

# Comprehensive Sales Training .

Handling objections is both an art and a science.



# Pricing Strategies

Psychological pricing tactics  
**Module 4**



## Job Descriptions

Develop roles clearly and completely across varying levels of experience

## Agreements

Draft your business agreements across a variety of areas

## KPI's

Performance indicator, a quantifiable measure of performance over time versus a specific objective.

## Strategic tools

These tools are recognised the world over in business schools, consulting firms and companies who plan strategically.

## Scorecards

Designed as functional or subject indicators across a variety of situations to enable performance of situational evaluation versus aligned standards.

## Assessments

Assessments are designed around specific areas to conduct reviews and will center around a benchmark reviewing individuals or functions

## Research

Research tools for sales and marketing engagement

## Checklists

Designed around achieving milestones in a sequential manner.

## Calculators

calculate the right ratios for businesses looking for benchmarks in a variety of situations

## Analytical Tools

Interactive excel tools on specific business areas based on your data inputs delivered in a workbook model with instructions.

## Content Modules

Best practice material in power point for use as a knowledge base in business training , planning and execution .

## Templates

Templates are designed based gather information in a structured manner



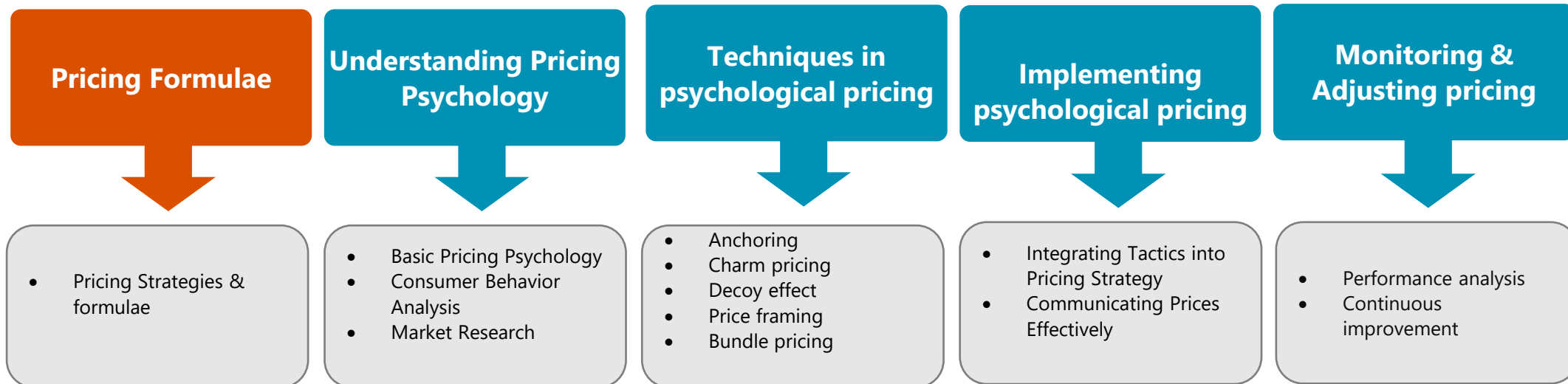
# Module 4

## Pricing Strategies

### Psychological pricing tactics

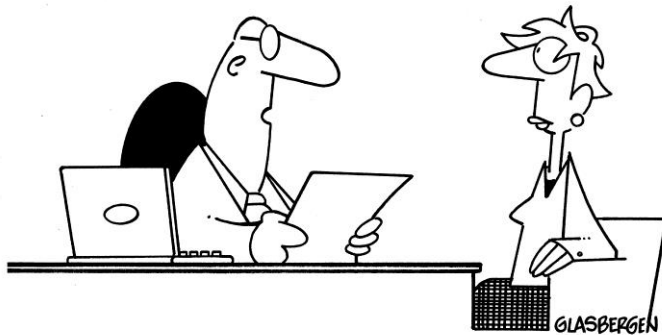


**Learning Objective:** Understand the key steps in how to create a pricing strategy that aligns product price with perceived customer value to enhance sales and profitability.



