

# Factors Affecting Price Decisions

## Internal Factors

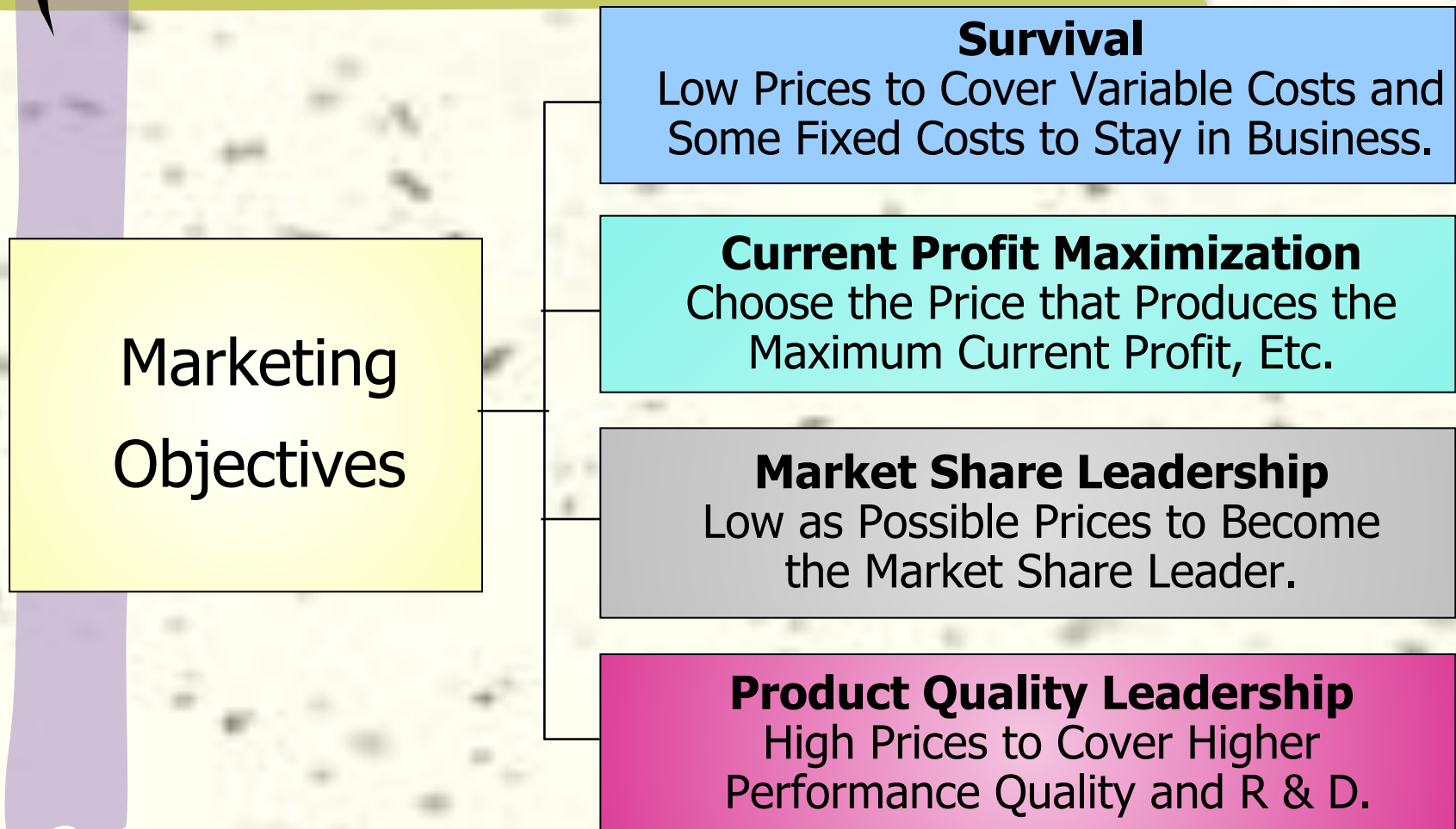
Marketing Objectives  
Marketing Mix Strategy  
Costs  
Organizational considerations

