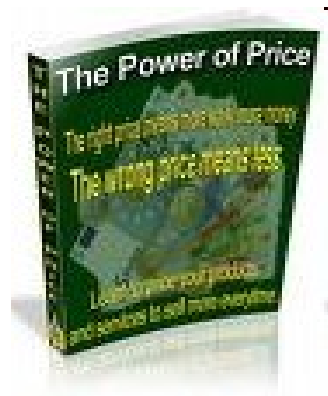


# Price and pricing

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# What will we learn?

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- What is a price?
- How should a company set prices initially for products or services?
- How do consumers process and evaluate prices?
- How should a company adapt prices to meet varying circumstances and opportunities?
- When should a company initiate a price change?
- How should a company respond to a competitor's price challenge?

# Price - definition

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The amount of money charged for a product or service, or the sum of all 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

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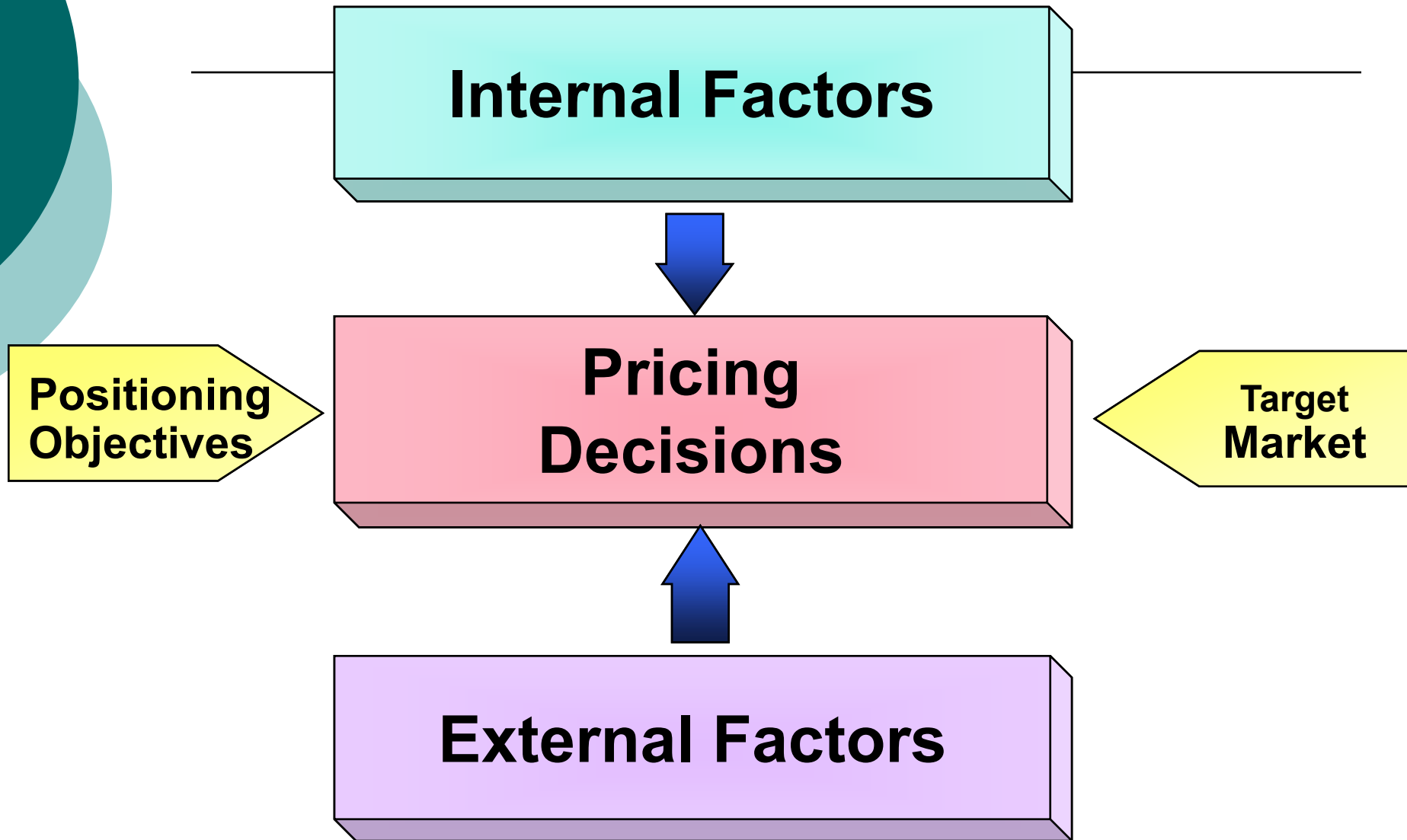
critical marketing mix variable

