardt@3r-bdc.com

Based on Ph. Kotler's Principles of marketing / international edition, and miscellaneous designer's lecturing materials

3R Business Development Consultancy

1

PRICING

Pricing strategies

- **Pro-active pricing strategies:**
  - **New products:**
    - skimming price policy (market skimming)
    - market penetration pricing
  - **Current products (regarding competitors):**
    - stay-out pricing
    - put-out pricing (predatory pricing)
  - **Current products (regarding customer groups):**
    - price differentiation
    - price discrimination (discriminatory pricing)
    - pricing based on differential cost-price

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2

PRICING

Pricing strategies

- **Reactive (passive) pricing strategies:**
  - **Reactive pricing strategies:**
    - follow the leader pricing
    - me too pricing
    - going rate pricing
    - premium pricing
    - discount pricing
    - fair pricing

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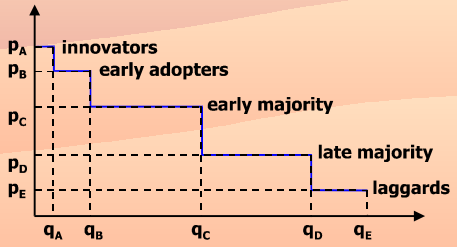
3

PRICING

Pricing strategies

- Pricing strategies for new products:
  - Skimming price policy:
    - at first the new product will be offered to the market at a high price, later on the price will drop, while the firm skims the market's adoption categories.



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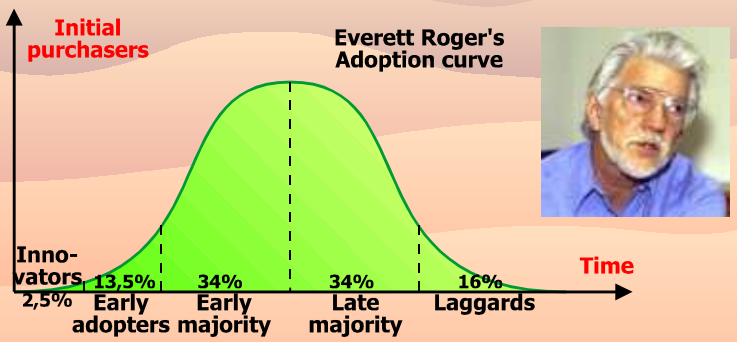
Pricing strategies

- Pricing strategies for new products:



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Pricing strategies

- Pricing strategies for new products:
  - Skimming price policy:
    - applicable in situations in which:
      - the demand curve is relatively inelastic (demand reacts slightly to price changes) like convenience goods, such as a new type of coffee or a new kind of meal;
      - the new product is well patented, or is very difficult to imitate (such as electronics, household appliances, hi-fi, etc.);
      - the new product has a distinct benefit for the customer, who will gradually need getting used to this benefit (example: mobile phones).

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Pricing strategies

- Pricing strategies for new products:
  - Skimming price policy:
    - advantages of skimming price policy:
      - gradual conquest of the market;
      - rapid market saturation can be kept back;
      - production capacity can be expanded in a more gradual manner;
      - higher profit margins enabling more effective marketing;
      - a more rapid return on investment;
      - artificial shortage of this new product has a positive effect on its image, attracting new (often higher) market segments.

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PRICING

Pricing strategies

- Pricing strategies for new products:
  - Market penetration pricing:
    - the new product will be introduced to the market at a (very) low price (based on cost price and a low profit margin), in order to conquer the market ahead of competition;
    - by acquiring a large market share this way, many repeat-purchases will be generated through brand loyalty (for example: BIC ballpoints);
    - especially useful for non-durable consumers goods (FMCG's).

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Pricing strategies

- Pricing strategies for new products:
  - Market penetration pricing:
    - can also be used for durable consumer goods, for instance when introducing a me-too product (such as DIY-equipment [Skill], pc's [Dell], household appliances [Princess], etc.;
    - as soon as the major part of the market has been conquered, the (very) low price will often be adjusted through a slight increase, as brand loyalty has set in.

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Pricing strategies

- Pricing strategies for new products:
  - Market penetration pricing:
    - applicable in situations in which:
      - it is possible to carry out fast, massive and efficient production;
      - massive sales and distribution will likely occur;
      - it is possible to conquer the market before competitors are able te react;
      - the price can be kept so low that competitors are not yet able to imitate the product (as they, at some point, eventually will).

