TIERRANJANI AFRICA LIMITED

ITC | SheTrades

Pricing Products and Services

CONTENTS

01 Introduction

02 Types of pricing strategies

03 What to consider in pricing

04 Understanding consumer psychology

05 Factors affecting pricing

06 Tricks of the trade

Introduction

What is a pricing strategy?

A pricing strategy is **<u>a model or method used to establish the best price for a product or service</u>**.

It helps you choose prices to maximize profits and shareholder value while considering consumer and market demand.

•Account segments
•Trade margins
•Input costs
•Consumers’ ability to pay
•Production and distribution costs
•Variable costs

Introduction

Pricing Strategy is an all-encompassing term that can account for things like:

- ❖Market conditions
- ❖Actions that competitors take
- ❖Account segments
- ❖Trade margins
- ❖Input costs
- ❖Consumers’ ability to pay
- ❖Production and distribution costs
- ❖Variable costs

Price elasticity of demand

Price elasticity of demand is **used to determine how a change in price affects consumer demand**. If consumers still purchase a product despite a price increase that product is considered inelastic. On the other hand, elastic products suffer from pricing fluctuations.

You can calculate price elasticity using the formula:
% Change in Quantity / % Change in Price = Price Elasticity of Demand.

The concept of price elasticity helps you understand if your product or service is sensitive to price fluctuations. Ideally, you want your product to be inelastic — so that demand remains stable if prices do fluctuate.

Types of pricing strategies

1. Premium Pricing
Use a high price where there is **uniqueness about the product or service**. This approach is used where a substantial competitive advantage exists. Such high prices are charge for luxuries such as Cruises, Savoy Hotel rooms etc

2. Penetration Pricing
The price charged for products and services is **set artificially low in order to gain market share**. Once this is achieved, the price is increased.

3. Economy Pricing
This is a "no frills" low price. The cost of marketing and manufacture are kept at a minimum. Think of economy brands.

4. Price Skimming
Charge a high price because you have a substantial competitive advantage. However, the advantage is not sustainable. The high price tends to attract new competitors into the market, and the price inevitably falls due to increased supply.

Types of pricing strategies

***5*. Psychological Pricing**

This approach is used when **the marketer wants the consumer to respond on an emotional, rather than rational basis**. For example 'price point perspective' 99 cents not one dollar

6. Product Line Pricing (packaging)

Where there is a **range of product or services** the pricing reflect the benefits of parts of the range.

7. Optional Product Pricing

Companies will attempt **to increase the amount customer spend once they start to buy.** Optional 'extras' increase the overall price of the product or service. For example airlines will charge for optional extras such as guaranteeing a window seat or reserving a row of seats next to each other.

8. Captive Product Pricing

Where **products have complements**, companies will charge a premium price where the consumer is captured.

For example business class tickets.

Types of pricing strategies

9. Product Bundle Pricing

Here sellers **combine several products in the same package**. This also serves to move old stock.
Videos and CDs are often sold using the bundle approach.

10. Promotional Pricing

Pricing to promote a product is a very common application. There are many examples of promotional pricing including approaches such as BOGOF (Buy One Get One Free).

11. Geographical Pricing

Geographical pricing is evident where there are **variations in price in different parts of the world**.
For example rarity value, or where shipping costs increase price.

12. Value Pricing

This approach is used where **external factors such as recession or increased competition** force companies to provide 'value' products and services to retain sales

Factors affecting pricing strategies

Factors affecting pricing strategies in tourism

1. Cost

One of the most important factors affecting pricing is **production and market costs of products**.

Cost is not only an important factor in pricing but it also is a very important criterion for businesses to prevail upon their rivals in competition in markets.

Three factors of production; natural resources, labor and capital also apply to production of touristic goods and services.

2**. Competition**

Competition is the fight among businesses who want to sell goods or services to consumers .

In tourism sector prices should be in a level in which companies can **compete in the market** with the intention of finding a way to deal with rivals strategies, market place and rivals should be examined carefully .

To be able to survive increasingly fierce competition conditions, tourism companies can minimize their costs and maximize their incomes. Hence, tourism companies should take all these factors affecting costs and incomes into consideration before deciding on a price.

