Summary

Pricing Strategy

After creating the product for your segmented target group, it is important to properly price your product.

Price has two definitions - one from the point of view of a marketer and one from the point of view of the consumer.

From a marketer's point of view

Price is the amount of money charged for a product or a service.

From a customer's point of view

Price is the sum of all the values that customers give up in order to gain the benefits of having or using a product or service.

Pricing as an element of marketing mix is important because:

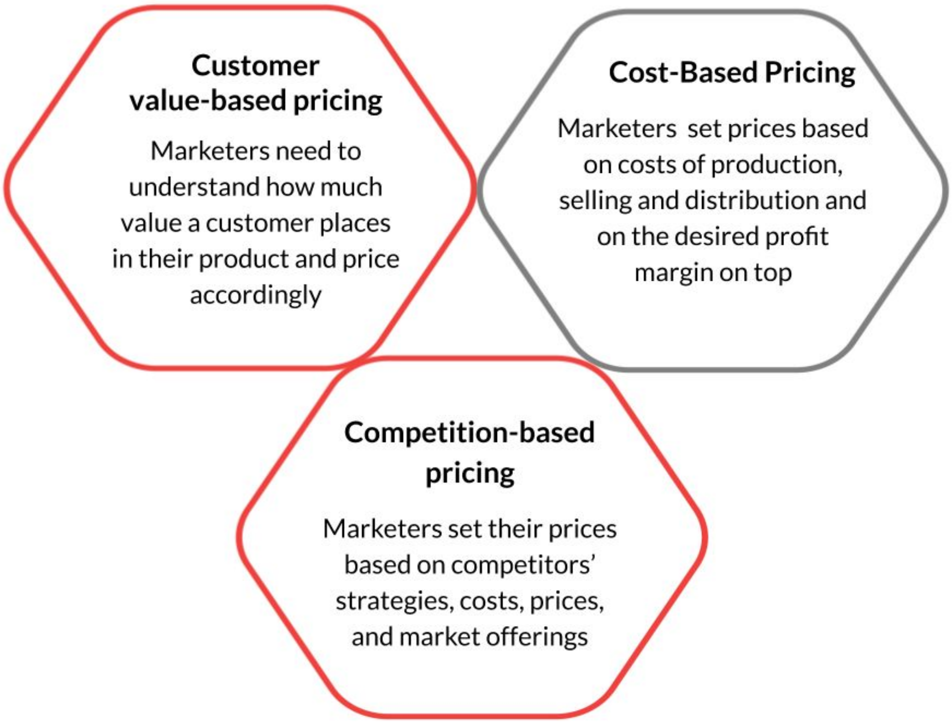
1. Pricing is the only element in the marketing mix that produces revenue, all other elements represents cost.
2. Price is the most flexible marketing mix elements.
3. Prices have a direct impact on a firm's bottom line
4. Price plays a key role in positioning a brand effectively in the minds of the consumer.

Brands operate between a price ceiling and a price floor. Brands set their pricing somewhere between these 2 extremes.

- Customer's perception of the product's value set the ceiling for its price
- Cost of making the product sets the product's floor for its price.

