

Marketing Mix

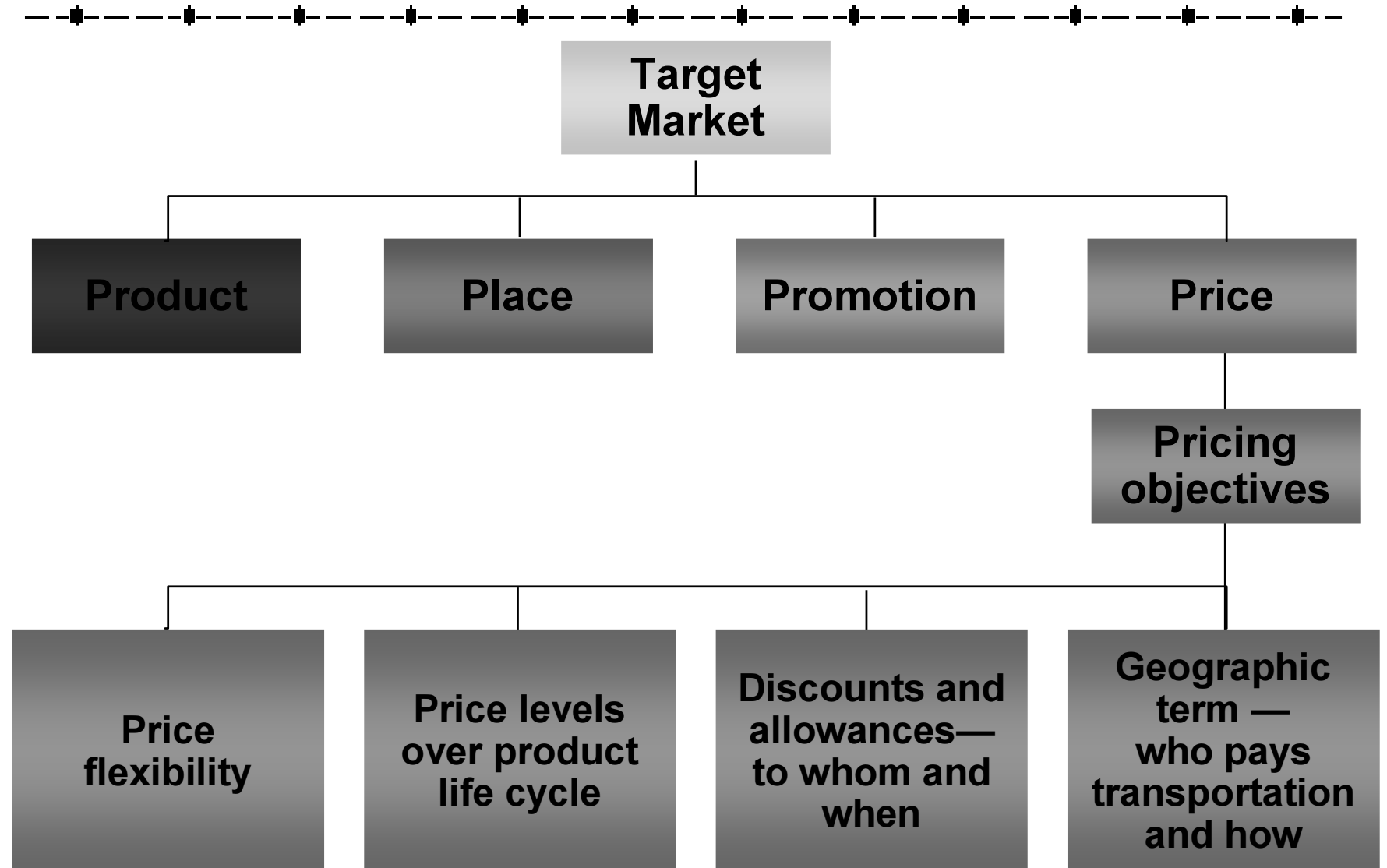


PRICE

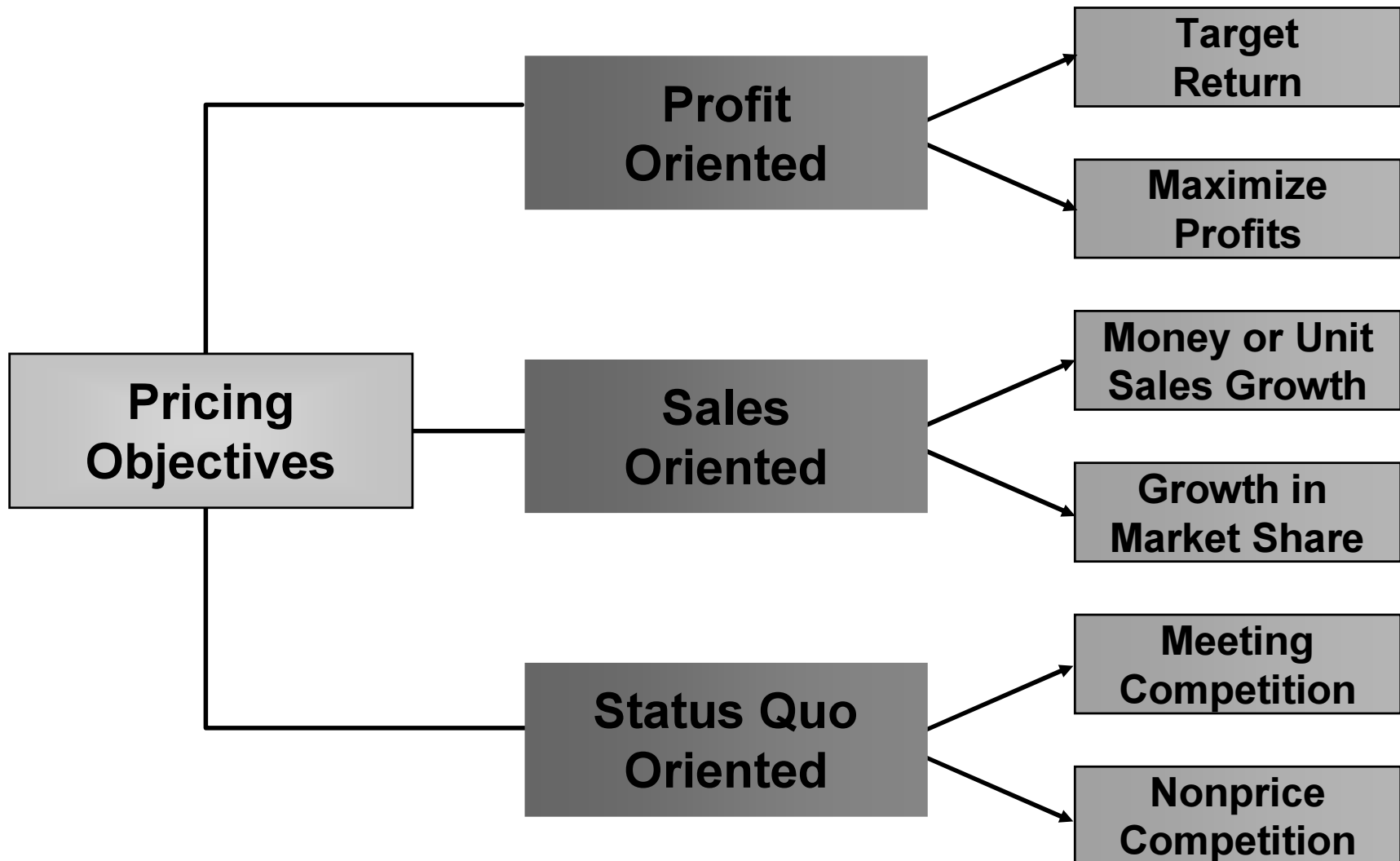
Martin Krištof

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Strategy Planning for Price



Pricing Objectives



Price Flexibility Policies

✱ One-price policy

