

# Price it Right

Navigating Marketing Pricing Policies  
For Success



Author - Sam Khoury

## Introduction

In the ever-evolving landscape of business and marketing, setting the right price for your products and services is critical. Pricing decisions can significantly impact your company's profitability, market positioning, market share, and customer perception.

This eBook is your key to understanding the intricate world of pricing policies in marketing. Whether you are a small business owner, or just beginning your journey into the realm of pricing, this guide is designed to introduce you to the knowledge and tools needed to make informed pricing decisions.

So, whether you're looking to maximize your revenue, enhance your market share, or simply gain a deeper understanding of the art of pricing, join us on this journey as we unravel the strategies and tactics that can propel your business to new heights.

At the beginning, it is important to note that Price is the only element in the marketing mix that produces revenue; all other elements represent costs. (the elements of the marketing mix are Product, Price, Place, and Promotion).

In the first section, we will present the four main pricing policies in the second section we will present additional pricing policies that can be applied to new products. In the third section, we will present policies for companies providing a combination of products or services.

## Section A

### 1- Customer Value-Based Pricing

The Customers' perceptions of the product's value will determine how much it can be sold for. It will set a higher ceiling on the price. On the other hand, the cost to make the product sets the lowest price. If people think a product costs more than it's worth, they won't buy it. If a company sells the product for less than it costs to make, it won't make money and there won't be any profits.

This pricing strategy focuses on what customers think the product is worth rather than how much it costs to make. It depends on the benefits the product offers, like how convenient it is, the value it adds to your life or the happiness it brings.

Companies that sell technology, medicine, and beauty products often use this strategy. It's also used when something is rare. For example, at a concert, a bottle of water might cost \$6, but you can get the same bottle from a vending machine outside for just \$1.

Value-based pricing focuses on what buyers think a product is worth, not on how much it costs the seller to make. It's all about what customers are willing to pay and is decided before the marketing plan is created. In short, it's a pricing strategy driven by what customers value.

1.1- Now under Value-Based Pricing, companies at the retail level do practice EDLP. Everyday Low Pricing involves charging a constant, everyday low price with few or no temporary price discounts. Charcutier Aoun at some point did adopt this pricing method. In the US Retailers such as Walmart, practically defined the concept!

1.2- Another policy used under the Value-Based Pricing is the High-Low Pricing.

It means charging higher prices on an everyday basis but running frequent promotions to lower prices temporarily on selected items.

1.3- Good-value pricing offers the right combination of quality and good service at a fair price.



## 2- Cost-Based pricing

It's setting prices based on the costs for producing, distributing, and selling the product plus a fair rate of return for effort and risk.

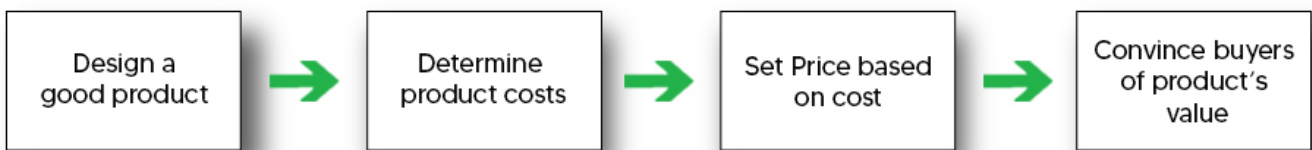
The Total Costs are the sum of the fixed and variable costs for any given level of production.

Some companies like Apple, Cadillac, and Steinway, intentionally pay higher costs so that they can add value and claim higher prices and margins, thus more profit. Don't forget that also higher profits can be reached by selling with lower prices and smaller margins by greater quantities.

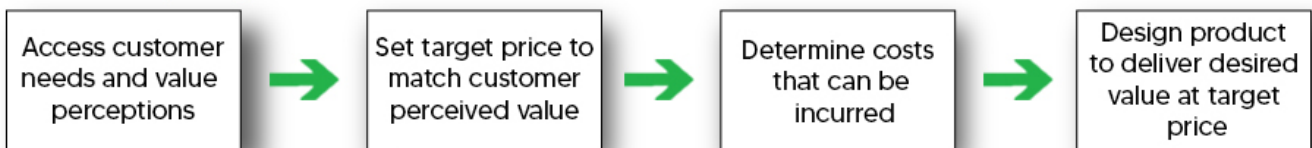
## 3- Cost-Plus Pricing

Also called the Markup-Pricing, like the Cost-Based Pricing, it takes into consideration the total cost of producing the product and adds to it a standard markup value. A markup is a percentage. If your total cost of selling a product is 100\$ and you specify 20% markup, the markup value will be then 20\$ and the selling price will be 120\$.

### Cost-based pricing



### Value-based pricing



### What is the main difference between the Cost-Based and the Cost-Plus pricing policies?

The profit margin in Cost-Based Pricing is often determined separately, and it's not directly tied to the costs. This means that you calculate your costs and then decide on a profit margin you want to achieve. While the profit margin in Cost-Plus pricing is often calculated as a percentage of the cost. For example, a business might decide to mark up the cost by 20% to determine the selling price.

Conversely, if consumers perceive lower value compared to competing offerings, the company must either adopt a lower pricing strategy or take steps to alter customer perceptions, thereby justifying a higher price point.

## 4- Competition-Based Pricing

This pricing policy involves setting prices based on competitors' strategies, costs, prices, and market offerings.

When evaluating the pricing strategies of competitors, a company should consider a series of inquiries. First, it should assess the comparative customer value of its market offering in relation to those of competitors. If consumers perceive the company's product or service as providing superior value, it affords the company the opportunity to command a premium price.



