



**SLEZSKÁ
UNIVERZITA**

OBCHODNĚ PODNIKATELSKÁ
FAKULTA V KARVINĚ

Retail management

Pricing





Baseball bat and ball cost 11 €.

Bat cost 10 € more than ball.

How much the ball costs?

$$1 + 11 = 12$$



$$0,5 + 10,5 = 11$$



Relativity principle

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The Economist Subscription problem

- Of the original high interest in the \$ 125 (84%) printed and online subscription, the only version of interest-only version dropped to just 32%.
- An anchor in the form of unnecessary options in the middle affected the overall perception of the offer.
- An attractive third option (online + print) not only compared to the other (printed version only), but also with the first variation of online subscription.



Where do you want to travel?

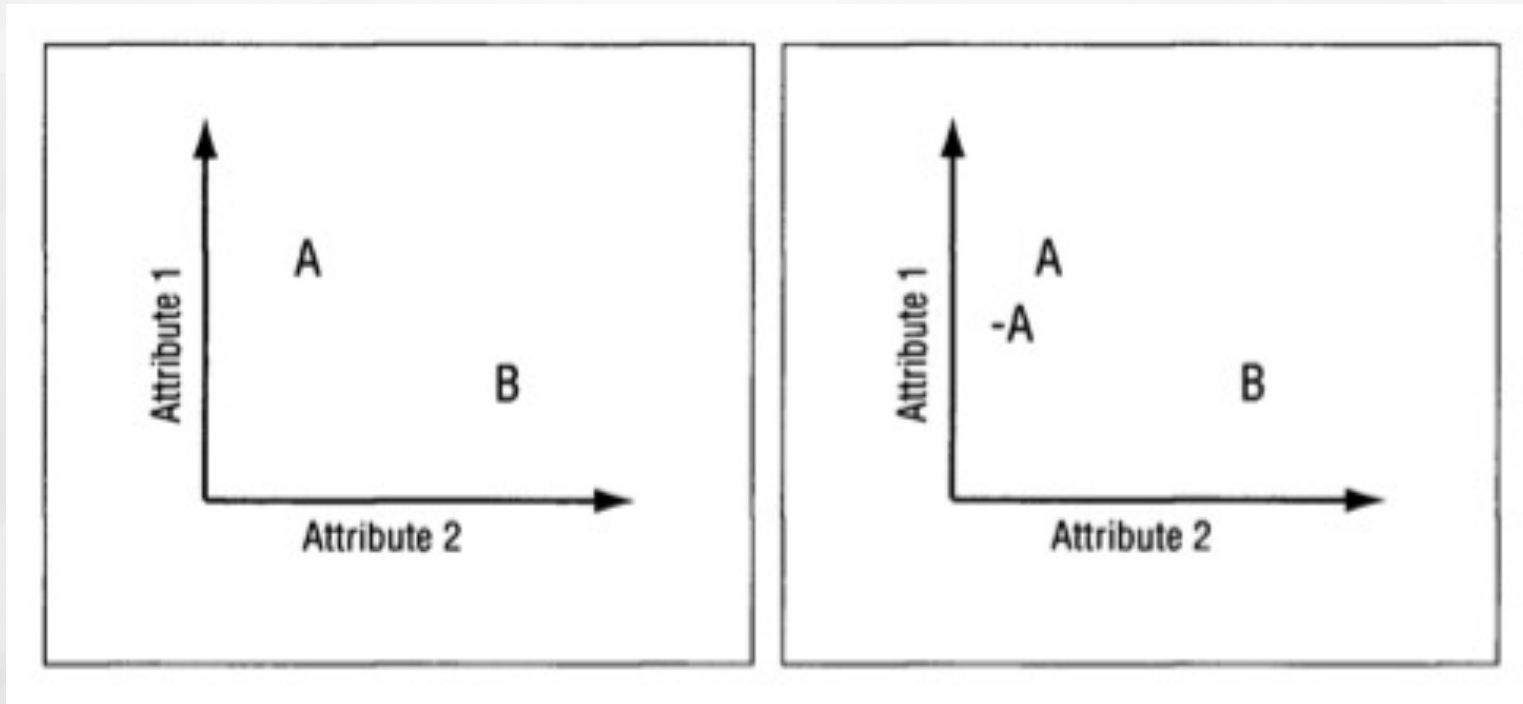


Paris or Barcelona?

