

Chapter 26

Pricing Strategies

- Section 26.1 Basic Pricing Policies
- Section 26.2 Strategies in the Pricing Process



Basic Pricing Policies

Key Terms

markup
pricing

cost-plus
pricing

one-price
policy

flexible-price
policy

skimming
pricing

penetration
pricing

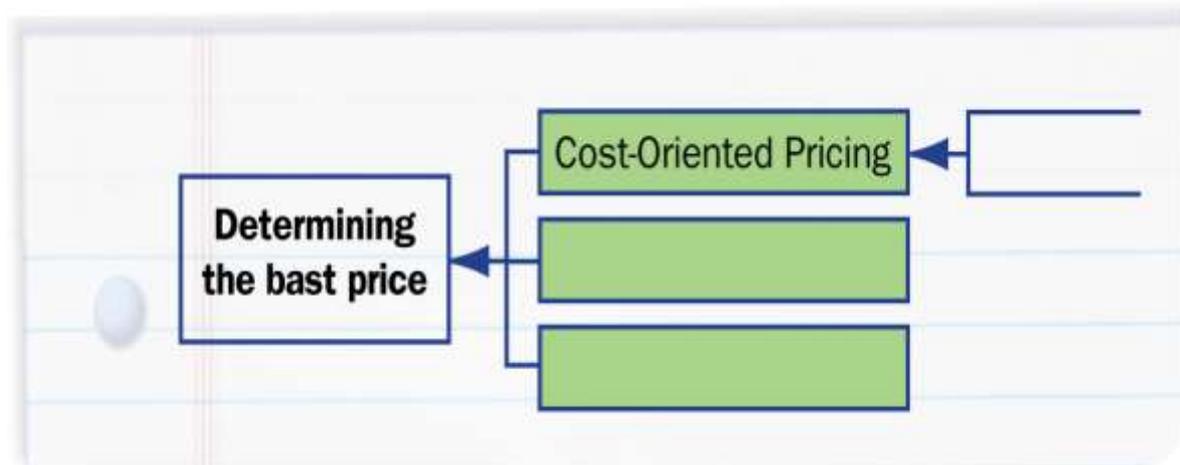
Objectives

- Name three pricing policies used to establish a base price
- Explain the two polar pricing policies for introducing a new product
- Explain the relationship between pricing and the product life cycle

Basic Pricing Policies

Graphic Organizer

Use a chart to take notes about the pricing policies that can affect the base price for a product.



Basic Pricing Concepts

A major factor in determining the profitability of any product is establishing a base price. There are three methods of setting a product's base price:

- Cost-oriented pricing
- Demand-oriented pricing
- Competition-oriented pricing

Cost-Oriented Pricing

In cost-oriented pricing, marketers first calculate the costs of acquiring or making a product and their expenses of doing business, then add their projected profit margin to arrive at a price. Two common methods are markup pricing and cost-plus pricing.

Cost-Oriented Pricing

markup pricing



The process where resellers add a dollar amount (markup) to its cost to arrive at a price.

cost-plus pricing



All costs and expenses are calculated, and then the desired profit is added to arrive at a price.

Markup pricing ◀ has resellers adding a dollar amount (markup) to their cost to arrive at a price. It is used primarily by wholesalers and retailers.

In **cost-plus pricing** ◀, all costs and expenses are calculated, and then the desired profit is added to arrive at a price.