„one price for all“ – end of the 19th cent. – large-scale retailing

(historically: bargaining, negotiation – „acceptable price“ – different prices – need, bargaining skills...)

- ❑ produces revenue – the only element of MKT mix
- ❑ very flexible element in the marketing mix
- ❑ relates directly to microeconomics
  - supply versus demand analysis
  - breakeven analysis
  - price elasticity
  - +PSYCHOLOGY!!!! – MORE COMPANY COST ORIENTED

# 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>

## Marketing Objectives

<http://www.realestatedeveloper.com>

[http://www.pg.com/en\\_US/index.jhtml](http://www.pg.com/en_US/index.jhtml)

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

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

### 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

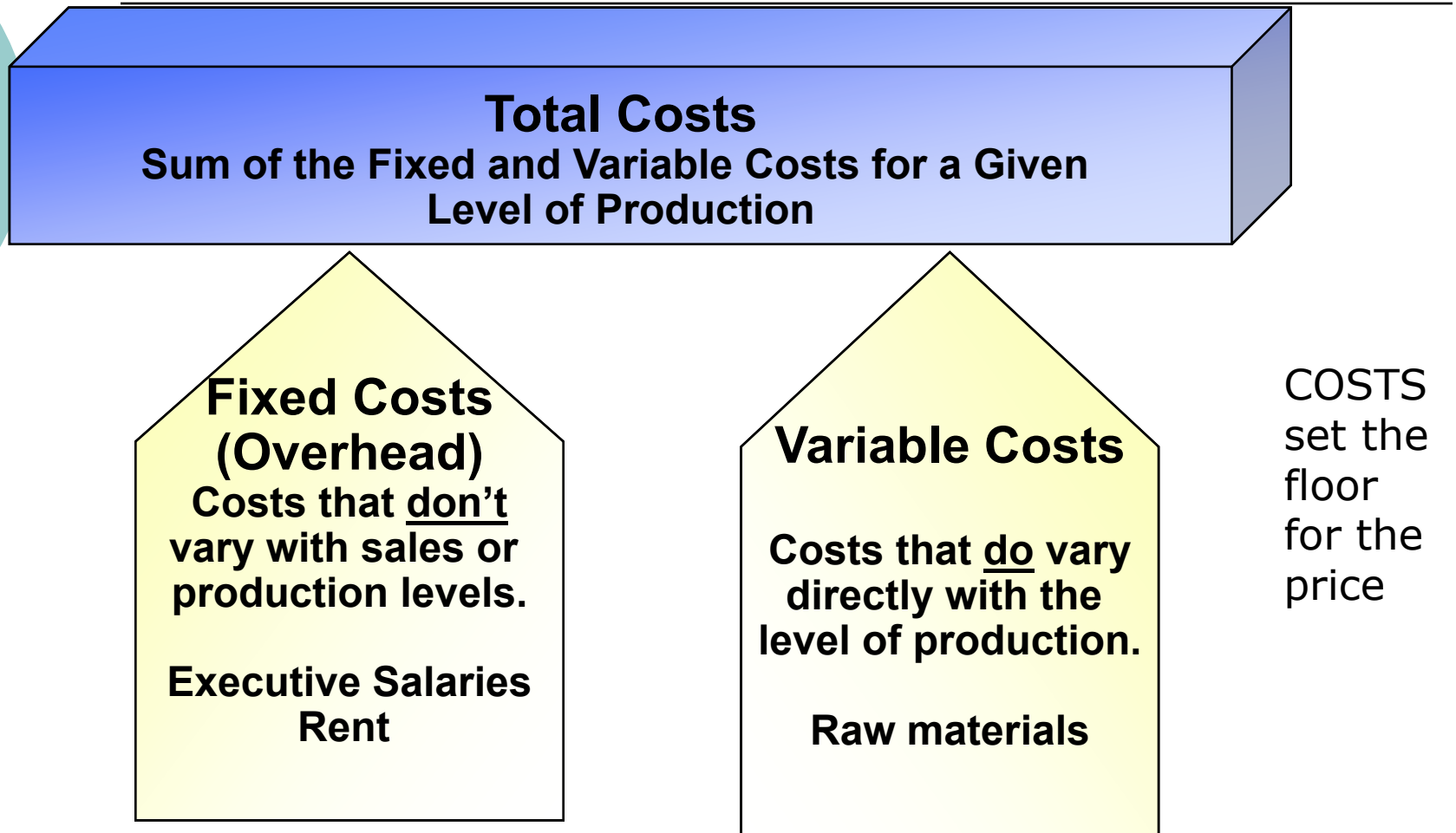
High Prices to Cover Higher Performance Quality