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Pricing strategies

courtesy of MagicEye 3D: Dollar sign

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Pricing strategies

- Product-mix pricing strategies:
  - Product line pricing:

    [a product line is a group of products that are closely related, as they function in a similar way, are sold to the same consumer groups, are marketed through the same types of outlets, or fall within certain price ranges.
    Example: CD's in record shops: budget, mid-line, imports, specialties, etc.]
    - product line pricing involves setting price steps between various products in a product line, based on cost differences between the products, customer evaluations of differentfeatures, and competitor's prices.

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Pricing strategies

- Product-mix pricing strategies:
  - Optional-product pricing:
    - optional-product pricing involves the pricing of optional or accessory products along with a mainproduct.
      For example, most American and European car manufacturers often used this pricing strategy to sell relatively under-equipped cars, selling extra's (optional products) such as radio's, electric windows, security systems, etc., as options.
      This all changed once Japanese car makers, such as Toyota's Lexus started to include these useful items in their basic prices.

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13

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Pricing strategies

- Product-mix pricing strategies:
  - Captive-product pricing:
    - involves setting a price for products that must be used along with a main product, such as blades for a Gillette Mach-3 razor, or the ink for a Hewlett-Packard ColorJet printer. HP sells low-priced ColorJet printers, but makes money on the replacement cartridges (colored ink sells eventually at approx. *$ 5600 / liter*!).
    - Service firms such as telephone companies use a similar *two-part pricing*: a strategy for pricing services in which price is broken into a fixed fee plus a variable usage rate.

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14

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Pricing strategies

- Product-mix pricing strategies:
  - By-product pricing:
    - by-products are items that have been produced as a result of the main factory process, such as waste and reject items.
      For instance: animal manure from zoos, offering a fine business opportunity and which has resulted in the establishment of the Zoo-Doo Compost Company (NZ)!
    - by-product pricing involves setting a price for by-products in order to make the main product's price more competitive.
      Example: a lumber mill, that also sells bark chips and sawdust for various purposes.

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15

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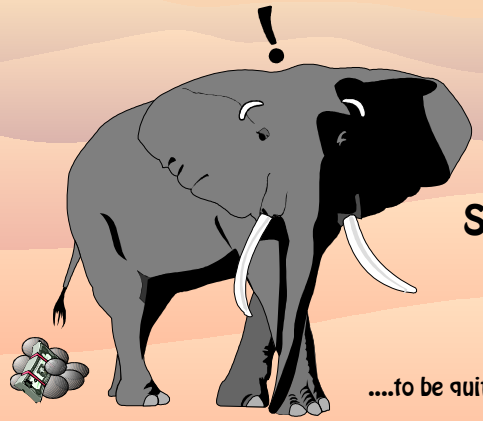
Pricing strategies



Shit happens....

....to be quite a profitable business !

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16

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Pricing strategies

- **Product-mix pricing strategies:**
  - **Product-bundle pricing:**
    - **involves combining several products and offering this bundle of products at a reduced price.**

      For instance: hotels selling specially priced packages, including room, meals and entertainment; computer manufacturers selling computers with all kinds of software already installed; etc.

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17

PRICING

Price adjustments and changes

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18

PRICING

Price adjustments and changes

- Price-adjustment strategies:
  - Various price-adjustment strategies:
    - discount and allowance pricing
    - promotional pricing
    - geographical pricing
    - international pricing

    and as pointed out earlier:
    - segmented pricing (price discrimination)
    - value pricing
    - psychological pricing

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Price adjustments and changes

- Price-adjustment strategies:
  - Some forms of discount and allowance pricing:
    - cash discount: a price reduction to buyers who pay their bills promptly (ex.: 2 % discount);
    - quantity discount: a price reduction to buyers who buy large volumes (ex: buy 10, get 2 free);
    - quantity premium: a surcharge paid by buyers who purchase high volumes of a certain product (ex.: giftable multi-packs of beer, or a complete series of collectables instead of one single item).

