

Chapter 21
Setting the
Right Price

MKTG9
Lamb, Hair, and McDaniel

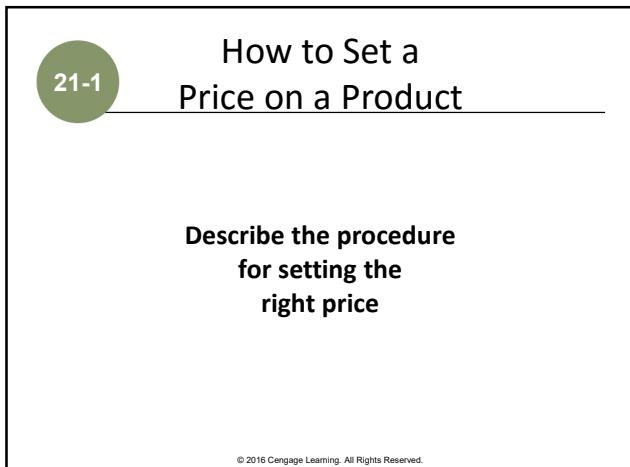
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LEARNING OUTCOMES

- 21-1 Describe the procedure for setting the right price
- 21-2 Identify the legal constraints on pricing decisions
- 21-3 Explain how discounts, geographic pricing, and other pricing tactics can be used to fine-tune the base price
- 21-4 Discuss product line pricing
- 21-5 Describe the role of pricing during periods of inflation and recession

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21-1

How to Set a Price on a Product

Describe the procedure for setting the right price

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Establish Pricing Goals

Pricing objectives fall into three categories:

Profit-Oriented

Sales-Oriented

Status Quo

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21.1

Steps in Setting the Right Price on a Product

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Choose a Price Strategy

A basic, long-term pricing framework that establishes the initial price for a product and the intended direction for price movements over the product life cycle.

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Choose a Price Strategy**Price Skimming**

A firm charges a high introductory price, often coupled with heavy promotion.

Penetration Pricing

A firm charges a relatively low price for a product initially as a way to reach the mass market.

Status Quo Pricing

Charging a price identical to or very close to the competition's price.

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Price Skimming

Situations When Price Skimming Is Successful

- Strong Demand
- Unique/Superior Advantages
- Legal Protection of Product
- Technological Breakthrough
- Blocked Entry to Competitors

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Penetration Pricing

Advantages

- Can lead to lower cost per unit as production expands
- Discourages or blocks competition from market entry
- Boosts sales and provides large profit increases

Disadvantages

- Requires gear up for mass production
- Selling large volumes at low prices
- Strategy to gain market share may fail

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Status Quo Pricing

Advantages

- Simplicity
- Safest route to long-term survival for small firms

Disadvantages

- Strategy may ignore demand and/or cost

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21-2

The Legality of Price Strategy

Identify the legal constraints on pricing decisions

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The Legality of Price Strategy

Unfair Trade Practices

Price Fixing

Price Discrimination

Predatory Pricing

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Unfair Trade Practices and Price Fixing

Unfair Trade Practices Acts

Laws that prohibit wholesalers and retailers from selling below cost.

Price Fixing

An agreement between two or more firms on the price they will charge for a product.

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Price Discrimination

The Robinson-Patman Act of 1936:

1. There must be price discrimination.
2. Transaction must occur in interstate commerce.
3. Seller must discriminate by price among two or more purchasers.
4. Products sold must be commodities or tangible goods.
5. Products sold must be of like grade and quality.
6. There must be significant competitive injury.

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Price Discrimination

The Robinson-Patman Act of 1936:

Seller Defenses

Cost

Market Conditions

Competition

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Predatory Pricing

The practice of charging a very low price for a product with the intent of driving competitors out of business or out of a market.

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21-3

Tactics for Fine-Tuning the Base Price

Explain how discounts, geographic pricing, and other pricing tactics can be used to fine-tune the base price

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Tactics for Fine-Tuning the Base Price

Discounts

Geographic pricing

Other pricing tactics

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Discounts, Allowances, Rebates, and Value-Based Pricing

Quantity Discounts

Promotional Allowances

Cash Discounts

Rebates

Functional Discounts

Zero Percent Financing

Seasonal Discounts

Value-Based Pricing

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Pricing Products Too Low

Sometimes managers price their products too low, thereby reducing company profits. This seems to happen for two reasons:

1. Managers attempt to buy market share through aggressive pricing.
2. Managers have a natural tendency to want to make decisions that can be justified objectively.

