Chapter 9

To consolidate your learning, the key points from this chapter are summarized here:

■ Explain the concept of price elasticity of demand.

Price elasticity of demand allows us to determine how the quantity of an offering relates to the price at which it is offered. Inelastic propositions are defined as such because increases or decreases in price produce relatively smaller decreases or increases in sales volumes, whereas elastic offerings have larger similar effects. Understanding price elasticity helps us to devise demand-oriented pricing mechanisms.

■ Define price, and understand its relationship with costs, quality, and value.

Price, costs, quality, and value are all interrelated. *Price* is what an offering is sold for and *cost* is what it is bought for. When value is added to a proposition, the price that can be obtained exceeds the cost. Price and cost are often confused, and are assumed erroneously to be the same thing. They are not. *Quality* is a measure of how well an offering satisfies the need for which it is designed to cater. *Value* is best described either as a function of the quality of an offering as a proportion of the price paid or the perceived benefits *less* the perceived price.

■ Describe how customers perceive price.

Understanding how customers and consumers perceive pricing helps when setting prices. Customers have an idea of reference prices based on what they ought to pay for an offering, what others would pay, or what they would like to pay. Their knowledge of actual prices is limited to well-known and frequently bought and advertised offerings. Consequently, customers tend to rely on price cues such as odd-number pricing, sale signs, the purchase context, and price bundles when deciding whether or not value exists in a particular proposition.

■ Understand pricing strategies and how to price new offerings.

There are four main pricing strategies, comprising premium pricing (pricing an offering to indicate its distinctiveness in the marketplace), penetration pricing (pricing low relative to the competition to gain market share), economy pricing (pricing at the bare minimum to attract price-sensitive customers), and price skimming (setting the price high initially and then lowering it in sequential steps). The two classic approaches to pricing new offerings are market skimming and market penetration pricing. The former is favoured when a company needs to recover its R&D investment quickly, when customers are priceinsensitive or of unknown price sensitivity, when product life cycles are short (see Chapter 8), and when barriers to entry to competitors are high. The latter is favoured otherwise.

■ Explain cost-, competitor-, demand-, and value-oriented approaches to pricing.

There are a variety of different pricing policies that can be used, depending on whether we are pricing a consumer, service, or B2B offering. They tend to be cost-oriented (based on what we paid for it and what mark-up we intend to add), competitor-oriented (the so-called going rate, or based on the price at which competitors sell an offering), demand-oriented (based on how much of an offering can be sold at what price), or value-oriented (what attributes of the offering are of benefit to the customer and what will they pay for them).

■ Explain how pricing operates in the business-to-business setting.

A variety of pricing tactics are used in the B2B setting, including geographical, negotiated, discount, value-in-use, relationship, pay-what-you-want, transfer, economic value to the customer, and bid pricing. Business-to-business pricing differs in that buyers are frequently expert in purchasing for their organizations. They are likely to pay particular attention to the value that they derive from the offering.