- The same price to all customers who purchase products under essentially the same conditions and quantities
 - Exchange rate changes may make this difficult in international markets

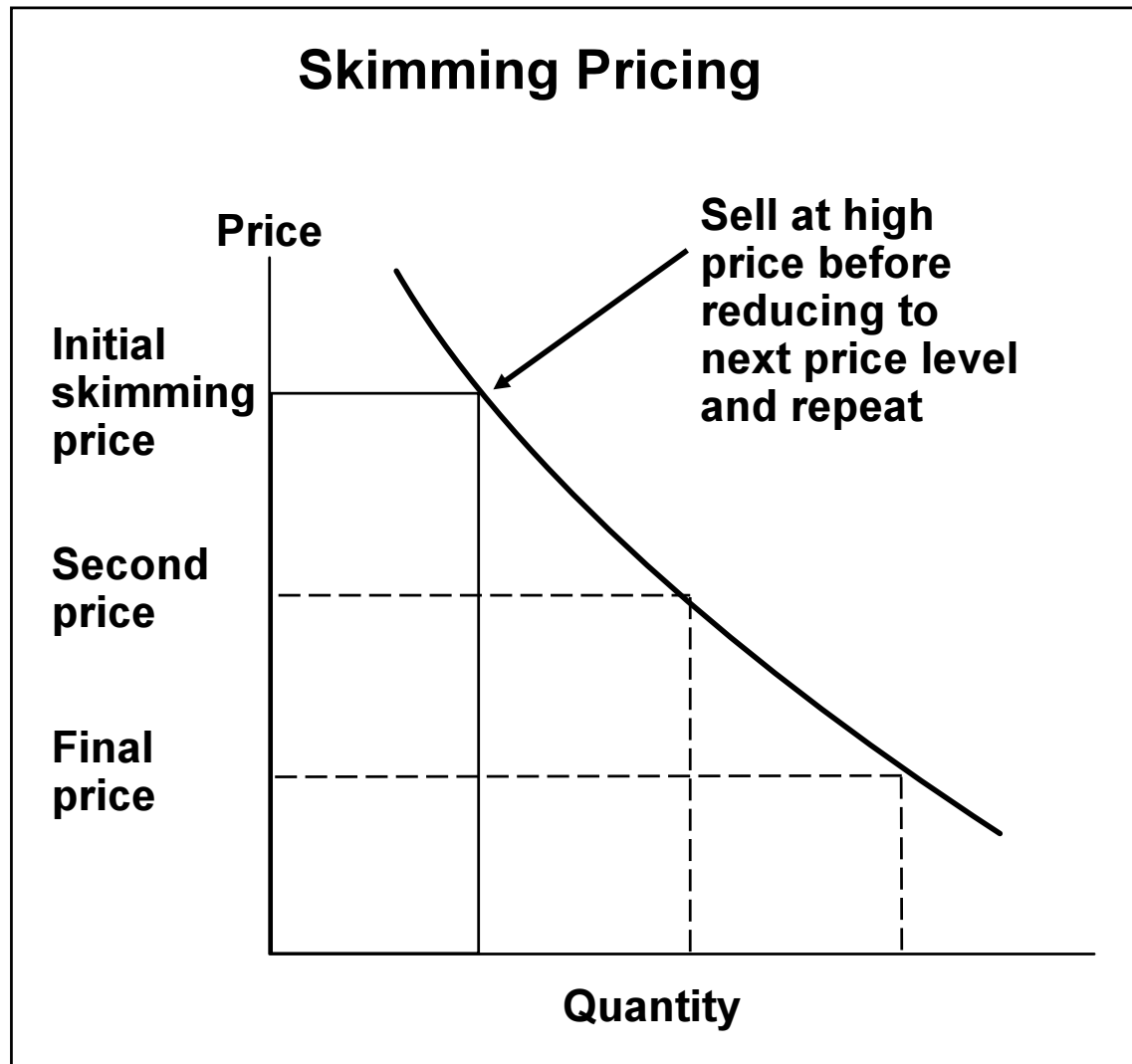
✱ Flexible pricing (e.g., in channels, business markets, expensive consumer shopping products)

