INITIATING PRICE CUTS

Why? Reasons

• excess plant capacity
• declining market share
• drive to dominate market thru low costs
• responding to economic recession

CAUTION: Low price traps

• low quality trap – consumers assume low quality
• fragile mare-share trap – lower price buys MS but not market loyalty; may encourage brand switching behavior
• shallow-pockets trap – competitors may have deeper pockets in price war
INITIATING PRICE INCREASES

Why? Reasons

• cost inflation
• anticipatory pricing
• over-demand

How? Methods

• delayed quotation pricing – do not set final price
• escalator clauses
• unbundling
• reduction of discounts
REACTIONS TO PRICE CHANGES

Customers’ reactions:

• question motivation behind changes
• Negative: new model coming; financial trouble; price will decline further; quality reduced
• Positive: item is “hot”; good value
• Response depends on price sensitivity of customers

Competitors’ reactions:

• when competitors are likely to react:
  - few firms
  - homogenous products
  - buyers are highly informed

• anticipating competitors’ response:
  - immediate price change
  - self-interest – strategy MS?
RESPONDING TO COMPETITORS’ PRICE CHANGES

Homogenous vs non-homogenous products

Homogenous: no choice but to respond
Non-homogenous: more latitude

Questions:

• Why the competitor change the price?
• Price change – temporary or permanent?
• What will happen to MS? Profit? If do not respond?
• Other companies will respond too?
• What are the competitor’s and other firms’ likely response to each possible action? Snowball effect?
Possible responses:

• maintain price

• maintain price and add value

• reduce price

• increase price and improve quality

• launch a low-price fighter – fighting brand