# Marketing Mix variables that affect pricing decisions





# Types of cost factors that affect pricing decisions





# Organizational considerations:

---

- ??? Who, when, how, what...

# External Factors Affecting Pricing Decisions

Benefits of  
owning  
product?

Consumer  
perception

Benefits???

**Nature of the market and  
demand**

**Competitors' Costs,  
Prices, and Offers**

**Other External Factors**  
**Economic Conditions**  
**Reseller Needs**  
**Government Actions**  
**Social Concerns**

Set the upper  
limit of prices

Pure  
competition,  
pure  
monopoly???

Character of  
competition

Nature of  
consumption,  
hierarchy of  
needs...

# Consumer psychology, demand and pricing

## ○ Reference Prices = buyers carry in their mind

- “Fair price”
- Typical price
- Last price paid
- Upper-bound price
- Lower-bound price
- Competitor prices
- Expected future price
- Usual discounted price



## ○ Price-quality inferences

## ○ Price endings

## ○ Price cues “Left to right” pricing (\$299 versus \$300), odd number (1,3, 5...) discount perceptions, even number value perceptions, ending prices with 0 or 5, “Sale” written next to price

- Customers purchase item infrequently
- Customers are new
- Product designs vary over time
- Prices vary seasonally
- Quality or sizes vary across stores

