

UNIT 5

PRICING MARKETING MANAGEMENT

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PRICING



- How is pricing part of Marketing Strategy?
- How is pricing affected by Cost, Demand, Competition?
- How do you set a price?

KEY FACTORS IN PRICING

- Objectives
- Strategies
- Policies and Constraints
- Tactics



PRICING OBJECTIVES

□ Cost



□ Demand

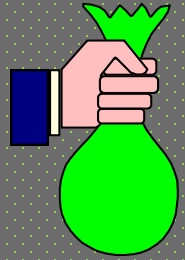


□ Competition



PRICING OBJECTIVES

COST ORIENTED



- Emphasis - Cost/Profit
 - Target Return
 - Satisfactory Return
 - Maximize Current Profit
 - Maximize Long Term Profit

COST CALCULATION: How real is this price?



- Estimate demand function $Q = 1000 - 4P$
- Estimate cost function $C = 6000 + 50Q$
- Calculate total revenues $R = P(1000 - 4P)$
- Calculate Profits
 - $Z = (1000P - 4P^2) - (6000 + 50Q)$
 - $Z = -56,000 + 12,000P - 4P^2 = \150

PRICING OBJECTIVES

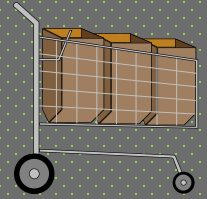
DEMAND ORIENTED



- Emphasis – Demand/Sales
- Growth in Market Share
- Growth in Dollar or Unit Sales

PRICING OBJECTIVES

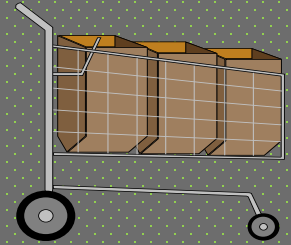
DEMAND ORIENTED



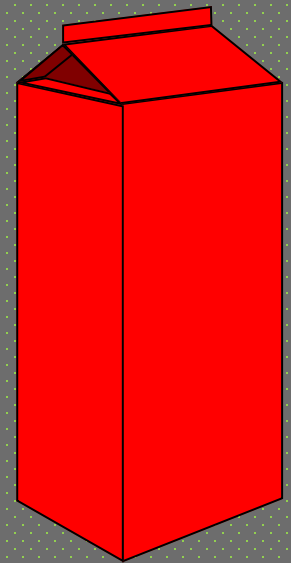
How to Grow in Sales



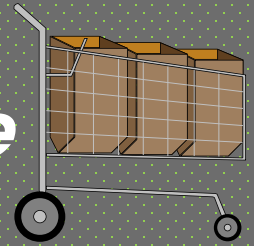
Skimming the Cream



-
- Conditions:
 - Demand Not Sensitive to Price
 - Different Price Segments
 - Consumers Unaware of Cost
 - Little Competition



Skimming the Cream - High Price



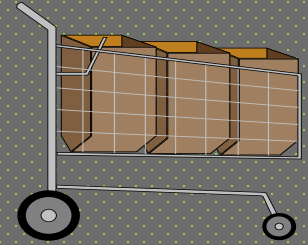
□ MAYOR'S FOUNTAIN PEN

\$500?

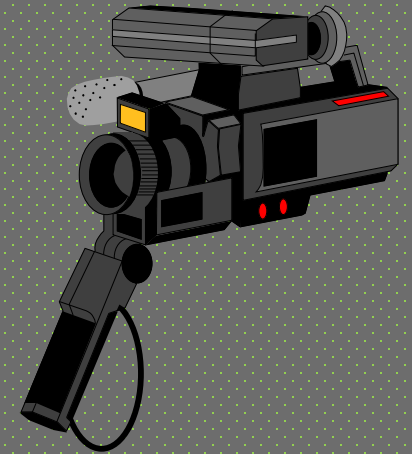
Their Advertising Claim:

“For the average lifestyle, the average writing instrument is perfectly adequate. But while most pens are designed for signing postcards, ours are designed for signing peace treaties.”

Skimming the Cream continuing the strategy...