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Price adjustments and changes

- Price-adjustment strategies:
  - Some forms of discount and allowance pricing:
    - trade (or: functional) discount: a price reduction offered by the seller to trade channel members that perform certain functions, such as selling, storing and record keeping (ex.: a 5% discount by a wholesale to their retailers);
    - seasonal discount: a price reduction to buyers who buy merchandise or services out of season (ex.: a hotel offering lower lodging prices during their slower selling periods).

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Price adjustments and changes

- Price-adjustment strategies:
  - Some forms of discount and allowance pricing:
    - trade-in allowance: a price reduction given for turning in an old item when buying a new one (ex.: car industry);
    - promotional allowance: a payment or price reduction to reward dealers for participating in advertising and sales-support programmes (ex.: Unilever paying super-markets (or reducing their sales prices) for allowing and setting up special in-store promotions).

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Price adjustments and changes

- Price-adjustment strategies:
  - Promotional pricing:
    - involves temporarily pricing products below the list price, and sometimes even below cost price, to increase short-run sales;
    - also known as: loss-leader pricing, as often seen in department stores and super-markets;
    - can also take the form of special-event pricing (ex.: January sales offers in order to attract weary (≈ tired, exhausted) Christmas shoppers back into the stores);
    - can als involves cash rebates, paid directly by the manufacturer to the customer.

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Price adjustments and changes

- Price-adjustment strategies:
  - Geographical pricing:
    involves pricing based on where customers are located, and can take several forms:
    - FOB-origin pricing: involves a geographical pricing strategy in which goods are placed free-on-board a carrier, meaning the customer will have to pay for the freight, from factory to destination;
    - uniform-delivered pricing: involves a geo-graphical pricing strategy in which the firm charges the same prices plus freight to all customers, regardless of their destination.

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Price adjustments and changes

- Price-adjustment strategies:
  - Geographical pricing, other forms:
    - zone pricing: involves a geographical pricing strategy in which the firm sets up 2 or more zones; all customers within a certain zone pay the same total prices. The more distant the zone, the higher the price;
    - basing-point pricing: involves a geographical pricing strategy in which the seller designates a certain city as a basing point, charging all customers the freight cost from that city to the customer location, regardless of the city from which the goods actually originate or from where they are shipped. >>

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Price adjustments and changes

- Price-adjustment strategies:
  - Geographical pricing, other forms:
    - another form involves freight-absorption pricing: a geographical pricing strategy in which the firm absorbs all or part of the actual freight charges, in order to get the business;
    - the seller might reason that if applying freight-absorption prices can get more business, the average costs will fall and more than compensate for the extra freight cost.
      Especially used for market penetration, and also in increasingly competitive markets.

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Pricing based on Incoterms

- Incoterms (2010):
  These are internationally recognized trading terms that have been set up by the International Chamber of Commerce. Incoterms are meant to avoid various that might occur due to different inter-pretations of trade terminology and trading rules throughout the world. The terms focus on 3 aspects:
  - costs: who is responsible for the expenses involved in the shipment at a given point during shipment?
    See the *diagram on the next page*.
  - control: who owns the goods at a given point during shipment?
  - liability: who is responsible for paying damage to goods at a given point during shipment?

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INCOTERMS 2010	Export customs declar.	Carriage to port of export	Unloading in port of export	Loading on carrier	Carriage to port of import	Insurance	Unloading in port of import	Loading in port of import	Carriage to final destin.	Import customs declar.	Import duties & taxes
EXW Ex Works	buyer	buyer	buyer	buyer	buyer	buyer	buyer	buyer	buyer	buyer	buyer
FCA Free Carrier	seller	seller	seller	buyer	buyer	seller / buyer	buyer	buyer	buyer	buyer	buyer
FAS Free Along-side Ship	seller	seller	seller	buyer	buyer	seller / buyer	buyer	buyer	buyer	buyer	buyer
FOB Free On Board	seller	seller	seller	seller	buyer	seller / buyer	buyer	buyer	buyer	buyer	buyer
CPT Carriage Paid To	seller	seller	seller	seller	seller	seller / buyer	seller	buyer	buyer	buyer	buyer
CFR Cost & Freight	seller	seller	seller	seller	seller	seller / buyer	seller	buyer	buyer	buyer	buyer
CIF Cost, Insur. and Freight	seller	seller	seller	seller	seller	seller	seller	buyer	buyer	buyer	buyer
CIP Carriage & Insur. Paid	seller	seller	seller	seller	seller	seller	seller	buyer	buyer	buyer	buyer
DAT Delivered At Terminal	seller	seller	seller	seller	seller	seller	seller	buyer	buyer	buyer	buyer
DAP Delivered At Place	seller	seller	seller	seller	seller	seller	seller	seller	seller	buyer	buyer
DDP Delivered Duty Paid	seller	seller	seller	seller	seller	seller	seller	seller	seller	seller	seller

