- 10 : Understanding and Capturing Customer Value

What is a Price?

- In the narrowest sense, **price** is the amount of money charged for a product or a service.
- More broadly, price is the sum of all the values that customers give up to gain the benefits of having or using a product or service.
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  all

Major Pricing Strategies

- The price the company charges will fall somewhere between one that is too low to produce a profit and one that is too high to produce any demand

Customer Value-Based Pricing


snap
FITNESS·24-7
fast · convenient · affordable

Cost-Based Pricing

- **Cost-Based pricing** involves setting prices based on the costs of producing, distributing, and selling the product plus a fair rate of return for its effort and risk.
- A company's costs may be
in its pricing strategy.

Types of Costs

The sum of the fixed and variable costs for any given level of production.

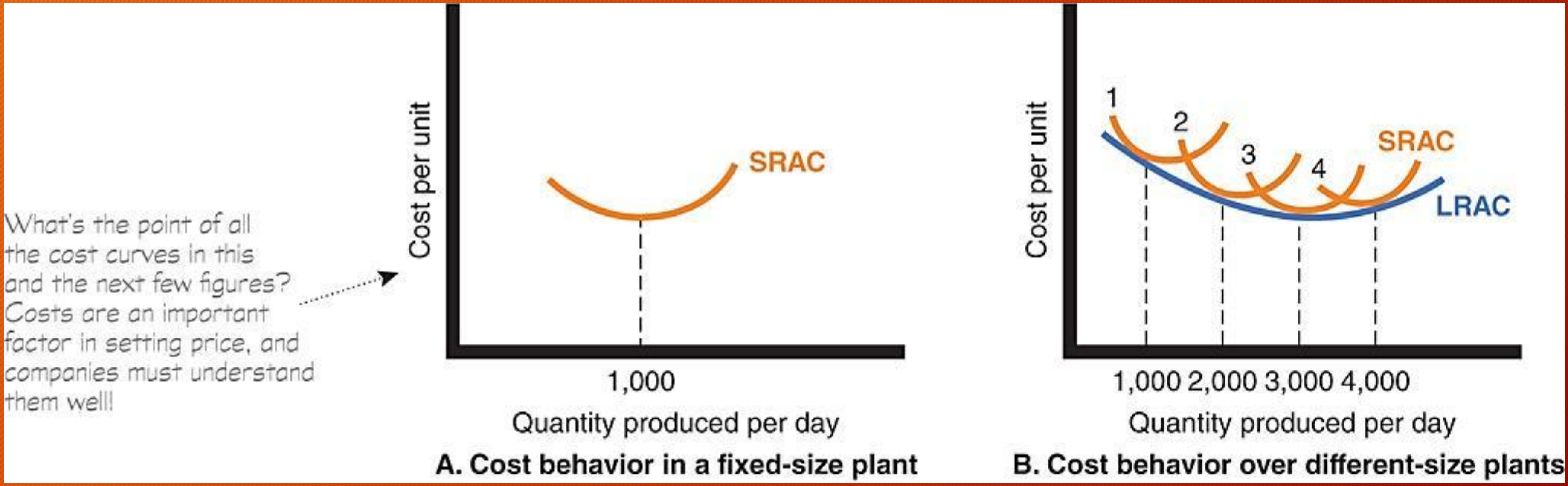
Costs that do not vary with production or sales level.

Fixed costs (over-head) + Variable costs = Total costs

Costs that vary directly with the level of production.

