

Factors Affecting Price Decisions

Internal Factors

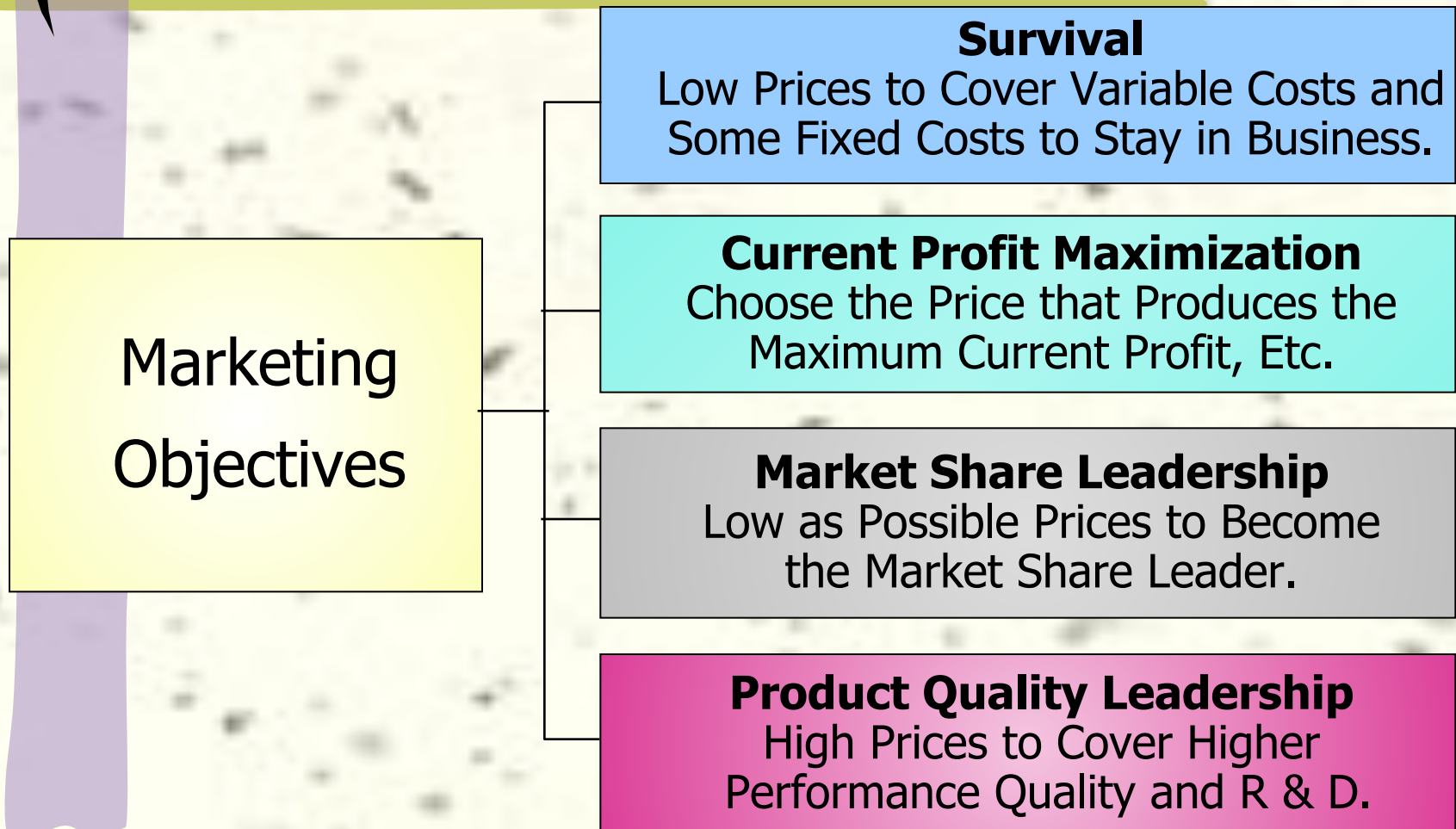
Marketing Objectives
Marketing Mix Strategy
Costs
Organizational considerations