Additionally, it is important to analyze the strength of existing competitors and their current pricing approaches. If the company is competing against numerous smaller rivals who charge higher prices relative to the value they deliver, the company may opt for a lower pricing strategy to displace weaker competitors from the market.

If the market is dominated by larger competitors offering lower prices, the company may explore opportunities in under-served market niches by providing value-added products at premium price points.

## Section B

In this section, we'll explore two fundamental techniques: Penetration Pricing and Skimming Pricing, valid for

### 1- Penetration Pricing

Here the organisation sets a low price to increase sales and market share. Once market share has been captured the firm may well then increase their price.

Instead of starting with a high price to target small but profitable market segments, some companies use a strategy called market-penetration pricing. With this approach, they begin by setting a low initial price to enter the market quickly. The goal is to attract a large number of buyers rapidly and gain a substantial market share. As sales volume increases, costs tend to go down, allowing these companies to further reduce their prices.

### 2- Market Skimming Pricing

Numerous companies that pioneer new products employ an approach of initially setting premium prices to gradually extract revenue from the market. Apple is a notable adopter of this strategy, commonly referred to as market-skimming pricing, or simply price skimming. For instance, when Apple launched its first iPhone, it had a substantial price tag of up to \$599 per unit. This premium cost attracted tech enthusiasts and individuals with the means and desire to own the cutting-edge device. However, within six months, Apple adjusted the pricing to \$399 for an 8GB model and \$499 for the 16GB model to entice a broader customer base. This strategic approach has allowed Apple to capture the maximum revenue from different market segments.

Market skimming is a viable strategy under specific conditions. First, the product's quality and image must align with its premium pricing, with a sufficient number of buyers willing to pay the premium for the product.

Second, it should not cost so much to make a smaller number of products, because high costs will cancel out the advantage of selling those products at higher prices. Last, competition should not be in a position to easily enter the market and undercut the premium price.

## Section C - Product Mix Pricing Policies

This section presents pricing policies for companies providing a combination or package of products or services at a reduced cost compared to what you'd pay for each item separately.

### 1- Product Line Pricing

The product line pricing policy considers the variations in costs among the products within the line, how customers perceive their features, and the pricing of the competitors. Product line pricing is a tool that businesses use to create the perception of different quality levels for products in the minds of the consumers they target. Many mobile phone companies utilize product line pricing by providing a range of models for each mobile phone release. Typically, they offer baseline models with more affordable prices and a few higher-tier models with enhanced features and higher prices. For instance, the baseline models may offer basic storage and features, while the pricier elite models may feature double the storage capacity, advanced cameras, and additional capabilities like wireless charging or high-speed gaming.

### 2- Optional-Product Pricing

This policy considers supplementary or add-on products or options in addition to the primary product. The Optional-Product Pricing policy is used commonly within the car industry.

### 3- Captive Product Pricing

This policy is designed to entice a significant number of customers into making a one-time purchase of a less expensive main product. However, this main product relies on the purchase of accompanying accessories or essential products for proper functionality. Examples of captive products are razor blade cartridges, printer ink or laser cartridges, and video games.



## 2- Optional-Product Pricing

This policy considers supplementary or add-on products or options in addition to the primary product. The Optional-Product Pricing policy is used commonly within the car industry.

## 3- Captive Product Pricing

This policy is designed to entice a significant number of customers into making a one-time purchase of a less expensive main product. However, this main product relies on the purchase of accompanying accessories or essential products for proper functionality.

Examples of captive products are razor blade cartridges, printer ink or laser cartridges, and video games.

## 4- Product Bundle Pricing



Companies can combine several products and offer the bundle at a reduced price. A very good example we see every day is the fast-food restaurants' bundles of burgers, fries, and soft drinks at a "combo" price.

### Advantages of Product Bundle Pricing

4.1- Bundles allow customers to perceive increased value. By offering complementary products or services together, you create an attractive package that often costs less than purchasing each item individually. This encourages customers to buy more and feel like they're getting a good deal.

4.2- Bundles facilitate cross-selling. You can pair popular items with those that are less popular to increase the sales of the latter.

This way, you encourage customers to try different products or services within your portfolio.

4.3- If you have slow-moving or excess inventory, bundling can help you move those products. By including them in bundles, you can make them more attractive and reduce the carrying costs associated with excess inventory.

4.4- Offering bundles can increase customer loyalty. When customers are satisfied with a bundle purchase, they are more likely to return to your business for similar deals in the future.

## Conclusion

Pricing your products and services correctly is of paramount importance for several compelling reasons. First, it allows you to maximize profit by optimizing your margins. This ensures that you neither under-price your offerings, leaving money on the table nor drive potential customers away with unreasonably high prices.

A well-thought-out pricing strategy can also provide a competitive edge by offering a compelling value proposition. By positioning your prices strategically in the market, you can stand out and attract more customers. Additionally, proper pricing leads to revenue maximization by understanding the price elasticity of demand, encouraging more sales without sacrificing profitability.

Your pricing strategy can influence how customers perceive your brand. Premium pricing can position you as a high-end, quality provider, while value pricing can make you an accessible choice for a broad audience. This impacts customer satisfaction, as fair and transparent pricing leads to greater contentment and loyalty.

Accurate pricing contributes to your financial stability by ensuring you can cover costs, reinvest in your business, and weather economic fluctuations. It also plays a pivotal role in product lifecycle management, allowing you to use dynamic pricing strategies to extract value from new products and reduce prices as they mature in the market.

Furthermore, pricing right helps in exploring new markets or customer segments, as different pricing strategies may be required to address different target audiences. It is essential for cost recovery, ensuring you can cover your production and operational costs, and is crucial for the sustainability and growth of your business. Pricing also fosters innovation and growth by allowing you to invest in research, development, and innovation, thereby fueling your ability to create new products and expand your business.