Pricing Decisions

## External Factors

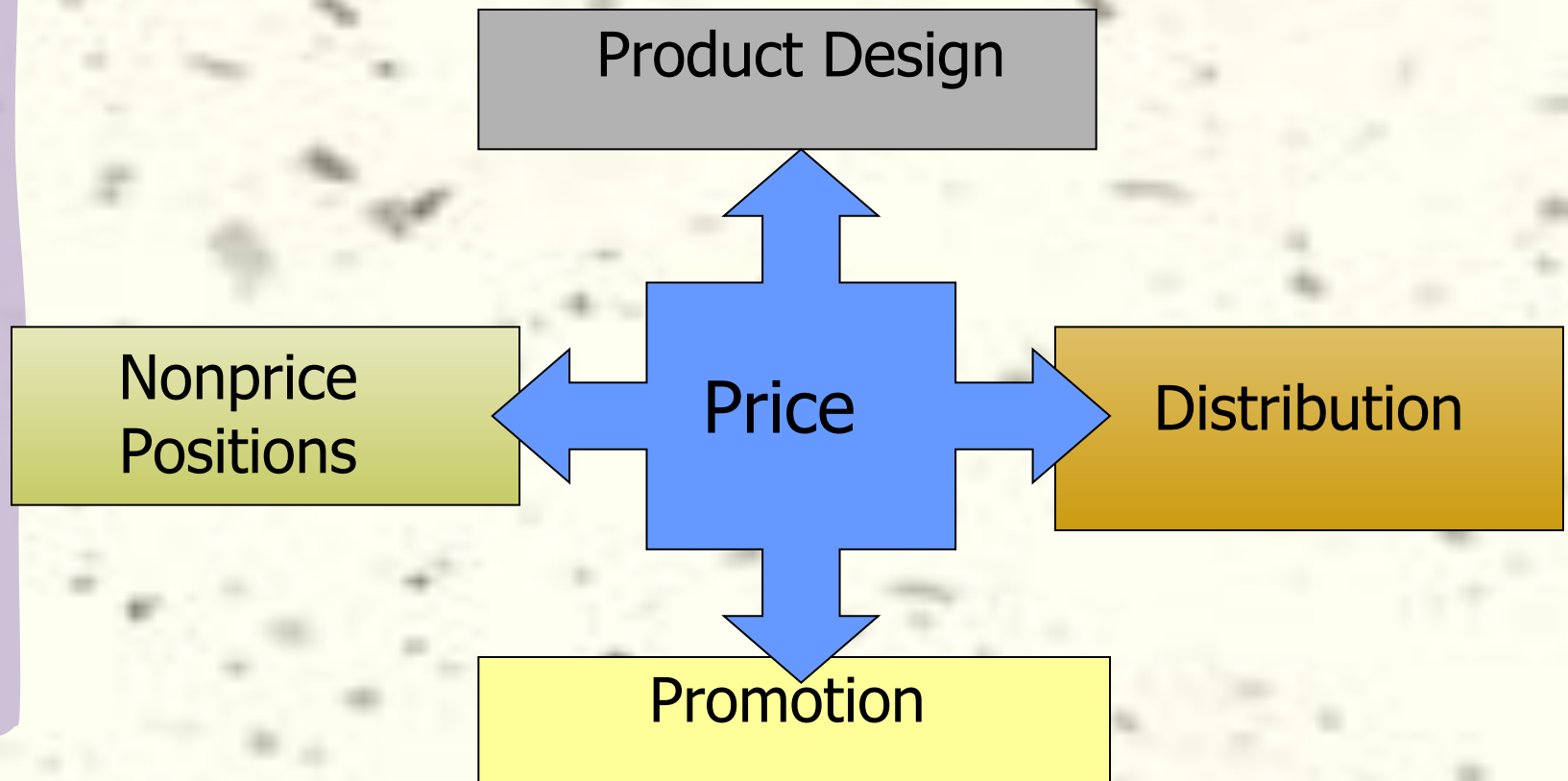
Nature of the market and demand  
Competition  
Other environmental factors (economy, resellers, government)

