Pricing is a critical activity.

Incorrect pricing could lead to:

- Losing customers
- Losing revenue
- Being unprofitable
- Not being competitive
- Not meeting customer needs
- Not reflecting market conditions
- Not covering costs
- Not providing incentive
- Not being perceived as good value

Pricing methods:

- Penetration Pricing
- Market Skimming

When customers help set prices:

- Price Leadership
- Cost Plus

Price leadership strategy:

- Market leaders may try to lead customers
- Prices are set by the market
- Can lead to higher profit margins
- May lead to higher prices

Cost-plus pricing:

- Prices are set by adding a markup to the cost of the product
- Can be a simple pricing strategy
- May not always reflect market conditions
- May lead to lower profit margins

Cost-plus pricing formula:

\[ \text{Price} = \text{Cost} + \text{Markup} \]

Example:

- Cost of product = $50
- Markup = 30%
- Selling price = $50 + ($50 * 0.30) = $65

Deciding on the right price is not an easy task.

Many factors play into pricing:

- Costs
- Customer perceptions
- Competitors' pricing
- Market conditions
- Government regulations
- Marketing objectives

There is a link between price and demand.

Pricing decisions impact sales revenue.

Pricing is a key element in marketing strategy.
When Customers Help Set Prices

Pricing Strategies

- Cost-plus
- Price leadership
- Penetration
- Skimming

CaselISM.com
Xbox price cut brings console war to the USA.

Microsoft has effectively declared war on Sony in the US, cutting the price of its top-of-the-range Xbox 360 Elite console by $100 to $299 - exactly the same price as Sony’s Playstation 3 Slim, launched in September. Int eh same month Microsoft will start to offer two versions of the Xbox 360, the Elite and the Pro retailing at $249. The new Playstation 3 has the same memory - 130GB- as the Elite and can play games in high definition.

The USA is the world's largest market for video games adn consoles with the annual software sales alone amounting to $6 billion. In recent weeks, the Xbox has been outselling the PS3 by almost two to one, and Microsoft is determined not to give up market share to Sony when the PS3 Slim is launched.

CaseISM.com

Source: http://technology.timesonline.co.uk

- Explain why Microsoft reduced the price of its Xbox console at this time.
- Why do you think all of the prices quoted above are just below a "round figure" eg $299 and not $300.
- Since the first games console was launched, retail prices have fallen steadily. Why is the price trend for this product falling?
The Pricing Decision

Deciding on the "right" price is not an easy task.

- Many products fail due to poor pricing.
- Setting prices too high will turn customers off your product.
- Setting prices too low could create an undesirable image for your company.
- Pricing decisions impact sales revenue.

There is a link between PRICE and DEMAND for the PRODUCT. CaseISM.com
Pricing Methods

Price is the amount paid by consumers for a product.

There are a large number of pricing methods a firm can employ. There are a number of factors that will determine the pricing decision for a product:

- costs of production
- competitive conditions in the market
- competitors prices
- marketing objectives
- price elasticity of demand
- whether it is a new or existing product.

Pricing methods are used as part of an overall marketing mix to help guide a marketing strategic direction.
Pricing Strategies

Cost-based - Firms will assess their costs of producing or supplying each unit and then add on an amount on top of the calculated cost.
  • cost-plus

Competition-based - The firm will base its price upon the set price by competitors.
  • price leadership

Market-based - Usually depends on the marketing objectives of the firm.
  • penetration
  • skimming
Cost-plus

The price is determined by calculating cost of individual product and a profit margin is added.

Often used by retailers who buy their products from the producer or wholesaler.

Ex. Cost of product = $40
    50% markup = (40 x .5 = 20)
    Selling price = $60 (40 + 20)

• more of a pricing method than strategy
• cost-plus ignores market demand conditions
Price Leadership

The dominate firm in a market sets a price and other firms simply charge a price based on the one set by the market leader.

This occurs in markets dominated by a few firms such as airlines, gas stations and mobile and cell phone service.

• Market leaders may enjoy brand loyalty and may make it difficult for other firms to follow high prices.
Penetration Pricing

Firms try to undercut existing market firms with a lower price. The purpose it to achieve a high volume of sales. Used when a firm is attempting to gain market share. The price will increase over time.

This is also used when an established firm tries to enter a new market. Virgin Airlines has offered lower prices on popular routes as part of an entry strategy.

- Need substantial cash reserves to support potential short-term losses.
- How easy will it be to raise prices once firm is established without losing goodwill.