

Principles of Marketing

10-1

Session 10

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

I. Factors Affecting Price Decisions

10-4

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

5

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.

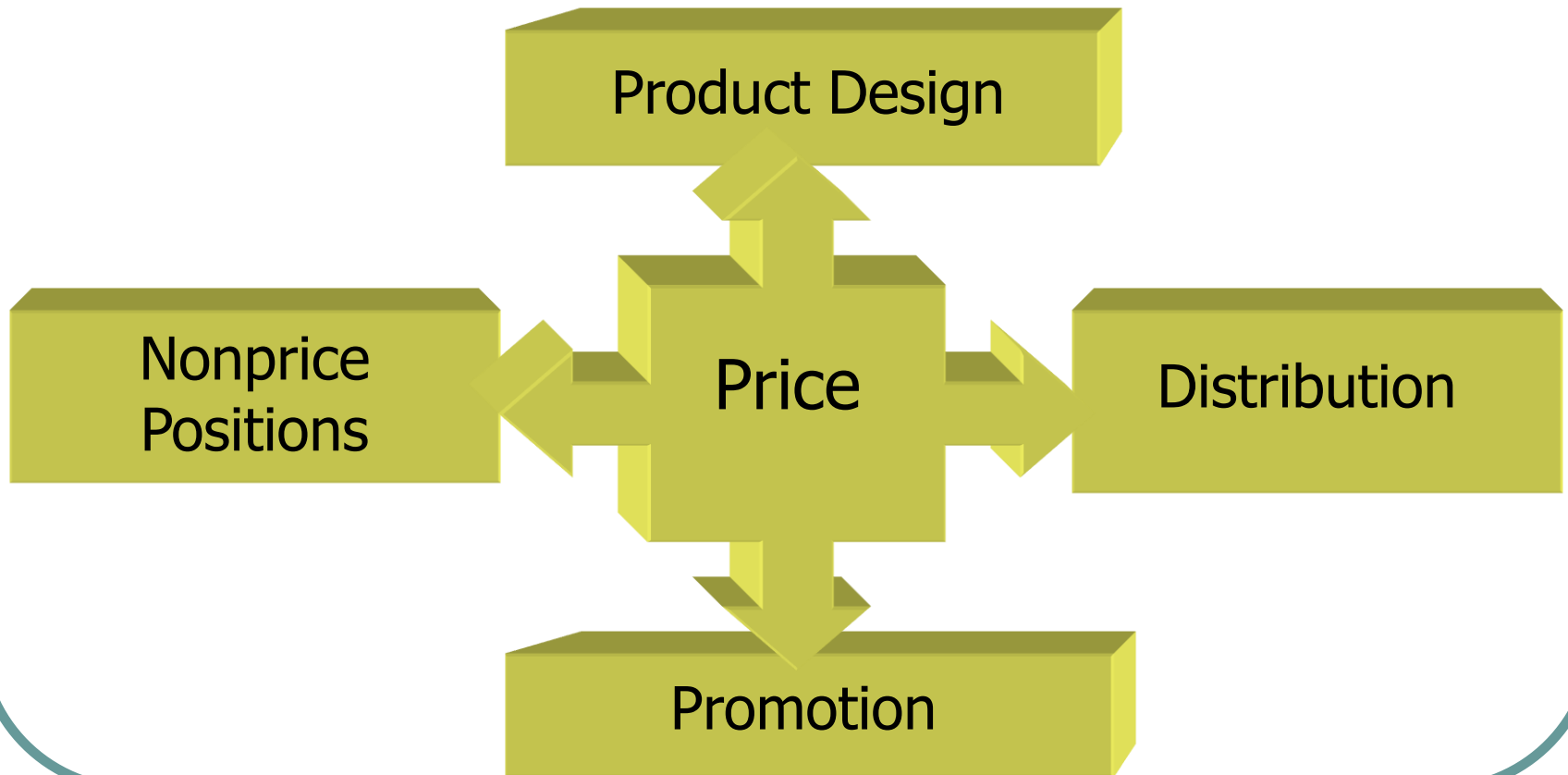
Product Quality Leadership

