

# **Pricing Strategies and Tactics Notes:**

## ***Lecture 1: Introduction to Pricing***

Definition of Price:

- Price of product or service is number of monetary units a customer has to pay to receive one unit of product/service.
- Price takes into account different aspects:
  - Perceived Value of Product:
    - Influenced by product/service itself and other marketing instruments.
  - Willingness to Pay:
    - Influenced by customers' wants/needs and their financial situation.
- Needs to find balance between value delivery and distraction.
- Customer will buy product/service if perceived value greater than price.
- Will mostly prefer product with highest net value which is greatest difference between price and perceived value.
- Price is the most effective driver of profit.

## ***Lecture 2: Strategy and Price Positioning***

5 Major Elements of Strategy:

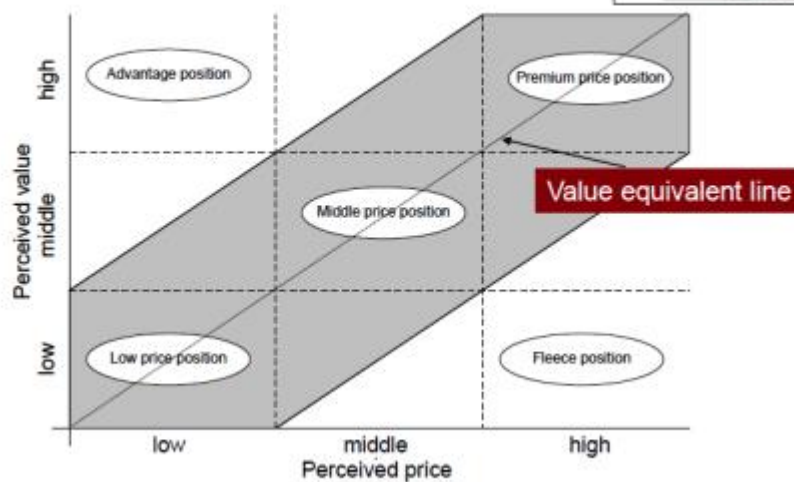
- Statement to following areas are needed to develop a strategy:
  - Differentiator: how will we win? (Image, price and styling).
  - Arenas: where will we be active? (Region, customers and market).
  - Vehicles: how will we get there? (Internal development and joint ventures).
  - Economic Logic: how will we obtain returns (Lowest cost through scale).
  - Staging: what is the speed and sequence of moves? (Speed of expansion).

Price Positioning:

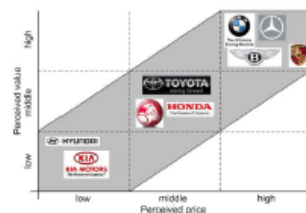
- Price positioning: effort of a company to design products so they deliver highest perceived value.
- Goal to position product at exactly right spot to capture greatest reward for benefits.
- 3 main price positions:
  - Premium.
  - Middle.
  - Low.
- Increased importance of price positioning due to:
  - Hybrid customers: people who shop in different price positions depending on price categories.
  - Shrinking middle position segment due to companies introducing different brands to target different segments.

Value Maps:

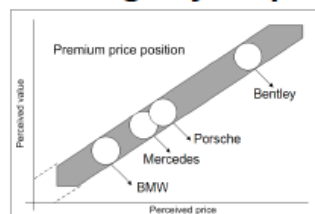
➤ **Creating value maps!**



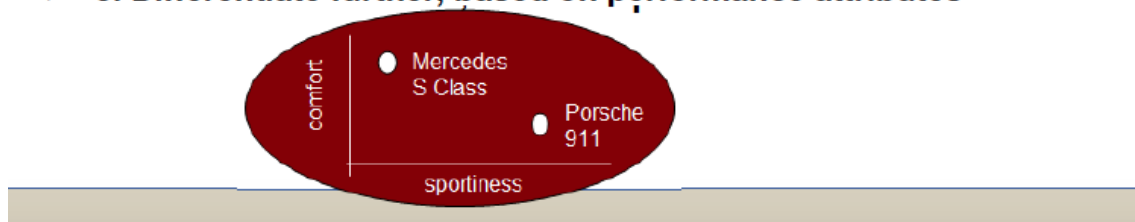
➤ **1. Rough classification of the Market**



➤ **2. Fine positioning of your price**



➤ **3. Differentiate further, based on performance attributes**



Three Types of Benefits Suppliers Provide to Customers:

- Functional benefits: relate to physical nature and performance of product.
- Process benefits: those that aid transactions between buyers and sellers.
- Relationship benefits: those that accrue to customer from entering into mutually beneficial relationship with seller. Include emotional connection to brand and loyalty rewards.