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Price adjustments and changes

- **Price-adjustment strategies:**
  - **International pricing:**
    - **although some companies will sell their products everywhere at about the same price (for ex.: Airbus aircraft), others will adjust their prices to reflect local market conditions and cost considerations;**
    - **international pricing strongly depends on many factors, such as economic conditions, competitive situations, laws and regulations, and distribution channel possibilities.**

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Price adjustments and changes

- **Price-adjustment strategies:**
  - **International pricing:**

Part of the BigMac Index (2015):

Country:	BM price	vs. USA:
Switzerland	$ 7,54	157
USA	$ 4,79	100
Belgium	$ 4,29	90
Eurozone	$ 4,26	89
Netherlands	$ 4,00	84
Japan	$ 3,14	66
China	$ 2,77	58
Russia	$ 1,36	28

The Economist

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Price adjustments and changes

31

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Price adjustments and changes

- **Price changes / changing prices:**
  - **Initiating price changes:**
    - **After developing their price structures and strategies, firms often face situations and circumstances in which they must initiate price changes, or must respond to price changes by competitors.**
    - **In such cases the firm may find it desirable to initiate either a price cut or a price increase. In any case, the firm should anticipate possible buyer and competitor reactions.**

32

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Price adjustments and changes

- **Price changes / changing prices:**
  - **Initiating price cuts:**
    - **Sometimes a firm will have to consider cutting its price, for instance due to:**
      - **excess capacity; the firm needs more business which it apparently can't get through increased sales effort, product improvement, etc. Cutting prices in industries full of excess capacity, however, may lead to price wars, as competitors will try to keep up their market shares.**

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33

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Price adjustments and changes

- Price changes / changing prices:
  - Initiating price cuts:
    - Other reasons to consider cutting prices:
      - a falling market share in a strong price competitive market (Western vs. Japanese cars);
      - the drive to dominate the market through lower costs (low-cost low-price strategy).

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34

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Price adjustments and changes

- Price changes / changing prices:
  - Initiating price increases:
    - Also, firms might have to consider increasing their prices, for instance due to:
      - cost inflation; rising costs squeeze profit margins, leading to regular rounds of price increases;
      - over-demand; the firm can't supply all its customers'needs, leading to prices increases, rationing products or both.
    - However, where possible, the firm should try to avoid raising its prices, for example through shrinking the product, or by removing features.

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35

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Price adjustments and changes

- Price changes / changing prices:
  - Buyers' reactions to price changes:
    - Whether the price is raised or reduced, the action will affect buyers, competitors, distributors and suppliers, and may interest governments as well!
    - However, customers do not always interpret prices / price changes straightforwardly. In case of price cuts, they might think that they have been paying too much in the past. On the other hand, certain price increases might suggest a very hot or most exclusive product. Or, in some cases, the firm is just getting too greedy....

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36

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Price adjustments and changes

- Price changes / changing prices:
  - Competitors' reactions to price changes:
    - Competitors can interpret a company's price cuts in many ways.
      They might think the company is pursuing a higher market share, or that the company is doing poorly, or that the company wants to trigger the whole industry to cut prices to increase total demand.
    - Usually, when a couple of competitors start to match the price change, most of the others will follow and also try to match it.

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Price adjustments and changes

- Price changes / changing prices:
  - The firm's own reactions to price changes:
    - How should a firm respond to a price change by a competitor? When the firm decides that effective action can and should be taken, it could consider any of these 4 responses:
      - reduce its price, possibly having a certain impact on its profits and its quality (!)
      - raise perceived quality, instead of cutting prices and so operating at lower margins;
      - improve quality and raise prices, moving its brand into a higher price position;
      - launch a low price fighting brand in the line, or by a separate lower price brand.

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