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

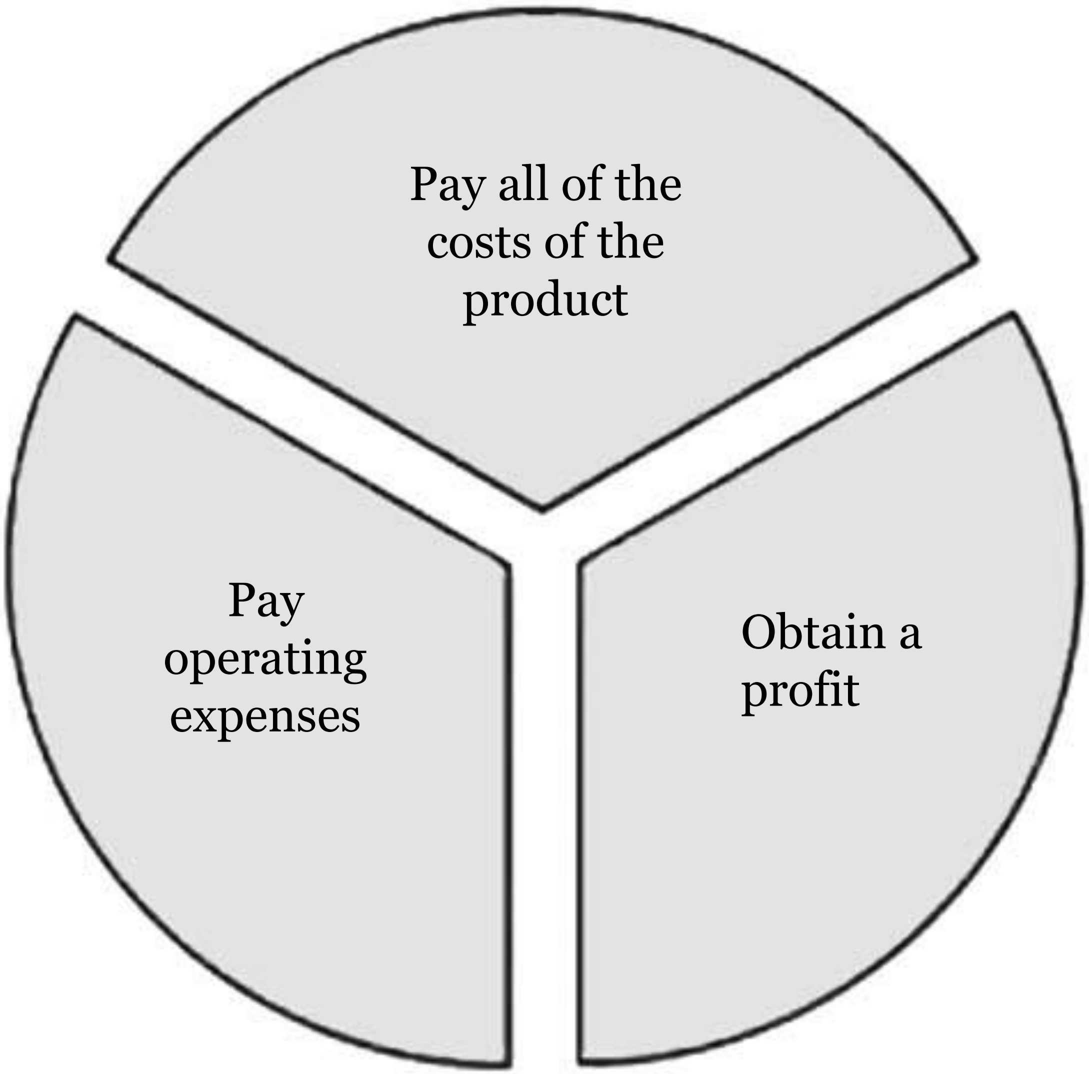
ENTREPRENEURSHIP I

What is a Selling Price?

- The selling price the amount the seller charges for a product
- Each business goes through its own process to determine prices.
- Selling prices are dynamic – they do not remain the same, they fluctuate.