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

Internal Factors Affecting Pricing Decisions: Marketing Mix

10-6

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

10-7

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

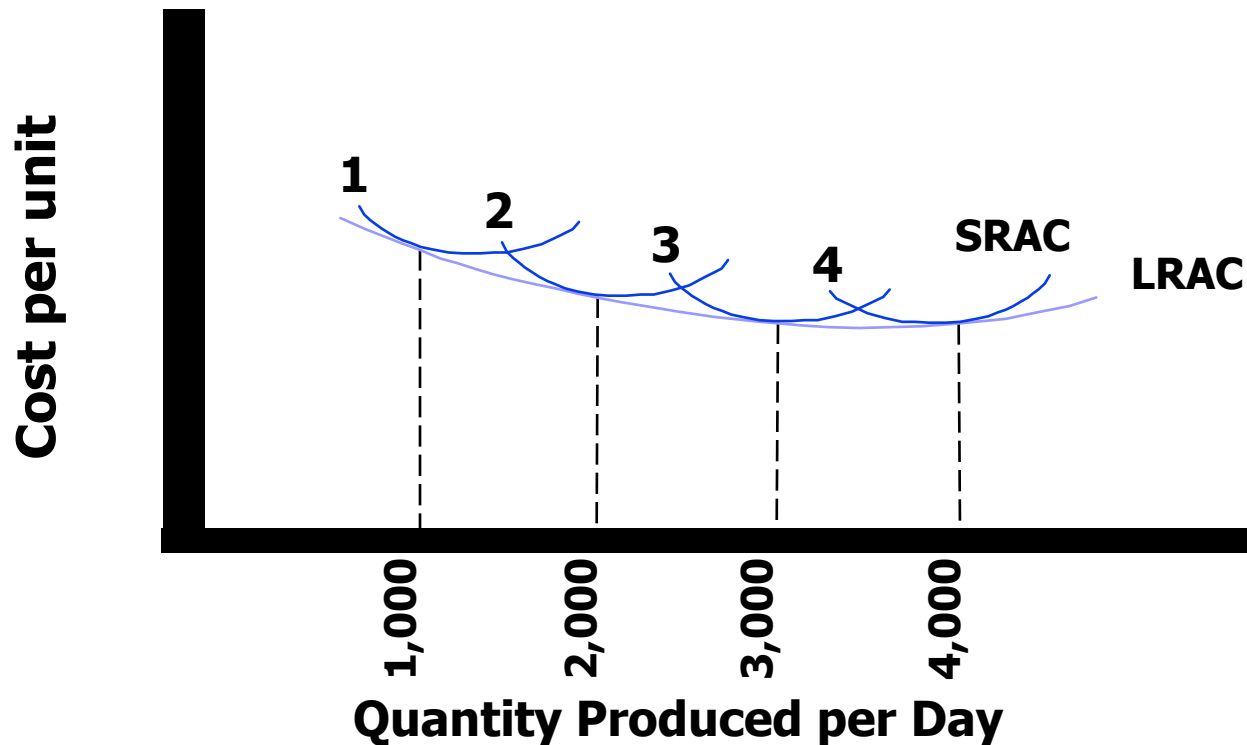
Costs that do vary directly with the level of production.

