PRICING DECISIONS

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Introduction

- Marketing –Mix Elements
- Marketing Planning/ Marketing Plan

What is price?

- A measure of the <u>value exchanged</u>

by the ***buyer*** for the value offered

by the ***seller*.**

Importance of price?

- Produce Revenue
- Flexible Elements
- Competitive Tool.
- Respond to changes in demand easily
- Has psychological impact on consumer behavior

When Does The Firm Set The Price ?

- New product
- Existing product being introduced into a new distribution channel or geographical area
- Entering into a new contract work.
- Competition
- Consumer needs
- Environmental changes

What is the Procedure of Setting Price ?

1. Set price ***objective***
2. Determine ***demand***
3. Estimate ***cost***
4. Analyze competitor's ***costs, prices*** and ***offers***
5. Select a ***pricing method***
6. Select the ***final price***

STEP:1.Select The Pricing Objective/Goals

…stated purpose

…includes ;

a) Maximum current profit

b) Maximum sales growth (market - penetration pricing)

c) Maximum market skimming (market – skimming pricing)

d) Product – quality leadership, etc

STEP:2.Determine the demand

- Demand sets a ***ceiling*** on the price that the co can charge for its products.

a) Consider Nature of demand for the product and Price elasticity/sensitivity

Which factors do you think affect a farmer's price sensitivity ?

- ***Unique – value effect:*** Buyers are less price sensitive when the product is more distinctive.
- ***Substitute – awareness effect***: Buyers are less price sensitive when they are less aware of substitutes
- ***Difficult – comparison effect***: Buyers are less price sensitive when they cannot easily compare the quality of substitute

b) Methods of estimating demand

i. ***Analyze past data***: past prices, quantities sold, and other factors to estimate their relationships.

ii. ***Do research***: Ask buyers to state how many units they would buy at different proposed prices.

STEP:3. Estimate cost

- …company costs set the ***floor*** on the price that the co can charge for its products
- …the company wants to charge a price that covers its costs of:

✓ ***producing,***

✓ ***distributing and***

✓ ***selling the product,***

✓ ***including a fair return for its effort and risk.***

- A company's costs may take two forms, ***fixed*** and ***variable***.

What do I need to do to price intelligently?.

…management needs to know:

- how its costs vary with different levels of production.
- accumulated Costs of production
- learning curve,
- differentiated marketing offers
- by target costing.

STEP:4. Analyze competitor's costs, prices and offers

- …through competitor analysis exercise.

