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PRICING WITH A PURPOSE

OUR PURPOSE HERE TODAY

- No, we won't be creating pricing experts today...
- But, we'll whet your appetite
 1. Illustrate how pricing needs a purpose
 2. Show some options to traditional pricing methods
 3. Demonstrate how to promote with price
 4. Share several methods and tips

- Anyone here not charging fees?
- What restrictions or parameters do you work within?
- Anyone here a pricing expert?



BUT FIRST,
LET'S GET
TO KNOW
ONE
ANOTHER

WHAT ARE SOME WAYS YOU SET PRICES?

EXAMPLES OF HOW PRICES ARE SET

- Tradition... “it’s always been \$5”
- Council likes that price
- Sounds pretty good
- Covers our cost
- That’s what they’re charging in {insert neighboring city name}
- It’s affordable
- We price for those who have the least
- Huh? What’s the question?

WHAT IS IT YOU WANT TO DO? WHAT'S THE **PURPOSE**?

- Make money
- Direct Cost
- Overhead or Partial Overhead
- Pacify __ (someone) __
- Get new players, students, customers
- Get former, “lost players back”
- Launch a new program or service
- Increase members or visitors
- Maximize or minimize attendance, sales, etc.
- Demonstrate your affordability
- Dough to subsidize a different program

TYPICAL DIRECT COST PRICING

Staff	\$120
Supplies	80
Rentals	40
Advertisement	100
Total	\$340
Capacity (max)	30
Unit Price (cost) at Capacity	\$11.33
Unit Price (cost) at 75% Capacity	\$15.11
Unit Price (cost) at 50% Capacity	\$22.67

TYPICAL DIRECT COST PRICING – OVERHEAD COSTS

Staff	\$120
Supplies	80
Rentals	40
Advertisement	100
Total	\$340
Capacity (max)	30
Unit Price (cost) at Capacity	\$11.33
Unit Price (cost) at 75% Capacity	\$15.11
Unit Price (cost) at 50% Capacity	\$22.67

Janitorial	\$40
Utilities	20
Admin	20
Building/Field Reservation	100
Total	\$180
Capacity (max)	30
Unit Price (cost) at Capacity	\$6
Unit Price (cost) at 75% Capacity	\$8
Unit Price (cost) at 50% Capacity	\$12

TYPICAL DIRECT COST PRICING OVERHEAD COSTS OPTION 2

Direct Costs	\$340
Indirect Costs (Overhead)	\$180
Total Costs	\$520
$\$180 / \520	35%
If decided \$17 for direct costs	
$35\% \times \$17$	\$6
$\$17 + \6	\$23

- Set a higher price than competitors BECAUSE you want potential customers to PERCEIVE higher value
- But, and it's a big but,
- Should be something that can't be had easily elsewhere

SKIMMING PRICING

- Set price at level comparable to competitors.
- Use when you want people to consider other ASPECTS (added value) of your services.

NEUTRAL PRICING

- Start at lower price to lure customers from competitors.
- What are some potential drawbacks?
 - Doesn't always work.
 - Unfair competition from big, bad government.

PENETRATION PRICING

DISCOUNTING AND BUNDLING

- Secure money in advance.
- Lowers your cost.
- Inspires action (to register/buy).
- New customers.
- Accommodate lower income residents.
- Breaking into the market.

USELESS PRICE
POINTS
OR “3 CHOICES”

Basic Archery Lessons \$19

Champion Archery Lessons \$29

- Includes shirt, souvenir arrow, and ½ hour private lesson with teacher

Olympian Archery Lessons \$39

- Includes shirt, souvenir arrow, ½ hour private lesson with teacher and a DVD of Hunger Games.

SHOULD YOU ALWAYS CHARGE A FEE?



4 P'S

- Product
- Price
- Placement
- Promotion

TIPS & TRICKS OF THE TRADE

- No \$ sign
- Comparison pricing
- EFT
- Pay what you wish toward a charity
- Grandfather pricing
- Loss leader
- Sell VALUE
- Don't ASK!

ODD NUMBER PRICING

- Initially created to reduce dishonesty among store clerks.¹
- The 9-digit ending required employees to punch in a price to open the cash drawer.
- Practice has continued as it creates illusion of substantially lower prices due to “truncation”.²
- Despite years of training to read numbers from right to left, people process prices from left to right.

¹Schindler, R.M. & Kirby, P.N. (1997). Patterns of rightmost digits used in advertised prices: Implications for nine-ending effects. *Journal of Consumer Research*, 24, 192-201.

²Stiving, M., & Winer, R.S. (1997). An empirical analysis of price ending with scanner data. *Journal of Consumer Research*, 24, 57-67.

Which
price
increase
appears to
be highest?

A. \$79 -> \$93

B. \$75 -> \$89

Which
discount is
perceived
to be
largest?

A. \$6.00 -> \$4.95

B. \$6.05 -> \$5.00

A FEW LAST BITS OF ADVICE



PRICING IS AN ART

Pricing is an art. It depends as much on good judgment as on precise calculation. But the fact that pricing depends on judgment is no justification for pricing decisions based on hunches or intuition. Good judgment requires that one ask the right questions and comprehend the factors that make some pricing strategies succeed and other fail.

Nagle, T.T., & Holden, R. K. (2001). *The strategy and tactics of pricing: A guide to profitable decision-making*. Englewood Cliffs, NJ: Prentice Hall.

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