

Course: Economics of Industry



Lecture 11: Product Pricing

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What is a product?

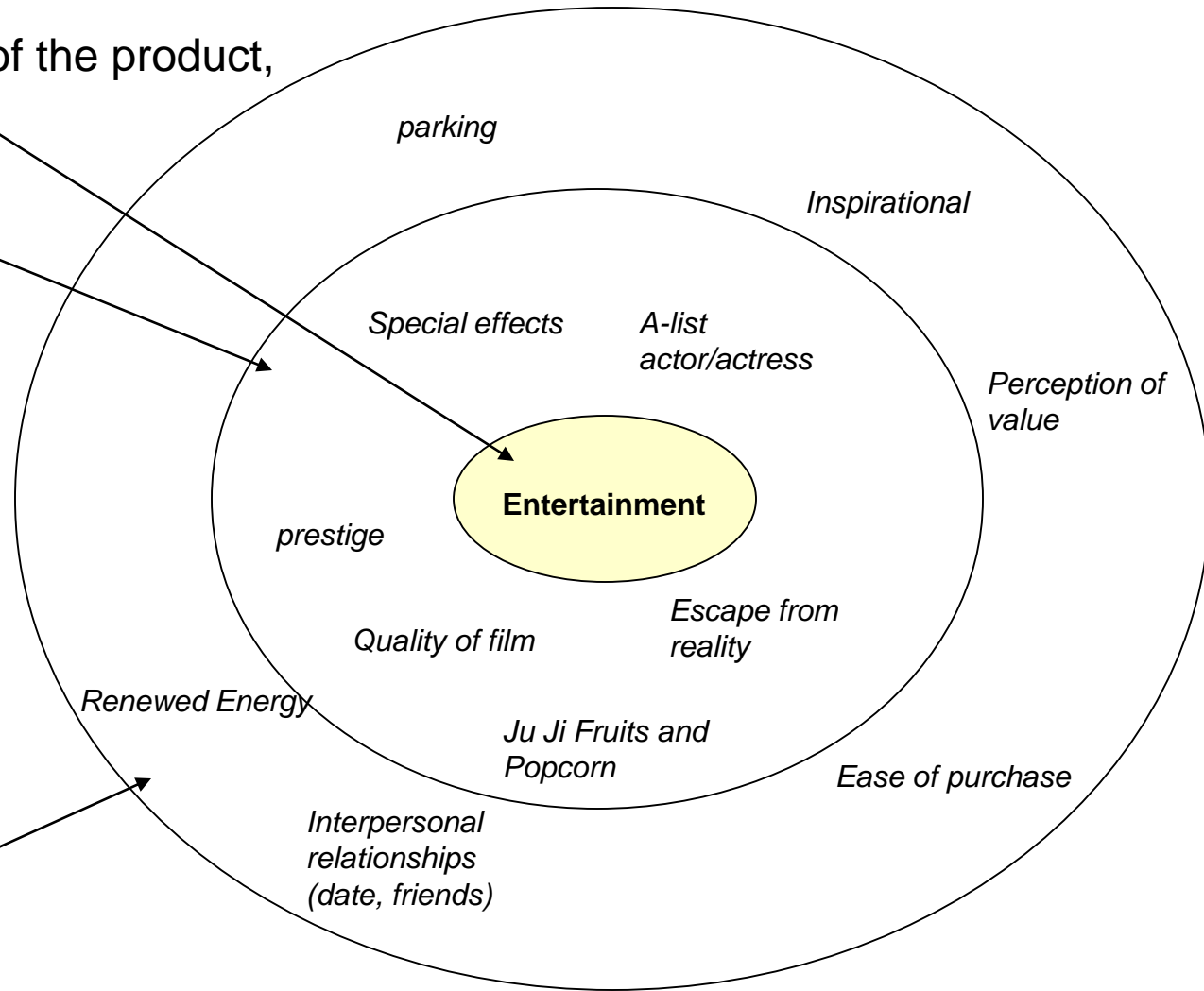
- The combination of products and services aimed at satisfying the needs of the target market
- We (as leisure professionals) are not marketing shoes, food, fun.....
- We are marketing **BENEFITS!**
 - Customers aren't buying the dance class, they're buying the benefit



