

ELEVENTH EDITION

# MARKETING

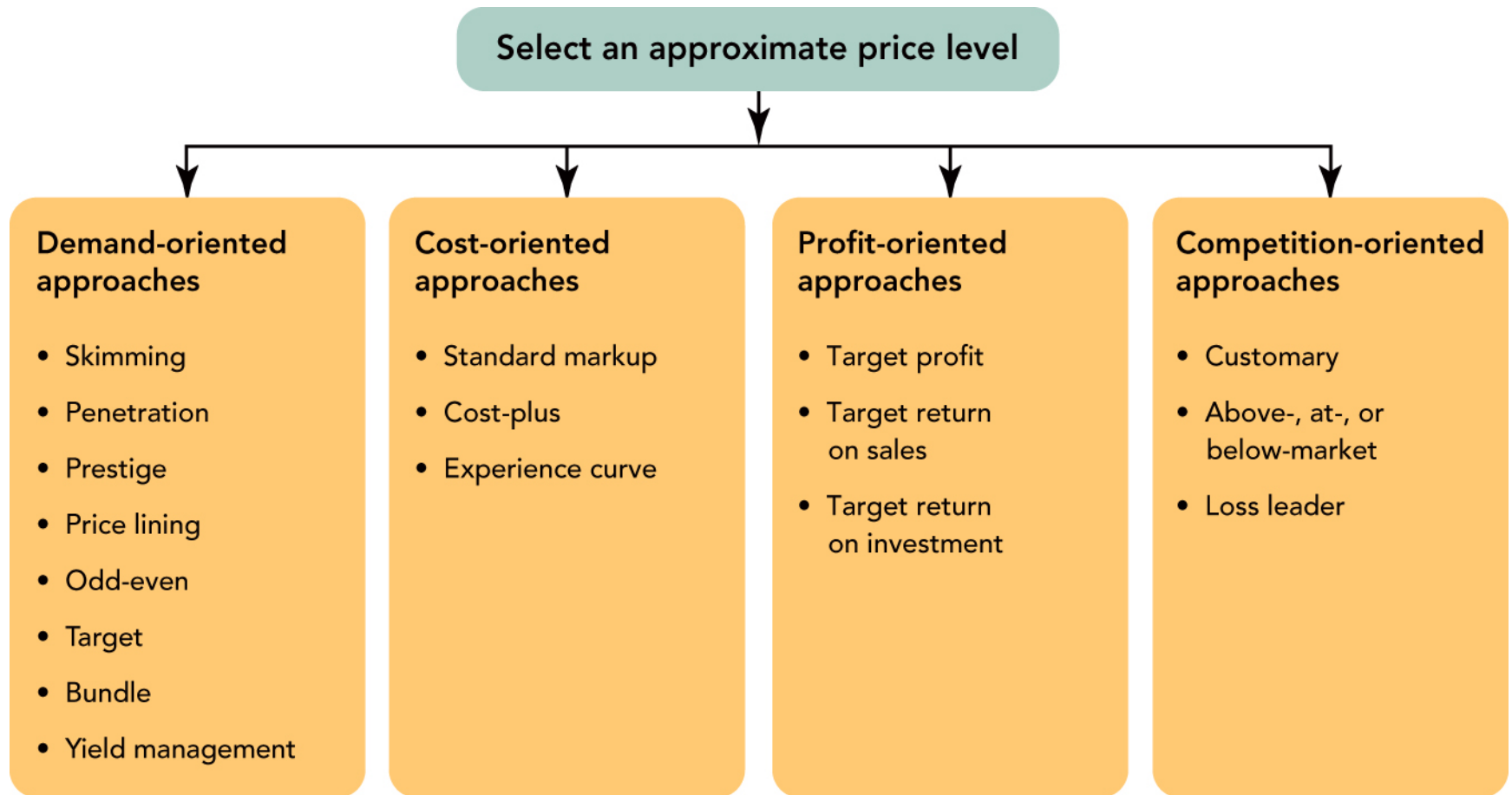
KERIN HARTLEY RUDELIUS

CHAPTER

14

ARRIVING AT  
THE FINAL  
PRICE

# FIGURE 14-2 Four approaches for selecting an approximate price level



LO1

# STEP 4: SELECT AN APPROXIMATE PRICE LEVEL

## DEMAND-ORIENTED PRICING APPROACHES

➤ **Skimming Pricing**



➤ **Penetration Pricing**



➤ **Prestige Pricing**



➤ **Price Lining**



