أكاديمية
إعمل بيزنس

المحاضرة السادسة

MARKETING PLANE
SIXTH PART
PRICING CONSIDERATIONS AND STRATEGIES

By

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Old Russian proverb

There are two kinds of fools in any market . One does not charge enough. The other charges too much

Pricing

Pricing?

Good question

Pricing

- Pricing is the monetary value placed upon a product /service by the marketer

- Revenue(sales) =price x quantity

- Profit =revenue (sales) – cost

Types of Cost Factors that Affect Pricing Decisions

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Fixed Costs
(Overhead)
Costs that don't
Vary with sales or production levels
Executive Salaries, Rent

Variable Costs

Costs that do vary directly with the level of production Raw materials

Total Costs
Sum of the Fixed and Variable Costs for Any Given Level of Production

Types of Cost Factors that Affect Pricing Decisions cont.,

Example:

Factory 1000 **U/A**

Total fixed cost 100000$

Variable cost(row martial) 10$/**U**

What is the cost of the unite??

F.C/U= 100000/1000=100$

V.C/U= 10$

Total cost/unite= F.C/U + V.C/U

=100 + 10 = 110

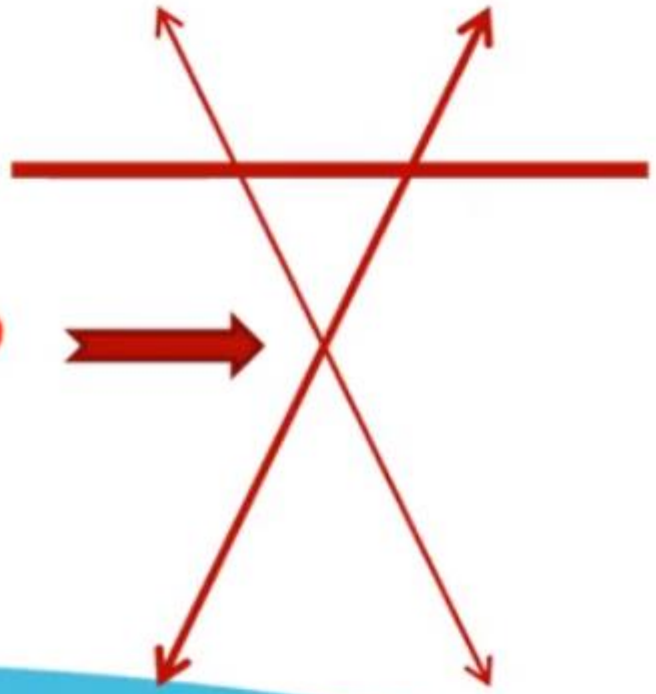
Types of Cost Factors that Affect Pricing Decisions

What is the breakeven point (BEP)???

It is the point that cost=price which means profit=0

So when pricing I should use a price over (BEP)

No profit no loss BEP



COST

What happen if the no. of produced unites in the previous example increased to 2000 U/A?

What is the customer value? How we calculate?

Factors Affecting Price Decisions

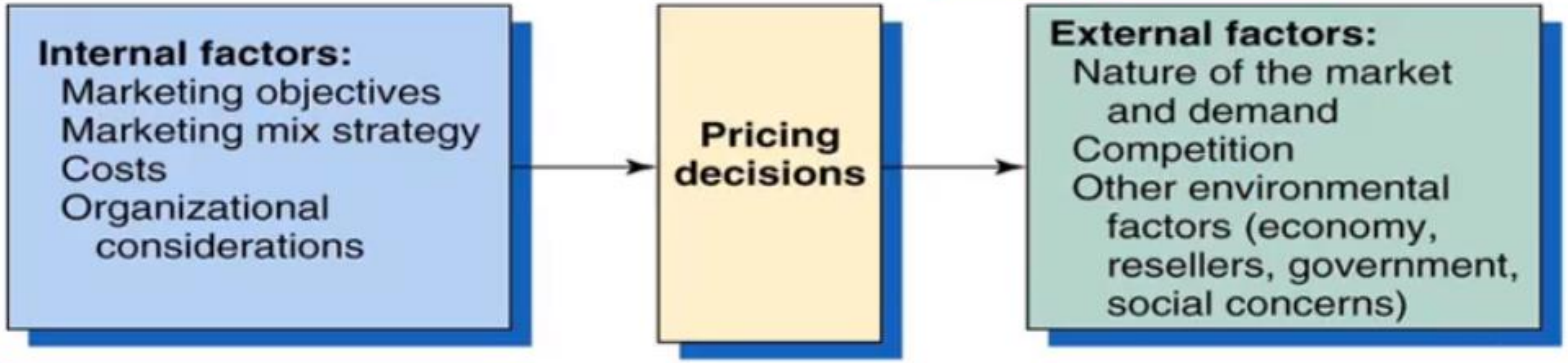
There are 4 factors affecting price decision and pricing strategy:

