

# Exploring Business Models: Pricing and Revenue Management



Service marketing mix:  
Price and other user outlays

A) what make us buy?

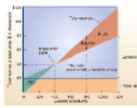
customers won't buy unless they perceive that the benefits they are obtaining in this value exchange exceed the financial and other costs - notably time and effort - that they incur

business model  
through effective pricing sales are transformed into revenue

B) three legs of pricing strategy



1. cost-based pricing



2. competition-based pricing



3. value-based pricing



C) revenue management



D) questions to be asked

1. how much should be charged for this service?
2. what should be the basis for pricing?
3. who should collect payment?
4. where should payment be made?
5. when should payment be made?
6. how should payment be made?
7. how should prices be communicated to the target market?

# Exploring Business Models: Pricing and Revenue Management



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Price and other user outlays

# anagement

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# business model

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# B) three legs of pricing strategy





## B) three legs of pricing strategy



1. cost-based pricing

2. competition-based pricing

3. value-based pricing

- customer pays more for a service which he/she thinks it is worth  
- we have to learn how customers perceive service value

# I. cost-based pricing

fixed cost

supplier still have the cost even if no services were sold (e.g., rent, taxes, salaries)

variable cost

cost associated with an additional customer, very low (e.g., ticket to cinema, serving food)

semivARIABLE cost

expenses that rise or fall in a stepwise fashion (e.g., adding extra bus)

contribution

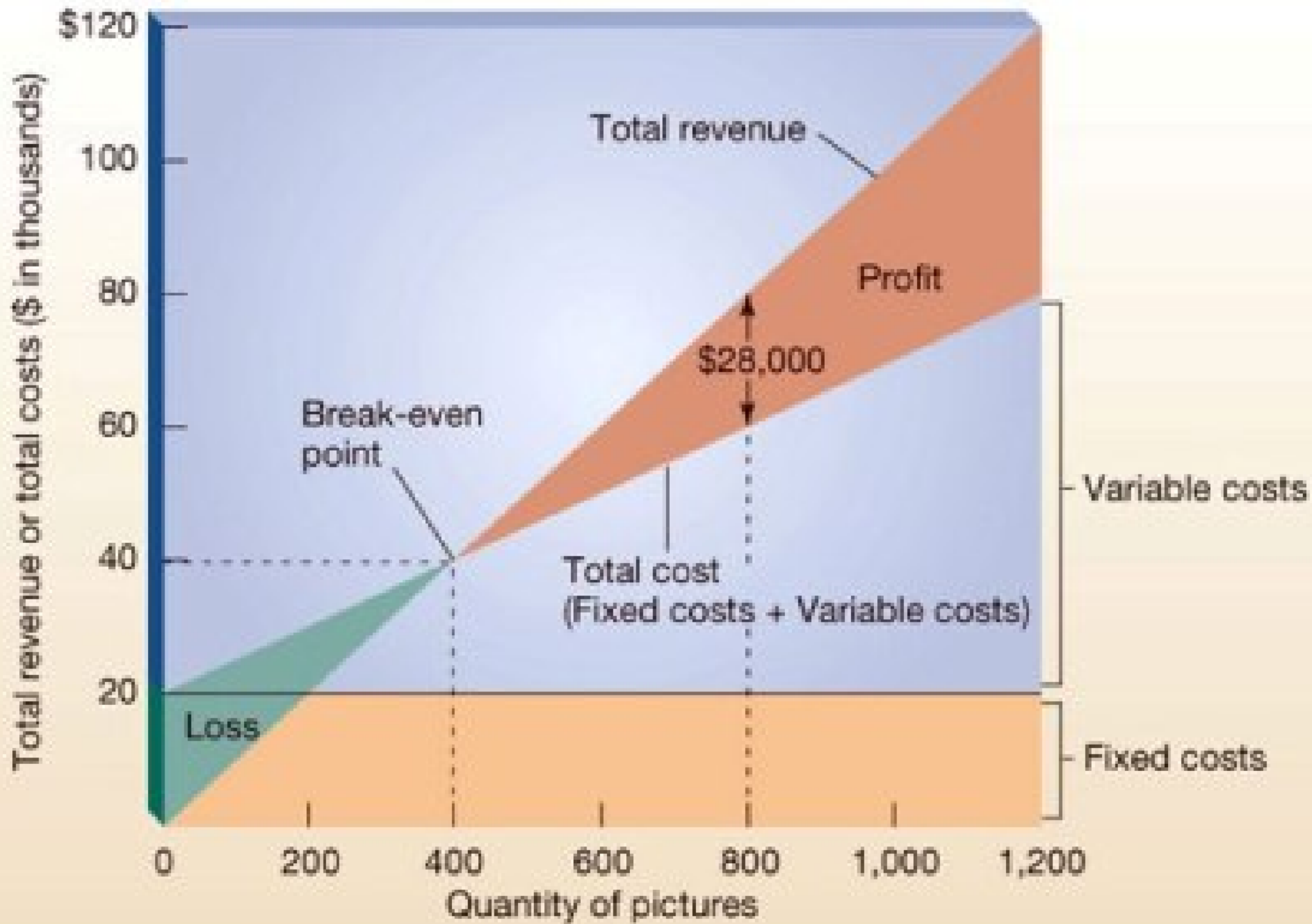
difference between the variable cost of selling an extra unit of service and the money received from the buyer