- Issues:
 - Use is increasing because of impact of information technology, customer databases, scanners, etc.
 - Selling costs may be higher if prices are negotiated
 - “Signals” to competitors
 - Customer dissatisfaction may be a problem
 - “Gray channels” and cross-shipping

Skimming Pricing Strategies - known as *market-plus pricing*.

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- ✦ Intentional setting of a relatively high price.
 - ✦ More commonly used as a market entry price for distinctive goods or services with little or no initial competition.
 - ✦ Often used by marketers of high-end goods and services.
 1. It allows a manufacturer to quickly recover its research-and-development (R&D) costs.
 2. Second, it allows a firm to maximize revenue from a new product before competitors enter the field.
 3. It is also a useful tool for segmenting a product's overall market on price.
 4. Permits marketers to control demand in the introductory stages of a product's life cycle.
- Chief disadvantage: It attracts competition.

Price Level Policies



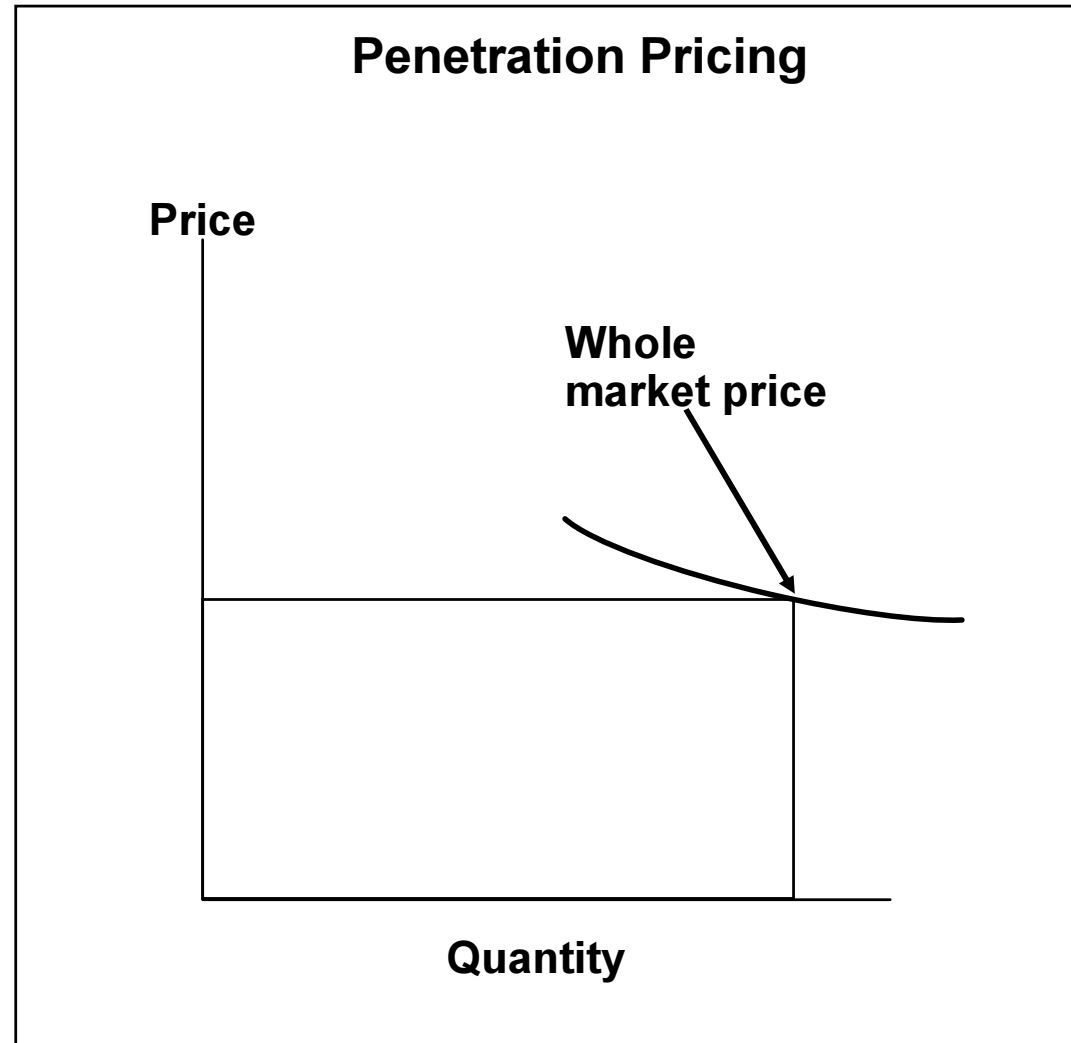
“Skim the cream” pricing involves selling at a high price to those who are willing to pay before aiming at more price-sensitive consumers.

