EVROPSKÁ UNIE
Evropské strukturální a investiční fondy
Operační program Výzkum, vývoj a vzdělávání

MINISTERSTVO ŠKOLSTVÍ, MLÁDEŽE A TĚLOVÝCHOVY

Název projektu	Rozvoj vzdělávání na Slezské univerzitě v Opavě
Registrační číslo projektu	CZ.02.2.69/0.0./0.0/16_015/0002400

Prezentace předmětu:

Marketing of services

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MARKETING MIX 2

The aim of this presentation is to describe the nature of marketing mix in services with focus on pricing

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MARKETING MIX 2

Lecture structure

Price

Pricing influencers

Pricing policies

Pricing strategies

Pricing process

Price

- Pricing is one factor that has received much less attention in service firms.
- Pricing decisions in services are approached in a not-very-sophisticated manner.
- The role price plays in the marketing strategy is lesser known in service firms than in manufacturing firms.

Price

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- Even in Britain, the United States and some other developed economies where more people are employed in the provision of services than in the direct production of material goods, the marketing of services in general, and their pricing in particular, are relatively neglected aspects of management studies.

Price

- Though price is one of the Ps in the marketing mix of firms, its use as a purposive marketing tool has been limited to a few marketers.
- Most marketers tend to adopt a passive approach and commit many mistakes in pricing their goods and services.

Price

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- “The most common mistakes are these: pricing is too cost-oriented; price is not revised often enough to capitalize on market changes; price is set independent of the rest of marketing mix rather than as an intrinsic element of market positioning strategy, and price is not varied enough for different product items and market segments”

Price

- Unlike in manufactured goods, where price has one common name across a wide range of goods, such as, fruits, clothes, computers, cars, etc.; price in services goes by different names.
- The services are diverse.
- The extent of their diversity can be gauged by the names by which the price is called in services.

Price

Price Terminology for Selected Services Service	Terminology
Advertising	Commission
Brokerage service	Commission
Consultancy	Fee
Employee Services	Salary
Education	Tuition fee
Financial Services	Interest/charge/commission
Guest speaker	Honorarium
Health care	Fee
Insurance	Premium
Legal service	Fee
Property/Accommodation	Rent
Road use	Toll
Recreational service	Ticket charge/money, Admission charge
Share/Stock service	Brokerage/Commission
Transport	Fare
Utilities	Tariff

Price

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- Pricing is important because it has a direct bearing on sales and profits of an organisation.
- Therefore, price cannot be determined in isolation without keeping in mind the sales it would generate and the profit it would earn.

Price

- Generally, a trade-off is observed between the sales and the profit.
- A lower price of product or service is capable of generating higher sales at low profit per unit.
- Similarly, a high price would result in greater profit margins but the product or service may not sell that much.
- Pricing arithmetic is not simple.

Price

- There are number of factors that influence the pricing decisions of a firm.
- It is important for a firm to consider the customers, the marketing offer, competition, legal framework, and social and technological environment while setting the price.

Price

- Pricing methods and practices tend to vary widely in service industries.
- Unlike goods which may bear similarities in processes, competition, output, raw material, labour, etc.; service industries are laden with diversity.

Price

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- On the spectrum of variety and uniqueness; services are unique, both in their own character and in their difference from one another.
- This service character does not allow standardisation of pricing across various service categories.
- A household service supplier, banking company, hairdresser, transporter, etc.; because of their unique character, tend to consider their pricing in a variety of ways.

Price

- In determining the prices of services, the one characteristic which has great impact is their perishability and the fact that fluctuations in demand cannot be met through inventory.
- Hotels and airlines offering lower rates in off-season and lower telephone charges for outstation calls after peak hours are examples of how pricing strategy can be used to offset the perishable characteristics of services.

Price

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- Another characteristic of services that creates a problem in price determination is the high content of the intangible component.
- The higher the intangibility, the more difficult it is to calculate cost and greater the tendency towards non-uniform services, such as fees of doctors, management consultants, lawyers, etc. In such cases, the price may sometimes be settled through negotiation between the buyer and seller.

Price

- On the other hand, in services such as dry cleaning, the tangible component is higher, and the service provided is homogeneous.
- It is easier to calculate the cost on a unit basis and have a uniform pricing policy. In general, the more unique a service is, the greater the freedom to fix the price at any level.
- Often the price may be fixed according to the customer's ability to pay. In such cases price may be used as an indicator of quality.

Price

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- The third characteristic to be kept in mind while determining prices is that in many services, the prices are subject to regulations, either by the government or by trade associations.
- Bank charges, electricity and water rates, fare for rail and air transport in India are controlled by the government.

Price

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- In many other cases, the trade or industry association may regulate prices in order to avoid undercutting and maintain quality standards. International air fares are regulated by international agreement of airlines, sea freight fares are regulated by shipping conferences.
- In all such cases, the producer has no freedom to determine his own price.

Price

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- The two methods which a service organisation may use to determine prices are cost-based pricing and market-oriented pricing. In the former, the price may be regulated by the government or industry association on the basis of the cost incurred by the most efficient unit.
- Such a pricing strategy is effective in restricting entry and aiming at minimum profit targets.
- The market-oriented pricing may either be a result of the competition or customer-oriented. In case of competition-oriented pricing, the price may be fixed at the level which the competitor is charging, or fixed lower to increase market share.
- Customer-oriented pricing varies according to the customer’s ability to pay.

