PRICING MECHANISMS IN MARKETING

Introduction

- Although making the pricing decision is usually a marketing decision, making it correctly requires an understanding of both the customer and society 's view of price as well. In some respects, price setting is the most important decision made by a business

- A price set too low may result in a deficiency in revenues and the demise of the business.
- A price set too high may result in poor response from customers and, unsurprisingly, the demise of the business.
- The price therefore has implications on the performance of a business.

What is the Price?

Price is the amount of money charged for a product or service. It is the sum of all the values that consumers give up in order to gain the benefits of having or using a product or service. The price exists in many formats e.g Rent, fees, Commission etc.

How does the Price relate to the other elements of the marketing mix ?

i.e Product, Promotion and Distribution

- Remember:

Revenues= Price * Quantity

Importance of the price

1.To the Firm

The price determines revenues as it is a great influencer of demand.

2. To the consumer

The consumer more often than not uses the price as an indicator of product quality.

3. To the society

The price determines the affordability of basic goods and services. It therefore has an implication on the stability of societies.

Pricing Objectives

1.Survival

2.Profit Maximization

3.Sales

4.Market Share

5.Image

6.To promote new products

7. To stabilize inventory prices

8. To build Traffic into the store

Factors to Consider When Setting the Price

1.Internal Factors

- Marketing objectives
- Marketing mix strategies
- Costs
- Organizational considerations

2.External Factors

- Nature of market and demand
- Competitors' costs, prices, and offers
- Other environmental elements

Steps in the Determination of prices

- Establish pricing objectives
- Determine costs
- Estimate demand
- Study competition
- Decide on a pricing Approach
- Set prices

Approaches to setting the Price

1.Competition- Oriented Pricing

The prices set by competitors are used as the base when determining prices.

a) **Pricing to Meet Competition**

Many organizations at tempt to establish prices that, on average, are the same as those set by their more important competitors.

b) Pricing Above Competitors

Pricing above competitors can an be rewarding to organizations, provided that the objectives of then policy are clearly understood and that the marketing mix is used to develop a strategy to enable management to implement the policy successfully above competition generally requires a clear advantage on some non pricing element o the marketing mix

c) Pricing Below Competitors

While some firms are positioned to price above competition, others wish to carve out a market niche by pricing below competitors.

The intention is to realize large sales volumes at lower prices.

2. Cost-Oriented Pricing

- Marketers first calculate the costs of acquiring or making a product and their expenses of doing business, then add their projected profit margin to arrive at a price.
- Two common methods are markup pricing and cost-plus pricing.

3. Demand-Oriented Pricing

- Marketers who use demand-oriented pricing attempt to determine what consumers are willing to pay for goods and services.
- The key to this method of pricing is the consumer's perceived value of the item.

Pricing Strategies

1. Penetration Pricing

a)Rapid penetration– low price with aggressive promotion, when a large part of market is unaware of product,

b) Slow penetration - low price with slow promotion.

- Applicable when market is largely aware of the product

2. Skim the cream

a) Rapid skimming–high price with aggressive promotion, when a large part of market is unaware of product,

b) Slow skimming –high price with slow promotion.

- Applicable when market is largely aware of the product

3. Discrimination pricing

The same product is sold at different prices to different customers, based on some discriminative characteristic

Examples: Geographical? Gender? Nationality ? Age ? Season ?

4.Psychological Pricing

This is based on creating customer price perceptions/illusions so as to have special appeal in certain target markets.

- Examples ? Odd-even pricing, Use of Rounded rather than "sharp" Last Digits e.g 254, 387


SALE
999*
SALE
299
SALE
4,999*

- Large, bright price labels as opposed to small, dull prices or no prices at all.

- Deliberately setting high prices to imply high quality.
- Some customers want to buy expensive products, imagining that the high price implies higher quality.

5. Bundle pricing

Several related items put together and sold at a reduced price.

6. Captive Pricing

Captive product pricing sets the price for one product low but compensates for that low price by setting high prices for the supplies needed to operate that product.

7. Promotional pricing

Is generally used in conjunction with sales promotions where prices are reduced for a short period of time. Two common types are:

- Loss leader pricing
- Special-event pricing
- Discounts
- Rebates