

Objective 5.02

The Price Strategy

Pricing strategy video

<https://youtu.be/XBmWEduod5k>

Factors Affecting Price

- Costs and Expenses
 - fixed - Business costs that are not affected by changes in sales volume. Examples: rent, utilities, insurance premiums
 - variable - Business costs that change according to changes in sales volume. Examples: cost of goods or services, sales commission, delivery charges, advertising
- Supply and Demand
 - Supply -the amount of goods or services that producers are willing to provide. When there is a low demand and supply is high you need to set your prices lower.
 - demand-the quantity of goods or services that consumers are willing and able to buy at various prices. When the demand for your product is high and supply is low, you can charge a high price.

- **Consumer Perception**
 - **Different target markets have different perceptions and opinions about price**
- **Competition – the rivalry among businesses for consume dollar**
- **Government Regulations**
 - **price gouging – pricing above the market when no other retailer is available**
 - **price fixing – an illegal practice in which competing companies agree, formally or informally, to restrict prices within a specified range**
 - **resale price maintenance – price fixing imposed by a manufacturer on wholesale or retail resellers of its products to deter price-based competition**
 - **unit pricing – the pricing of goods on the basis of cost per unit of measure, such as a pound or an ounce, in addition to the pice per item**
 - **bait-and-switch – a descriptive and illegal method of selling in which a customer, attracted to a store y an advertised sale, is told either that the advertised item is unavailable or is inferior to a higher-priced item that is available**
- **Technological trends – Using the internet can provide customers with easy access to prices, products information, and services and adapting to technological changes can give a business a competitive edge**

Pricing Objectives

- Obtaining a target return on investment
 - return on investment (ROI) – the amount earned as a result of an investment
- Obtaining market share – is a business's portion of the total sales generated by all competing companies in a given market
- other objectives – can include social and ethical considerations, as well as meeting the competition's prices and establishing an image

Pricing strategy decisions

- Setting a basic price-setting
 - cost-based pricing – where you consider your business costs and your profit objectives
 - demand-based pricing – requires you to find out what customers are willing to pay for your product, then set the price accordingly
 - competition-based pricing – you need to find out what your competitors charge, then decide what you should charge for your product
- Pricing policies – establishing a pricing policy frees you from making the same pricing decisions over and over

- **product life cycle pricing**

- Stage 1: Introduction – sales volume is relatively low marketing costs are high, and profits are low or even in the negative
 - price skimming – the practice of charging a high price on a new product or service in order to recover costs and maximize profits as quickly as possible; the price is then dropped when the product or service is no longer unique
 - penetration pricing – a method used to build sales by charging a low initial price to keep unit costs to customers as low as possible
- Stage 2: Growth – sales climb rapidly, units costs are decreasing, the product begins to show a profit, and competitors come into the market
- Stage 3: Maturity – sales begin to slow and profits peak, but profits fall of as competition increases
- Stage 4: Decline – sales and profits continue to fall

- **Pricing techniques**

- **Psychological pricing – a pricing technique, most often used by retail businesses, that are based on the belief that customers' perceptions of a product are strongly influenced by price, odd/even pricing, price lining, promotional pricing, multiple-unit pricing, and bundle pricing**
- **prestige pricing – a pricing technique in which higher-than-average prices are used to suggest status and prestige to the customer**
- **odd/even pricing – a pricing technique to which odd-numbered prices are used to suggest bargains**
- **price lining – a pricing technique in which items in a certain category are priced the same**
- **promotional pricing – a pricing technique in which lower prices are offered for a limited period of time to stimulate sales**
- **multiple-unit pricing- a pricing technique in which items are priced in multiples**
- **bundle pricing – a pricing technique in which several complementary products are sold at a single price, which is lower than the price would be if each item was purchased separately**

- Discount pricing
 - Discount pricing – a pricing technique that offers customers reductions from the regular price; some reductions are basic percentage-off discounts and others are specialized discounts

- **Calculating and Revising Prices**

- **□ Break-Even Analysis – The level of sales at which revenues equal total costs - (Fixed Costs) / (unit selling price – variable costs) = Number of units needed to break-even**

- **selling price – the actual or projected price per unit**

- **□ Markup -the amount added to the cost of an item to cover expenses and ensure a profit (cost + markup = price; price – markup = cost; price – cost = markup)**

- **□ Markdown – the amount of money taken off an original price (price * markdown percentage = \$ markdown; price – markdown = sales price)**

- **□ Discounts – a pricing technique that offers customers reductions from the regular price; some reductions are basic percentage off discounts and others are specialized discounts (price * discount percentage = discount dollars; price – discount dollars = discounted price)**

- Possible changes to pricing strategy
 - Adjusting prices to maximize profit – profit or loss is determined by the difference between your selling price and your costs. Before doing either 2 questions to ask:
 - Are your products' prices elastic or inelastic?
 - What are your competitors' price?
 - Reacting to market prices – you must keep your eye on current market prices for your products
 - Revising terms of sale – you can change your credit policies or introduce trade, quantity, or cash discounts

- floor limit – the maximum amount a salesperson may allow a customer to change without getting special authorization
- □ elasticity of demand – The degree to which demand for a good or service varies with its price.
- □ price ceiling – The maximum price a seller is allowed to charge for a product or service.