

e-Learning on Digital Agriculture

Lecture 11. Pricing Strategies and Tactics

PhD. Nargiza Nosirova

Pricing Strategy

- How does a company decide what price to charge for its products and services?
- What is “the price” anyway? doesn’t price vary across situations and over time?
- Some firms have to decide what to charge different customers and in different situations
- They must decide whether discounts are to be offered, to whom, when, and for what reason

Why is Pricing Important?

In a company with average economics*,

- 1% increase in volume = 3.3% increase in profit
- 1% increase in price = 11.1% increase in profit
- Improvements in price typically have 3-4 times the effect on profit as proportionate increases in volume.

*Based on average of 2,463 companies

Price vs. Nonprice Competition

- In **price competition**, a seller regularly offers products priced as low as possible and accompanied by a minimum of services
- In **non price competition**, a seller has stable prices and stresses other aspects of marketing
- With **value pricing**, firms strive for more benefits at lower costs to consumer
- With **relationship pricing**, customers have incentives to be loyal-- get price incentive if you do more business with one firm

Nonprice Competition

- Some firms feel price is the main competitive tool, that customers always want low prices
- Other firms are looking for ways to *add value*, thereby being able to avoid low prices
- Sometimes prices have to be changed in response to competitive actions
- Many firms would prefer to engage in **non price competition** by building brand equity and relationships with customers

The Process: An Illustration

SELECT PRICING OBJECTIVE

SELECT METHOD OF DETERMINING THE BASE PRICE:

Cost-plus pricing

Price based on both demand and costs

Price set in relation to market alone

DESIGN APPROPRIATE STRATEGIES:

Price vs. nonprice competition
Skimming vs. penetration
Discounts and allowances

Freight payments
One price vs. flexible price
Psychological pricing

Leader pricing
Everyday low vs. high-low pricing
Resale price maintenance

Steps for Determining Prices

- **Establish Pricing Objectives**

- Increase sales volume?
- Prestigious image?
- Increase market share?



Steps for Determining Prices

- **Study Costs**

- Can you make a profit?
- Can you reduce costs without affecting quality or image?



Steps for Determining Prices

- **Estimate Demand**

- What do customers expect to pay?
- Prices usually are directly related to demand.



Steps for Determining Prices

- Study Competition



Steps for Determining Prices

- **Decide on a Pricing Strategy**

- Price higher than the competition because your product is superior
- Price lower, then raise it once your product is accepted



Steps for Determining Prices

- **Set Price**

- Monitor and evaluate its effectiveness as conditions in the market change



Pricing Technology

- Smart Pricing – decisions are based on an enormous amount of data that Web-based pricing technology crunches into timely, usable information.
- Communicating Prices to Customers – electronic gadgets that provide real-time pricing information such as electronic shelves, digital price labels



Pricing Technology

- RFID Technology – wireless technology that involves tiny chips imbedded in products. The chip has an antenna, a battery, and a memory chip filled with a description of the item
- Toll technology



Geographic Considerations

- Geographic Considerations
 - **FOB (free on board) plant or FOB origin:** Price quotation that does not include shipping charges. Buyer pays all freight charges to transport the product from the manufacturer
 - **Freight absorption:** system for handling transportation costs under which the buyer may deduct shipping expenses from the costs of goods

- **Uniform-delivered price:** system for handling transportation costs under which all buyers are quoted with the same price, including transportation expenses
- **Zone pricing:** system for handling transportation costs under which the market is divided into geographic regions and a different price is set in each region
- **Basing-point system:** system for handling transportation costs in which the buyer's costs included the factory price plus freight charges from the basing-point city nearest the buyer. Seeks to equalize competition between distant marketers

