

MKC1200 – Principles of Marketing

Week 8

Pricing Decisions

Chapter 10 of the prescribed text



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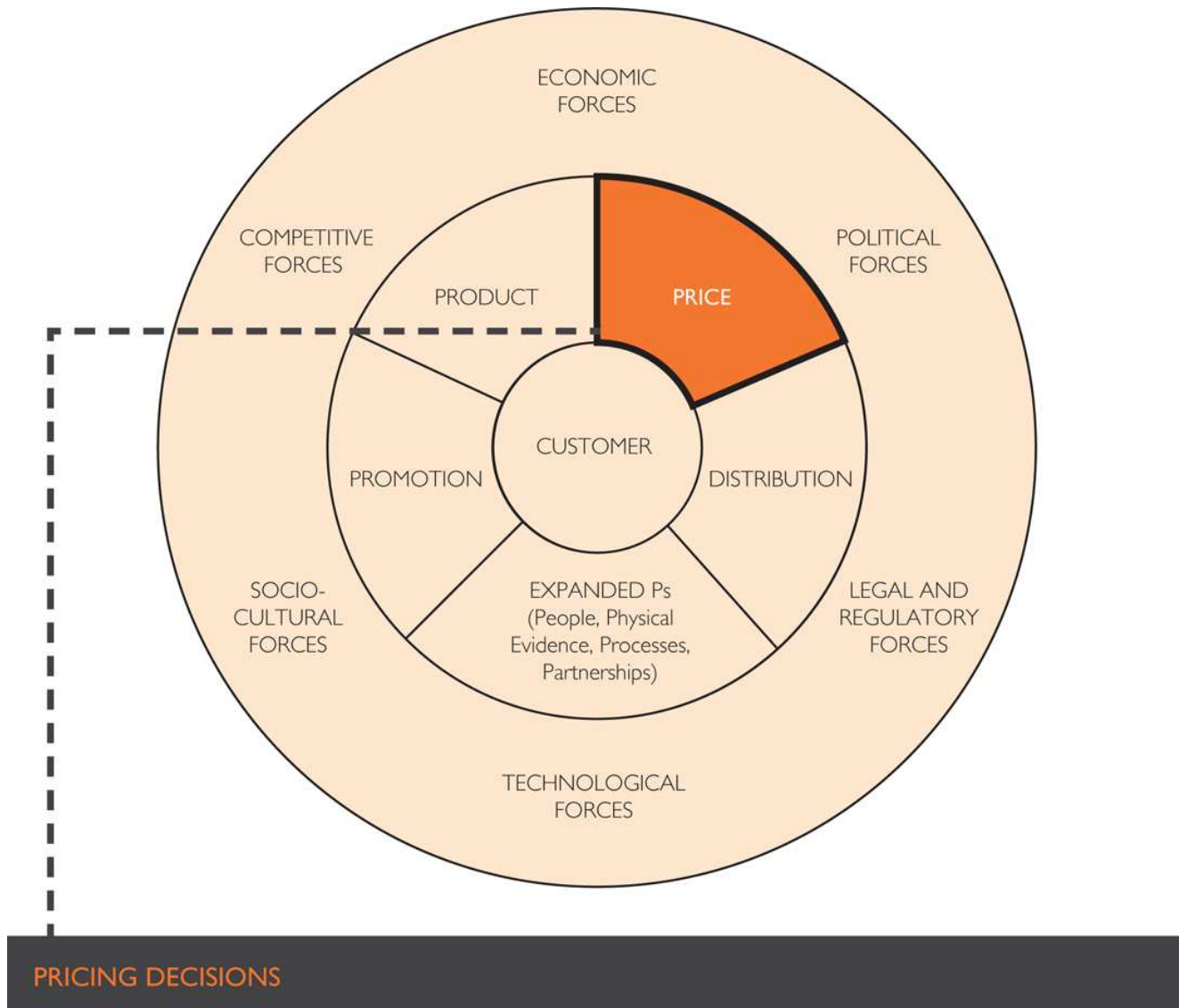
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Learning Objectives:

- Understand the concept of price
- Discuss the factors affecting pricing decisions
- Explain the process of setting prices



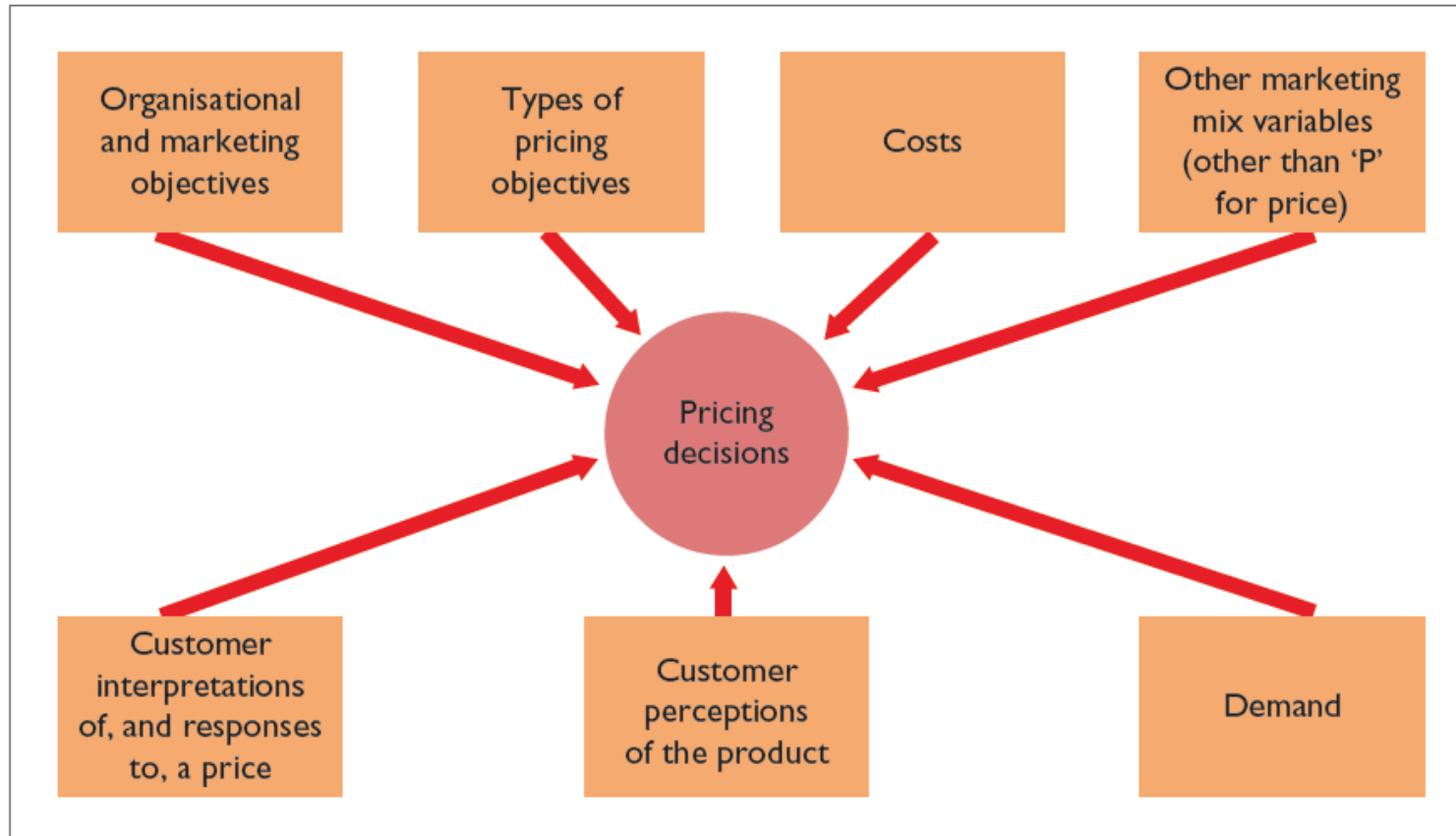
What is Price?