Costs at Different Levels of Production

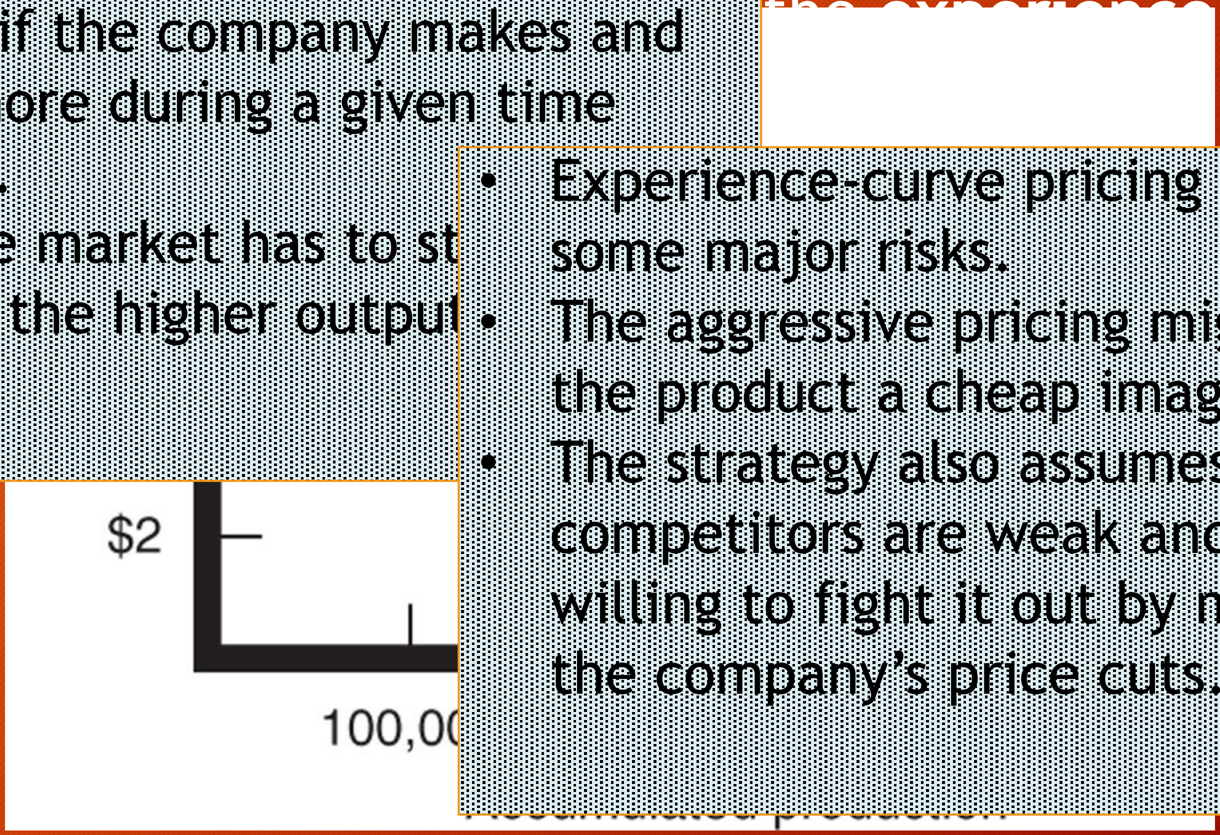
- To price wisely, management needs to know how its costs vary with different levels of production.



Costs as a Function of Production Experience

- If a downward-sloping experience curve exists, this is highly significant for the company.
- Not only will the company's unit production cost fall, but it will fall faster if the company makes and sells more during a given time period.
- But the market has to st… to buy the higher output…

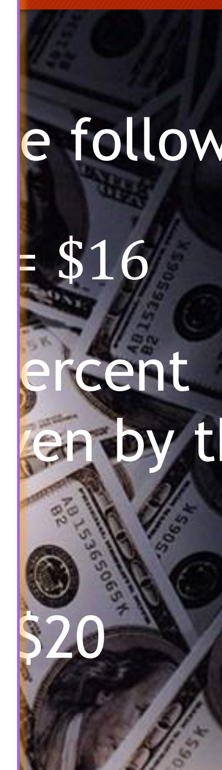
th accumulated



- Experience-curve pricing carries some major risks.
- The aggressive pricing might give the product a cheap image.
- The strategy also assumes that competitors are weak and not willing to fight it out by meeting the company's price cuts.

Markup pricing remains popular for many reasons.

- Sellers are more certain about costs than about demand.
- Many people feel that cost-plus pricing is fairer to both buyers and sellers.
- When all firms in the industry use this pricing method, prices tend to be similar, so price competition is minimized.



