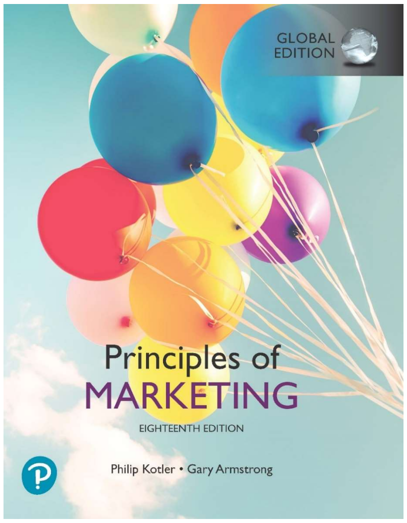
Principles of Marketing

Eighteenth Edition, Global Edition



Chapter 10

Pricing: Understanding and Capturing Customer Value

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APPLE: Premium Priced and Worth It?

Apple has always set its prices way above those of competitors, reaping the rewards of higher revenues and profits. But as Apple faces stiffer global competition from lower-priced brads, some customers may be questioning just how much more they are willing to pay for the iconic brand.

Avid fans have long anointed Apple as the keeper of all things cool, believing deep down that the value they receive is worth the premium price.

Mark Lennihan/AP/Shutterstock

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Learning Objectives

10.1 Answer the question "What is a price?" and discuss the importance of pricing in today's fast-changing environment.

10.2 Define price, identify the three major pricing strategies, and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

10.3 Identify and define the other important external and internal factors affecting a firm's pricing decisions.

Pearson

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Learning Objective 1

Answer the question "What is a price?" and discuss the importance of pricing in today's fast-changing environment.

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What Is a Price?

Price is the amount of money charged for a product or service, or the sum of all the values that customers exchange for the benefits of having or using the product or service.

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Learning Objective 2

Define price, identify the three major pricing strategies, and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

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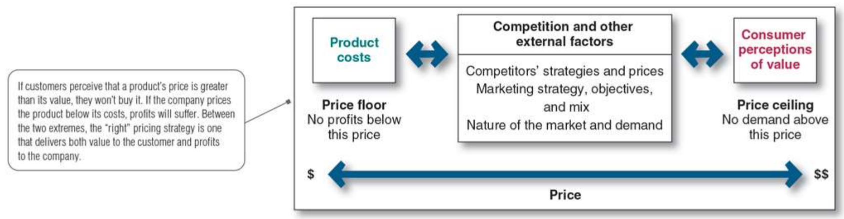
Major Pricing Strategies (1 of 17)

Figure 10.1 Considerations in Setting Price



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Major Pricing Strategies (2 of 17)

Customer Value-Based Pricing

Value-based pricing uses the buyers' perceptions of value rather than the seller's cost.

- Value-based pricing is customer driven.
- Cost-based pricing is product driven.
- Price is set to match perceived value.

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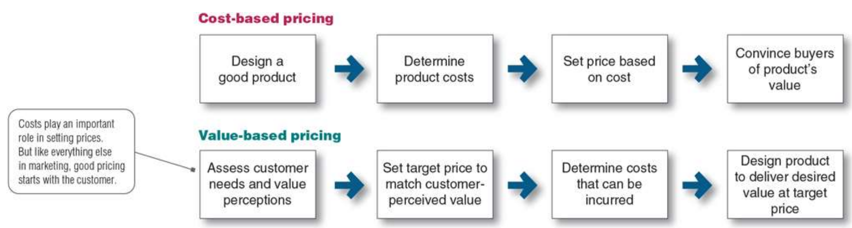
Major Pricing Strategies (3 of 17)

Figure 10.2 Value-Based Pricing versus Cost-Based Pricing



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Major Pricing Strategies (4 of 17)

Customer Value-Based Pricing

Good-value pricing is offering just the right combination of quality and good service at a fair price.

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Major Pricing Strategies (5 of 17)

Customer Value-Based Pricing

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

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Major Pricing Strategies (6 of 17)

Customer Value-Based Pricing

High-low pricing involves charging higher prices on an everyday basis but running frequent promotions to lower prices temporarily on selected items.

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Major Pricing Strategies (7 of 17)

Customer Value-Based Pricing

Value-added pricing attaches value-added features and services to differentiate a company's offers and thus their higher prices.

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Major Pricing Strategies (8 of 17)

Cost-Based Pricing

Cost-based pricing sets prices based on the costs for producing, distributing, and selling the product plus a fair rate of return for effort and risk.

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Major Pricing Strategies (9 of 17)

Cost-Based Pricing

Fixed costs are the costs that do not vary with production or sales level.

- Rent
- Heat
- Interest
- Executive salaries

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Major Pricing Strategies (10 of 17)

Cost-Based Pricing

Variable costs vary directly with the level of production.