Factors affecting pricing strategies in tourism

3. Government regulations

Laws and regulations are the things to be considered in assigning prices. Governments may interfere in the prices of tourism companies either directly or indirectly via local governments.

4. Demand and market structure

It is essential for tourism companies to determine all kinds of demands for their goods and services.
To do that, companies should first conduct a market research to identify preferences and income levels of target market . Pricing takes place after assessing all the factors related to target market.
Evaluations about **the relationship between demand and price should be considered when deciding on a pricing strategy**. Different market structures may have different demand-price elasticity.
That is, different consumer groups may react in a different way to price changes.

Factors affecting pricing strategies in tourism

5. Factors depending on distribution Channels

The length of distribution channels used by tourism companies has an effect on pricing control.

6. Consumer Behaviors

Consumers **sense of quality, their experiences and behaviors** are among the factors affecting pricing . Low prices may imply costumers that the product is unqualified. Prices of substitute goods and services should also be considered before starting the pricing process.

Price and income elasticity rate of tourism products are generally high. It is said that when pricing is done without considering this information, consumer demands may change towards other goods and Services. What consumers want is to be able to benefit from tourism products in accordance with their budget. In this case, pricing is done considering consumers‟ budget while maximizing profit at the same time.

Understanding consumer psychology in relation to pricing your products and services

Setting pricing for tourism businesses is a **strong mix of marketing strategy and financial analysis.**

Is there a formula for developing pricing for tourism businesses?

Things to consider when setting your pricing strategy

1.How **unique** is your business? The more unique your tourism product the more flexibility you will have in deciding the pricing.

2. What **value added services** do you provide inclusive of the experience?

3. What **market** do you want to attract and what **positioning in the market** do you want to establish?

4. What are your **operating costs (fixed and variable)**? Using your costs, get your accountant to help you calculate your break-even point and therefore what your minimum pricing should be for profit goals (estimates of revenue, occupancy rates etc will be needed).

5. For most tourism businesses setting prices will be more **market based** – that is, what do **competitors with similar products and services charge within your market**? Be careful however, you must be aware of your own financial position (debt levels, cash flow etc) before you can decide whether you should compete in this way. Ideally being competitive is not price driven, it's product driven.

Understanding consumer psychology as it relates to pricing

Pricing **should be viewed as a practical process with the ultimate aim of keeping your business afloat.** In order to do that, you will need to understand the psychology of pricing, as it underpins the success or failure of any and every available pricing strategy.

In the marketing mix, **pricing is the only thing that brings revenue** and as such, it is vitally important that you become familiar with the ways you can use it to your advantage.

Pricing is a **concept that transcends profit margins**.

It’s also a **marketing tactic that can help your business boost sales volume**. When you think about pricing, you need to focus on more than what will cover your company’s operating expenses and pay the bills.

You need to choose numbers that will compel your audiences to buy.

Understanding consumer psychology as it relates to pricing

1. Emphasize value & ROI above cost

Instead of showing prospects what they should expect to spend, show them what they are going earn. As a marketer, you're well aware that costs are always relative to outcome. Instead of fixating on how your product delivers the best rates in the industry, communicate something more — that your product comes with **unbeatable results**

Cost is always relative, in the eye of the beholder. **Communicate ROI first — before cost becomes a consideration.** If you're able to communicate results in terms of a clear value proposition, your costs will look much less expensive.

"Because a person's experience with a product tends to foster feelings of personal connection with it, referring to time typically leads to more favorable attitudes—and to more purchases".

Jennifer Aaker, the General Atlantic Professor of Marketing at Stanford Graduate School of Business.

Understanding consumer psychology as it relates to pricing

2. Be wary of comparative pricing

Consumers won't always go for the cheapest. They may go for the consumer brand, which seems like a **'less risky'** choice. Or, consumers may avoid making a purchase altogether.

- **Implicit comparisons** occur when a customer takes the initiative to compare two or more products.
- **Explicit comparisons** are those that are specifically stated or brought up by the marketer or advertiser.

Understanding consumer psychology as it relates to pricing

3. Avoid option overload

Pricing is a discipline where art meets science. On the one hand, you want to empower your customers with tons of information. You want to be flexible, and you want to offer **'premium'** packages.