Product and Pricing Strategies

Other Pricing Strategies



Price-Based

Optimization

Skimming

Penetration

Price Adjustment Strategies

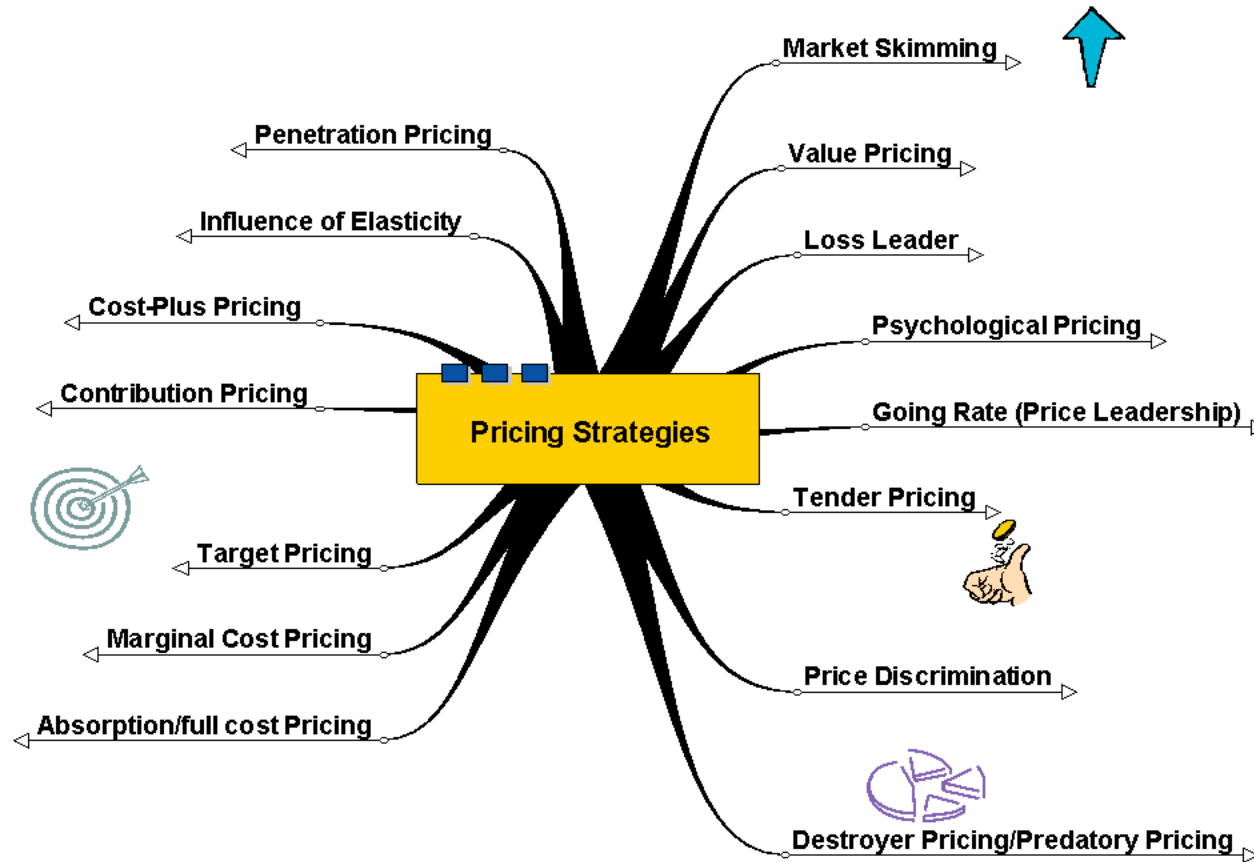


Discount Pricing

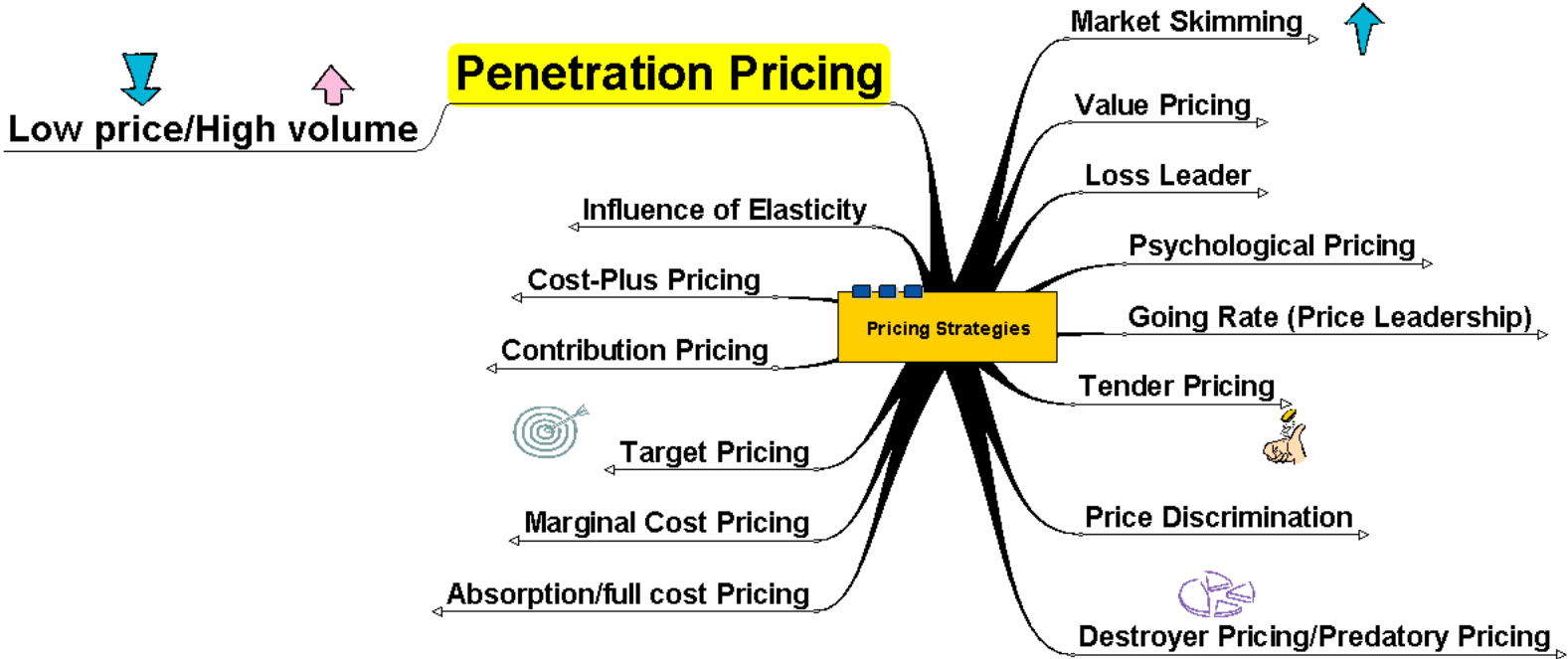
Bundling

Dynamic Pricing

Pricing Strategies



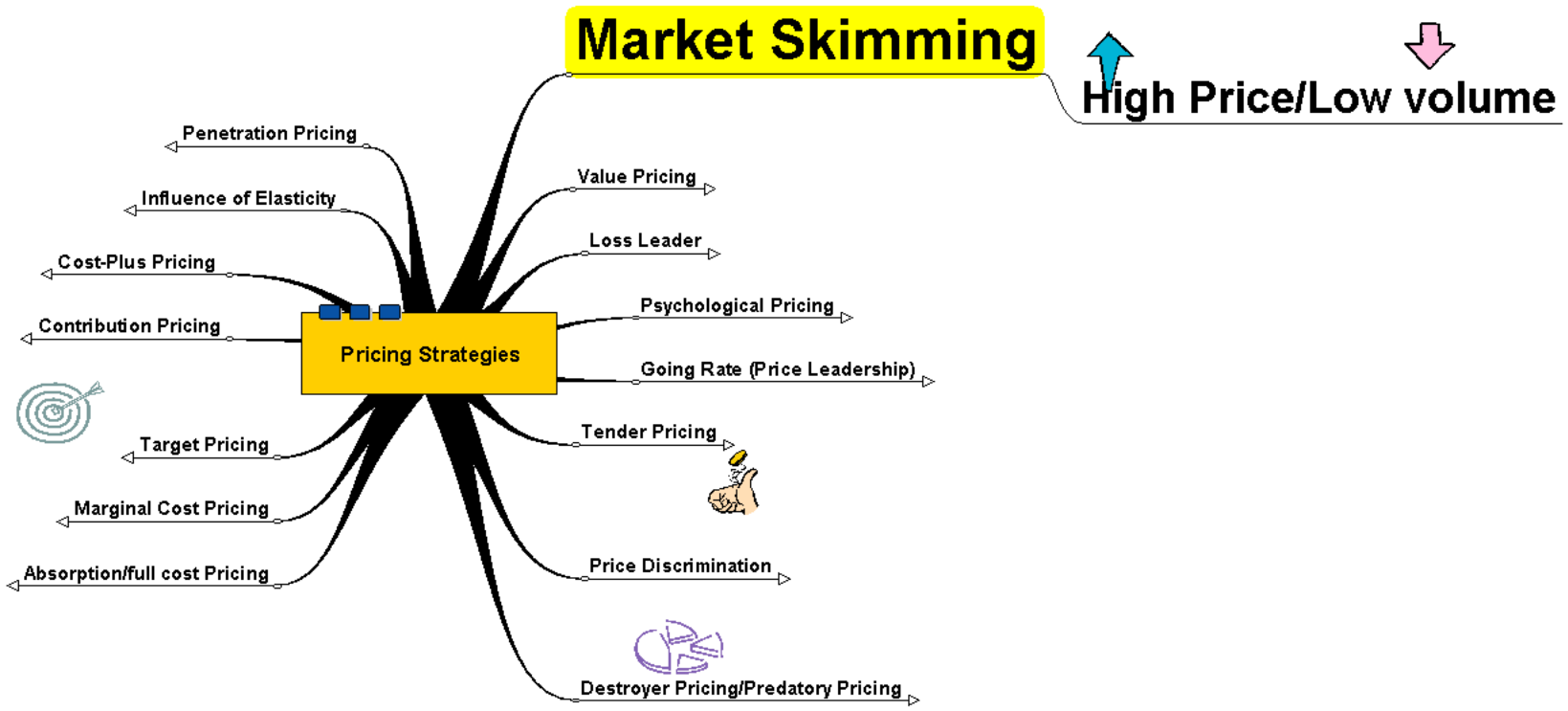
Penetration Pricing



Penetration Pricing

- Price set to 'penetrate the market'
- 'Low' price to secure high volumes
- Typical in mass market products – chocolate bars, food stuffs, household goods, etc.
- Suitable for products with long anticipated life cycles
- May be useful if launching into a new market

Market Skimming



Market Skimming

- High price, Low volumes
- Skim the profit from the market
- Suitable for products that have short life cycles or which will face competition at some point in the future (e.g. after a patent runs out)
- Examples include: Playstation, jewellery, digital technology, new DVDs, etc.