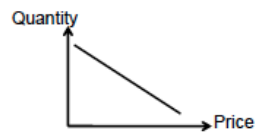
## ***Lecture 3: Psychology of Pricing***

### Economic View of Pricing:

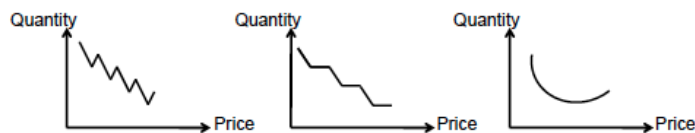
- Looks at stimulus response relationship.
- Basic assumption – consumers are well informed and behave rationally.

### Price – Quantity Relationship:

#### ➤ The law of demand:



#### ➤ Reality:



### Psychological View of Pricing:

- Looks at stimulus-organism response relationship.
- Reaction may be affected by perceptions and emotions.

### Purchase Phases:

1. Pre-purchase: price search, perception and judgement.
2. Purchase: WTP, price preference, satisfaction and confidence/fairness.
3. Post-purchase: price learning and knowledge.

### **Pre-Purchase**

#### Price Search:

- Search for product-related information before deciding to buy.
- Depends on interest and experience.
- Price experience and interest can activate purchase process by stimulating emotions.

#### Price Perception:

- Consumer's transform objective price information into perceived prices via cognitive processing.
- Cognitive processing begins with objective price, then through sensory and lexical encoding as well as categorical encoding, reach subjective price.
- Sensory and lexical encoding: physical perception of stimulus and interpretation as price.
- Categorical encoding: categorisation of price based on past experience and product features.

- Price perception determined by factors including:
  - Reference points (adaptation-level theory and assimilation-contrast theory).
  - Proportional price evaluations (Weber-Fechner law).
  - Gain-loss framing (prospect theory).
  - Odd-pricing and price thresholds.
  - Price-quality relationship.
  - Difficulty of price comparison.

#### Reference Price:

- These are the expected prices of products.
- Result of factors such as income levels, past experience, advertising and where purchasing from.
- Theories:
  - Adaptation-level theory: reference prices adapt due to focal stimuli (actual prices) and background stimuli (buyers budget).
  - Assimilation-contrast theory: customers assimilate and contrast prices.

#### Proportional Price Evaluations:

- Customers evaluate prices differently based on proportion of increase or decrease in price.
- E.g. wouldn't move store if a car was \$3 cheaper somewhere else but would if a Sprite was.
- Known as Weber-Fechner effect.

#### Gain-Loss Framing:

- Prospect theory: People place more importance on avoiding losses than on capturing equal size gains (Loss Aversion).

#### Odd Pricing and Price Thresholds:

- Prices that end in odd amounts may appear to be lower.
- Price thresholds: consumers have ranges of price acceptance rather than single points.
- Thresholds determined by Van-Westendorp Approach.

#### Price – Quality relationship:

- High prices can lead to higher demand if consumers perceive quality from the price.
- May be due to:
  - Experience has shown higher priced products are of better quality.
  - Price sometimes only product feature that allows to compare products objectively.
  - Consumers think there is a price-cost relationship.

#### Difficulty of Comparison:

- Can be difficult to develop reference prices when incumbent/new entrant, brands vs. generics and size changes.

### **Purchase:**

WTP and Price Preferences:

- Have number of price points (too cheap, cheap, expensive and too expensive).
- Van-Westendorp's price sensitivity meter helps to determine the indifference price point.

### **Post-Purchase:**

Price Recall:

- How well consumers can remember and recall prices of products.
- Influenced by purchase frequency, income levels and budget etc.

Endowment Effect:

- Consumers place more value on something they own.

Cognitive Dissonance:

- When consumers are unhappy/worried after purchasing a product/service.

## ***Lecture 4: Economy 1***

Internal Factors Influencing Pricing Discretion:

- Corporate Factors:
  - Corporate aims e.g. profit.
  - Costs.
- Obtaining information on costs is relatively easy because company has past in-house information.
- Different types of costs:
  - Fixed costs: expenses not dependent on activities.
  - Variable costs: expenses that change in proportion to activity.

External Factors Influencing Pricing Discretion:

- Different types of markets:
  - Pure competition: numerous competitors offer undifferentiated products; no buyer or seller can exercise market power.
  - Monopolistic competition: numerous competitors offer similar products.
  - Oligopolistic competition: small number of competitors offer slightly differentiated products.
  - Pure monopoly: only one supplier and there are substantial barriers to entry.
- Observation of Competitors:
  - Identification of competitors:
    - Close (identical products).
    - Middle (similar).
    - Broad (utility related).

- Analysis of competitors:
  - Analysing price, market share etc.
  - Looking at customer structure and perceived value.
- Prediction of possible future pricing by analysing competitors' potential cost structure, capacities, financial power and technologies.