But here's the thing — **when it comes to pricing, less is more**.

"Consumers constantly face analysis paralysis, where too many options actually result in no decision being made".

Oli Gardner – Unbounce Software company

Understanding consumer psychology as it relates to pricing

4. Price Vs. Value

Is price a measure of value?

Not necessarily, says a study conducted in 2008 by Goldstein and team.
The study found that people **“do not derive more enjoyment from more expensive wine”** when they don’t know much the wine cost.

According to another study, however, there is **a clear correlation between price and perceived value**.
When participants were told that a wine had a high price, participants gave that wine higher ratings.
The study took its analysis a step further by examining actual neurological responses to this wine tasting activity.

When told that a wine was more expensive, study participants experienced higher activation in the brain regions associated with feelings of pleasantness.

To some extent, consumers are letting price influence how they feel about products and services.

Tricks of the trade

1. Per-Customer Limits

This language creates the illusion of a product being a scarce resource. You're instantly compelled to buy more in case it runs out.

2. The Power Of '9'

Prices ending in 9, 99, or 95 are called 'charm prices'. We've been culturally conditioned to associate 9-ending prices with discounts and better deals.

Plus, we read numbers from left to right, we encode a price like **$7.99** as **$7** — especially if we read too quickly. It's called **"left-digit effect"**:

We encode it in our minds before we read all the digits.

Tricks of the trade

3. Easy Math

Humans have short attention spans. Every fraction of a second matters. We don't have time to waste on interpreting commas and decimal places. That's why retailers will use whole, flat numbers.
Some stores will put a product on sale and show you the original price from which it was marked down. The sign might say that the original cost was **$10** and now **$8** instead of **$7.97**. That's because **'$7.97'** is an awkward number. Even though **'$7.97'** is cheaper, it takes a little more time to digest and instantly calculate the savings. It's easier to go to **$8**, as customers can calculate **'$10-$8'** very quickly.

4. Reduced Font Size

Marketing professors at Clark University and The University of Connecticut found that consumers perceive sale prices to be a better value when the price is written in a small font rather than a large, bold type face. This is something that marketers sometimes get wrong.

The theory is that the human mind connects physical magnitude to numerical magnitude.
Keep in mind, however, is that human eyes aren't created equally. Small fonts, especially on a computer screen, can be tough to read. Don't force your audiences to read, but don't bombard them with giant text advertising your sales either.

Key takeaways

❖ **Pricing is more than just numbers**. Consumers are typically looking to solve a problem and relieve a key pain point. When trying to establish the **'right'** price, speak directly to your audience's needs and values. The solution you're able to provide will exponentially outweigh the numbers you select.

❖ **Simplify the user experience as much as possible.** Avoid option-overload, and keep price points close to round numbers. If incorporating a discount or price comparison with a competitor, get rid of decimal points or commas — they're only going to confuse your audience.

❖ **Remember that pricing is all about context**. Some demographic groups will be more price conscious (and price sensitive) than others. Some individuals will be aggressive about saving and finding deals. Others will be more flexible about how much money they're willing to spend. These individuals will likely prioritize their time above saving a few dollars.

❖ **Your approach to pricing goes hand-in-hand with your company's go-to-market strategy**. Talk to your customers, run a survey, and conduct a qualitative study to figure out — exactly —what your customers want. Are they price sensitive or relatively flexible with their budgets? Focus on your market, and give them exactly what they need. You may exclude some consumer groups, but hey, that's fine.

We would love to hear from you…

Any questions???

Email: angela@tierranjaniafrica.com

References:

QuickBooks - https://quickbooks.intuit.com/

Research Gate - https://www.researchgate.net/publication/326973857_

Tourism Industry Blog - https://www.tourismindustryblog.co.nz/2010/03/pricing-strategy-for-tourism-businesses/

Bplans.com - https://articles.bplans.com/7-strategic-ways-to-price-your-products-and-services/

Quicksprout.com - https://www.quicksprout.com/psychological-pricing/

Mount Kenya University – https://www.mku.ac.ke/

Hubspot - https://blog.hubspot.com/sales/pricing-strategy