



Part Eight Pricing Decisions

22

Setting Prices

Objectives

1. To describe the six major stages of the process used to establish prices
2. To explore issues related to developing pricing objectives
3. To understand the importance of identifying the target market's evaluation of price
4. To examine how marketers analyze competitors' prices

Objectives (cont'd)

5. To describe the bases used for setting prices
6. To explain the different types of pricing strategies

Chapter Outline

- Development of Pricing Objectives
- Assessment of the Target Market's Evaluation of Price
- Evaluation of Competitors' Prices
- Selection of a Basis for Pricing
- Selection of a Pricing Strategy
- Determination of a Specific Price

Stages for Establishing Prices



FIGURE 22.1

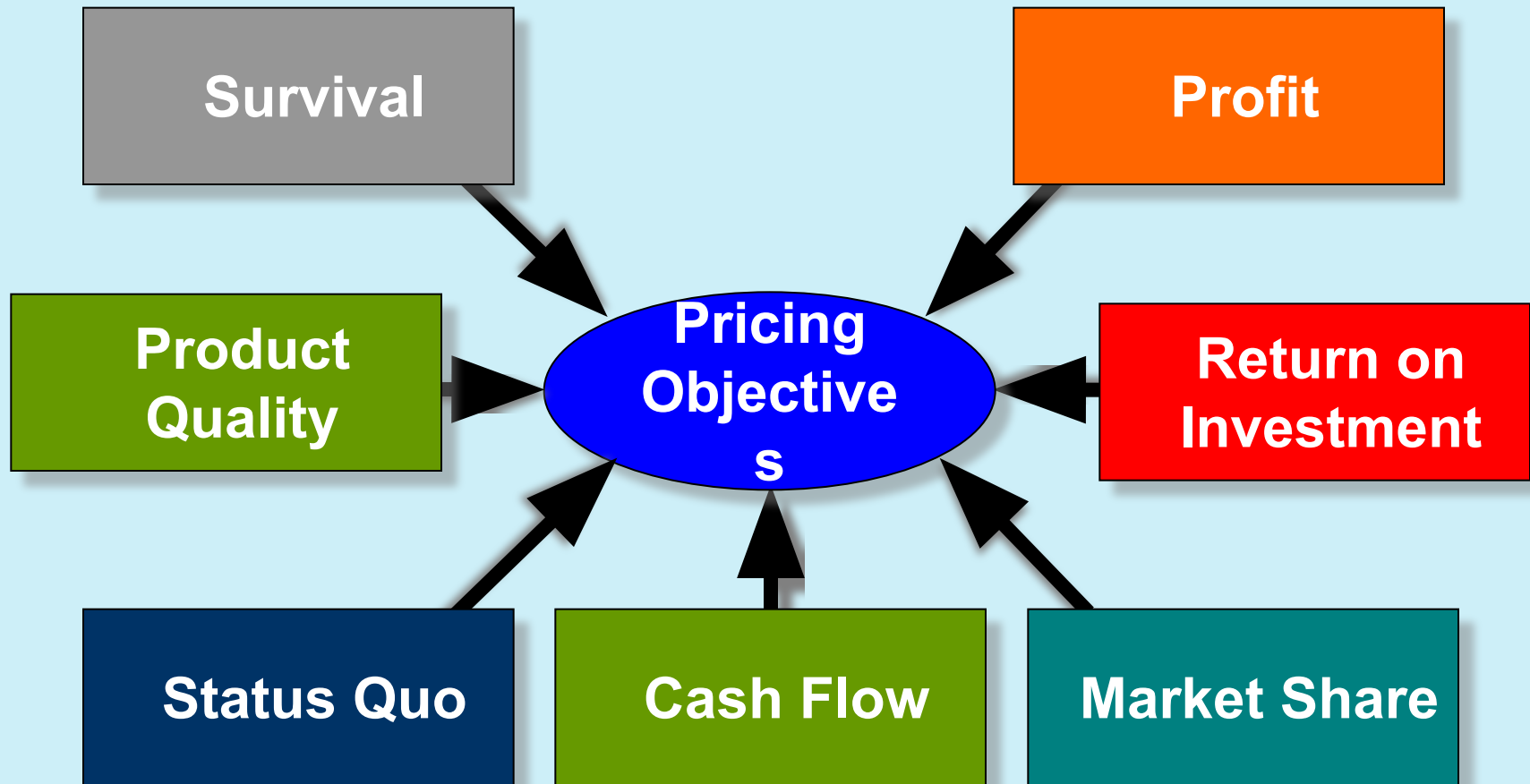
Development of Pricing Objectives

- Pricing objectives
 - are goals that describe what a firm wants to achieve through pricing.
 - form the basis for decisions about other stages of pricing.
 - must be consistent with the firm's overall marketing objectives.
 - can support the attainment of multiple short-term and long-term goals.

Table 22.1**Pricing Objectives and Typical Actions Taken to Achieve Them**

Objective	Possible Action
Survival	Adjust price levels so the firm can increase sales volume to match organizational expenses
Profit	Identify price and cost levels that allow the firm to maximize profit
Return on investment	Identify price levels that enable the firm to yield targeted ROI
Market share	Adjust price levels so the firm can maintain or increase sales relative to competitors' sales
Cash flow	Set price levels to encourage rapid sales
Status quo	Identify price levels that help stabilize demand and sales
Product quality	Set prices to recover research and development expenditures and establish a high-quality image

