



*it's good and
good for you*

Chapter Ten

Pricing: Understanding and Capturing Customer Value

Pricing: Understanding and Capturing Customer Value

Topic Outline

- What Is a Price?
- Major Pricing Strategies
- Other Internal and External Considerations Affecting Price Decisions



What Is a Price?

Price is the amount of money charged for a product or service. It is the sum of all the values that consumers give up in order to gain the benefits of having or using a product or service.



What Is a Price?

Price is the only element in the marketing mix that produces revenue; all other elements represent costs



Major Pricing Strategies

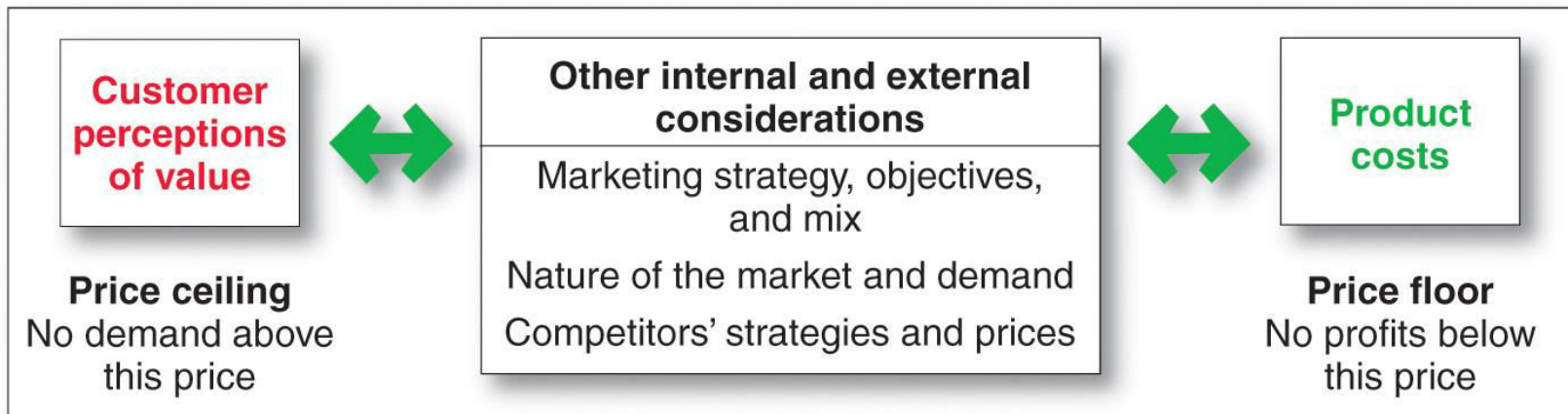
Customer Value-Based Pricing

Understanding how much value consumers place on the benefits they receive from the product and setting a price that captures that value



Major Pricing Strategies

Customer Value-Based Pricing



Major Pricing Strategies

Customer Value-Based Pricing

Value-based pricing uses the buyers' perceptions of value, not the sellers' cost, as the key to pricing. Price is considered before the marketing program is set.

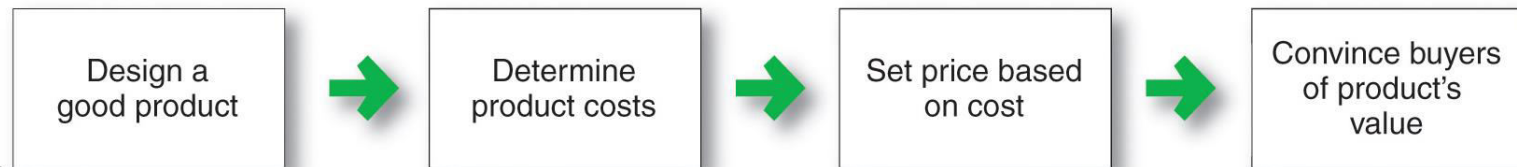
- Value-based pricing is customer driven
- Cost-based pricing is product driven



Major Pricing Strategies

Customer Value-Based Pricing

Cost-based pricing



Value-based pricing



Major Pricing Strategies

Customer Value-Based Pricing

Good-value pricing

offers the right combination of quality and good service at a fair price



Major Pricing Strategies

Customer Value-Based Pricing

Everyday low pricing (EDLP) charging a constant everyday low price with few or no temporary price discounts



