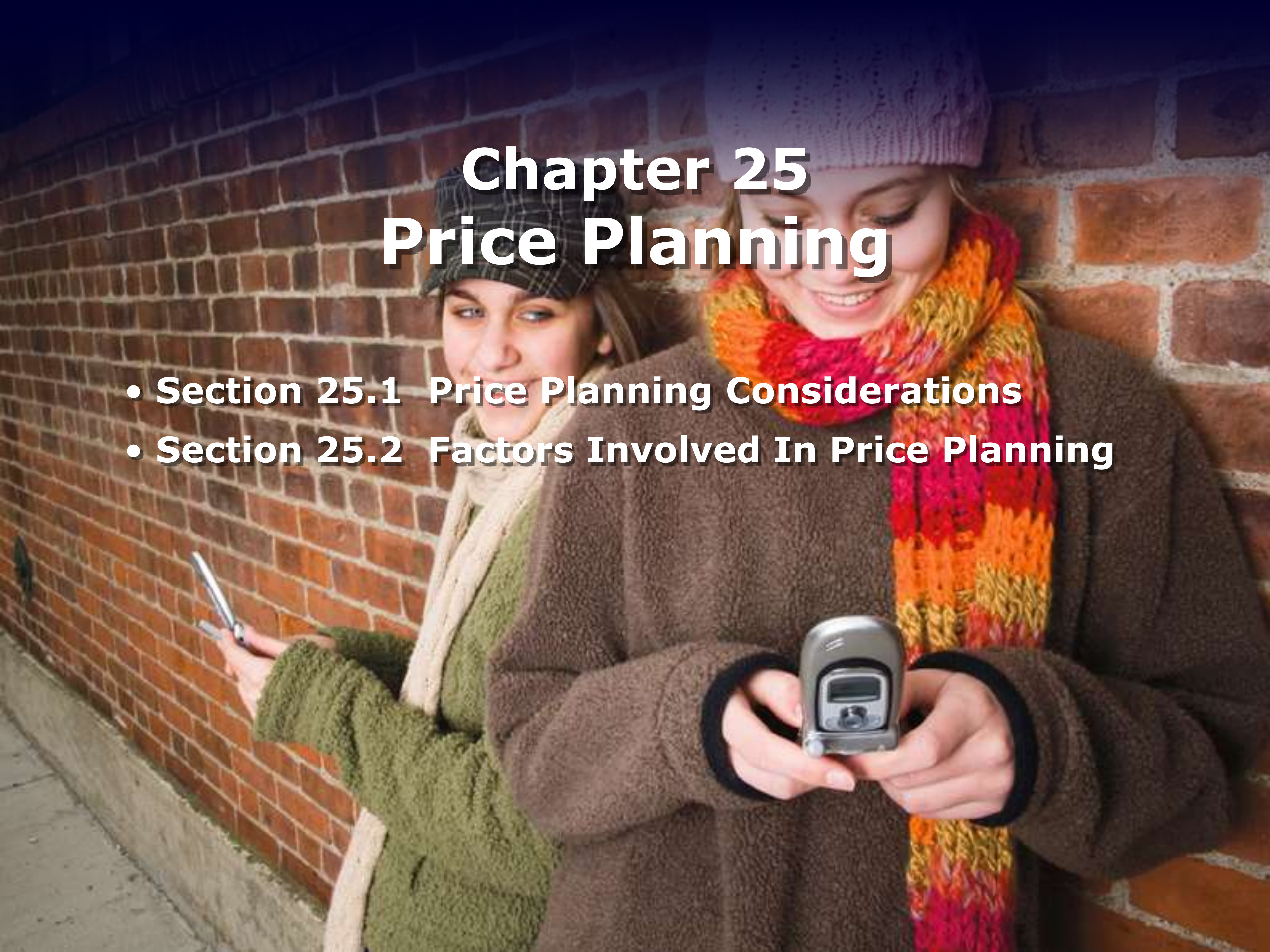
Unit 8
Pricing

- Chapter 25 Price Planning
- Chapter 26 Pricing Strategies
- Chapter 27 Pricing Math

Chapter 25
Price Planning



- Section 25.1 Price Planning Considerations
- Section 25.2 Factors Involved In Price Planning

Price Planning Considerations

Key Terms

price

return on investment (ROI)

market share

Objectives

- Recognize the different forms of pricing
- Discuss the importance of pricing
- Explain the goals of pricing
- Differentiate between market share and market position

Price Planning Considerations

Graphic Organizer

Use a chart to take notes about the scope and significance of pricing and the major goals of pricing.