Core Product: Commodity that customer buys

“Three Levels of Product”

Actual Product: Features of the product,
branding, styling



Augmented Product: Additional benefit from the
product

Illustrative Activity:

- **In groups of three, take your most recent purchase:**
 - What is the “core product”?
 - What are the characteristics of the “actual product”
 - What are the characteristics of the “augmented product”



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Real-World Examples:

US Air

Grapevine Parks & Rec.

Benefits

- Test Question: “Leisure Providers provide what?”

BENEFITS

Benefits Sought: Tourism

1. Family and friends
2. Escape
3. Relaxation
4. Novelty
5. Prestige
6. Social interaction
7. Authenticity
8. Excitement
9. Education

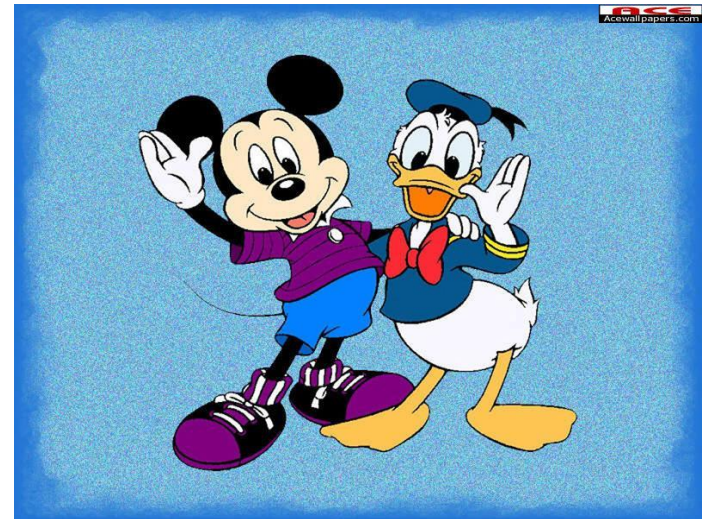


Branding

- A name, term, symbol or design or combination of them, intended to identify goods or services of one seller...and to differentiate them from those of competitors

– Kotler & Armstrong (2004)

- Branding is particularly important with services

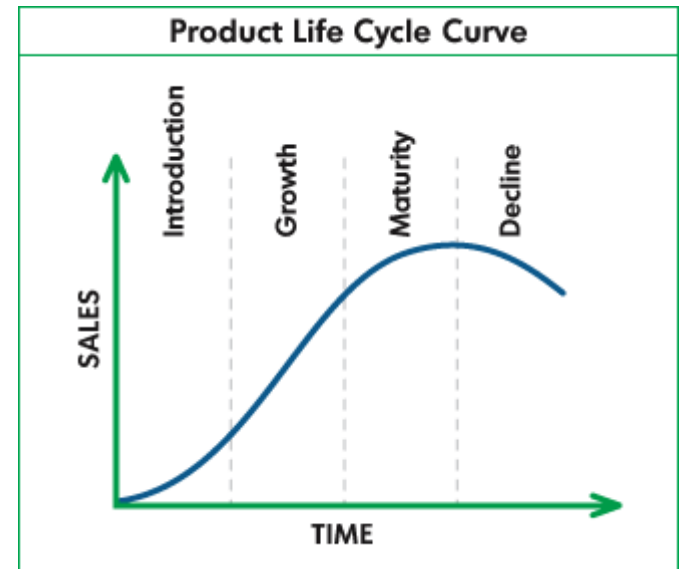


Market Positioning

- In the minds of customers, placing your product in a distinct place relative to competing products
- Keys to proper positioning:
 - Know product
 - Know your target segment
 - Know what this segment “needs”
 - Establish your image with this segment
 - Meet those needs (price, value, quality)

