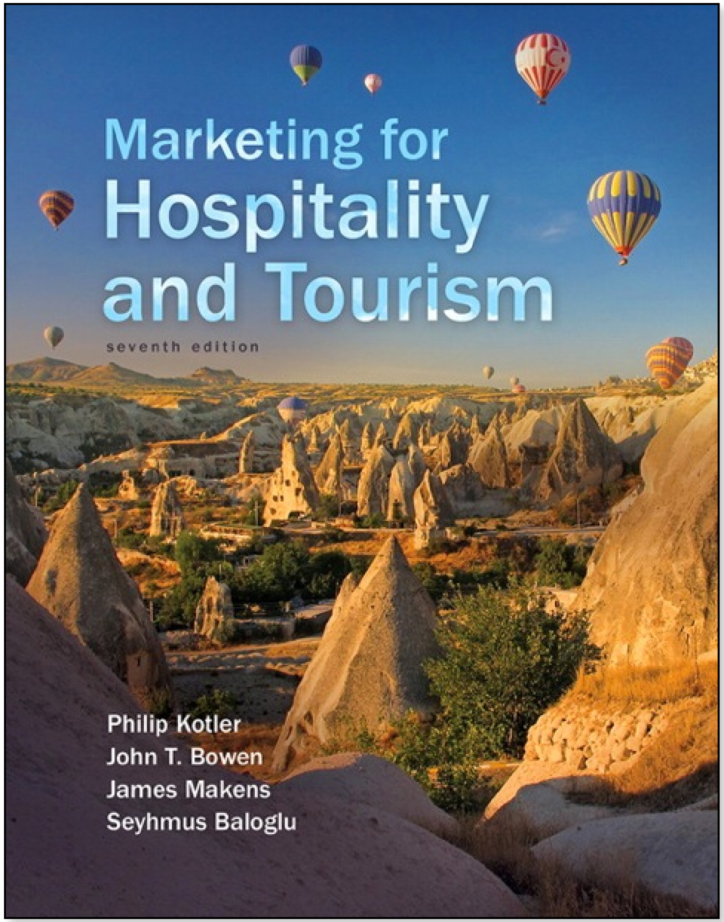
Marketing for Hospitality and Tourism

Seventh Edition



CHAPTER 11

Pricing: Understanding and Capturing Customer Value

Learning Objectives

1. Outline the internal factors affecting pricing decisions, especially marketing objectives, marketing mix strategy, costs, and organizational considerations.

Learning Objectives (cont.)

2. Identify and define the external factors affecting pricing decisions, including the effects of the market and demand, competition, and other environmental elements.

Learning Objectives (cont.)

3. Contrast the differences in general pricing approaches, and be able to distinguish among cost-plus pricing, target profit pricing, value-based pricing, and going rate.
4. Identify the new product pricing strategies of market-skimming pricing and market-penetration pricing.

Learning Objectives (cont.)

5. Understand how to apply pricing strategies for existing products, such as price bundling and price-adjustment strategies.
6. Understand and be able to implement a revenue management system.

Learning Objectives (cont.)

7. Discuss the key issues related to price changes, including initiating price cuts and price increases, buyer and competitor reactions to price changes, and responding to price changes.