Raw materials

Costs Considerations

10-8

Cost Per Unit at Different Levels of Production Per Period



Experience Curve

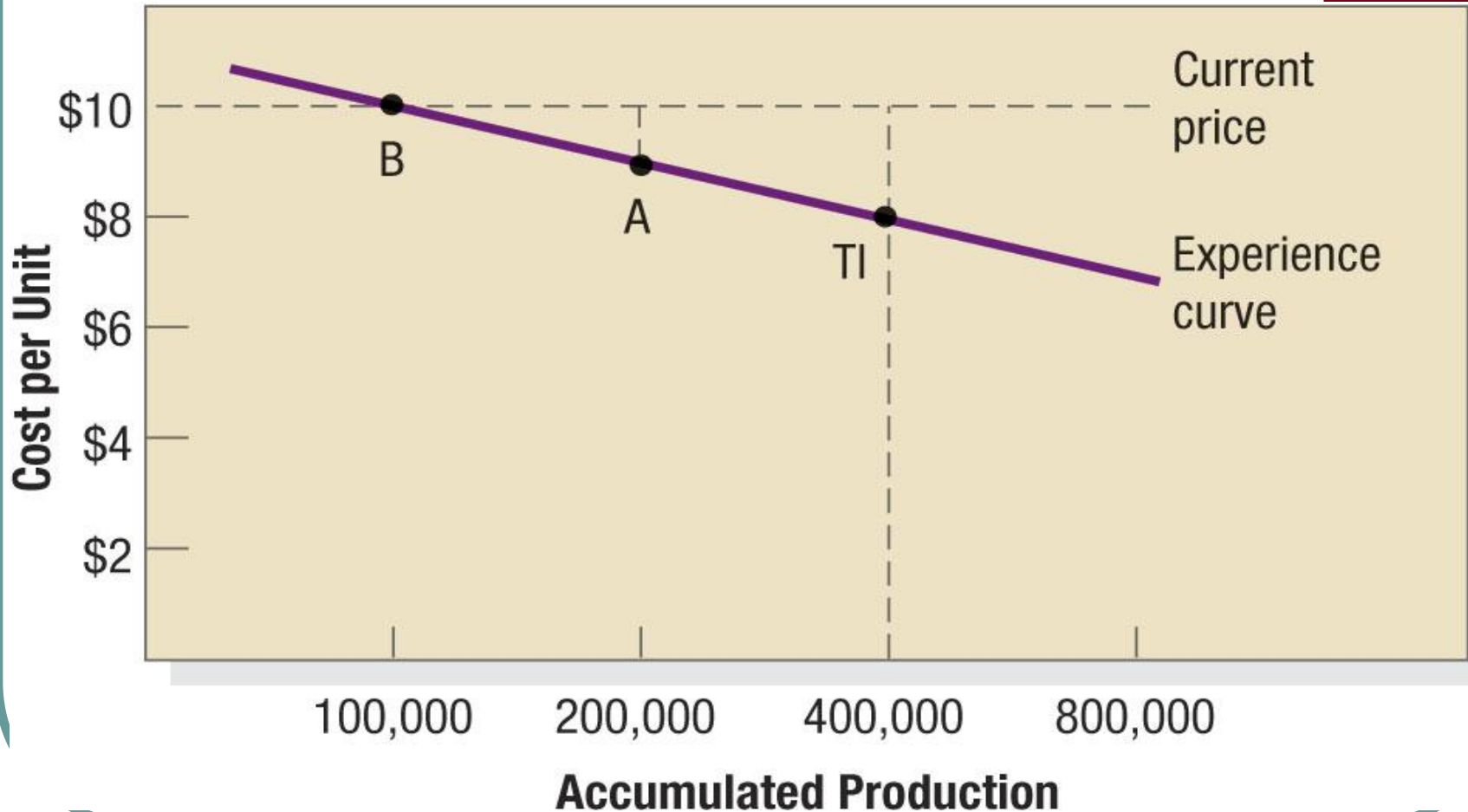
10-9

- 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.



Cost per Unit as a Function of Accumulated Production

10-10



External Factors Affecting Pricing Decisions

10-11

Market and
Demand

Competitors' Costs,
Prices, and Offers

Other External Factors
Economic Conditions
Reseller Needs
Government Actions
Social Concerns