## Summary

Psychological pricing tactics leverage consumer behavior and cognitive biases to influence purchasing decisions. Understanding and applying these techniques can help businesses optimize their pricing strategies to enhance perceived value and drive sales.



**"If you are willing to take a 25% pay cut,  
I'm willing to give you a 10% raise!"**

# Pricing formulae

# Psychological pricing tactics

## Module 4 – Pricing formulae.

Pricing strategies are essential for determining how to set prices that align with your business objectives, market conditions, and customer expectations.

Different strategies may require different formulas and considerations.

Below are some common pricing strategies along with their respective formulas:

### Components of the simplest formula

$$\text{Selling Price} = \text{Cost} + \text{Cost} \times \text{Mark up \%}$$



# Psychological pricing tactics

formula 1 to 4.

## Components of the formula

### Cost-Plus Pricing

Selling Price = Cost + (Cost × Markup Percentage)

**Explanation:** This strategy adds a standard markup to the cost of the product. It ensures that all costs are covered, and a profit margin is included.

**Example:**

- Cost: \$100
- Markup Percentage: 30%

Selling Price =  $\$100 + (\$100 \times 0.30) = \$100 + \$30 = \$130$

### Competitive Pricing

**Formula:** Selling Price = Average Competitor

**Explanation:** Set prices based on what competitors are charging. This strategy is useful in highly competitive markets where price competition is intense.

**Example:**

- Competitor A Price: \$120
- Competitor B Price: \$130
- Competitor C Price: \$125

Selling Price =  $120 + 130 + 125 = 375 / 3 = \$125$

### Value based pricing

**Formula:**

Selling Price = Perceived Value to Customer

**Explanation:** Price is based on the perceived value to the customer rather than the cost of the product. This strategy often applies to unique products or services with significant differentiation.

**Example:**

- Perceived Value: \$200
- Selling Price = \$200

### Penetration Pricing

**Formula:** Selling Price = Lower Initial Price

**Explanation:** Set a low initial price to gain market share quickly. The price may be increased later as the customer base grows.

**Example:**

- Regular Price: \$100
- Penetration Price: \$70

# Psychological pricing tactics

formula 5 to 8.

## Components of the formula

### Skimming Pricing

**Formula:** Selling Price=High Initial Price

**Explanation:** Set a high initial price to "skim" the maximum revenue from the market layer by layer. This strategy works well for new and innovative products.

**Example:**

- Regular Price: \$100
  - Skimming Price: \$150
- Selling Price=\$150

### Psychological Pricing

**Formula:**  
Selling Price=Price Ending in .99 or .95

**Explanation:** Set prices that have a psychological impact, such as \$99.99 instead of \$100. This creates the perception of a better deal.

**Example:**

- Regular Price: \$100
  - Psychological Price: \$99.99
- Selling Price=\$99.99

### Bundle Pricing

**Formula:**  
Selling Price=Combined Price of Bundle Components-Bundle Discount

**Explanation:** Offer several products together at a lower price than if they were purchased separately.

**Example:**

- Product A Price: \$50
  - Product B Price: \$30
  - Bundle Discount: \$10
- Selling Price=(\$50+\$30)-\$10=\$80-\$10=\$70

### Dynamic Pricing

**Formula:**  
Selling Price=Price based on Current Market Demand

**Explanation:** Prices fluctuate based on current market demand, competition, and other external factors. Common in industries like hospitality and air travel.

**Example:**

- High Demand Period: \$150
  - Low Demand Period: \$100
- Selling Price=Based on Current Market Conditions

# Psychological pricing tactics

formula 9 to 10.

## Components of the formula

### Freemium Pricing

**Formula:** Free Basic Version + Paid Premium Features

**Explanation:** Offer a basic version of the product for free while charging for advanced or premium features.

**Example:**

- Free Version: Basic functionalities
  - Premium Version: \$10/month
- Selling Price=Free or \$10/month for Premium

### Economy Pricing

**Formula:**

Selling Price=Low Cost+Minimal Profit Margin

**Explanation:** Target price-sensitive customers by keeping costs low and margins thin, often through economies of scale.

