



Price and pricing



Price - definition

The amount of money charged for a product or service, or the sum of the values that consumers/customers exchange for the benefits of having or using the product or service.

- Rent
- Fee
- Rate
- Commission
- Assessment

- Tuition
- Fare
- Toll
- Premium
- Retainer

- **Bribe**
- **Salary**
- **Wage**
- **Interest**
- **Tax**



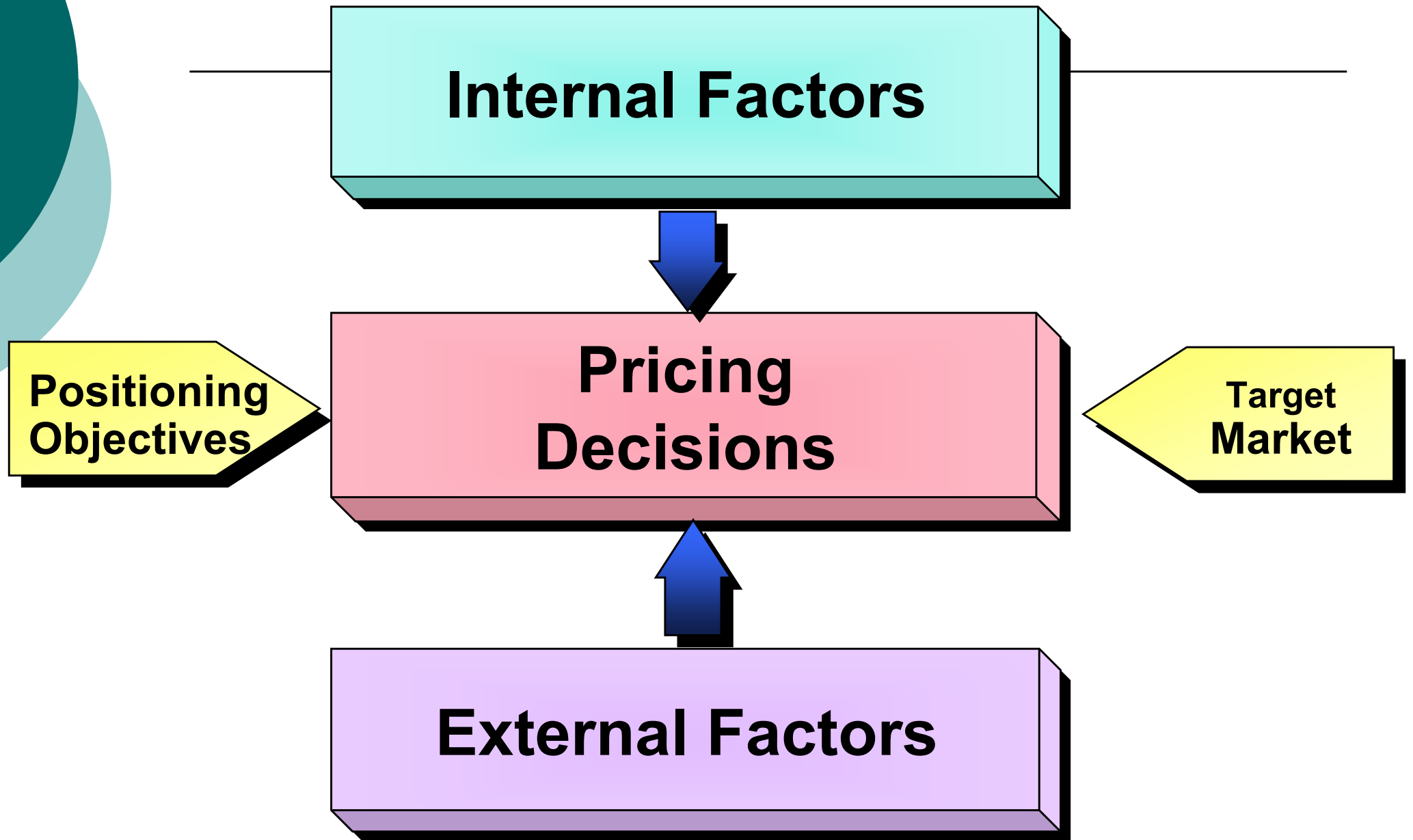
Price

critical marketing mix variable

„one price for all“ – end of the 19th cent.
(bargaining, negotiation)

- ❑ produces revenue
- ❑ very flexible element in the marketing mix
- ❑ relates directly to microeconomics
 - supply versus demand analysis
 - breakeven analysis
 - price elasticity

Factors to Consider When Setting Prices



Internal Factors Affecting Pricing Decisions

**Marketing
Objectives**

**Marketing-Mix
Strategy**

Costs

**Organizational
Considerations**

Marketing objectives that affect pricing decisions

Marketing Objectives

Survival

Low Prices to Cover Variable Costs and Some Fixed Costs to Stay in Business.