Major Pricing Strategies

Customer Value-Based Pricing

High-low pricing charging higher prices on an everyday basis but running frequent promotions to lower prices temporarily on selected items



Major Pricing Strategies

Customer Value-Based Pricing

- Value-added pricing attaches value-added features and services to differentiate offers, support higher prices, and build pricing power



Major Pricing Strategies

Cost-Based Pricing

Cost-based pricing setting prices based on the costs for producing, distributing, and selling the product plus a fair rate of return for effort and risk



Major Pricing Strategies

Cost-Based Pricing

Cost-based pricing adds a standard markup to the cost of the product



Major Pricing Strategies

Cost-Based Pricing

Types of costs

Fixed
costs

Variable
costs

Total
costs



Major Pricing Strategies

Cost-Based Pricing

Fixed costs are the costs that do not vary with production or sales level

- Rent
- Heat
- Interest
- Executive salaries



Major Pricing Strategies

Cost-Based Pricing

Variable costs are the costs that vary with the level of production

- Packaging
- Raw materials



Major Pricing Strategies

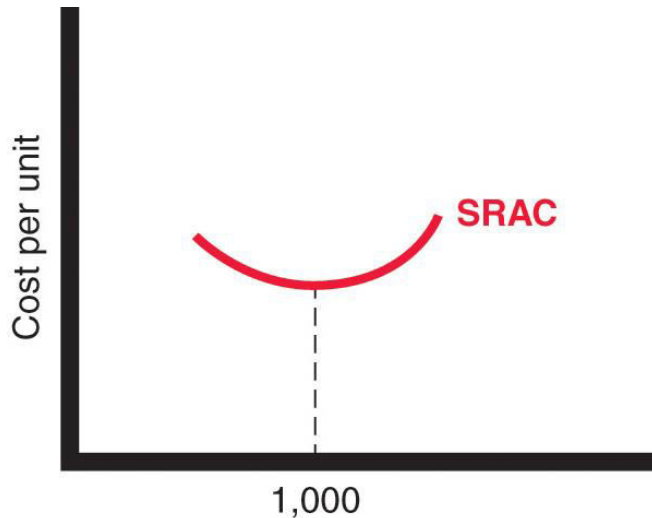
Cost-Based Pricing

Total costs are the sum of the fixed and variable costs for any given level of production

