

Session 12

Pricing Considerations and Approaches

Text: Chapter 10



- I. Factors Affecting Price Decisions**
- II. The Market and Demand**
- III. Approaches to setting prices**

I. Factors Affecting Price Decisions

12-3

Internal Factors

Marketing Objectives
Marketing Mix Strategy
Costs
Organizational considerations

Pricing
Decisions

External Factors

- Nature of the market and demand
- Competition
- Other environmental factors (economy, resellers, government)



Internal Factors Affecting Pricing Decisions: Marketing Objectives

12-4

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, Etc.

Market Share Leadership

Low as Possible Prices to Become the Market Share Leader.

Product Quality Leadership

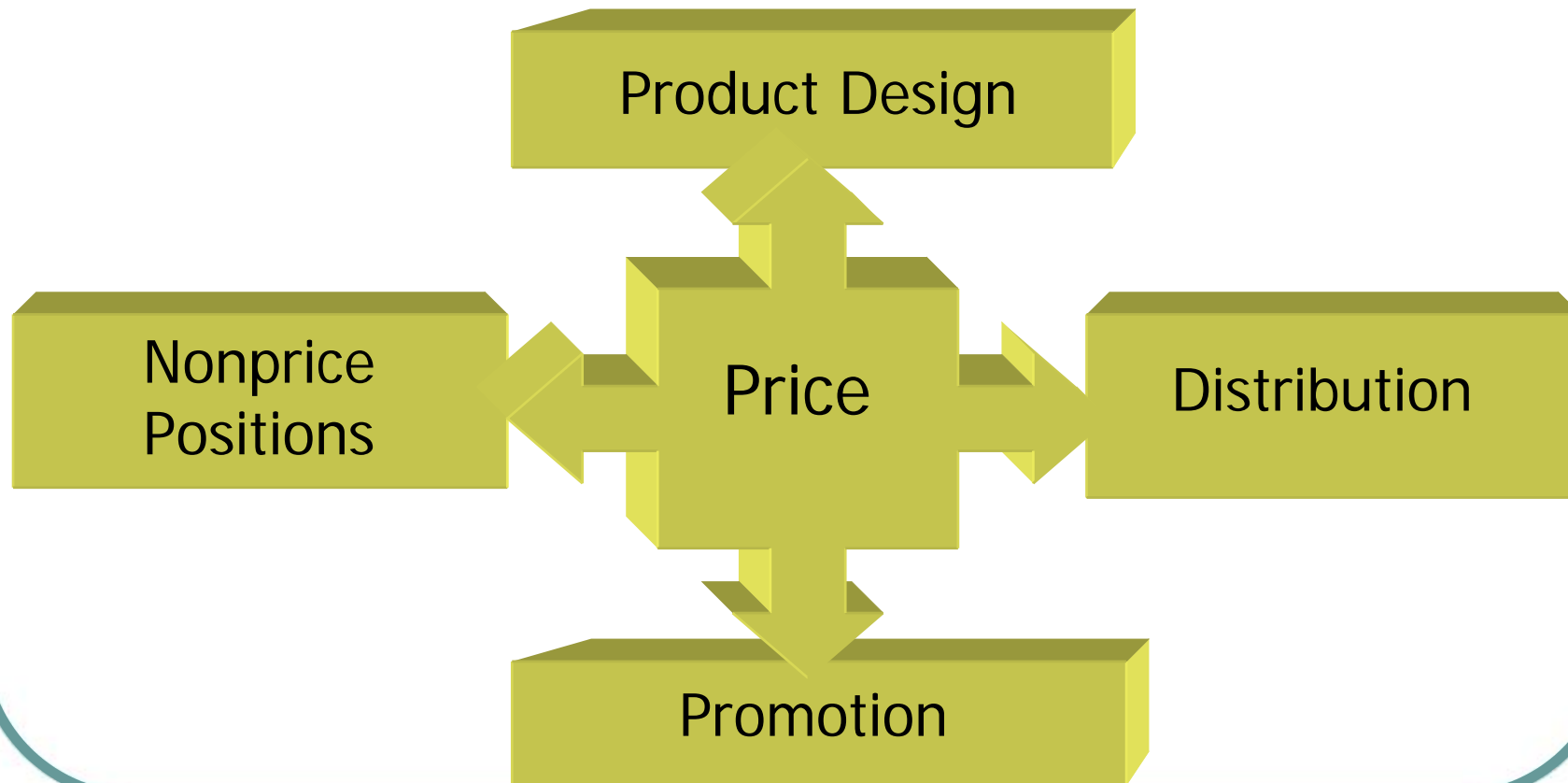
High Prices to Cover Higher Performance Quality and R & D.