- **Price** is the value exchanged for a product in a marketing transaction
- Price relates directly to the generation of total revenue

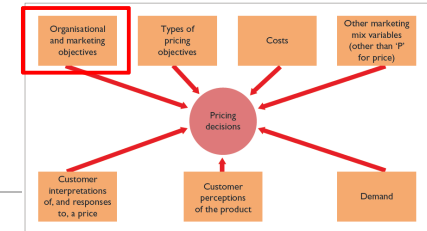
$$\text{Profit} = \text{Total Revenue} - \text{Total Costs}$$

$$\text{Profits} = (\text{Price} \times \text{Quantity Sold}) - \text{Total Costs}$$

Factors That Affect Pricing Decisions

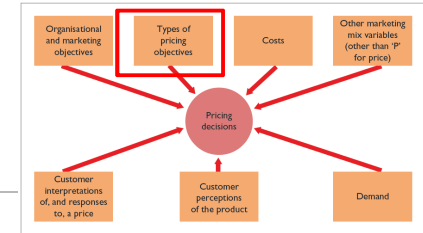


(Figure 10.1, Pride 2e, p.334)



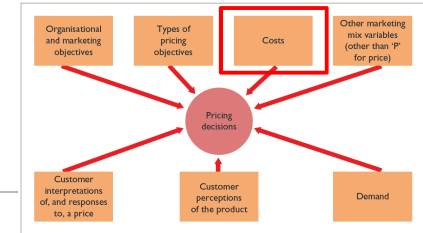
Organisational and Marketing Objectives

- Prices should be set consistent with the goal and mission of organisations
- Prices should be compatible with the organisation's marketing objectives
 - Survival
 - Current profit maximisation
 - Market-share leadership
 - Product-quality leadership
 - Other objectives



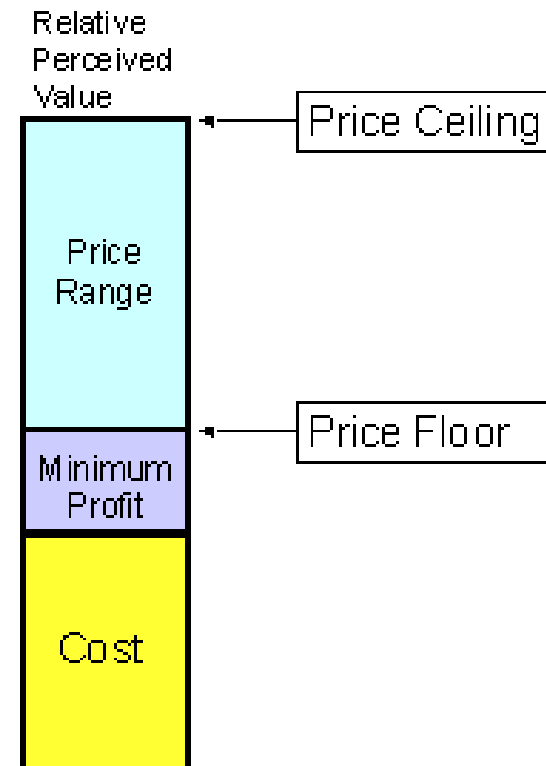
Types of Pricing Objectives

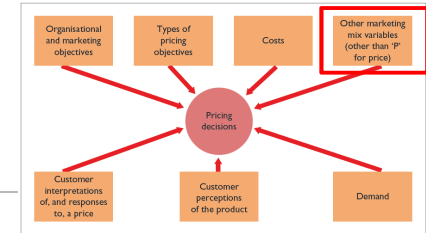
- Increase market share
 - Set the price lower compared to competing brands
 - Temporary price reductions
- Raise cash quickly
 - Temporary price reductions