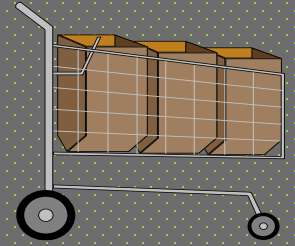


- High Price First
- Lower Price Later
 - Dupont: Cellophane, Nylon
 - Polaroid: Camera



PRICING OBJECTIVES

DEMAND ORIENTED

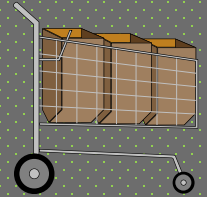


- How to Grow in Sales
 - Skimming the Cream
 - Penetration Pricing



PRICING OBJECTIVES

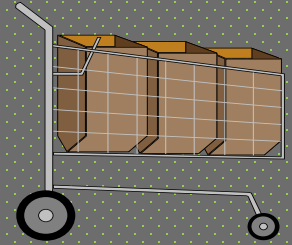
DEMAND ORIENTED



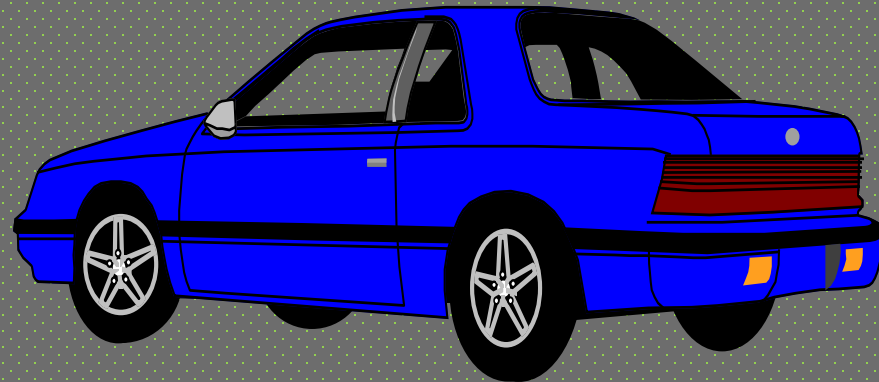
- Penetration Pricing – Low Price
- Conditions
- Demand is Price Sensitive
- No Different Price Segments
- Product Not A Status Item
- Competition Likely



