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

Marketing Objectives

Survival
Low Prices to Cover Variable Costs and Some Fixed Costs to Stay in Business.

Current Profit Maximization
Choose the Price that Produces the Maximum Current Profit, Etc.
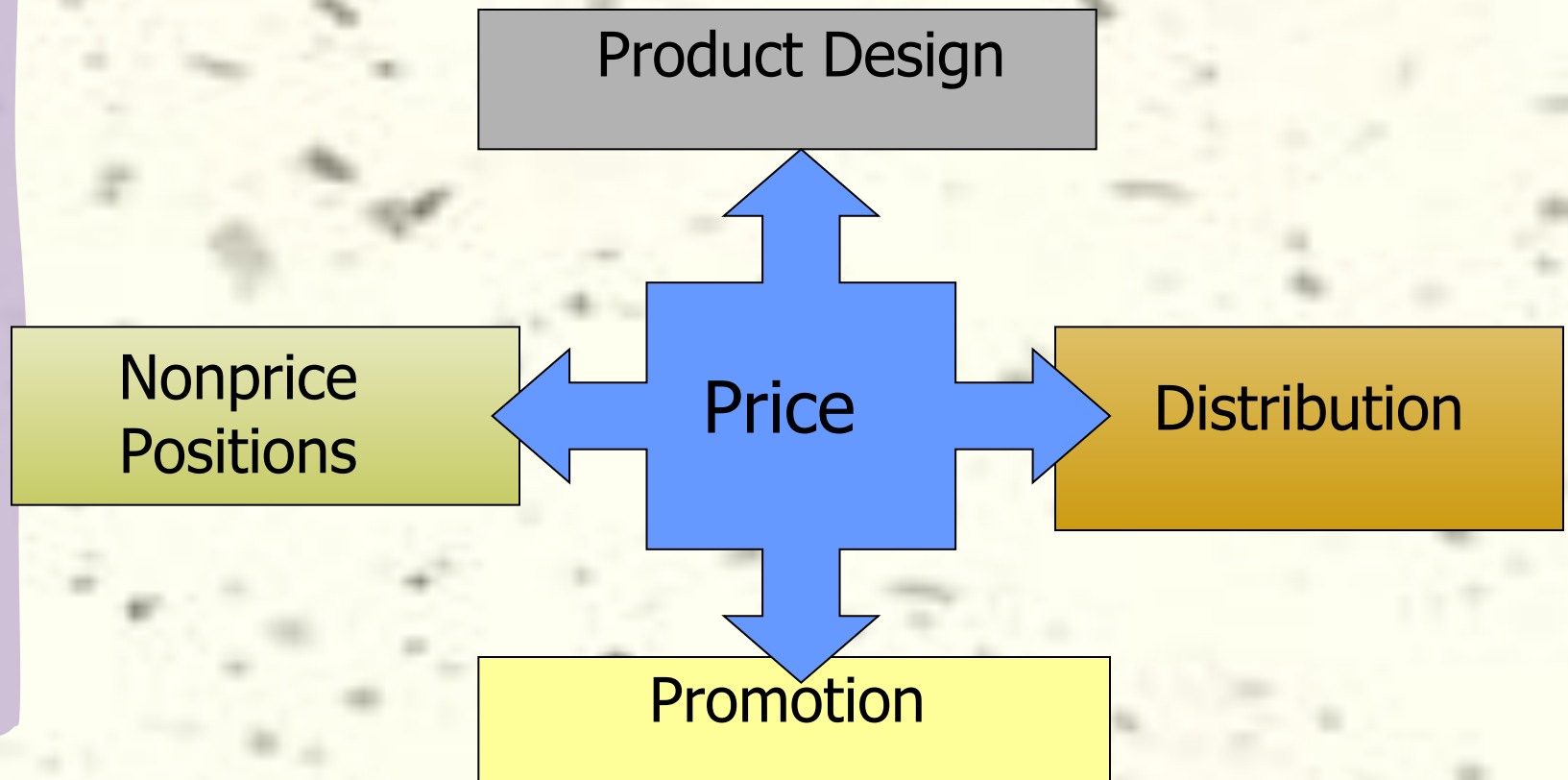
Market Share Leadership
Low as Possible Prices to Become the Market Share Leader.

Product Quality Leadership
High Prices to Cover Higher Performance Quality and R & D.

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.

Product Design

Nonprice Positions

Price

Distribution

Promotion

External Factors Affecting Pricing Decisions

Market and
Demand

Competitors' Costs,
Prices, and Offers

Other External Factors
Economic Conditions
Reseller Needs
Government Actions
Social Concerns

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.

