

Ind. 5.01 – Develop a foundational knowledge of pricing to understand its role in marketing. (Part I)



ENTREPRENEURSHIP I

What is Pricing?



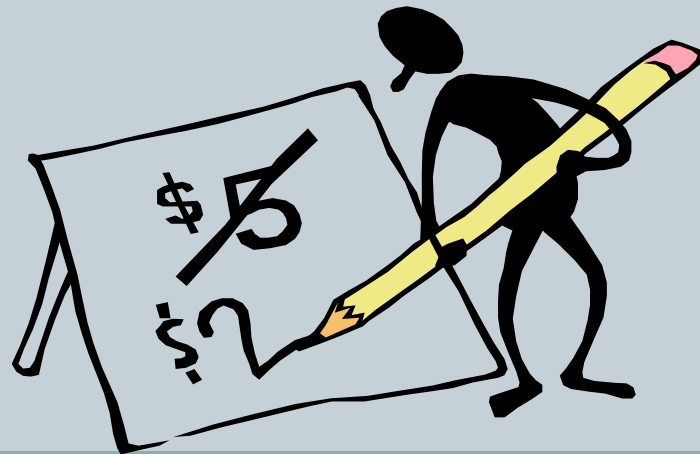
- Pricing is a marketing function that involves the determination of an exchange price at which the buyer and seller perceive optimum value for a good or service.
- Effective pricing is important for:
 - Customer satisfaction
 - The continued success of a business



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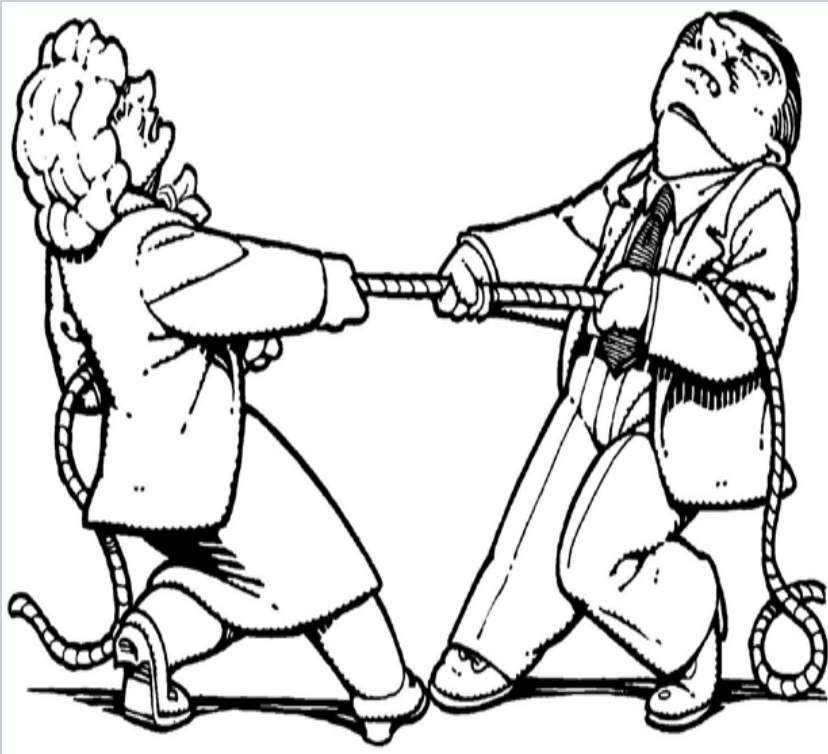


- Pricing isn't as simple as just placing a tag on an item that tells customers how much they owe. It involves:
 - Perceiving Optimum Value
 - ✦ Buyers & sellers must feel they are receiving the most from the product
 - Determining the exchange price
 - ✦ The amount of money the buyer is willing to pay and the seller is willing to accept.



Pricing is a Tug of War

- Buyers want low prices
- Sellers want high prices



- The trick is to find a balance!
- If this doesn't happen:
 - Consumers spend their money elsewhere
 - A businesses sales will decline – products will be discontinued or prices will change

Characteristics of Effective Pricing



- No single factor makes an effective price
- Marketers must keep a number of characteristics in mind when setting a price, such as:
 - Being Realistic – neither too high or too low
 - Being Flexible – adjustments may be increases or decrease, depending on the circumstances the business faces
 - Being Competitive – when similar products are offered by your competition, you must be aware of the price they are charging



Prices have many names.....

- Interest
- Wages/Salary
- Fees
- Dues
- Fare
- Admission
- Service Charge
- Tuition
- Rent
- Etc.