# break-even analysis

at what sales volume level a service will become profitable

# activity-based costing

cost related to all activities directly or indirectly related to production, marketing and delivery



## 2. competition-based pricing

monitor what competitors are charging and try to price accordingly

# pricing

monitor what competitors are charging and try to price accordingly

some of circumstances  
reduce price competition

- non-price-related costs of using competing alternatives are high
- personal relationships matter
- switching costs are high
- time and location specificity reduce choice

only reacting to competition  
prices can lead to lower  
prices than necessary



- take into account externalities (e.g., customer loyalty, switching costs, nonmonetary) and switching costs
- think about competition



reduce price competition

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## some of circumstances reduce price competition

- non-price-related costs of using competing alternatives are high
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only reacting to competition  
prices can lead to lower  
prices than necessary



- take into account entire cost to customers for each offering (monetary and nonmonetary) and switching cost
- think about competitors' capacity

understand

ue

sum of all perceived benefits (gross value) minus the sum of all perceived costs of service

difference between the price

# 3. value-based pricing

- customer pays more for a service which he/she thinks it is worth
- we have to learn how customers perceive service value

# ricing

- customer pays more for a service which he/she thinks it is worth
- we have to learn how customers perceive service value

*understan*

# net value

sum of all perceived benefits (gross value) minus the sum of all perceived costs of service

# consumer surplus

difference between the price customers pay and the amount they would actually have been willing to pay to obtain the desired benefits

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sum of all perceived benefits (gross value) minus the sum of all perceived costs of service

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value

surplus

# enhancing gross value

increase the gross value of a service by adding benefits to the core product and by enhancing supplementary service

## consumer surplus

difference between the price customers pay and the amount they would actually have been willing to pay to obtain the desired benefits

## enhancing gross value

increase the gross value of a service by adding benefits to the core product and by enhancing supplementary service

strategies to communicate the value of a service



# communicate the value of a service

## 1. reducing uncertainty

possible ways:

- benefit-driven pricing
- flat-rate pricing

pricing that asper  
benefits customers  
time, what was the

involves fixed  
advance of se

## 2. relationship pricing

building loyalty by price and nonprice incentives

e.g., discounts when two or more services are purchased together



## 3. cost leadership

challenge when pricing low is

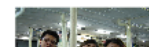
- to convince customers that they shouldn't equate price with quality but instead feel they're getting good value
- to ensure that economic costs are kept low enough to enable profits



## 4. managing the perception of value



quality of some services can be assessed after consumption -



# I. reducing uncertainty

possible way

- benefit-dri

- flat-rate pr

# uncertainty

possible ways:

- benefit-driven pricing
- flat-rate pricing



pricing that aspect of the service that benefits customers directly (e.g., log-on time, what was retrieved)




**ENTREPRENEURS  
AND BUSINESS MANAGERS  
CLICK HERE**

(small business)

# BIG DESIGN



Users don't love usable websites  
They just hate the poorly designed ones

*Poor usability is  
what they can judge* 

# uncertainty

possible ways:

- benefit-driven pricing
- flat-rate pricing





# GOLD SERVICE

- REMOVE & REFILL UP TO 5 LITRES OF OIL
- SUPPLY + REMOVE & REFIT OIL FILTER
- LIGHT GLOBE INSPECTION
- SUPPLY + REMOVE AND REFIT WIPER BLADES
- TYRE ROTATION & PRESSURE CHECK
- FRONT BRAKE INSPECTION
- TOP UP ALL RESERVOIRS
- DRIVE BELT INSPECTION
- C.V. BOOT INSPECTION
- UNIVERSAL JOINT INSPECTION
- ELECTRONIC BATTERY CHECK
- SERVICE DOOR, BOOT & BONNET LATCHES
- FRONT WHEEL BALANCE
- REAR BRAKE INSPECTION
- SPARE TYRE INSPECTION AND PRESSURE CHECK
- REMOVE AND REFIT AIR FILTER
- REMOVE AND REFIT FUEL FILTER
- DIFF OIL INSPECTION
- TRANSMISSION OIL INSPECTION
- POWER STEERING INSPECTION
- BRAKE SYSTEM FLUSH
- COMPLETE SUSPENSION INSPECTION
- EXHAUST INSPECTION
- COOLANT QUALITY TEST

needs repair     completed

**\$298** + GST  
 E.P.A LEVY \$7.70  
 W/SHOP SUPPLIES \$9.90  
 FUEL FILTER  
 AIR FILTER

## RECOMMENDED OPTIONS

- ENGINE FLUSH \$19.50
- FUEL SYSTEM CONDITIONER \$19.50
- VAN & 4X4 SURCHARGE \$38.00

Price in  
 delivery



**A FIXED PRICE PROJECT - BY GASHARMA**

What do you mean you want more details?  
I said I want SOA and Web2.0 and all that thing.  
Now tell me how much will it cost



**A FIXED PRICE PROJECT - BY GASHARMA**

WWW.TOONDOO.COM



consequences:

- risk is transferred to supplier ->
- the service takes longer to deliver
- or costs were underestimated

## 2. relationship pricing

building  
nonpri

e.g., discounts when two  
services are purchased to

# cing

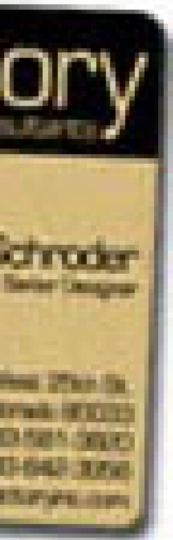
## building loyalty by price and nonprice incentives

e.g., discounts when two or more services are purchased together



more  
mer







CONGRATULATIONS  
YOU'VE WON A TWO  
LITRE ROVER!

search ID: mfh104

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# 3. cost leadership

challenge w

# ership

## challenge when pricing low is

- to convince customers that they shouldn't equate price with quality but instead feel they're getting good value
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# vention of value

# 3. cost leadership

challenge when pricing low is

- to convince customers that they shouldn't equate price with quality but instead feel they're getting good value
- to ensure that economic costs are kept low enough to enable profits



# 4. managing the perception of value



quality of some services can be assessed after consumption - how to make the customer believe in it?



the backstage is not visible



therefore: eff  
personal expl  
customers un

# Managing the perceptio



quality of some services can be assessed after consumption - how to make the customer believe in it?



the backstage is not visible





therefore: effective communications and even personal explanations are needed to help customers understand the value they receive

# alternatives: dynamic pricing and auctions



[registrace](#) [prodat](#) [moje aukro](#) [hledat](#) [služby](#) [forum](#) [náověda](#)

Najít položku

[Pokročilé](#)

*Vítejte!*

*Poprvé na Aukru?*

Skvělé místo pro nákup a prodej nového i použitého zboží. Obchodujte rychle, bezpečně a jednoduše.

**Kategorie**

- Auto-moto
- Cestování
- Děti
- Dům a zahrada
- Elektro
- Foto
- Hudba, film
- Knihy a časopisy
- Nemovitosti
- Oblečení, doplňky

Doporučeno

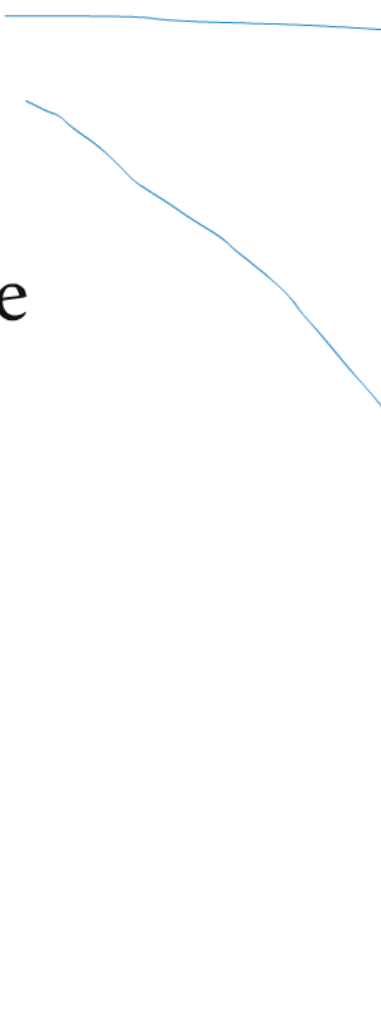


# C) revenue management

focus on maximizing of the revenue that can be derived from available capacity at any given time