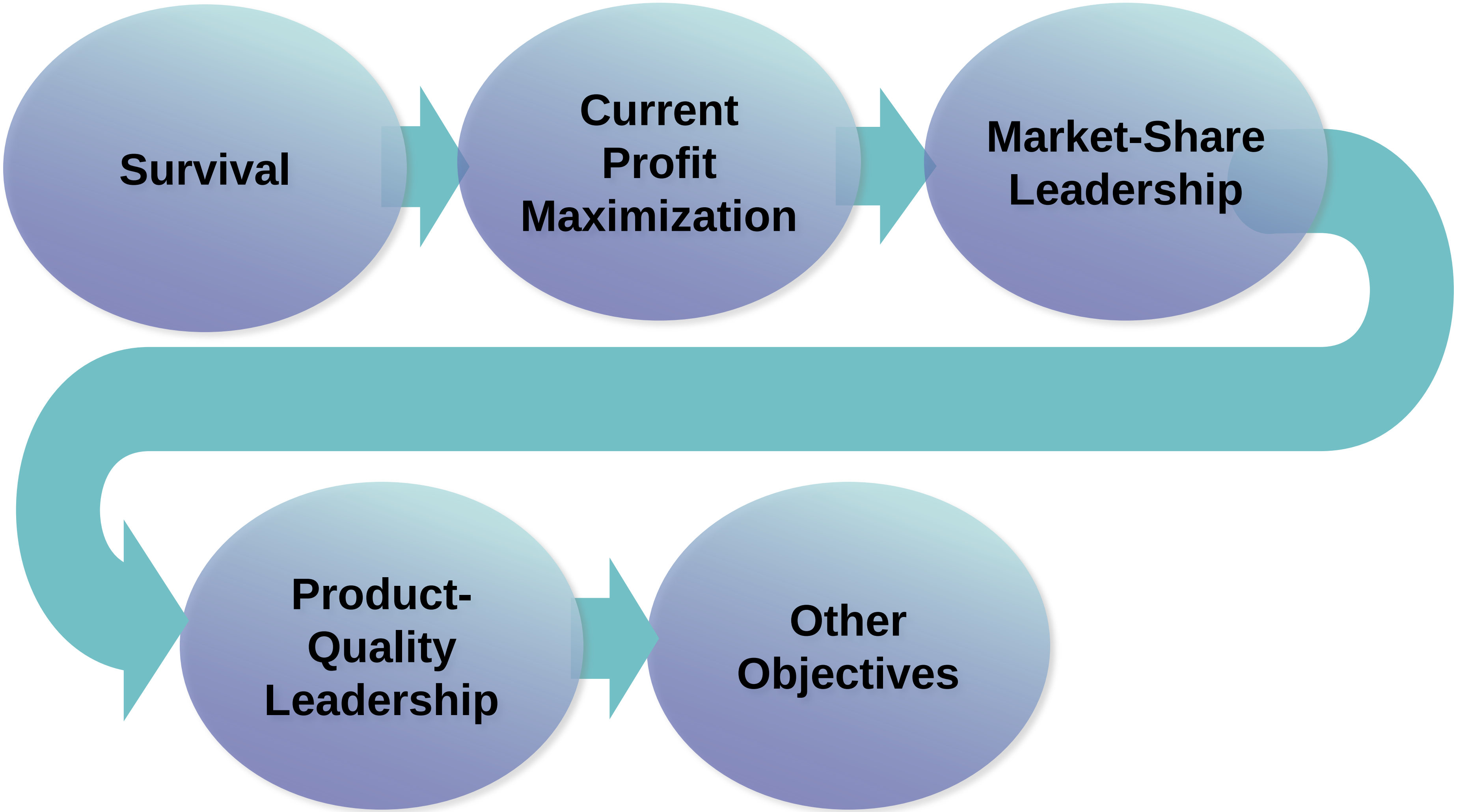
Price

- Simply defined
  - Price is the amount of money charged for a product or service.
- Broadly defined
  - Price is the sum of values consumers exchange for the benefits of having or using the product or service.

