

Service Marketing: A practical approach
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Lecture-30
Pricing the Service

Hello there, welcome to the session on services marketing with the practical approach.

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Lesson 29 Pricing the Service

Pricing a New Service

Value Pricing

Today we will look at lesson number 29, that is pricing the service, that includes two parts one is pricing a new service and there is the value pricing.

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Pricing the Service

Till now we have learnt to design the 6 Ps of a service offering, i.e., the service product, the service process, the service personnel, the place or channels of service delivery, the physical evidence of the service and the promotions or communication about the service to its customers. The 6Ps add to the cost of the service being offered to customers. In this lesson we will discuss about pricing the services, the 7th P that brings in revenue to the service business.

Once we have designed and developed the service product and its delivery, we would have to decide how to price the service for earning revenue from it. Price setting consists of six steps as described in the following sections:

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The 7th P that brings in revenue to the service business. Once we have designed and developed the service product and its delivery, we would have to decide how to price the service for earning revenue from it. Price setting consists of six steps as described in the following sections.

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1. Selecting the pricing objective: Two major objectives of pricing are market penetration or market skimming. In case it is easy for competitors to emulate our business, it is advisable to go for market penetration, which means increasing the market share. This involves selling the services at a price that most customers are willing to pay. On the other hand, if the service has lot of high-technology components and cannot be easily emulated by new competitors, the marketer can go for price skimming, that is selling the services at a high price and slowly bring down the prices as competitors emerge.

Businesses may also have a survival objective in the short run, i.e. they would like to earn the operating costs at the time being in order to establish the business firmly in the market, before raising prices later on. Another pricing objective could be price-quality leadership in which the marketer provides superior quality services at affordable prices which would be difficult for competitors to match.



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2. Determining price elasticity of demand: At the next stage, the demand for the service at various price levels is elicited through customer surveys in which customers may be asked to choose price options at which they would be willing to purchase the service. A better way of pricing various levels of services is through a marketing research technique called conjoint analysis. As part of this analysis, customers are asked to rank several sets of services with different alternatives and price levels. Through statistical analysis of the data, the part worth of various options and prices are found out and the most-preferred service-price combination is identified. The price that customers are willing to pay, form the price ceiling, i.e. the company cannot offer its services at a price above the price ceiling.

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3. Estimating costs: The cost of providing the service is estimated through a technique called activity based costing (ABC) in which the cost of performing various activities for delivering the service is calculated in order to arrive at the total cost of providing the service. The cost will form the price floor, i.e. the minimum price that should be requested from customers to make the business viable.

4. Analysing competitors' costs, prices and offers: The price charged by competitors for similar and alternative services are found out as these prices form the reference price with which customers are likely to compare the price of the new service. The benefits offered by the competitors and our company are also compared. Once it is ascertained that our service is superior to that of the competitors, the price of the service can be calculated as the cost of alternative services plus the additional value provided by extra benefits provided by our service. Thus, competitors' prices help to modulate the price of services based on what the customers are accustomed to pay for similar services, or the cost of alternative ways of fulfilling their needs.



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5. Selecting a pricing method: Based on the cost of delivery and competitive prices, several price points for the new service can be determined. Then the demand for each price point is established and the breakeven demand is calculated. Once, we are sure that a certain demand can be met; the price can be fixed for attracting that level of demand. It is now ascertained that the demand-price combination would be capable of achieving breakeven. The sale of services for the next three years is estimated and the profit is calculated. This will help us calculate the return on investment and to match the estimated return on investment with the returns expected in line with what the industry receives in general. It is checked that the returns are higher than the prevailing bank interest rate.

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One special method of pricing is called target costing. In this method, the price that customers are willing to pay is ascertained from customer surveys and service delivery process is modified in order to ensure that the service can be delivered at a cost and price that will result in expected returns for the business.

An important method of pricing that is widely advocated is called value pricing. True economic value (TEV) is the sum of the price of the alternative means of satisfying the need and any cost savings in the hands of the customer, less, the cost of receiving the new service. Theoretically, the customer would gain even when he/she pays the value price for the new service compared to consuming the alternate service. However, the price is then modulated per what customers are willing to pay for the service and is fixed at that level. This concept has been further elaborated next.



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6. Selecting the final price: The final price is selected by keeping in mind that the price and other 'P's of the services marketing mix must be consistent with the service concept. Low-quality-high-price or high-quality-low-price services would be inconsistent whereas a price in tune with the quality of the service, the affordability and willingness of customers to pay the price, substantial demand at the price which can be easily fulfilled by the service provider, and, a price in tune with prices of competitive and comparable offerings would be perceived to be a consistent price. The price should be such that our target market is able to purchase the services, our collaborators can make a profit and our competitors can continue to offer their services to their target customers at their price points. It is important to ensure that the price of our service is consistent with the value it provides to customers. The concept of value pricing is elaborated in the following lesson.

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In 1988, Professor Valerie A. Zeithaml published the four ways in which customers perceive value. These are:

1. Value is low price
2. Value is whatever he/she wants in a service
3. Value is the quality he gets for the price he pays
4. Value is what he gets for what he gives

These ways are discussed hence forth.

So, in 1988, Professor Valerie A. Zeithaml published the four ways in which customers perceive value, these are value is low price, value is whatever he wants in a service, value is the quality he gets for price he pays, value is what he gets for what he gives, These ways are discussed henceforth.

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1. Value is low price. Customers would look out for the lowest price of a cleaning service, or a service offered on sale or discount, or 'happy hours' when the service can be availed at the lowest price. When telephone services were dear, customers used to wait for 9:00 PM to ring up as the price of the service would decrease substantially after that time.

2. Value is whatever he/she wants in a service. The customer would like to receive the best MBA degree, high quality medical services or best performance of a music concert. The customer would be willing to pay the price of a full service that would satisfy him. Customers would also like to pay a high price as the high price would be a signal of the quality and the prestige that customer would receive as a result of purchasing service.

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3. Value is the quality he gets for the price he pays. This is the lowest price for a quality brand, i.e. affordable quality. As discussed earlier the customer is expected to pay the price equal to the true economic value (TEV) that he receives from the service. Benefits are offered at different levels based on the needs of different customer segments and are priced accordingly.

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4. Value is what he gets for what he gives, like the amount of cleaning he gets for the price he pays. Price framing is to price the service at a level that is lower than reference competitive prices for the same set of benefits. Price bundling is a form of pricing in which parts of the service are individually priced, while bundles of those parts are available at a price that is less than the sum of individual prices. This kind of pricing gives a signal to the customer that he is getting what he needs at an attractive price. In complementary pricing, part of the price is payable at the time of purchase, and the other part is paid over time, like monthly or yearly subscriptions.

At times, loss-leader pricing can be done where the leading service is priced at a loss while other complementary services are priced higher to obtain revenue. Results based pricing is the fee or commission that the customer will pay depending on the result of the service. For instance, customers may be required to pay a lawyer a percentage of the costs that are awarded as a result of a law suit. Similarly, the client may have to pay brokerage charges for the sale of property as a percentage of the price at which the property gets sold. Such contingency pricing may state that a fixed price is to be paid with a guarantee of savings that would result from the provision of the service.



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