

- Price wars are bad, especially with high fixed costs.
- They reduce current profits and erode customers' perception of product quality.
- Price wars are not inevitable. For example, the French and the Germans fight every fifty years but not every year.
- But collusion is illegal.
- Of course predatory pricing is illegal too.

- Differentiation reduces price sensitivity and thus the temptation to start a price war.
- Differentiation of products starts with segmentation of customers.
- Products may be differentiated in quality or variety.
- Even if the base product is homogeneous, it may be bundled with a differentiated “product”.

- If you differentiate by bundling; the design of the bundle should depend on your resources.
- Bundle with your strong resources – unless you risk destroying them in the process
- Use advertising to create additional differentiation, still based on your resources.

- Price discrimination is a very common practice
- Some versions are illegal
- Effective 3rd degree price discrimination can make a lot of money in a lot of industries
 - airlines: classes, times
 - grocery coupons
 - quality-tiered products