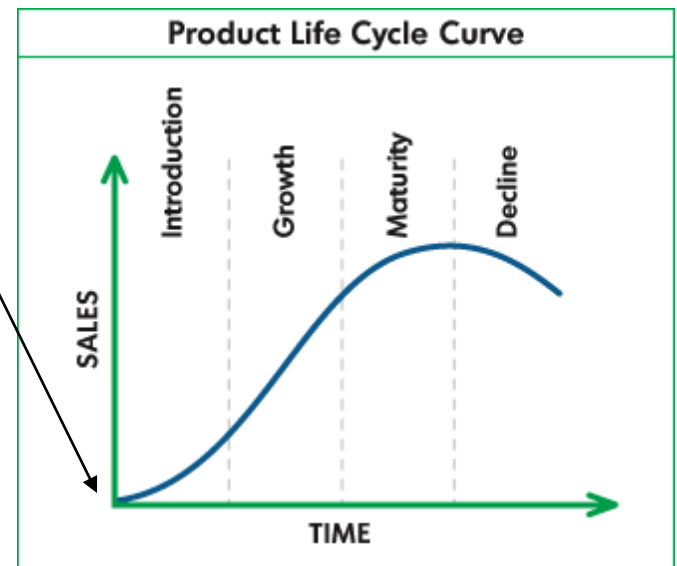
Product Life Cycle

- How can this curve best be used manage organizations?
- Assessment of products on this curve indicate where efforts should be concentrated:
 - Abandon ship
 - Increase promotional efforts
 - Build branding efforts
 - Increase production



Product Development: Ideas

- Needs assessment
 - Systematic inquiry of needs, attitudes and behaviors of society
 - A systematic examination of “Bob, you know what would make money?”
- Existing organizations:
 - Existing customers
 - Competitors
 - Suppliers, consultants
 - Marketing department
 - Staff members
- This is a major focus of our innovative front-runners:



New Product Development

- Idea Generation
 - Brainstorming and looking at the environment
- Screening
 - Which option is best?
- Business analysis
 - Can we afford it? Are we capable?
- Product development
 - Develop prototype and try it small scale
- Test marketing
 - Test it fully on a small scale
- Commercialization



'P' #1: Product Planning and Development

- Objective of most firms is to develop a profitable and continuing business (repeat customers)
- Using the marketing concept product planning is approached from the consumer's point of view
- Consumer's needs are dynamic - competitive forces carry products through a life cycle - **the product life cycle**

Stages in the Product Life Cycle

(p. 625)

- **Introduction** - high promotional expenditures and visibility; low sales volume
- **Growth** - more acceptance by consumers; more competitors; promotions emphasize selective buying based on trade name
- **Maturity**- well established product; sales increasing but starting to level off; try to determine ways to hold market share

More stages in the product life cycle

- **Saturation** - sales reach peak; mass production and new technology have lowered price making it available to almost everyone
- **Decline** - demand drops off; obsolescence may set in; search for a new product

Destination Life Cycle

- **Butler** - applied product life cycle to resorts
- **Plog** - followed with allocentrics/
psychocentrics and destination life cycle

Marketing Mix: Price

- What decisions go into setting a price?
- Covering costs
 - Public or commercial
- Making profit
 - Public or commercial
- Competitors prices
- Image of product or company
- Using price as marketing tool
 - Lose battle to win war
 - ATA to Hawaii, JITB Curly fries
 - Hotels and vertical integration
- Low **profit margin** and high turnover
- Gain market share



Factors that Influence Price Policies

1. Product quality
2. Product distinctiveness
3. Extent of the competition
4. Method of distribution
5. Character of the market
6. Cost of the product and service
7. Cost of distribution
8. Margin of profit desired
9. Seasonality
10. Special promotional prices
11. Psychological considerations

Making Pricing Decisions

- For public providers not:
 - “should we charge?”, but “how much?”
- **Reasons:**
 - supplement tax dollars
 - improve facilities and service
 - offer a more complete set of programs
 - make a profit



Current trends:

- Marginalization and shrinking budgets
 - Our cry: “Do more with less”
- Services contracted to private sector
 - 50,000 federal jobs transferred to private companies in 1980’s
 - Over \$3 million saved
- Public demanding more diverse options



Making Pricing Decisions

- **Alternate Funding Sources:**
 - Gifts and Donations: “Friends of...”
 - Grants
 - Federal, state, corporate, private and philanthropic
 - In-Kind Contributions
 - No money changes hands
 - Partnerships
 - TRiP with Rock Gym
 - Sponsorships
 - Collaborative “win-win”
 - Volunteers
- Any \$ you get through the “back door” gives you more flexibility

Price and other variables in the Marketing Mix

- How does price relate within the Marketing Mix “system”
- Price must match product
 - Consumer must perceive value
 - Sushi
 - First class prices
- Wal-Mart’s upscale venture
- “Value Added”
 - Free breakfast, free car for oil change, free t-shirt



Pricing: Both Public and Commercial

- **Public Programs**
 - supported by tax dollars
 - fees- philosophy
- **Private/Commercial Programs**
 - no public funding (in theory)
 - profit motive
- Decision to not charge is still a pricing decision
- Examples?



Public Pricing

- Price is based based on a systematic evaluation of program type, program costs, clientele served, and the relationship of these factors to one another.
- A rationale for arriving at a fee structure.
- An explanation for your reason for charging a different fee.
- Does pricing strategy reflect your mission?

Commercial Pricing:

- Price for your product/service must be PROFITABLE
- Price for your product/service must be COMPETITIVE against competition
- Why?

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"...and that's how you make profit!"

Dealing with Competition

- Price competition
- Non-price competition
- Not undercutting retailers
 - Why products are not cheaper from source
 - » Electronics, cars, airline tix



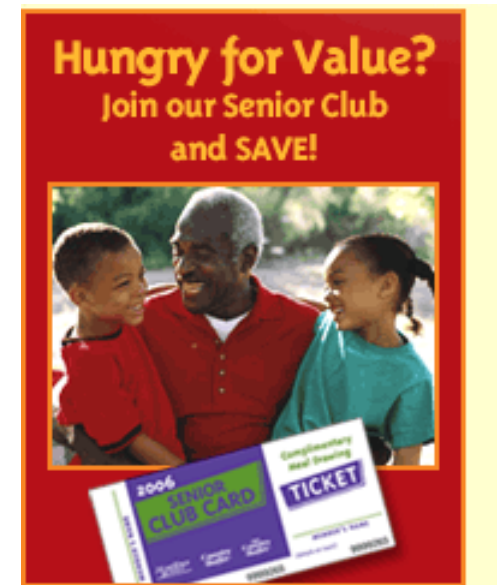
Regulatory and ethical issues

- Public providers: becoming elitist?
 - Museums
 - Day programs
 - National Parks
- Private providers:
 - Social responsibility to serve entire population?
 - Is there money in doing so?
 - Discriminatory pricing