2 factors internally

- ✓ **Company objectives**
- ✓ **Cost**

2 factors externally

- ✓ **Customers**
- ✓ **Competitors**



We can use PESTEL analysis to ad more in external part that affecting pricing strategy. Like inflation rate, taxation, political issues, interest rate…..

Factors Affecting Price Decisions

- ✓ How is the shape of competition (industry structure) affecting pricing strategy???
- ✓ What are the competition types in any market?
- ✓ What is the price elasticity?
- ✓ How is the price elasticity affecting the pricing??
- ✓ What are factors affecting price elasticity?

How is the shape of competition (industry structure) affecting pricing strategy???

- **I can set my price according to industry structure like how many competitors in the market????**

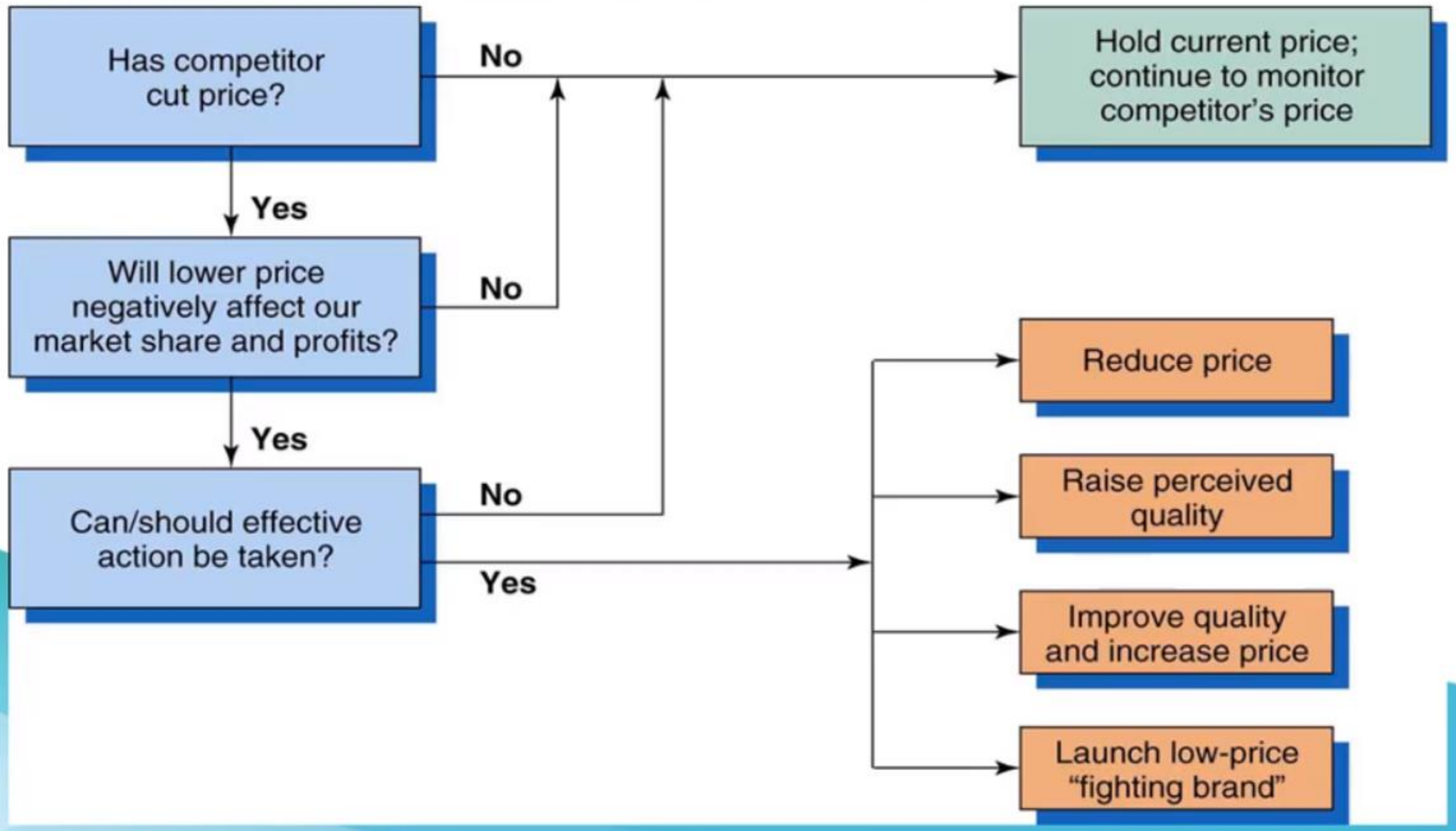
- **Because if there is no competitors (just one seller control the market) I consider monopoly and I can set any price even it is more than normal price under conditions of customer affordability.**

