

PRICING CARDS



1 Dynamic pricing

Dynamic pricing is a pricing strategy based on flexible prices. Prices may change depending on external factors such as changes in competitor pricing or customer demand. Mechanisms are needed to track these changes on a constant basis.

Advantages Dynamic pricing works well with a product that is scarce. When the price depends on the availability you can lower or raise the price when there is less or more demand.

Requirements You need mechanisms to constantly track the factors that determine your flexible price. Customer might find the price unfair when it frequently changes.

Example TUI

TUI is a travel agency that uses dynamic pricing. Prices are adapted to customer demand. During holidays, demand is higher, so prices rise. When there is a risk that a plane will take off half-empty, tickets are put on sale.



2 Auction

An auction is a process in which a product or service is sold to the highest bidder. Auctions can be used to select customers that are willing to pay the highest price. Auctions are increasingly being held online.

Advantages Buyers can drive the price up when they really want the product.

Requirements A minimum price needs to be set, to make sure that the production costs are covered. A platform (online of physical) is needed to facilitate the auction.

Example **Princess Hotels**

Princess Hotels is a family-owned hotel-only holiday company. The company grew by offering holiday deals through the auction site eBay. Although the initial transaction made it little money, the company realised that customers would return directly to its website for a subsequent holiday.



3 Pay what you want

‘Pay what you want’ is a pricing strategy whereby buyers decide how much a service or product is worth. This model is most useful for products or services with low marginal costs, such as digital products.

Advantages This model has a social component and is often used for charities, creating awareness, or arts.

Requirements A minimum price might be required to cover the costs made for production. Sensitive for abuse, people might not pay the price that it is worth.

Example **Humble Bundle**

Humble Bundle offers bundles of games sold at a price determined by the purchaser. A portion of the revenue goes to charity and the rest is split between the game developers and Humble Bundle.

Humble Bundle

4 Cost-plus pricing

Cost-plus pricing is a strategy where all variable and fixed cost are allocated to individual products. On top of the total costs a mark-up is added to determine pricing. Mark-ups are percentages added to the costs.

Advantages The price is often reasonable for the customer since they do not pay much more than is needed to produce the product or service.

Requirements Make sure that you know which costs are made when creating one product or service. Unexpected changes in costs can result in a loss or in a quick price change for the customer.

Example **H&M**

H&M prices, just like other fashion retailers, their product at as low as possible. This price for clothing and accessories is based on costs, with a small mark-up margin.



5 Creaming

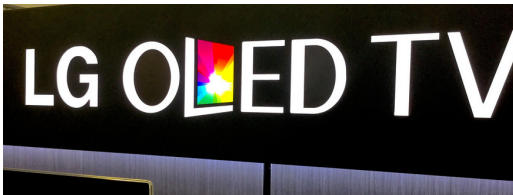
With creaming (also known as skimming) the price is set relatively high at first, lowering over time. As the first demand is satisfied, the price is lowered to attract the more price sensitive customers.

Advantages This strategy works well for products that are being released and are popular or exclusive. The price can be set much higher than needed if a group of customers cannot wait to buy the product.

Requirements Make sure that your product or service is desired enough to set a high price. Customers need to perceive a significant benefit from having the product earlier than others.

Example **LG**

When LG released the OLED TV's and when the offering is still exclusive, the price is set high. Early adopters are willing to pay this full price, while other customers wait for the inevitable price drop.



6 Decoy pricing

Decoy pricing occurs when a ‘third option’ is introduced, next to a cheap and premium option. The middle option does not provide much more than the cheapest option. It is a decoy to make the premium option appear like a better deal, which stimulated customers to buy the premium option.

Advantages When different options exists a customer is going to compare them. With a less attractive middle option customers will tend to buy the premium option since they will get noticeable more for their money.

Requirements Make sure that the differences between the three or more options are clear and that there are real benefits for choosing the premium option.

Example **TomTom**

TomTom has multiple choices for fitness watches. It offers two alternate versions of basic fitness watches and a version which combines all features for a discounted package price. This stimulates customers to buy the premium version.



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7 Loss leader

Loss leader is a strategy in which a business offers a product or service at a price that is not profitable. A loss leader introduces products below cost price to attract customers. These customers should eventually also buy other products that are more profitable.

Advantages A company can choose to be a loss leader for one product in order to attract potential customers to another more profitable product.

Requirements There is a risk of only selling the loss leader product and not selling the profitable products. Make sure that you have a strategy for selling the profitable products as well.