#### Price Elasticity:

- Refers to relation of relative change of volume given a relative change in price.
- Elasticity between -1 and 0 means inelastic or relative inelastic.
- Elasticity equal to 1 or -1 means unit elastic.
- Elasticity greater than 1 or -1, means it is elastic or relatively elastic.
- Elasticity is affected by product, market and consumer characteristics.

$$\varepsilon = \frac{\text{percentage change in volume}}{\text{percentage change in price}} = \frac{\frac{\Delta \text{ volume}}{\text{volume}}}{\frac{\Delta \text{ price}}{\text{price}}}$$

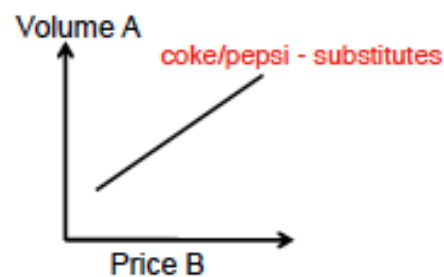
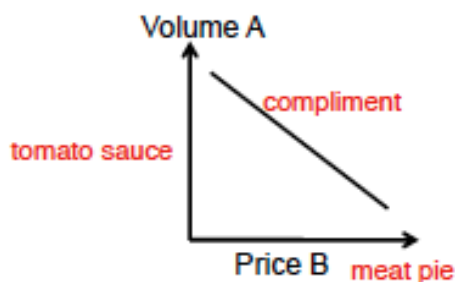
Take care when calculating relative changes: Always take  $\frac{\text{new value} - \text{old value}}{\text{old value}}$

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#### Cross-Price Elasticity:

- Degree of dependency of one product's price on the price of another.
- When cross-price elasticity negative, products are compliments.
- When cross-price elasticity positive, products are substitutes.

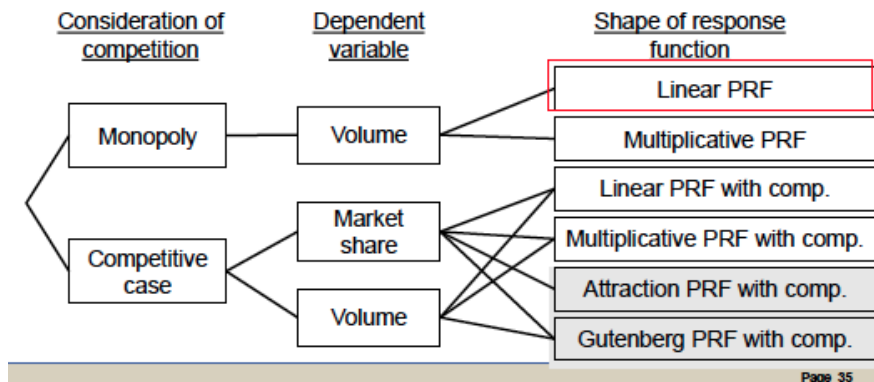
$$\varepsilon_{AB} = \frac{\text{percentage change in volume of product A}}{\text{percentage change in price of product B}} = \frac{\frac{\Delta \text{ volume}_A}{\text{volume}_A}}{\frac{\Delta \text{ price}_B}{\text{price}_B}}$$



#### Price-Response Function:

- Describes relationship between price and volume.
- Captures consumers' reaction to different prices given WTP and competitor's prices.
- Price is p and volume is q.
- Price is independent (x-axis) and volume is dependent variable (y-axis).
- Individual Price Response Function:
  - Describes reaction of single consumer to different prices.

- Aggregate Price Response Function:
  - Obtained by adding quantities purchased at different prices.
  - Generally, has a negative slope as higher prices lead to lower sales.
  - Can be approximated by a continuous curve if considering large number of customers.
  - Price elasticity measures slope of continuous curve.
- Categorisation of Mathematical Price Response Functions (PRF):



#### Linear Price Response Function:

- Formula:  $q = a - bp$
- Where  $q$  is volume,  $p$  is price,  $a$  and  $b$  are parameters to be estimated.
- Elasticity =  $-bp_A/a - bp_A$
- Highest possible sales volume is 'a'.
- Max price where no more sales can occur is  $a/b$ .
- Higher 'b' implies more price sensitive demand.

#### Multiplicative Price Response Function:

- Formula:  $q = ap^b$
- Elasticity is  $b$ .
- For price close to 0, volume approaches infinity.
- More negative value of  $b$  means more price-sensitive demand.
- Sales volume can never be 0.
- Elasticity remains constant with different price levels as it always equals  $b$ .