Break-Even Analysis and Target Profit Pricing

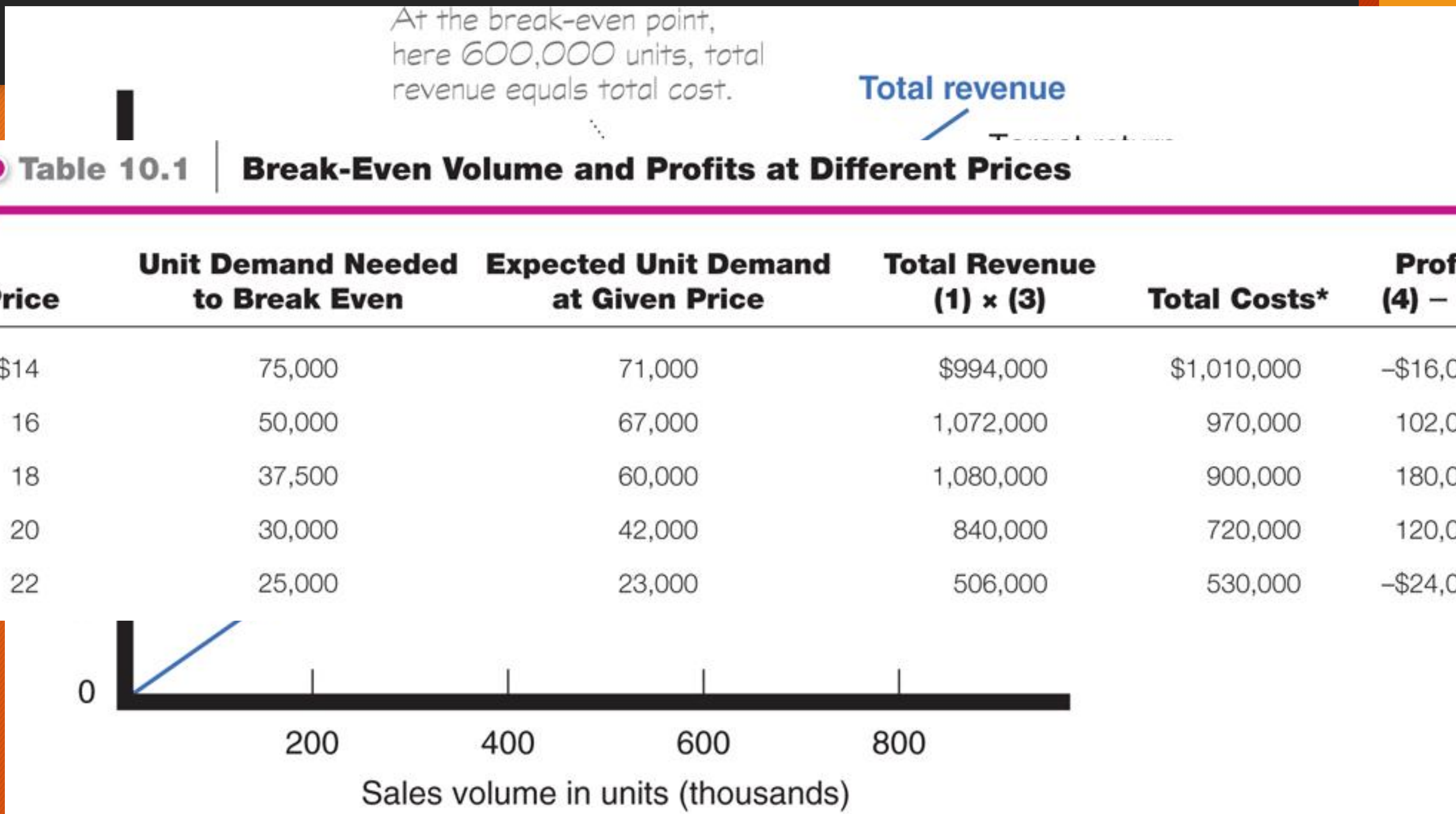


Table 10.1 | **Break-Even Volume and Profits at Different Prices**

Price	Unit Demand Needed to Break Even	Expected Unit Demand at Given Price	Total Revenue (1) × (3)	Total Costs*	Profit (4) − (5)
$14	75,000	71,000	$994,000	$1,010,000	–$16,000
16	50,000	67,000	1,072,000	970,000	102,000
18	37,500	60,000	1,080,000	900,000	180,000
20	30,000	42,000	840,000	720,000	120,000
22	25,000	23,000	506,000	530,000	–$24,000