# gement

focus on maximizing of the revenue that can be derived from available capacity at any given time



setting prices according to  
predicted demand levels among  
different market segments



the last price-sensitive  
segment is the first

# predicted demand levels among different market segments



the last price-sensitive segment is the first to be allocated capacity, paying the highest price; other segments follow at lower prices

based on historical data  
and forecasted demand

often supported by solid  
mathematical models

based on historical data  
and forecasted demand

often supported by solid  
mathematical models





YOU



most effective for operations with fixed capacity,  
a high fixed cost structure, perishable inventory,  
variable demand and price sensitivity



IT support on-demand



data processing centers

most effective for operations with fixed capacity,  
a high fixed cost structure, perishable inventory,  
variable demand and price sensitivity



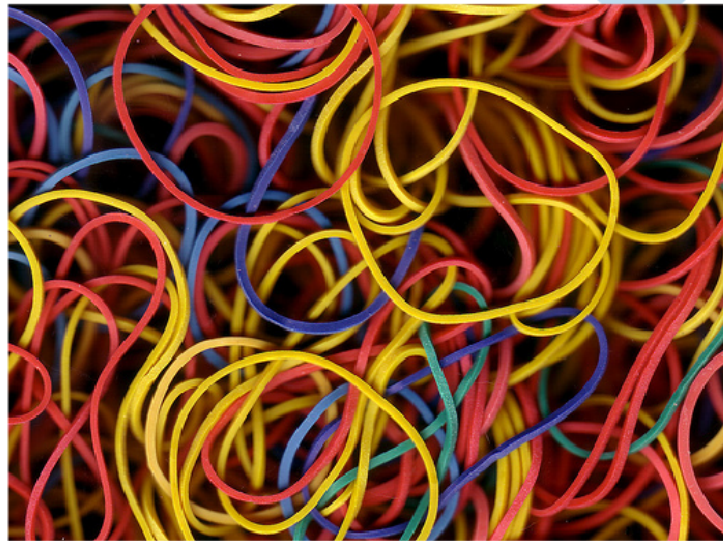
IT support on-demand



data processing centers

e.g.,

works upon knowledge of actual  
(predicted) price elasticity



elastic=flexible=responsive



elastic=flexible=responsive

$$\text{price elasticity} = \frac{\% \text{ change in demand}}{\% \text{ change in price}}$$