Scope and Significance	Goals

What Is Price?

price

The value in money (or its equivalent) placed on a product.

Price is the value in money (or its equivalent) placed on a good or service. It may also be expressed in non-monetary terms, such as free goods or services in exchange for the purchase of a product.

Relationship of Product Value

The value that a customer places on an item or service makes the difference in their spending. Value is a matter of anticipated satisfaction.

Various Forms of Price

Price is involved in every marketing exchange, including:

- Medical fees
- Rent
- Interest on a loan
- Tuition

Importance of Price

Price helps establish and maintain a firm's:

- Image
- Competitive edge
- Profits

Goals of Pricing

Marketers are primarily concerned with earning a profit, but there are times when two other pricing goals become important:

- Gaining market share
- Meeting the competition

return on investment (ROI)

A calculation that is used to determine the relative profitability of a product.

Earning a Profit

Return on investment (ROI) is a calculation that is used to determine the relative profitability of a product. The formula is:

Rate of Return = Profit / Investment

Gaining Market Share

market share

A company's percentage of total sales volume generated by all competition in a given market.

Market share is a firm's percentage of the total sales volume generated by all competitors in a given market.

Market position is the relative standing a competitor has in a given market in comparison to its competitors.

Gaining Market Share

Pricing is one means of improving market share and position. Other options include:

- Increasing advertising expenditures
- Changes in product design
- New distribution outlets

Meeting the Competition

Some companies simply aim to meet the prices of their competition by following the industry leader or placing their prices close to the average industry price.

Wendy's and other fast-food chains all compete for customers.

SECTION 25.1 REVIEW

SECTION 25.1 REVIEW

- click twice to continue -

Factors Involved In Price Planning

Key Terms

- break-even point
- demand elasticity
- law of diminishing marginal utility
- price fixing
- price discrimination
- unit pricing
- loss leader

Objectives

- List the four market factors that affect price planning
- Analyze demand elasticity and supply and demand theory
- Explain how government regulations affect price planning

Factors Involved In Price Planning

Graphic Organizer

As you review this section, note on a chart each step of the pricing process and its consequence.

Factors That Affect Price	Consequences
Costs and expenses	Determine a company's profits

Market Factors Affecting Prices

Most price planning begins with an analysis of costs and expenses, many of which are related to current market conditions. The cost of raw materials may increase a manufacturer's costs.

Costs and Expenses

Many factors have to be considered when raising or lowering prices, even if the impulse to increase or decrease is a direct, seemingly logical reaction to events in the marketplace.

Costs and Expenses

When the costs of materials go up, businesses may be inclined to raise prices in order to preserve their profitability. But some businesses have found that price is important.

Instead of raising the price, companies may make their products smaller or drop additional features.

Costs and Expenses

Occasionally, companies will drop their prices if their costs and expenses have also dropped. Improved technology and less expensive materials may help create better-quality products at lower costs.

break-even point

The point at which sales revenue equals the costs and expenses of making and distributing a product.

Costs and Expenses

When marketing a new product, manufacturers carefully analyze their costs and expenses to calculate their break-even point.

The **break-even point** is the point at which sales revenue equals the costs and expenses of making and distributing a product.

demand elasticity

The degree to which demand for a product is affected by its price.

Supply and Demand

Demand tends to go up when price goes down and vice versa. However, demand for some products does not respond readily to changes in price.

The degree to which demand for a product is affected by its price is called **demand elasticity**. Products have either elastic or inelastic demand.

Supply and Demand

law of diminishing marginal utility

An economic law stating that consumers will buy only so much of a given product, even though the price is low.

Supply and Demand

Increased demand will not continue indefinitely. The **law of diminishing marginal utility** states that consumers will buy only so much of a given product, even though the price is low.

Inelastic demand refers to a change in price has very little effect on demand for a product.