Rolex Ad

## STEP 4: SELECT AN APPROXIMATE PRICE LEVEL

### DEMAND-ORIENTED PRICING APPROACHES

➤ **Odd-Even Pricing**



➤ **Target Pricing**



➤ **Bundle Pricing**



# STEP 4: SELECT AN APPROXIMATE PRICE LEVEL

## COST-ORIENTED PRICING APPROACHES

### ➤ Standard Markup Pricing



### ➤ Cost-Plus Pricing

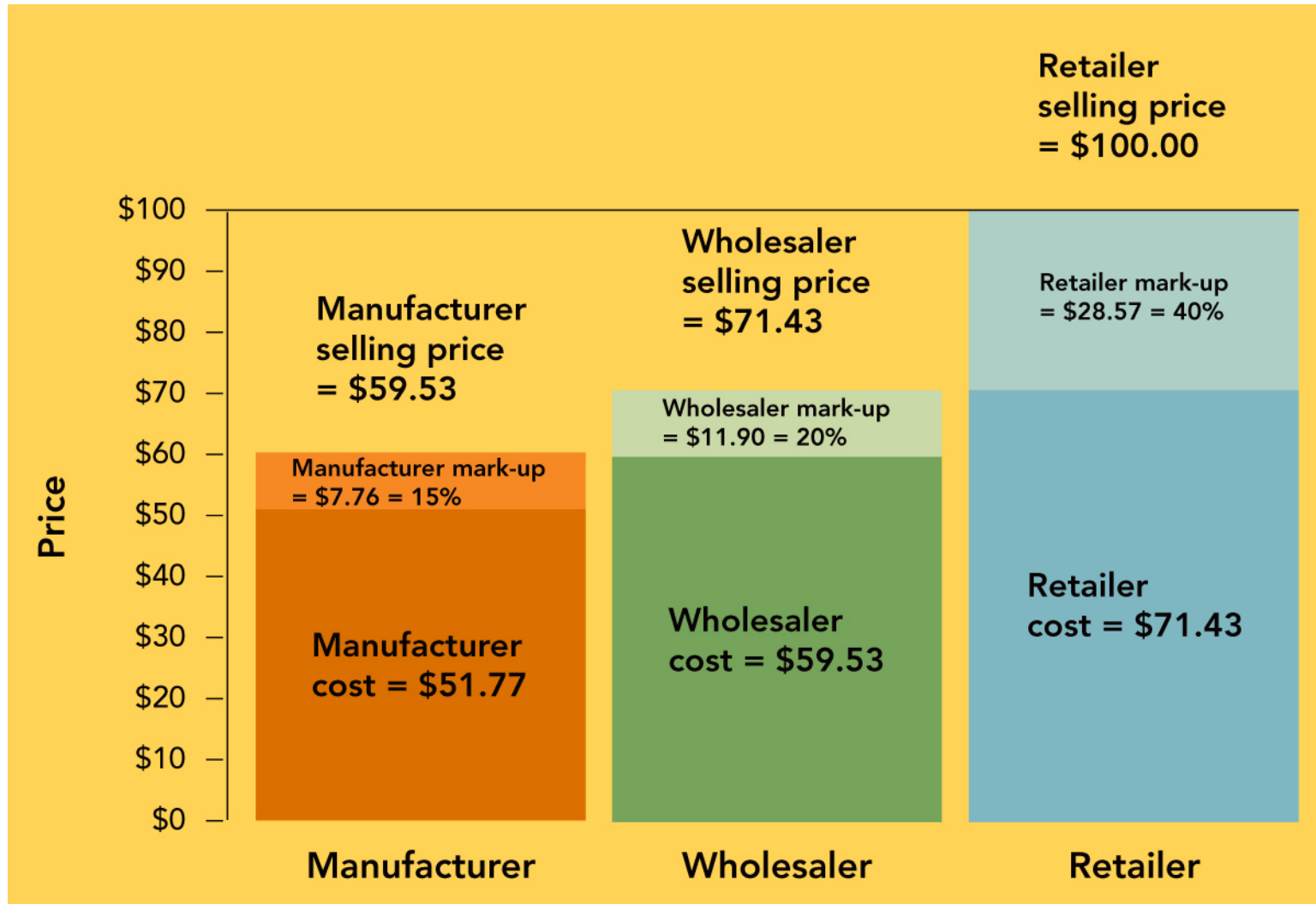
- **Cost-Plus Percentage-of-Cost Pricing**