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Geographic Pricing

FOB Origin Pricing	The buyer absorbs the freight costs from the shipping point ("free on board").
Uniform Delivered Pricing	The seller pays the freight charges and bills the purchaser an identical, flat freight charge.
Zone Pricing	The U.S. is divided into zones, and a flat freight rate is charged to customers in a given zone.
Freight Absorption Pricing	The seller pays for all or part of the freight charges and does not pass them on to the buyer.
Basing-Point Pricing	The seller charges freight from a basing point, regardless of the city from which the goods are shipped.

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Other Pricing Tactics

Single-Price Tactic	All goods offered at the same price
Flexible Pricing	Different customers pay different prices
Trade-Ins	Exchanging one item for a credit towards another. Used often at car dealerships.
Professional Services Pricing	Used by professionals with experience, training or certification
Price Lining	Several line items at specific price points
Leader Pricing	Sell product at near or below cost
Bait Pricing	Lure customers through false or misleading price advertising
Odd-Even Pricing	Odd-number prices imply bargain Even-number prices imply quality
Price Bundling	Combining two or more products in a single package
Two-Part Pricing	Two separate charges to consume a single good
Pay What You Want	Product price chosen by customers

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Consumer Penalties

Businesses impose consumer penalties if...

An irrevocable loss of revenue is suffered

Additional transaction costs are incurred

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21-4 Product Line Pricing

Discuss product line pricing

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Product Line Pricing

Setting prices for an entire line of products.

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Relationships among Products

Complementary



Substitutes



Neutral



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Joint Costs

Costs that are shared in the manufacturing and marketing of several products in a product line.

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21-5

Pricing during Difficult Economic Times

Describe the role of pricing during periods of inflation and recession

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Inflation



Cost-Oriented Tactics

Demand-Oriented Tactics

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Cost-Oriented Tactics

Problems with Cost-Oriented Tactics

- A high volume of sales on an item with a low profit margin may still make the item highly profitable.
- Eliminating a product may reduce economies of scale.
- Eliminating a product may affect the price-quality image of the entire line.

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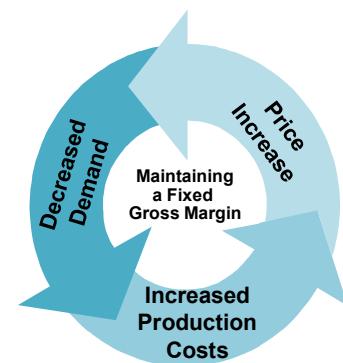
Cost-Oriented Tactics

- **Delayed-quotation pricing:** Used for industrial installations and many accessory items; firm price is not set until the item is finished or delivered.
- **Escalator pricing:** Final selling price reflects cost increases incurred between the order time and the delivery time.
- Hold prices constant, but add new fees.

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Cost-Oriented Tactics



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Demand-Oriented Tactics

Price Shading

The use of discounts by salespeople to increase demand for one or more products in a line.

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Demand-Oriented Tactics

Strategies to Make Demand More Inelastic

- Cultivate selected demand
- Create unique offerings
- Change the package design
- Heighten buyer dependence

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Recession

Value-Based Pricing

Bundling or Unbundling

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Supplier Strategies during Recession

Renegotiating contracts

Offering help

Keeping the pressure on

Paring down suppliers

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Chapter 21 Video

BoltBus

BoltBus is Greyhound's express bus service that operates off curb-sides in major metropolitan areas. This video clip covers BoltBus pricing decisions and how the company decides what the prices are as well as how it keeps costs down.

[CLICK TO PLAY VIDEO](#)

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Part 6 Video

Scripps Networks Interactive

Pricing Decisions

Scripps Networks Interactive is a group of television networks including such popular channels as Food Network, HGTV, and The Cooking Channel. In this clip, executives from Scripps discuss how they decide what pricing decisions to make based on their major audience, and how those decisions can also affect distribution and the content itself.

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