Pricing Decisions

External Factors

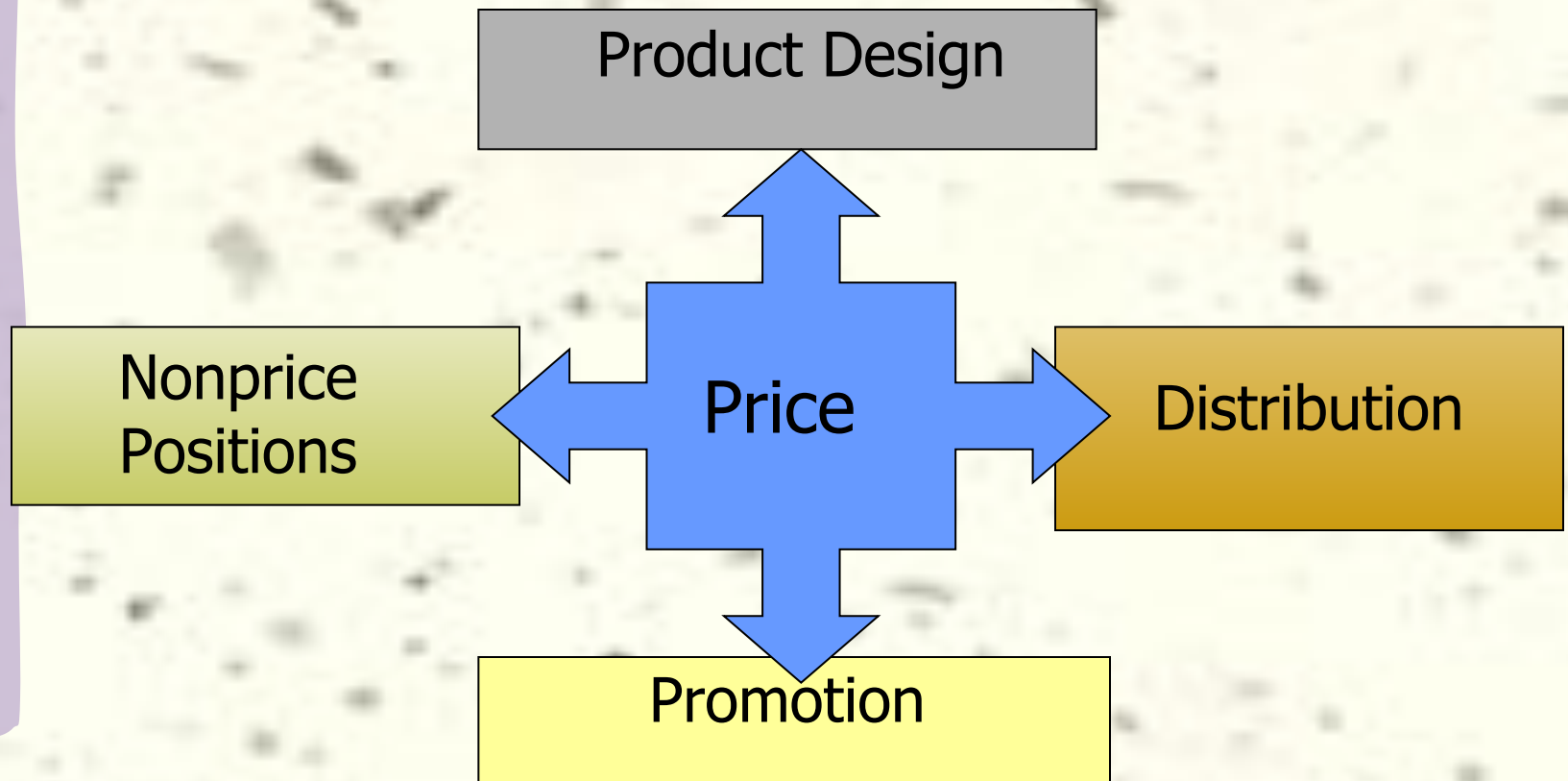
Nature of the market and demand
Competition
Other environmental factors (economy, resellers, government)