Differential or Flexible Pricing

- It is used to reduce the 'perishability' characteristic of services and iron out the fluctuations in demand. Differential price implies changing different prices according to:
- customer's ability to pay differentials (as in professional services of management consultants, lawyers),
- price time differentials (used in hotels, airlines, telephones where there is the concept of season and off-season and peak hours),
- place differential used in rent of property-theatre seat pring (balcony tickets are more expensive than front row seats) and houses in better located colonies command higher rent.

Discount Pricing

- It refers to the practice of offering a commission or discount to intermediates such as advertising agencies, stock brokers, property dealers for rendering a service. It may also be used as a promotional device to encourage use during low-demand time slots or to encourage customers to try a new service (such as an introductory discount).

Diversionary Pricing

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- It refers to a low price which is quoted for a basic service to attract customers.
- A restaurant may offer a basic meal at a low price but one which includes no soft drink or sweet dish.
- Once the customer is attracted because of the initial low price he may be tempted to buy a drink or an ice-cream or an additional dish.
- Thus, he may end up buying more than just the basic meal.

Guaranteed Pricing

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- It refers to pricing strategy in which payment is to be made only after the results are achieved.
- Employment agencies charge their fee only when a person actually gets a job, a property dealer charges his commission only after the deal is actually transacted.

High Price Maintenance Pricing

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- This strategy is used when the high price is associated with the quality of the service.
- Many doctors, lawyers and other professionals follow this pricing strategy.

Introductory Pricing

- It is one in which an initial low price is charged in the hope of getting more business at subsequently better prices.
- The danger is that the initial low price may become the price for all times to come.

Offset Pricing

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- It is quite similar to diversionary pricing in which a basic low price is quoted but the extra services are rather highly priced.
- A gynecologist may charge a low fee for the nine months of pregnancy through which she regularly checks her patient, but may charge extra for performing the actual delivery and post-delivery visits.

Competitive parity pricing

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- Prices are set on the basis of following those set by the market leader.

Value based pricing

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- Prices are based on the service's perceived value to a given customer segment.
- This is a market driven approach which reinforces the positioning of the service and the benefits the customer receives from the service.

Relationship Pricing

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- Prices are based on considerations of future potential profit streams over the lifetime of customers.
- Relationship pricing follows closely the market oriented approach of value-based pricing but takes the lifetime value of the customer into account.

Pricing process

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1. Pricing objectives.
2. Determining demand.
3. Estimating costs.
4. Analysing competitors costs, prices and offers.
5. Selecting a pricing method.
6. Selecting final price.

Pricing process 1

- What is the organisation trying to achieve?
- **FINANCIAL OBJECTIVES**
- Return on investment
- Profit optimization
- Generating cash flow
- **MARKETING OBJECTIVES**
- Survival
- Maximum market share
- Maximum market skimming
- Product-quality leadership

Pricing process 2

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- All pricing decisions are, in the end, dependant on the level of market demand, and on "what the market will bear".
- The market demand for luxury product, such as Rolls Royce cars, is very small, and so is the supply. Supply and demand meet at a very high price, because there are a few customers that are willing to pay a lot extra for a luxury product because of its prestige value, etc.
- On the other hand, most customers for toothpaste are only prepared to pay a relatively small amount for each tube, rationalising that there is a limit to the value added potential of the product, which in any case they purchase relatively frequently.

Pricing process 3

- Full cost pricing: this type of cost pricing calculates all costs together, fixed costs and variable costs per unit, and adds a margin (profit for the company). It also takes into account sales estimates that are used as a dividing number. After a certain breakpoint, be it a month, a quarter year, or a year, the total costs of production are calculated and the price is set accordingly.
- Direct cost pricing: direct cost pricing is sometimes called marginal cost pricing. It includes the calculation of only those costs that are likely to rise as output increases. The obvious problem is that this price does not cover full costs and so the company would be making a loss selling a product at this low price.

Pricing process 4

- Within the range of possible prices determined by market demand and company costs, the firm must take competitor's costs, prices, and possible price reactions into account. If the firms offer contains features not offered by the nearest competitor, it should evaluate their worth to the customer and add that value to the competitor's price. If the competitors offer contains some features not offered by the firm, the firm should subtract their value from its own price. Now the firm can decide whether it can charge more, the same, or less than the competitor.

Pricing process 5

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- Given the customers demand schedule, the cost function, and competitors' prices, the company is now ready to select a price.
- Costs set a floor to the price. Competitors' prices and the price of substitutes provide an orienting point.
- Customers' assessment of unique features establishes the price ceiling.
- Companies select a pricing method that includes one or more of these three considerations.

Pricing process 6

- Pricing methods narrow the range from which the company must select its final price.
- In selecting that price, the company must consider additional factors, including the impact of other marketing activities, company pricing policies, gain-and-risk-sharing pricing, and the impact of price on other parties.

Summary

- We have learned pricing is one factor that has received much less attention in service firms. Pricing decisions in services are approached in a not-very-sophisticated manner.
- Pricing is important because it has a direct bearing on sales and profits of an organisation. Therefore, price cannot be determined in isolation without keeping in mind the sales it would generate and the profit it would earn.
- Pricing methods and practices tend to vary widely in service industries. Unlike goods which may bear similarities in processes, competition, output, raw material, labour, etc.; service industries are laden with diversity.