#### Overview of Competitive Price Response Functions:

Model	Dependent Variable	Formula	Own elasticity	Cross elasticity
Linear	$q_A$	$q_A = a - bp_A + cp_B$	$\epsilon_A = -b \frac{p_A}{a - bp_A + cp_B}$	$\epsilon_{AB} = c \frac{p_B}{a - bp_A + cp_B}$
Multiplicative	$q_A$	$q_A = ap_A^b p_B^c$	$\epsilon_A = b$	$\epsilon_{AB} = c$

## ***Lecture 5: Economy 2***

Two General Approaches to Obtain Data Needed:

1. Direct determinants of price quantity relations.
2. Indirect determinants of price quantity relations through consumer WTP.

Direct Determinants:

- Price experiments.
- Market data.
- Expert judgements.
- Directly get price quantity relations from this data, no transformation needed.
- No determination of WTP.
- Not possible to develop price discrimination strategies from this data as need individual WTP to find optimum prices.

Price Experiments:

- Present alternative prices and explore buyer behaviour.
- Derive impact of prices on sales volume and market share.
- 3 common approaches:
  - Field study:
    - Test price effects on real sales data.
    - Test markets are an example, and they test price effects on demand in regional markets.
    - Common in consumer markets.
  - Lab experiment:
    - Simulated situation in which price effects on demand and market share tested.
    - Test buyers confronted with simulated purchase environment.
    - Given amount of money and asked to purchase.
    - Based on simulated purchases of test buyers, relationship between demand and sales can be determined.
  - Direct marketing:
    - Deliver test catalogues with adjusted price to pre-selected consumers.
    - Common approach of mail-order businesses.
    - May make slight changes to price of one item in differing catalogues to see if changes demand.

Market Data:

- Good data availability for many markets.
- Time-series data.
- High variation of prices needed to measure relation between price and sales volume.

Expert Judgements:

- Cheap and efficient opportunity to analyse market and to calibrate price-consumption curve based on in-house knowledge.
- Systematic process to extract internal knowledge and experience.



- 5-10 experts generally used from different hierarchy levels and positions.
- Process:
  1. Discussion and outline data.
  2. Execute estimations.
  3. Discuss estimations.
  4. Result.

#### Indirect Determinants:

- Usage offers.
- Survey with consumers.
- This data more complex to calibrate 'aggregated' price response function, but data transformation is needed.
- Allows for finding of optimal prices for price discrimination strategies.

#### Usage Offers:

- English auction: open auction where participants outbid others.
- Dutch auction: auctioneer decreases prices in predefined timing, first bidder gets reward.
- Sealed first-price auction: bidder with highest bid pays bidden price, only 1 bid allowed.

#### Survey with Consumers:

- Direct Questioning:
  - Ask directly about WTP.
  - Approaches to get WTP:
    - Open-ended contingent valuation (how much are you willing to pay?).
    - Closed-ended contingent valuation (for which price would you buy?).
  - Approaches to get further information about price judgements:
    - Van Westendorp: "Consider following product. Which price is too cheap, cheap, expensive, too expensive?"
    - Gabor Granger: respondents to state how likely to buy given certain price points.
    - Open line pricing: indicate on scale maximum and minimum price willing to pay.
- Indirect Questioning:
  - Conjoint approach:
    - Products described as attributes and attribute levels.
    - Consumers WTP for product depending on WTP for different attribute levels.
    - Consumers evaluate complete products and are forced to make trade-offs.

## ***Lecture 6: Single Unit Pricing, Optimal Price and Break-Even Analysis***

### Overview of Pricing Decisions:

- Pricing comprises different levels of complexity, given by:
  - Number of products to be priced.
  - Number of prices for each product.
  - Level of interaction between pricing of different products.
  - Timing of pricing.

### Single Unit Pricing:

- Approaches for single unit pricing can be classified according to amount of info required.
- Partial pricing:
  - Uses only one kind of information.
  - Approaches include cost-based, value-based and market-based pricing.
- Simultaneous pricing:
  - Uses different sources of information.
  - Approaches include:
    - Pricing based on break-even analysis.
    - Pricing based on target profit analysis.
    - Pricing based on decision-trees.
    - Pricing based on mathematical analysis.

