i t 's good and
good for you

Chapter Ten

Pricing:

Understanding and Capturing Customer Value

Copyright © 2012 Pearson Education

10-1

Pricing: Understanding and Capturing Customer Value

Topic Outline

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

Copyright © 2012 Pearson Education

10-2

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.

Copyright © 2012 Pearson Education

What Is a Price?

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

Copyright © 2012 Pearson Education

Major Pricing Strategies

Customer Value-Based Pricing

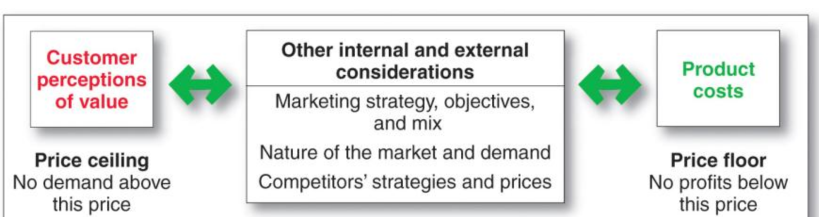
Understanding how much value consumers place on the benefits they receive from the product and setting a price that captures that value

Copyright © 2012 Pearson Education

10-5

Major Pricing Strategies

Customer Value-Based Pricing



Copyright © 2012 Pearson Education

10-6

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.

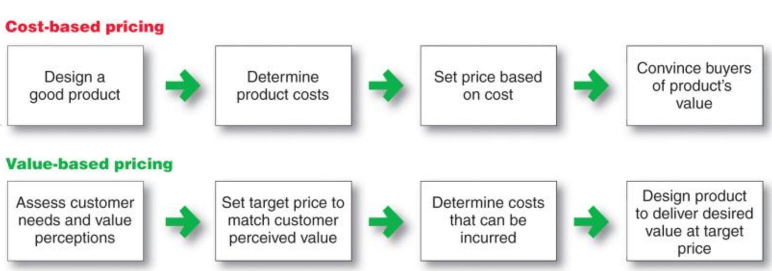
- Value-based pricing is customer driven
- Cost-based pricing is product driven

Copyright © 2012 Pearson Education

10-7

Major Pricing Strategies

Customer Value-Based Pricing



Copyright © 2012 Pearson Education

10-8

Major Pricing Strategies

Customer Value-Based Pricing

Good-value pricing

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

Copyright © 2012 Pearson Education

10-9

Major Pricing Strategies

Customer Value-Based Pricing

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

Copyright © 2012 Pearson Education

10-10

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

Copyright © 2012 Pearson Education

10-11

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

Copyright © 2012 Pearson Education

10-12

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

Copyright © 2012 Pearson Education

10-13

Major Pricing Strategies

Cost-Based Pricing

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

Copyright © 2012 Pearson Education

10-14

Major Pricing Strategies

Cost-Based Pricing

Types of costs

Fixed costs	Variable costs	Total costs

Copyright © 2012 Pearson Education

10-15

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

Copyright © 2012 Pearson Education

10-16

Major Pricing Strategies

Cost-Based Pricing

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

- Packaging
- Raw materials

Copyright © 2012 Pearson Education

10-17

Major Pricing Strategies

Cost-Based Pricing

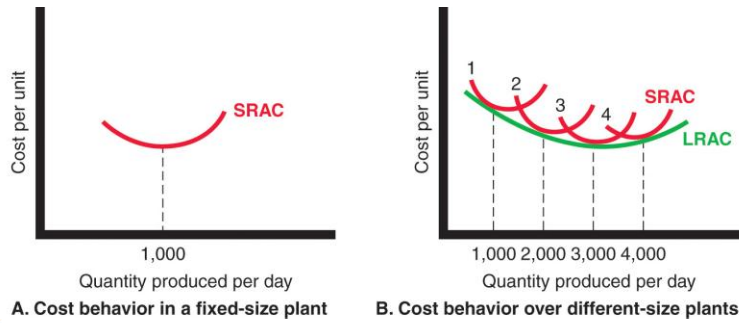
Total costs are the sum of the fixed and variable costs for any given level of production

