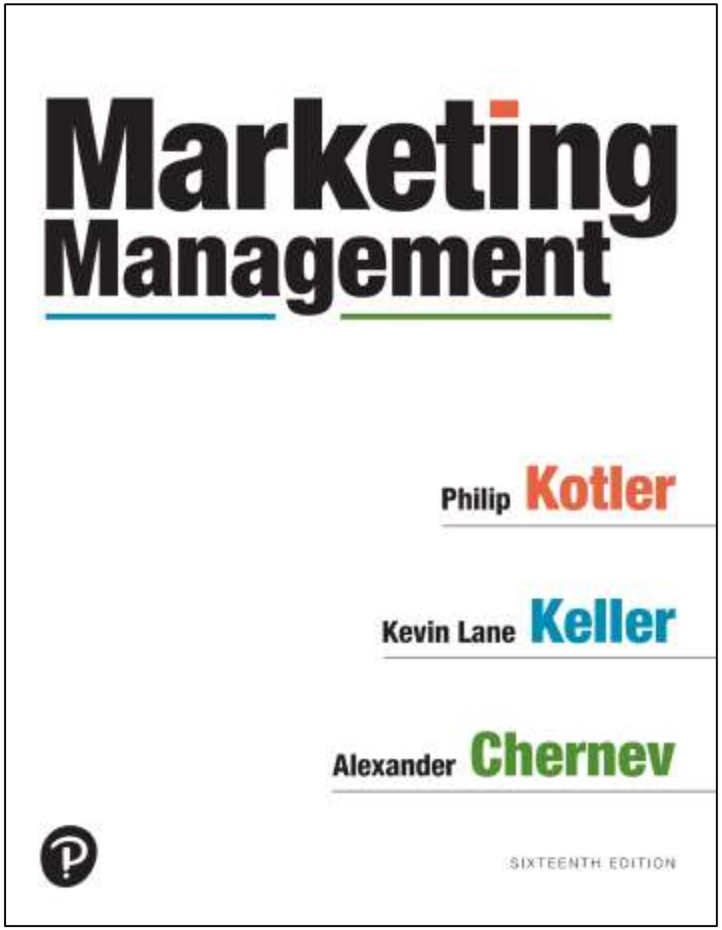
Marketing Management

Sixteenth Edition



Chapter 11

Managing Pricing and Sales Promotions

Learning Objectives

11.1 Describe the role that pricing plays in marketing management.

11.2 Identify the key psychological factors that influence how consumers perceive prices.

11.3 Explain the factors that a manager must consider when setting prices.

11.4 Discuss how to respond to competitive price cuts.

11.5 Explain how to design and manage incentives.

Understanding Pricing

- Negotiations between buyers and sellers
- One price for all buyers
- Internet pricing

Consumer Psychology and Pricing

- Reference prices
- Image pricing
- Price cues

Setting the Price

- Six main steps:
  - Defining the pricing objective
  - Determining demand
  - Estimating costs
  - Analyzing competitors’ costs, prices, and offers
  - Selecting a pricing method
  - Setting the final price