Development of Pricing Objectives (cont'd)



Assessment of the Target Market's Evaluation of Price

- The Importance of Price
 - Type of product
 - Type of target market
 - The purchase situation
- Value Focus
 - A combination of product's price and quality attributes
 - Helps customers differentiate a product from competing brands
 - Guides marketers in their evaluation of the importance of price to the consumer

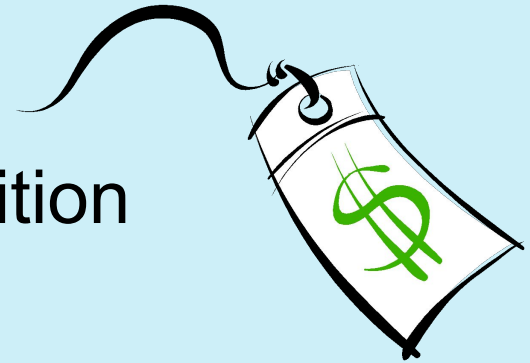


Evaluation of Competitors' Prices

- Sources of Competitors' Pricing Information
 - Comparative Shoppers
 - Persons who systematically collect data on competitors' prices
 - Purchased Price Lists
 - Developed by syndicated marketing research services
- Importance of Knowing Competitors' Prices
 - Helps determine how important price will be to customers
 - Helps marketers in setting competitive prices for their products

Selection of a Basis for Pricing

- Dimensions of Pricing
 - Cost, demand, and competition
- Bases for Pricing
 - Type of product
 - Market structure of the industry
 - Brand's market share relative to competing brands
 - Customer characteristics



Selection of a Basis for Pricing (cont'd)

- Cost-Based Pricing
 - Adding a dollar amount or percentage to the cost of the product
 - Cost-Plus Pricing
 - Adding a specified dollar amount or percentage to the seller's cost
 - Markup Pricing
 - Adding to the cost of the product a predetermined percentage of that cost

Calculating Markups

$$\text{Markup as a Percentage of Cost} = \frac{\text{Markup}}{\text{Cost}} = \frac{15}{45} = 33.3\%$$

$$\text{Markup as a Percentage of Selling Price} = \frac{\text{Markup}}{\text{Selling Price}} = \frac{15}{60} = 25.0\%$$

Selection of a Basis for Pricing (cont'd)