Copyright © 2012 Pearson Education

10-18

Major Pricing Strategies

Costs as a Function of Production Experience

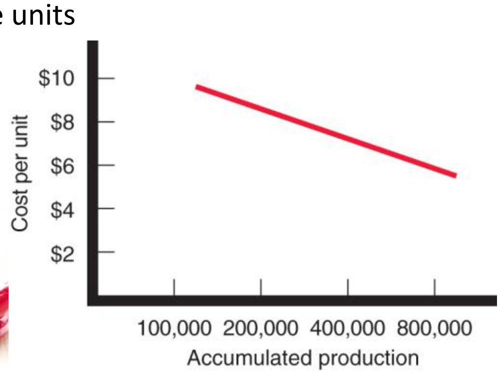


Copyright © 2012 Pearson Education

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



Copyright © 2012 Pearson Education

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

Copyright © 2012 Pearson Education

10-21

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

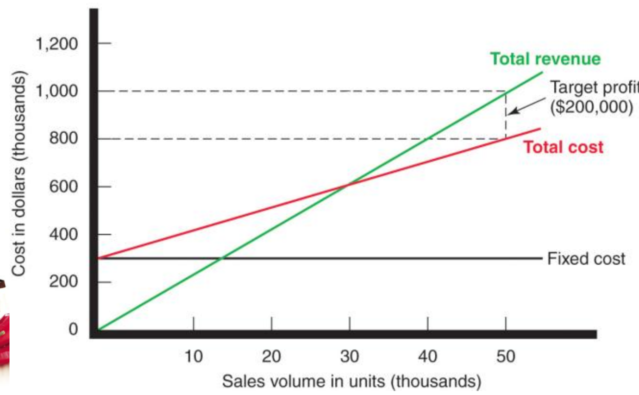
Target profit pricing is the price at which the firm will break even or make the profit it's seeking

Copyright © 2012 Pearson Education

10-22

Major Pricing Strategies

Break-Even Analysis and Target Profit Pricing



Copyright © 2012 Pearson Education

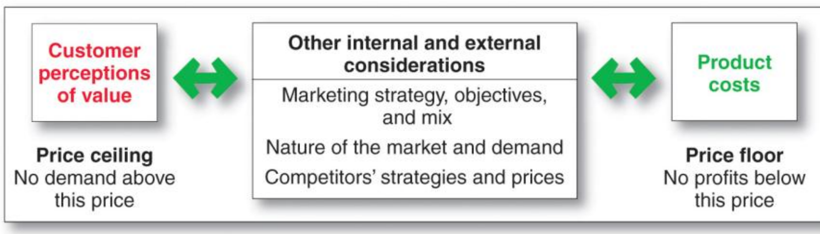
Major Pricing Strategies

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.

Copyright © 2012 Pearson Education

Considerations in Setting Price



Copyright © 2012 Pearson Education

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

Copyright © 2012 Pearson Education

Other Internal and External Considerations Affecting Price Decisions

Organizational considerations include:

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

Copyright © 2012 Pearson Education

10-27

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

Copyright © 2012 Pearson Education

10-28

Other Internal and External Consideration Affecting Price Decisions

Competition

- Pure competition
- Monopolistic competition
- Oligopolistic competition
- Pure monopoly

Copyright © 2012 Pearson Education

10-29

Other Internal and External Considerations Affecting Price Decisions

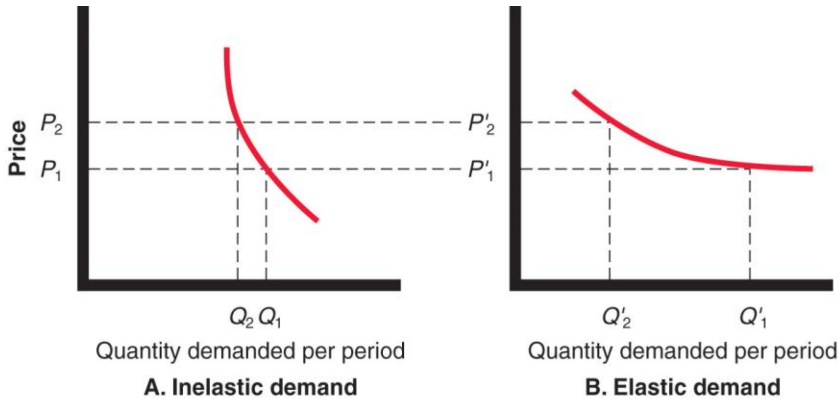
The demand curve shows the number of units the market will buy in a given period at different prices

- 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

Copyright © 2012 Pearson Education

10-30

Other Internal and External Considerations Affecting Price Decisions



Copyright © 2012 Pearson Education

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

Copyright © 2012 Pearson Education

Other Internal and External Considerations Affecting Price Decisions

Price elasticity of demand =

$$\text{Price elasticity of demand} = \frac{\%\text{ change in quantity demand}}{\%\text{ change in price}}$$

Copyright © 2012 Pearson Education

10-33

Other Internal and External Consideration Affecting Price Decisions

- Economic conditions
- Reseller's response to price
- Government
- Social concerns

Copyright © 2012 Pearson Education

10-34

This work is protected by United States copyright laws and is provided solely for the use of instructors in teaching their courses and assessing student learning. Dissemination or sale of any part of this work (including on the World Wide Web) will destroy the integrity of the work and is not permitted. The work and materials from it should never be made available to students except by instructors using the accompanying text in their classes. All recipients of this work are expected to abide by these restrictions and to honor the intended pedagogical purposes and the needs of other instructors who rely on these materials.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the publisher. Printed in the United States of America.

Copyright © 2012 Pearson Education

Copyright © 2012 Pearson Education