**Example:**

- Cost: \$50
  - Profit Margin: 10%
- Selling Price= $\$50 + (\$50 \times 0.10) = \$50 + \$5 = \$55$

# Psychological pricing tactics

## Module 4 – negotiation formula.

### Components of the formula

#### Calculate the Base Price (BP) ( A)

$BP = \text{Cost of Goods Sold (COGS)} + \text{Desired Profit Margin (PM)}$

- **COGS:** Direct costs associated with the production of goods or services.
- **PM:** The profit percentage you aim to achieve over the COGS.

$$BP = \$100 + (0.30 \times \$100) = \$130$$

#### Assess Concessions ( C)

- **Bulk Purchase Discount:** \$10 per unit
- **Extended Payment Terms:** \$5 per unit

$$C = \$10 + \$5 = \$15$$

#### Compute the Negotiated Price ( E)

$\text{Negotiated Price} = (BP + VA) - (C + D)$   
 $\text{Negotiated Price} = (BP + VA) - (C + D)$

$$\text{Negotiated Price} = (\$130 + \$45) - (\$15 + \$10) = \$175 - \$25 = \$150$$

#### Determine Value Additions (VA) ( B)

- **Unique Features:** \$20 (e.g., advanced functionality)
- **Customer Support:** \$10 (e.g., 24/7 support)
- **Brand Reputation:** \$15 (e.g., recognized brand)

