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

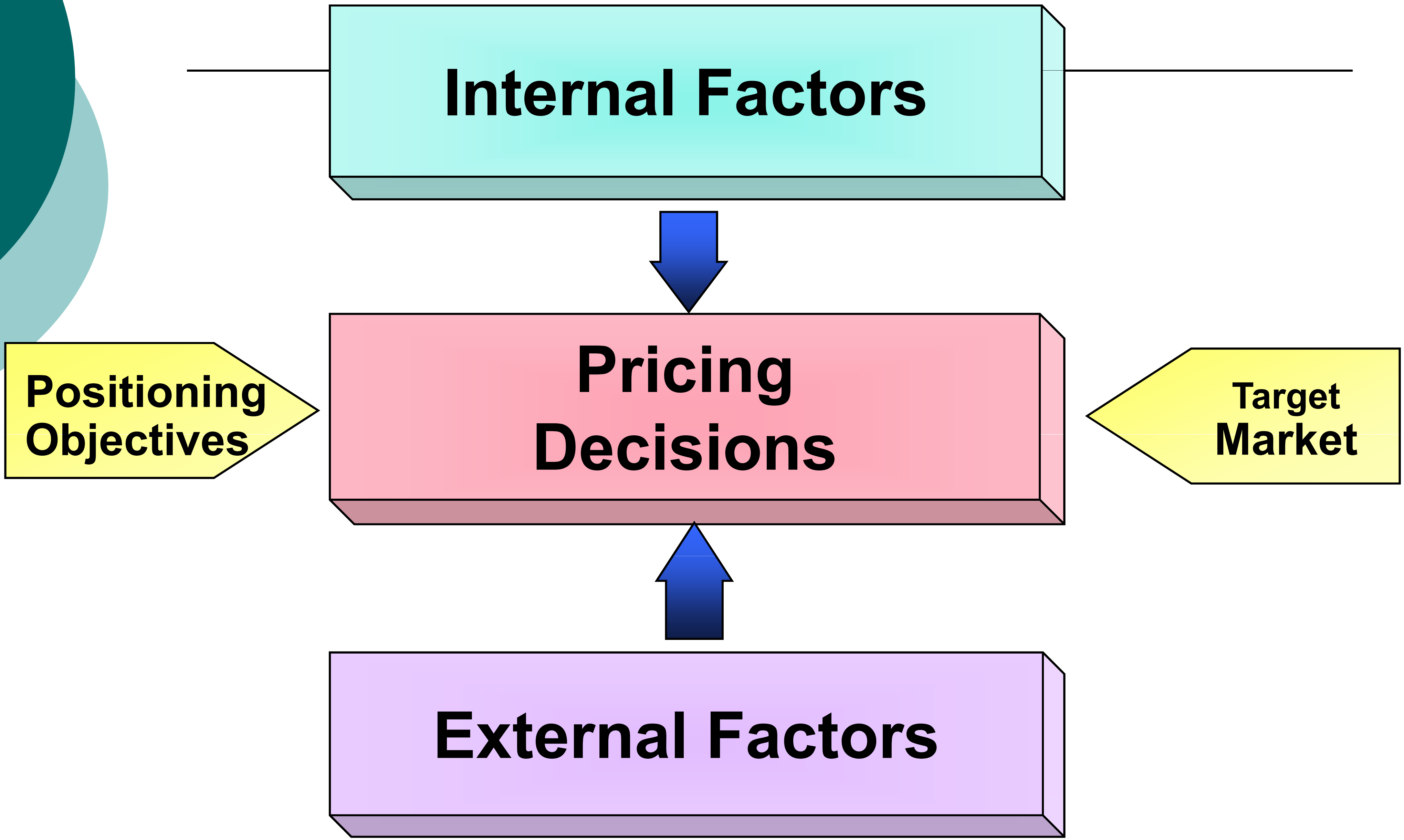
critical marketing mix variable

„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 that affect pricing decisions

http://www.kaufland-online.cz/Site/start.htm

http://www.realestatedeveloper.com

Marketing Objectives

http://www.pg.com/en_US/index.jhtml

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.