- **If I have a few no. of competitors that means oligopoly who are Sensitive to Each Other's pricing/ marketing strategies and I have to know the market leader.**

- **If there are a lot of buyers and a lot of sellers it considers perfect competition who have little effect on the Price.**

- **Is Carrefour in Egypt a market leader?**
- **What is the examples of monopoly?**

Possible Solution to Price Cuts



What is the price elasticity?

Price elasticity consider % change of demand if there is any change in price. (flexibility of demand to change in price)

Price elasticity= % change of demand/% change of price

Example: If I have 2 products X & Y

PRODUCT X

- ✓ 20% in price ↑
- ✓ 40% in demand ↓

Price elasticity=40/20=2

PRODUCT y

- ✓ 20% in price ↑
- ✓ 10% in demand ↓

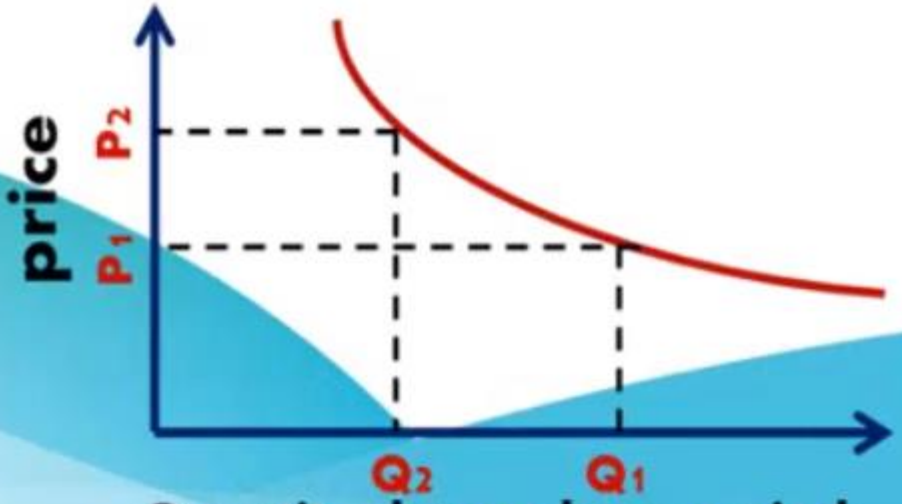
Price elasticity=10/20=0.5

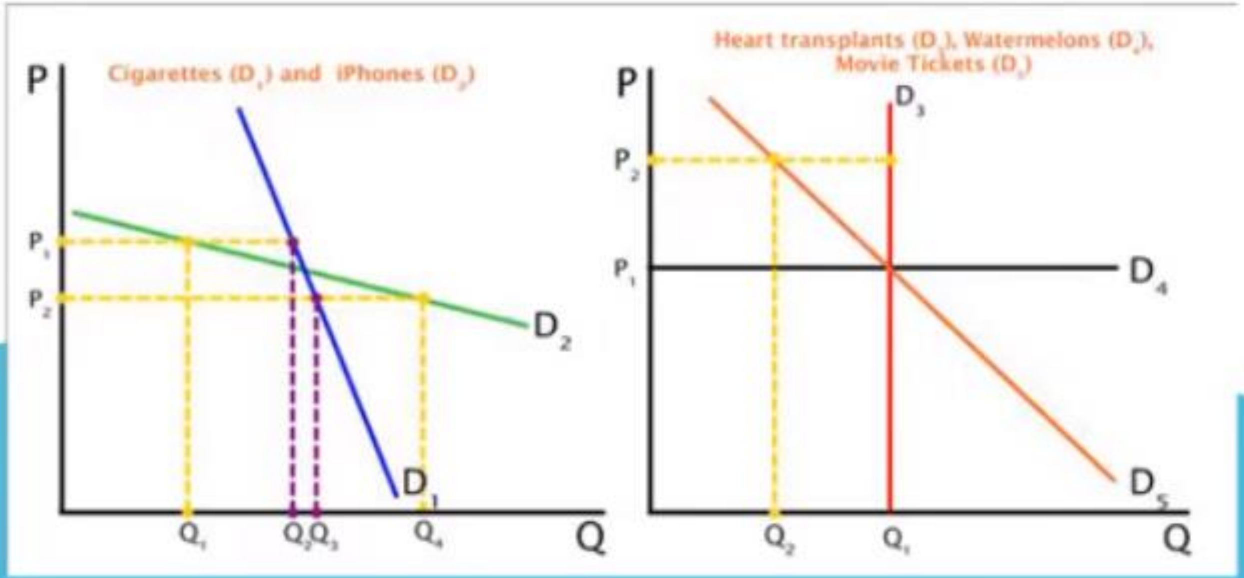
- ❖ If the price elasticity less than 1 the product is price inelastic
- ❖ If the price elasticity more than 1 the product is price elastic

What are factors affecting price elasticity

- Essentiality
- No competitors, no substitute
- Differentiation, innovation

So price elasticity is very effective factor when pricing especially when the product is price elastic.





What are methodologies used to pricing?

- Skimming
- Penetration
- Cost plus
- Psychological pricing
  - Prestigious pricing
  - Odd even pricing
- Captive pricing
- Predatory Pricing (dumping)
- Promotional pricing
  - Special events
  - Lose leader
  - EDLP
- Discrimination pricing
  - By timing