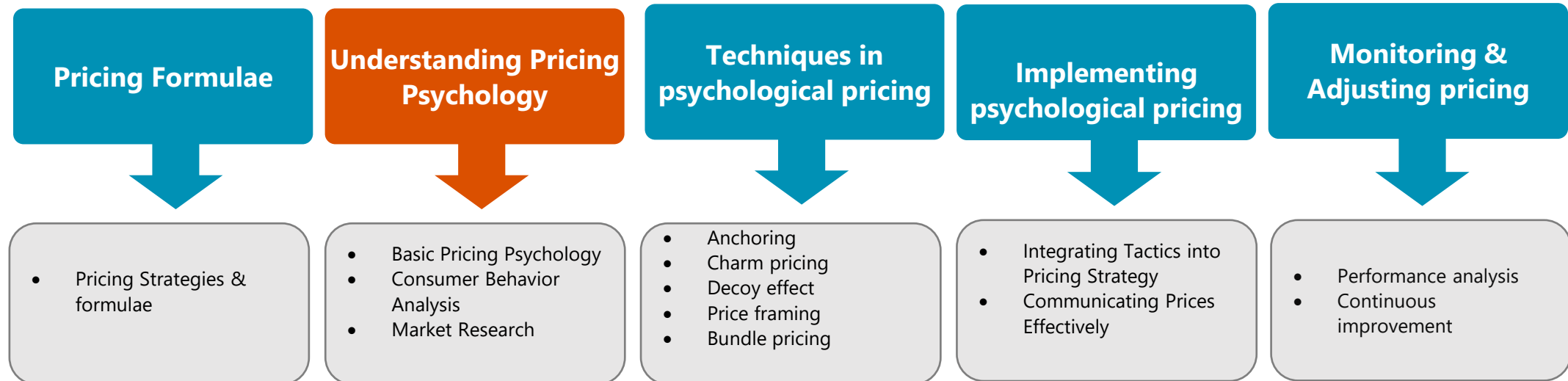
$$VA = \$20 + \$10 + \$15 = \$45$$

#### Calculate Discounts ( D)

- **Seasonal Discount:** \$5
- **Loyalty Discount:** \$5

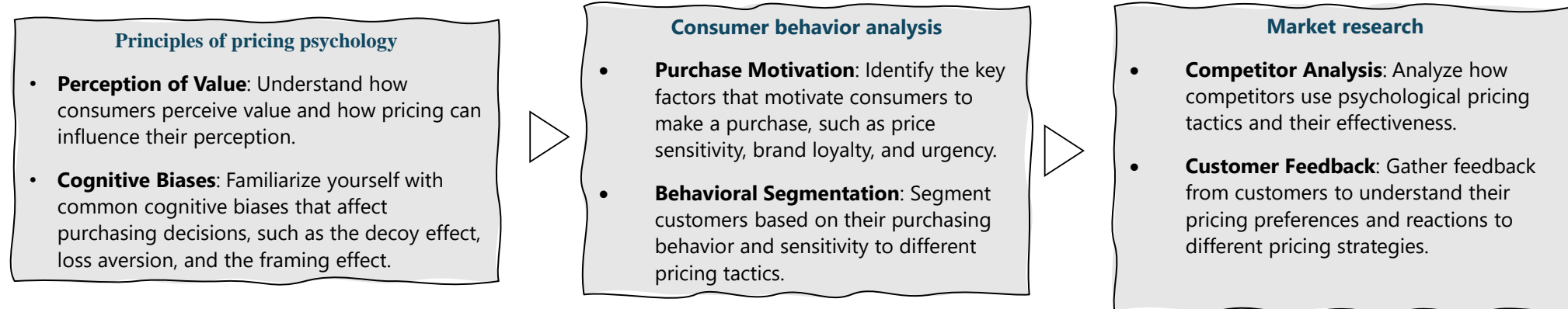
$$D = \$5 + \$5 = \$10$$

# Understanding pricing psychology



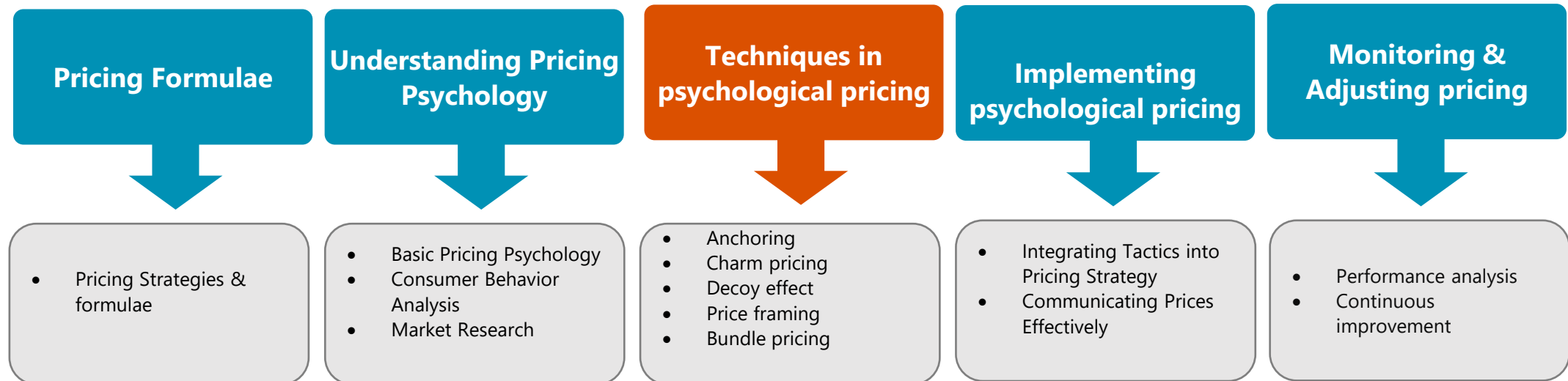
# Understanding pricing psychology.

Basic pricing psychology.



# Techniques in psychological pricing





# Techniques in psychological pricing.

## Anchoring.

### Anchoring

**Definition:** Anchoring involves presenting an initial price (the anchor) to influence customers' perception of subsequent prices.

- **Setting the Anchor:** Determine a high initial price to serve as the anchor, such as a premium version of the product or the manufacturer's suggested retail price (MSRP).
- **Comparison Pricing:** Present the anchored price alongside the discounted or actual price to highlight the perceived savings. For example, "Was \$100, Now \$70".
- **Package Offers:** Use anchoring in package offers by showing the total value of individual items compared to the bundled price.

