Pricing Products:
Pricing Consideration & Approaches

- **All profit organizations must set prices on their product or services.**
- **Price is the amount of money charged for a product or service.**
- **Price is the only element in the marketing mix that produces revenue, all other elements represent costs.**

Factors to consider when setting prices

- ✓ A company's pricing decision are affected both by internal company factors and external environmental factors.

Internal factors include :

1-company's marketing objectives 3-Cost

2-Marketing mix strategy 4-Organization considerations

External factors include:

1- The nature of the market and demand

2- Competition

3- Other environmental elements

Factors Affecting Pricing Decision

Internal Factors

Marketing Objectives

Marketing mix strategy

Costs

Organization for pricing

Pricing Decisions

External Factors

Nature of the market and demand

Competition

Other environmental Factors

(economy, resellers, government)

Internal Factors Affecting Pricing Decision

I- Marketing Objectives:

- ✓ **There are many marketing objectives such as:**

A- Survival: **Companies set survival as their major objective if they are troubled by too heavy competition, or changing consumer wants.**

B- Current Profit Maximization: **Many companies want to set a price that will maximize current profits.**

Internal Factors Affecting Pricing Decision

C- Market-Share Leadership: **Other companies want to obtain the dominant market share. They believe that the company with the largest market share will enjoy the lowest costs and highest long-run profit.**

D- Product Quality Leadership: **this normally calls for charging a high price to cover such quality and the high cost of R & D.**

Internal Factors Affecting Pricing Decision

II- Marketing Mix Strategy

- **Price is the only one of the marketing mix tools that the company uses to achieve its marketing objective.**

- **Price decisions must be coordinated with product design, distribution, and promotion decisions to form a consistent and effective marketing program.**

Internal Factors Affecting Pricing Decision

III- Costs

- ✓ **Costs set the floor for the price that the company can charge for its product.**

V- Organizational Considerations

- ✓ **Management must decide who within the organization should set prices.**
- ✓ **In small companies, prices are often set by top management.**
- ✓ **In large companies, pricing is typically handled by or product line managers.**

External Factors Affecting Pricing Decision

I – The Nature of The Market and Demand

- ✓ **Cost set the lower limit of prices, whereas the market and demand set the upper limit.**
- ✓ **Before setting prices, the marketer must understand the relationship between price and demand for its product.**

II- Competitors’ Prices and Offers

- ✓ **Another external factor affecting the company’s pricing decision is competitors’ prices and possible competitor reaction to the company’s own pricing moves.**

Other External Factors

- ✓ **When setting prices, the company must also consider other factors in its external environment such as:**

1- Economic Conditions

2- The Government

3- Social Concerns

General Pricing Approaches

- The price the company charges will be somewhere between one that is too low produce a profit and one that is too high to produce any demand.

- Product costs set a floor to the price, consumer perceptions of the product's value set the ceiling.

- The company must consider competitors' prices and other external and internal factors to find the best price between these two extremes.

Major Consideration is Setting Price

<u>Low Price</u>

No possible
Profit at
This price

Product
costs

Competitor'
Prices and
other external
& internal factors

Consumer
Perceptions
of value

<u>High Price</u>

No possible
Demand at
This price

- **Companies set prices by selecting a general pricing approach that includes one or more of these three sets of factors:-**

1 – Cost -Based Pricing

2- Buyer – Based Pricing

3- Competition– Based Pricing

1 – Cost -Based Pricing :

A- Cost – Plus Pricing

- ✓ It is the simplest pricing method
- ✓ It is adding a standard markup to the cost of the product
- ✓ Markup vary greatly among different goods.

B- Breakeven Analysis and Target Profit Pricing

- ✓ It is another cost pricing approach.
- ✓ It is setting price to break even on the costs of making and marketing a product, or to make the desired profit.

2- Buyer – Based Pricing:

- **An increasing number of companies are basing their prices on the product's perceived value.**

- **Perceived-value Pricing :**

- **setting price based on buyers' perceptions of value rather than on the seller's cost.**

3- Competition– Based Pricing:

A- Going-rate Pricing:

- ✓ **Setting price based largely on following competitors' prices rather than on company costs or demand.**

B- Sealed-Bid Pricing:

- ✓ **A firm bases its price on how it thinks competitors will price rather than on its own costs or demand.**

- ✓ **Yet the firm cannot set its price below a certain level. It cannot price below cost without harming its position.**
- ✓ **In contrast, the higher the company sets its price above its costs, the lower its chance of getting the contract.**