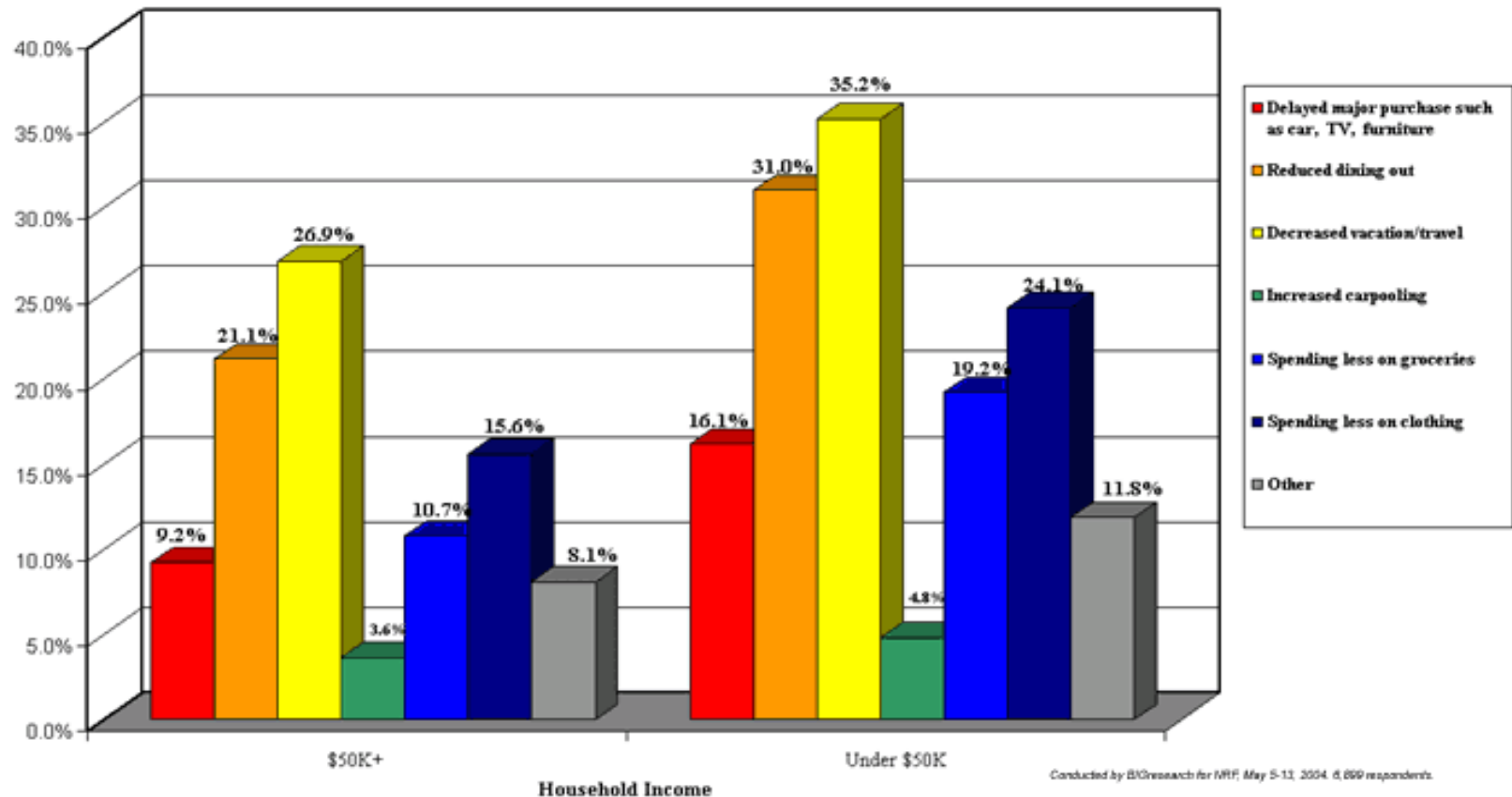
**When?**



- Price sensitivity
- Estimating demand curves
- Price elasticity of demand

**DEMAND**

**How Rising Gas Prices Will Affect Consumer Spending**

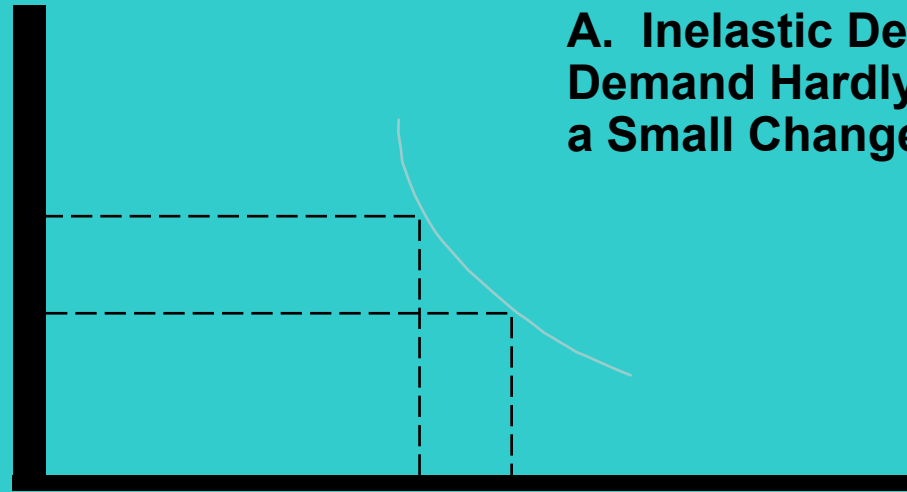


# Demand Curves

Price

$P_2$

$P_1$



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

$Q_2$

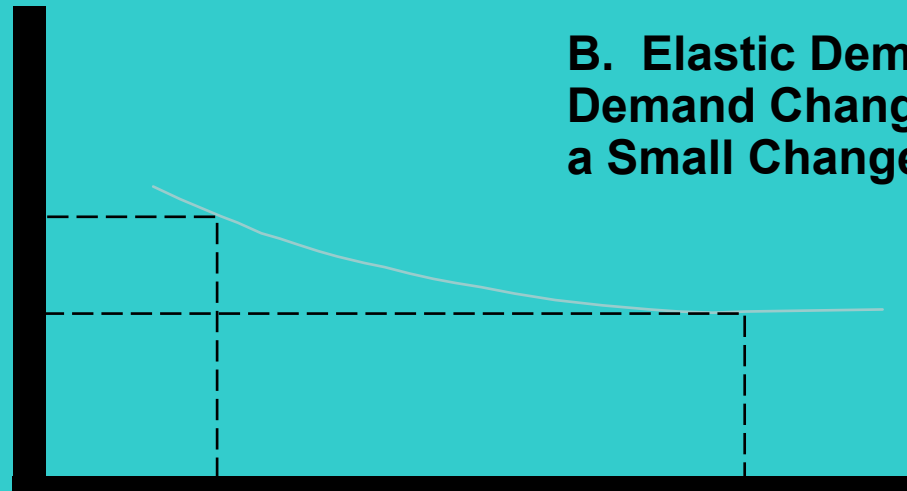
$Q_1$

Quantity Demanded per Period

Price

$P'_2$

$P'_1$



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

$Q_2$

$Q_1$

Quantity Demanded per Period

# Pricing methods

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= setting the price – three sets of factors:

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

**Cost-based approach (cost+, BEA, TPP)**

**Buyer-based approach (perceived value)**

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

# Major considerations in setting price

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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

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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**