- **Cost-Plus Fixed-Fee Pricing**



# FIGURE 14-A Markups for a manufacturer, wholesaler, and retailer on a home appliance sold to consumers for \$100



## STEP 4: SELECT AN APPROXIMATE PRICE LEVEL

### COMPETITION-ORIENTED PRICING APPROACHES

➤ **Customary Pricing**



➤ **Above-, At-, or Below-Market Pricing**

➤ **Loss-Leader Pricing**



# STEP 5: SET THE LIST OR QUOTED PRICE CHOOSING A PRICE POLICY

## ➤ One-Price Policy



CarMax Ad



## ➤ Flexible-Price Policy

- Dynamic Pricing



## STEP 5: SET THE LIST OR QUOTED PRICE COMPANY, CUSTOMER, AND COMPETITIVE EFFECTS ON PRICING

### ➤ Company Effects

- Product-Line Pricing



### ➤ Competitive Effects

- Price War

# STEP 6: MAKE SPECIAL ADJUSTMENTS TO THE LIST OR QUOTED PRICE DISCOUNTS

## ➤ Quantity Discounts

- Noncumulative Quantity Discounts
- Cumulative Quantity Discounts

## ➤ Seasonal Discounts



LO3

## STEP 6: MAKE SPECIAL ADJUSTMENTS TO THE LIST OR QUOTED PRICE DISCOUNTS

➤ **Trade (Functional) Discounts**



➤ **Cash Discounts**



LO3

# STEP 6: MAKE SPECIAL ADJUSTMENTS TO THE LIST OR QUOTED PRICE ALLOWANCES

## ➤ Trade-In Allowances



## ➤ Promotional Allowances



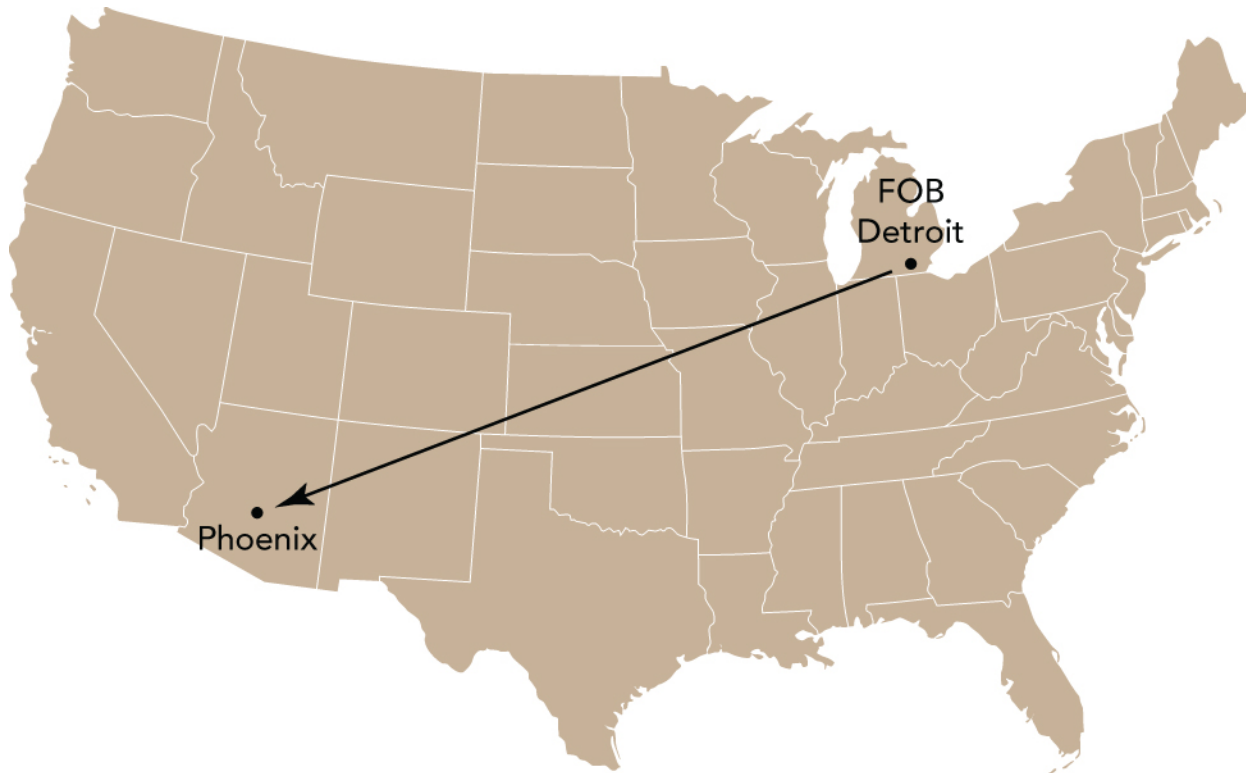
- Everyday Low Pricing (EDLP)