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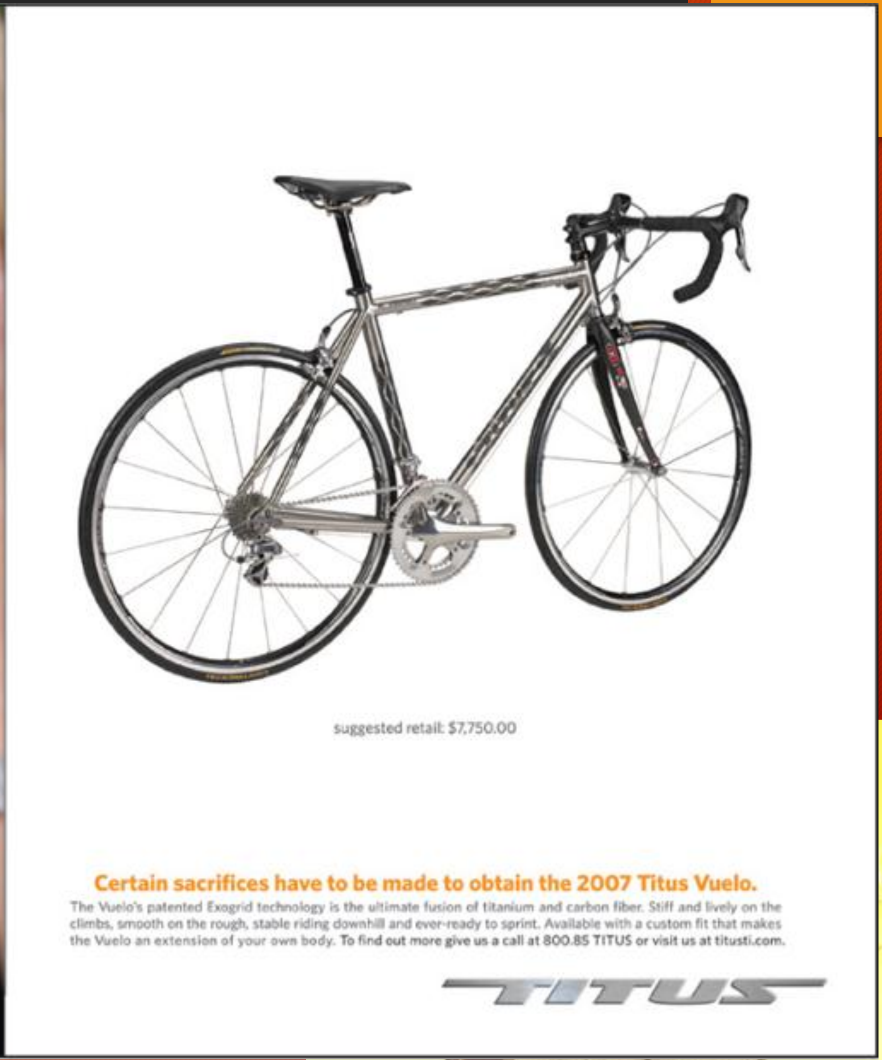
Other Internal and External Considerations Affecting Price Decisions

- Internal factors affecting pricing include the company's overall marketing strategy, objectives, and marketing mix, as well as other organizational considerations.
- External factors include the nature of the market and demand and other environmental factors.

Overall Marketing Strategy, Objectives, and Mix



Organizational Considerations

- Top management sets the pricing objectives and policies, and it often approves the prices proposed by lower level management or salespeople.
- In industries in which pricing is a key factor, companies often have pricing departments to set the best prices or help others set them.
- These departments report to the marketing department or top management.
- Others who have an influence on pricing incl sales managers, production managers, financ managers, and accountants.