Factors to Consider When Setting Prices

Internal Factors

Marketing Objectives



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External Factors

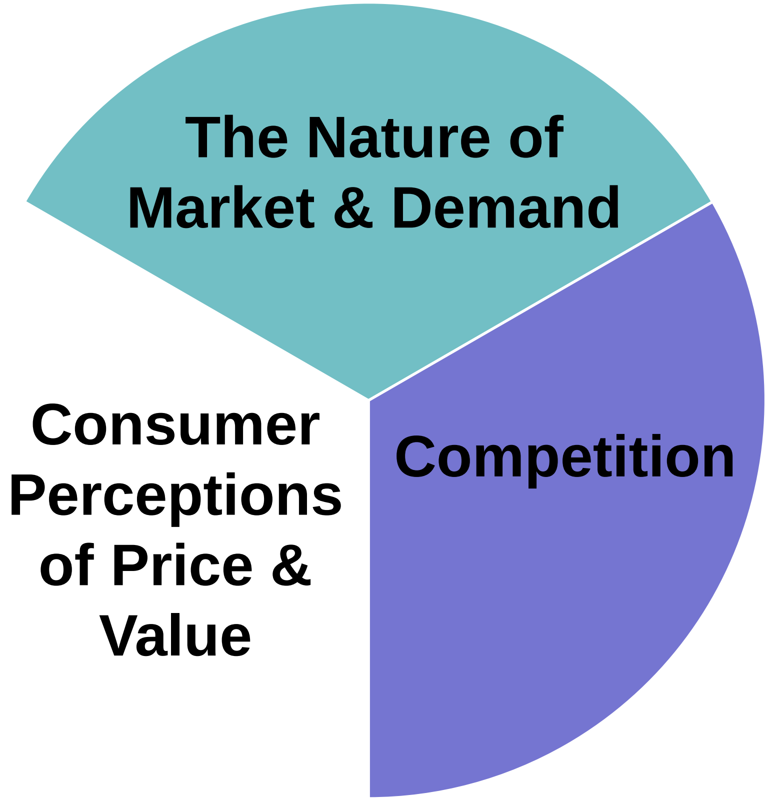
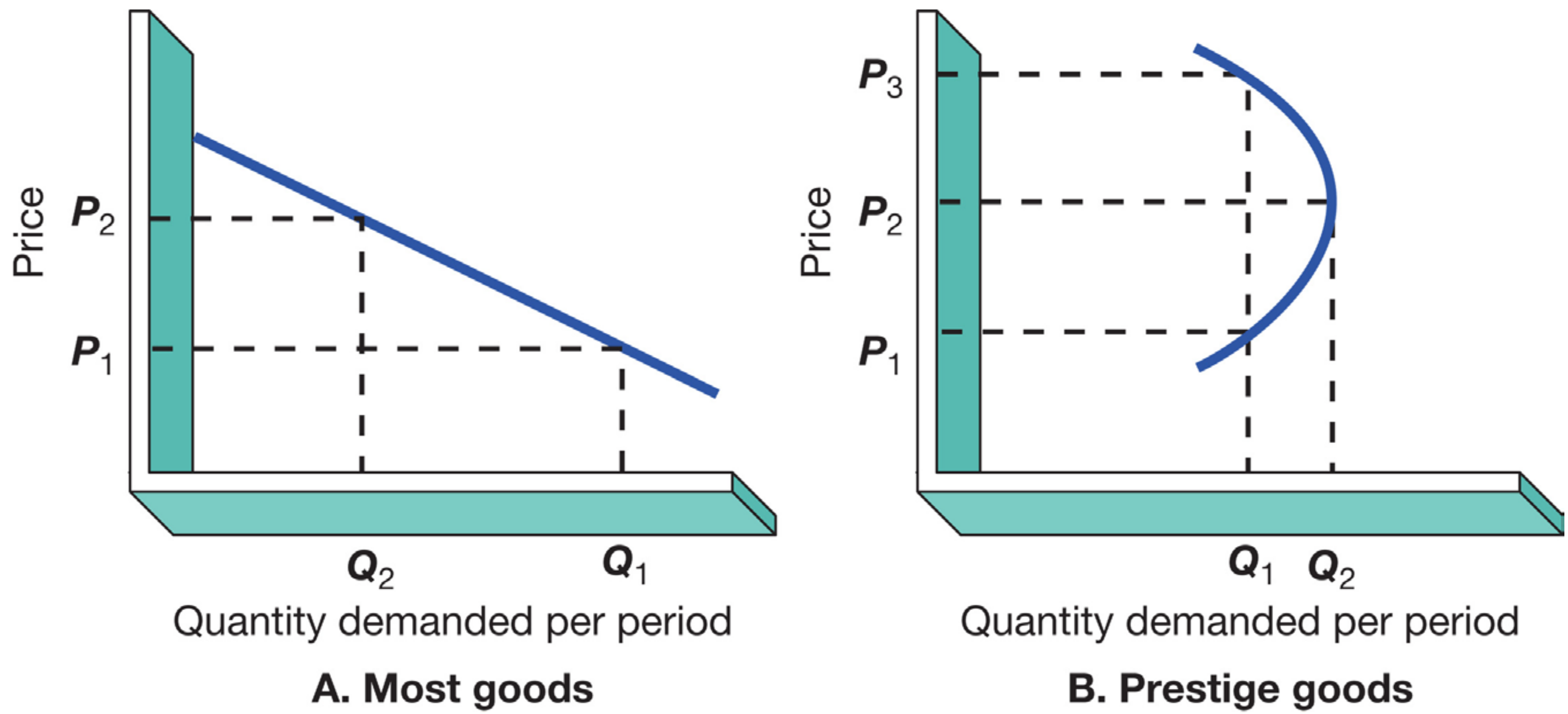