- Your choice
 1. Trip to Barcelona All-inclusive, free transportation, you have to pay for your morning coffee,
 2. Trip to Barcelona All-inclusive, free transportation,
 3. Trip to Paris All-inclusive, free transportation,
- 2nd choice becomes more attractive compared to 1st choice and even compared to the 3rd one.
- Ariely on irrationality:
- https://www.ted.com/talks/dan_ariely_asks_are_we_in_control_of_our_own_decisions/transcript#t-816260









Anchoring



People lack preexisting subjective probability distributions over unknown quantities

average bids

						
lowest 20% of digits	\$8.64	\$11.73	\$8.64	\$16.09	\$12.82	\$9.55
highest 20% of digits	\$27.91	\$37.55	\$26.18	\$55.64	\$30.00	\$20.64



Removing currency denomination increases sales

15,-
VS
15,- €

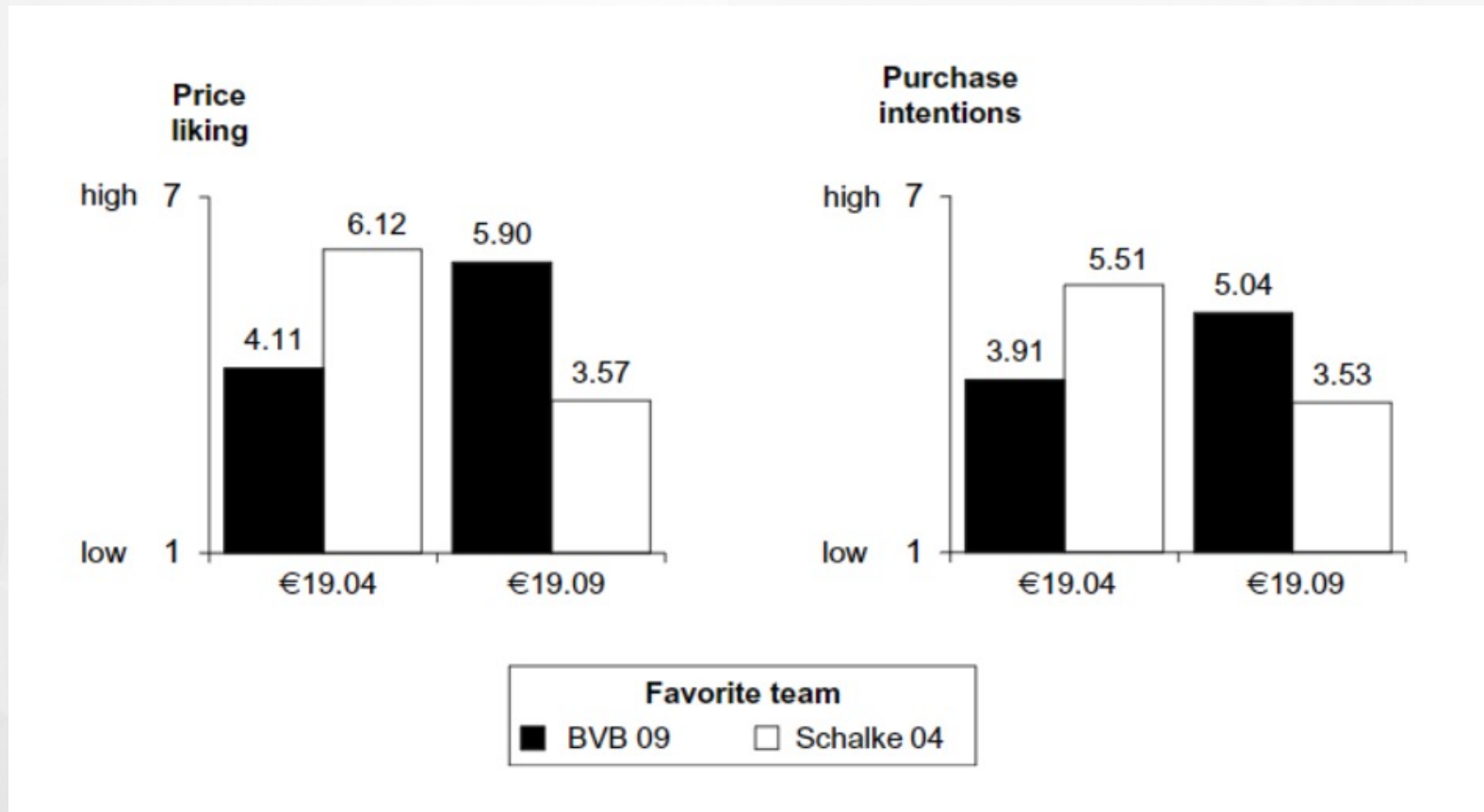


Birthday number price effect

- Implicit egotism resulting from consumers' positive self-associations affects their evaluations of product prices.
- Increased preference for prices with endings equaling to one's own birthday date.
- Coulter and Grewal (2014)



Housemann-Kopetzky and Köcher (2017)



Commas in price

1345 vs 1,345

11% difference in price perceptions



Fonts in pricing – how to promote price reduction?

Before 100 \$ Now 79 \$

vs

Before 100 \$ Now 79 \$



Consolidated surcharges

584 £

+ 10% tax

+ 3% shipping

584 £

+ 13% tax +
shipping



Price effects

- Substitution effect
 - Increase in price = reduction in demand
- Veblen effect