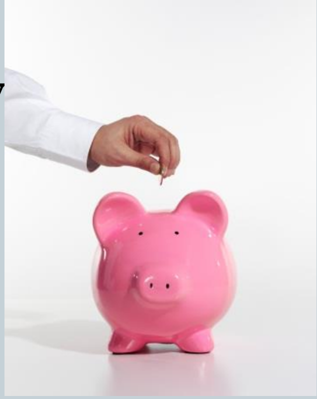
Components of the Selling Price

From selling price, the business must:



Importance of Selling Price

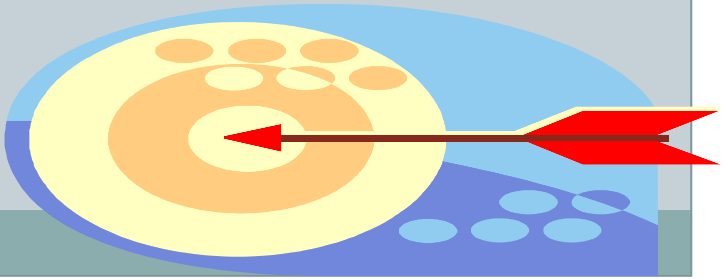
- For Customer
  - Helps them decide how to allocate money
    - People cannot buy everything they want so price helps them to decide what they can afford
  - Helps them compare products
    - Price = Quality



- For Businesses
  - Helps them determine amount of income from sales
    - They must include enough mark-up to pay current expenses & provide for future growth
  - Helps them reach company goals

Pricing Objectives

- A firm's pricing objectives should be compatible with its marketing objectives.
  - The business must know where it wants to go before it can choose selling prices that will help it to get there.
  - Sometimes, a business must use a combination of pricing objectives to reach its goals.
  - In all cases, the business should set its marketing objectives first, and then select pricing objectives that seem most likely to help it meet its marketing objectives.
- Pricing objective will change as circumstances inside & outside of the business change.



Sales-Oriented Pricing Objectives

- Purpose – to increase the total amount of income from sales
- Two ways to do this:
  - Charge lower prices to increase sales volume
  - Charge higher prices to increase the dollar value of its sales
- Some specific objectives a business might achieve:
  - Creating an image
  - Being more competitive (similar price, higher price, or lower price)
  - Obtaining, maintaining, & increasing market share

Profit-Oriented Pricing Objectives

- Purpose – to create profits for the business
  - Some businesses want to make the most profit possible but most simply want to recover costs and make a reasonable profit
- Some specific objectives a business might achieve:
  - Surviving
  - Maximizing profits
  - Earning return on investment - specific % of profit based on the amount of money put into the business
  - Earning return on sales – basing the amount of profit they want to earn on sales. Corporations often use this to avoid the government of accusing them of unfair trade practices or earning too much profit

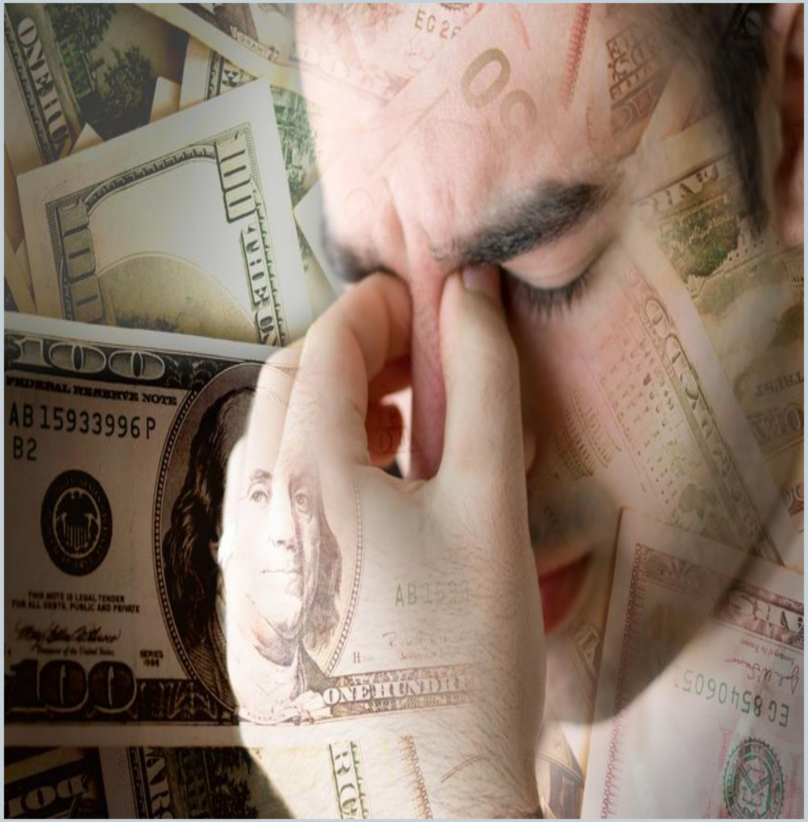
Factors Affecting Selling Price

- Costs (fixed & variable)
  - Knowing the total costs of a product is very important in setting selling prices because the business needs to recover those costs.
  - If it doesn't, the business will eventually go broke.