Figure 11–2 Two hypothetical demand schedules.



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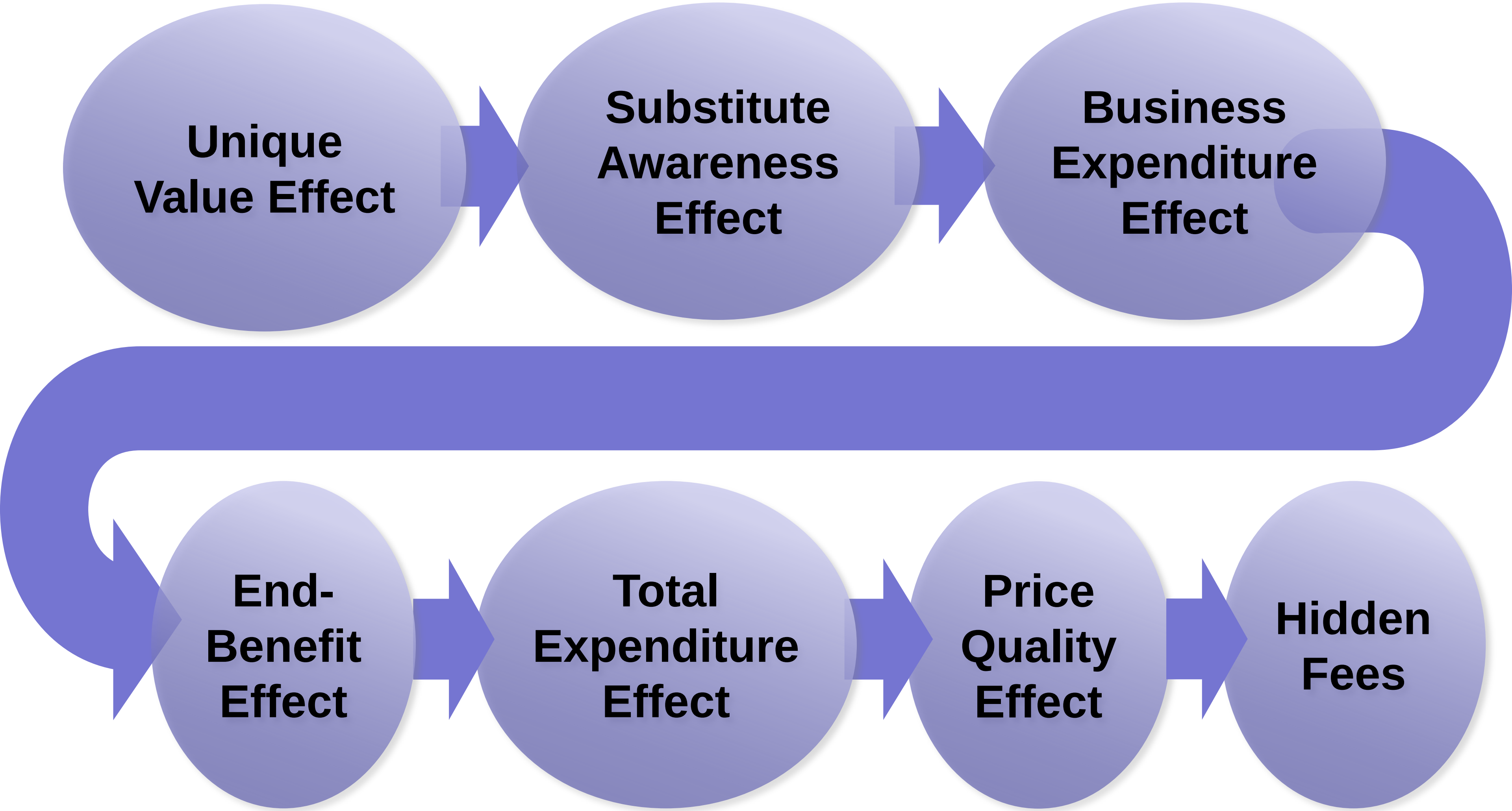
Determinants of Price Elasticity