Internal Factors Affecting Pricing Decisions: Marketing Objectives

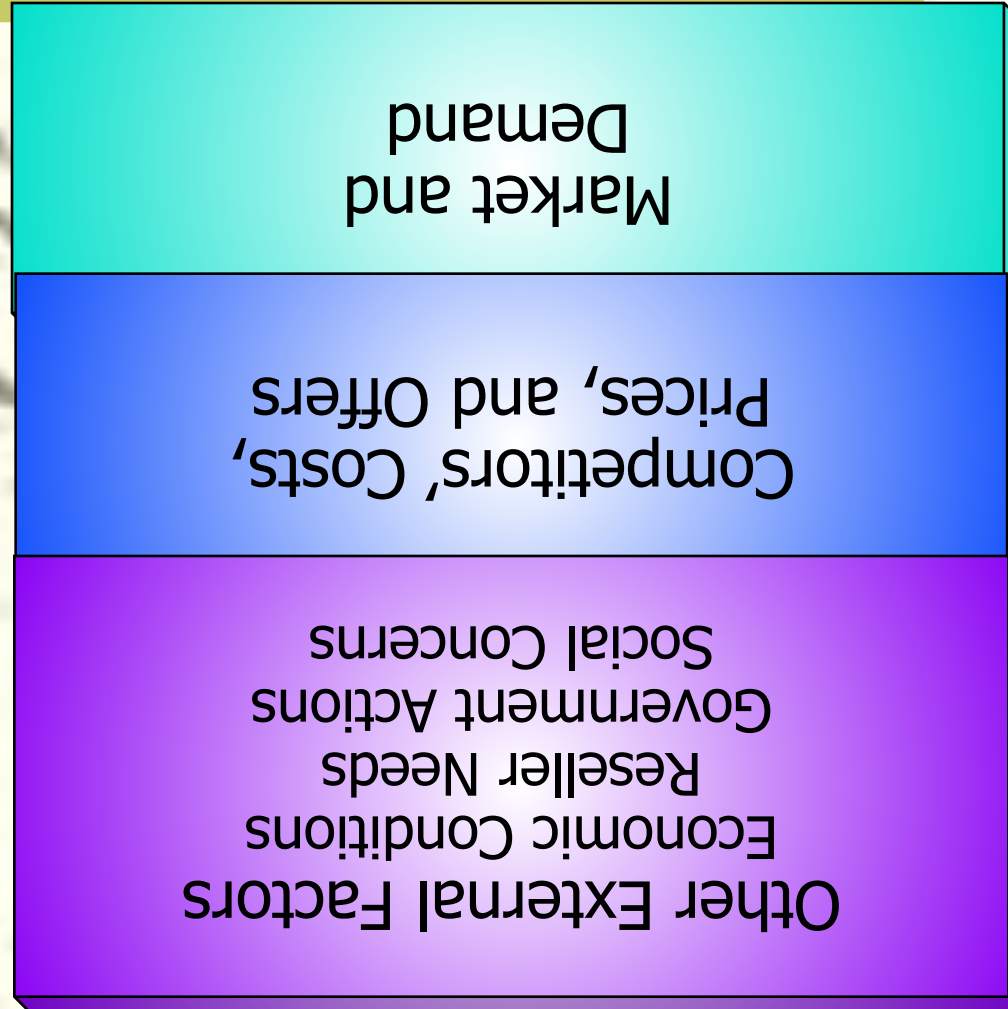


Internal Factors Affecting Pricing Decisions: Marketing Mix

Customers Seek Products that Give Them the Best Value in Terms of Benefits Received for the Price Paid.



External Factors Affecting Pricing Decisions



Competitor Costs

This ad by LCI International accuses its competitors of using unfair practices in pricing, hiding fees incurred by rounding up.

Why is LCI focusing on this practice?

Hidden fees, defined as "cramming" by the FCC, are the number one source of billing complaints among long-distance customers.



AT&T, MCI AND SPRINT ARE MAKING A KILLING BY ROUNDING UP TO THE NEXT MINUTE.

575

LCI International

Major Considerations in Setting Price (Fig. 10.5)

Product costs

Competitors' prices and other internal and external factors

Consumer perceptions of value

Price floor

No profits below this price

Price ceiling

No demand above this price

Cost-Based Pricing

Certainty About Costs

Pricing is Simplified

Price Competition Is Minimized

Much Fairer to Buyers & Sellers

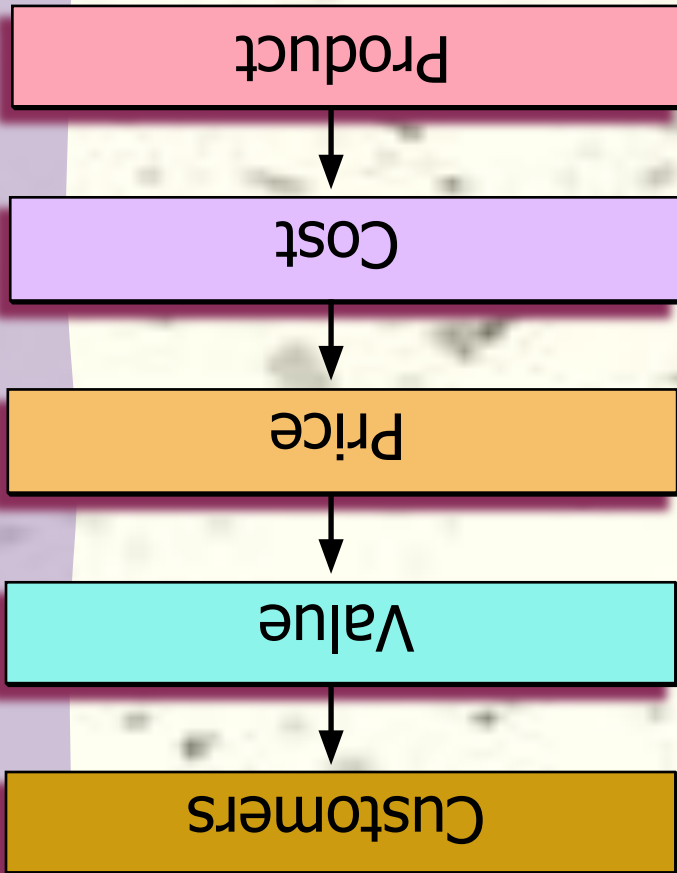
Cost-Plus Pricing is an Approach That Adds a Standard Markup to the Cost of the Product.