### STUDY: ANCHOR PRICING

Test #1:  
Premium Option



4 out of 5 chose premium option

Test #2:  
Two Cheaper Options



Oops. Ratio upended.

Test #3:  
1 Premium, 1 Value



It worked!

### The Anchoring Effect in a Nutshell

\$29

Select

Best Value

\$99

Select

\$199

Select

# Techniques in psychological pricing.

## Charm Pricing.

### Charm Pricing

**Definition:** Charm pricing uses prices ending in .99 or .95 to create the perception of a lower cost.

- **Setting Prices:** Adjust prices to end in .99 or .95, such as \$9.99 instead of \$10.00, to make them appear more attractive.
- **Psychological Impact:** Understand the psychological impact of charm pricing, where customers perceive prices ending in .99 as significantly lower than the next whole number.
- **Consistency:** Ensure consistency in charm pricing across products to reinforce the perception of value.



### Charm pricing

Ending product prices with .99 entices more customers as they are inclined to round numbers down, rather than up.



\$3.00



\$2.99

### The Power of Charm Pricing

Charm pricing is more effective for lower-priced items



Charm pricing can be combined with other pricing techniques



Charm pricing may not be effective for all products

# Techniques in psychological pricing.

Decoy effect.

## Decoy Effect

**Definition:** The decoy effect involves introducing a third option to make one of the other options appear more attractive.

- **Designing the Decoy:** Create a decoy option that is priced slightly less than the premium option but offers significantly less value, making the premium option appear more attractive.
- **Placement:** Strategically place the decoy option next to the premium and standard options to guide customer choice.



Which one do you prefer here?



Which one would you choose now?

# Techniques in psychological pricing.

## Price framing.

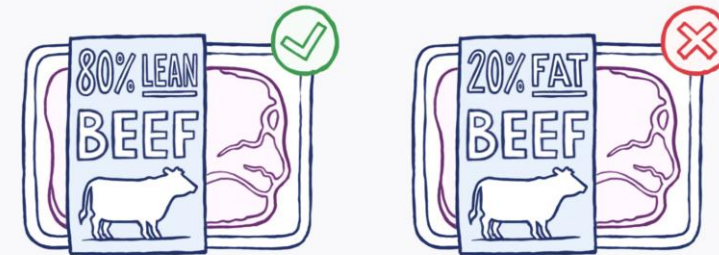
### Price Framing

**Definition:** Price framing involves presenting prices in a way that highlights the perceived value and savings.

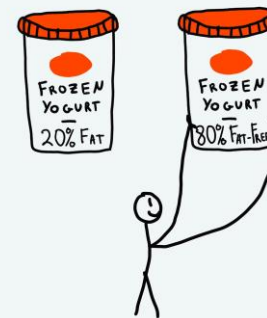
- **Discount Framing:** Frame discounts by showing the original price and the discounted price side by side, emphasizing the savings.
- **Time-Limited Offers:** Frame prices within the context of time-limited offers to create urgency and encourage immediate purchases.

### The framing effect

People react different to something depending on the framing (positive or negative)



### FRAMING EFFECT



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### FRAMING EFFECT



# Techniques in psychological pricing.

## Bundle pricing.

### Bundle Pricing

**Definition:** Bundle pricing offers multiple products or services together at a lower price than if purchased separately.

- **Creating Bundles:** Combine complementary products or services into bundles to provide greater perceived value.
- **Pricing Bundles:** Price bundles to ensure they offer a discount compared to individual purchases, emphasizing the cost savings.

