

Methods of pricing jigsaw

1. Price skimming.
2. Penetration pricing.
3. Competitor based pricing.
4. Demand based or perceived value pricing.
5. Cost plus pricing.
6. Predatory pricing.
7. Price discrimination.
8. Loss leader.
9. Psychological pricing.

Price skimming.

High initial price to cover initial research and development costs quickly. Suitable for an innovative or protected product (e.g. patent) and where demand is price inelastic.

Penetration pricing.

Low price to gain market share quickly. Suitable when there are substantial economies of scale or when demand is price sensitive

Competitor based pricing:

Suitable when the market is competitive and price comparisons are easy, e.g. shopping goods.

METHODOLOGY	DEFINITION	ADVANTAGES	DISADVANTGES
price skimming			
penetration pricing			
competitor based pricing			

Demand based or perceived value pricing:

Firm tries to estimate what people are willing to pay. This is the most market oriented approach, but it can be difficult to discover what people are willing to pay.

Cost plus pricing:

The firm adds an amount on to unit costs to decide on the price. This is a simple and, therefore, popular pricing method, but ignores demand conditions.

Predatory pricing:

A firm undercuts competitors to remove competition; one competitors leave, the price is increased again. This policy can lead to a price war in which all firms try to undercut each other.

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demand based or perceived value pricing			
cost plus pricing			
predatory pricing			

Price discrimination:

Charging different prices for the same product/service, e.g. some taxis charge different prices late at night, rail fares are often higher at peak times; and some bars have 'happy hours' when drinks are cheaper. The firm will increase the price in segments where demand is price inelastic and decrease the price when demand is price elastic.

Loss leader:

Product sold below cost to generate orders for other product e.g. retailers put well known brand in shop windows and sell at a loss to attract people into the store.

Psychological pricing:

Focuses on consumer's perception of price, e.g. charging high prices to convey quality, charging £2.99 rather than £3.00 because people regard it as 'over £2' rather than in the £3 band, and stressing a reduction in price (e.g. was £20, now £12).

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