Internal Factors Affecting Pricing Decisions: Marketing Mix

12-5

Customers Seek Products that Give them the Best Value in Terms of Benefits Received for the Price Paid.



Types of Cost Factors that Affect Pricing Decisions

12-6

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

Fixed Costs (Overhead)

Costs that don't vary with sales or production levels.

Executive Salaries, Rent

Variable Costs

Costs that do vary directly with the level of production.

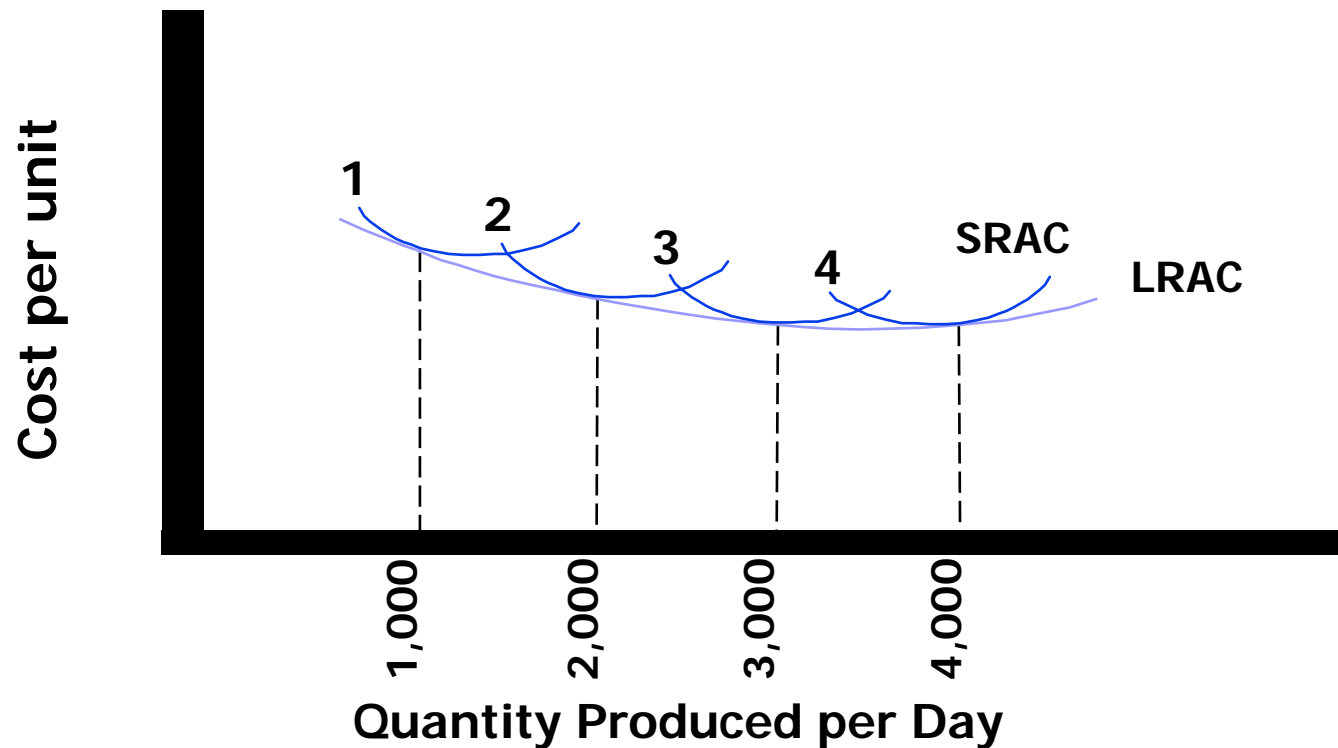
Raw materials



Costs Considerations

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Cost Per Unit at Different Levels of Production Per Period