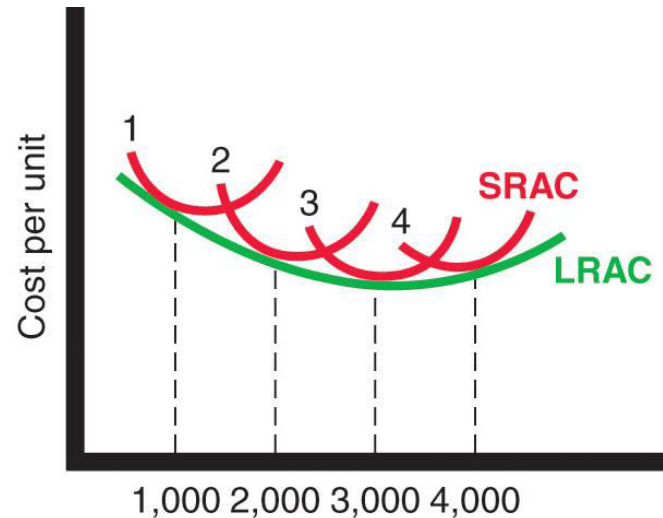


Major Pricing Strategies

Costs as a Function of Production Experience



A. Cost behavior in a fixed-size plant



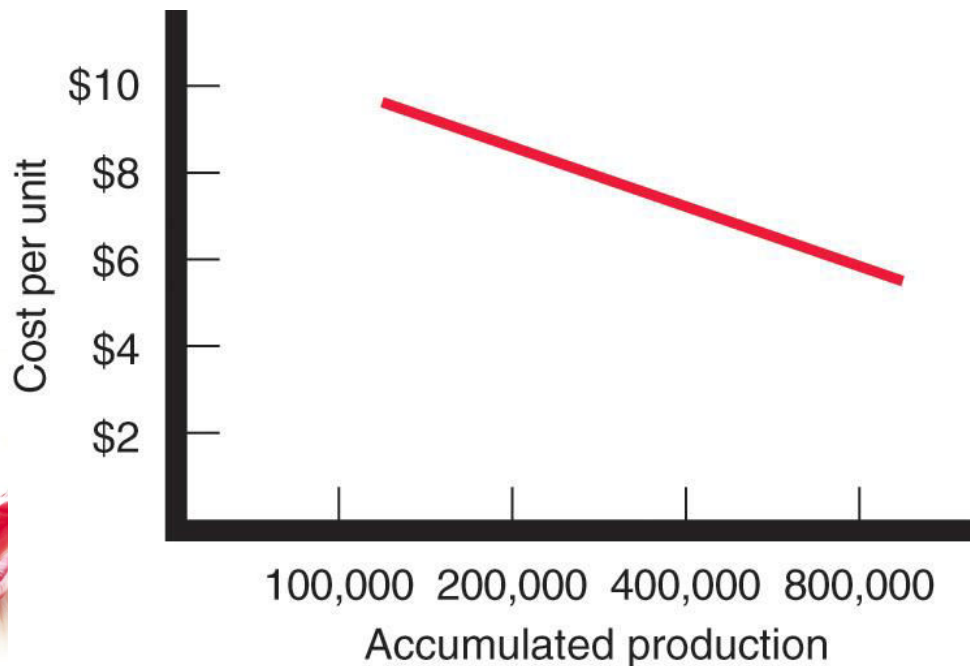
B. Cost behavior over different-size plants



Major Pricing Strategies

Costs as a Function of Production Experience

Experience or learning curve is when average cost falls as production increases because fixed costs are spread over more units



Major Pricing Strategies

Cost-Plus Pricing

- Cost-plus pricing adds a standard markup to the cost of the product
- Benefits
 - Sellers are certain about costs
 - Prices are similar in industry and price competition is minimized
 - Buyers feel it is fair
- Disadvantages
 - Ignores demand and competitor prices



Major Pricing Strategies

Break-Even Analysis and Target Profit Pricing

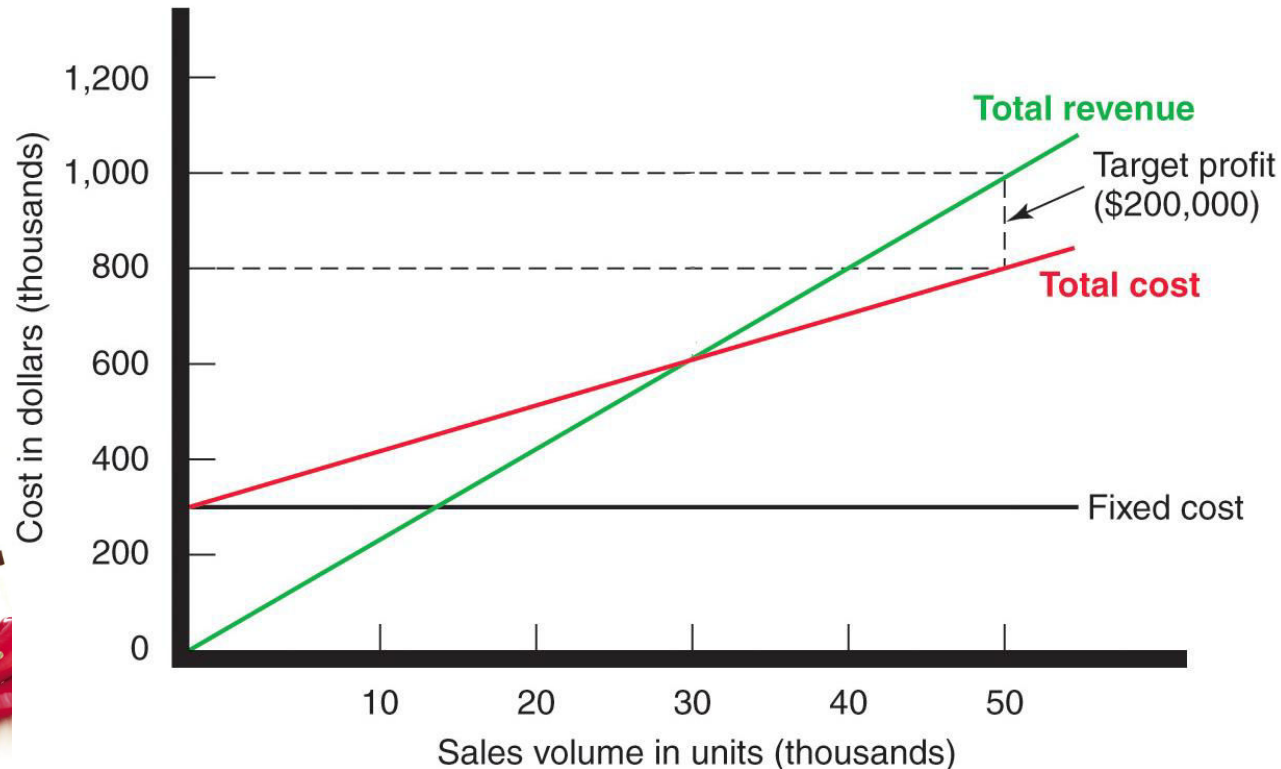
Break-even pricing is the price at which total costs are equal to total revenue and there is no profit