Market Skimming



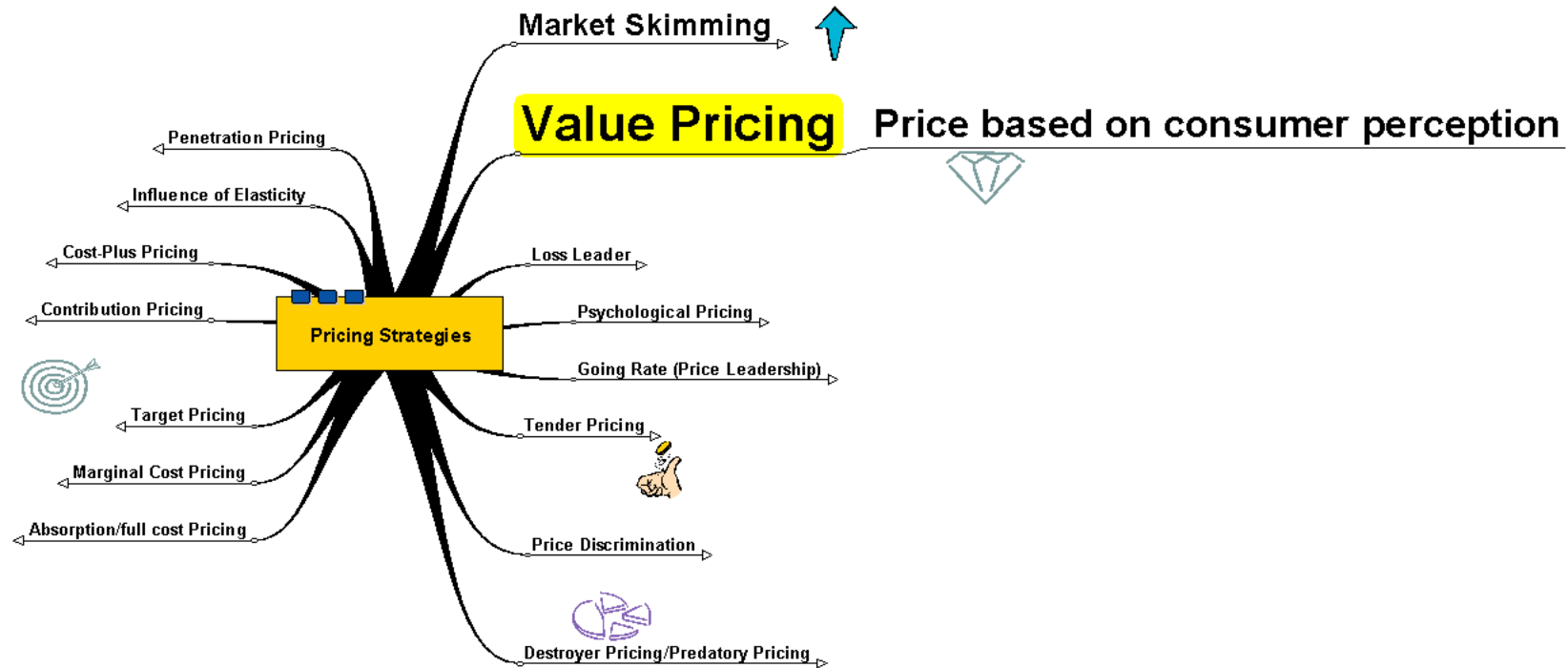
Many are predicting a firesale in laptops as supply exceeds demand



Plasma screens: Currently at high prices but for how long?

Title: Thin-shaped television. Copyright: Getty Images, available from Education Image Gallery

Value Pricing



Value Pricing

- Price set in accordance with customer perceptions about the value of the product / service
- Examples include status products/exclusive products



Companies may be able to set prices according to perceived value.

Title: BMW At The Frankfurt Auto Show. Copyright: Getty Images, available from Education Image Gallery