# Internal Factors Affecting Pricing Decisions: Marketing Objectives

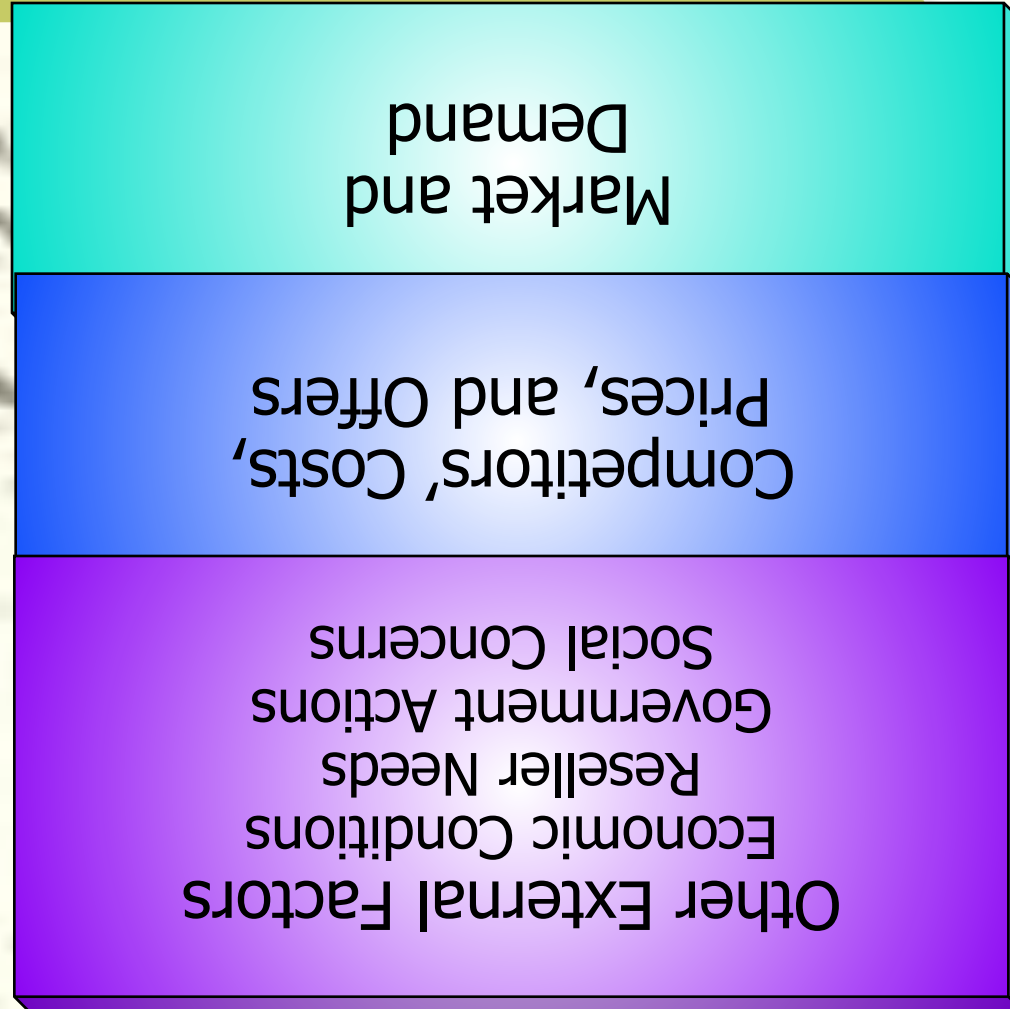


# Internal Factors Affecting Pricing Decisions: Marketing Mix

**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.



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

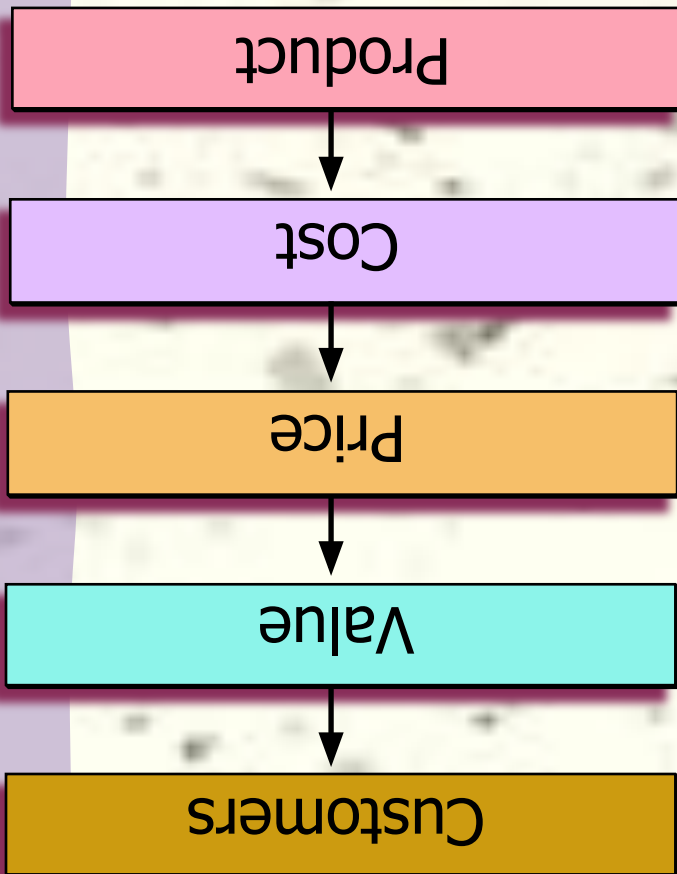
Cost-Plus Pricing is an Approach That Adds a Standard Markup to the Cost of the Product.