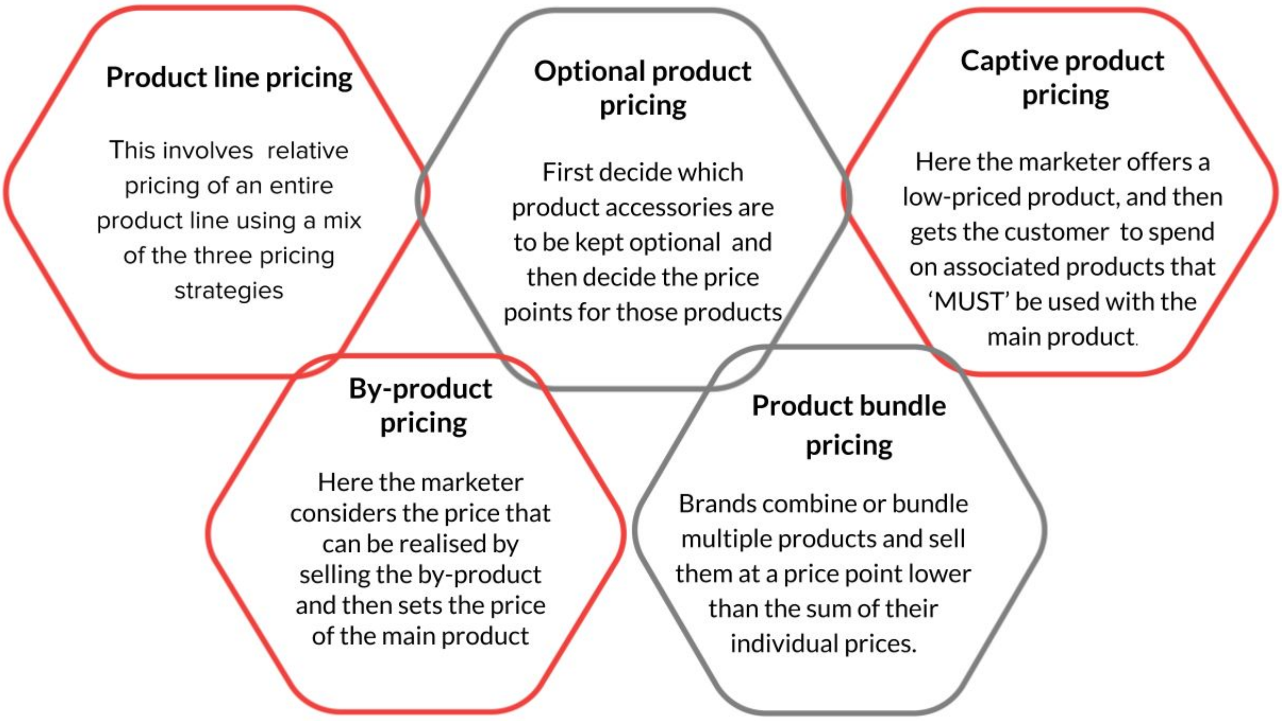
The nature of market and customer demand, the marketing and positioning strategy for the brand and the competitor's pricing strategy are 3 factors which helps the brand to determine the price for their product.

These three factors can be mapped to three major pricing strategies:



Product-Mix Pricing Strategies

Price of a product depends not only on the brand but also on the product mix of the brand. There are several product-mix pricing strategies-



Now, there are 6 steps involved in setting the price for your product:

1. **Selecting the pricing objective**
2. **Determining the demand**
3. **Estimating the costs involved**
4. **Competitive analysis**
5. **Selecting a pricing model**
6. **Selecting the final price**

1. There are 5 objectives which can be achieved by a brand through pricing, They are-

- Survival
- Maximising profit
- Maximising market share
- Maximising market skimming
- Product-quality leadership

2. In order to estimate the demand for your product, you need to understand the price sensitivity of your customers, estimate the demand curve for your product, consider the price elasticity of demand

3. Estimating the cost of producing your product will help you set the floor price for your product.

4. Competitive analysis involves understanding the price charged by your competitor.

5. There are 5 pricing model available for pricing your product-

- Markup pricing- Here, the price of the product is set by: Unit cost of producing the product divided by 1- minus the desired return on sales

- Target return pricing- Here, the price of the product is set by: Unit cost plus the desired return into the invested capital, divided by the unit sales

- Perceived value pricing: Here, the price is based on the consumer's perceived value.

- Value pricing: Here, a high-quality product is provided at a lower cost.

- Going-rate pricing: Here, your price is based mainly on the price point the competitors are playing at.

6. Setting the price involves considering 3 factors:

- The impact of other marketing activities on the perception of the product
- Company's pricing policies, and
- Impact of price on other parties

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