Penetration Pricing Strategy

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1. Sets a low price as a major marketing weapon.
 2. May also extend over several stages of the product life cycle.
 3. Sometimes called *market-minus pricing*.
 4. Success depends on generating many trial purchases.
 5. Retailers may use penetration pricing to lure shoppers to new store.
 6. Works best for goods or services characterized by highly elastic demand.
 7. May be appropriate in market situations in which introduction of a new product will likely attract strong competitors.

Price Level Policies

Penetration pricing involves selling the whole market at one low price.



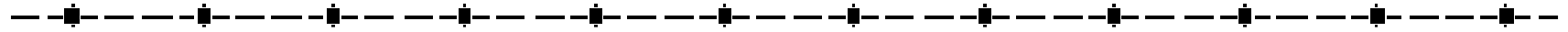
Cost-Plus Approaches to Price Setting

- ✧ *Cost-plus pricing*, the most popular method, uses a base-cost figure per unit and adds a markup to cover unassigned costs and to provide a profit.
- ✧ Works well for a business that keeps its costs low.
- ✧ Two most common cost-oriented pricing procedures:
 - *Full-cost pricing* uses all relevant variable costs and allocates fixed costs.
 - Allows the marketer to recover all costs plus the amount added as a profit margin.
 - The full-cost deficiencies.
 - ◆ First, there is no consideration of competition or demand for the item.
 - ◆ Second, any method for allocating overhead is arbitrary.
- One way to overcome the arbitrary allocation of fixed expenses is:
- 2. *Incremental-cost pricing*, which attempts to use only those costs directly attributable to specific output in setting prices.

Pricing Objectives

Objective	Purpose	Example
Profitability objectives	<ul style="list-style-type: none">▪ Profit maximization▪ Target return	Low introductory interest rates on credit cards with high standard rates after 6 months
Volume objectives	<ul style="list-style-type: none">▪ Sales maximization▪ Market share	Dell's low-priced PCs increase market share and sales of service
Meeting competition objectives Prestige objectives	<ul style="list-style-type: none">▪ Value pricing▪ Lifestyle▪ Image	Price wars among major airlines High-priced luxury autos such as Ferrari and watches by Rolex
Not-for-profit objectives	<ul style="list-style-type: none">▪ Profit maximization▪ Cost recovery▪ Market incentives▪ Market suppression	High prices for tobacco and alcohol to reduce consumption

Four Basic Types of Pricing Policies



1. Psychological Pricing
2. Price Flexibility
3. Product-line Pricing
4. Promotional Pricing

Psychological Pricing

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- ✦ Belief that certain prices or price ranges make products more appealing.
 - ✦ *Odd Pricing*, marketers set prices at odd numbers just under round numbers.
 - ✦ *Unit pricing* states prices in terms of some recognized unit of measurement.

Price Flexibility

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- Variable pricing is more likely to be applied in marketing programs based on individual bargaining.
 - May conflict with provisions of the Robinson-Patman Act.
 - May also lead to retaliatory pricing by competitors.
 - May stir complaints among customers.

