Chapter 6
Pricing

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What is price?

- Historically, prices were usually set by buyers and sellers bargaining with each other.
- Through bargaining, they would arrive at an acceptable price.
- In the narrowest sense, price is the amount of money charged for a product or service.
- More broadly, price is the sum of all the values that consumers exchange for the benefits of having or using the product or service.

Factors to Consider when Setting Prices

- **Internal Factors:**
  1) *Marketing Objectives*
     - If the company has selected its target market and positioning carefully, then its marketing-mix strategy, including price, will be fairly straightforward.
     - At the same time, the company may seek additional objectives such as *survival,* current *profit maximization, market-share maximization* and *product-quality leadership.*
  2) *Marketing-Mix Strategy*
     - Price decisions must be co-ordinated with other particulars of marketing mix.

Factors to Consider when Setting Prices

- **Internal Factors:**

  3) Costs

  - Fixed costs
  - Variable costs

  4) Organizational Considerations

  - Management must decide who within the organization should set prices. Companies handle pricing in a variety of ways.
  - In small companies, prices arc often set by top management rather than by the marketing or sales departments.
  - In large companies, pricing is typically handled by divisional or product line managers.

Factors to Consider when Setting Prices

- **External Factors:**
  1) The Market and Demand
  - Pure competitive market
    - It consists of many buyers and sellers trading in a uniform commodity such as wheat.
    - A seller cannot charge more than the going price because buyers can obtain as much as they need at the going price.
  - Oligopolistic market
    - It consists of a few sellers that are highly sensitive to each other's pricing and marketing strategics.
  - Monopolistic market
    - It refers to a market where only one company may offer products and services to the public.

Factors to Consider when Setting Prices

2) *Competitors' Costs, Prices and Offers*

- Another external factor affecting the company's pricing decisions is competitors’ costs and prices, and possible competitor reactions to the company's own pricing moves.

3) *Other external factors*

- Economic conditions
- Political conditions
- Global conditions, etc.

General Pricing Approaches

- *Cost-Based Pricing*
  - The simplest pricing method is cost-plus pricing - adding a standard mark-up to the cost of the product.
- *Break-Even Analysis and Target Profit Pricing*
  - The firm tries to determine the price at which it will break even or make the target profit it is seeking.
  - Target pricing is used by General Motors, which prices its cars to achieve a 15-20 per cent profit on its investment.
- *Value-Based Pricing*
  - Value-based pricing uses buyers' perceptions of value, not the seller's cost, as the key to pricing.
- *Competition-Based Pricing*
  - Consumers will base their judgements of a product's value on the prices that competitors charge for similar products.