Costs

- Costs set the price floor
- Selling below cost may not be a good long-term solution
- Reducing cost is an increasing trend for price-sensitive market





Marketing Mix Variables Other Than Price

➤ Product

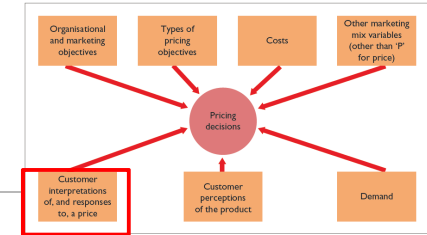
- High quality product is associated with high price

➤ Place

- Premium-priced products use selective or exclusive distribution
- Lower-priced products use intensive distribution

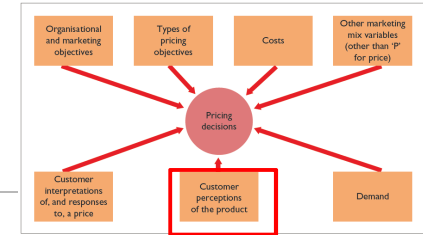
➤ Promotion

- Premium prices are less promoted
- Personal selling is more common for higher-priced products than lower-priced products



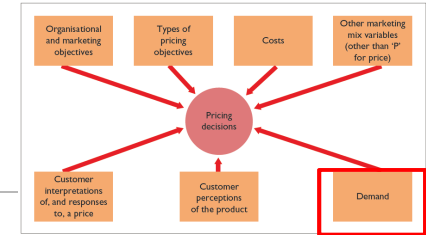
Customer Interpretations of and Responses to a Price

- Customer interpretation
 - What the price means or what it communicates to customers
- Customer response
 - Whether the price will move customers closer to the purchase and enhance customer satisfaction



Customer Perceptions of the Product

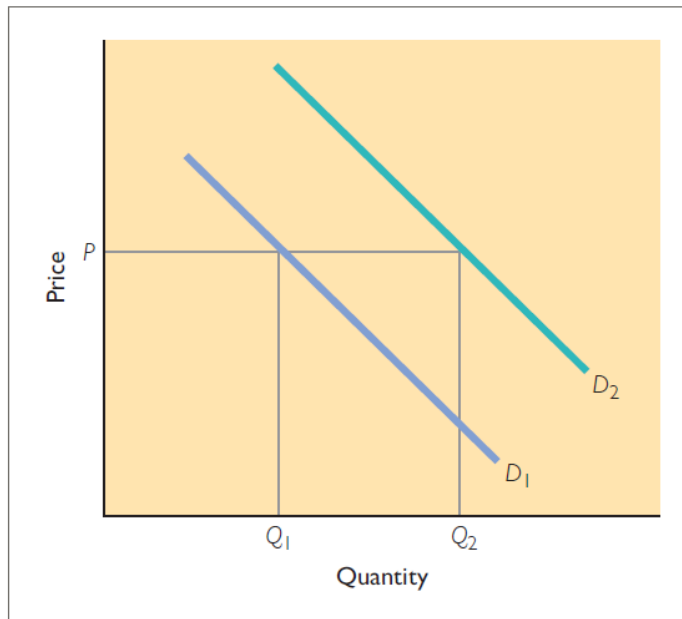
- Value conscious – concerned about price and quality of a product
- Price conscious – striving to pay low prices
- Prestige sensitive – drawn to products that signify prominence and status