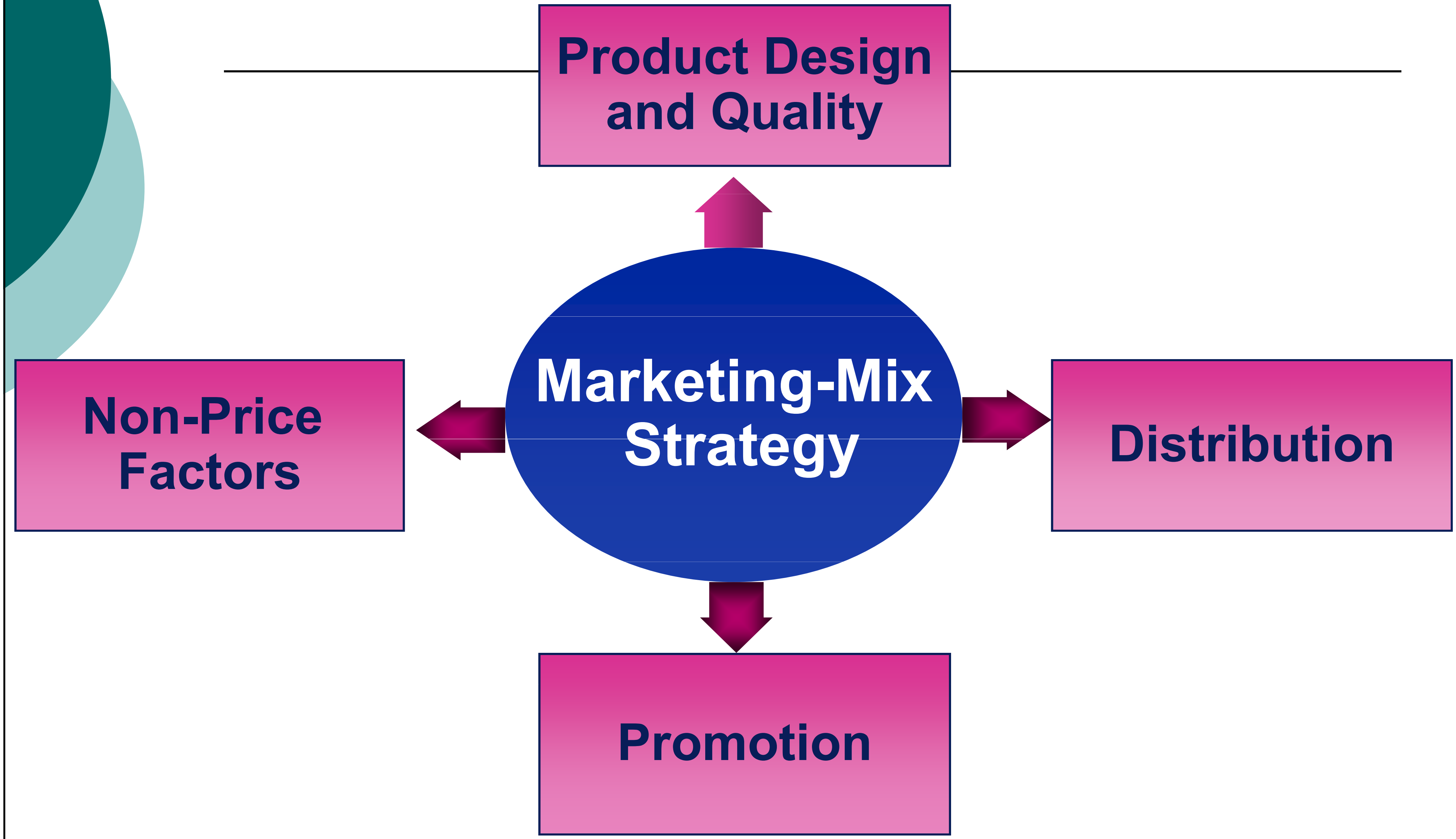
Product Quality Leadership

High Prices to Cover Higher Performance Quality

http://louisvuitton.com/web/index.jsp

http://www.whitehallprinting.com/pricing.html

Marketing Mix variables that affect pricing decisions



Types of cost factors that affect pricing decisions

Total Costs
Sum of the Fixed and Variable Costs for a Given Level of Production

Fixed Costs (Overhead)
Costs that <u>don't</u> vary with sales or production levels.

Executive Salaries
Rent

Variable Costs

Costs that <u>do</u> vary directly with the level of production.

Raw materials

Organizational considerations:

- ???