LO3

# STEP 6: MAKE SPECIAL ADJUSTMENTS TO THE LIST OR QUOTED PRICE GEOGRAPHICAL ADJUSTMENTS

## ➤ FOB Origin Pricing

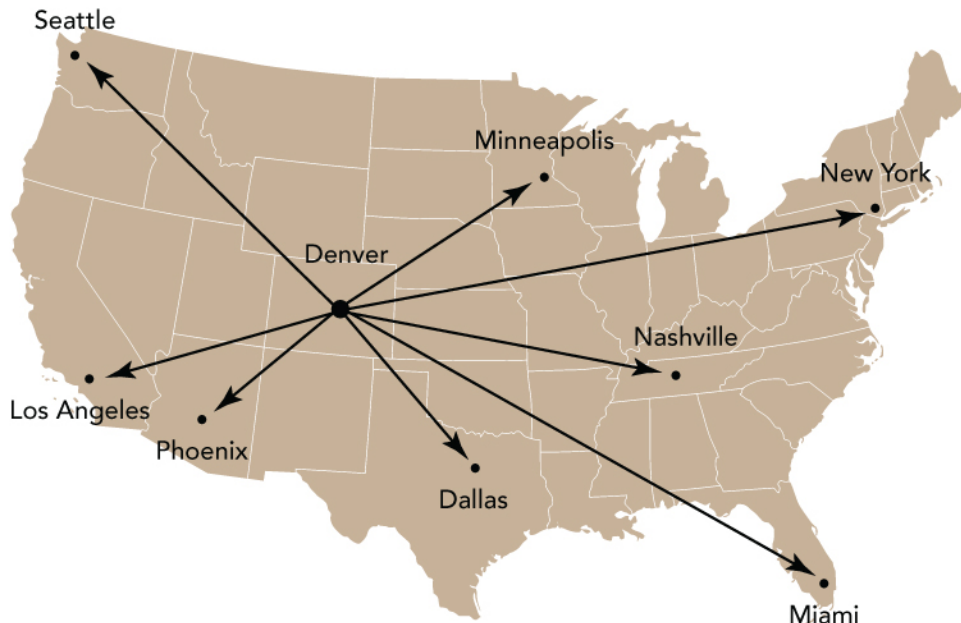


# STEP 6: MAKE SPECIAL ADJUSTMENTS TO THE LIST OR QUOTED PRICE

## GEOGRAPHICAL ADJUSTMENTS

### ➤ Uniform Delivered Pricing

- **Single-Zone Pricing**



**U.S. Postal Service Priority Mail  
Flat Rate Prices from Denver  
to anywhere in the U.S.**

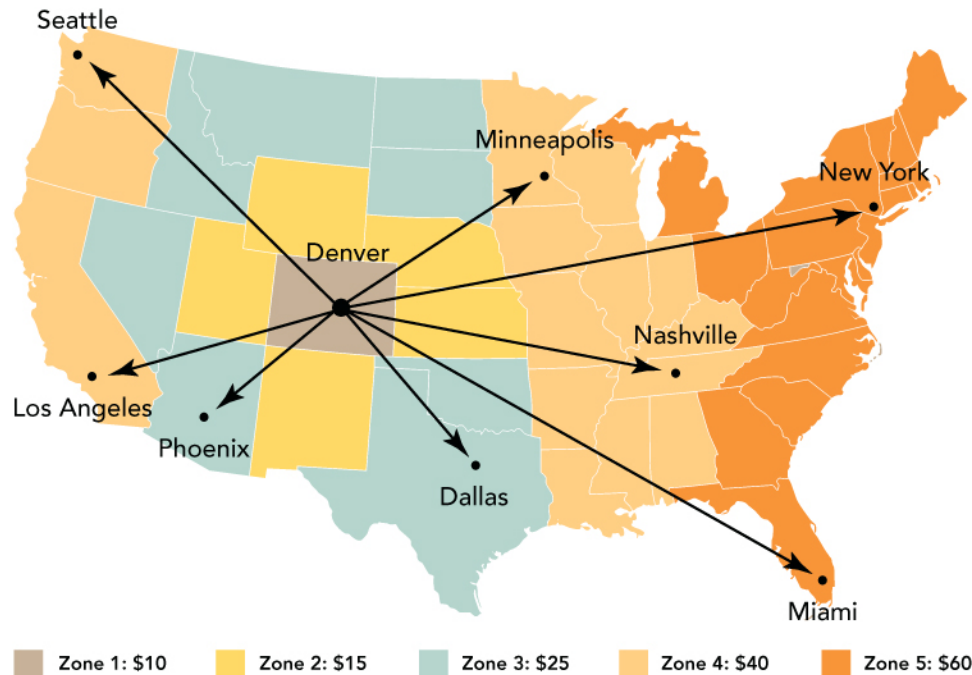
- Envelope: \$5.15
- Small Box: \$5.35
- Medium Box: \$11.35
- Large Box: \$15.45

# STEP 6: MAKE SPECIAL ADJUSTMENTS TO THE LIST OR QUOTED PRICE

## GEOGRAPHICAL ADJUSTMENTS

### ➤ Uniform Delivered Pricing

- Multiple-Zone Pricing



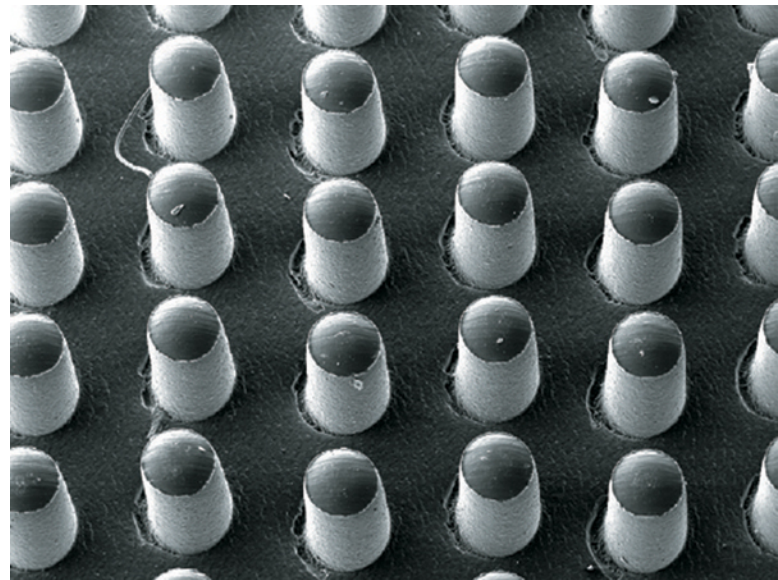
## STEP 6: MAKE SPECIAL ADJUSTMENTS TO THE LIST OR QUOTED PRICE

### LEGAL & REGULATORY ASPECTS OF PRICING

- **Price Discrimination**
- **Deceptive Pricing**
- **Geographical Pricing**
- **Predatory Pricing**
- **Price Fixing**

# VIDEO CASE 14

## 3M GREPTILE™ GRIP GOLF GLOVE: PRICING AN INNOVATIVE PRODUCT



## VIDEO CASE 14

### 3M GOLF GLOVE

1. What are the characteristics of the target market for the 3M Greptile Grip golf glove?

## VIDEO CASE 14

### 3M GOLF GLOVE

2. (a) What are the key points of difference of the 3M Greptile Grip golf glove when compared to competitors' products, such as FootJoy and Bionic? (b) What are the key points of difference when compared to substitute products, such as golf grips?

## VIDEO CASE 14

### 3M GOLF GLOVE

3. How does the Greptile Grip golf glove meet 3M's three criteria for new products?

## VIDEO CASE 14

### 3M GOLF GLOVE

4. Since 3M has no prior products for the golf market, what special promotion and distribution problems might 3M have?

## VIDEO CASE 14

### 3M GOLF GLOVE

5. (a) Looking at the competitors' prices today, should 3M use a demand-oriented, cost-oriented, profit-oriented, or competition-oriented pricing strategy for its Greptile Grip golf glove? (b) Give your reasons. (c) For the strategy you selected, recommend a price-point, justifying your answer.