Target profit pricing is the price at which the firm will break even or make the profit it's seeking



Major Pricing Strategies

Break-Even Analysis and Target Profit Pricing



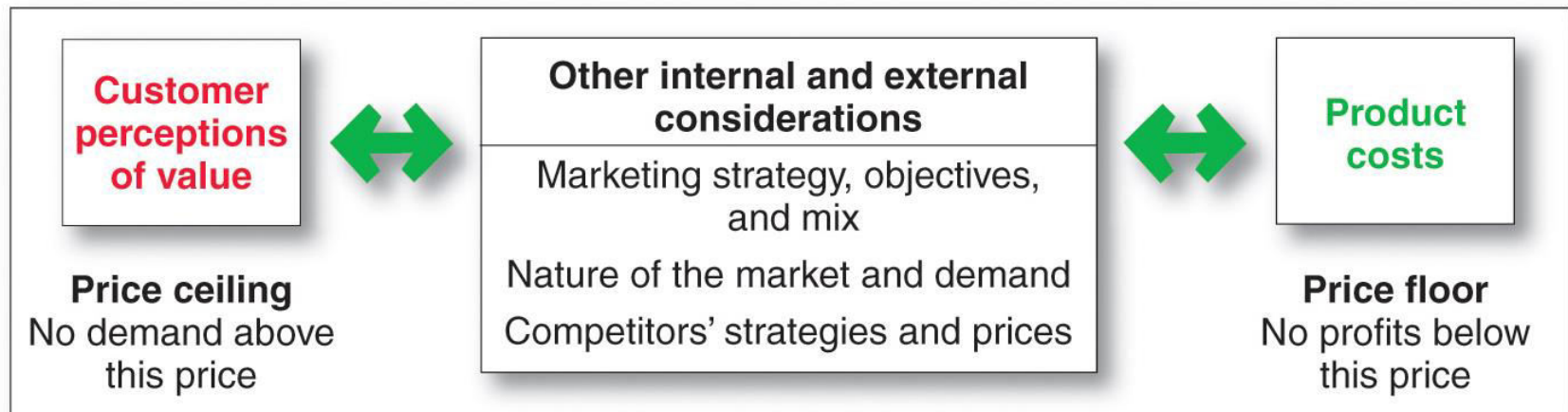
Major Pricing Strategies

Competition-based pricing

- Setting prices based on competitors' strategies, costs, prices, and market offerings.
- Consumers will base their judgments of a product's value on the prices that competitors charge for similar products.