- Demand-Based Pricing
 - Customers pay a higher price when demand for a product is strong and a lower price when demand is weak.
 - Effectiveness depends on marketer's ability to estimate demand accurately.
- Competition-Based Pricing
 - Pricing influenced primarily by competitors' prices
 - Importance increases when competing products are relatively homogeneous
 - May necessitate frequent price adjustments

Table 22.2

Common Pricing Strategies

Differential Pricing

- Negotiated pricing
- Secondary-market pricing
- Periodic discounting
- Random discounting

New-Product Pricing

- Price skimming
- Penetration pricing

Product-Line Pricing

- Captive pricing
- Premium pricing
- Bait pricing
- Price lining

Psychological Pricing

- Reference pricing
- Bundle pricing
- Multiple-unit pricing
- Everyday low prices
- Odd-even pricing
- Customary pricing
- Prestige pricing

Professional Pricing

Promotional Pricing

- Price leaders
- Special-event pricing
- Comparison discounting

Selection of a Pricing Strategy

- Differential Pricing
 - Charging different prices to different buyers for the same quality and quantity of product

Strategy	Action
Negotiated pricing	Establishing a final price through bargaining
Secondary-market pricing	Setting one price for the primary market and a different price for another market
Periodic discounting	Temporary reduction of prices on a patterned or systematic basis
Random discounting	Temporary reduction of prices on an unsystematic basis

Selection of a Pricing Strategy (cont'd)

- New Product Pricing
 - Price Skimming
 - Charging the highest possible price that buyers who desire the product will pay
 - Penetration Pricing
 - Setting prices below those of competing brands to penetrate a market and gain a significant market share quickly



Selection of a Pricing Strategy (cont'd)

- Product-Line Pricing
 - Establishing and adjusting prices of multiple products within a product line

Strategy	Action
Captive pricing	Pricing the basic product in a product line low while pricing related items at a higher level
Premium pricing	Pricing the highest-quality or most versatile products higher than other models in the product line
Bait pricing	Pricing an item in the product line low with the intention of selling a higher-priced item in the line
Price lining	Setting a limited number of prices for selected groups or lines of merchandise