  - By person
  - By place

Cost plus method of pricing

In this method we calculate (BEP) then put from 5:20% over as maximum as a profit because if we put more than 25% it will be converted to skimming method of pricing.

Cost plus method pros and cons

Pros:

- Easy method to be calculated unless there are many products produced at the same entity because some products need more energy or longer time so how I calculate fixed cost/unite.
- Fairer to both buyers and sellers.
- Insure the profitability because when we calculate (BEP) we depend on actual cost so it is preferable to finance people.

Cons:

- Doesn't consider any other elements in the marketing mix like product or place just only the price.
- Difficult to identify fixed costs and overheads for each item.
- Doesn't reflect customers perceptions :
  cheap price = poor product
- Doesn't consider the needs of customers
- Doesn't consider the elasticity of demand for the product

Skimming method of pricing

- Setting a High Price for a new product to "Skim" Maximum revenues from the Target Market.
- Results in Fewer, but more profitable sales.
- Preferable when demand is not guaranteed.

Use Under These Conditions:

- Product's quality and image must support its higher price.
- Competitors shouldn't be able to enter market easily and undercut the high price.

Skimming method of pricing

- It is commonly used in consumer electronics market.
- Recent research shows that customers are aware of skimming in electronics markets and are delaying purchases of new electronic devices until the prices drop.