Simplest Pricing Method

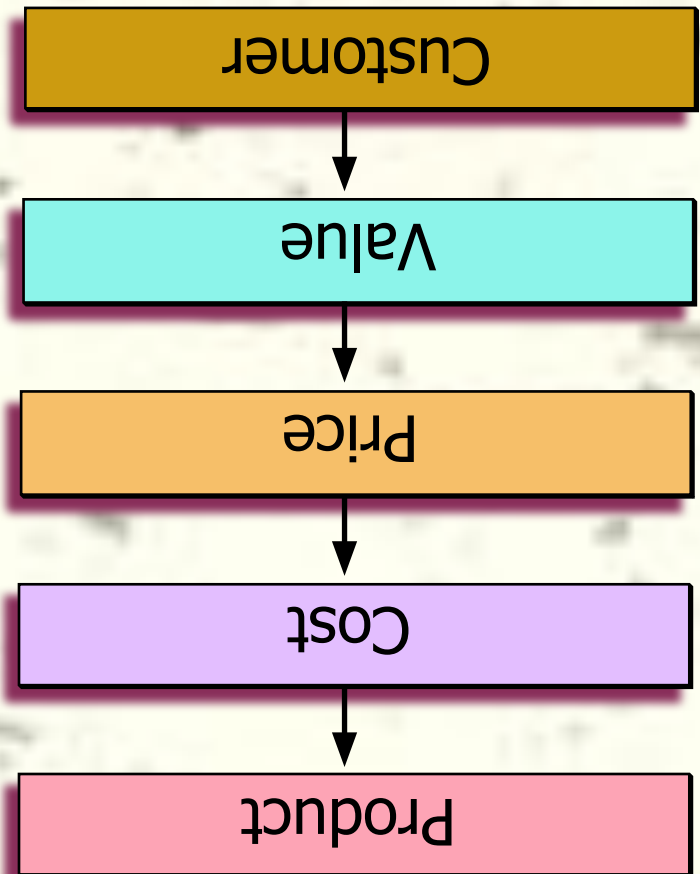
Ignores Current Demand & Competition

# Cost-Based Versus Value-Based