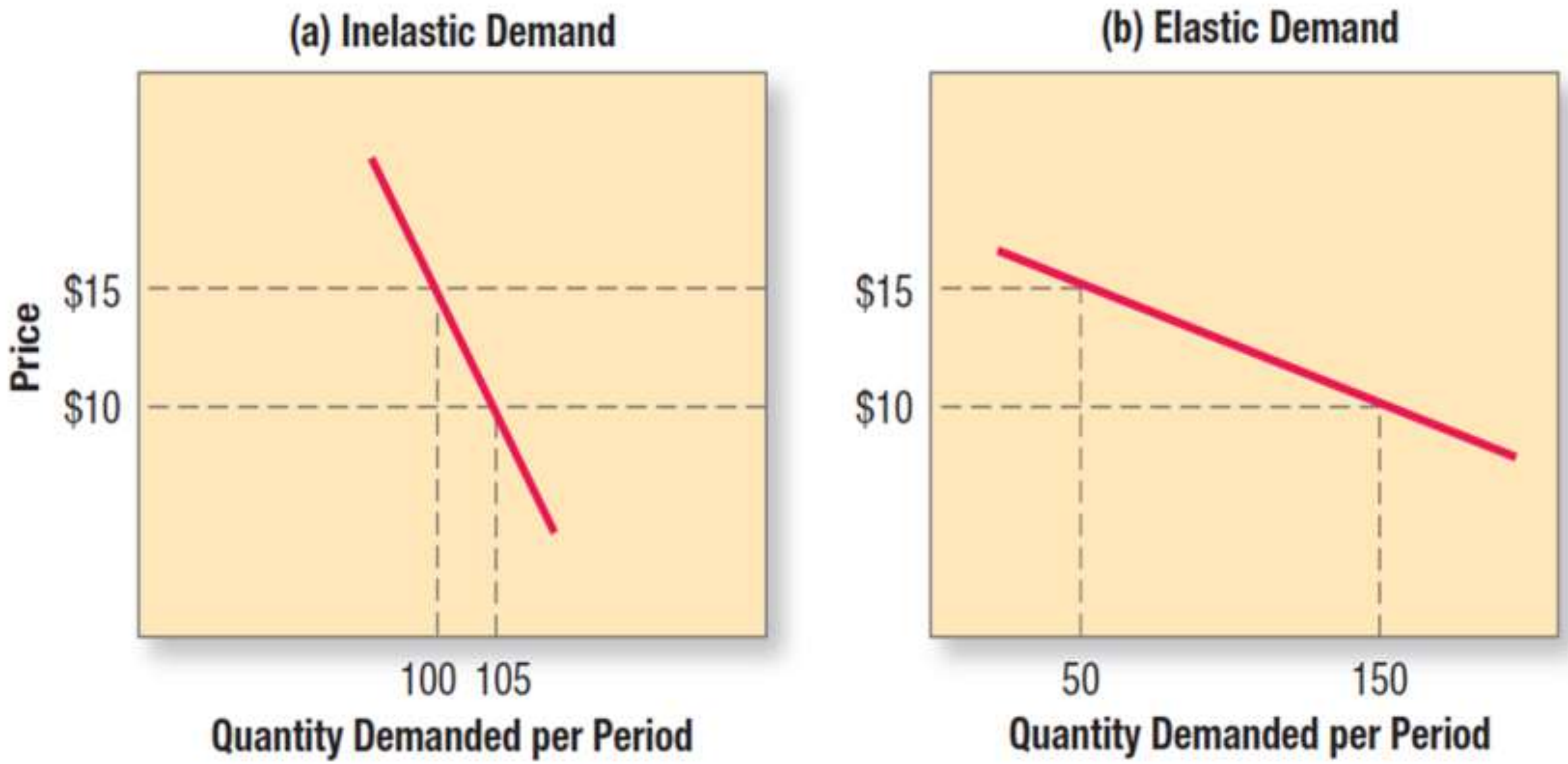
Defining the Pricing Objective

- Common pricing objectives:
  - Short-term profit
  - Market penetration
  - Market skimming
  - Quality leadership

Determining Demand

- **Price elasticity of demand**
  - The degree to which a change in price leads to a change in quantity sold

Figure 11.1 Inelastic And Elastic Demand



Estimating Costs (1 of 2)

- **Fixed costs**
  - Costs that do not vary with production level or sales revenue
- **Variable costs**
  - Vary directly with the level of production
- **Total costs**
  - The sum of the fixed and variable costs

Estimating Costs (2 of 2)

- Experience curve effects
  - **Experience curve**
  - **Experience curve pricing**

Analyzing Competitors’ Prices

- Firm must take competitors’ costs, prices, and reactions into account
  - Value-priced competitors