Skimming method pros and cons

Pros:

- Allows for quick recovery on investment in the new product rapid return on investment (RROI).
- Provides prestigious/quality image to customers.
- Higher prices are likely to appeal to innovator groups
- Can be followed by penetration method.

Cons:

- Encourage the competitors to enter the market quickly.
- Results in lower levels of sales and so fewer economies of scale.
- May attract attention from regulatory bodies.

Penetration method of pricing

- Setting a Low Price for a New Product in Order to "Penetrate" the Market Quickly and Deeply.
- Attract a Large Number of Buyers and Win a Larger Market Share.
- Preferable when demand is guaranteed.

Use Under These Conditions:

- Market must be highly price sensitive so a low price produces more market growth.
- Production/distribution costs must fall as sales volume increases.
- Must keep out competition & maintain its low price position or benefits may only be temporary.

Penetration method pros and cons

Pros:

- Large sales volume.
- Economy of scale.
- Prevent competitors from entering the market.

Cons:

- It is often difficult to raise price after using this policy
- It may not be appropriate due to costs of R&D and competitor positions
- Slow return on investment (SROI)
- Innovators haven't interest to try.

New product pricing

Skimming Pricing

- ❑ A very high, premium price.
- ❑ Product is new & highly desirable with unique benefits.
- ❑ Demand is highly inelastic.
- ❑ Allows the company to recover R&D & promotional costs.
- ❑ There is a high courage for entry to competitors.

Penetration Pricing

- ❑ A very low price to encourage consumers to buy.
- ❑ The objective is to sell more at a short period of time.
- ❑ Discourage competitors to enter the market (increase entry barriers).

New product pricing

Trial Pricing

- Pricing a new product low for a limited period of time in order to lower the risk for consumers.
- Win customer acceptance first, and then make profits later.

Psychological pricing

- Pricing Considers kind of psychology not simply the economics.
- Customers use price less when they can judge quality of a product.
- Price becomes an important guide when customers can't judge quality at this time price is used to say something about a product.

Odd even pricing

- 9.90
- Lower category in taxation.
- Let customer feel that he still in area of less than 10.
- The foolish marketers who set a price with 10.25

Prestigious pricing

Selling prestigious, innovative, high quality product with high price to reflect all of those properties.

Captive pricing

- Selling a product with complementary, mandatory, disposable product.
- Example: market research in USA a bout average times of shaving per year.
- Selling bundle of product together. (for instance… monitor, keyboard, CPU in a computer package)

Optional & Captive Products

- **Optional-Product**
  Pricing optional or accessory products sold with the main product.
  For instance..... Camera & camera bag.

- **Captive-Product**
  Pricing products that must be used with the main product.
  For instance..... Camera & camera films.



Captive pricing – Case study

HP began cutting prices on its printers by as 60% in some cases. HP could afford to make such dramatic cuts because customers typically spend twice as much on replacement ink cartridges ,toner, and specialty paper as on the actual printer over the life of the product .As the price of the printers dropped printer sales rose. HP now owns about 40% of the worldwide printer business.

Predatory Pricing (dumping)

Means that a company sets a very low price for the purpose of driving competitors out of business.

Promotional pricing

Special events

Selling products with special prices according to special events.

examples:

- **Carrefour used to sell product with prices under normal price before Ramadan event.**

Promotional pricing

Lose leader

Selling main products with prices under common price to attract a lot of customers and generate high traffic on the store and beside those products selling other needed products with common or above prices.

Note:

This methods is sufficient when there is a big distance between stores. Under condition of offering only one main product under normal price and changed from time to time.

Segmented (discrimination) pricing

Selling products at 2 or more prices even though there is no difference in cost.