### Cost of Bundle



### Cost if Purchased Individually

Product	Price
McChicken	\$2.99
Filet O Fish	\$5.69
Medium Fries	\$1.39
Small Coke	\$1.00
<b>Total</b>	<b>\$5.38 - \$8.08</b>



### PREMIUM PACKAGE

\$1,375\*  
ES 250 AWD, ES 350, ES 300h

- Heated and ventilated front seats
- Rain-sensing windshield wipers
- Lexus Memory System
- Power tilt-and-telescopic steering wheel

### NAVIGATION PACKAGE

\$1,820\*  
ES 250 AWD, ES 250 F SPORT AWD, ES 250 LUXURY AWD,  
ES 350, ES 350 F SPORT, ES 350 LUXURY,  
ES 300h, ES 300h LUXURY

- Navigation System\* with 12.3-in color multimedia display
- Lexus Enform Dynamic Navigation.\* Included for the first three years of ownership.
- Dynamic Voice Command.\* Included for the first 10 years of ownership.

### NAVIGATION/MARK LEVINSON® PREMIUM AUDIO PACKAGE

\$2,900\* | \$1,080\*  
ULTRA LUXURY MODELS ONLY

- Mark Levinson® 17-speaker, 1,800-watt PurePlay Premium Surround Sound Audio System
- Navigation System\* with 12.3-in color multimedia display
- Lexus Enform Dynamic Navigation.\* Included for the first three years of ownership.
- Dynamic Voice Command.\* Included for the first 10 years of ownership.
- Lexus Enform Destination Assist.\* Included for the first three years of ownership.



**PHILOSOPHY**  
Mangos And Cream Duo  
**\$25.00** (\$32.00 value)  
limited edition  
\*\*\*\*\*



**BLISS**  
You 'Butter' Watch Out  
**\$39.00** (\$97.00 value)  
limited edition  
\*\*\*\*\*



**SOAP & GLORY**  
Shower Trip™ Set  
**\$36.00** (\$50.00 value)  
exclusive limited edition  
\*\*\*\*\*



**KORRES**  
Butter Me Up Body & Lip  
Butter Collection  
**\$38.00** (\$76.00 value)  
exclusive limited edition  
\*\*\*\*\*



**L'Occitane**  
Protecting Shea Butter  
Collection  
**\$40.00** (\$58.00 value)



**CLARINS**  
Body Doubles! High  
Definition Body Lift Set  
**\$85.00**

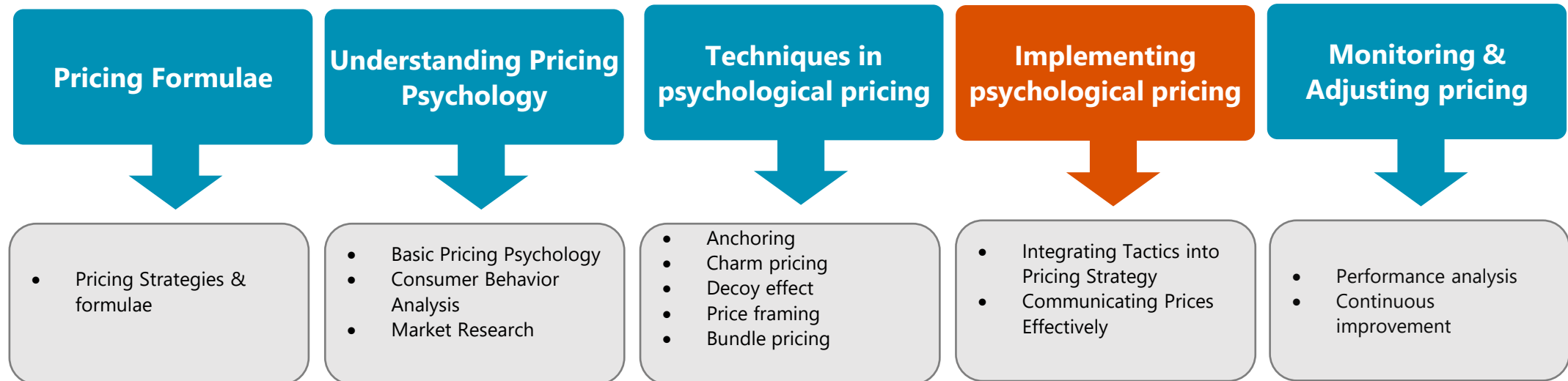


**FRESH**  
Spa Escape Set  
**\$50.00** (\$91.00 value)



**PHILOSOPHY**  
The Cookbook Set  
**\$30.00** (\$32.00 value)

# Implementing psychological pricing





# Implementing psychological pricing.

Integrating tactics into strategy.