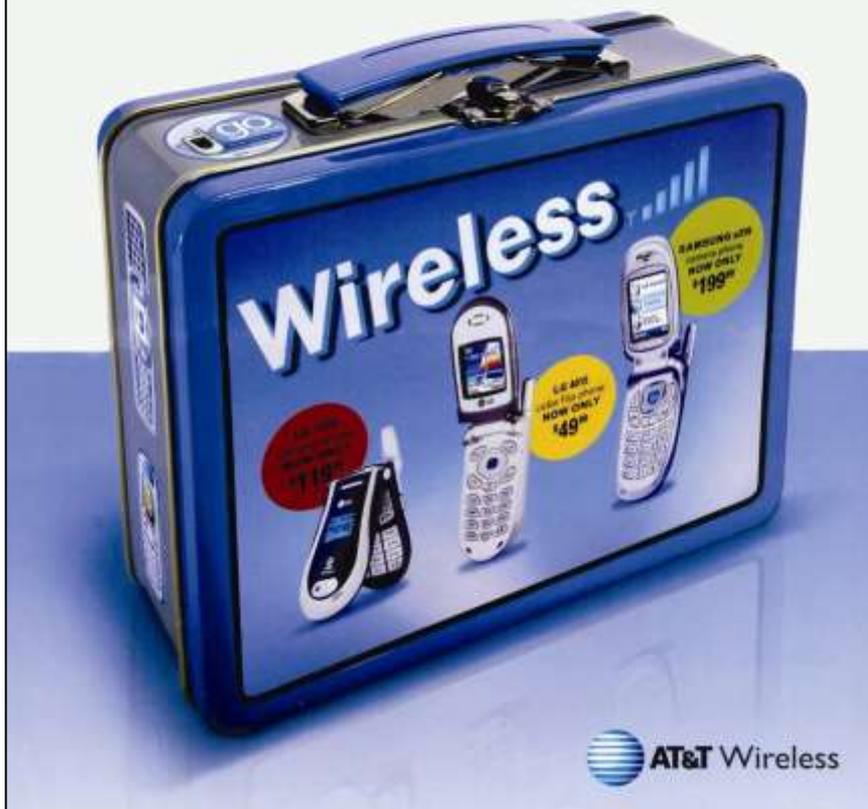
Demand-Oriented Pricing

Marketers who use demand-oriented pricing attempt to determine what consumers are willing to pay for goods and services.

The key to this method of pricing is the consumer's perceived value of the item.

Demand-Oriented Pricing

Valedictorian phones, with prices held back a couple grades.



The demand for cell phone service has increased tremendously in the past years.

Competition-Oriented Pricing

Marketers may elect to take one of three actions after learning their competitors' prices:

- Price above the competition
- Price below the competition
- Price in line with the competition (going-rate pricing)

Establishing the Base Price

To establish the base price, all three pricing approaches can be used.

- Cost-oriented pricing
- Demand-oriented pricing
- Competition-oriented pricing

Establishing the Base Price

There are two ways to determine reseller prices:

- Work backward from the final retail price to find the price for the wholesalers by subtracting the markups for the channel members.
- Work forward from the manufacturer's cost by adding markups for the channel members.

Establishing the Base Price

Manufacturer's suggested
retail price (MSRP).....\$75

Retailer's markup-\$30
(40% of retail price)

Wholesaler's price to retailer.....\$45
*(Subtract retailer's markup
from MSRP)*

Wholesaler's markup.....-\$9
(20% of wholesale price)

Manufacturer's price to
wholesaler.....\$36
*(Subtract wholesaler's markup
from the price paid by wholesalers)*

- Remember this amount must cover costs, expenses, and profit for the manufacturer.

Establishing the Base Price

Cost of producing the item..... \$30.00

Manufacturer's expenses
and intended profit..... +6.00
(20% of cost)

Manufacturer's price to
wholesaler..... 36.00
*(Cost plus expenses plus
intended profit)*

Wholesaler's markup..... +9.00
*(25% of price wholesaler
paid for item)*

Wholesaler's price to retailer..... 45.00
*(Manufacturer's price to
wholesaler + markup)*

Retailer's markup..... +30.00
*(66.67% based on price
paid to wholesaler)*

Retailer's base price to consumer \$75.00

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Pricing Policies and Product Life Cycle

A basic pricing decision is to choose between a one-price policy and a flexible-price policy.

Computers and other electronic appliances quickly go out of date as new technology emerges.

One-Price Versus Flexible-Price Policy

one-price policy



All customers are charged the same price for the goods and services offered for sale.

flexible-price policy



A price policy that lets customers bargain for merchandise.

A **one-price policy** ◀ is one in which all customers are charged the same prices, quoted to them by means of signs and price tags without deviations.

A **flexible-price policy** ◀ is one in which customers pay different prices for the same type or amount of merchandise.