By time :

like skimming & Hotels

Example:

IPhone	**5000**	**4000**	**3000**	**2000**
	start	**growth**	**maturity**	**when new version appeared**

Segmented (discrimination) pricing

By person:

like Hotels

Example:

Hotels	**500$**	**300 L.E**
	Tourist	**Egyptian**

Segmented (discrimination) pricing

By place:

like TV

Example:

TV	**3000 L.E**	**2000 LYRA**	**1000 DARHEM**
	EGYPT	**LEBANON**	**EMARITES**

International pricing

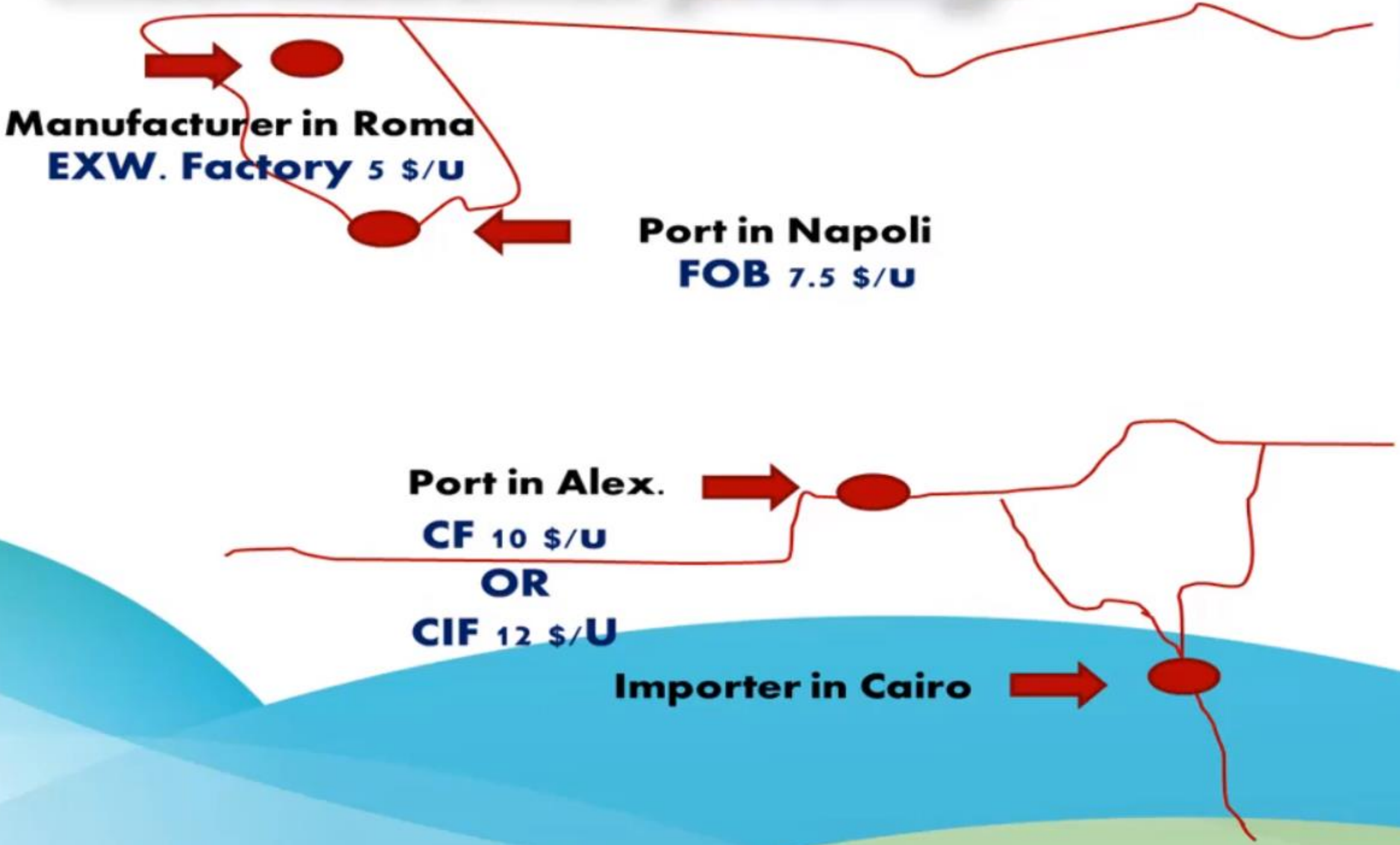
What if the product is international trade?