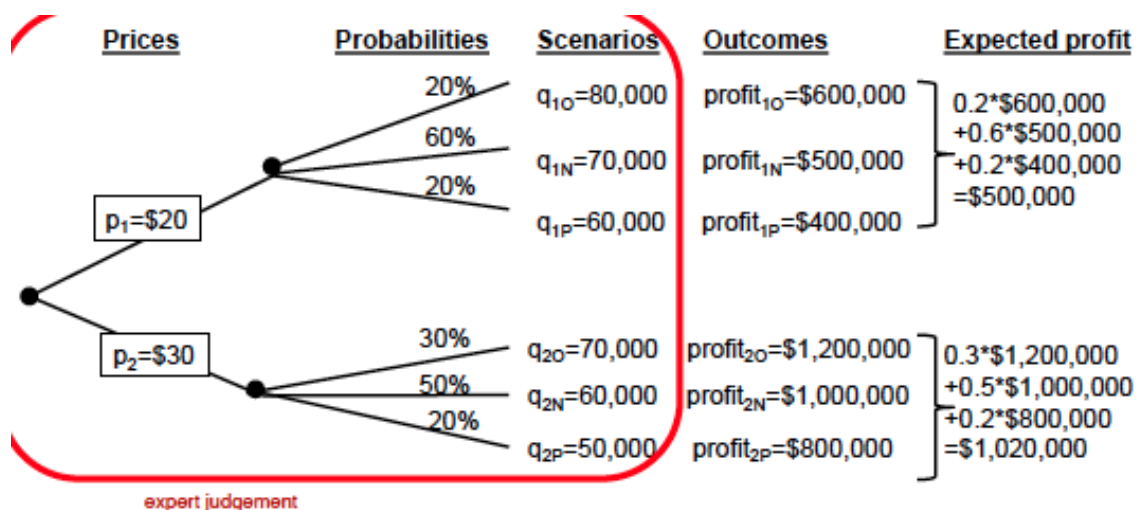
### Partial Pricing:

- Cost-plus Pricing:
  - Price made by adding mark-up to average cost.
  - $\text{Price} = (1 + \text{mark-up rate}) \times \text{Average cost}$ .
  - Can be average total or variable costs.
  - Rate chosen by firm's habits, industry sector's habits or past experience.
  - To find average total costs, add fixed and variable costs and divide by quantity.
- Value-based Pricing:
  - Buyer's perceptions of value are key.
  - Use non-price variables to build up perceived value.
  - Price set to match perceived value.
- Market-based Pricing:
  - Economic value pricing:
    - Price set lower than customers perceived value and lower than that of competitors.
  - Competition based pricing:
    - Competitors have control of price so should try and avoid this method.
    - Sealed bid/tender: price based on how thought competitors will price.
    - Going rate: based on what competitors charging in broad sense.
    - Pure parity: use price of a chosen competitor.
    - Dynamic parity: given a chosen competitor, maintain constant price gap with their prices.

- Discount pricing: price always below average of competitors.
- Premium pricing: price always above average of competitors.

#### Simultaneous Pricing:

- Pricing based on Break-Even Analysis:
  - Need to predetermine price per unit, variable costs and fixed costs.
  - $BEQ = (\text{Profit} + FC) / (\text{Price} - VC)$
  - Profit always \$0 in this formula.
  - Evaluate whether break-even quantity achievable at given price:
    - Don't introduce product if BEQ not achievable.
    - If choosing price, choose price where BEQ most achievable.
- Pricing based on Target Analysis:
  - Predetermine price per unit, variable costs, fixed costs and target profit.
  - Compute target quantity.
  - $\text{Target Quantity} = (\text{Profit} + FC) / (\text{Price} - VC)$
  - Don't introduce product if TQ not achievable.
  - If choosing price, choose price where TQ most achievable.
- Pricing based on Decision Trees:
  - Tree-like graph of price decisions and possible consequences under different scenarios.
  - Has optimistic, neutral and pessimistic scenarios.
  - Steps:
    1. Set number of prices.
    2. For each price, estimate optimal, neutral and pessimistic sales volumes and judge likelihood of occurrence.
    3. Calculate profit for each scenario as well as expected profit (sum profits x probabilities).



- Pricing based on Mathematical Analysis:
  - Consists of a mathematical function that describes the relationship between prices and sales volume.
  - Also consists of a cost function that tells you costs incurred at different sales volumes.
  - Linear optimal price  $(p) = 0.5(a/b + k)$
  - Where  $k$  = Variable Cost per unit.
  - For example, for function  $q = 200 - 2 \times \text{price}$  with  $VC = \$50$ :
    - $a = 200$
    - $b = 2$
    - $k = 50$
  - Amoroso-Robinson Relation:  $p = [b / (1 + b)] \times VC$  per unit
  - For example, with Volume = 15 000 000  $p^{-2}$  and  $VC = \$10$ :
    - $b = -2$
    - $VC$  per unit = 10
  - Substitute price found back into the volume function provided to find the quantity, then substitute quantity into given fixed cost function to find total fixed costs. Once have price, quantity, variable costs and fixed costs, substitute all variables into profit formula to find profit.

## ***Lecture 7: Multi-Dimensional Prices (Part 1 and 2)***

Basics of Price Discrimination Strategies:

- Charge different prices for basically same product in different varieties or quantities.
- Aim to gain more profit by absorbing consumer surplus compared to offering just one unifying price.