II. The Market and Demand

II. The Market and Demand

10—13

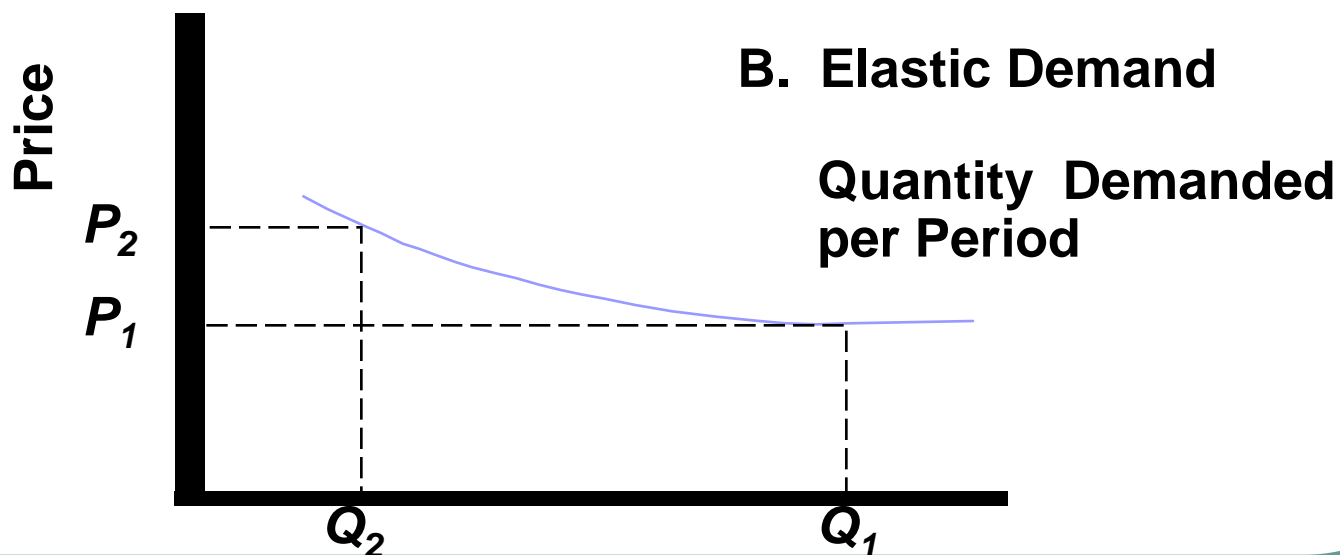
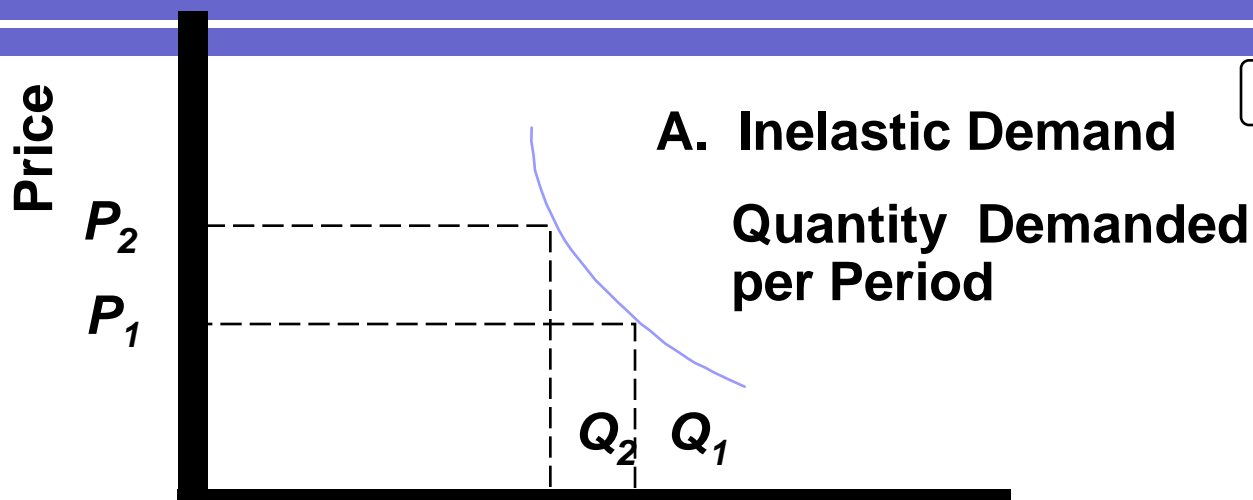
Different Types of Markets

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



Demand Curves

10-14



Price Elasticity

10—15

- Refers to how responsive demand will be to a change in price.
- Price Elasticity of Demand
= % Change in Quantity Demanded
% Change in Price