Of course it has special pricing methodologies.
Inco terms (international commercial purpose)
It refers to the terms used to organize the deal between sellers and byers. And based on it the price is set.

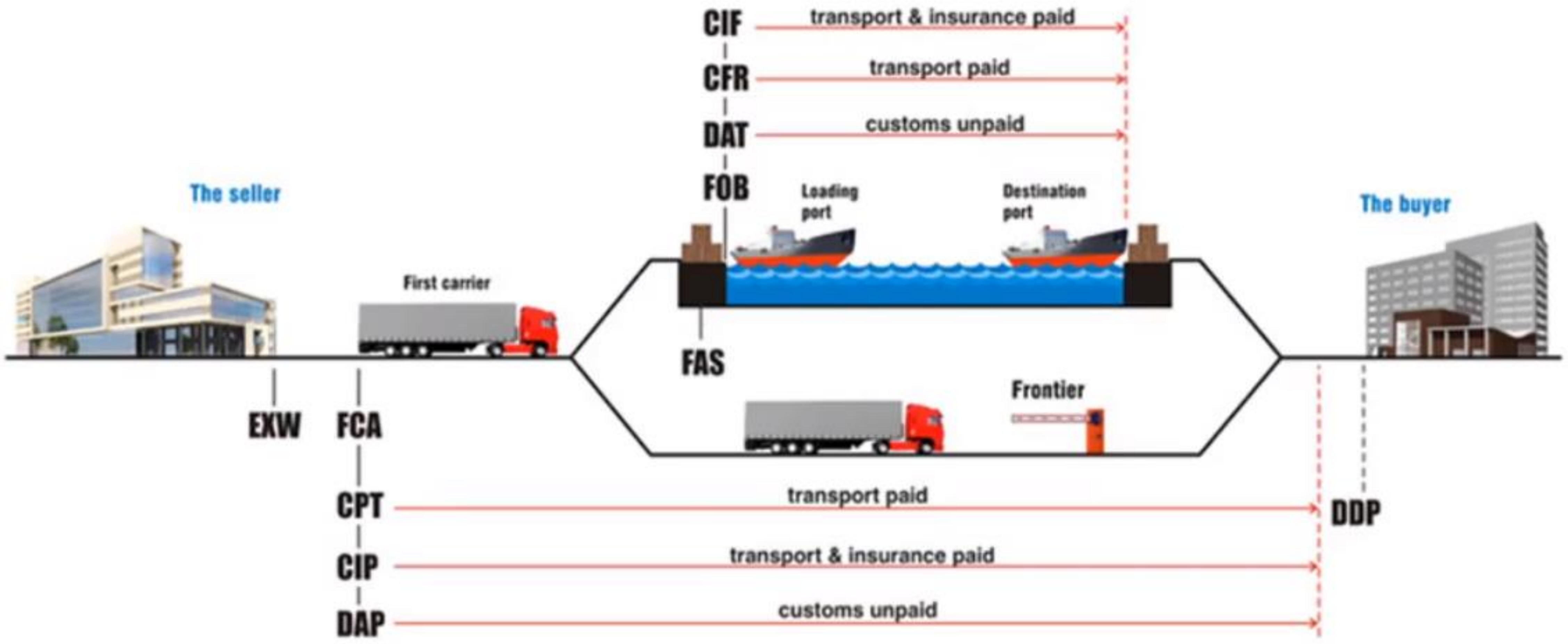
How I will pay the price of the product?

Example:
Egypt will import pen from Italy.
Manufacturer in Roma. Importer in Cairo.

International pricing



International pricing



International pricing

EXW.:

EX Work consider the cheapest price that the buyer deliver the product at the seller's place. The buyer take the responsibility of transfer the product to his place.

FOB.:

Free on board means the seller take the responsibility of transfer the product to the port and the buyer deliver the product at the seller's country port. The buyer take the responsibility of transfer the product to his place. (all transportations from manufacture to the port until put the product on board are included)

How to set pricing in marketing plan?

Breakeven point : ????
Distributer price : ????
Consumer price : ????
Pricing methodology: ????