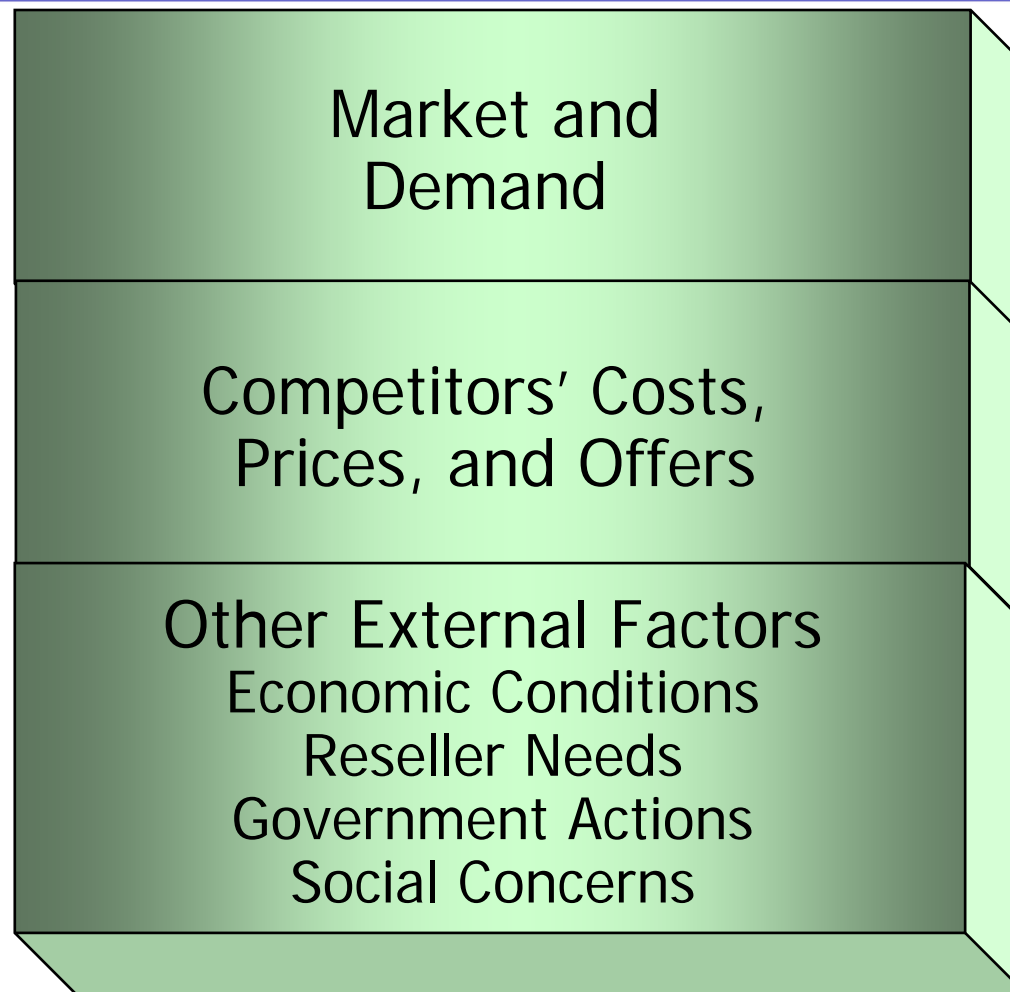
Experience Curve

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- Or the learning curve indicates that average cost drops with accumulated production experience.
- Strategy: price products low; sales increases; costs continue to decrease; and then lower prices further.
- Risks are present.

