Pricing Strategies

Kurt Komaromi

The purpose of price is not to recover cost but to capture the perceived value of the product.

- Dan Nimer, Pricing Guru

Power of Pricing

• The most active and dynamic marketing tool
• The most digital of marketing actions
• Pricing = information
• Pricing impacts profits

Behold the Power of Pricing

The close link of pricing to profitability


Internet Pricing Questions

• How does the presence of the Internet change price sensitivity of products?
• How can online content influence price sensitivity of customers?
• What new pricing tools work better online than through traditional methods?

Impact of the Internet

• The Internet increases price sensitivity, but prices online are not automatically lower or less dispersed
• Value uncertainty contributes to price sensitivity
• Internet shifts power from seller to buyer
Factors for Upward Pressure
- Online customer service
- Distribution costs
- Affiliate programs
- Website development & maintenance
- Customer acquisition costs

Factors for Downward Pressure
- Self-service order processing
- JIT (just-in-time) inventory
- Lower facility overhead
- Automated customer service
- Lower printing & mail costs
- Digital product distribution
- Transparency of price comparisons

Content Affects Price Sensitivity
- Branding
- Customization
- Delivery options
- Customer ratings
- Payment options

Steps in Setting Price
1. Establish pricing goals
2. Estimate demand, costs, and profits
3. Choose a price strategy
4. Fine tune with pricing tactics

Overall Pricing Goals
- Profit-oriented
- Market-oriented
- Competitor-oriented

Goal Considerations
Internal
- Marketing goals
- Profit objectives
- Costs

External
- Demand
- Competition
- Product life cycle
Internet Pricing Strategies

- All traditional pricing models apply online
- Need for online/offline consistency
- Technology facilitates dynamic pricing

Fixed Pricing Strategies
(same for all customers)

- Markup
- Volume-based
- Bundling
- Promotional

Fixed Pricing Strategies

- Markup Pricing
  - The cost of buying the product from the producer plus amounts for profit and expenses.
- Volume-based Pricing
  - Establish separate price levels based on quantity purchased.

Fixed Pricing Strategies

- Bundling Pricing
  - Establish price for a combination of more than one product/service.
- Promotional Pricing
  - Short term discount or incentive to purchase.

Bundling

- Types:
  - Aggregation
  - Joint performance
  - Margin spread
  - Trade-up
  - Loyalty

Dynamic Pricing Strategies
(variable by customer)

- Yield management
- Negotiated
- Segmented
- Personalized
Dynamic Pricing Strategies

**Yield Management**
Adjust prices to fill unused capacity for perishable services.

**Negotiated**
Price established through back and forth negotiation between buyer and seller.

Negotiated Pricing

- Auctions
- Reverse auctions
- Buyer offers

Dynamic Pricing Strategies

**Segmented Pricing**
Adjust prices for customer groups based on predetermined factors.

**Personalized Pricing**
Customize pricing options for an individual customer.

Personalized Pricing

- Coupons and loyalty discounts
- Price pegged to credit scores
- Personal-level pricing contracts
- Personalized bundling