Supply and Demand

Five factors determine elastic or inelastic demand:

- Brand loyalty
- Price relative to income
- Availability of substitutes
- Luxury versus necessity
- Urgency of purchase

Consumer Perceptions

Consumer perceptions about the relationship between price and quality or other values also play a role in price planning. Sometimes, a business will limit the amount of an item it sells to increase its perceived value.

Consumer Perceptions

Personalized service can add to a consumer’s perceptions about price. Marketers can charge slightly higher prices because consumers are willing to pay for the added service.

A company can use a lower price when its target market is price conscious.

Consumer Perceptions

When competitors engage in a fierce battle to attract customers by lowering prices, a price war is the result. These conflicts can cause huge financial losses and eventual business failure.

Legal and Ethical Considerations for Pricing

Marketers must be aware of their rights and responsibilities regarding:

- Price fixing and price discrimination
- Resale price maintenance
- Minimum pricing and unit pricing
- Price advertising

Price Fixing

price fixing

When competitors agree on certain price ranges within which they can set their own prices.

Price fixing occurs when competitors agree on certain price ranges within which they set their own prices. It is illegal because it eliminates competition, and can be proved only when there is evidence of collusion between companies to set a price range.

Price Discrimination

price discrimination

Charging different prices to similar customers in similar situations.

Price discrimination occurs when a firm charges different prices to similar customers in similar situations.The Clayton Antitrust Act of 1914 and the Robinson-Patman Act of 1936 both prohibit price discrimination.

Unit Pricing

unit pricing

Including price information for a standard unit or measure so that consumers can compare prices more easily.

Unit pricing allows consumers to compare prices in relation to a standard unit or measure, such as an ounce or a pound. Food stores have been most affected by these laws and have responded with shelf labels and computer records of unit prices.

Resale Price Maintenance

A manufacturer may suggest resale prices in its advertising, and there can even be an agreement to fix the maximum retail price as long as the price agreement is not an “unreasonable restraint of trade” or considered “anti-competitive.”

Unfair Trade Practices Law

Unfair Trade Practices Law, also known as Minimum Price Law, prevents large companies with market power from selling products at very low prices to drive out their competition.

Unfair Trade Practices Law

loss leader

An item priced at or below cost to draw customers into a store.

Many states have enacted "unfair sales" statutes that prohibit certain below-cost pricing.

An item priced at or below cost to draw customers into a store is called a **loss leader**. This means the business takes a loss to lead customers into the store.

Price Advertising

The Federal Trade Commission (FTC) has developed guidelines for advertising prices, such as:

- A company cannot advertise a price reduction unless the original price was offered to the public on a regular basis.

Price Advertising

- A list price cannot be used as a reference point for a new sale price unless the item has actually been sold at that price.
- Bait-and-switch advertising, in which a firm advertises a low price for an item it has no intention of selling, is illegal.

Price Advertising

Pricing ethics apply when interpreting pricing laws. Some new products have high prices to cover development costs. But setting a price higher than normal is price gouging.

Gouging is unethical and also against the law in some states during national or state emergencies.

SECTION 25.2 REVIEW

SECTION 25.2 REVIEW

- click twice to continue -

FOCUS on KEY POINTS

Section 25.1

- Price is the money value placed on a good or a service. There are many forms of price.
- Pricing is a key factor in the success or failure of a product or service, and therefore of a business. It establishes an image, a competitive edge, and determines profits.

continued

FOCUS on KEY POINTS

Section 25.1

- The goals of pricing are: earning a profit, gaining market share, and meeting the competition. Market share is a company’s percentage of the total sales volume generated by all companies in a given market.

continued

Section 25.2

- Four factors affect pricing: costs and expenses, supply and demand, consumer perceptions, and competition.
- The law of supply and demand means that, in general, demand goes up when price goes down and demand goes down when price goes up.

continued

FOCUS on KEY POINTS

Section 25.2

- Legal and ethical issues play a key role in pricing. Government regulations control price fixing, price discrimination, resale price maintenance, minimum price, unit pricing, and price advertising.

THE DECA CONNECTION

An Association of Marketing Students

This chapter has helped prepare you to meet the following DECA performance indicators:

- Explain factors affecting pricing decisions.
- Adjust prices to maximize profitability.
- Calculate the break-even point.
- Demonstrate honesty and integrity.
- Provide legitimate responses to inquiries.

CHAPTER 25 REVIEW

CHAPTER 25 REVIEW

- click twice to continue -