External Factors Affecting Pricing Decisions

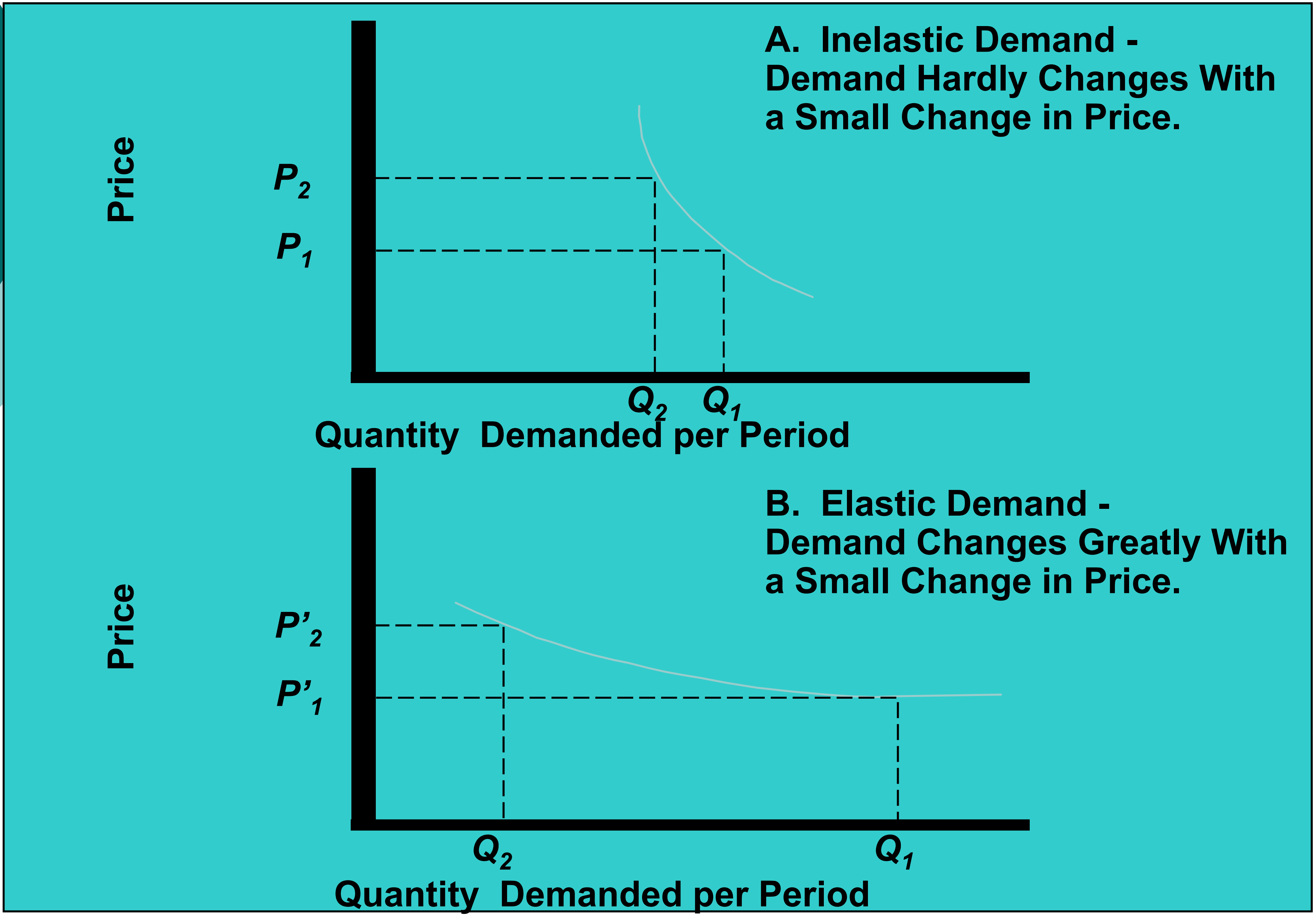
Nature of the market and demand

Competitors' Costs, Prices, and Offers

Other External Factors

Economic Conditions
Reseller Needs
Government Actions
Social Concerns

Demand Curves



pricing

= setting the price – three sets of factors:

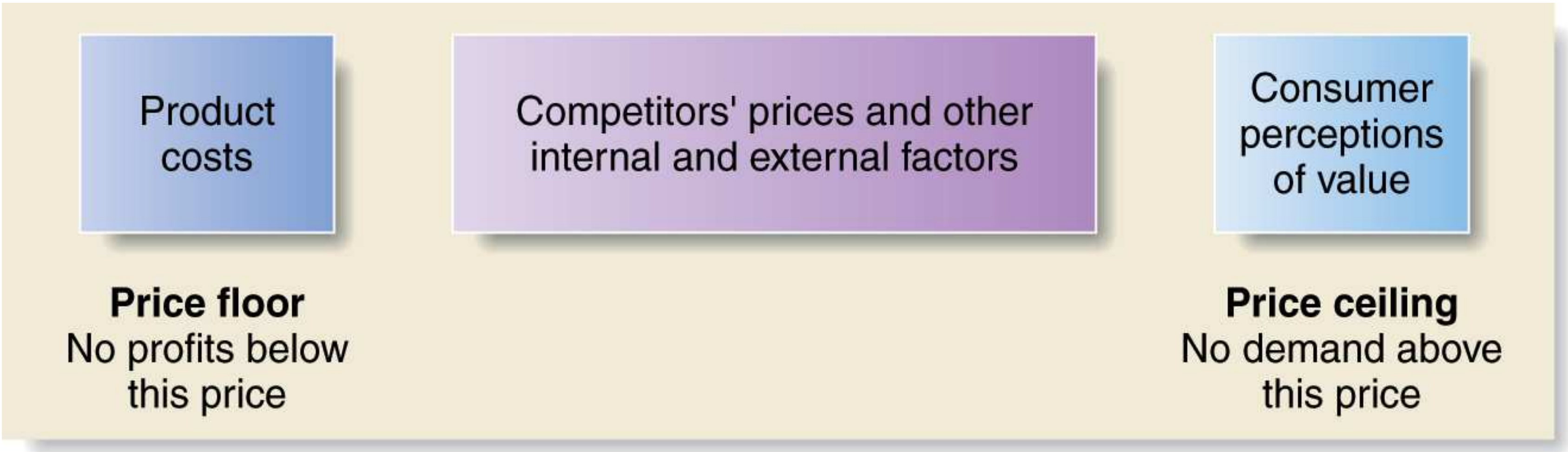
- Costs
- consumer(customer´s) perception
- Competitor´s price

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

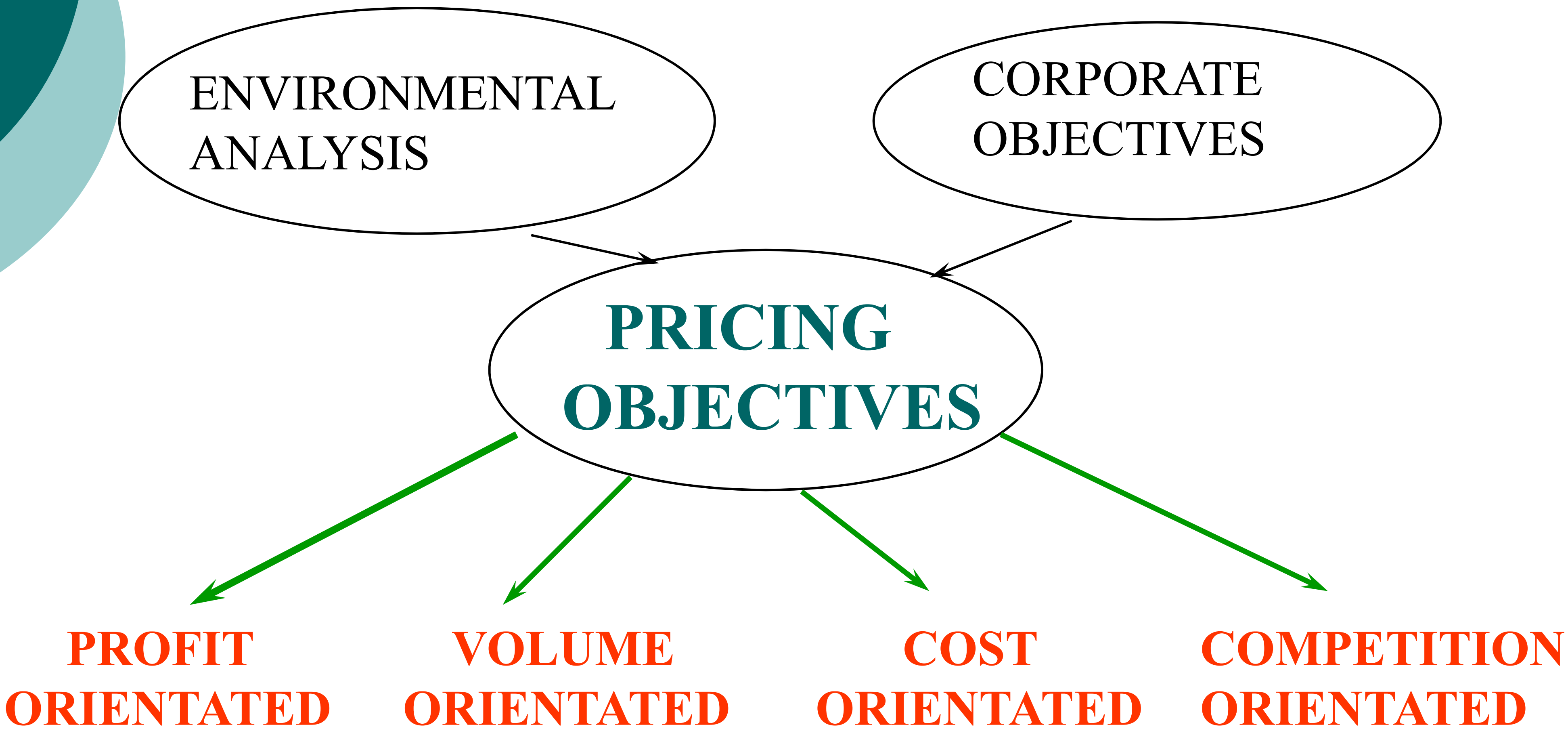
Buyer-based approach (perceived value)

