The Marketing Mix: Price

The role of pricing decisions in the marketing mix

When deciding a price for an existing product or a new product it is important to consider if the price will fit into the rest of the marketing mix for the product.

Pricing Strategies

The price of a product is determined by its brand image, demand and supply in the market. The business must constantly monitor what its competitors are charging for their products to make sure prices remain competitive. A business will adopt new pricing strategies for several reasons:

- To try and break into a new market
- To try and increase market share
- To try increase its profits
- To make sure all its costs are covered and a particular profit is earned.

The price businesses chose to charge for a product may not be related to the cost of manufacturing it, they may charge well above this as the customers may be willing to pay this price.

The main methods of pricing

Cost Plus pricing

- Cost plus pricing is the cost of manufacturing the product plus mark up
- Cost plus pricing involves estimating how many products will be produced and then calculating the total cost of production and finally adding a percentage mark up.
- The method is easy to apply
- You could lose profit if the selling price is higher than that of competitors

$$\frac{Total\ cost}{output} \times \%\ Mark\ up = Mark\ up$$

Competitive pricing

- Competitive pricing is when the product is priced in line with or just below competitor's prices to try and capture more of the market
- Sales are likely to be high as your price is at a realistic level and the product is not under or over priced
- In order to decide what the price to charge you will have to undertake research to find out about your competitor's price which may take time and money

Penetration pricing

- Penetration pricing is when the price is set lower than the competitor's prices in order to enter a new market
- It ensures that sales are made and the new product enters the market
- The product is sold at a low price and therefore the profit per unit sold may be low

Price skimming

- Price skimming is where a high price is set for a new product on the market

- The price being charged is due to the novelty of the newly developed or produced item
- The cost incurred from research and development is covered by this price

Promotional pricing

- This is when a product is sold at a very low price for a short period of time
- It is useful for getting rid of unwanted stock that will not sell
- It can help to renew interest in the building if sales are falling
- The sales revenue will be lower because of the lower price of the item

Psychological pricing

- Psychological pricing would be used when you want to price the product at a low price for a set amount of time
- This may involve charging a high price for a high quality product so high income customers wish to purchase it as a status symbol
- It could involve charging a price for a product which is just below a whole number
- Charging low prices for products being bought on a regular basis
- Ensures sales and customer's perception of product
- Little sales avenue lost
- Competitors may follow suit

Dynamic pricing

- Dynamic pricing happens when customers are split into two or more groups and they are charged different prices for basically the same product or service they have different demand levels. Firms do this because the price sensitivity of the two groups is different.
- Dynamic pricing can also be used to reflect the level of demand, i.e. if demand increases then the price will be raised and at times of low demand then the price will be reduced.
- Some effects of dynamic pricing are:
    i. Increased sales revenue
    ii. Increased profit
    iii. Ensuring all items/tickets are sold
    iv. High cost of constantly changing prices for businesses
    v. High cost for customers in terms of trying to find the best price

Aims of pricing strategies

- Cost plus pricing: to cover costs and ensure a certain profit is made
- Price skimming: to make high profit and recoup research and development costs
- Penetration pricing: to enter new market
- Psychological pricing: affect customer's perceptions of products
- Dynamic pricing: charge different prices to customers for the same product or service depending on time or level of demand
- Promotional pricing: to increase sales
- Competitive pricing: increase sales and maintain market share

Price elasticity of demand

- Price elasticity is a measure of the responsiveness of demand to a change in price
- How responsive the demand for a product is to changes in price is affected by how many close substitutes there are. If there are many close substitutes for the product then, even if its price rises only a small percentage, consumers will respond by buying the substitute product and so demand for the original product will fall by a larger percentage
- Therefore if the demand for the products of a business is price elastic then it is not a good idea to raise prices unless there has been rising costs.
- If the price elasticity of demand is inelastic then the business can increase revenue by increasing prices.