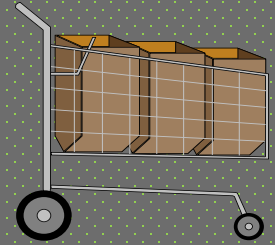
Penetration Pricing



-
- Regular Penetration Pricing
 - The Colt Car Sells at regular low price



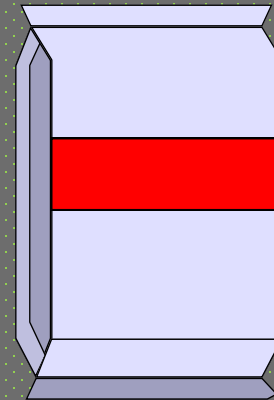
Penetration Pricing Special Condition



Nabisco's New "Giggles" Cookies

20 cents off coupon

for a short time only



PRICING OBJECTIVES

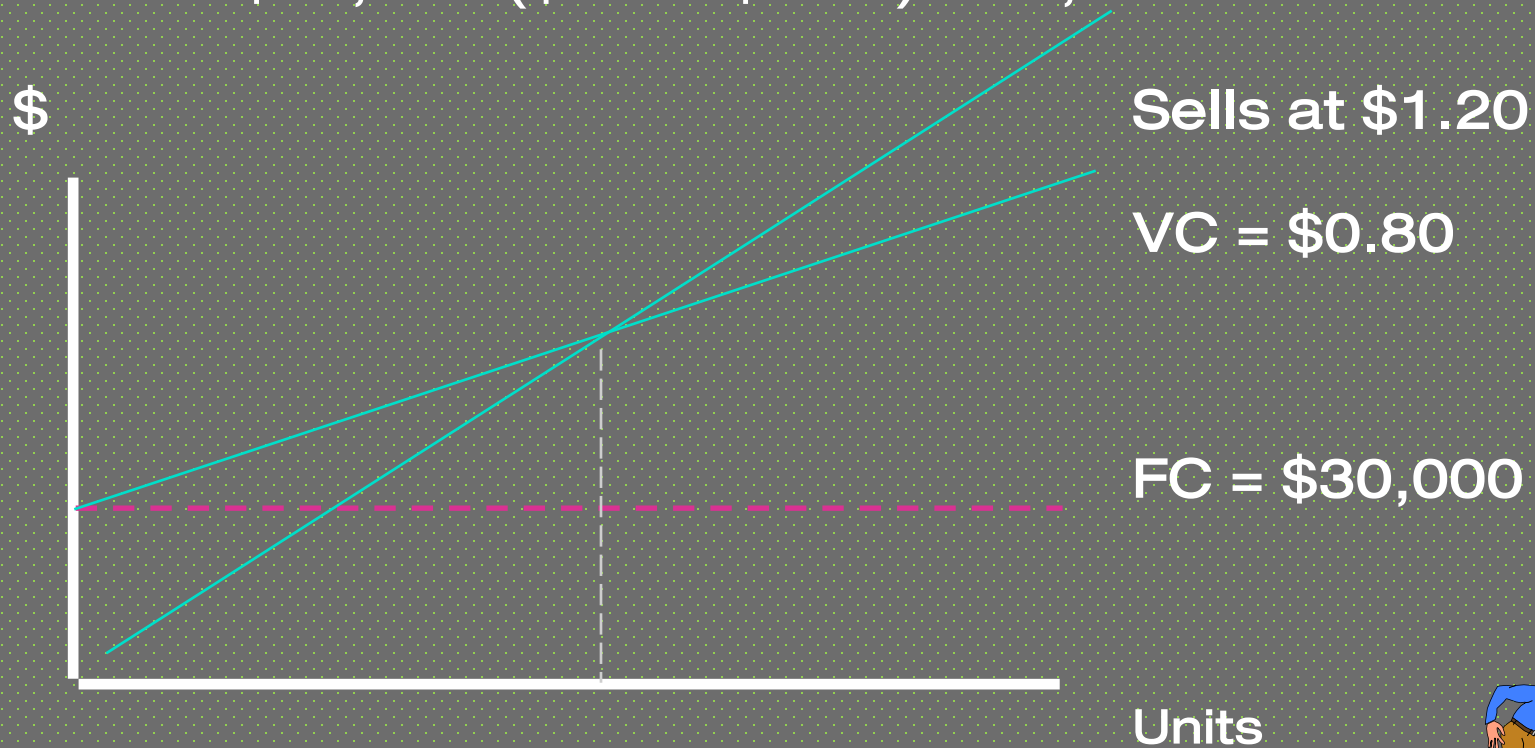
COMPETITION ORIENTED

- Emphasis – Competition
 - Meeting the Competition
 - Non-Price Competition



BREAK EVEN ANALYSIS

$$\text{BEP} = \$30,000 / (\$1.20 - \$0.80) = 75,000 \text{ units}$$



Break Even Point = 75,000 units



PRICING STRATEGIES

- Mixing Price with the Other Variables
- Literally Thousands of Combinations

Marketing Mix Combinations

Just One: Price and Quality

P	High	Medium	Low
High	Premium	Penetration	Big Bargain
Medium	Overpriced	Average	Bargain
Low	Hit & Run	Shoddy	Cheap

Q

PRICING STRATEGIES

COST ORIENTED

□ Target Profit Pricing

Target Profit

$$\text{Revenue of Sales} = \frac{\text{Fixed Cost} + \text{Target Cost}}{\% \text{ of Gross Margin}}$$

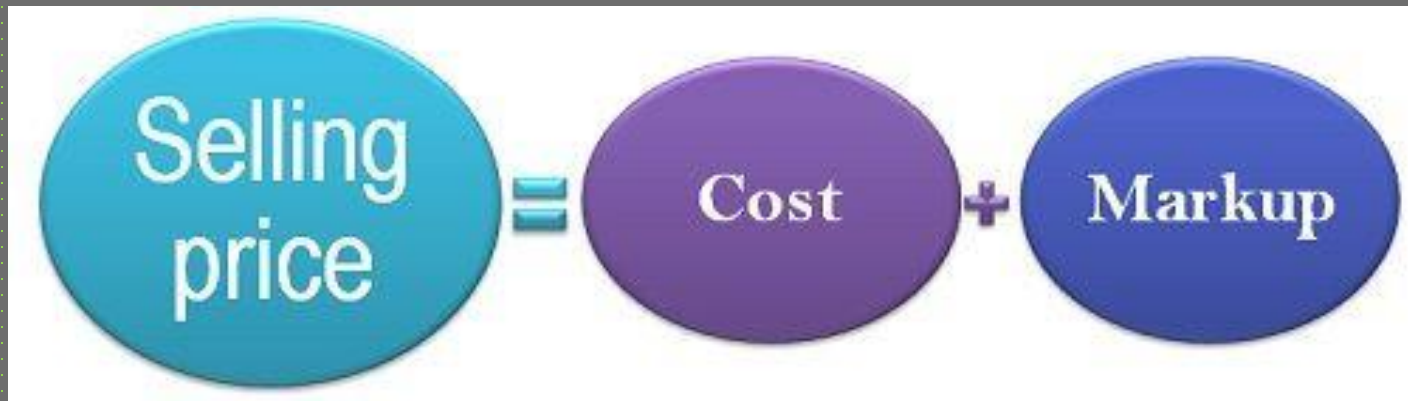
Where,

1. Revenue = The Revenue or Sales amount need to be achieved for attaining target profit.
2. Target Profit = The Required Target Profit.
3. % of Gross Margins = It denotes the percentage of profit is to be gained from the sales amount.