External Factors Affecting Pricing Decisions

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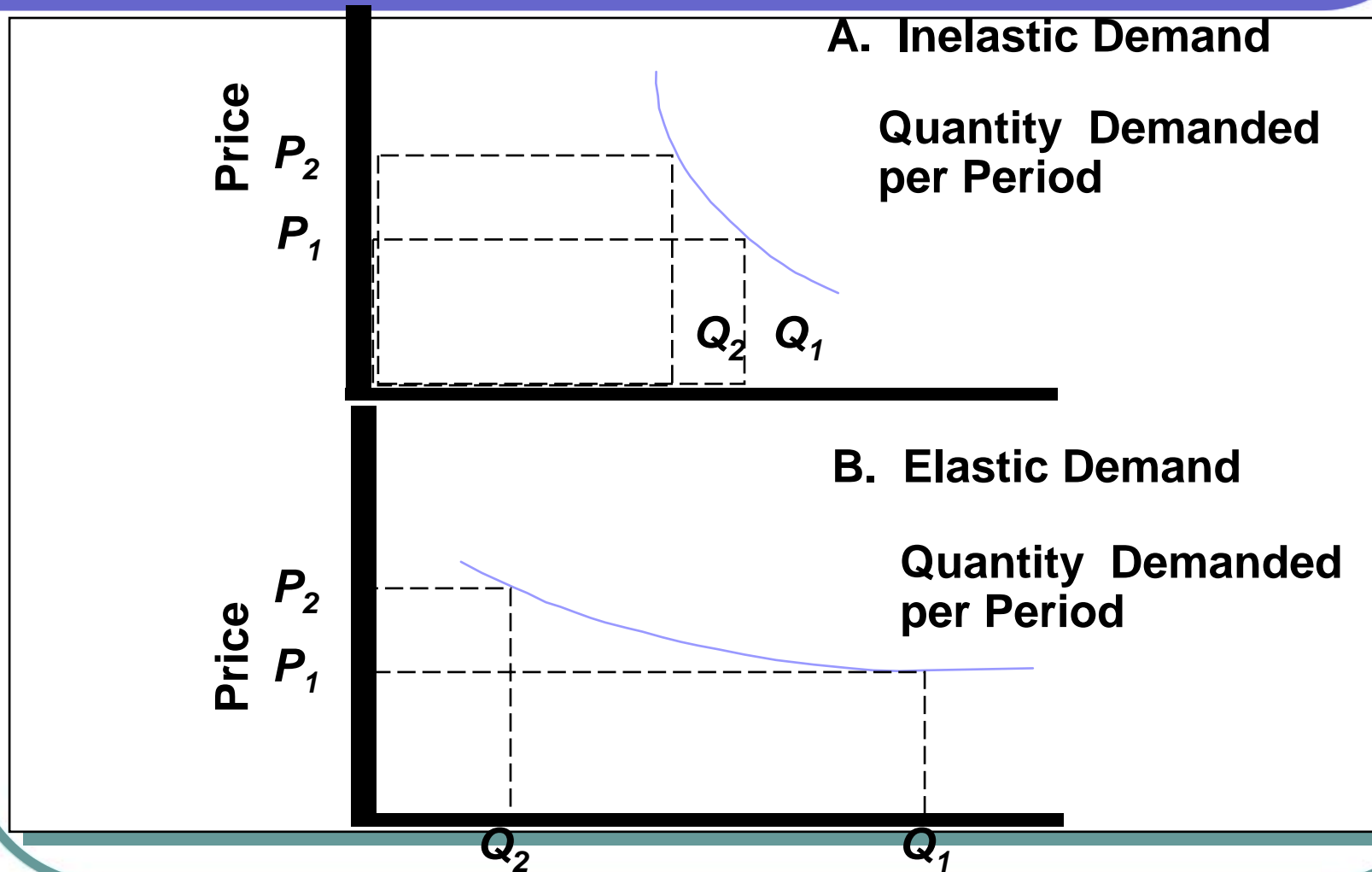


Different Types of Markets

- **Pure Competition**
- **Monopolistic Competition**
- **Oligopolistic Competition**
- **Pure Monopoly**

Demand Curves

12-11



- Refers to how responsive demand will be to a change in price.
- Price Elasticity of Demand
= $\frac{\% \text{ Change in Quantity Demanded}}{\% \text{ Change in Price}}$

III. Approaches to Setting Prices

- 1. Cost-Plus Pricing**
- 2. Value-Based Pricing**
- 3. Competition-Based Pricing**