 - Increase in price = Increase in demand
- Guttenberg effect
 - Small increase in price = no change
 - Radical increase in price = hectic changes

Thorstein Veblen 1857 - 1929



Types of the market and pricing process

- **B2B - Business to Business**

- The price is usually determined for each contract in particular.
- Part of hard business bargaining.

- **B2C - Business to customer**

- Fixed prices for all within the market.
- Prices are public and information accessible.

- **B2G - Business to Government**

- The price is set in tenders and public contracts.



How to create a prices

- **Cost-Oriented Methods**
 - In practice, they are often used.
 - Costs determine the lower price limit.
 - It leads to a mismatch between the interests of the customer and the company.
 - Pricing adjusted to cost.
- **Competitive methods**
 - Concentration on monitoring and adjustment of competition prices.
 - Frequent in price leader markets.
- **Value-oriented methods**
 - The price is crafted through the analysis of added value to customer.



Value-oriented pricing



Value-oriented pricing

- One day in the mining business costs
 - 100.000 \$
- One hour:
 - 4.160 \$
- The price of the plug, which, thanks to its shape, saves one hour of work when drilling:
 - 3.000 \$
- Manufacturing costs:
 - 500 \$



Price penetration strategy

- ▶ Penetration or go to market strategy.
- ▶ It is based on a very low price.
- ▶ Fast market penetration and market share control.