PRICING STRATEGIES

COST ORIENTED

□ Mark-Up Pricing



PRICING STRATEGIES

COST ORIENTED

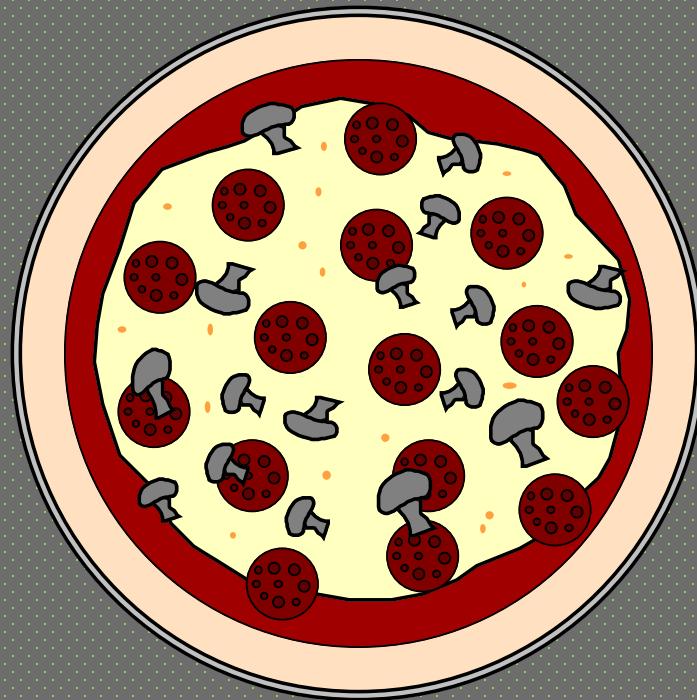
□ Problems

□ Difficulties Determining Cost

Mark-Up Pricing

Problems: What is Mark-up?

13%? < Frozen Foods > 53%?