Buyers are Less Price Sensitive When:

- **The Product is Unique**
- **The Product is High in Quality, Prestige or Exclusiveness**
- **Substitute Products are Hard to Find**

Factors Affecting Price Sensitivity



Approaches to Pricing

Cost-Base Pricing	**Break-Even Pricing**
Value-Based Pricing	**Competition-Based Pricing**

New Product Pricing Strategies

Existing Product Pricing Strategies

Product-Bundle Pricing

Existing Product Pricing Strategies

Price-Adjustment Strategies

Price-Adjustment Strategies

Revenue Management

Dynamic Pricing

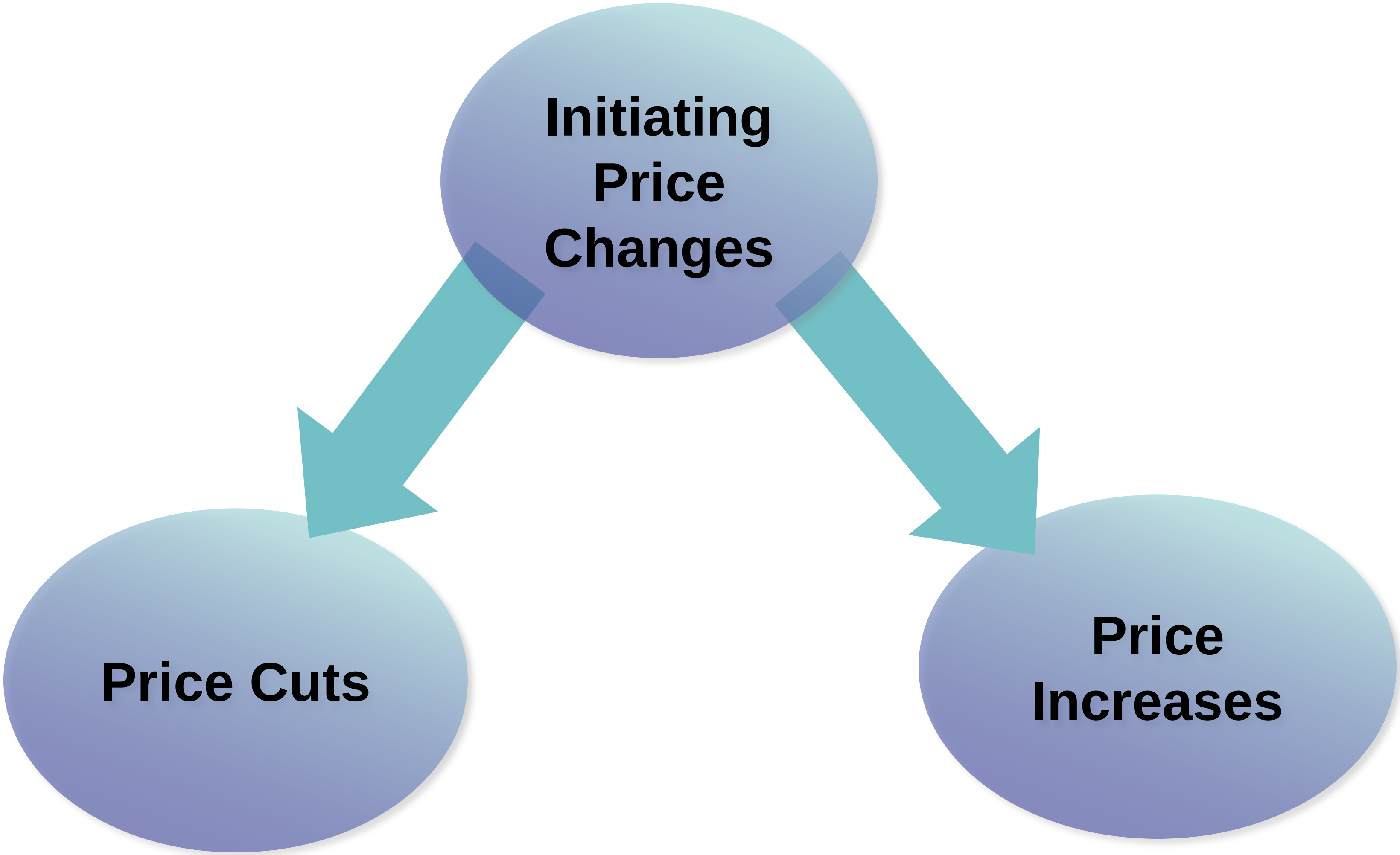
Bar Pricing

Rate Parity

Overbooking

Psychological Pricing

Price Changes



Key Terms

- **Cost-plus pricing**
  - Adding a standard markup to the cost of the product
- **Cross-selling**
  - The company's other products that are sold to the guest

Key Terms (cont.)

- **Discriminatory pricing**
  - Refers to segmentation of the market and pricing differences based on price elasticity characteristics of the segments
- **Dynamic pricing**
  - Continually adjusting prices to meet the characteristics and needs the marketplace

Key Terms (cont.)

- **Fixed costs**
  - Costs that do not vary with production or sales level
- **Going-rate pricing**
  - Setting price based largely on following competitors' prices rather than on company costs or demand

Key Terms (cont.)

- **Price**
  - The amount of money charged for a product or service, or the sum of the values that consumers exchange for the benefits of having or using the product or service

Key Terms (cont.)

- **Revenue management**
  - Forecasting demand to optimize profit. Demand is managed by adjusting price. Fences are often built to keep all customers from taking advantage of lower prices. For example, typical fences include making a reservation at least two weeks in advance or staying over a Saturday night.

Key Terms (cont.)

- **Survival**
  - A technique used when a company's or business unit's sales slump, creating a loss that threatens its existence. Because the capacity of a hotel or restaurant is fixed, survival often involves cutting prices to increase demand and cash flow. This can disrupt the market until the firm goes out of business or the economy improves.

Key Terms (cont.)

- **Total costs**
  - Costs that are the sum of the fixed and variable costs for any given level of production

Key Terms (cont.)

- **Upselling**
  - Training sales and reservation employees to offer continuously a higher-priced product that will better meet the customers' needs, rather than settling for the lowest price
- **Value-based pricing**
  - Uses the buyer's perceptions of value, not the seller's cost, as the key to pricing