Current Profit Maximization

Choose the Price that Produces the Maximum Current Profit, Cash Flow or ROI.

Market Share Leadership

Low as Possible Prices to Become the Market Share Leader.

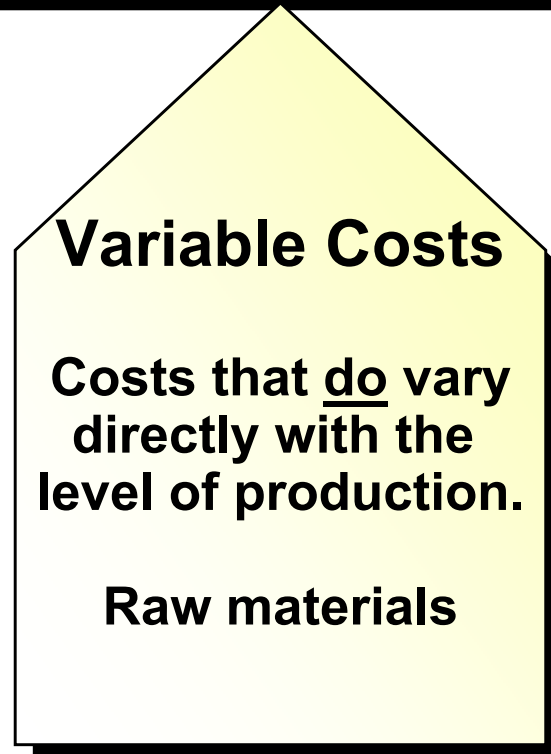
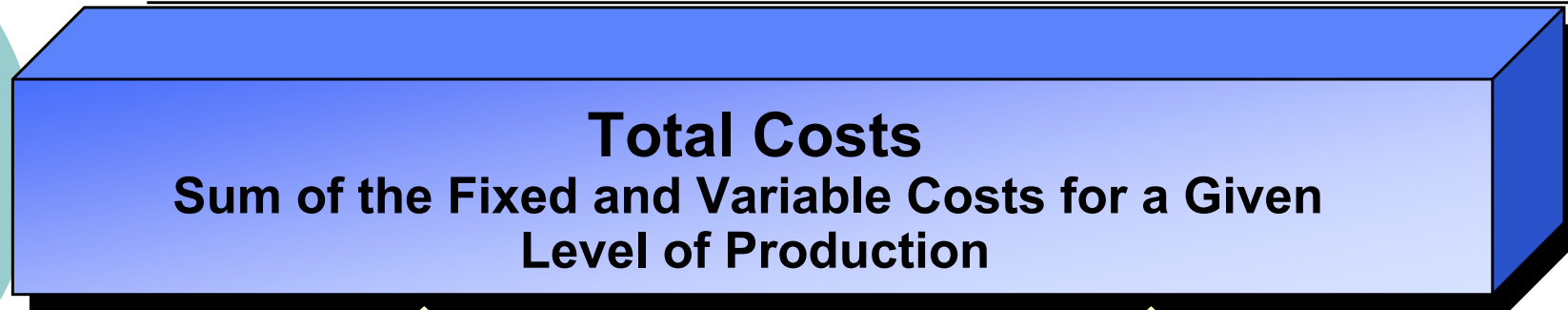
Product Quality Leadership

High Prices to Cover Higher Performance Quality

Marketing Mix variables that affect pricing decisions



Types of cost factors that affect pricing decisions



External Factors Affecting Pricing Decisions

Nature of the market and demand

Competitors' Costs, Prices, and Offers

Other External Factors
Economic Conditions
Reseller Needs
Government Actions
Social Concerns

Demand Curves

Price

P_2

P_1

Quantity Demanded per Period

Q_2

Q_1

A. Inelastic Demand - Demand Hardly Changes With a Small Change in Price.

Price

P'_2

P'_1

Quantity Demanded per Period

Q_2

Q_1

B. Elastic Demand - Demand Changes Greatly With a Small Change in Price.

pricing

= setting the price – three sets of factors:

- Costs
- consumer(customer's) perception
- Competitor's price

Cost-based approach (cost+, BEA, TP)

Buyer-based approach (perceived value)

**Competition-based approach (going-rate,
sealed –bid)**

Major considerations in setting price

Product costs

Competitors' prices and other internal and external factors

Consumer perceptions of value

Price floor
No profits below this price

Price ceiling
No demand above this price

PRICING OBJECTIVES

ENVIRONMENTAL
ANALYSIS

CORPORATE
OBJECTIVES

**PRICING
OBJECTIVES**

**PROFIT
ORIENTATED**

**VOLUME
ORIENTATED**

**COST
ORIENTATED**

**COMPETITION
ORIENTATED**

Cost-Plus Pricing

= adding a Standard Markup to the Cost of the Product

WHY?