Selecting a Pricing Method (1 of 6)

- Three major considerations in price
  - Costs
    - Set a price floor
  - Competitors' prices
    - Provide an orienting point
  - Customers' assessment of unique features
    - Establish a price ceiling

Selecting a Pricing Method (2 of 6)

- **Markup pricing**
  - Add a standard markup to the product's cost

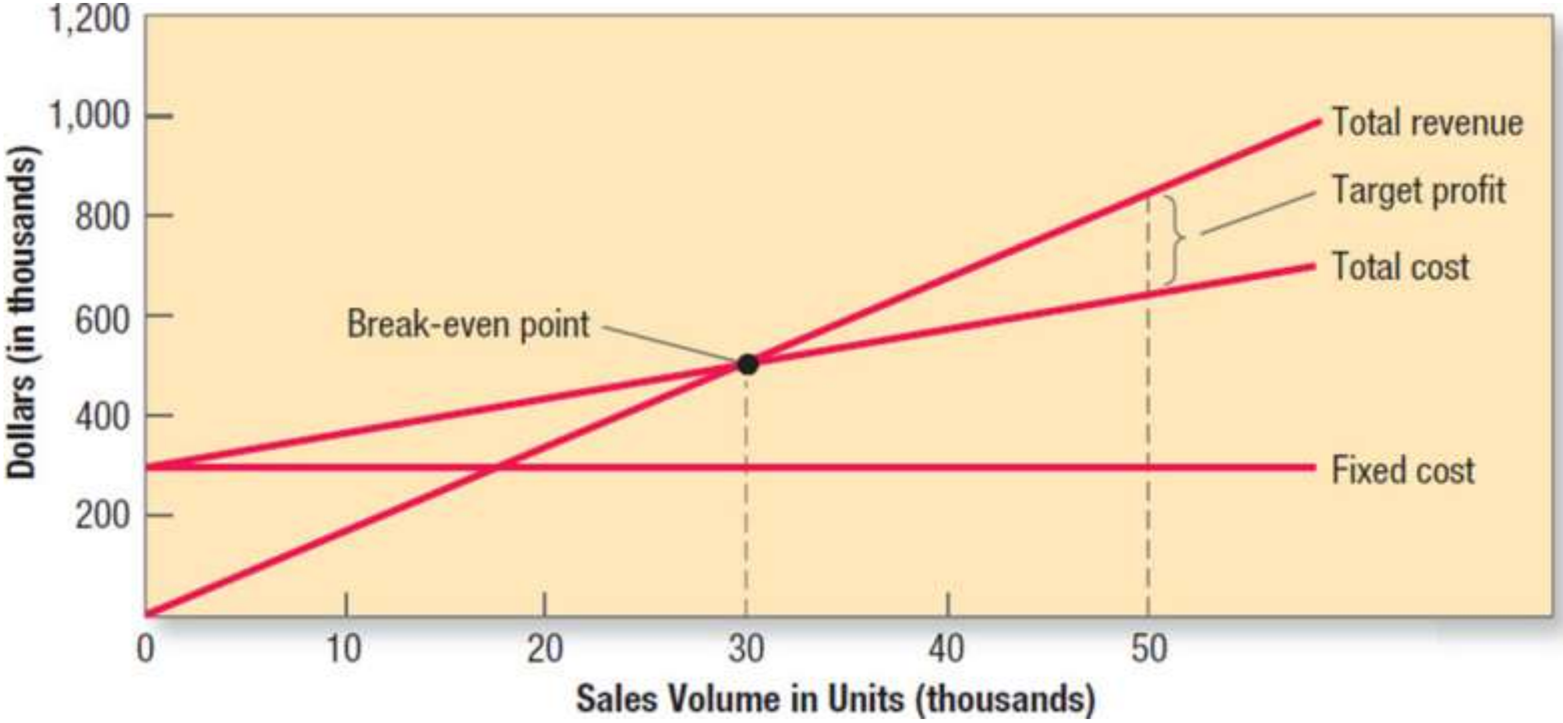
$$\text{Markup price} = \frac{\text{unit cost}}{(1 - \text{desired return on sales})}$$