Product Life Cycle

Products move through four stages, with pricing playing a key role in each:

- Introduction
- Growth
- Maturity
- Decline

Product Life Cycle

skimming pricing



A pricing policy that sets a very high price for a new product.

penetration pricing



A pricing policy that sets the initial price for a new product very low.

To introduce a new product, two methods may be used:

- **Skimming pricing** ⚡: Setting a high price for a new product to capitalize on high demand.
- **Penetration pricing** ⚡: Setting a low initial price to encourage higher distribution and exposure.

Product Life Cycle

Penetration pricing also requires a marketing strategy that incorporates:

- Mass production
- Distribution
- Promotion

Product Life Cycle

Sales of products introduced with skimming pricing should be monitored. Once sales begin to level off, the price should be lowered.

Very little price change will be made in the growth state for products introduced with penetration pricing.

Product Life Cycle

The marketer's principal goal during the maturity stage is to stretch the life of a product. Some will reduce their prices or modify the original product as well as seek new target markets to maximize sales.

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SECTION 26.1 REVIEW

SECTION 26.1 REVIEW

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Strategies in the Pricing Process

Key Terms

product mix

pricing strategies

price lining

bundle pricing

geographical pricing

segmented pricing strategy

psychological pricing

prestige pricing

everyday low prices (EDLP)

promotional pricing

Objectives

- Describe pricing strategies that adjust the base price
- List the steps involved in determining a price
- Explain the use of technology in the pricing function

Strategies in the Pricing Process

Graphic Organizer

Create an outline of this section to identify the strategies for adjusting prices and the steps in setting prices.

<u>Price Adjustment Strategies</u>
1. Product mix strategies
a. Price lining
b.
c.
d.
2.

Adjusting the Base Price

To adjust base prices, marketers may employ any one or more of the following pricing strategies:

- Product mix pricing
- Geographical and international pricing
- Psychological and promotional pricing
- Discounts and allowances

Product Mix Strategies

product mix pricing strategies

Adjusting prices to maximize the profitability for a group of products rather than just one item.

Product mix pricing strategies ◀ involve adjusting prices to maximize the profitability for a group of products rather than for just one item. These strategies include:

- Price lining and bundle pricing
- Optional and captive product pricing

Product Mix Strategies

price lining

A special pricing technique that sets a limited number of prices for specific groups or lines of merchandise.

Price lining ◀ is a special pricing technique that sets a limited number of prices for specific groups or lines of merchandise.

Optional product pricing involves setting prices for accessories or options sold with the main product.

Product Mix Strategies

Captive product pricing sets the price for one product low but compensates for that low price by setting high prices for the supplies needed to operate that product.

Product Mix Strategies

bundle pricing

A pricing technique in which a company offers several complementary products in a package that is sold at a single price.

With **bundle pricing** , a company offers several complementary products in a package that is sold at a single price that is lower than the cost of buying each item separately.

Product Mix Strategies

geographical pricing

A pricing technique that makes price adjustments because of the location of a customer for delivery of products.

Geographical pricing ◀ refers to price adjustments required because of the location of the customer for delivery of products. In this strategy, the manufacturer assumes responsibility for the cost and management of product delivery.

Product Mix Strategies

International pricing must acknowledge:

- Economic conditions
- Exchange rate
- Shipping
- Tariffs

Segmented Pricing Strategies

segmented pricing strategy



A pricing strategy that uses two or more different prices for a product, even though there is no difference in the item's cost.

A **segmented pricing strategy** uses two or more different prices for a product, even though there is no difference in the item's cost. This strategy can help optimize profits and compete more effectively.

Segmented Pricing Strategies

Four factors can help marketers use segmented pricing strategies:

- Buyer identification
- Product design
- Purchase location
- Time of purchase

Psychological Pricing Strategies

Psychological pricing strategies are pricing techniques that help create an illusion for customers. Some common ones are:

- Odd-even and prestige pricing
- Multiple-unit pricing
- Everyday low prices (EDLP)

Psychological Pricing Strategies

Odd-even pricing involves setting prices that end in either odd or even numbers to convey certain images. It is based on a psychological principle that odd numbers convey a bargain image, while even numbers convey a quality image.