Considerations in Setting Price



Other Internal and External Considerations Affecting Price Decisions

Target costing starts with an ideal selling price based on consumer value considerations and then targets costs that will ensure that the price is met



Other Internal and External Considerations Affecting Price Decisions

Organizational considerations include:

- Who should set the price
- Who can influence the prices



Other Internal and External Considerations Affecting Price Decisions

The Market and Demand

- Before setting prices, the marketer must understand the relationship between price and demand for its products



Other Internal and External Consideration Affecting Price Decisions

Competition

Pure competition

Monopolistic competition

Oligopolistic competition

Pure monopoly



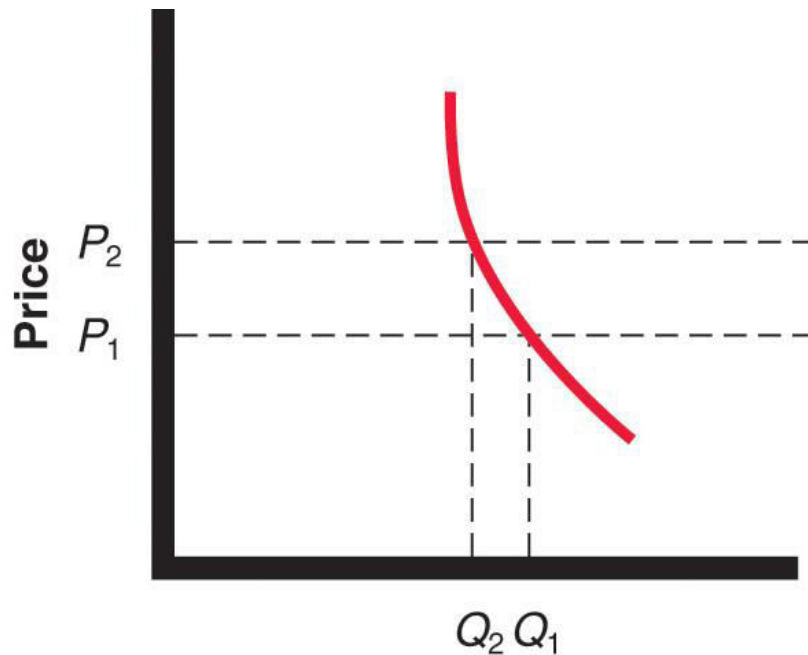
Other Internal and External Considerations Affecting Price Decisions

The demand curve shows the number of units the market will buy in a given period at different prices

- Normally, demand and price are inversely related
- Higher price = lower demand
- For prestige (luxury) goods, higher price can equal higher demand when consumers perceive higher prices as higher quality

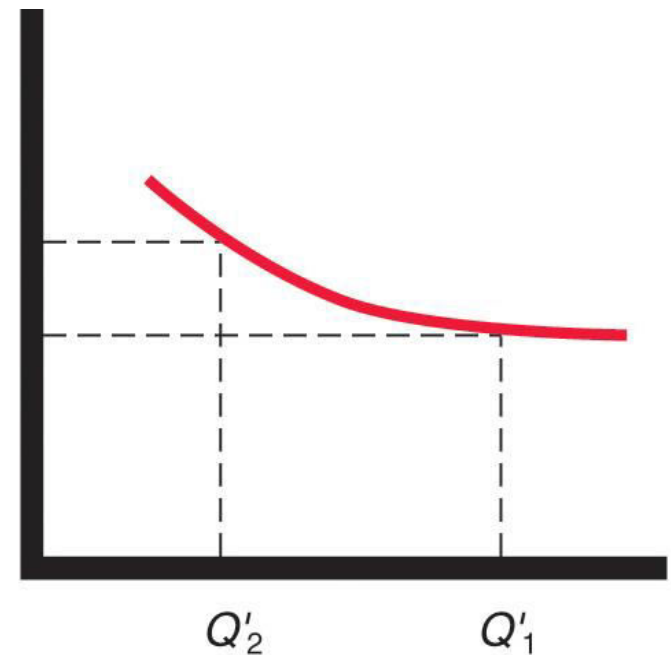


Other Internal and External Considerations Affecting Price Decisions



Quantity demanded per period

A. Inelastic demand



Quantity demanded per period

B. Elastic demand

Other Internal and External Considerations Affecting Price Decisions

Price elasticity of demand illustrates the response of demand to a change in price

Inelastic demand occurs when demand hardly changes when there is a small change in price

Elastic demand occurs when demand changes greatly for a small change in price



Other Internal and External Considerations Affecting Price Decisions

Price elasticity of demand =
% change in quantity demand
% change in price



Other Internal and External Consideration Affecting Price Decisions

Economic conditions

Reseller's response to price

Government

Social concerns

