**COMSATS University Islamabad, Virtual Campus**

**MGT210 Principles of Marketing**

**Lecture 19 Handouts**

**Pricing Strategies**

**Price Adjustment Strategies**

There are also seven price adjustment strategies that can be used.

* Discount: a straight reduction in price on purchases during a stated period of time or of larger quantities. Allowance is promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer’s products in some way.
* Segmented pricing: selling a product or service at two or more prices, where the difference in prices is not based on costs. Customer-segment pricing involves different types of customers paying different pricing. Product-form pricing involves different prices for different versions of the same product. Location-based pricing involves different prices for different locations, while time-based pricing involves different prices for different moments in time.
* Psychological pricing: pricing that considers the psychology of prices, not simply the economics; the price says something about the product. Reference prices are prices that buyers carry in their minds and refer to when they look at a given product.
* Promotional pricing: temporarily pricing products below the list price, and sometimes even below cost, to increase short-run sales.
* Geographical pricing: setting prices for customers located in different parts of the country or world. This can be
	+ FOB-origin pricing: a geographical pricing strategy in which goods are placed free on board a carrier, the customer pays the freight from the factory to the destination.
	+ Uniform-delivered pricing: a geographical pricing strategy in which the company charges the same price plus freight to all customers, regardless of their location.
	+ Zone pricing: the company sets up two or more zones. All customers within a zone pay the same total price, the more distant the zone, the higher the price.
	+ Base-point pricing: a pricing strategy in which the seller designates some city as a base point and charges all customers the freight cost from that city to the customer.
	+ Freight-absorption pricing is a strategy in which the seller absorbs all or part of the freight charges to get the desired business.
* Dynamic pricing means adjusting pricing continually to meet the characteristics and needs of individual customers and situations.
* International pricing: charging different pricing for customers in different countries.

**Price Changes**

After setting prices, there are often situations in which companies need to change their prices. Sometimes, the company finds it desirable to initiate price cuts, for instance when demand is falling, or price increases to improve profits. Consumers can react differently to changes in prices, as well as competitors. When competitors change prices first, the firm has to respond. There are as many as four responses, namely: the firm can reduce its price, maintain its price but raise the perceived value of the product, improve the quality and increase the price or launch a low-price fighter brand to compete with the price change.

**Public Policy and Pricing**

There is legislation surrounding price fixing (talking to competitors to set prices), which is illegal. Predatory pricing (selling below costs to punish competitor) is also prohibited. Many countries also try to prevent unfair price discrimination and deceptive pricing.