Psychological Pricing Strategies

prestige pricing



A pricing technique that sets higher-than-average prices to suggest status and high quality to the consumer.

Prestige pricing ◀ sets higher-than-average prices to suggest status and high quality to the customer.

Multiple-unit pricing suggests a bargain and helps to increase sales volume.

Psychological Pricing Strategies

everyday low prices (EDLP)

Consistently low prices with no intention of raising them or offering discounts in the future.

Everyday low prices (EDLP) ◀ are low prices set on a consistent basis with no intention of raising them or offering discounts in the future. These help to reduce promotional expenses and losses due to discounting.

Promotional Pricing

promotional pricing

A pricing technique in which prices are reduced for a short period of time; generally used in conjunction with sales promotions.

Promotional pricing ◀ is generally used in conjunction with sales promotions where prices are reduced for a short period of time. Two common types are:

- Loss leader pricing
- Special-event pricing

Promotional Pricing

Loss leader pricing is used to increase store traffic by offering very popular items for sale at below-cost prices.

In special-event pricing, items are reduced in price for a short period of time, based on a specific happening or holiday.

Promotional Pricing

Rebates are partial refunds provided by the manufacturer to consumers while coupons allow customers to take reductions at the time of purchase.

Discounts and Allowances

Discount pricing involves the seller offering reductions from the usual price, and it can be done with:

- Cash, quantity, and trade discounts
- Seasonal discounts and special allowances

Discounts and Allowances

Quantity discounts are rewards for consumers who buy large amounts of a product. These discounts can be one of two types:

- Noncumulative
- Cumulative

Discounts and Allowances

Trade discounts are the way manufacturers quote prices to wholesalers and retailers, they are not actual discounts.

Seasonal discounts are offered to buyers willing to buy at a time outside the customary buying season.

Discounts and Allowances

Trade-in allowances go directly to the buyer. Customers are offered a price reduction if they sell back an old model of the product they are purchasing.

The Pricing Process and Related Technology

As one of the four Ps of the marketing mix, pricing is one of the most flexible because pricing strategies and prices can be changed quickly.

Steps in Determining Prices

There are six basic steps that are used to determine prices:

- Establish pricing objectives
- Determine costs
- Estimate demand and study competition
- Decide on a pricing strategy and set prices

Steps in Determining Prices

To set effective prices, the pricing objectives must conform to the company's overall goals. They must also be specific, time-sensitive, realistic, and measurable.

Businesses must consider all of the costs involved in making a product available for sale.

Steps in Determining Prices

To estimate demand, marketers must research how the public will receive their product or service based on supply-and-demand theory and on the exceptions that occur because of demand elasticity.

Businesses need to investigate what prices their competitors are charging for similar goods.

Steps in Determining Prices

When choosing a pricing strategy, be sure your decision conforms to your pricing objectives.

The final step is setting the price. Marketers must decide how often they want to change their final, published prices.