**Sellers Are More
Certain About
Costs Than
Demand**

**Minimizes
Price
Competition**

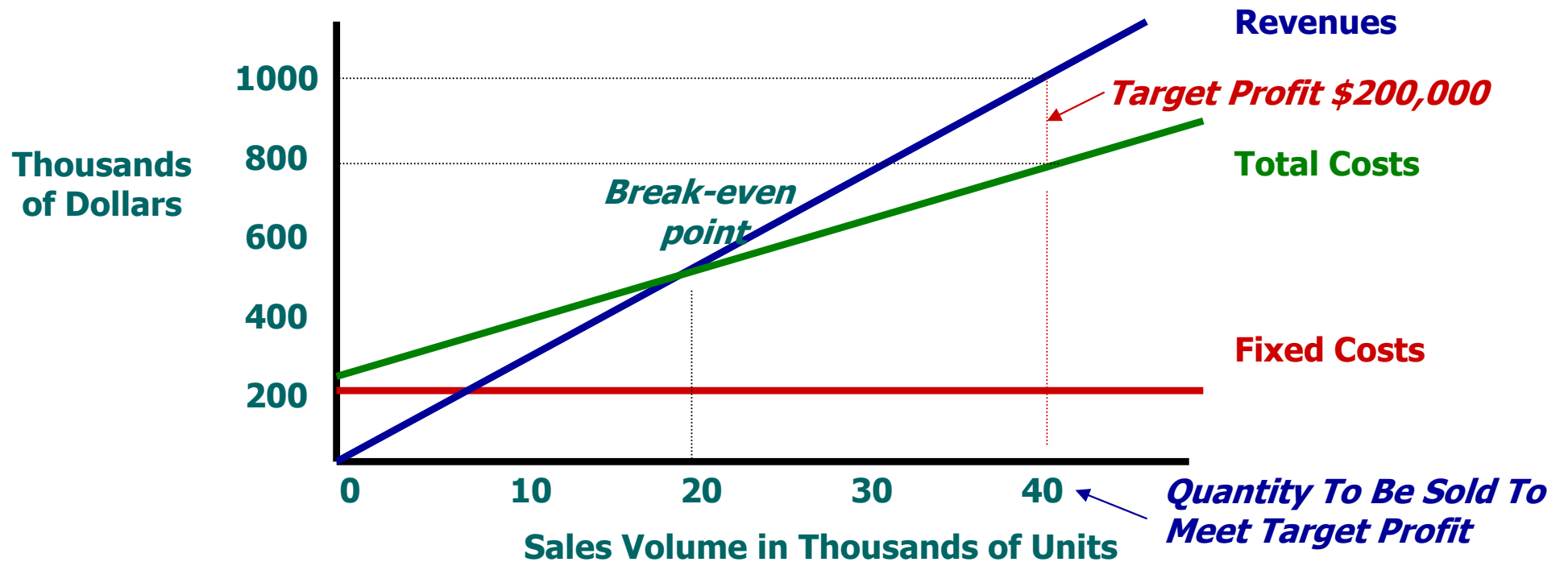
**Perceived
Fairness to
Both Buyers
and Sellers**