III. Approaches to Setting Prices

III. Approaches to Setting Prices

10-17

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



1. Cost-Plus Pricing

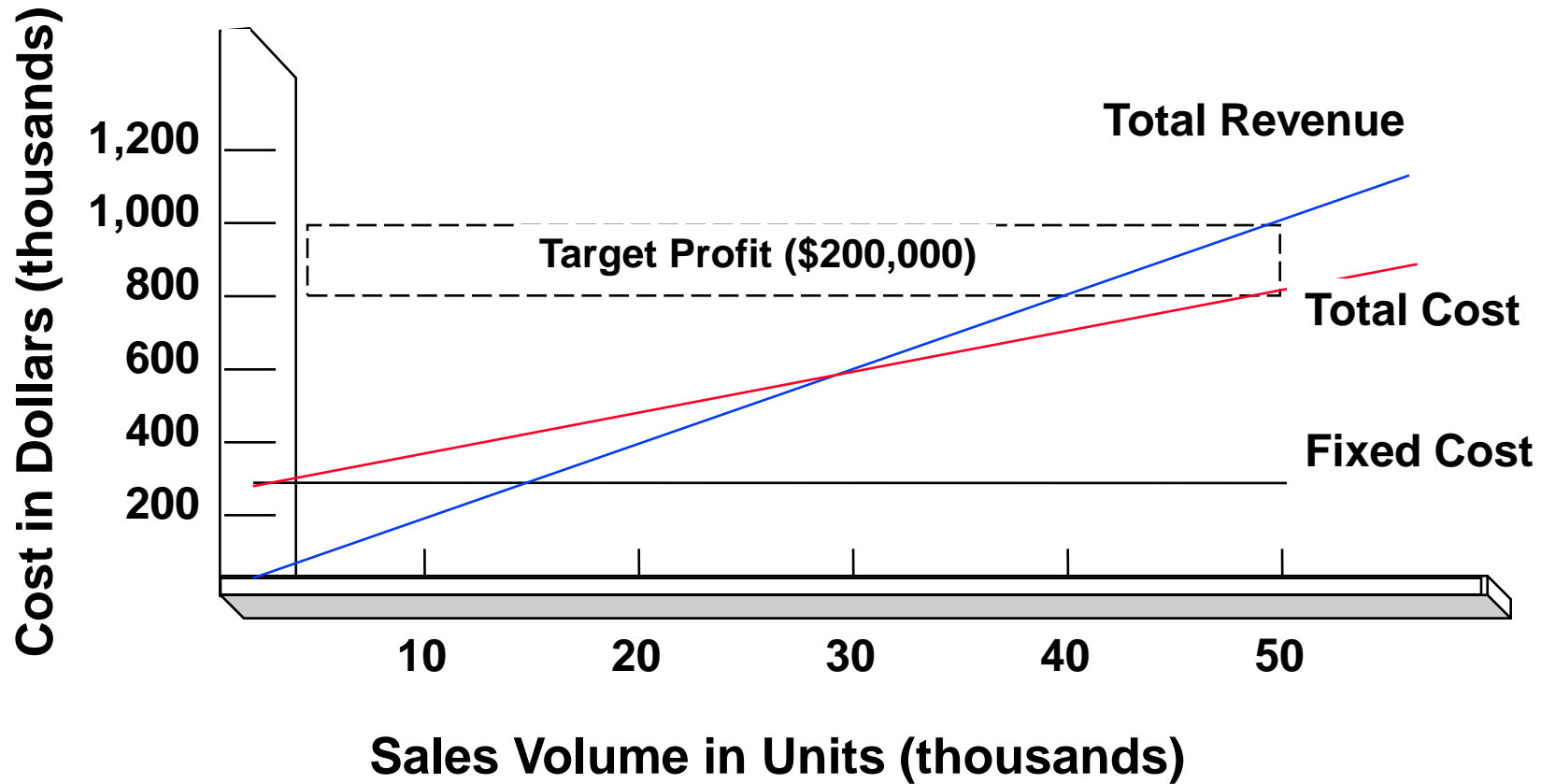
10-18

Key Reasons for Cost-Plus Popularity:

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

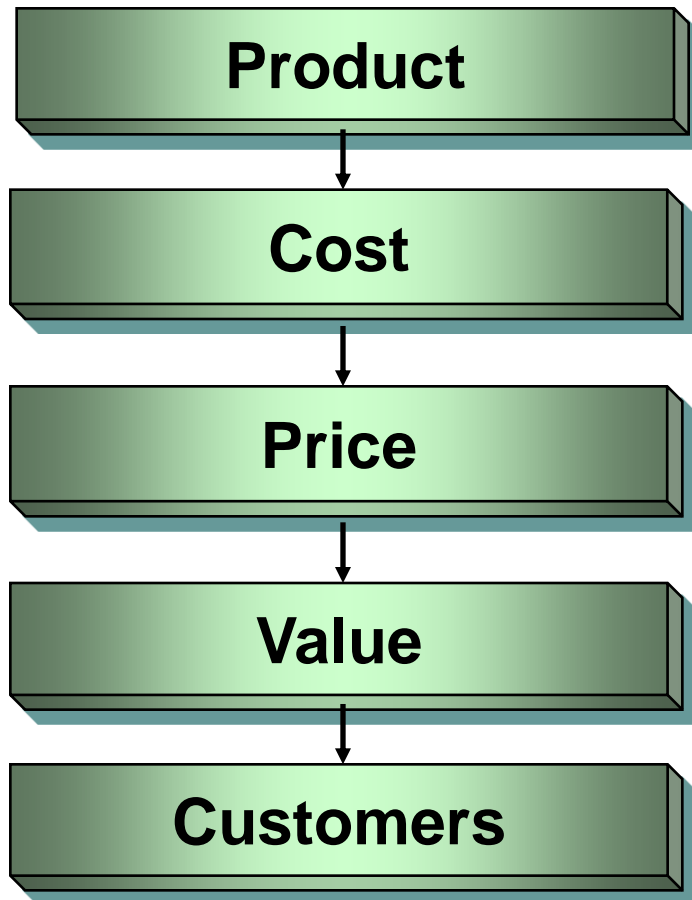


Breakeven Analysis



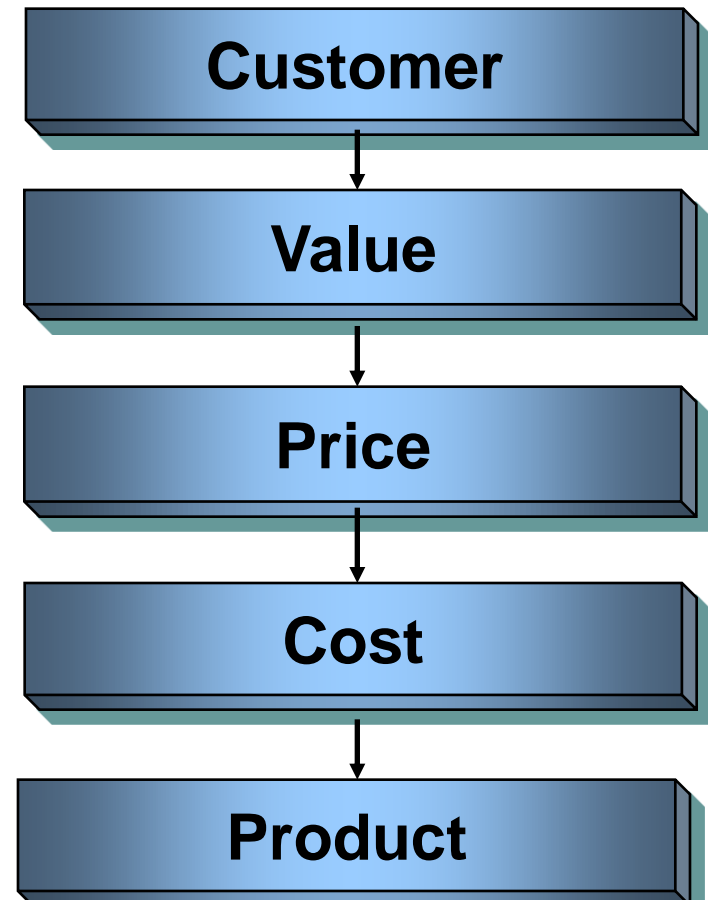
2. Value-Based Pricing

Cost-Based Pricing



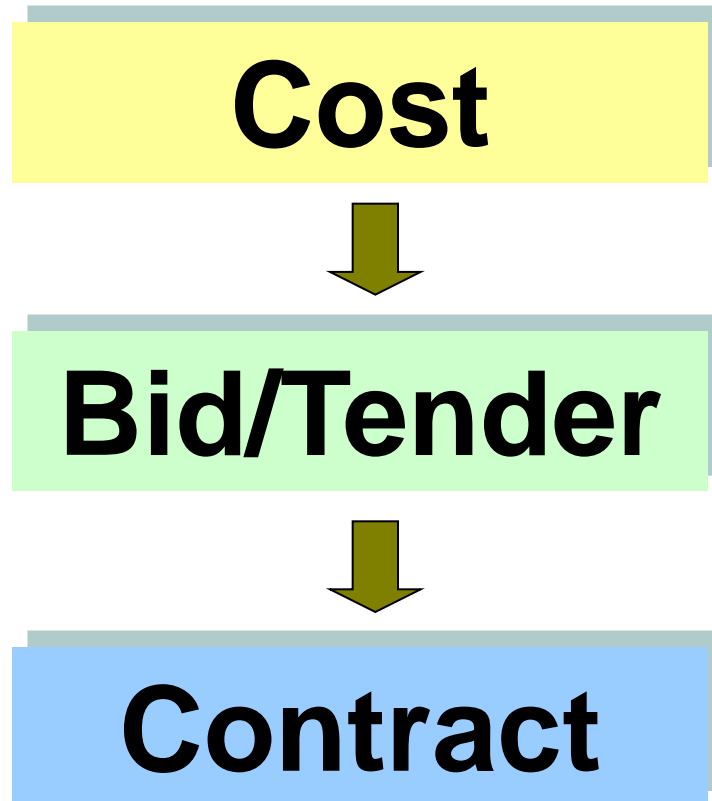
Value-Based Pricing

10-20



3. Competition-Based Pricing

10-21



Questions

10-22

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 higher value?