Price Lining

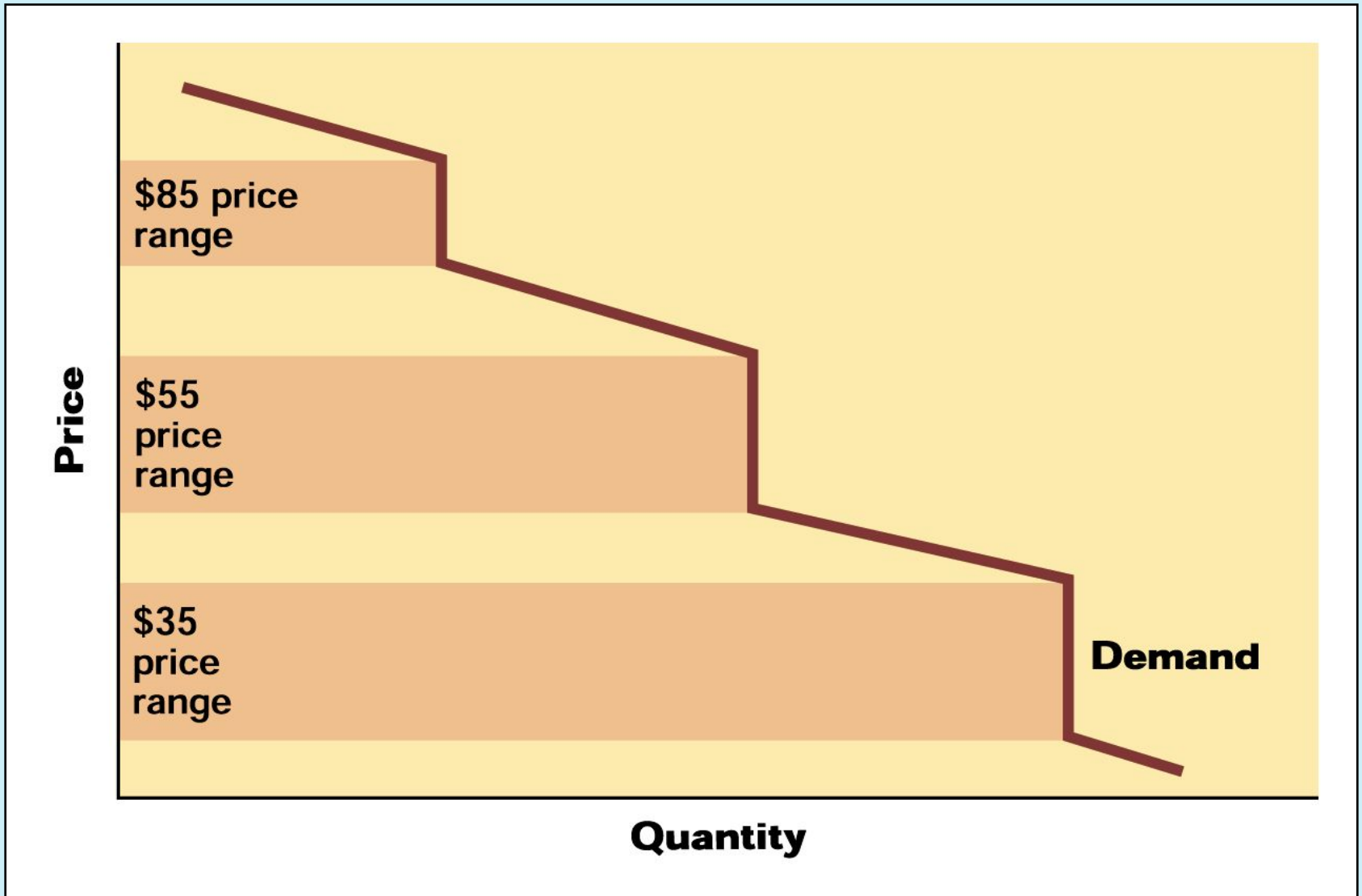


FIGURE 22.2

Selection of a Pricing Strategy (cont'd)

- Psychological Pricing
 - Attempting to influence a customer's perception of price to make a product's price more attractive

Strategy	Action
Reference pricing	Pricing a product at a moderate level and positioning it next to a more expensive model or brand
Bundle pricing	Packaging together two or more complementary products and selling them for a single price
Multiple-unit pricing	Packaging together two or more identical products and selling them for a single price
Everyday low prices (EDLP)	Setting a low price for products on a consistent basis

Selection of a Pricing Strategy (cont'd)

- Psychological Pricing (cont'd)

Strategy	Action
Odd-even pricing	Ending the price with certain numbers to influence buyers' perceptions of the price or product
Customary pricing	Pricing on the basis of tradition
Prestige pricing	Setting prices at an artificially high level to convey prestige or a quality image

Selection of a Pricing Strategy (cont'd)

- Professional Pricing
 - Fees set by people with great skill or experience in a particular field
- Promotional Pricing
 - Price leaders
 - Products priced below the usual markup, near cost, or below cost
 - Special-event pricing
 - Advertised sales or price cutting linked to a holiday, season, or event
 - Comparison discounting
 - Setting a price at a specific level and comparing it with a higher price

After reviewing this chapter you should:

- Understand the six major stages of the process used to establish prices.
- Have explored issues connected with developing pricing objectives.
- Understand the importance of identifying the target market's evaluation of price.
- Be able to analyze competitive prices.

After reviewing this chapter you should:

- Be familiar with the bases used for setting prices.
- Understand the different types of pricing strategies.
- Understand the features that impact the setting of a specific, final price.