**P**

Price Elasticity  
of Demand

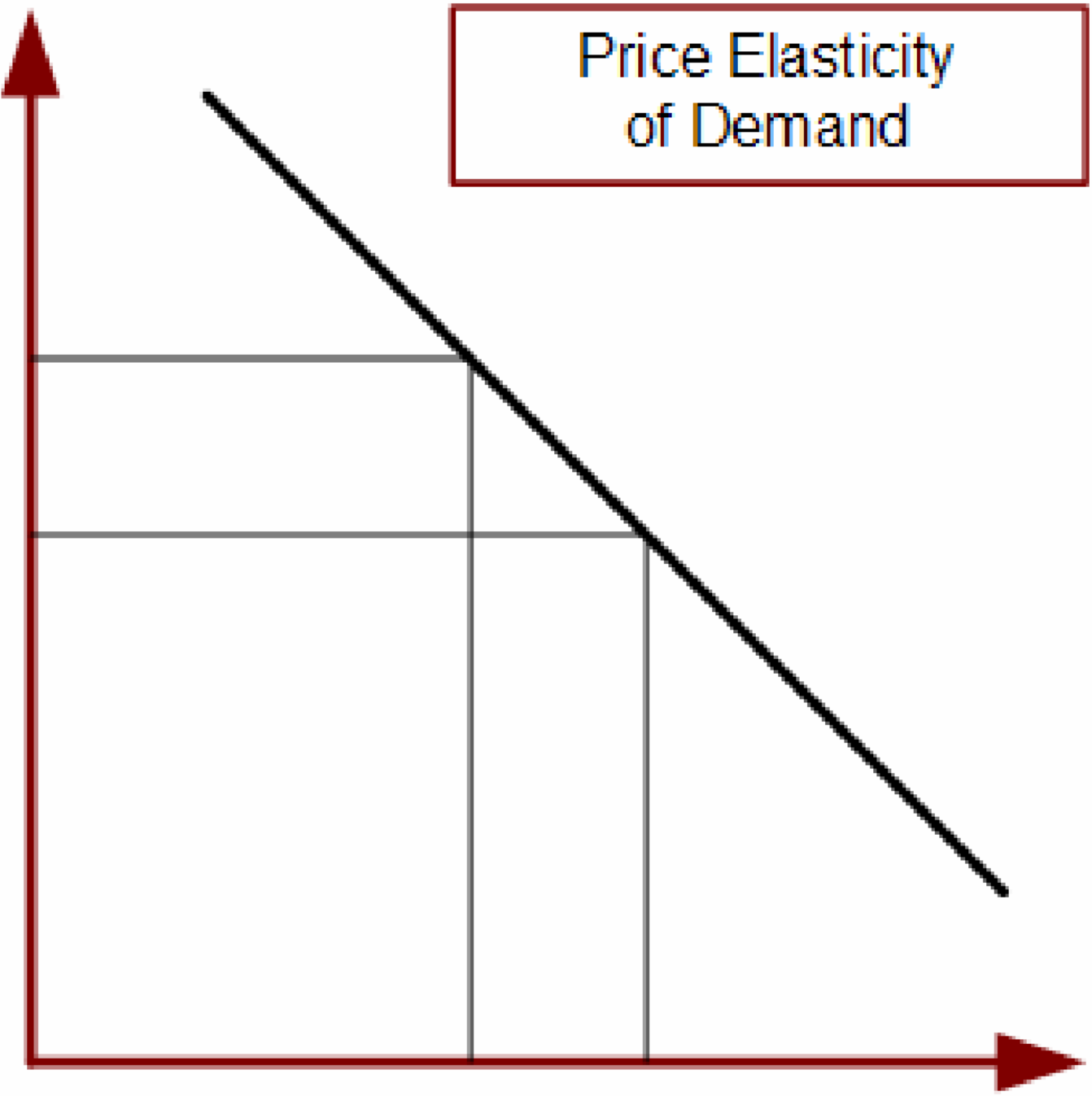
$P_0$

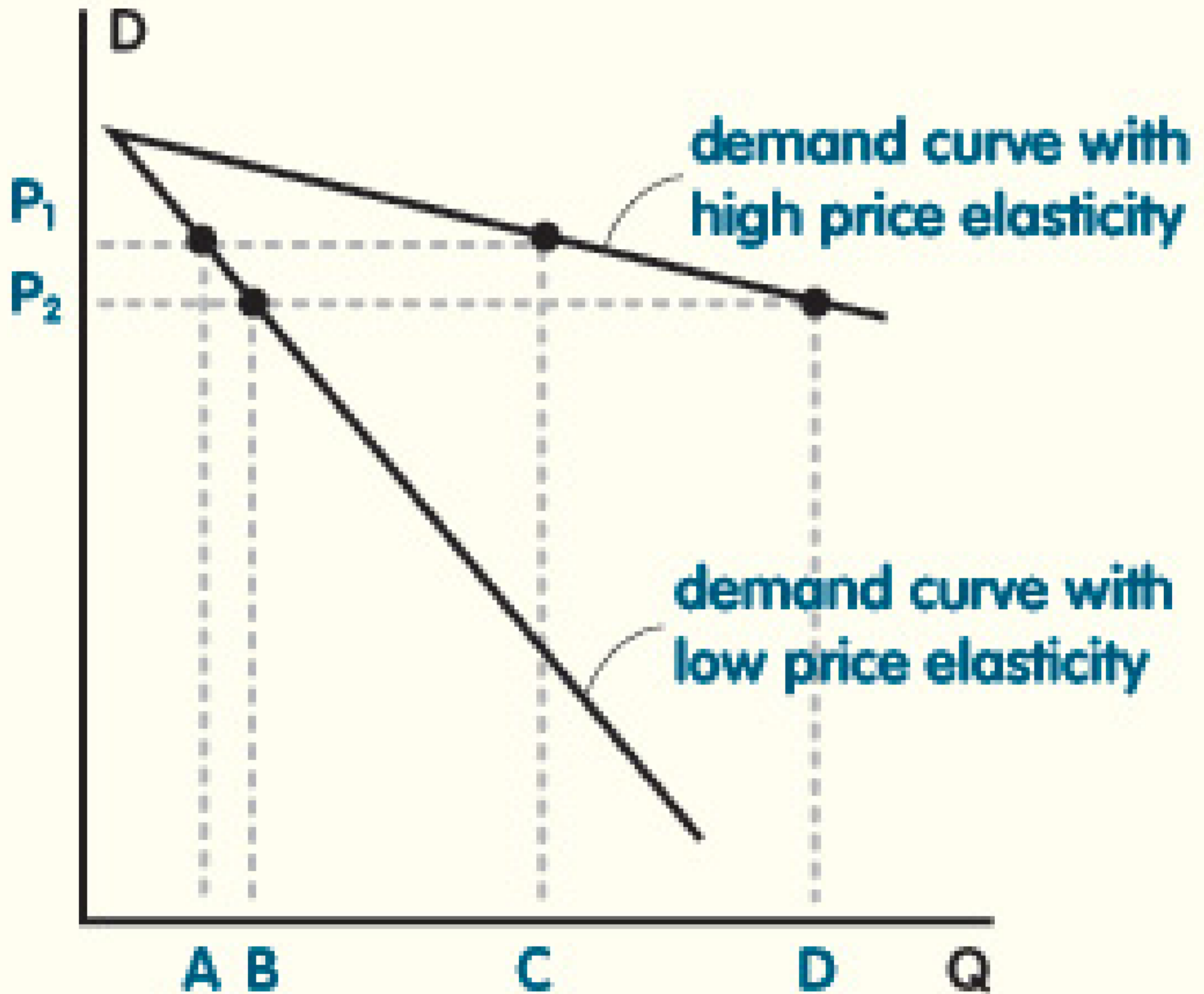
$P_1$

$Q_0$

$Q_1$

**Q**





easy overview:

<http://www.uri.edu/artsci/newecn/Classes/Art/INT1/Mic/Elast/index.elast.html>



# D) questions to be asked

I. how much should be charged for the

?\$organization\$?  
?\$sensitivity to prices\$?  
?\$competition\$?  
?\$discounts\$?  
?\$psychology\$?



# Questions to be asked

1. how much should be charged for this service?

- ?\$organization\$?
- ?\$sensitivity to prices\$?
- ?\$competition\$?
- ?\$discounts\$?
- ?\$psychology\$?



2. what should be the basis for pricing?

?\$execution\$?

## 2. what should be the basis for pricing?

- ?execution?
- ?admission?
- ?time?
- ?comission?
- ?consumption of physical resources?
- ?location?