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

Major considerations in setting price



PRICING OBJECTIVES



Cost-Plus Pricing

= adding a Standard Markup to the Cost of the Product

WHY?

Sellers Are More Certain About Costs Than Demand

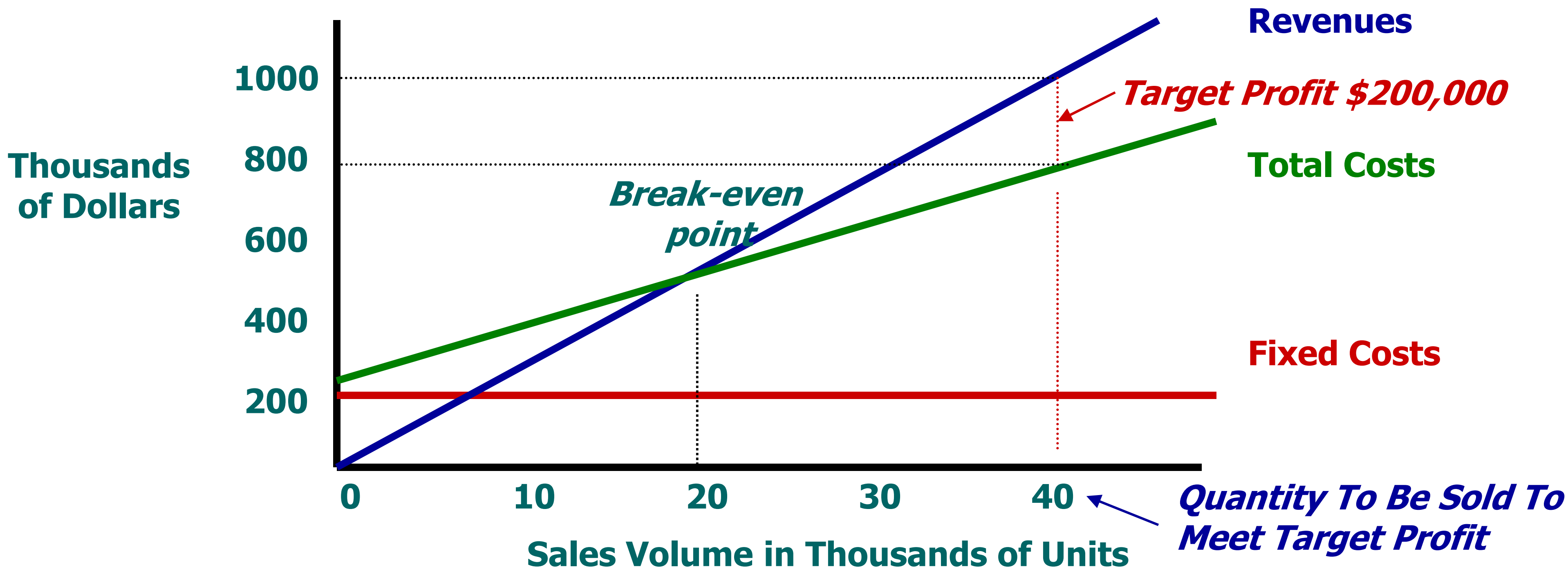
Minimizes Price Competition

Perceived Fairness to Both Buyers and Sellers

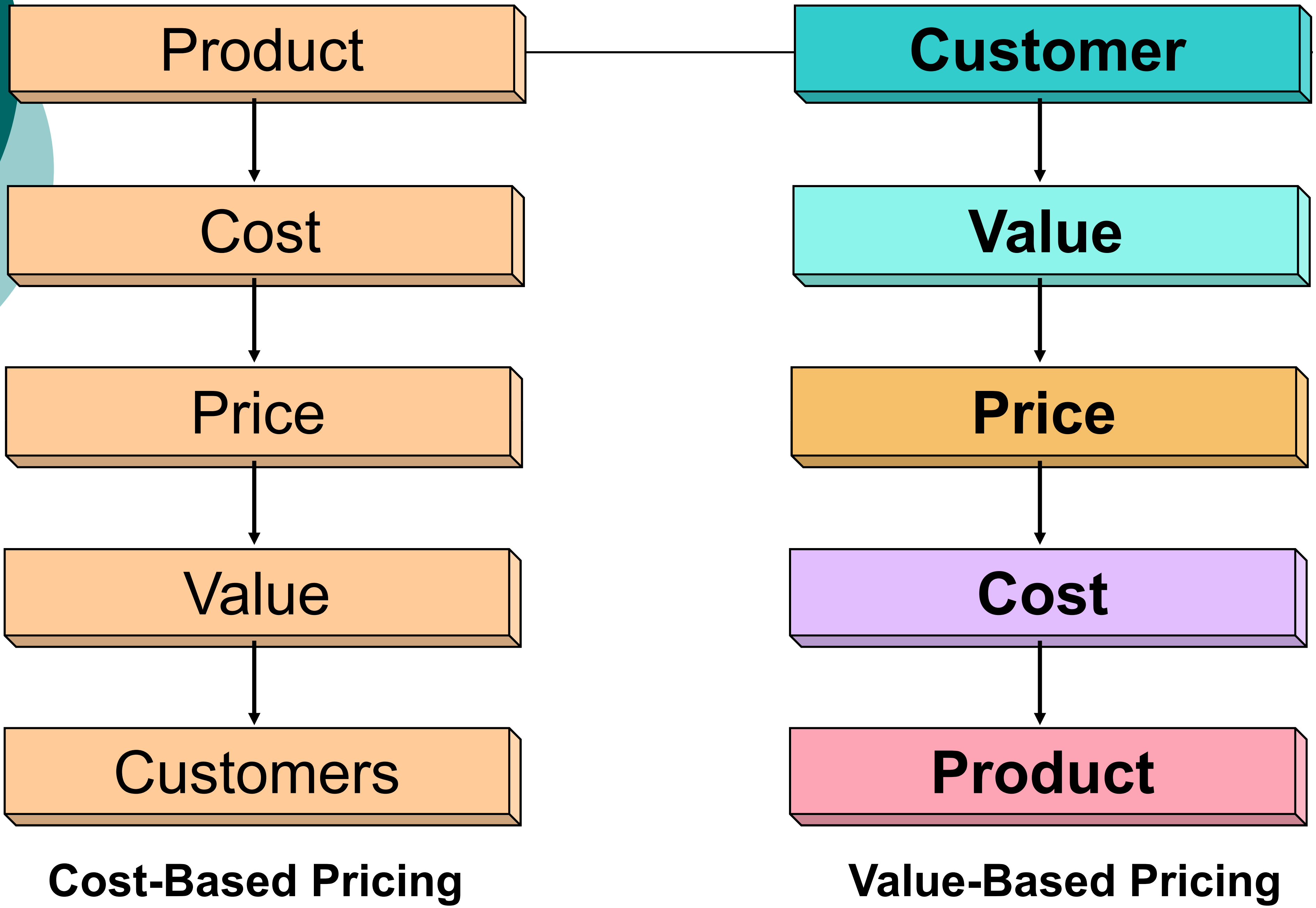
BEA and TP

- *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



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

http://www.countrywidekennels.co.uk/products_category.asp?cat=45
http://www.newlanarkweddings.co.uk/wedding_packages/optional_extras/

- **Optional product-pricing**
  - e.g. optional extras – BMW, SKODA 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 („buy one, get one free") e.g. toothpaste, soups, etc

http://www.freeukoffers.com/offers/boots.html

- **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

http://www.bata.cz/kategorie/web-katalog-damska-obuv

http://www.renault.co.uk/cars/compare.aspx

http://www.barcelona-on-line.es/Marketing/AdvanceBooking/eng.asp

- Geographical pricing
  - different prices for customers in different parts of the world
  - e.g.Include shipping costs, or place onPLC
- 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.