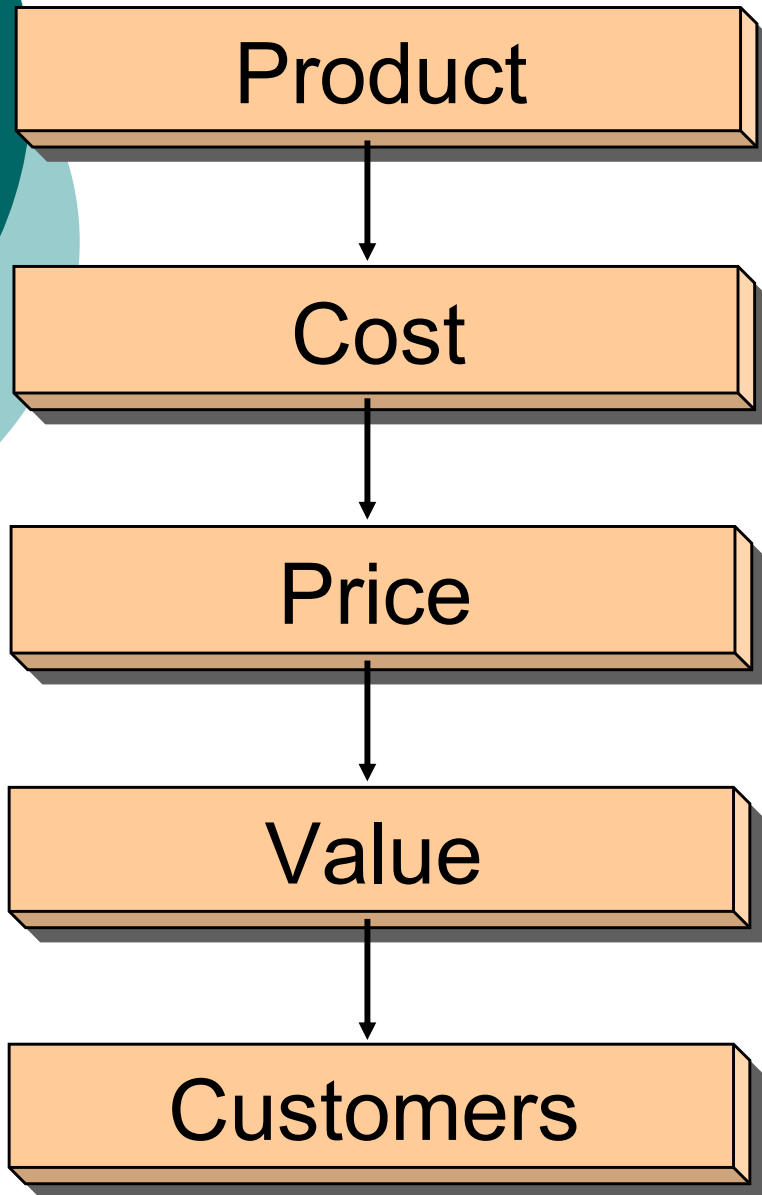
BEA and TP

- *Break-Even Analysis and Target Profit Pricing*
 - Break-even charts show total cost and total revenues at different levels of unit volume.
 - The intersection of the total revenue and total cost curves is the break-even point.
 - Companies wishing to make a profit must exceed the break-even unit volume.

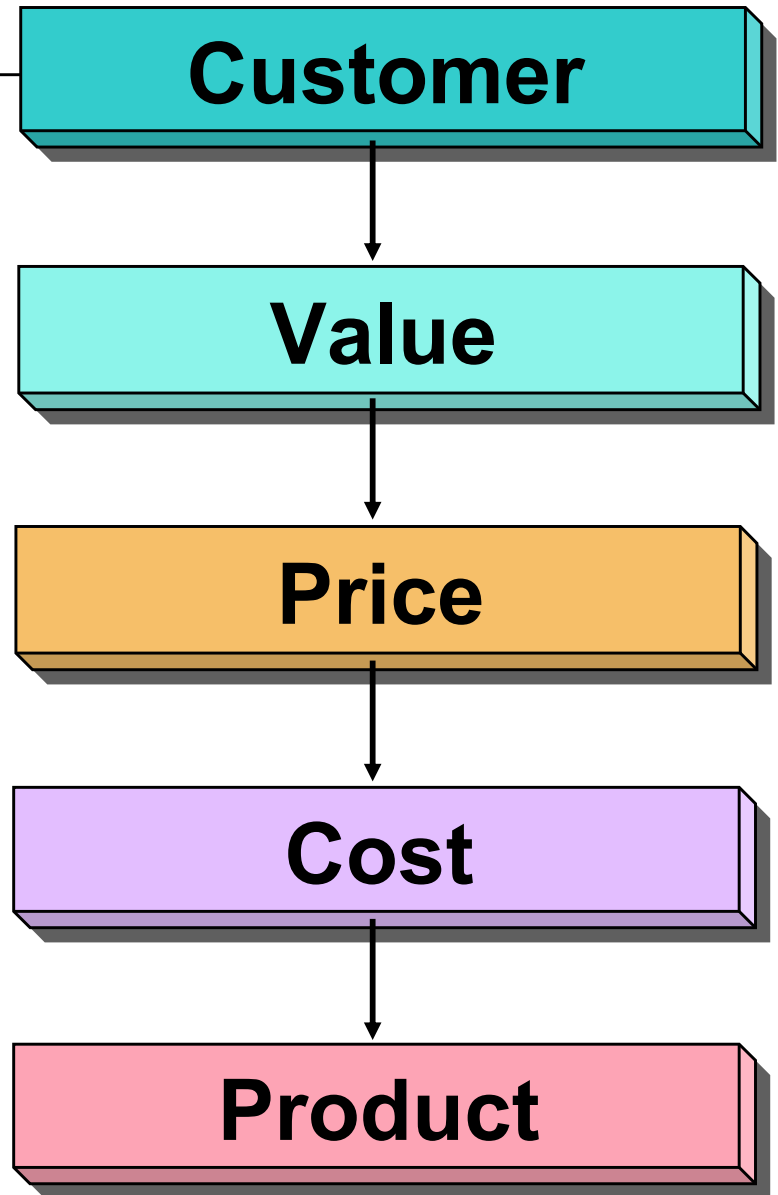
Break-Even Analysis and Target Profit Pricing