- ?physical attributes?
- ?bundling?
- ?independent charges?



## 3. who should collect payment?

?provider?

?physical attributes?  
?bundling?  
?independent charges?



# 3. who should collect payment?

?provider?  
?intermediator?  
?broker?



?on place of delivery?x?outlet?x?home?



4. where should payment be made

# 5. when should payment be made?

?before?x?after?

?which time?

?which day?



?cash?check?credit card?voucher?transfer?



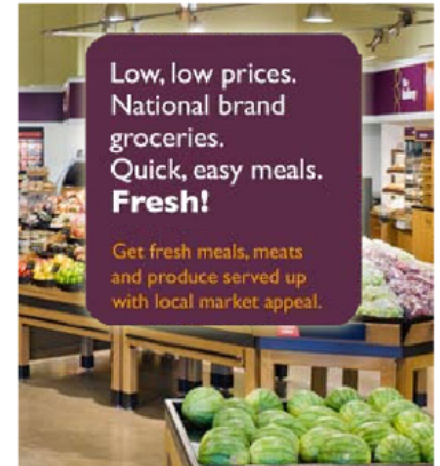
For First Time Home Buyers...  
**\$10,000.00** Grant!

	
PAY TO	<i>First Time Home Buyer</i> \$ 10,000.00
TI C ORE C T O F	<i>Ten Thousand &amp; 00/100</i> D O L L A R S
MEMO	<i>Grant</i> <i>Participating Bank</i>

# 6. how should payment be made?

# 7. how should prices be communicated to the target market?

?channel?  
?content?





YOU

Tube