PRICING STRATEGIES

COST ORIENTED

□ Problems

□ Difficulties Determining Cost

□ Legal Problems

PRICE FIXING



PRICING STRATEGIES

DEMAND ORIENTED

 Perceived Value

PRICING STRATEGIES

DEMAND ORIENTED

- Perceived Value
- Demand Differential

PRICING STRATEGIES

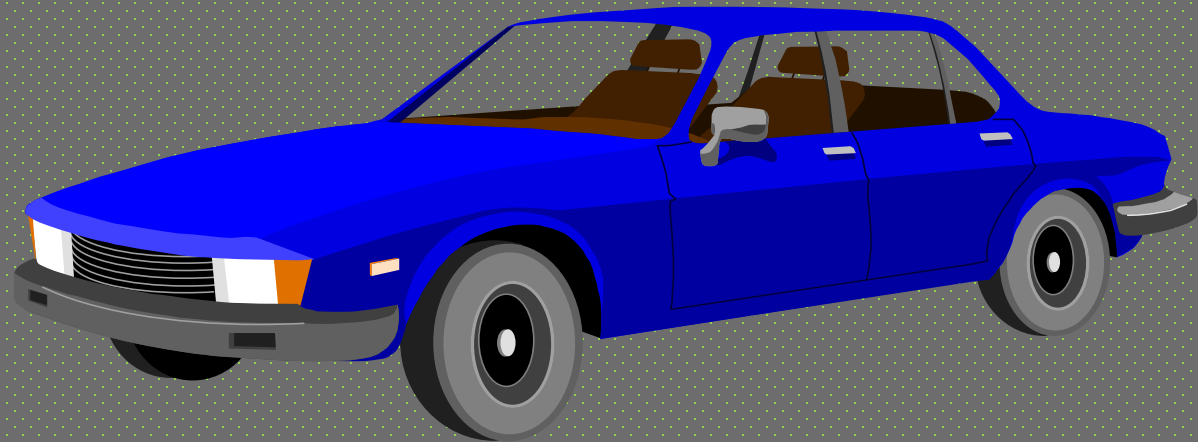
DEMAND ORIENTED

- Perceived Value
- Demand Differential
 - Customer Form

PRICING STRATEGIES

DEMAND ORIENTED

- Perceived Value
- Demand Differential
- Customer Form



PRICING STRATEGIES

DEMAND ORIENTED

- Perceived Value
- Demand Differential
 - Customer Form
 - Product Form

LEGAL PRODUCT FORM PRICE DISCRIMINATION

- TV without stereo sells for \$250



- TV with \$5 worth of stereo parts sells for \$350

PRICING STRATEGIES

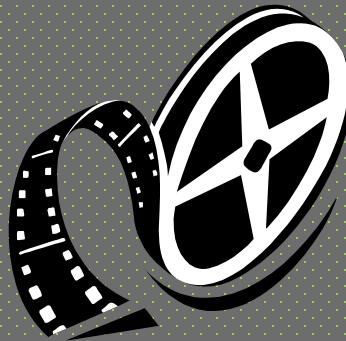
DEMAND ORIENTED

- Perceived Value
- Demand Differential
 - Customer Form
 - Product Form
 - Place

PRICING STRATEGIES

DEMAND ORIENTED

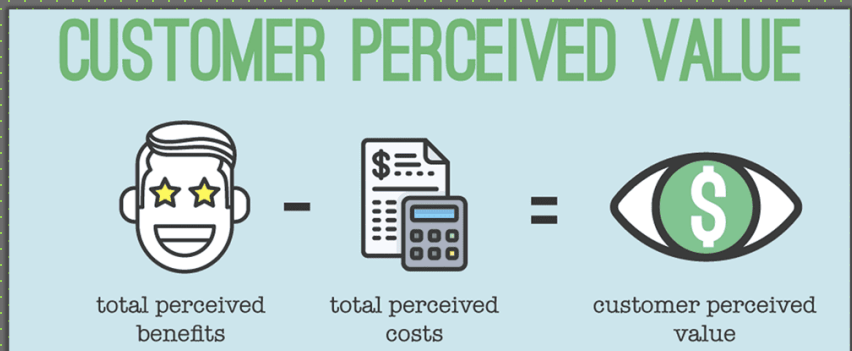
- Perceived Value
- Demand Differential
 - Customer Form
 - Product Form
 - Place



PRICING STRATEGIES

DEMAND ORIENTED

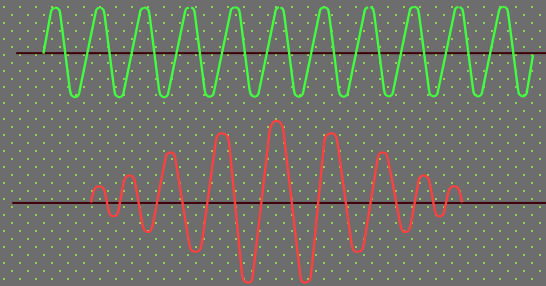
- Perceived Value
- Demand Differential
 - Customer Form
 - Product Form
 - Place
 - Time



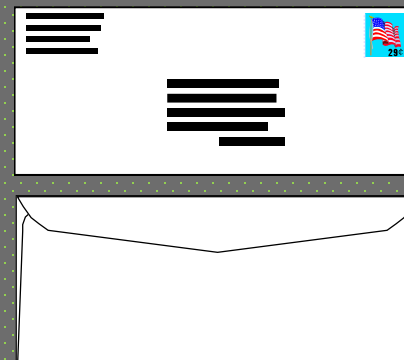
PRICING STRATEGIES

COMPETITION ORIENTED

 **Going Rate**



 **Sealed Bid**

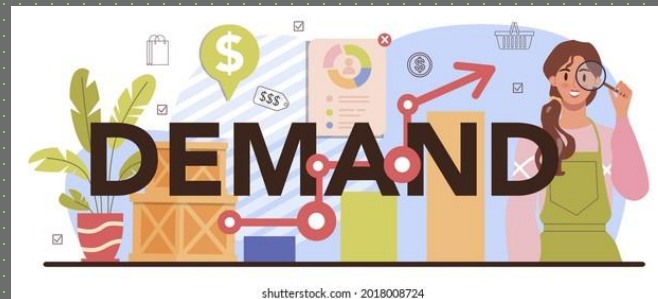


PRICING OBJECTIVES & STRATEGIES

□ Cost



□ Demand



□ Competition



PRICING POLICIES AND CONSTRAINTS

- Management
- Distributors
- Competitors
- Suppliers
- Company Executives
- Stockholders
- Government regulations