# Skimming Pricing

**Skimming pricing** involves setting the highest initial price that customers really desiring the product are willing to pay when introducing a new or innovative product.



# Penetration Pricing

**Penetration pricing** involves setting a low initial price on a new product to appeal immediately to the mass market.



# Prestige Pricing

**Prestige pricing** involves setting a high price so that quality- or status-conscious consumers will be attracted to the product and buy it.



# Price Lining

**Price lining** involves setting the price of a line of products at a number of different specific pricing points.



# Odd-Even Pricing

**Odd-even pricing** involves setting prices a few dollars or cents under an even number.



# Target Pricing

**Target pricing** consists of (1) estimating the price that ultimate consumers would be willing to pay for a product, (2) working backward through markups taken by retailers and wholesalers to determine what price to charge wholesalers, and then (3) deliberately adjusting the composition and features of the product to achieve the target price to consumers.



# Bundle Pricing

**Bundle pricing** involves the marketing of two or more products in a single package price.



# Yield Management Pricing

**Yield management pricing** involves the charging of different prices to maximize revenue for a set amount of capacity at any given time.



# Standard Markup Pricing

**Standard markup pricing**  
involves adding a fixed percentage  
to the cost of all  
items in a specific product class.



# Cost-Plus Pricing

**Cost-plus pricing** involves summing the total unit cost of providing a product or service and adding a specific amount to the cost to arrive at a price.



# Experience Curve Pricing

**Experience curve pricing** is a method of pricing based on the learning effect, which holds that the unit cost of many products and services declines by 10 percent to 30 percent each time a firm's experience at producing and selling them doubles.



# Target Profit Pricing

**Target profit pricing** involves setting an annual target of a specific dollar volume of profit.



# Target Return-on-Sales Pricing

**Target return-on-sales pricing** involves setting a price to achieve a profit that is a specified percentage of the sales volume.



# Target Return-on-Investment Pricing

**Target return-on-investment pricing** involves setting a price to achieve an annual target return-on-investment (ROI).



# Customary Pricing

**Customary pricing** involves setting a price that is dictated by tradition, a standardized channel of distribution, or other competitive factors.



# Above-, At-, or Below-Market Pricing

**Above-, at, or below-market pricing** involves setting a market price for a product or product class based on a subjective feel for the competitors' price or market price as the benchmark.



# Loss-Leader Pricing

**Loss-leader pricing** involves deliberately selling a product below its customary price, not to increase sales, but to attract customers' attention in hopes that they will buy other products as well.



# One-Price Policy

A **one-price policy** involves setting one price for all buyers of a product or service. Also called *fixed pricing*.



# Flexible Price Policy

A **flexible price policy** involves setting different prices for products and services depending on individual buyers and purchase situations. Also called *dynamic pricing*.



# Product Line Pricing

**Product line pricing** involves the setting of prices for all items in a product line to cover the total cost and produce a profit for the complete line, not necessarily for each item.



# Price War

A **price war** involves successive price cutting by competitors to increase or maintain their unit sales or market share.



# Quantity Discounts

**Quantity discounts** are reductions in unit costs for a larger order.



# Promotional Allowances

**Promotional allowances** are cash payments or extra amount of “free goods” awarded sellers in the channel of distribution for undertaking certain advertising or selling activities to promote a product.



# Everyday Low Pricing (EDLP)

**Everyday low pricing (EDLP)** is the practice of replacing promotional allowances with lower manufacturer list prices.



# FOB Origin Pricing

**FOB origin pricing** is the “free on board” (FOB) price the seller quotes that includes only the cost of loading the product onto the vehicle and specifies the name of the location where the loading is to occur (seller’s factory or warehouse).



# Uniform Delivered Pricing

**Uniform delivered pricing** is the price the seller quotes that includes all transportation costs.



# Basing-Point Pricing

**Basing-point pricing** involves selecting one or more geographical locations (basing point) from which the list price for products plus freight expenses are charged to the buyer.



# Price Fixing

**Price fixing** involves a conspiracy among firms to set prices for a product.



# Price Discrimination

**Price discrimination** is the practice of charging different prices to different buyers for goods of like grade and quality.



# Predatory Pricing

**Predatory pricing** is the practice of charging a very low price for a product with the intent of driving competitors out of business.