Classification of Price Discrimination Strategies:

- First Degree Price Discrimination:
  - Firm charges each customer a different price.
  - Captures all surplus.
  - E.g. Bazaar.
- Second Degree Price Discrimination:
  - Firm offers product at different prices and each consumer self-selects into one price-product combination.
  - Firm unable to appropriate all of the consumer surplus.
  - E.g. Special prices for heavy users, at different times etc.
- Third Degree Price Discrimination:
  - Firm makes use of certain characteristics of consumers to divide consumers into groups and charges these groups different prices.
  - Firm unable to appropriate all of the consumer surplus.
  - E.g. Special prices for students.

Price Discrimination Strategies without Self-Selection:

- Individual-based Price Discrimination:
  - First degree price discrimination.
  - Only possible through individual negotiations such as salespeople.

- Group-based Price Discrimination:
  - Third degree price discrimination.
  - For example, products costing more in US than AU.

#### Price Discrimination with Self-Selection:

- Basic idea for self-selection means: company offers different prices for in general identical products (might be different product versions and quantities) and consumer selects product-price combination which generates highest consumer surplus.
- All second degree forms of price discrimination.
- Quality-based Price Discrimination:
  - Company offers same product but different versions of it for different prices.
  - Company may sell a simple and luxury product.
- Time-based Price Discrimination:
  - Company offers same product at different prices depending on time of use or purchase.
- Search cost-based Price Discrimination:
  - Company offers same or slightly modified product at different prices whereby cheaper prices harder to 'find' than high prices.
  - Example is retailer offline and online shops.
- Quantity-based Price Discrimination:
  - Company offers different quantities of same product for different prices.
  - Example includes buy 2 get 3.

#### Aims that can be Achieved via Price Discrimination:

- Sell more to same customers (quantity-based price discrimination).
- Sell more across customers (quality-based price discrimination).
- Manage peaks in demand when capacity is limited (time-based price discrimination).
- Companies may apply more than 1 strategy.

## ***Lecture 8: Multi-Dimensional Prices (Part 3)***

#### Yield Management:

- Process based on anticipating and influencing consumer's behaviour for a fixed, perishable resource to maximise profit.
- Uses time of purchase/usage to discriminate prices across consumers.
- Conditions for application:
  - Capacity of product/service is fixed.
  - Demand varies over time.
  - Beneficial when high fixed costs and low variable costs.

#### Bundling:

- Price bundling: sale of separate products at discount price.
- Product bundling: sale of integrated products at any price.
- Reasons for bundling include cost efficiency, competitive strategy and to create market opportunities that may enhance profits.
- Bundling strategies:
  - Unbundling: company offers products separately.
  - Pure bundling: company offers products only in a bundle.
  - Mixed bundling: company offers products separately as well as the bundle at the same time.

#### Pricing of Product Lines:

- Interdependencies between products inhibit an isolated determination of profit maximising prices.
- Pricing complements by exploiting consumers' inconsistencies:
  - Complements often have one base product.
  - Consumers usually focus on price of base product rather than price of all components (lock-in effect).
- Pricing substitutes:
  - Need to try and balance value to customer and price.

### ***Lecture 9: Multi-Dimensional Prices (Part 4)***

#### Pay what you want Pricing:

- Innovative, participative pricing mechanism where the whole price determination is left to the buyer, transaction completes to exactly price set by buyer and seller cannot reject price.
- From company's perspective, provides differentiation through innovative pricing.
- From consumer's view, fairness perception of pricing models lower for dynamic prices.
- Both buyer and seller have influence on final price.
- Determination of final price:
  - Buyer: pay what you want.
  - Both: stock exchange.
  - Seller: reverse auctions.
- Determinants of WTP in PWYW: satisfaction, fairness, altruism, loyalty, income and reference price.

