



STRATEGIC PRICING

-„SELL VALUE, NOT PRICE“-

Innsbruck,
15th of January 2006

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“what costs nothing, has no value”

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price issues

- price the key element of the marketing mix that produces revenue
- prices are the easiest marketing-mix element to adjust
- price communicates to the market the company's intend value positioning of its product or brand

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pricing research – “the good old days”

- low price sensitivity of customers
- few discounter and trade marks
- little pressure of competition
- few substitutes and imitations
- customer = brand loyal, rational, satisfied and frugal

= pricing took place in the mikrokosmos marketing
between product, place and promotion.

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pricing research – “the bad new days”

- market deregulation & competition
- globalisation
- internet
- price sensitivity & price awareness
- customer = hybrid, imitative, paradox, individuelle, under time pressure and a smart shopper

= prices are not anymore made for the customer, but with the customer!

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pricing trends – “changes and chances”

- new forms of pricing:
 - ✓ value based pricing
 - ✓ creative pricing
- customer orientation through:
 - ✓ emotional awareness
 - ✓ psychological factors
 - ✓ values

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general - setting the price

- seller's quoted price must be high enough to:
 - ✓ cover total costs
 - ✓ earn reasonable profits
- but low enough to:
 - ✓ attract customers
 - ✓ generate enough sales

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general - setting the price

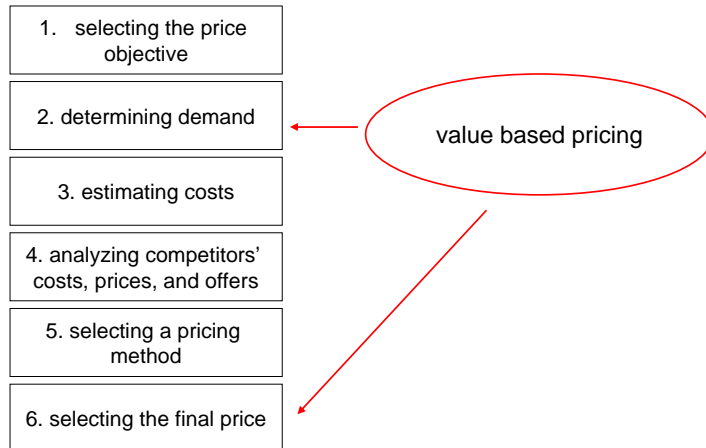
- therefore, price will be set within a range:
 - ✓ the floor - what is needed to cover costs
 - ✓ the ceiling - what the customer and market will bear

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process - setting the price



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value based pricing

- marketing is about providing value to customers in return for a 'fair' price, at a profit.
- pricing options – like cost-based, competition-oriented or value-based - only the value-based approach is fair.
- providing value to customers means profits and loyal customers for the company.

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value based pricing

- to understand the customer's perception of the price-value of your product, look at more subjective criteria
- subjective price-value criteria:
 - ✓ price information transparency
 - ✓ price worthiness
 - ✓ price fairness
 - ✓ price guarantee
 - ✓ price reliability
 - ✓ price advantage

price satisfaction

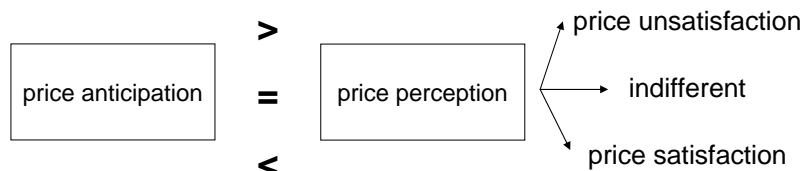
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price satisfaction

- "contentment or satisfaction,, with the paid price
- satisfaction research: price anticipation is lower than the price perception



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price satisfaction criteria

- **price information transparency:** is a clear, comprehensive, actual and effortless overview about a company's quoted prices.
- **price worthiness:** the price is worthy of a product if the price performance ratio of the offer corresponds in the sense of the customer. The consumers' beliefs that an offered price is actually favourable.

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price satisfaction criteria

- **price fairness:** i.e. consumer's assessment and associated emotions of whether the difference between a seller's price and the price of a comparative other party is reasonable, acceptable, or justifiable.
- **price guarantee:** seller's price will not change without any reason. Price guarantee is associated with a conservative pricing awareness of the customer

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price satisfaction criteria

- **price reliability:** i.e. consumer's assessment and associated emotions of whether the difference between a seller's price and the price of a comparative other party is reasonable, acceptable, or justifiable.
- **price advantage:** comparing prices of alternative or comparable products, the price advantage lies in a better price performance ratio of the chosen product.

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value based pricing

- with a value based pricing approach the company begins to understand the maximum price the customer will pay for the benefit received
- leads to cross-buying, complaint and repurchase behavior and long-term customer loyalty

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implications for the practice

- price information transparency has a strong impact on price worthiness
- if customers believe that a price is actually favourable (= price worthiness), the likelihood of good price fairness and value judgments increases

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implications for the practice

- price fairness judgments are highly subjective
- Customers have little knowledge of a seller's actual costs and profit margins therefore, delivering a clear, complete and comprehensive overview on the prices can increase customers' price worthiness as customers will believe that the company has nothing to "hide"

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implications for the practice

- price worthiness increases perceived price fairness
- if unfavourable price differences compared to competitors exist, focus on product differentiation to deliver arguments why a certain offer is more expensive
- if prices change, customers should be informed properly and timely in order to built trust and maintain a long relationship

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thank you for your attention

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