1. Cost-Plus Pricing

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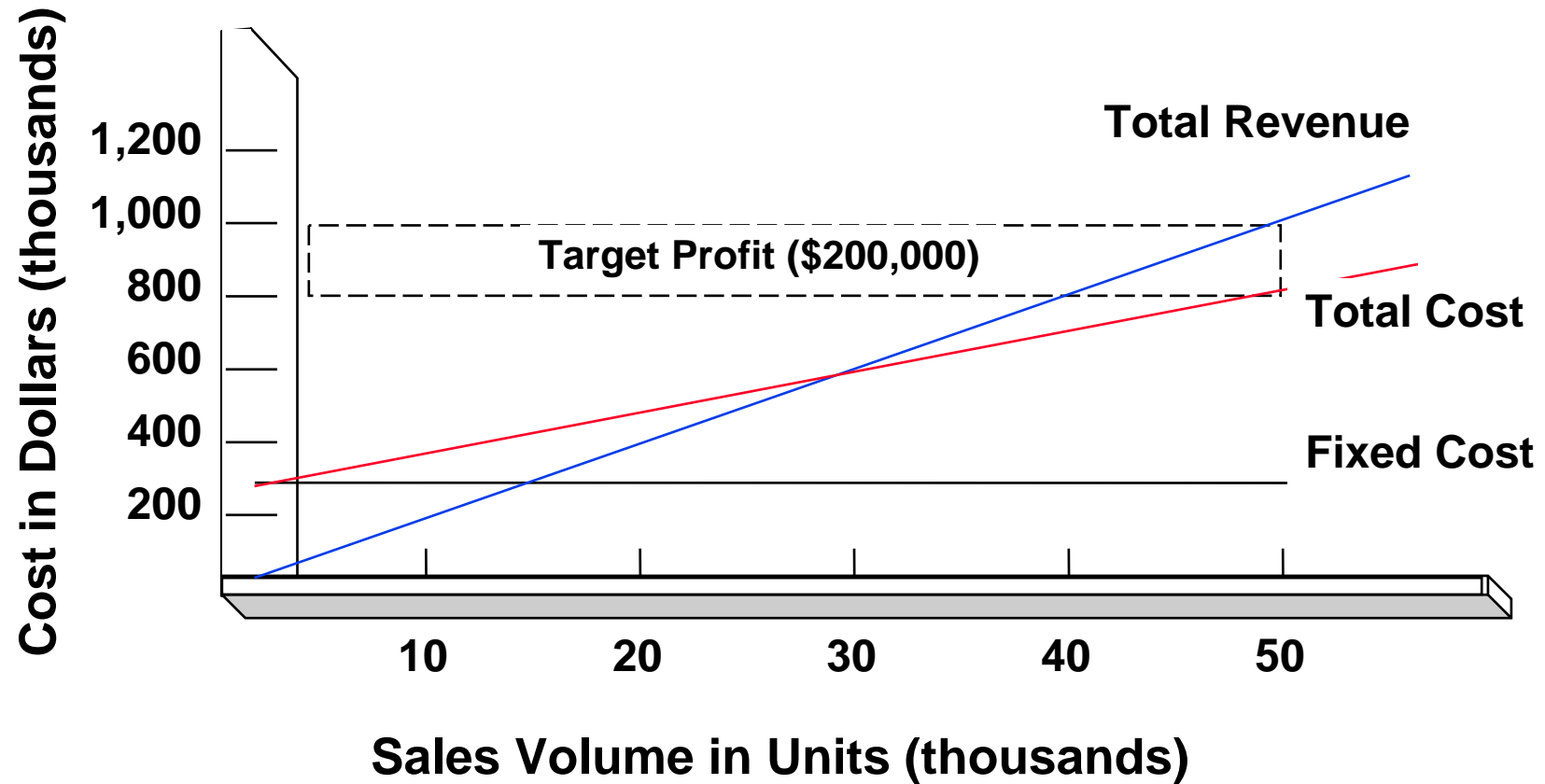
Key Reasons for Cost-Plus Popularity:

- **Increased Certainty**
- **Minimize Price Competition**
- **Perceived Fairness**