$75
VALUE

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
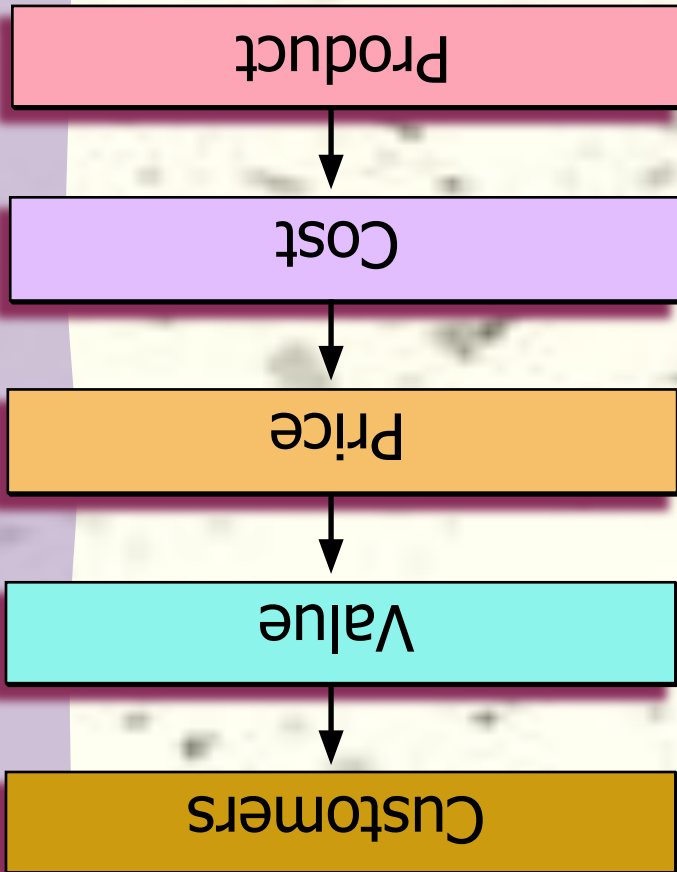
Much Fairer to Buyers & Sellers

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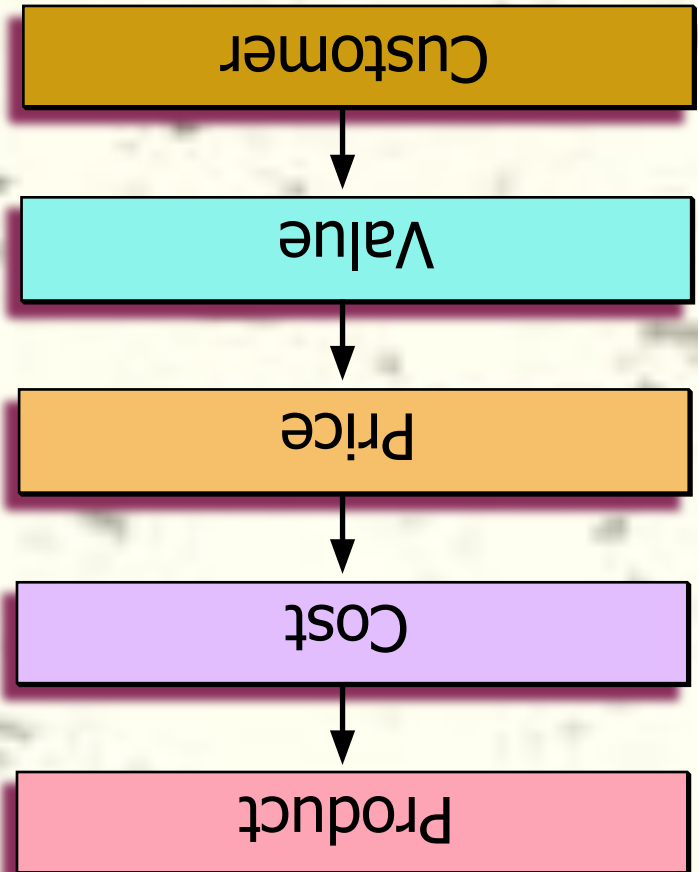
Simplest Pricing Method