Pricing

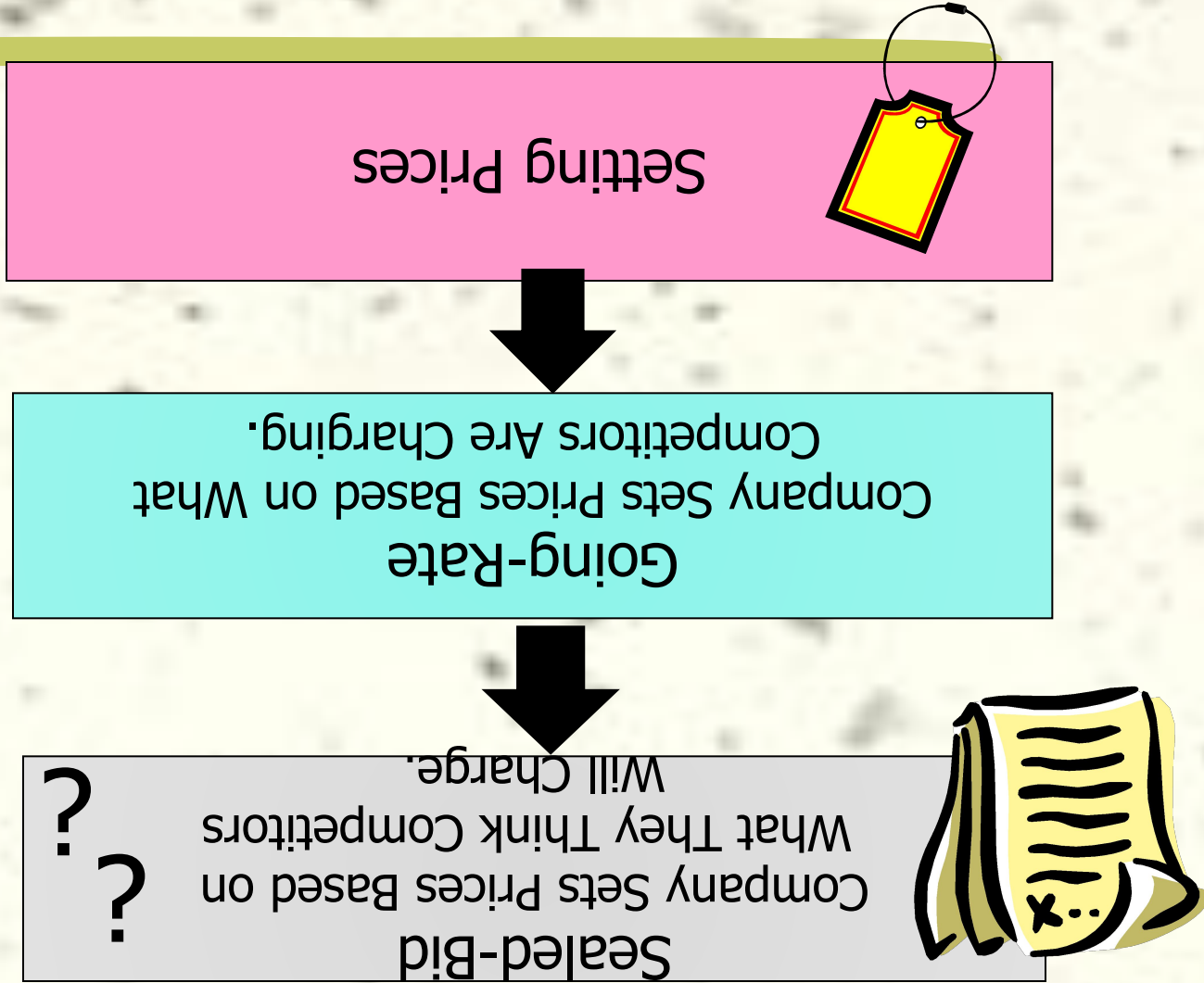
## Cost-Based Pricing



## 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