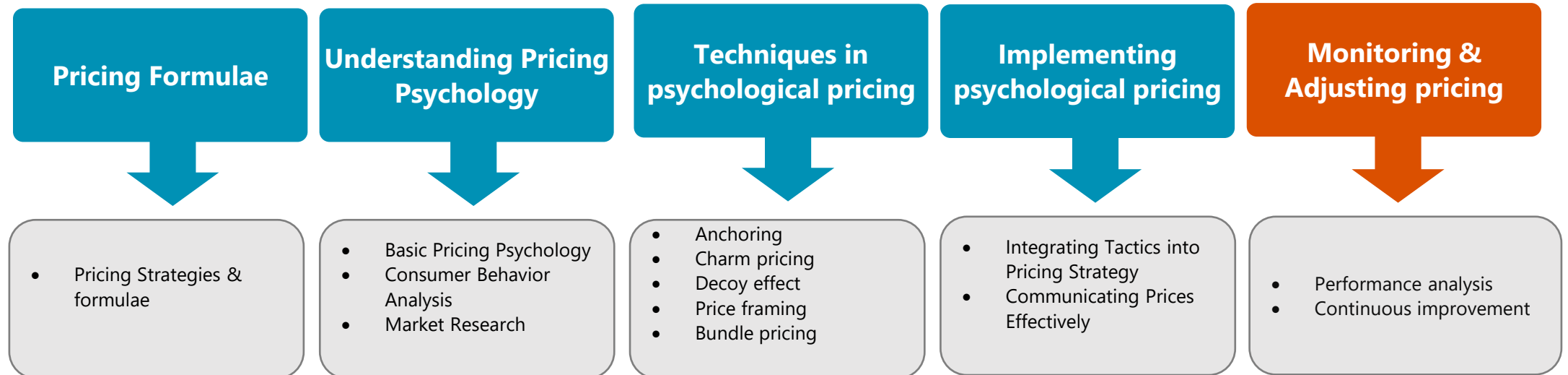
## Integrating Tactics into Pricing Strategy

- **Combination of Tactics:** Combine multiple psychological pricing tactics to enhance their effectiveness, such as using charm pricing and anchoring together.
- **Testing and Optimization:** Test different pricing tactics and optimize based on customer response and sales performance.

## Communicating Prices Effectively

- **Clear Messaging:** Ensure that pricing messages are clear and easy to understand, highlighting the value and benefits.
- **Visual Presentation:** Use visual elements such as bold fonts, colors, and placement to draw attention to key pricing information.

# Monitoring and adjusting pricing



# Psychological pricing.

Monitoring and adjusting pricing.

## Performance Analysis

- **Sales Data:** Analyze sales data to assess the impact of psychological pricing tactics on customer behavior and revenue.
- **Customer Feedback:** Collect feedback from customers to understand their perception of pricing and identify areas for improvement.

## Continuous Improvement

- **Iterative Testing:** Continuously test and refine pricing tactics to ensure they remain effective and aligned with customer preferences.
- **Adaptation to Market Changes:** Adjust pricing strategies in response to market changes, competitor actions, and evolving consumer behavior.

## Summary.

Psychological pricing tactics, when used effectively, can significantly influence consumer behaviour and enhance perceived value.

By understanding the principles of pricing psychology and implementing techniques like anchoring, charm pricing, and the decoy effect, businesses can optimize their pricing strategies to drive sales and maintain profitability.

Continuous monitoring, performance analysis, and customer feedback are essential for refining these tactics and ensuring they remain effective in a dynamic market environment.

# Comprehensive Sales Training .

Handling objections is both an art and a science.



# Pricing Strategies

Psychological pricing tactics  
**Module 4**

