

Pricing Strategies

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Deciding What Price To Charge

- Having considered all of the factors that influence price, a business must decide what price it is going to charge for a product
 - There are a selection of strategies that they can choose from:



Competitive Pricing

- Competitive pricing is where the price set is based upon what competitors charge
 - It is often used for products that have a number of similar competing products
 - E.g. Soft drinks, or household cleaning products



Advantages

Competitive Pricing is good for:

- Knowing that consumers are willing to pay that price
- Competition with other firms won't be based on price

Competitive Pricing means that:

- There is no guarantee costs will be covered
- Other ways of attracting customers will have to be used

Disadvantages

Psychological Pricing

- Psychological pricing involves setting prices in a way that is designed to influence consumer perception
- It can be done in a number of ways, including:
 - “Charm Pricing” e.g. £9.99 instead of £10
 - “Prestige Pricing” e.g. giving the impression of quality



Advantages

Psychological Pricing is good for:

- Influencing consumers views of a product
- Potentially attracting customers from competitors

Psychological Pricing can:

- Become ineffective if it is over-used
- Lead to disappointment if the quality is lower than suggested

Disadvantages

Price Skimming

- This involves charging a high price initially, when a product is in high demand, perhaps because it is unique
 - The price would then be lowered over time
- It is often used when high-value electronic goods are first launched
 - E.g. Games consoles and mobile phones



Advantages

Price Skimming is good for:

- New, high-end products
- Maximising revenue from customers who want the latest products

Price Skimming can:

- Only be used in the short-term, as competitors react
- Deter customers from buying until the price falls

Disadvantages



Price Penetration

- This involves charging a low price for a limited period of time
 - It is often used for new products, e.g. a “trial price” or “launch price”



Advantages

Price Penetration is good for:

- Establishing a new product if there is a lot of competition
- Encouraging consumers to try a product

Price Penetration can lead to:

- Customers expecting a low price if used for too long
- Competitors reducing their prices

Disadvantages