- Raw materials
- Packaging

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Major Pricing Strategies (11 of 17)

Cost-Based Pricing

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

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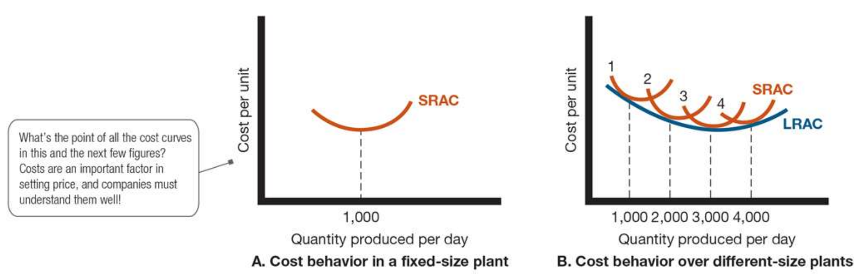
Major Pricing Strategies (12 of 17)

Figure 10.3 Cost per Unit at Different Levels of Production per Period



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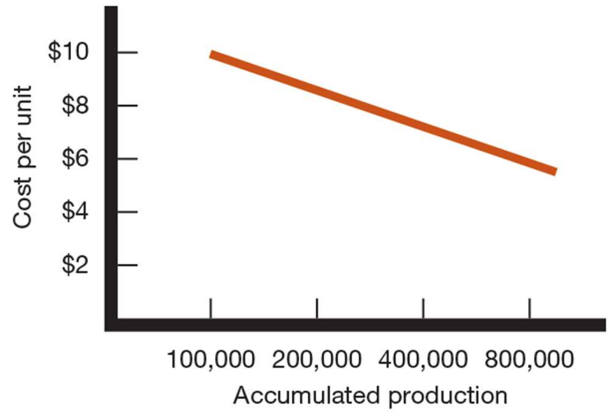
Major Pricing Strategies (13 of 17)

Figure 10.4 Cost per Unit as a Function of Accumulated Production: The Experience Curve



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Major Pricing Strategies (14 of 17)

Cost-Based Pricing

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

- Benefits
  - Sellers are certain about costs.
  - Price competition is minimized.
  - Buyers feel it is fair.
- Disadvantages
  - Ignores demand and competitor prices

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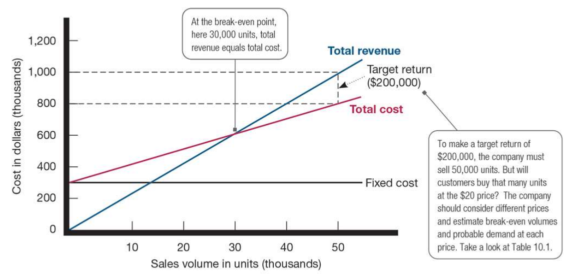
Major Pricing Strategies (15 of 17)

Cost-Based Pricing

Break-even pricing (target return pricing) is setting price to break even on costs or to make a target return.

Figure 10.5 Break-Even Chart for Determining Target Return Price and Break-Even Volume



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Major Pricing Strategies (16 of 17)

Table 10.1 Break-Even Volume and Profits at Different Prices

Price	Unit Demand Needed to Break Even	Expected Unit Demand at Given Price	Total Revenue (1) × (3)	Total Costs*	Profit (4) - (5)
$14	75,000	71,000	$994,000	$1,010,000	–$16,000
16	50,000	67,000	1,072,000	970,000	102,000
18	37,500	60,000	1,080,000	900,000	180,000
20	30,000	42,000	840,000	720,000	120,000
22	25,000	23,000	506,000	530,000	–24,000

*Assumes fixed costs of $300,000 and constant unit variable costs of $10.

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Major Pricing Strategies (17 of 17)

Competition-Based Pricing

Competition-based pricing is setting prices based on competitors' strategies, costs, prices, and market offerings.

Pricing versus competitors: Caterpillar dominates the heavy equipment industry despite charging premium prices. Customers believe that Caterpillar gives them a lot more value for the price over the lifetime of its machines.

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Learning Objective 3

Identify and define the other important external and internal factors affecting a firm's pricing decisions.

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Other Considerations Affecting Price Decisions (1 of 7)

Overall Marketing Strategy, Objectives, and Mix

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.

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Other Considerations Affecting Price Decisions (2 of 7)

Organizational Considerations

- Who should set prices?
- Who can influence prices?

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Other Considerations Affecting Price Decisions (3 of 7)

The Market and Demand

Before setting prices, the marketer must understand the relationship between price and demand for its products.

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Other Considerations Affecting Price Decisions (4 of 7)

The Market and Demand

Pricing In Different Types of Markets

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

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Other Considerations Affecting Price Decisions (5 of 7)

The Market and Demand

Analyzing the Price–Demand Relationship

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

- Demand and price are inversely related
- Higher price = lower demand

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Other Considerations Affecting Price Decisions (6 of 7)

The Market and Demand

Price Elasticity of Demand

Price elasticity is a measure of the sensitivity of demand to changes in price.

Inelastic demand is when demand hardly changes with a small change in price.

Elastic demand is when demand changes greatly with a small change in price.

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Other Considerations Affecting Price Decisions (7 of 7)

The Economy and Other External Factors

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

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