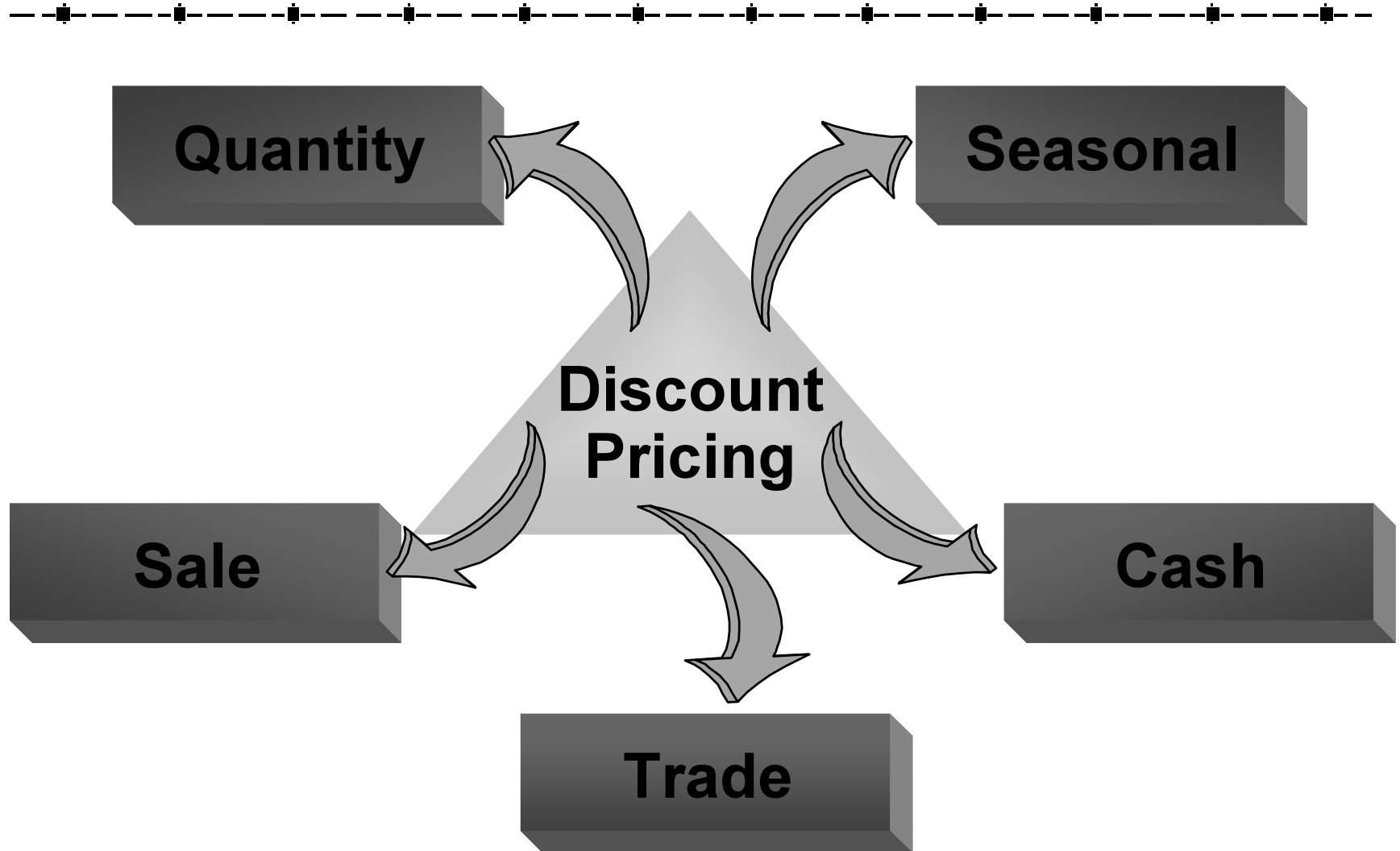
Product-Line Pricing

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- The practice of setting a limited number of prices for a selection of merchandise.
 - Retailers practice extensive product-line pricing.
 - A potential problem with product-line pricing is that once marketers decide on a limited number of prices to use as their price lines, they may have difficulty making price changes on individual items.