Value-Based Pricing



Cost-Based Pricing



Value-Based Pricing

Demand Based Pricing

- **perceived value**

 - requires detailed knowledge of buyer behavior and demand elasticity**

 - only true profit maximizing strategy**

 - ignores costs and competitors**

demand differential

price discrimination

yield maximization pricing

 - sell at multiple prices to multiple segments**

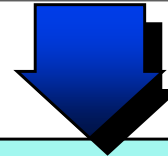
 - not based on marginal costs of dealing with each**

 - daily, weekly, or seasonal pricing**

 - geographic, physical, or electronic barriers**

Competition-Based Pricing

Setting Prices



Going-Rate
Company Sets Prices Based on What
Competitors Are Charging.



Sealed-Bid
Company Sets Prices Based on
What They Think Competitors
Will Charge.



PRICING AND PRODUCT

- Define the entire product/service offering
- What differentiates it ?
- What is the perceived value ?
- Do specific features add value ?
- Quality, support, warranty, etc.



PRICING AND POSITIONING

- **Pricing reinforces Positioning.**
- **Pricing is a competitive weapon.**
- **Pricing ties together your product offering.**
- **Price from the customer's viewpoint.**



Pricing and Promotion

- Pricing is a tool in promoting the product.
- Use Pricing to encourage initial trials and maintain customer loyalty.
- Use Promotions to test Pricing sensitivities.



Pricing strategies

- **Premium pricing**

- Uses a high price, but gives a good product/service exchange e.g. Concorde, The Ritz Hotel

- **Penetration pricing**

- offers low price to gain market share - then increases price
- e.g. France Telecom - to attract new corporate clients (or Telewest cable)

- **Economy pricing**

- placed at 'no frills', low price
- e.g. Soups, spaghetti, beans - 'economy' brands



- **Optional product-pricing**

- e.g. optional extras - BMW famously under-equipped

- **Captive product pricing**


- products that complement others
- e.g. Gillette razors (low price) and blades (high price)


- **Product-bundle pricing**

- sellers combine several products at the same price
- e.g. software, books, CDs.

- **Promotional pricing**

- BOGOF e.g. toothpaste, soups, etc

- 
-
- **Price skimming**
 - where prices are high - usually during introduction
 - e.g new albums or films on release
 - ultimately prices will reduce to the 'parity'
 - **Psychological pricing**
 - to get a customer to respond on an emotional, rather than rational basis
 - .e.g 99p not £1.01 'price point perspective'
 - **Product line pricing**
 - rationale of a product range
 - e.g. MARS 32p, Four-pack 99p, Bite-size £1.29
 - **Pricing variations**
 - 'off-peak' pricing, early booking discounts, etc
 - e.g Grundig offers a 'cash back' incentive for expensive goods

- 
-
- **Geographical pricing**
 - different prices for customers in different parts of the world
 - e.g. Include shipping costs, or place on PLC
 - **Value pricing**
 - usually during difficult economic conditions
 - e.g. Value menus at McDonalds



How to improve profit performance?

- **Increase price**
- **Cut Variable Cost**
- **Increase Volume**
- **Cut Fixed Cost**

- **Shift in Supply Curve**
 - change in cost**
 - change in expectations of cost**
 - change in price of other goods sold**

- **Shift in Demand Curve**
 - change in income**
 - change in price of related goods**
 - change in price expectations**
 - change in taste**

- **Increase in demand versus increase in quantity demanded**



PRICING AND PROFITABILITY

- \$ Understand the entire cost structure behind your product or service.
- \$ Target your product line profitability and manage it.
- \$ Pricing strategy needs to assure long term profitability.
- \$ Be able to recognize a bad deal and walk away.