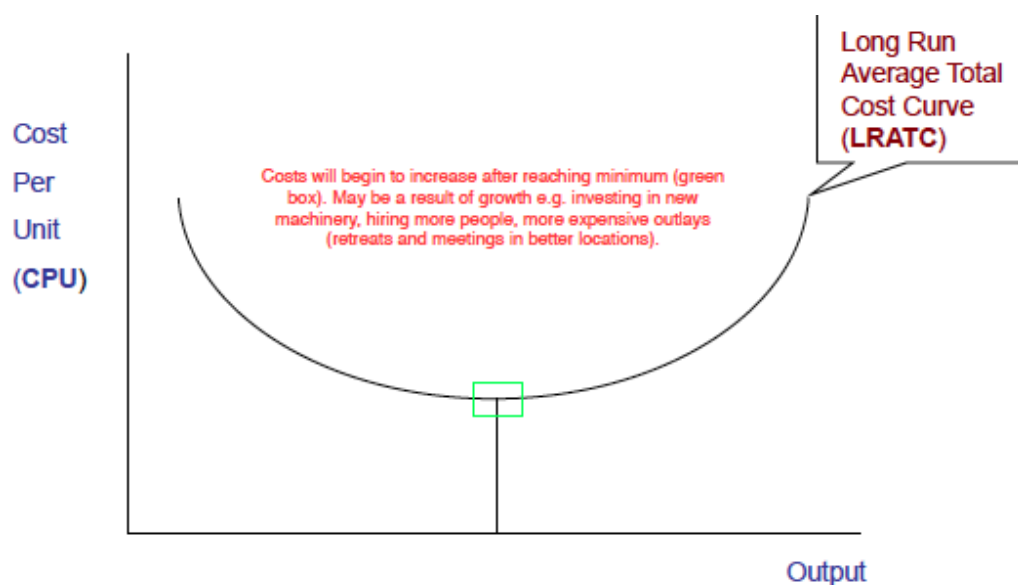
### ***Lecture 10: Long-term Price Optimisation***

#### Pricing Over Time:

- Companies aren't myopic, but try to maximise long-term profit.
- This requires consideration of future profits and the dynamic aspects on behalf of the market and company.

## Cost Dynamics:

- Experience Curve:
  - Involves experience and unit costs.
  - Concept: each time cumulative production volume of a product doubles, unit costs fall by a constant percentage, i.e. the learning rate.
  - Typical learning rates are 20%-30%.
  - Reasons for the experience curve effect:
    - labour efficiency.
    - Standardisation, specialisation and methods improvements.
    - Technology-driven learning.
    - Changes in resource mix.
    - Product redesign.
    - Shared experience effects.
  - Costs begin to increase after reaching minimum point on experience curve.
  - This may be a result of:
    - Growth (investing in new machinery)
    - Hiring more people
    - More expensive outlays (having company retreats and meetings in better locations)
  - Want to drive experience curve down as fast as possible in order to reduce unit costs.
  - Positives:
    - Helps to set objectives.
    - Helps to determine future costs.
    - Helps to understand that prices will reduce in future.
  - Negatives:
    - Only a forecast, not guaranteed to have exact same costs.
    - Hiring contractors may help to lower curve quicker than first expected.



- Economies of Scale:
  - Economies of scale is a proportionate saving in cost given an increase in production.
  - Reasons for economies of scale:
    - Labour efficiency.
    - Helps to create standardisation and specialisation.
    - Better use of equipment.
- Economies of Scope:
  - A proportionate saving gained by producing two or more distinct goods, when the cost of doing so is less than that of producing each separately.
  - Involves product bundling, product lining and family branding.

#### Market Dynamics:

- Life-cycle Dynamics:
  - Life-cycle is development, introduction, growth, maturity and decline.
  - Development:
    - No sales.
    - Negative profit due to investments in research.
  - Introduction:
    - Low sales because market not fully aware of product.
    - Negative due to large investments in advertising to create awareness.
  - Growth:
    - Growing sales.
    - Growing profits due to higher awareness and ability to cover fixed costs.
  - Maturity:
    - Sales are at peak.
    - Profit also at peak due to economies of scale/scope and experience curve.
  - Decline:
    - Declining sales due to product becoming outdated.
    - Profit declining due to lower sales level.
- Competition dynamics.
- Network effects.
- Replacement costs.

#### Skimming, Penetration and Neutral Pricing:

- A skimming price strategy involves setting the price relatively high at first then reducing over time.
- A penetration price strategy involves offering a low price at first in order to attract market share away from competitors. The price can then be increased, decreased or maintained as time goes on.
- A neutral price strategy is one where prices are set by the market, with prices just at your competitor's prices.



## ***Lecture 11: Price Implementation, Ethics and Law***

### Price Implementation:

- Pocket price waterfall:
  - Multiple price components when selling directly to single customers or intermediaries.
  - Begin at dealer list price, then after applying potential discounts such as an order size discount and a competitive discount reach invoice price, then after applying further discounts reach pocket price.
  - Pocket price can often be substantially lower than original dealer list price.
- Pocket price band:
  - Items sell over a range of prices to different consumers.
- Problems in price implementation:
  - Missing pricing transparency.
  - Inconsistent terms and conditions.
  - Sales force attitudes and incentives.