STEP: 5: Select A Pricing Method

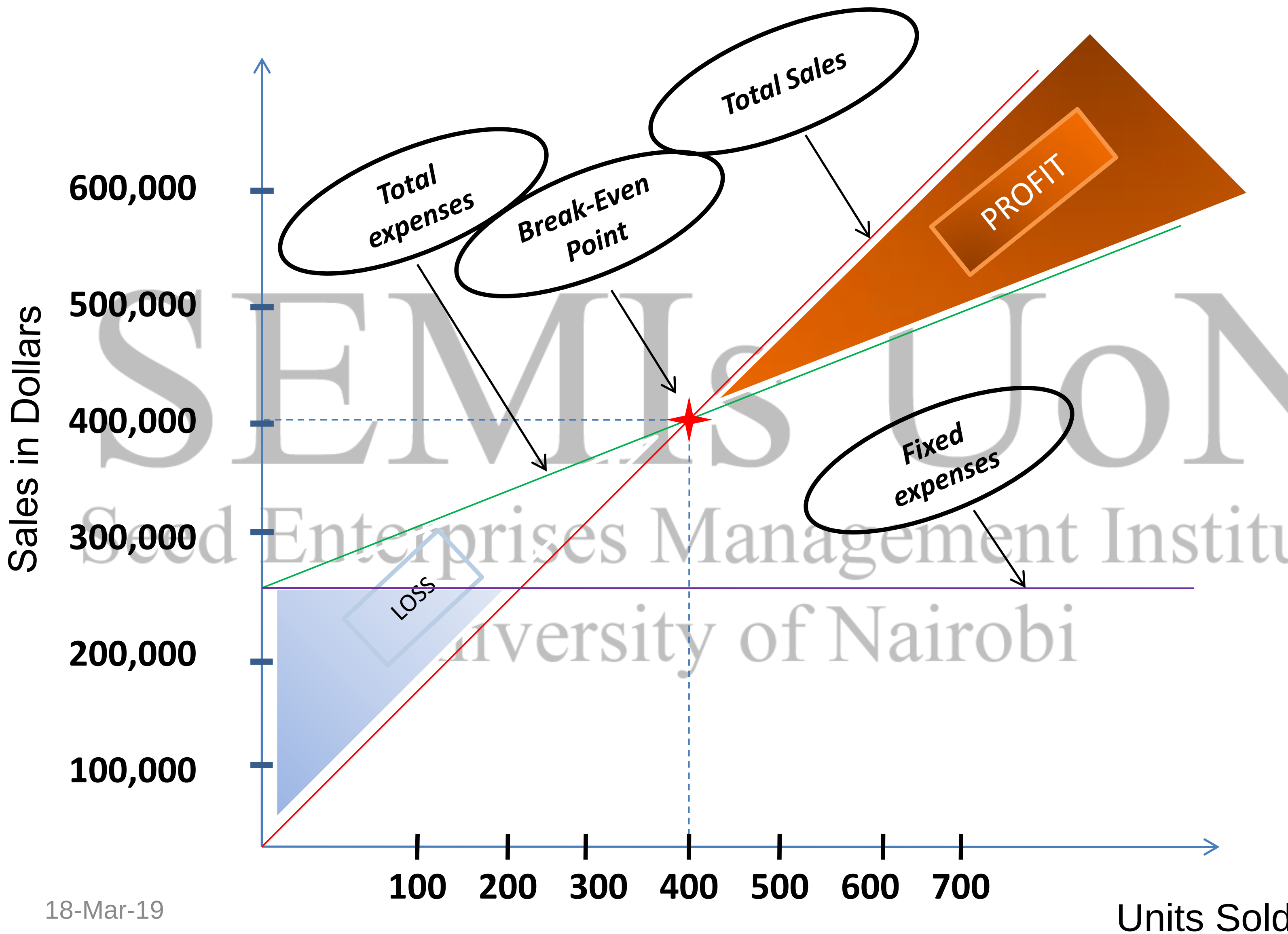
A. Cost Based Pricing

1.Markup pricing

✓ Adding a standard markup to the product's cost

2.Break-Even Pricing

Break-Even Point Method



B. Demand Oriented Pricing Methods

1.Perceived-value pricing

- ✓ Companies see the buyer's ***perception of value***, not the seller's cost, as the key to pricing.

2.Value pricing

- ✓ Value pricing says that the price should represent ***a high-value offer*** to customers. Companies charge a fairly low price for high quality offering.

C. Competition Oriented Pricing

Going-rate pricing

- ✓ The firm pays less attention to its own costs or demand and bases its price largely on competitors' prices
- ✓ The firm might charge the same, more, or less than its major competitor[s].

D. Sealed-bid pricing

- ✓ Is common where firms submit sealed bids for jobs.
- ✓ The firm bases its price on expectations of how competitors will price rather than on a rigid relation to the firm's costs or demand.

STEP:6. Select the final price

- Pricing methods ***narrow*** the price range for which the company must select its final price.

- The company must consider ***additional factors***

These factors include;

a) Customer psychology -Psychological pricing
b) Marketing-mix elements influence on price: E.g. brands quality and advertising
c) Company pricing policies
d) Impact of price on other parties, E.g. distributors, dealers, sales force, competitors, suppliers, government, etc

ADAPTING THE PRICE

1) Geographical pricing
2) Price discounts and allowances
3) ***Discriminatory pricing*** ;…sell a product or service at two or more prices that do not reflect a proportional difference in costs.
4) ***Customer-Segment pricing***; Different customer groups are charged different prices for the same product or service
5) ***Product-Form pricing:*** Different versions of the product are priced differently but not proportionately to their respective costs.
6) ***Image Pricing;*** Some companies price the same product at two different levels base on image difference.
7) ***Location pricing-same*** product is priced differently at different locations even though the cost of offering at each location is the same.
8) ***Time pricing:*** Prices are varied by season, day or hour

9.Product Line Pricing; Where there is a range of product or services the pricing reflect the benefits of parts of the range. ***For example car washes. Basic wash could be Ksh.200, wash and wax Ksh.400, and the whole package Ksh.600 .***

10.Optional Product Pricing: Companies will attempt to increase the amount customer spend once they start to buy. Optional 'extras' increase the overall price of the product or service. ***For example in a stadium /seats .***

11.Captive Product Pricing: Where products have complements, companies will charge a premium price where the consumer is captured. ***For example a razor manufacturer will charge a low price and recoup its margin (and more) from the sale of the only design of blades which fit the razor.***

12.Product Bundle Pricing: Here sellers combine several products in the same package. This also serves to move old stock.

INITIATING AND RESPONDING TO PRICE CHANGES

1. Initiating price cuts

Several circumstances might lead to a firm to cut its price.

- ✓ Excess plant capacity
- ✓ Declining market share
- ✓ Drive to dominate the market through lower costs

2. Initiating price increases

- ✓ Cost inflation
- ✓ Over demand

3. Reactions to price changes

- ✓ Any price change can affect customers, competitors, distributors and suppliers and may provoke government reaction as well.
- ✓ It is often difficult to predict how customers and competitors will react to a price change.

4. Responding to competitors' price changes

Market leaders who are attacked by lower priced competitors can choose to

- ✓ Maintain price,
- ✓ improve quality, or
- ✓ Launch a low-price fighter line.

…the best response depends on several factors.

END

QUESTIONS/COMMENTS/DISCUSIONS