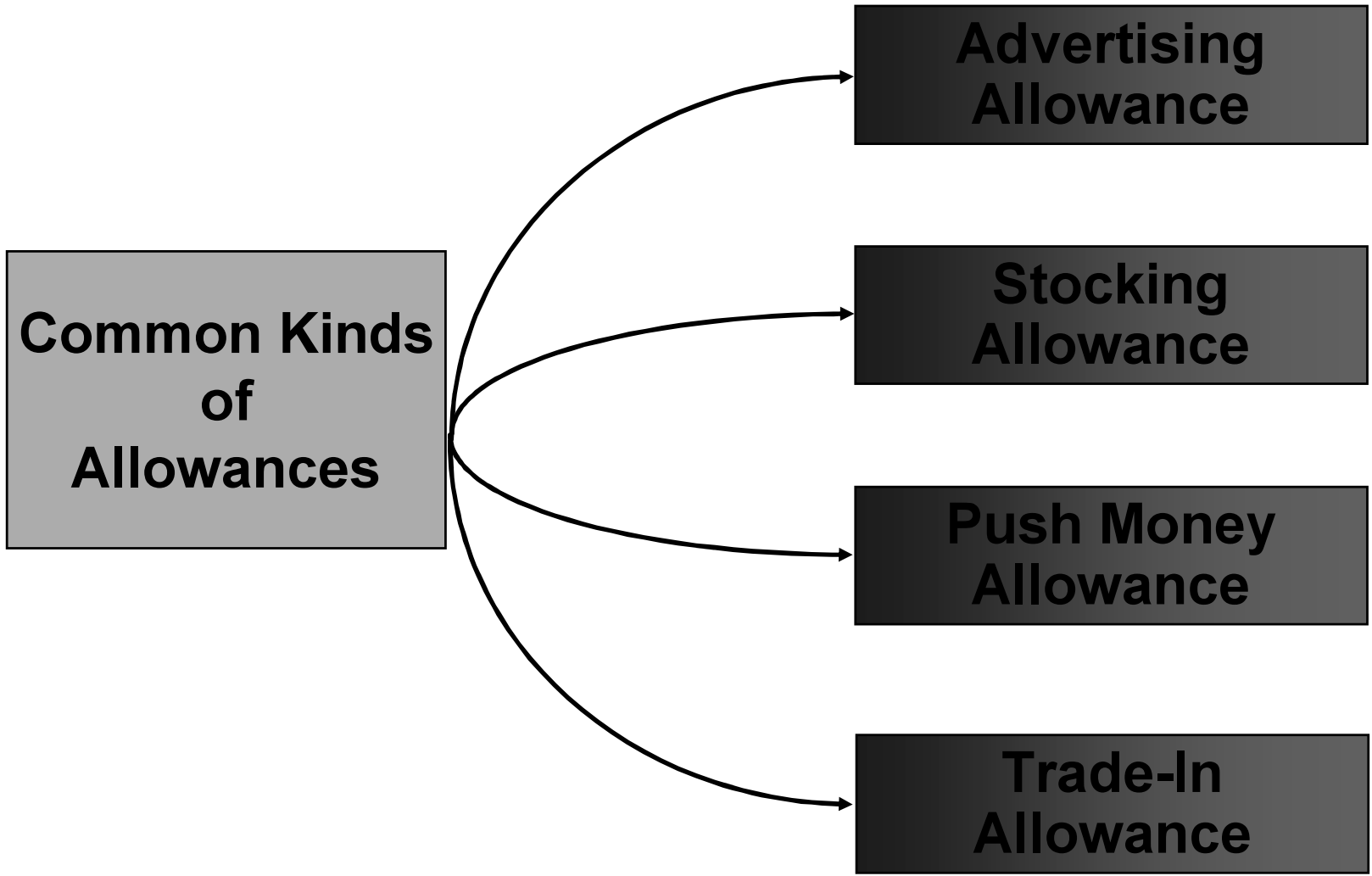
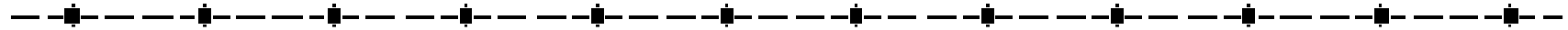
Promotional Pricing

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- A lower-than-normal price is used as a temporary ingredient in a firm's selling strategy.
 - Retailers rely most heavily on promotional pricing.
 - Loss Leaders:
 - ✓ goods priced below cost.
 - ✓ States with unfair-trade laws prohibit the practice.
 - Leader Pricing:
 - ✓ Prices slightly above cost.