PRICING TACTICS

- Psychological Pricing
- Odd – Even: \$69.95
- Price Lining



PRICE LINING

MEN'S SUITS

□ as seen by the wearer of a \$500 suit:

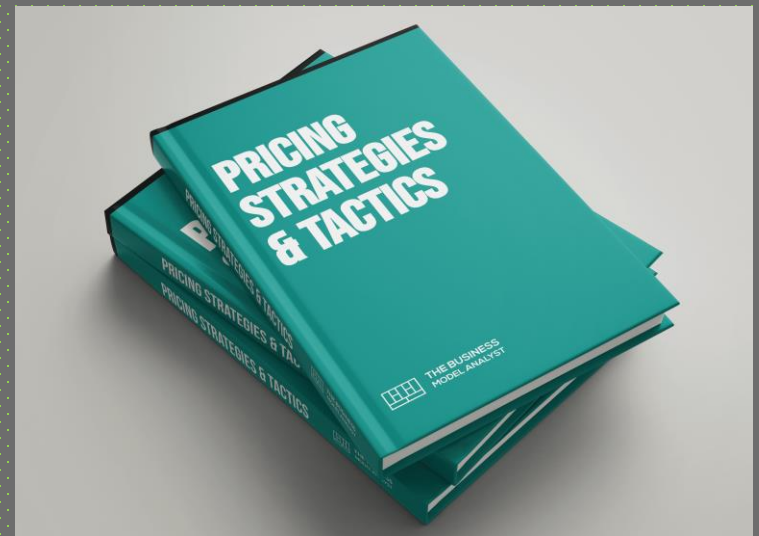
cheap	GOOD	overpriced
\$400	\$500	\$600

□ as seen after a 10% price increase:

cheap	GOOD	overpriced
\$450	\$550	\$680

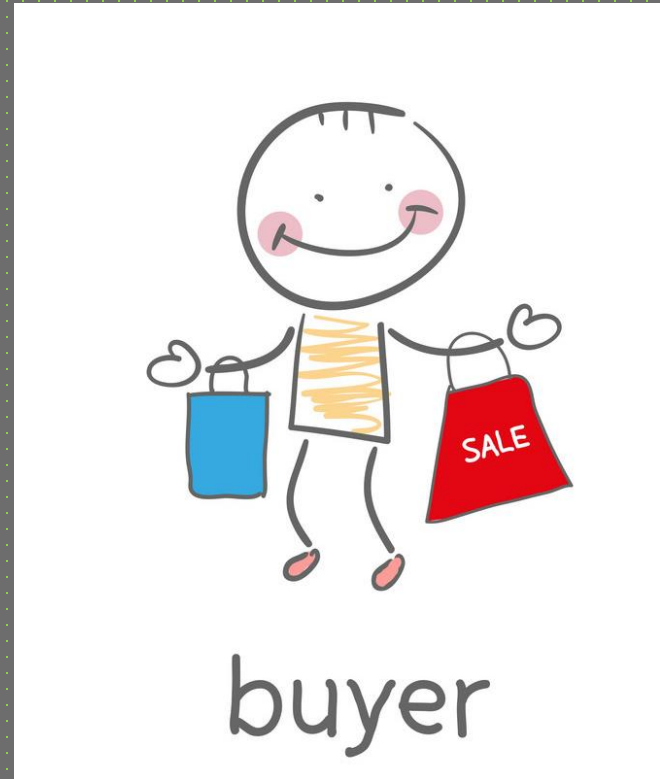
PRICING TACTICS

- Psychological Pricing
 - Odd – Even Pricing
 - Price Lining
 - Prestige Pricing



PRESTIGE PRICING

□ BAYER



PRICING TACTICS

- Psychological Pricing
 - Odd – Even Pricing
 - Price Lining
 - Prestige Pricing
 - Promotional Pricing



ILLEGAL PROMOTIONAL PRICING

Original Price \$250

Illegal Pricing:



PRICING TACTICS

□ Discount Pricing

□ Quantity

□ Cash

□ Trade/Functional

□ Seasonal

□ Consumer – everything else?



KEY FACTORS IN PRICING

□ Objectives

- Cost, Demand, Competition

□ Strategies

- Cost, Demand, Competition

□ Policies and Constraints

□ Tactics

PRICING MARKETING

SUMMARY

- How is pricing part of Marketing Strategy?
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- How do you set a price?