Breakeven Analysis

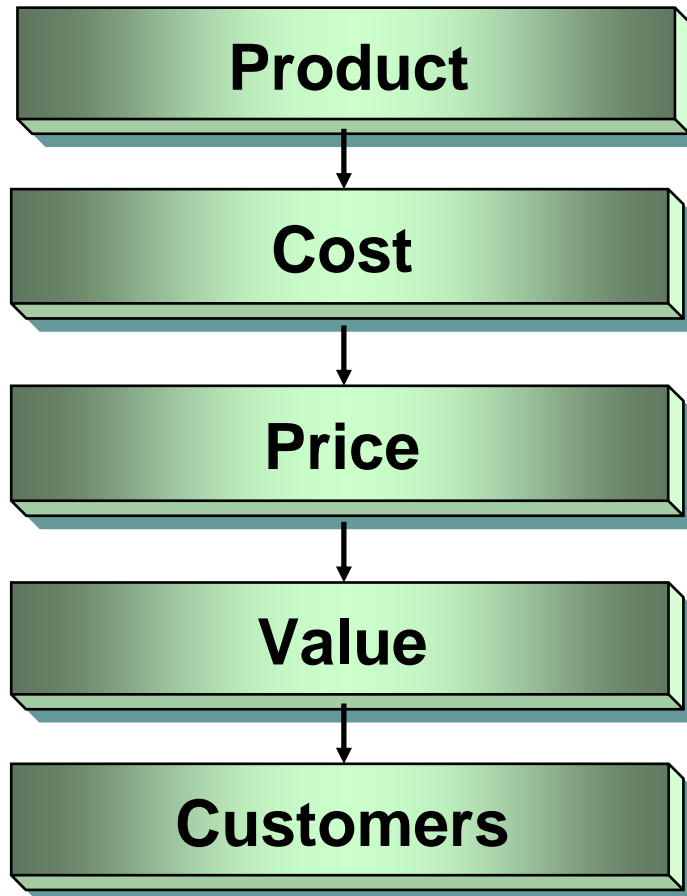
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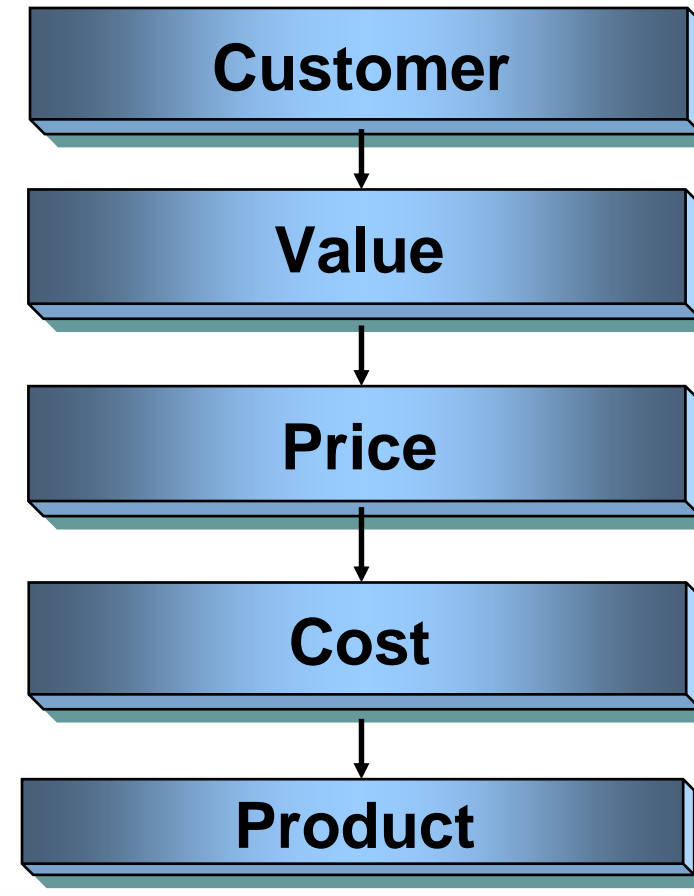
2. Value-Based Pricing

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Cost-Based Pricing

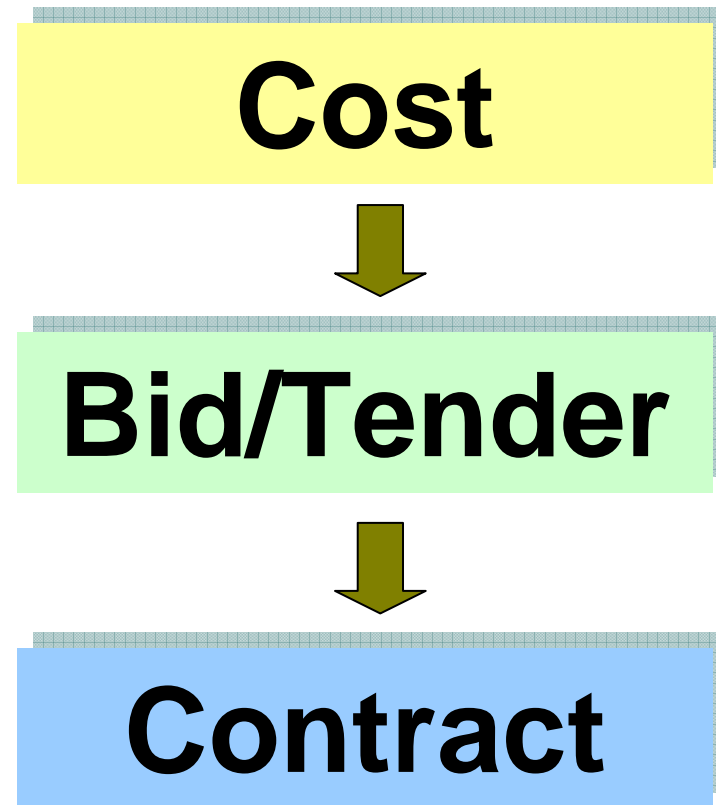


Value-Based Pricing



3. Competition-Based Pricing

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Questions

12-18

- 1. Does “value” mean the same thing as “low price”? How do these concepts differ?*
- 2. Pick two competing brands from a familiar product category (e.g. air conditioner) - one low priced and the other high priced. Which, if either, offers the greatest value?*

