

PRICING IN THE MARKETING MIX (Chapter 10)

- < Pricing decision has several **unique** aspects and is therefore **specialized** in nature
- < Ultimately, price is only **one** element of the marketing mix -- need to consider other 3 elements of the marketing mix, too
- < Important to look at interactions between price and the other 3 P's of the marketing mix

Price → Product
Promotion
Distribution

Pricing and the Product Line

- < Products can be designed to facilitate a segmented pricing strategy, appeal to price sensitive buyers, maximize a cost advantage, etc. -- individually
- < In reality, most companies have multiple products, thereby creating the need to price the entire product line simultaneously
- < A major influence in product line pricing is the presence of product substitutes & complements (see illustration)
- < Several other means to explore product complementarities
 - Current versus future sales
 - Sales to related groups of buyers

Pricing Substitute Products

Example of gas station offering both regular & premium grades of unleaded gasoline

A price increase on the premium grade leads to a more **favorable** situation than predicted -- because of a product substitute effect

Pricing Complementary Products

Example of computer store selling both personal computers & software

A price decrease on computers leads to a more **favorable** situation than predicted -- because of the complementary product effect

$$\text{Adj. \$ CM} = [\text{Unadj. \$ CM}] - [\text{Change in Sales of Substitute} \times \text{\$CM of Substitute}]$$

$$- [\text{Change in Sales of Complement} \times \text{\$CM of Complement}]$$

- < In addition to product substitute & complementary effects, consider ***psychological*** factors in pricing the product line
 - logic behind ***loss leaders***
 - length of product line (broad - narrow)
 - range of prices (low - high) for items in product line

Pricing and Promotion

- < A strong interaction exists between the two because of the influence of promotion on the 3 inputs to effective pricing
- < Price can be a promotional tool
- < Relationship between advertising and buyers' price sensitivity is key
 - Advertising decreases P.S. (unique value, end-benefit, price-quality effects)
 - Advertising increases P.S. (perceived substitutes, unique-value effects)
- < Need to consider **interactive** effects of price & advertising on sales

“HIGH” Advertising, “LOW” Price → Sales Increase

“HIGH” Price, “HIGH” Advertising → Sales Decrease

Overall Effect? (Usually a Sales Increase)

- < Relationship between price & personal selling is important when latter is needed to **communicate** and/or **augment** the product's value
- < Pricing & personal selling strategies should not be at odds with one another -- a low price may not be viewed as a bargain
- < Relationship between price & sales promotion is important when latter is needed to induce **trial** from new users and/or existing users (dealing)
- < Relationship between price & trade promotion is important when latter is needed to secure **acceptance** from retailers (trade dealing)

Types of Dealing

- Objectives → Benefit consumers, not retailers
No adverse price-quality effect
Target switchers/first-time buyers
- Trial Offers → Temporary price cuts (i.e., 20 cents off regular price) on product itself
Use for new products
- Coupons → Convenient to use
Handling cost (high)
Redemption rates (low)
Risk of misredemption/fraud
- Rebates → Represent larger discounts
Redemption rates (low)
Handling cost (low)
- Free Sample → Small, trial sizes of product given away free to customers
High cost
Use for new products

Effectiveness of Dealing?

New brand

Low market share

Temporary

Small \$ amounts

Overall part of promotional strategy

Pricing and Distribution

- < Relationship between price & distribution is relevant since latter is used to augment the image of the product (prestige, exclusive -- low cost, bargain)
- < Necessary to maintain control over distribution of the product through good channel relations and appropriate channel price policies
- < Maintaining minimum resale prices
- < Limiting maximum resale prices