Example Walmart

Walmart offers new products at prices much lower than its competition, hoping that its customers will buy more than that one product once they are in the store. Walmart is willing to lose money on the new product as a way to get more customers to its stores.



8 Odd pricing

With odd pricing, prices are expressed as odd prices less than a round number, e.g. €19.99 or €2.98. Consumers tend to perceive odd prices as being significantly lower than they actually are, €1.99 is associated with €1 rather than €2.

Advantages Odd pricing is a way to get customers to think that your product is cheaper than it actually is.

Requirements When selling luxury products or services this model is less interesting since customers associate it with buying something that is cheap.

Example **Aldi**

Odd pricing can be found everywhere, especially in retail. Almost all prices in supermarkets are odd. Aldi is an example where all the prices, even of more expensive items, are odd.



9 Penetration pricing

Penetration pricing is used to attract customers to a new product or service. A low price is set for a new product or service during its initial offering in order to attract customers away from competitors and to stimulate adoption. The price will increase over time once the product is adopted.

Advantages Penetration pricing is a way to attract customers to a product or service which can result in fast adoption. It also discourages competitors as the price is very low.

Requirements Once the price for a product or service is set low, the customer expects it to stay low. Make sure that the customer is willing to purchase the product after the price increase.

Example **Netflix**

Netflix became successful with a good offer of films and series for a low price. Especially, when compared with competitors the price for a Netflix subscription is significantly lower. Netflix has established a very loyal customer base. Now Netflix is gradually increasing its prices.



10 Price discrimination

Price discrimination is a practice where a company sells largely similar products for different prices in different markets. These price differences aim to benefit from differences in willingness to pay with different markets. A different price can be set for each customer, a group, or even a market.

Advantages With price discrimination you can benefit from the different market conditions. Customers from different markets can have different expectations, resulting in a different price.

Requirements With price discrimination customers might feel discriminated and you might lose customers. Make sure to have the right motivation for changing the price.

Example **Levi's**

While a normal Levi's jeans is sold for approximately \$40 in the United States, it is sold for €90 in Western-Europe. Levi's is successful in promoting their brand as a high-end brand in Europe while it promotes itself as a low priced jeans maker in the United States.



11 Value based pricing

Value based pricing occurs when the price of a product or service is based on the value that consumers perceive. The price is not in accordance with the costs. This strategy is used for new, popular or exclusive products or services.

Advantages What customers perceive as value is often more than just the product. Customers want to have the experience in addition to the product or service, and are often willing to pay for it.

Requirements Research is needed to make sure what customers find a reasonable price for your product or service. Make sure that your product or service provides added value.

Example Starbucks

Starbucks uses research and customer analysis to formulate prices that capture the greatest amount consumers are willing to pay without driving them off. The higher price is used to separate Starbucks from competitors and to reinforce the premium image of their brand.



12 Competitive pricing

With competitive pricing, prices are matched to what the competition is charging. This strategy is used when competitors sell similar products or services. Prices will either match the market leader or are set within a comparable range.

Advantages Customers are price sensitive and compare more than ever on the internet. With similar products in a highly competitive market it is necessary to adjust the price to the competitors.

Requirements With competitive pricing there is a risk that the price is too low and that it is not profitable to continue competitive pricing.

Example **Amazon**

Amazon identifies the most popular products on its site and consistently prices them lower than its competitors. Other products are not competitive priced. Having the lowest prices on the bestselling items drives the perception that Amazon has the best prices overall.



13 Group pricing

With group pricing companies divide the market in segments and charge a different price for each segment. Usually this happens when particular groups of consumers can be identified. Making it possible to adjust prices to the groups' willingness to pay.

Advantages In a normal situation some groups would not be able to buy the product, with group pricing you make an exception for them. The result is a larger customer base.

Requirements Customers can perceive group pricing as unfair. Make sure that the differences in prices can be explained to all customers.

Example **Adobe**

Adobe uses group pricing by identifying several groups of customers: individuals, business, educational institutions, students and teachers. Students and teachers pay a completely different price, €19.66 a month for all apps, compared to individuals that pay €60.49 a month.



14 Bundling

Bundling refers to the practice of selling multiple products together for a single price. Instead of buying separate products, customers can buy a package, often at a discount. Providers can enjoy economies of scope, in selling multiple products at once.

Advantages Customers perceive buying a package with a discounted price as a good deal, while they are buying more than they initially wanted.

Requirements The products or services in a bundle need to be complementary or address a specific problem or want. The bundle needs to have value for the customers.

Example **Vodafone**

Telecom operators such as Vodafone are well known for bundling smartphones with a mobile subscription. They also provide subscription bundles with Internet access, television and landline services.