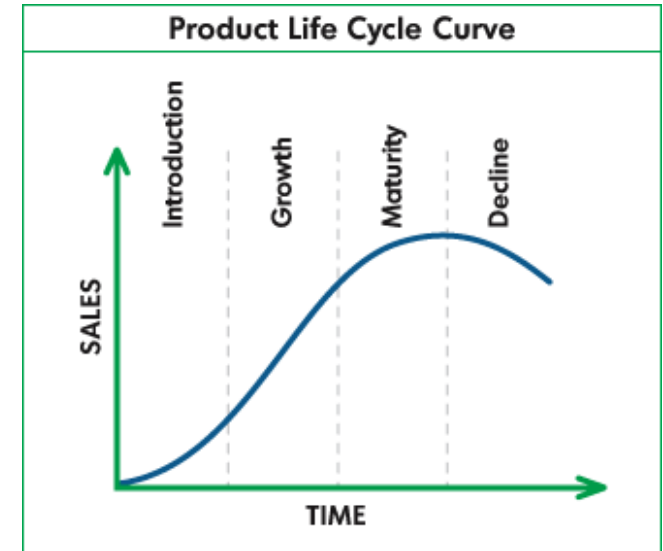
Strategic Pricing

- Differential Pricing
 - Using prices to lure low-user groups
 - Early bird specials, student prices
- Tactical Price Reduction
 - Reducing prices to temporarily gain revenue or market share
 - ATA, Time Warner Cable
 - Last-minute discounts
- Wholesale v. Retail
 - Intermediaries must be considered
- Seasonal Discounts
 - Increase demand through slow periods
 - Europe flights
- Selective Discounts
 - Mid-week car wash, hotel rooms
 - **Note perishability**
- Pricing Strategies
 - High-end, middle-end, low-end



Entering the Market: Pricing Approaches

- Skimming:
 - High initial price to maximize profit
 - Capitalize on early adopters
- Penetration
 - Low initial price to maximize market share and exposure



Price Skimming

Skimming is appropriate when the product or service has the following characteristics:

- Price inelasticity
- No close substitutes
- High promotion elasticity
- Distinct market segments based on price

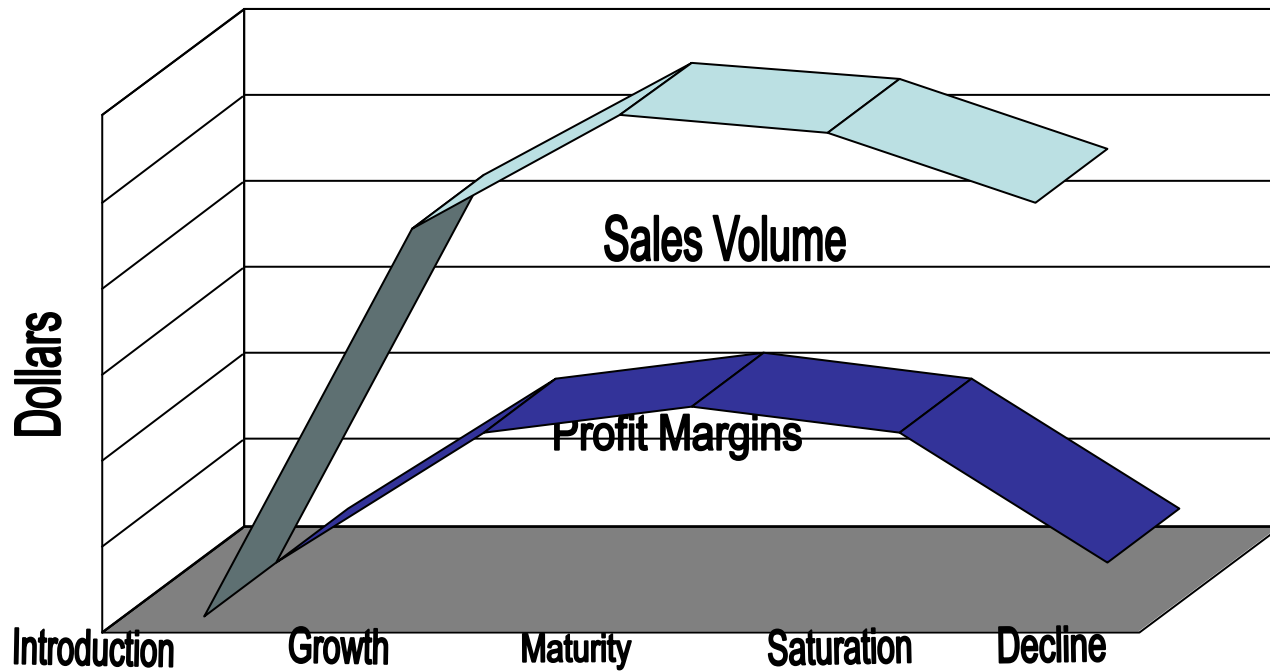
Penetration Pricing

Penetration pricing is appropriate when the following factors are present:

- High price elasticity
- Economies of scales
- An easy fit of the product into consumer purchasing patterns