Simplest Pricing Method

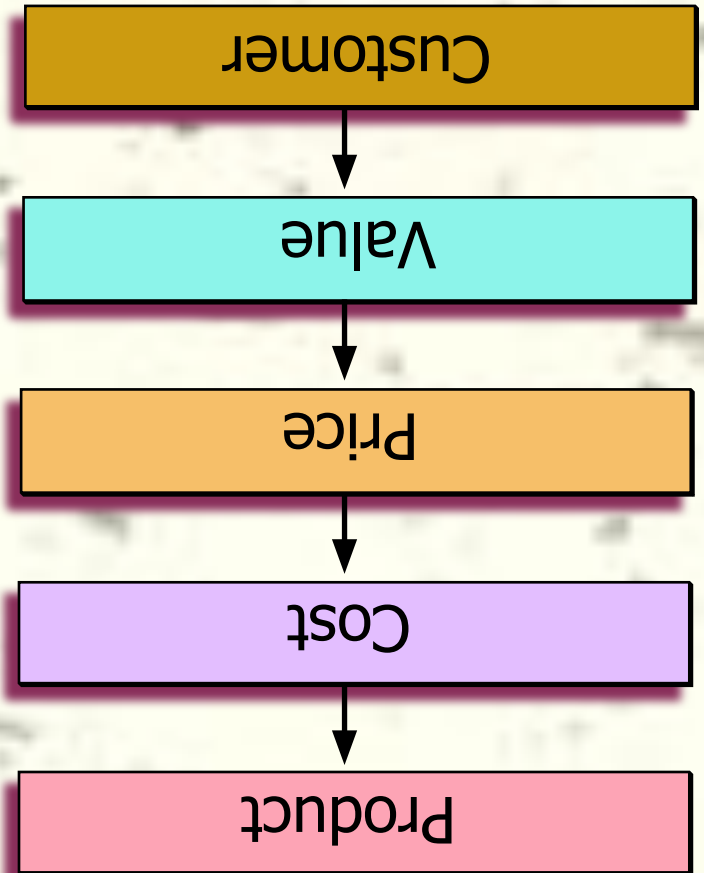
Ignores Current Demand & Competition

Cost-Based Versus Value-Based Pricing

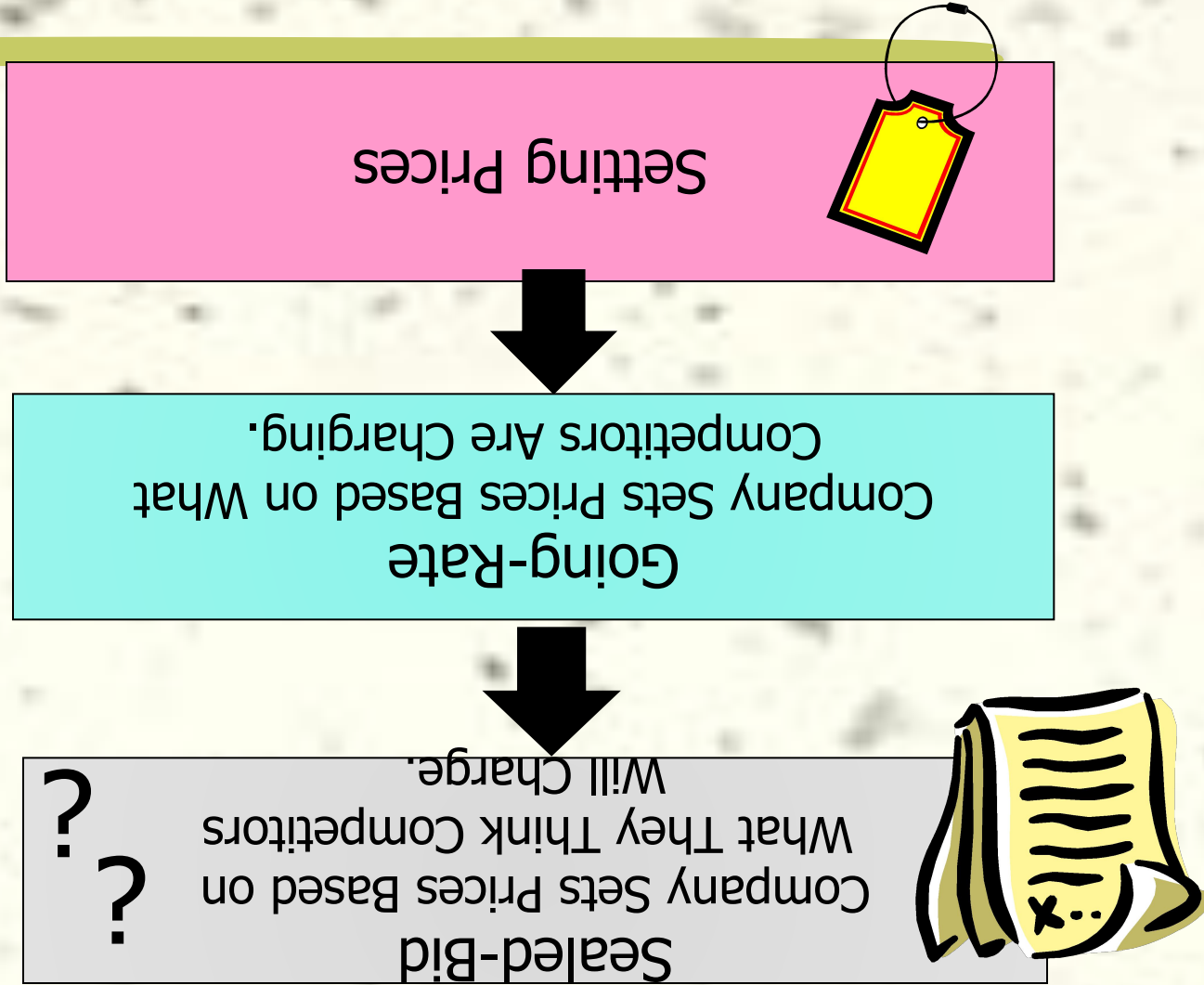
Cost-Based Pricing



Value-Based Pricing



Competition-Based Pricing



New Product Pricing Strategies

Market Skimming

- Setting a High Price for a New Product to "Skim" Maximum Revenues from the Target Market.
- Results in Fewer, But More Profitable Sales.

• Use Under These Conditions:

- Product's Quality and Image Must Support Its Higher Price.
- Costs Can't be so High that They Cancel the Advantage of Charging More.
- Competitors Shouldn't be Able to Enter Market Easily and Undercut the High Price.

New Product Pricing Strategies

- Use Under These Conditions:
 - Market Must be Highly Price-Sensitive so a Low Price Produces More Market Growth.
 - Production/ Distribution Costs Must Fall as Sales Volume Increases.
 - Must Keep Out Competition & Maintain Its Low Price Position or Benefits May Only be Temporary.

Market Penetration

- Setting a Low Price for a New Product in Order to "Penetrate" the Market Quickly and Deeply.
- Attract a Large Number of Buyers and Win a Larger Market Share.

Product Mix-Pricing Strategies:

Product Line Pricing

- Involves setting price steps between various products in a product line based on:
 - Cost differences between products,
 - Customer evaluations of different features, and
 - competitors' prices.



Product Mix- Pricing Strategies

- **Optional-Product**
 - Pricing optional or accessory products sold with the main product. i.e camera bag.
- **Captive-Product**
 - Pricing products that must be used with the main product. i.e. film.



Product Mix- Pricing Strategies

- By-Product

- Pricing low-value by-products to get rid of them and make the main product's price more competitive.
- i.e. sawdust, Zoo Doo

- Product-Bundling

- Combining several products and offering the bundle at a reduced price.
- i.e. theater season tickets.

Discount and Allowance Pricing

Adjusting Basic Price to Reward Customers For Certain Responses

Cash Discount

Quantity Discount

Functional Discount

Seasonal Discount

Trade-In Allowance

Promotional Allowance

Psychological Pricing



- Considers the psychology of prices and not simply the economics.
- Customers use price less when they can judge quality of a product.
- Price becomes an important quality signal when customers can't judge quality; price is used to say something about a product.

Promotional Pricing