Selecting a Pricing Method (3 of 6)

- Target-return pricing
  - Price that yields its target rate of return on investment

$$\text{Target-return price} = \text{unit cost} + \frac{\text{desired return} \times \text{invested capital}}{\text{unit sales}}$$

Figure 11.2 Break-Even Chart for Determining Target-Return Price and Break-Even Volume



Selecting a Pricing Method (4 of 6)

- **Economic value-to-customer pricing**
  - Based on buyer's image of product, channel deliverables, warranty quality, customer support, and softer attributes

Selecting a Pricing Method (5 of 6)

- **Competitive pricing**
  - The firm bases its price largely on competitors' prices

Selecting a Pricing Method (6 of 6)

- **Auction pricing**
  - English (ascending)
  - Dutch (descending)
  - Sealed-bid

Setting the Final Price (1 of 2)

- **Price discrimination**
  - Occurs when a company sells a product or service at two or more prices that do not reflect a proportional difference in costs
    - First degree
    - Second degree
    - Third degree

Setting the Final Price (2 of 2)

- Third degree price discrimination:
  - Customer segment pricing
  - Product form pricing
  - Channel pricing
  - Location pricing
  - Time pricing

Product Mix Pricing

- Loss-leader pricing
- Optional feature pricing
- Captive pricing
- Two-part pricing
- By-product pricing
- Product bundling pricing

Initiating and Responding to Price Changes (1 of 2)

- Initiating price cuts
  - Excess plant capacity
  - Domination of market

Initiating and Responding to Price Changes (2 of 2)

- Initiating price increases
  - **Cost inflation**
    - Rising costs unmatched by productivity gains squeeze profit margins and lead companies to regular rounds of price increases
  - Anticipatory pricing

Responding to Price Changes

- Anticipating competitive responses
- Responding to competitors' price changes

Managing Incentives

- **Incentives**
  - Sales promotion tools, mostly short-term, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade

Incentives as a Marketing Device

- Sales promotions
  - Can produce a high sales response in the short run but little permanent gain over the longer term
  - Can prompt consumers to engage in stockpiling
  - Can devalue the company's offering in buyers' minds

Major Incentive Decisions (1 of 5)

- **Establishing the objectives of incentives**
  - Consumer incentives
  - Retailer incentives

Major Incentive Decisions (2 of 5)

- **Defining the size and approach for incentives**
  - Determine size
  - Establish conditions for participation
  - Decide on duration
  - Choose a distribution vehicle
  - Establish timing
  - Set total sales promotion budget

Major Incentive Decisions (3 of 5)

- **Selecting Consumer Incentives**

Price reductions	Frequency programs
Coupons	Prizes
Cash refunds	Tie-in promotions
Price packs	Seasonal discounts
Premiums	Financing

Major Incentive Decisions (4 of 5)

- **Selecting trade incentives**
  - Allowances
  - Free goods
  - Price-off
  - Payment discount

Major Incentive Decisions (5 of 5)

- **Selecting sales force incentives**
  - Aim to encourage the sales force to support a new product or model, boosting prospecting and stimulating off-season sales

Discussion Questions (1 of 2)

- Fast food restaurants usually offer a variety of “meal deals” comprising a sandwich, a side dish, and a drink.
  - Which pricing objective are companies pursuing with this type of product pricing?
  - How do consumers view “meal deals” as compared to individually priced menu items?

Discussion Questions (2 of 2)

- Uber riders have become accustomed to surge pricing, knowing that following a concert or sporting event they may pay two or three times as much as usual for a ride.
  - How has technology changed pricing strategy?
  - Compare and contrast surge pricing on Uber with peak pricing on airlines. Could airlines use an Uber pricing model?

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