15 Personalized pricing

Personalized pricing is used when each customer gets a different price for a similar product. The willingness to pay is examined for each customer and a adjusted price determined. It can also be incorporated in personalized discounts.

Advantages Customers will get the price that fits with their willingness to pay for a product or service.

Requirements Customers can notice the price differences and feel discriminated when getting a higher price than others. Make sure that you can communicate the cause of the differences.

Example **Expedia**

Expedia allows its suppliers to offer different prices to mobile customers as well as members who are logged in. With this some customers are getting other prices than other customers.



16 Crowdfunding

Crowdfunding means that a large number of people invest in a project, product or business, often via Internet-mediated platforms. People who back crowdfunded projects are offered rewards or discounts in exchange for their pledges.

Advantages You can get the initial investment capital from the crowd. Development only starts after enough people have pledged to your project. With not enough interest the financial losses are small.

Requirements You need a product or service that is appealing to a large group of people. It needs to address a want or a need of a large group of potential customers.

Example **Kickstarter**

Kickstarter helps to bring creative projects to life. Project creators choose a deadline and a minimum funding goal. If the goal is not met by the deadline, no funds are collected; this provides a kind of assurance. Kickstarter takes 5% of the funds raised.



17 Razor & blade

'Razor and blade' refers to the model introduced by razor manufacturers. The razors are cheap, the replacement blades are expensive. A one-time product is sold for an attractive price and money is made from repeated purchases of required complementary products.

Advantages Once a customer has bought the razor, he or she is more likely to keep buying the blades, resulting in a loyal customer base. Switching products becomes less popular.

Requirements There is a risk that competitors are going to sell the complementary products for a lower price. You need a complementary product that is not easily replaced.

Example **Nespresso**

Nespresso applies the razor and blade model to its coffee machines and cups. Nespresso coffee machines are attractively priced compared to other coffee machines, but the coffee cups are expensive. Nespresso generates a steady revenue stream from the repeated purchase of the required cups.



18 Add-on

A basic product is offered for an attractive and competitive price. Subsequently, the customer is charged for each additional feature or service. In this way, customers can compose their own personal product.

Advantages Once a large group of customers is attracted with lower price the barrier is low for a smaller group to pay for additional features.

Requirements The additional features need to offer enough value to convince customers to pay for them. In addition, the basic product needs to be attractive for large customer base.

Example **Ryanair**

Ryanair is a low-cost airline offering low-cost flights with a minimum level of comfort and service. The company makes its basic service affordable for every customer. However, customers pay extra for comfort upgrades and for additional services.



19 Freemium

The term Freemium is a combination of the words 'Free' and 'Premium'. Most users have the free, basic version of the product, whereas a small group purchases a premium version. Users only pay if they need advanced (premium) features.

Advantages A free version attracts potential paying customers. With a free version you can easily test the basic functionalities of your product and improve or create the additional features that are going to be paid for.

Requirements The additional features need to offer enough value to convince customers to pay for them. In addition, the free version needs to be attractive for a large customer base.

Example LinkedIn

LinkedIn has a free version of its networking service for finding and sharing professional contacts and profiles. LinkedIn also offers a premium version with more options for contacting people, promoting your profile or searching for a new job. Customers have to pay for these premium features.



20 Licensing

Licensing means authorizing the use of something. A license is granted by one party (the licensor) to another party (the licensee) through an agreement. It is especially used for sharing intellectual property.

Advantages Licensing is very flexible and can exist over a specific period of time. You can offer the licenses that fit with the customers' needs.

Requirements Make it clear what is included and excluded in the license. Draw up licensing agreements, especially when dealing with intellectual property.

Example **Adobe**

The Adobe suite is a package containing multiple software programs, such as Photoshop, Illustrator, InDesign and AfterEffects. It is only possible to use the programs if you purchase the software licence. As part of the licence, the licensee always gets the latest updates.



21 Pay-per-use

With pay-per-use, a customer pays for the actual usage of a service. This model is only possible if usage can be measured in units such as time, distance, number of clicks, bytes, occasions or calls.

Advantages The customer pays for the actual usage, resulting in a low barrier for using your product or service.

Requirements Usage needs to be measurable and communicated with the user. There should be clarity about the usage and the costs resulting from the usage.

Example Car2Go

Car2Go is a car-sharing service that allows customers to find and use available cars via an app. Car2Go charges a one-time membership fee and a rate per minute. The rate is all-inclusive and covers rental, gas, insurance, parking and maintenance.