Product Life Cycle



Pricing strategies:

- High end strategy
 - Offer selection, expertise, service, quality
- Middle-range strategy
 - Average service, selection, value,
- Low-end strategy
 - Success based purely on price (at expense of others)
- Examples?
 - Department stores
 - Outdoor equipment retailers
 - Restaurants

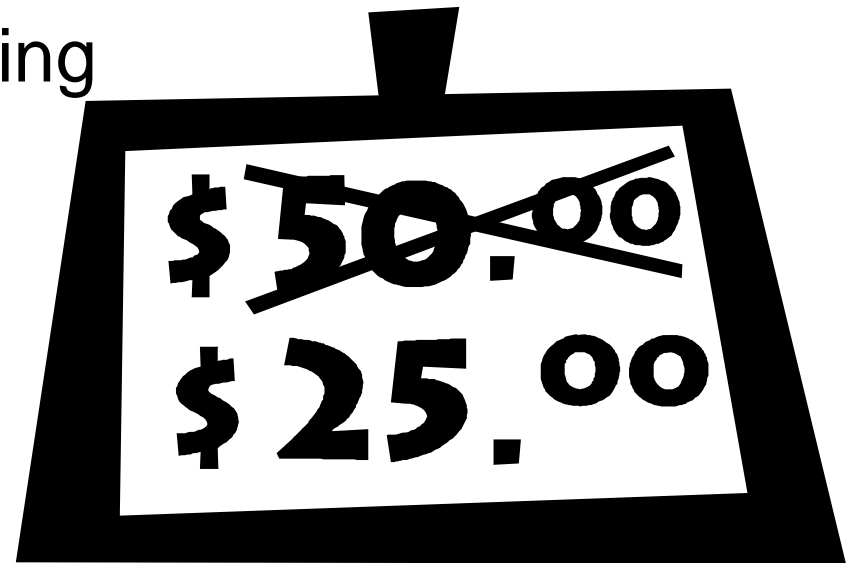


Pricing

- What do the following say about your business?
 - Extremely low prices
 - Extremely high prices

Methods of setting prices

- Cost-oriented pricing
- Demand-oriented pricing
- Competition-oriented pricing



Cost-Oriented Pricing

- AKA: “cost plus pricing”
- **COGS + margin**
- **Cost**: Amount seller pays for product (wholesale)
- **Price**: Amount seller charges consumer for product
- **COGS**: Cost of Goods Sold
- **Margin**: Sales price – COGS
 - AKA: “markup”
- MSRP:
 - Clothing markup:
 - Grocery markup:
- Key issues with markup:
 - Profit
 - Competitors’ prices
 - What you offer that’s unique



Demand-Oriented Pricing:

- “Screw the numbers... what will people pay?”
 - What will the market bear?
 - Super Bowl v. 49ers
 - Hotel rooms during New Years



Competition-Oriented Pricing

- Prices set according to competitors



'P' #2: Pricing

Firms have a choice of three strategies:

1. **Sell at Market Price** - i.e. same price as everyone else charges; protect margins but no price demand stimulation
2. **Sell at Price Below Current Market Price** discount - reputation for lowest price; need elastic demand for a product
3. **Above Market Prices** - premium pricing must be coupled with high quality service, facilities etc

Some firms employ one, two or three pricing strategies:

- **Airlines** - coach, business, first class
- **Hotels e.g. Marriott:**
 - Marriott, Hotels, Resorts and Suites - full service lodging
 - Courtyard by Marriott - moderate priced
 - Residence Inns - extended stay
 - Fairfield Inns - economy

A few more words on pricing:

- Pricing is one of the most important marketing decisions - can greatly impact success or failure of a product
- p. 627-628 a list of factors that influence pricing e.g. product distinctiveness, extent of competition, cost of distribution

Two philosophies in pricing a new product:

- **Price Skimming -**

Sets price as high as possible appeals to top end of market as competitors move in price is lowered

- **Penetration Pricing -**

Establish price as low as possible - penetrate as much of market as possible; introductory price tends to become permanent price

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