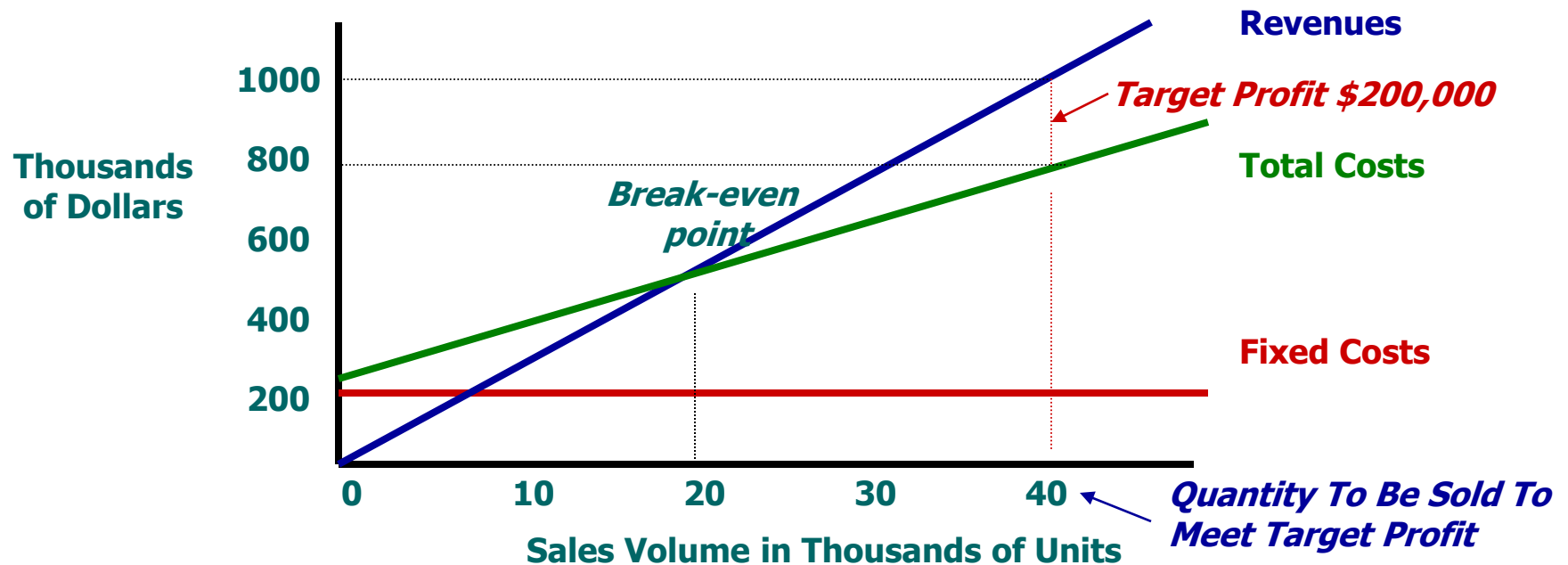
# BEA and TPP

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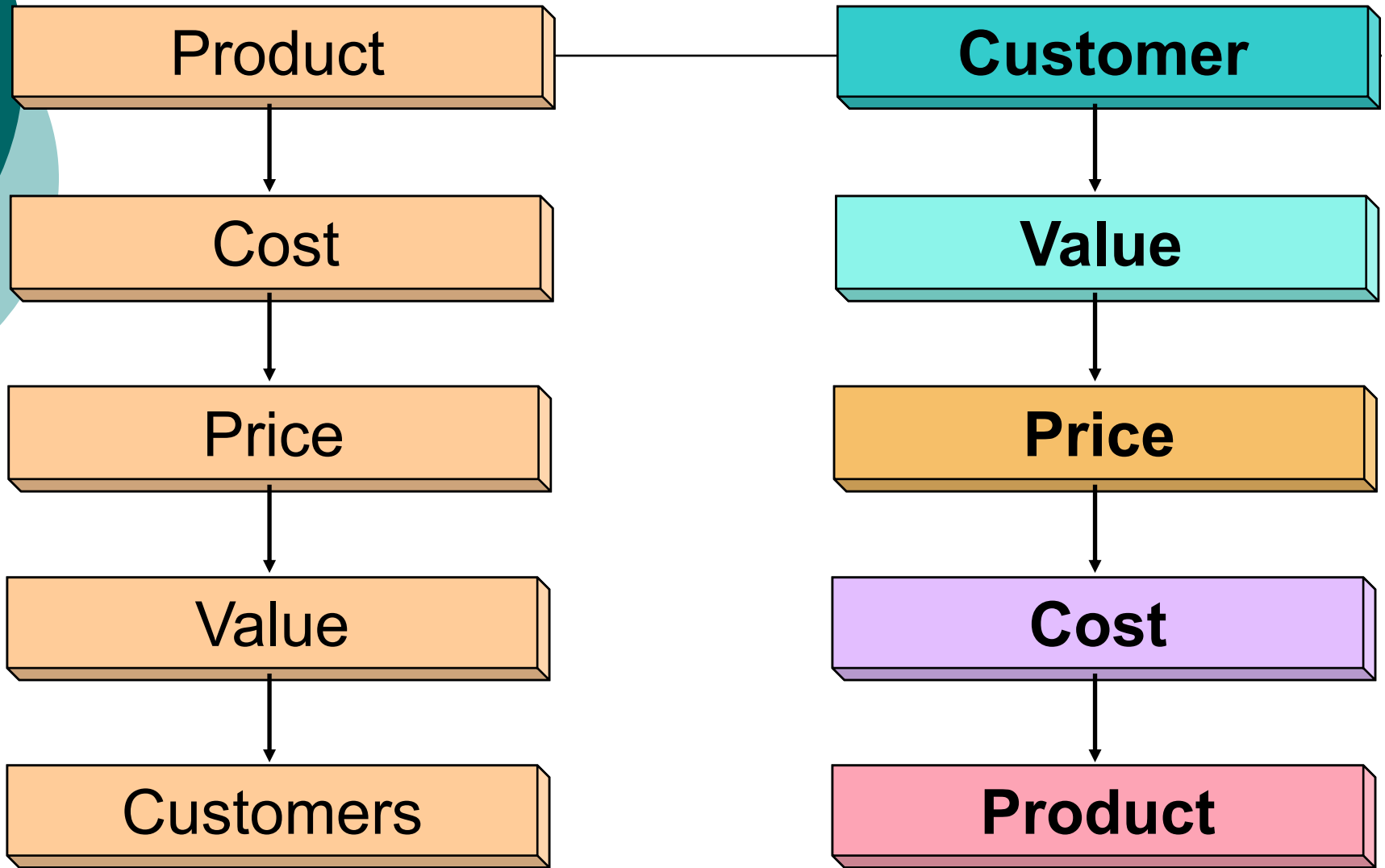
- *Break-Even Analysis and Target Profit Pricing*