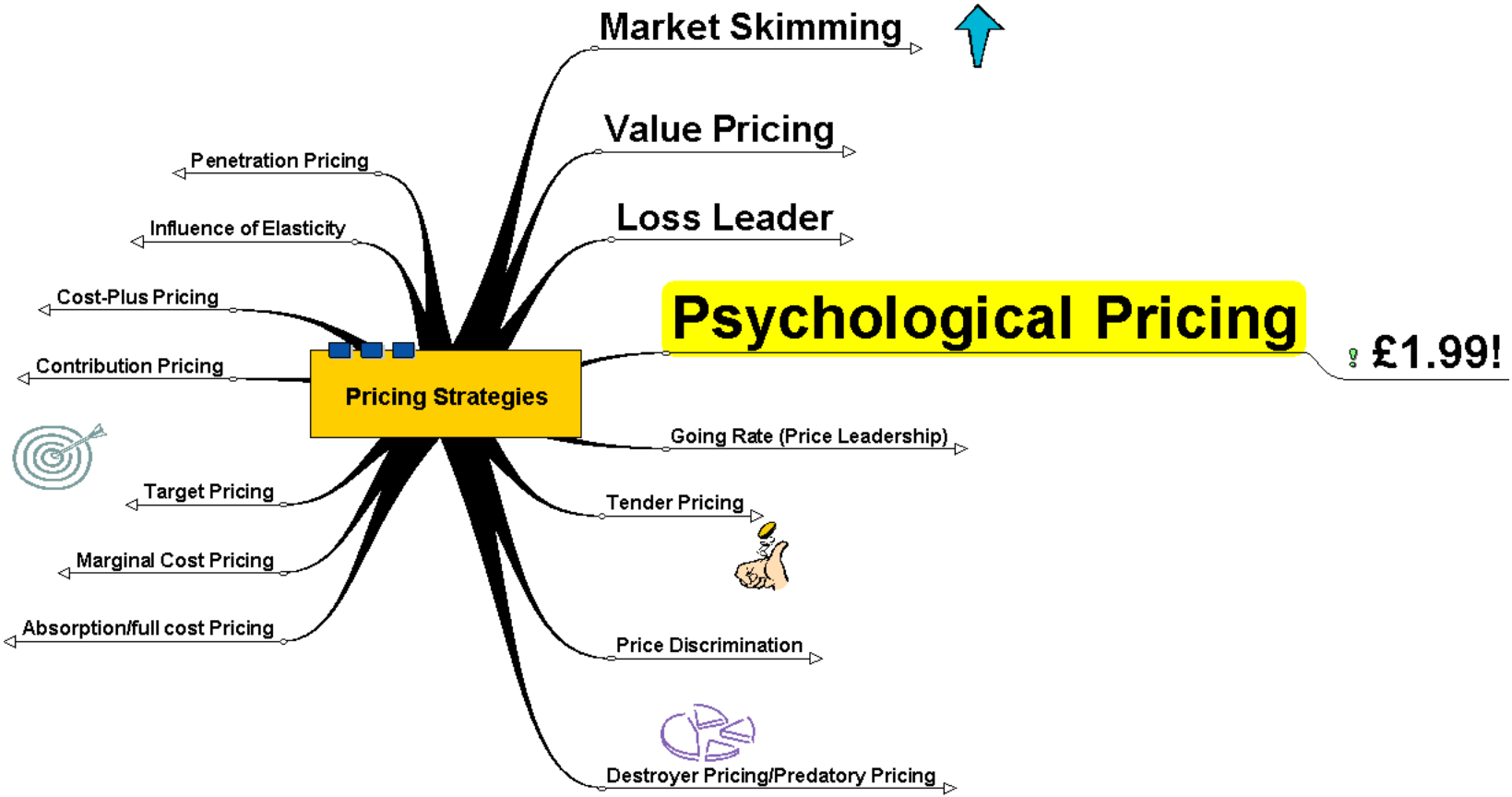
Loss Leader



Loss Leader

- Goods/services deliberately sold below cost to encourage sales elsewhere
- Typical in supermarkets, e.g. at Christmas, selling bottles of gin at £3 in the hope that people will be attracted to the store and buy other things
- Purchases of other items more than covers 'loss' on item sold
- e.g. 'Free' mobile phone when taking on contract package

Psychological Pricing



Psychological Pricing

- Used to play on consumer perceptions
- Classic example - \$9.99 instead of \$10.00!
- Odd-even: \$5.95, \$.79, \$699 OR \$12, \$50
- Multiple Unit-3 for \$1.00 better than \$.34 each

Psychological Pricing

- **Odd-Even Pricing**

- Odd numbers convey a bargain image -- \$.79, \$9.99, \$699



- Even numbers convey a quality image -- \$10, \$50, \$100

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