Chapter 3 Price Structure 63

Tactics for Pricing Differently Across Segments

Price-Offer Configuration 66
  Optimizing an Offer Bundle 67
  Designing Segment Specific Bundles 69
  Unbundling Strategically 70

Price Metrics 71
  Creating Good Price Metrics 72
  Performance-Based Metrics 76
  Tie-Ins as Metrics 77

Price Fences 79
  Buyer Identification Fences 80
  Purchase Location Fences 81
  Time of Purchase Fences 82
  Purchase Quantity Fences 84

Summary 86 • Notes 87

Chapter 4 Price and Value Communication 88

Strategies to Influence Willingness-to-Pay

Value Communication 89
  Adapting the Message for Product Characteristics 90
  Adapting the Message to Purchase Context 97
  The Buying Process 98
  Multiple Participants in the Buying Process 102

Price Communication 103
  Proportional Price Evaluations 103
  Reference Prices 104
  Perceived Fairness 106
  Gain–Loss Framing 107

Summary 109 • Notes 109

Chapter 5 Pricing Policy 112

Managing Expectations to Improve Price Realization

Policy Development 115

Policies for Responding to Price Objections 116
  The Problem with Ad Hoc Negotiation 116
  The Benefits of Policies for Price Negotiation 118

Policies for Different Buyer Types 119
Chapter 6  Price Level  134

Setting the Right Price for Sustainable Profit

The Price-Setting Process  135
  Defining the Price Window  137
  Establishing an Initial Price Point  139
  Pricing Objectives  141
Defining the Price-Volume Trade-off  145
Estimating Consumer Response  147
Communicate New Prices to the Market  153

Summary  156  •  Notes  156

Chapter 7  Pricing Over the Product Life Cycle  157

Adapting Strategy in an Evolving Market

New Products and the Product Life Cycle  157
Pricing the Innovation for Market Introduction  159
  Communicating Value with Trial Promotions  160
  Communicating Value with Direct Sales  161
  Marketing Innovations Through Distribution Channels  162
Pricing New Products for Growth  162
  Pricing within a Differentiated Product Strategy  163
  Pricing within a Cost Leadership Strategy  164
Price Reductions in Growth  165
Pricing the Established Product in Maturity  166
Pricing a Product in Market Decline  169
  Alternative Strategies in Decline  170

Summary  171  •  Notes  172

Chapter 8  Pricing Strategy Implementation  174

Embedding Strategic Pricing in the Organization

Organization  176
Chapter 9 Costs 197

*How Should They Affect Pricing Decisions?*

The Role of Costs in Pricing 197
Determining Relevant Costs 198
Why Incremental Costs? 199
Why Avoidable Costs? 202
Avoiding Misleading Accounting 205
Estimating Relevant Costs 207
Activity-Based Costing 212
Percent Contribution Margin and Pricing Strategy 213
Managing Costs in Transfer Pricing 215

Summary 220 • Notes 221

Chapter 10 Financial Analysis 223

*Pricing for Profit*
Break-even Sales Analysis: The Basic Case 225
Break-even Sales Incorporating a Change in Variable Costs 228
Break-even Sales with Incremental Fixed Costs 229
Break-even Sales Analysis for Reactive Pricing 232
Calculating Potential Financial Implications 233
Break-even Sales Curves 236
Watching Your Baseline 239
Covering Nonincremental Fixed and Sunk Costs 240

Summary 248 • Notes 248
Appendix 10A
Derivation of the Break-even Formula 249

Appendix 10B
Break-even Analysis of Price Changes 251

Chapter 11 Competition 260

Managing Conflict Thoughtfully
Understanding the Pricing Game 261

Competitive Advantage: The Only Sustainable Source of Profitability 262

Reacting to Competition: Think Before You Act 267

How Should You React? 273

Managing Competitive Information 277

Collect and Evaluate Information 277

Selectively Communicate Information 279

When Should You Compete on Price? 282

Summary 283 • Notes 283

Chapter 12 Measurement of Price Sensitivity 285

Research Techniques to Supplement Judgment

Types of Measurement Procedures 286

Uncontrolled Studies of Actual Purchases 287

Experimentally Controlled Studies of Actual Purchases 292

Uncontrolled Studies of Preferences and Intentions 298

Experimentally Controlled Studies of Preferences and Intentions 304

Using Measurement Techniques Appropriately 310

Using Judgment for Better Measurement 311

Using Internet-Based Techniques 313

Outside Sources of Data 314

Selecting the Appropriate Measurement Technique 315

Summary 316 • Notes 317

Chapter 13 Ethics and the Law 321

Understanding the Constraints on Pricing

Ethical Constraints on Pricing 321

The Legal Framework for Pricing 324

The Effect of Sarbanes-Oxley on Pricing Practices 325

Price-Fixing or Price Encouragement 326

Horizontal Price-Fixing 327
Resale Price-Fixing or Encouragement 328
Vertical Price-Fixing 328
Direct Dealing Programs 330
Resale Price Encouragement 330
Price and Promotional Discrimination 331
Price Discrimination 331
Defenses to Price Discrimination 333
Promotional Discrimination 334
Competitive Injury, Defenses, and Indirect Purchasers 335
Using Nonprice Variables to Support Pricing Goals 336
Vertical Nonprice Restrictions 336
Nonprice Incentives 338
Other Pricing Issues 338
Predatory Pricing 338
Price Signaling 338
Summary 339 • Notes 339

Index 347