Pricing Technology

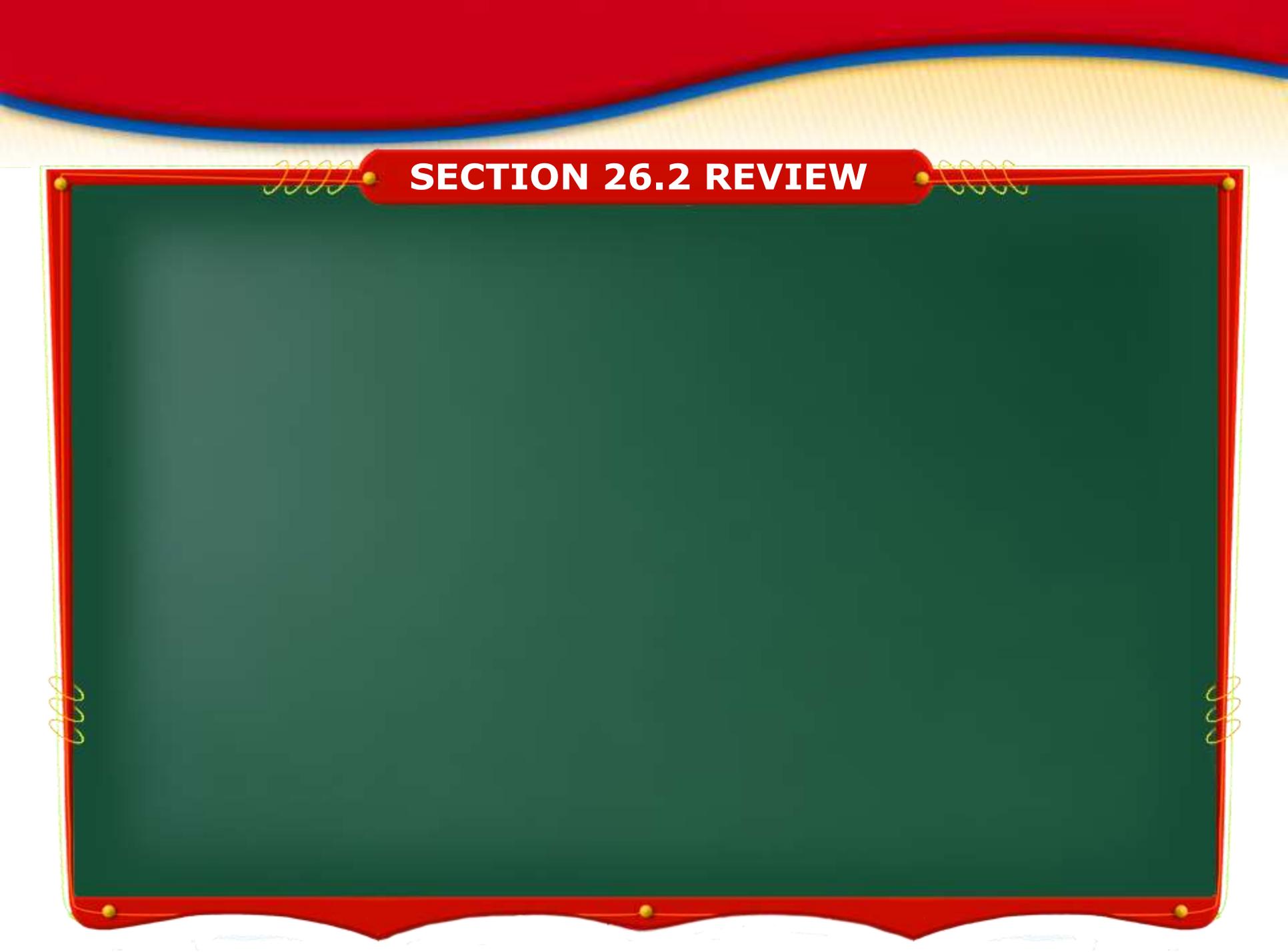
Smart pricing allows marketers to make intelligent pricing decisions based on an enormous amount of data that Web-based pricing technology makes available.

Computer software uses the data to suggest prices and advise when to take markdowns.

Pricing Technology

Electronic shelves and digital price labels let retailers change prices quickly and easily. Many stores already use kiosks where customers can check prices, as well as self-checkout counters.



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SECTION 26.2 REVIEW

SECTION 26.2 REVIEW

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FOCUS on KEY POINTS

Section 26.1

- Establishing a base price for a product can be accomplished by combining cost-oriented, demand-oriented, and competition-oriented policies, as well as considering resellers' needs.
- Businesses must decide whether to use a one-price policy or a flexible pricing policy.

continued

FOCUS on KEY POINTS

Section 26.2

- Once a base price is established, price adjustments are made with the use of specific pricing strategies.

