PRICE

All products and services have price – just same as they have value

Many names or faces of price:

- rent for apartment
- tuition for education
- fee to dentist
- fare for buses or trans or planes
- rate for local utilities
- interest for the bank loan
- honorarium for the writer
- bribe for the governemnt official
- dues paid by the association member
- assessment for unsusual expense for clubs or societies
- retainer for lowyer
- salary for the executive
- commission for the salesperson
- wage for the Wolker
- taxes for the govenrment etc…..

Price plays very important role in the buyer behaviour – evidently or hiddenly – it influences decisioning

In many market is price set by negotiation between buyers and sellers – only in the so called developped markets the price for consumers is given the same for all

- through bargaining buyyer and seller arrive at an acceptable price for both

Price is the only element in MKT MIX which produces revenue – but i tis very relative and depends on the real situation – sometimes the bad price produces loss.

Pricing decisions are affected by internal copany factors as well as by the external environmental factors:

INTERNAL FACTORS:

a) marketing objectives:
- survival (low prices – usually short-term goal), current profit maximisation , market-share maximisation (usually lowest prices) , product – quality leadership (usually very high prices)

b) marketing mix strategy:
- price must be coordinated with other elements – produkt features and design, distribution channel design and length, promotion which help to positron the produkt
- price is the crucial produkt positioning factor that defines market, competion and design

TARGET COSTING – a technique to support pricing decisioning which starts with deciding the target cista for a new produkt and goes back to designing the produkt – we have target customers and no produkt in the beginning

c) costs:
- costs set the floor for the prices that the copany can charge for its products. Price should cover all the cista for producing and selling and delivers some return for effort and risk

TYPES OF COSTS:
- fixed - or overheads – are cista that do not vary with production or sales level – rent, heat, executives salaries….
- Variable – vary directly with the level of production
- Total – sum of the fixed and variable costa for any given level of production

EXTERNAL FACTORS:

a) the market and the demand:
- market and demand set the upper limit of price – „price – demand relationships“
- this relattionships varies with different types of market:

1. pure competition – many buyers and sellers trade in a uniform commodity – noone has much effect on the gong market price
2. monopolistic competition – many buyers and sellers – trade over a range of prices rather than a single market price
3. oligopolistic competition – few sellers highly sensitive to each other´s pricing and MKT strategies
4. pure monopoly – single seller

b) consumer/customer perception of price and value
in the end cons/cust will decide if the price is right
- when they buy something they change value – price for something of value – benefits
TRY TO UNDERSTAND
- depends much on the type of market!!!

How responsive demand will be to a change in price??????
- elastic and inelastic (if demand hardly changes with a small change in prices) demand - the relation between price charged and the resulting demand level is shown in DEMAND CURVE

$$\frac{\%\text{change in quantity demanded}}{\%\text{change in price}}$$

c) competitor´s costs, prices and offers
+ possible competitotr´s reactions to the company´s price moves

d) other external factors
economic conditions – boom or recession, inflation, interest rates, taxes…
social concerns

resellers
government

GENERAL PRICING APPROACHES

Companies set prices by selecting one or more of these 3 sets of factors: cista, perception, competitor´s price

Following approaches:

a) cost-plus pricing
- the simplest Metod – adding a standard mark-up to the cost of the produkt

mark-up pricing works only if that price actually brings in the expected level of sales!!!

It ignores the demand!!! But sellers are more certain about the cista than demand!!!!!!!
It is supposed it is more for for the buyer and seller!!!!!

Variable cost: 10 CZK
Fixed cost: 300 000CZK
Expected unit sales: 50000

Unit cost = variable cost + fixed cost/unit sales = 10 CZK + 300000 CZK/50000 = 16 CZK

Mark-up price if manufacturer wants to earn a 20% mark-up on sales:

Mark-up price = unit cista/1,0 – desired return on sales = 16/ 1,0-0,2 = 20 CZK

b) break – even analysis and target profit pricing

break-even volume = fixed cost/price = variable cost = 300 000/20 – 10 = 30000

if the company wants to make target profit, it must sell more than 30 000 units at 20 CZK each

but much depends on the price elasticity and competitotr´s prices

c) value – based pricing

- basing the prices on the product´s perceived value

price is considered along with the other MKT mix variables before MKT programme is set

VALUE PRICING - offering the right combination of quality and good service at a fair price

COMPETITION –BASED PRICING

A) going –rate pricing – setting price based kartely on following competitor´s prices rather than on company costs or demand

B) sealed-bid pricing

- copany bases its price on how it thinks competitors will price rather than on its own costs or demand – usually on auctions!!!!!

NEW PRODUCT PRICING STRATEGIES

4 possible positioning strategie:

quality	high	low
high	premium strategy	good-value strategy
low	overcharging str.	ekonomy str.

price

companies bringing out an innovative or patent – protecte produkt face the challenge of setting the prices for the first time. They can chaose between 2 strategies:

a) market skimming – setting a high price for a new produkt to skim maximum revenue from the segemnts willing to pay the high price. The copany usually makes fewer but more profitable sales
b) market penetration – setting a low price for a new produkt in order to attract large numbers of buyers and a large market share – when market are price sensitive, production and distribution costs must fall when sales volume increases and no strong competition

PRODUCT MIX STRATEGIES:

a) product line pricing – setting the price steps between various products in a produkt line based on cost differences between the products, customer evaluations of different features and competitor´s prices

b) optional – produkt pricing - the pricing of accessory products

c) captive – produkt pricing – setting a price for produkt that must be used with a main produkt – blades for a razor, film for a camera…

d) by-product pricing – those manufacturers who makes by products

e) produkt – bunde pricing

PRICE ADJUSTMENT STRATEGIES

a) discounts – cash (who pay the bill promptly) or quantity reduction for large volume), trade – for channel members, seasonal discount…
b) segmented pricing – customers – age, education, tourist versus local citizen, time – season, weekends, night – elektricity..
c) psychological – reference – buyers carry in thein mind, duality, piositioning…inexperienced buyers!!!!!
d) Promotional – temporarily pricing bellow the average level (even bellow the costs)

PRICE CHANGES