### Capturing Untapped Transaction Pricing Opportunity:

- For missing pricing transparency, want to monitor the pocket price band:
  1. Obtain information about prices actually paid by customers i.e. the pocket price band.
  2. Calculate all elements of price waterfall and don't aggregate them into other expenses.
- For inconsistent system of terms and conditions, want to engineer the pocket price waterfall:
  - Need an intelligent system of conditions and effective implementation in order to achieve active condition management.
  - Guidelines for intelligent system of conditions:
    - Quid pro quo: providing greater conditions for customers with beneficial behaviour.
    - Controlled complexity: allow for certain degree of controlled complexity to be able to manage specific customers' requirements.
    - More system, less individual: set up principles and a frame for conditions in order to lessen the pressure that some customers try to put on sales force.
- For sales force attitudes and incentives, want to get organisation involvement and incentives right.
  - Transaction pricing merits broad organisational involvement; too important for even CEO to ignore.
  - Train sales force.
  - Offer appropriate incentives to sales force.
  - Need well-founded analysis on positioning, value and competitors.
  - Then you want sales force to be internally motivated and confident and have an external basis for discussion.

- 3 types of pricing authority for sales force in practice:
    - Sales force has full pricing authority.
    - Sales force has limited pricing authority.
    - Sales force has no pricing authority.
  - Setting the right incentives:
    - Company aims should be calculation base for compensation.
    - Bonus should be high enough to serve as an incentive.
  - Contribution-Margin Based Probability Factor:
    - Aligning incentives by use of a contribution-margin based probability factor.
    - Steps:
      1. Give salespeople sales goals.
      2. Set sales goals at a target price (TP).
      3. Selling at prices below or above target adjusts compensation by profitability of sale.
    - Sales credit =  $\{TP - [k \cdot (TP - AP)]\} \cdot \text{Units sold}$
    - Where  $k$  = profitability factor.
    - Profitability factor =  $1 / \text{product's \% contribution margin at TP}$ .
- Steps to Build the Selling Backbone:
  - Conduct value analysis:
    - Link customer needs to what company offers by conducting customer-level analysis.
    - Understand value company providing.
    - Understand competing offerings and how you differentiate.
  - Conduct buying centre analysis:
    - Understand which individuals involved in buying process, what their criteria are and how much power/control they have over process.
    - Examples:
      - Buyer (actually purchases product).
      - Gatekeeper (handles vendor contracts and controls information flow).
      - Initiator (determines product/service needed).
      - Influencer (anyone who can influence decision process).
      - Users (those who actually use product).
      - Decider (actual decision maker).

### Ethical Constraints on Pricing:

- As long as transaction voluntary, any price charged is ethical.
- Topology of ethical constraints on pricing:
  - The exchange is ethical when the price is paid voluntarily, is based on equal information, does not exploit buyers' essential needs, justified by costs and provides equal access to goods regardless of one's ability to cover cost.
  - Level 1:
    - "The price is paid voluntarily".
    - Must let buyer beware.
  - Level 2:
    - "based on equal information".
    - No sales without full disclosure of defects or risks etc.
  - Level 3:
    - "doesn't exploit buyers' essential needs".
    - No excessive profits on essentials such as lifesaving pharmaceuticals.
  - Level 4:
    - "justified by costs".
    - No segmented pricing based on value.
    - No excessive profits based on shortages, even for non-essential products.
  - Level 5:
    - "provides equal access to goods regardless of one's ability to cover cost".
    - No exchange for personal gain.
    - Give as able and receive as needed.

### Legal Framework for Pricing:

- Australian Competition and Consumer Commission responsible for regulating pricing.
- Also responsible for:
  - Promoting competition and fair trade in marketplace.
  - Regulating national infrastructure services.
  - Ensuring individuals and businesses comply with Commonwealth competition, fair trading and consumer protection laws.
- ACCC responsibilities regarding pricing:
  - Protecting consumers:
    - Preventing misleading and deceptive conduct and advertising.
    - Protecting consumers when buy goods/services by ensuring get appropriate value.
    - Protecting consumers by regulating industries.
  - Business to Business dealings:
    - Prevent price fixing and market sharing.
    - Prevent misuse of market power.
    - Prevent resale price fixing.
    - Prevent use of superior bargaining power in oppressive way.

#### What is Misleading Pricing:

- Trader risks breaching law if it:
  - Advertises specific price when does not have reasonable supply for consumers to purchase.
  - Makes inaccurate or misleading price comparisons.
  - Represents that an advertised price is total price payable when it isn't.
- Methods include:
  - Bait advertising.
  - Comparative pricing.
  - Was-now advertising.
  - Strike-through pricing.
  - Comparisons with recommended retail price (RRP).
  - Component pricing.

#### Prevent Price Fixing:

- Price fixing with competitors = horizontal price fixing.
- Cartel when an association of manufacturers or suppliers with the purpose of maintaining prices at a high level and restricting competition.
- Penalties for participating in a cartel can be severe.
- Resale price fixing = vertical price fixing.