Demand

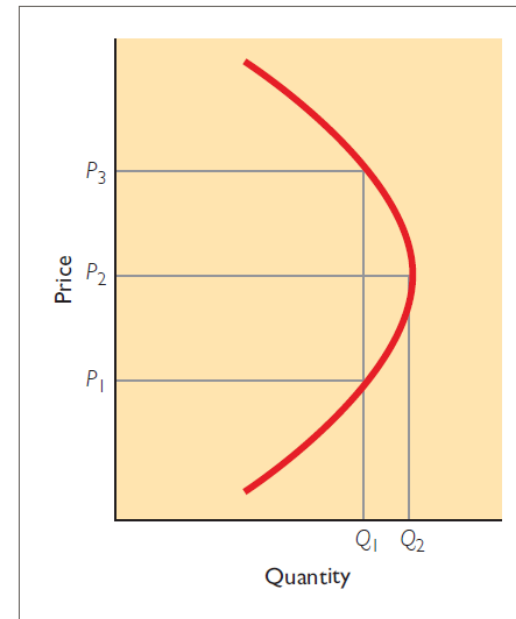
- **Demand curve** - a graph of the quantity of a product taken by buyers in the market at various prices, given that all other factors are held constant

Normal products



(Figure 10.2, Pride 2e, p.339)

Prestige products



(Figure 10.3, Pride 2e, p.340)

Stages for Establishing Prices



(Figure 10.4, Pride 2e, p.340)



1. Developing Pricing Objectives

- **Pricing objectives** – goals that describe what a company wants to achieve through pricing
 - Form the basis of decisions about other stages in establishing prices
 - Be explicitly stated and include a time frame
 - Be consistent with the marketing objectives and the firm's overall objectives



1. Developing Pricing Objectives – continued

Objective	Possible action
Survival	Adjust price levels so that the company can increase sales volume to match organisational expenses
Profit	Identify price and cost levels that allow the company to maximise profit
Return on investment	Identify price levels that enable the company to yield targeted return on investment
Market share	Adjust price levels so that the company can maintain or increase sales relative to competitors' sales
Cash flow	Set price levels to encourage rapid sales
Status quo	Identify price levels that help stabilise demand and sales
Product quality	Set prices to recover research and development expenditures and establish a high-quality image

(Table 10.1, Pride 2e, p.342)

2. Assessment of the Target Market's Evaluation of Price



- The importance of price depends on the type of product, the type of target market and the purchase situation
- Price also depends on the perception of value, which is a combination of price and quality attributes



3. Evaluation of Competitors' Prices

- In competitive situations, marketers must keep prices the same as, or lower than, competitors' prices
- In some instances, an organisation's prices are designed to be slightly above competitors' prices to give its products an exclusive image, or below competitors to generate a low-cost image



4. Selection of a Basis for Pricing

- **Cost-based pricing** – adding a dollar amount or percentage to the cost of the product
 - *Cost-plus pricing*: adding a specific dollar amount or percentage to the seller's cost
 - *Markup pricing*: adding to the cost of the product a predetermined percentage of that cost
- **Value-based pricing** – based on the level of benefits offered by the products
- **Competition-based pricing** – influenced primarily by competitor's prices



5. Selection of a Pricing Strategy

DIFFERENTIAL PRICING

- Charging different prices to different buyers

NEW-PRODUCT PRICING

- See next slide

PRODUCT-LINE PRICING

- Establishing and adjusting prices of multiple products within a product line

PSYCHOLOGICAL PRICING

- Pricing that attempts to influence a customer's perception of price

PROFESSIONAL PRICING

- Fees set by people with great skill or experience

PRICE DISCOUNTING

- Trade, quantity, cash, seasonal discounts, etc.



5. Selection of a Pricing Strategy

NEW-PRODUCT PRICING

- **Price skimming** – charging the highest possible price that buyers who most desire the product will pay
- **Penetration pricing** – setting prices below those of competing brands to penetrate a market and gain a significant market share quickly



6. Determination of a Specific Price

- Use of systematic approach when establishing final price
- Consider environmental forces and marketer's understanding



Summary:

- Price is the value paid for a product in a marketing exchange. It relates directly to generation of revenue
- Marketers need to understand various factors affecting pricing decisions
- Setting a price involves six stages
- Marketers should be familiar with the three major dimensions on which prices can be based: cost, value and competition
- Marketers should be familiar with the major categories of pricing strategies: differential pricing, new-product pricing, product-line pricing, psychological pricing, professional pricing and promotional pricing