- 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

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- ❑ **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



```
graph TD; A[Setting Prices] --> B["Going-Rate  
Company Sets Prices Based on What  
Competitors Are Charging."]; B --> C["Sealed-Bid  
Company Sets Prices Based on  
What They Think Competitors  
Will Charge."];
```

**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

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- 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

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



# Pricing and Promotion

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- 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

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- **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.countrywidekennels.co.uk/products_category.asp?cat=45)

[http://www.newlanarkweddings.co.uk/wedding\\_packages/optional\\_extras/](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 = temporarily pricing below the list price to increase short-run sales**

- 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**

- <http://www.bata.cz/kategoris/web-katalog-damska-obuy> 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
- <http://www.renault.co.uk/cars/compare.aspx> 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.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 on PLC
- 

- **Value pricing**

- usually during difficult economic conditions
- e.g. Value menus at McDonalds

**Lowest gas prices in the Triangle**



**A. \$2.39** Sheetz, New Bern Ave. & Rogers Lane, Raleigh (2:28 a.m. Sunday)

**B. \$2.49** Wal-Mart, 2114 S. Main St., Wake Forest (9:00 a.m. Sunday)

**C. \$2.49** Wilco Hess, 13960 Capital, Youngsville (7:38 a.m. Sunday)

**D. \$2.49** U-Save Quik Mart, Cheek Road & N. Hardee St. (8:45 p.m. Saturday)

[Click here for more gas prices](#)

Click (+) to zoom in, (-) to zoom out. Click on the pointer for more info about that location. To move the map, click on it, hold down the mouse button and drag. Gas prices are provided by GasBuddy.com. The N&O is not responsible for incorrect or outdated information.  
Can't see the map? | [Report price updates](#)

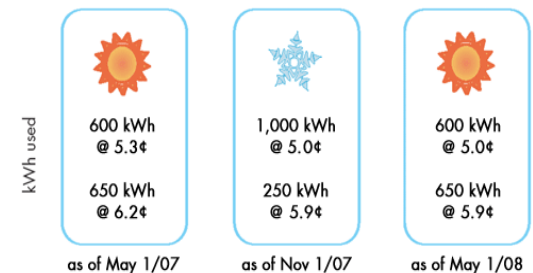
# Differentiated pricing and price discrimination

- Customer-segment pricing
- Product-form pricing
- Image pricing
- Channel pricing
- Location pricing
- Time pricing
- Yield pricing



<i>Museum Admission</i>	
<i>Adults</i> .....	\$7.00
<i>Children ages 5-12</i> .....	\$5.00
<i>Children under age 5</i> .....	\$3.00

**Residential Rates and Thresholds by Seasons**  
(for a residential customer using 1,250 kWh/month)



\*the average residential consumer uses about 1,000 kWh monthly

# How to improve profit performance?

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- **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

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- \$ 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.