Ignores Current Demand & Competition
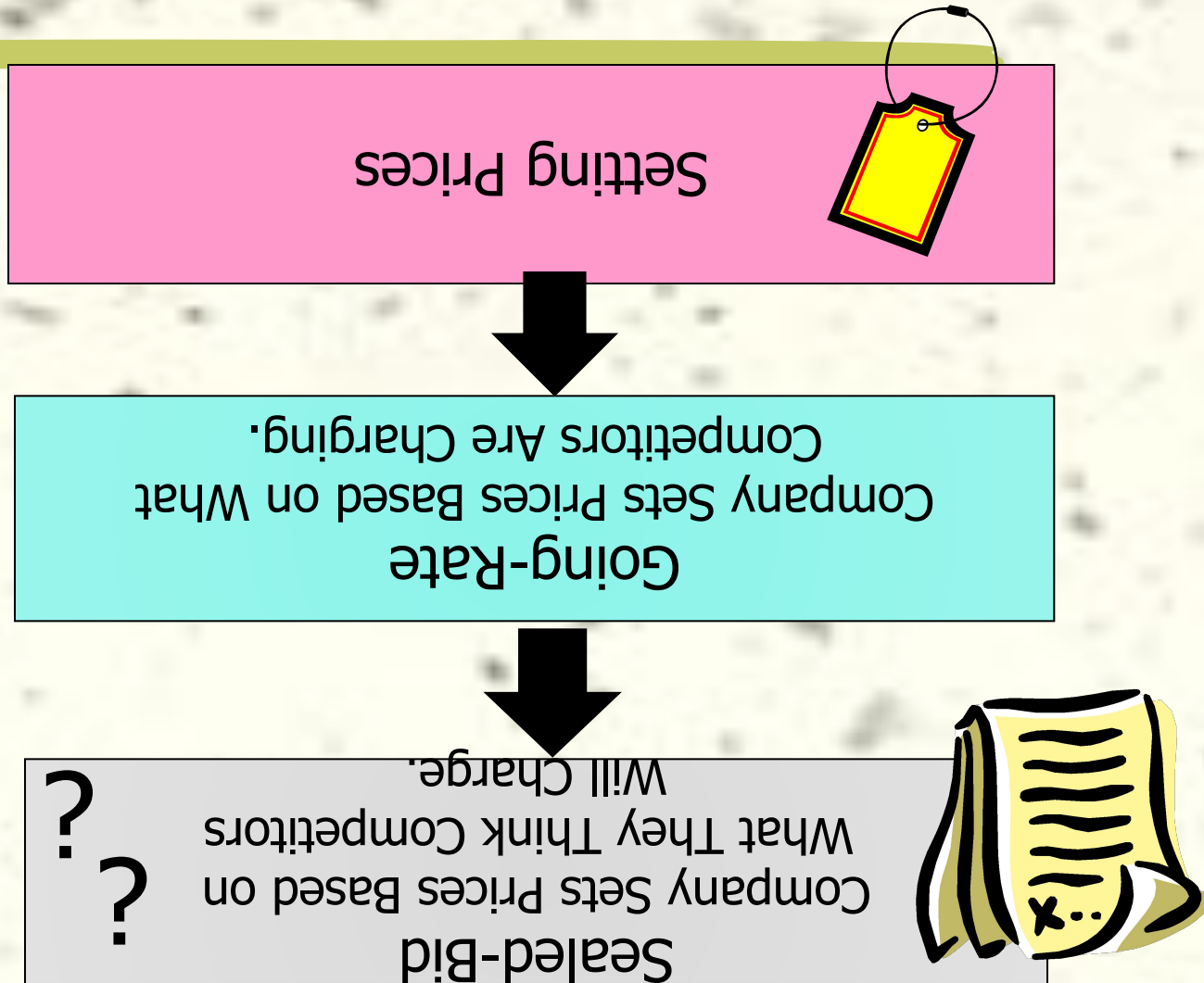
Cost-Based Versus Value-Based Pricing

Cost-Based Pricing

Product → Cost → Price → Value → Customers

Value-Based Pricing

Customer → Value → Price → Cost → Product

Competition-Based Pricing

Setting Prices

Going-Rate
Company Sets Prices Based on What Competitors Are Charging.

Sealed-Bid
Company Sets Prices Based on What They Think Competitors Will Charge.

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	Seasonal Discount
Quantity Discount	Trade-In Allowance
Functional Discount	Promotional Allowance

Psychological Pricing

Value $22.00
Sale $14.99

- Considers the psychology of prices and not simply the economics.
- Customers use price <u>less</u> 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

Temporarily Pricing Products Below List Price to Increase Short-Term Sales Through:

- Loss Leaders
- Special-Event Pricing
- Cash Rebates
- Low-Interest Financing
- Longer Warranties
- Free Merchandise
- Discounts