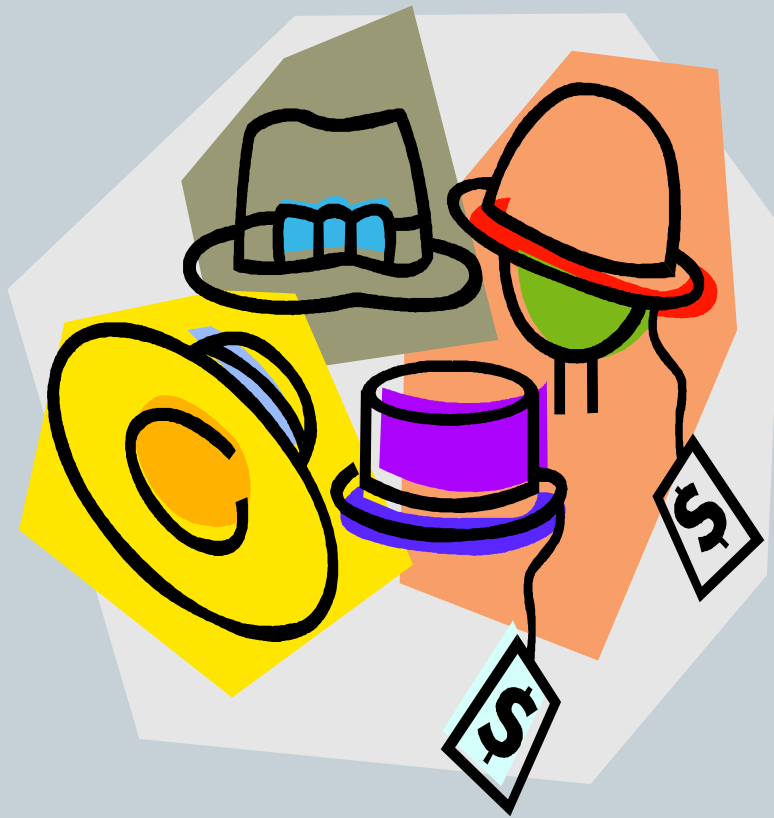


More About Pricing...



- What is actually being priced?
 - The product and all of its associated services
 - ✦ i.e. In the case of a car, it's not just the car itself. The price includes the car and all of the associated services—transportation and delivery charges, credit, etc.
- Who sets prices?
 - Depending on the size of the business, many people may be involved in establishing prices. This person will check competitors' prices and use the company's own records to establish prices for the goods and services the business offers.
 - In a smaller business, the person most often responsible for setting prices is the manager or owner.
 - In larger companies, an entire department (part of marketing) is usually responsible for setting prices for the company.

Factors Affecting Price



- Costs
- Supply and demand
- Economic conditions
- Competition
- Government regulations
- Channel members
- Company objectives and strategies

How Pricing Affects Product Decisions

- **Research**
 - Research costs money!
- **Profit Decisions**
 - Can we make a profit by selling this product?
 - Can we achieve the return in investment we want?
 - Can we set our prices high enough to answer the other two questions with a yes?
- **Materials used in production**
 - The quality of materials used is reflected in the product's price
- **Customer Decisions**
 - A companies pricing strategy will determine the type of customer it will attract
- **Company Image**
 - Pricing will help to determine the businesses image



How Pricing Affects Promotion Decisions



- **Choice of Medium**

- Products with low profit margins are promoted in lower priced media (i.e. radio)
- Products with higher profit margins are promoted in a combo of media (i.e. radio, tv, newspapers, & magazines)
- The bigger the ad, the higher its cost

- **Amount of Money Spent**

- The amount of money spent on promotion is built into the cost of the product, therefore the more promotion=higher price

- **Time Allocated to the Promotion**

- The longer the promotion, the higher the price

How Pricing Affects Place Decisions



- **Choice of Transportation Channels**

- Businesses choose the type of transportation that fits in their budget & gets the product to the destination at the right time
- The cost of this transportation will be built into the price of the product

- **Where the Product is Offered**

- A product's price affects where it is sold.
 - ✦ Goods and services with high prices will be carried by stores that sell higher priced items.
 - ✦ If a product is priced inexpensively, it will sell at a different type of store.

Pricing Objectives



- Pricing objectives are the goals a company hopes to accomplish through its pricing strategies
- There are a number of pricing objectives companies may have, they may relate to:
 - Profitability – making as much money as possible or simply covering the cost
 - Sales – selling as many as possible or gaining a certain market share
 - Competition
 - Image/Prestige – setting prices to keep a certain image in the customers mind