

Product Management

{ Unit IV- Dr.S.Manoharan

Pricing Decisions

- ◆ It is the most critical decision
- ◆ It is an observable component
- ◆ It directly affects margin/ units sold
- ◆ Customer value matters

Perceived value pricing

Perceived value pricing is that value which customers are willing to pay for a particular product or service based on their perception about the product.



Measuring Perceived Value Pricing

Three scenarios

1. Perceived Value > Price > VC
2. Price > Perceived Value > VC
3. Price > VC > Perceived Value

Scenario-1

Perceived Value > Price > VC

- ◆ Leaving Table on the money
- ◆ Sacrifices profits
- ◆ Customer reaction- they are getting a bargain
- ◆ Value pricing

Scenario-2

Price > Perceived Value > VC

- ◆ Bad deal
- ◆ Not buying the product
- ◆ Decreasing price (adjustments) and increasing value
- ◆ Competitors may be the reference point

Scenario-3

Price > VC > Perceived Value

- ◆ Failure scenario
- ◆ Weeded out in NPD process
- ◆ May be withdrawn from the market soon

Psychological Aspects of Price

- ◇ Reference Price- Standard of comparison against which an observed price is compared (internal- mind, external- retail)
 - Fair price, price frequently charged, last price paid, upper/lower threshold, price of brand (regular), similar product pricing, expected future price typical discounted price
- ◇ Relationship between price & perceived quality
- ◇ Rolex- high price- prestige
- ◇ Tiffany's- price quality leadership (Experience goods- wine, perfume, professional services)

Examples



Psychological aspects of price ..contd...

Odd Ending Effects in Prices

- ◆ Referred as just below prices
- ◆ This exists for even expensive goods
- ◆ Research done suggests that it easily has a +10% higher sales
- ◆ Creates psychological effect

Competition pricing

- ◆ Competitors price acts as reference point
- ◆ It does not necessarily indicate the WTP
- ◆ Competitors cost
- ◆ Historical pricing behavior- proactive & reactive



Specific pricing tactics

- ◆ Product line pricing- adaptive pricing, features, adopt to price sensitive segments
- ◆ Price bundling- set of products- lower/ higher
- ◆ Complementary pricing- Gillette razors + blades (captive pricing)
- ◆ Value pricing- caterpillar tractor, taco bell- value menu



Pricing tactics

- ◇ EDLP- Walmart (high- low pricing)
- ◇ Hidden price increases- very easy to use other techniques to manage prices
- ◇ Price discrimination
- ◇ Second market discounting
- ◇ Periodic discounting
- ◇ Auctions

Pricing Objectives

- ◆ Cost value gap to be captured
- ◆ It is a precise guide for decision making for product managers
 1. Penetration pricing
 2. ROS/ROI pricing
 3. Pricing for stability
 4. Skimming
 5. Competitive pricing



Penetration Pricing

- ◆ Less margin (profit)
- ◆ More value to the consumer
- ◆ Entry strategy for new product
- ◆ Discourages competitors
- ◆ The objective is to **build or keep market share**



ROS/ROI Pricing

- ◆ ROS- It is cutting costs while increasing revenue
- ◆ Limited usefulness- to please the senior managers
- ◆ It ignores customer value and competition
- ◆ Will work only when you are a monopoly / near monopoly

ROI pricing

Assume a firm invests \$100 million in order to produce a designer slack, and they estimate they can sell 2 million furniture per year. Further from their preliminary production data they know their average total cost (ATC) is \$50 per furniture

1. Calculate total annual cost?
2. Management want 20% ROI, calculate the revised price of the designer slack?

Pricing for Stability

- ◆ B2B is worried about stability than levels
- ◆ 80/20 products , hence it is difficult if prices fluctuate to a great extent
- ◆ Generally pay higher average rate



Skimming

- ◆ Prestige pricing
- ◆ More value to the producer- High WTP, Low SOC
- ◆ Appropriate - strong price quality relationship
 - less competition
 - unrelated to volumes (market share)



Competitive pricing

- ◆ Category average pricing- mimicking the competitor
- ◆ If product becomes commodity- then suits
- ◆ If Fixed cost is high this strategy needs to be used