- Supply & Demand
  - When consumer demand for a product increases, producers make more of it, the supply increases.
  - As the supply increases, the number of buyers may decrease, and sellers will have to reduce the price of the game to get it off the shelves.
  - On the other hand, if the producer is not able to increase production, and the supply of the product does not increase, the price may go up.
  - Customers may be willing to pay the higher price to obtain the product.
  - However, if the selling price goes too high, customers may stop buying, and demand will drop.

Factors Affecting Selling Price

- Economic Conditions
  - The national economy is always changing.
  - Ups and downs in economic activity are known as business cycles.



Factors Affecting Selling Price - Competition

- Pure Competition
  - In a pure competitive market, there are a great many buyers and sellers of nearly identical products, and marketers have very little control over pricing.
  - More competition exists in this kind of market than in any other.
  - Most products are sold at market price—the actual price that prevails in a market at any particular moment.
  - Market price is controlled by supply and demand.
  - Sellers can’t raise their prices above the market price because buyers can obtain all they want of the product at the lower, market price.
  - Sellers also can’t lower the price to increase demand because buyers are already buying as much as they want of the product.

Factors Affecting Selling Price - Competition

- Monopolistic Competition
  - In a monopolistic competitive market, there are many buyers and sellers, but there is a range of prices rather than one market price.
  - Demand for products may be elastic or inelastic.
  - Companies make their products different from each other in terms of quality, service, features, styles, as well as prices, so that competition is not based on price alone.
  - Customers decide which product to buy based on its difference from other products.
  - There are both big firms and small businesses competing in this kind of market.

Factors Affecting Selling Price - Competition

- Oligopoly
  - In an oligopolistic market, there are relatively few sellers, and the industry leader usually determines prices.
  - Prices are fairly stable because not too many new firms can afford to enter the market.
  - If the industry leader raises or lowers prices, the other firms usually follow suit.
  - Sellers watch each other's pricing because they know they will lose customers if the competition lowers prices.
  - Competition is more likely to be based on style or brand than on price.

Factors Affecting Selling Price - Competition

- Monopoly
  - In a pure monopoly, there is only one seller or provider of a product, and no substitutes are readily available.
  - Pure monopolies have been almost eliminated by the federal government because monopolies control the pricing of their products.
  - This is unfair to customers who would have to pay whatever price was charged because they could not get the product they needed elsewhere.
  - The monopolies such as utility companies that exist today are either owned or controlled by the government.

Factors Affecting Selling Price

- Government Regulation – state & federal laws
  - Price Fixing - agreeing on a price or price range for a product. This prohibited because it limits competition
  - Price Discrimination - Businesses are not allowed to charge different prices to similar customers in similar situations if doing so would damage competition. These laws were passed to protect small businesses in their competition with larger businesses. Without these laws, a drug wholesaler selling to two drugstores might charge the large drugstore much lower prices than it would charge the smaller drugstore because the large drugstore buys in larger quantities. This would put the smaller store at a competitive disadvantage.

Factors Affecting Selling Price

- Government Regulation – state & federal laws (cont)
  - Price Advertising – prohibits any kind of customer deception. i.e. They may not use bait-and-switch advertising—promoting a low-priced item to attract customers to whom they then try to sell a higher priced item.
  - Unit Pricing - Unit pricing shows  the price per unit (ounce, pound, etc.) along with the total price of the item.
    - Some states have laws requiring businesses to use unit pricing.
    - Unit pricing is an added expense for the business because of the time required to calculate unit prices, print labels, and post prices.
    - However, unit pricing makes it easier for consumers to compare

Factors Affecting Selling Price

- Channel Members
  - Each member must make a profit
  - Channel members who perform certain duties in the process of selling products expect producers to provide them with such support as sales and service training, sales promotions, or cooperative advertising.
  - Producers must consider the cost of the supports they are expected to provide when they price their products.
    - If they price the products too low to be able to provide this kind of assistance, channel members may buy from another producer.
    - If they add too much to their prices to cover support activities, the price may be too high to encourage sales.
  - When manufacturers and producer raise their prices this is passed on the consumer

- Company Objectives & Strategies
  - Product Mix
  - Product Life Cycle
  - Target Market