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FOCUS on KEY POINTS

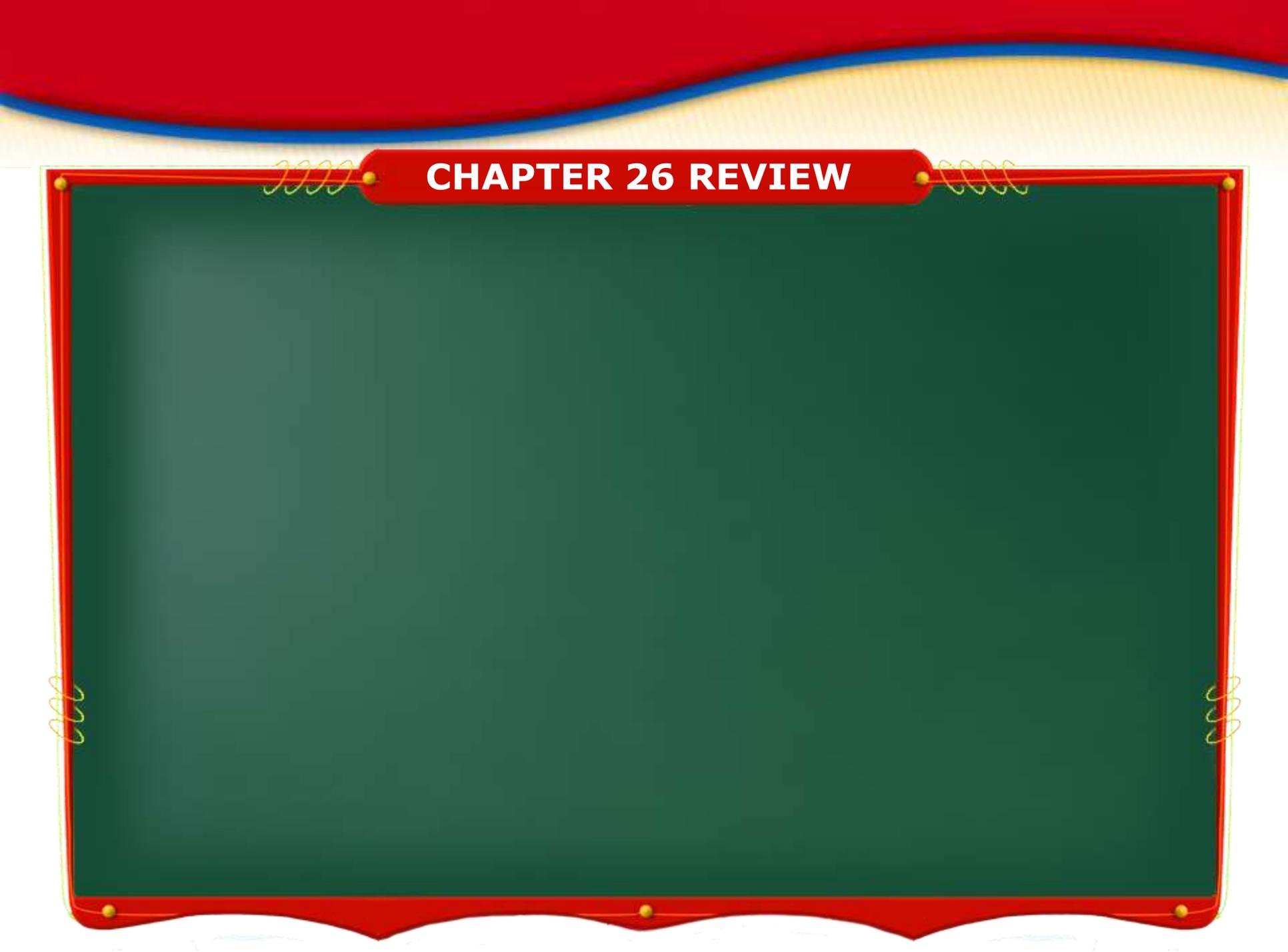
Section 26.2

- There are six steps used to determine prices: establishing pricing objectives, determining costs, estimating demand, studying competition, deciding on a strategy, and setting the actual price.



This chapter has helped prepare you to meet the following DECA performance indicators:

- Explain factors affecting pricing decisions.
- Describe pricing strategies.
- Select pricing strategies.
- Make oral presentations.
- Demonstrate orderly and systematic behavior.



CHAPTER 26 REVIEW

CHAPTER 26 REVIEW

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