Skimming strategy

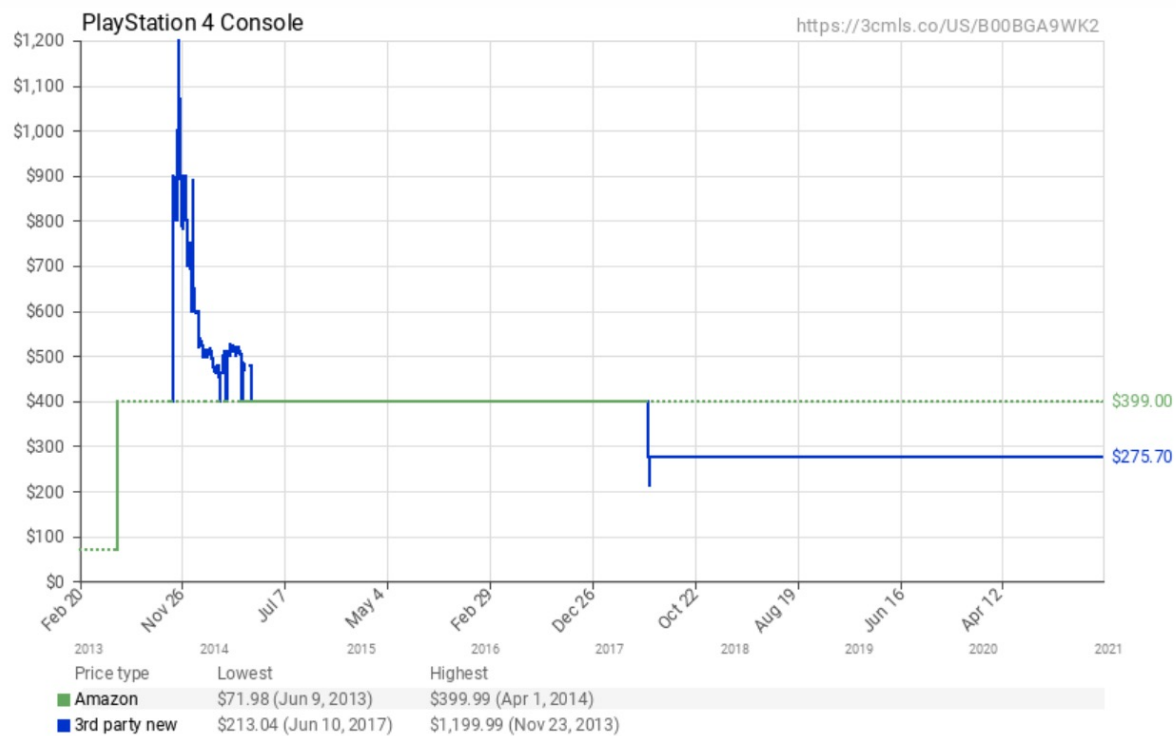
- **In a short period.**
 - High price on a fairly small market.
 - New customers adapt to the price.
- **In a long period.**
 - High profits are likely to attract competition.
 - The price cut will keep sales at the desired values.
 - Branded and fashionable goods, technological novelties (gaming consoles, tablets, smartphones).



Skimming strategy



Amazon Price History



Premium pricing



- High price throughout the product life cycle.
- Decreasing the price would be perceived by customers as a loss of prestige.
- Luxury brands (fashion, cars, jewelry, watches).
- Premium price assumptions:
 - The customer believes the goods are good quality.
 - The product will allow it to reflect the social status of luxury.
 - The cost of product failure is too high.



Skimming and premium pricing

- They are a strategy of high prices.
- The use of a high price carries certain assumptions:
 - The product is unique, patent-protected
 - Production is difficult
 - The high price does repels certain customer segments
 - The market is too small to attract competition
 - The product requires highly qualified staff



Psychological price development

- Consumers perceive mostly the first digit of the price and how many numbers it has. They do not care much about halter items. The meaning of the penny (cent) parts of the price increases with the strength of the currency.
- This effect is magnified by the price tags where these items are printed in smaller font (3.⁹⁸ €).
- Prices down to the last cents indicate to the consumer that the goods are sold at the lowest possible price.
- The importance of setting the right price increases with the development of Internet servers to compare goods (Heureka.cz, Zbozi.cz).



Psychological price development

Price tactics

- Using 1.99 instead of 2
- All for XX, -
- Monthly payments instead of the total price
- Free stuff (X + 1 action)
- Deploying high prizes and subsequent "drastic"
DISCOUNT





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Thank you