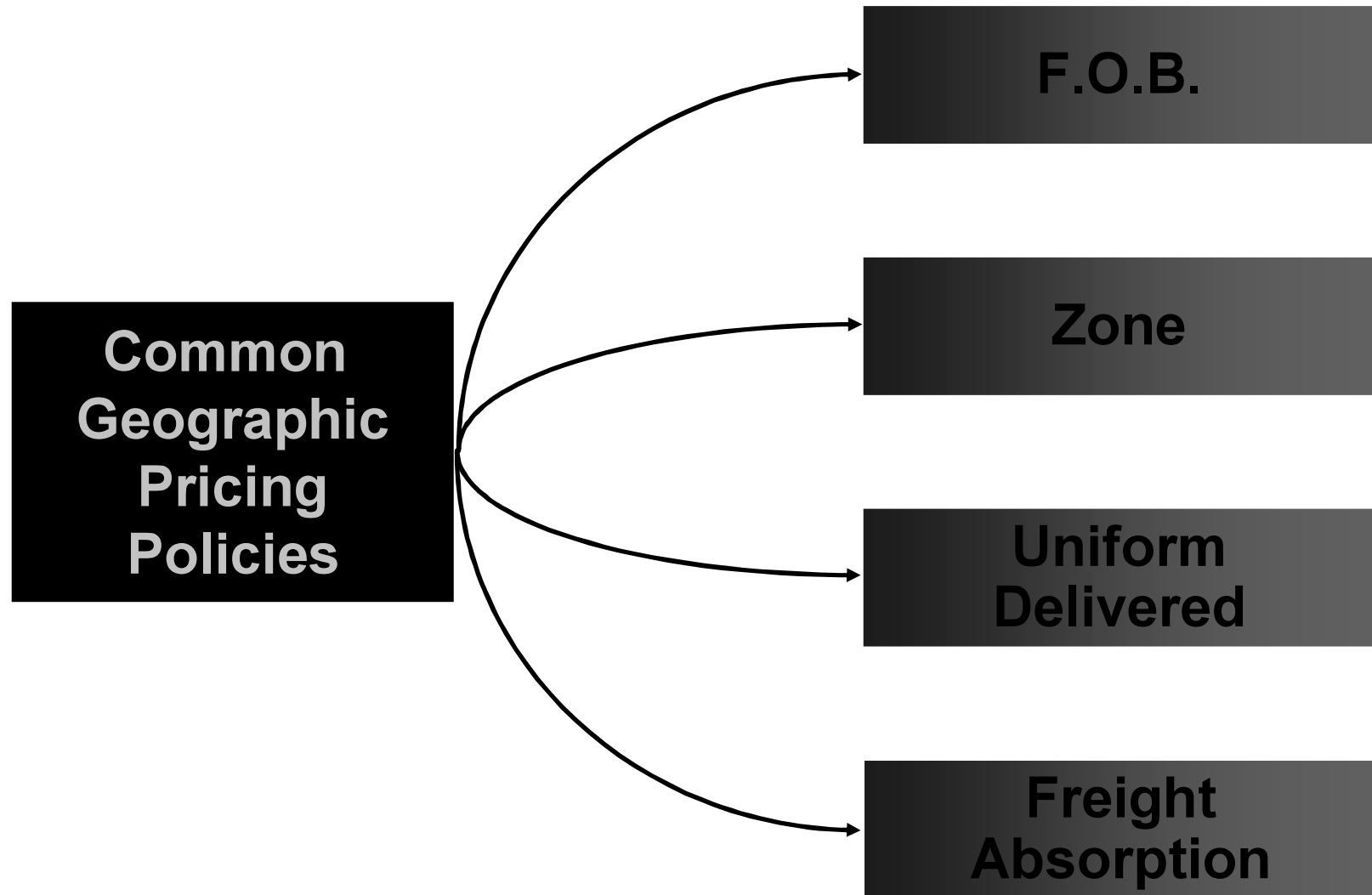
Discount Pricing



Allowances



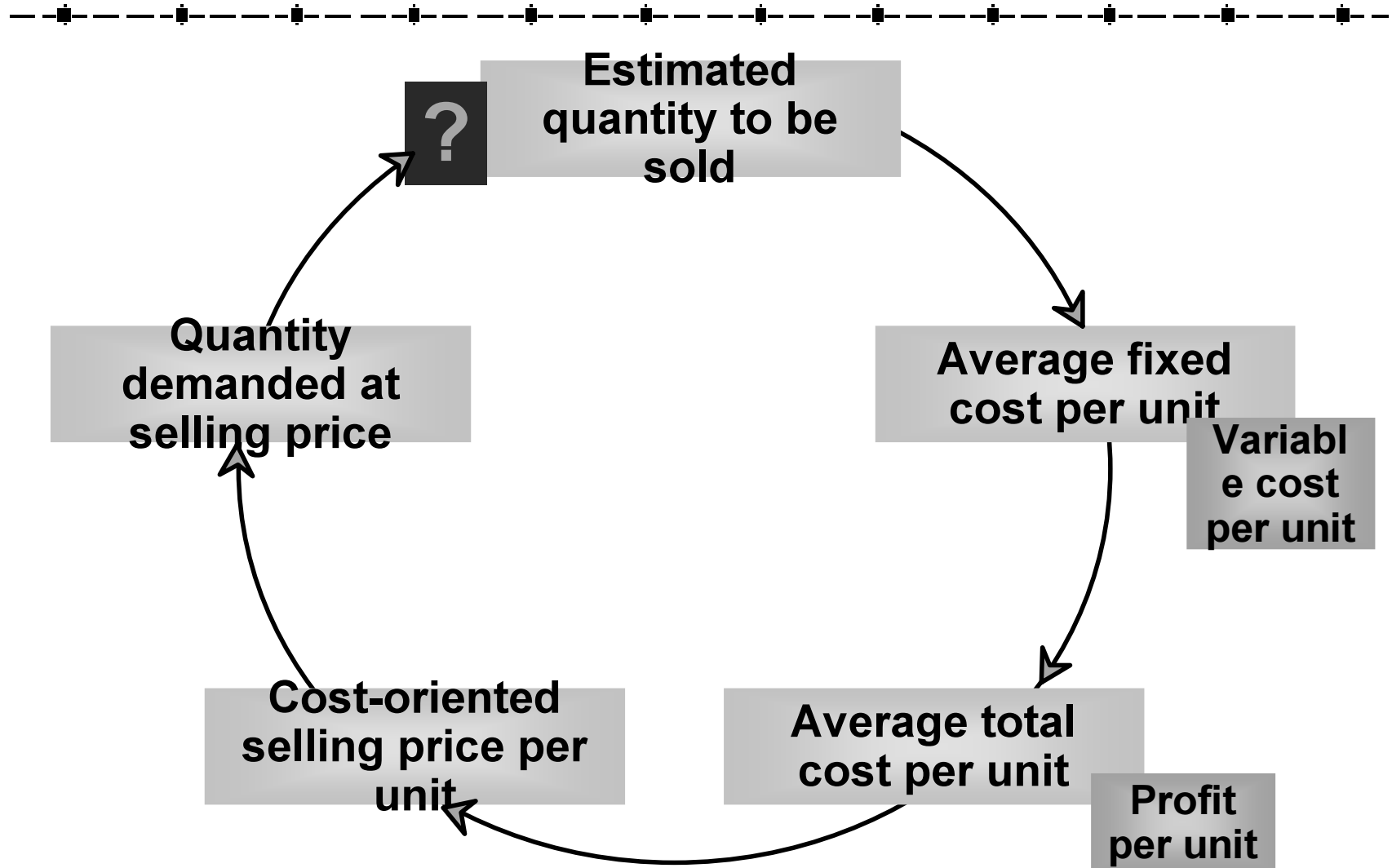
Geographic Pricing Policies



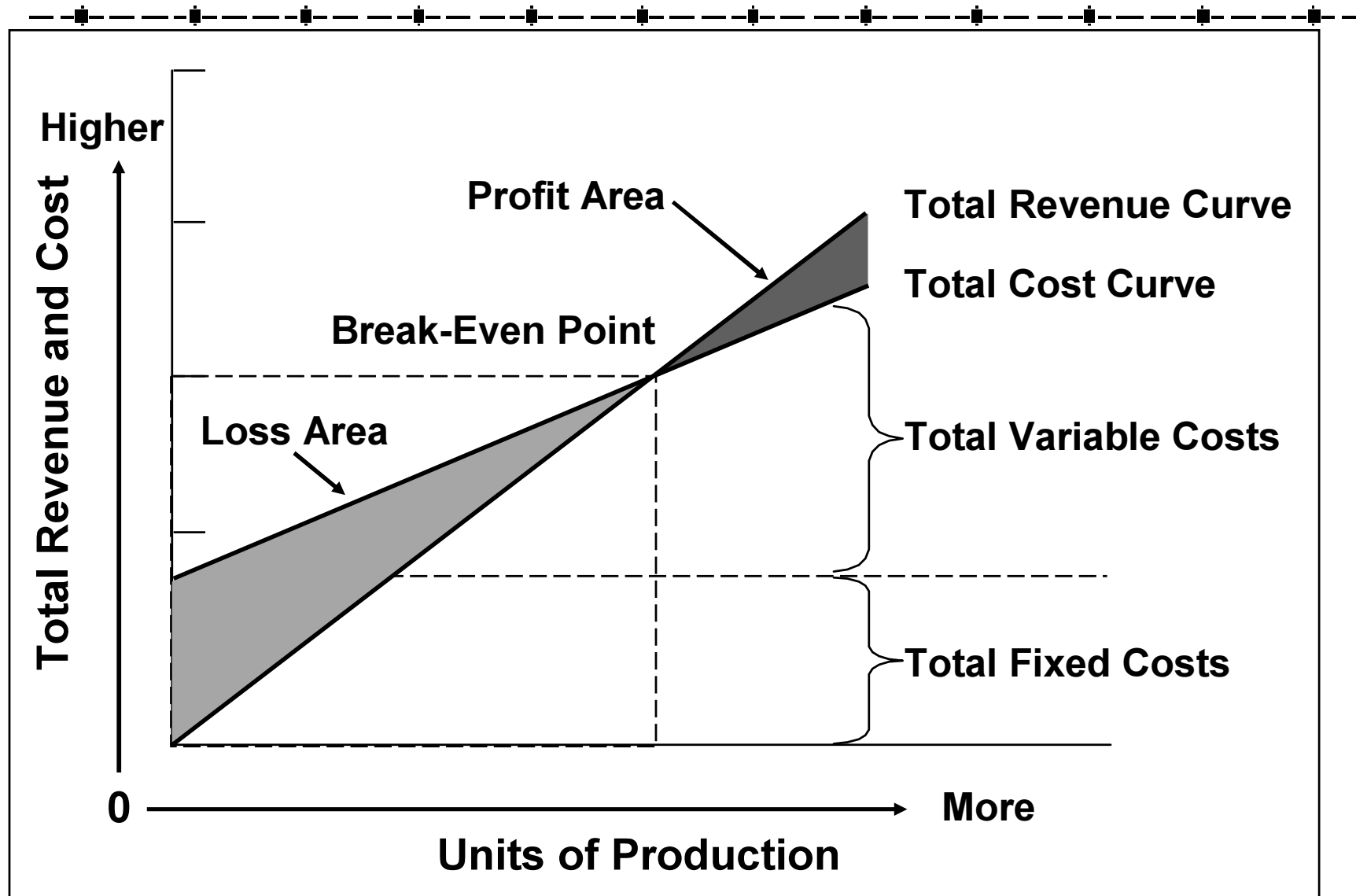
Key Factors That Influence Price Setting



Summary of Relationships Affecting Price



Break-even Analysis



Evaluating a Customer's Price Sensitivity

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- ✦ Are there substitute ways of meeting a need?
 - ✦ Is it easy to compare prices?
 - ✦ Who pays the bill?
 - ✦ How great is the total expenditure?
 - ✦ How significant is the end benefit?
 - ✦ Is there already a sunk investment related to the purchase?

Demand-Oriented Pricing