The Market and Demand

- In this section, we take a deeper look at the price-demand relationship and how it caries for different types of markets.
- We then discuss methods for analyzing the price-

Pricing in Different Types of Markets

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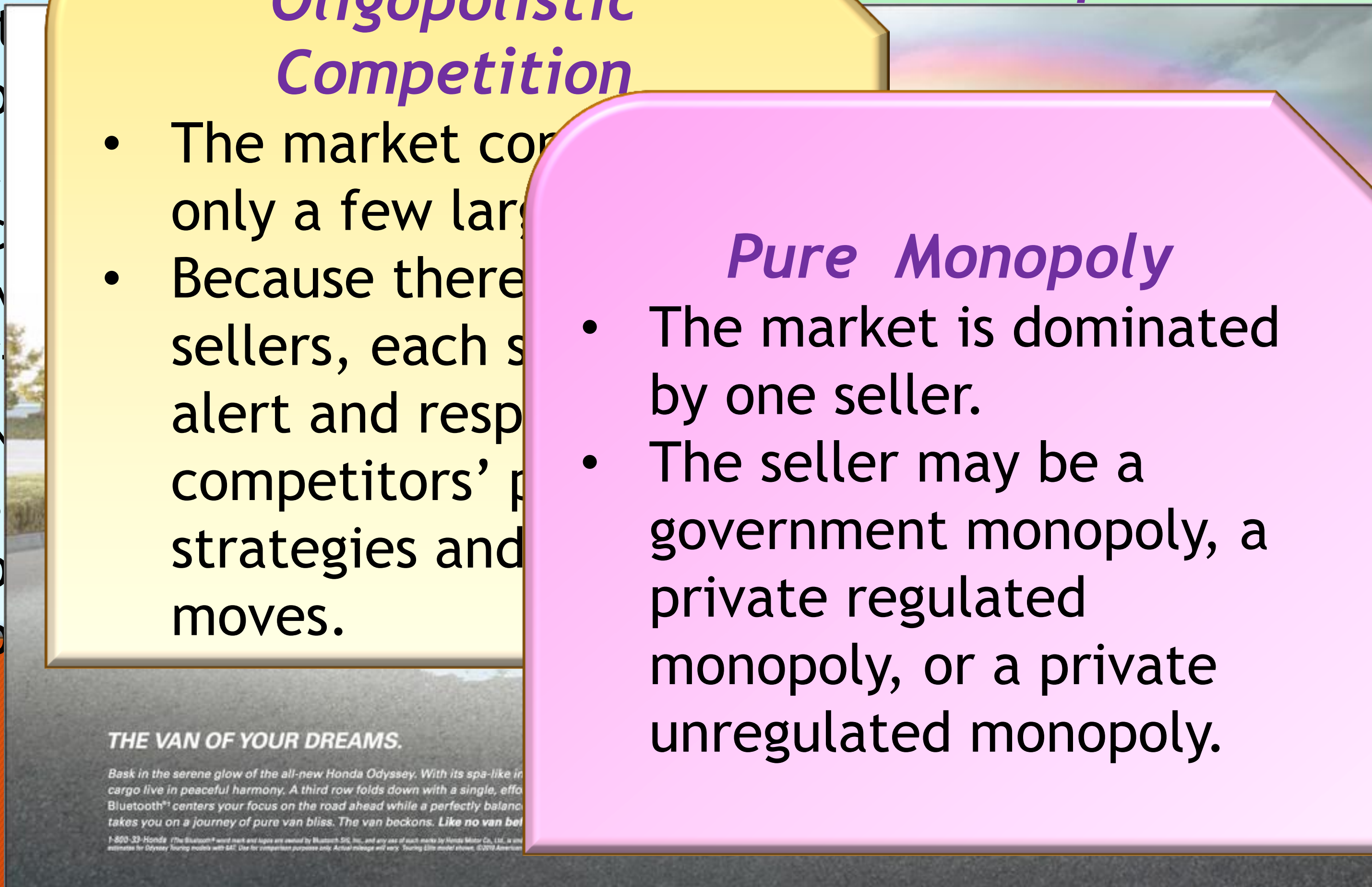
- It b t c w f
- N s o p



Oligopolistic Competition

- The market co only a few lar
- Because there sellers, each s alert and resp competitors' p strategies and moves.

istic Competition

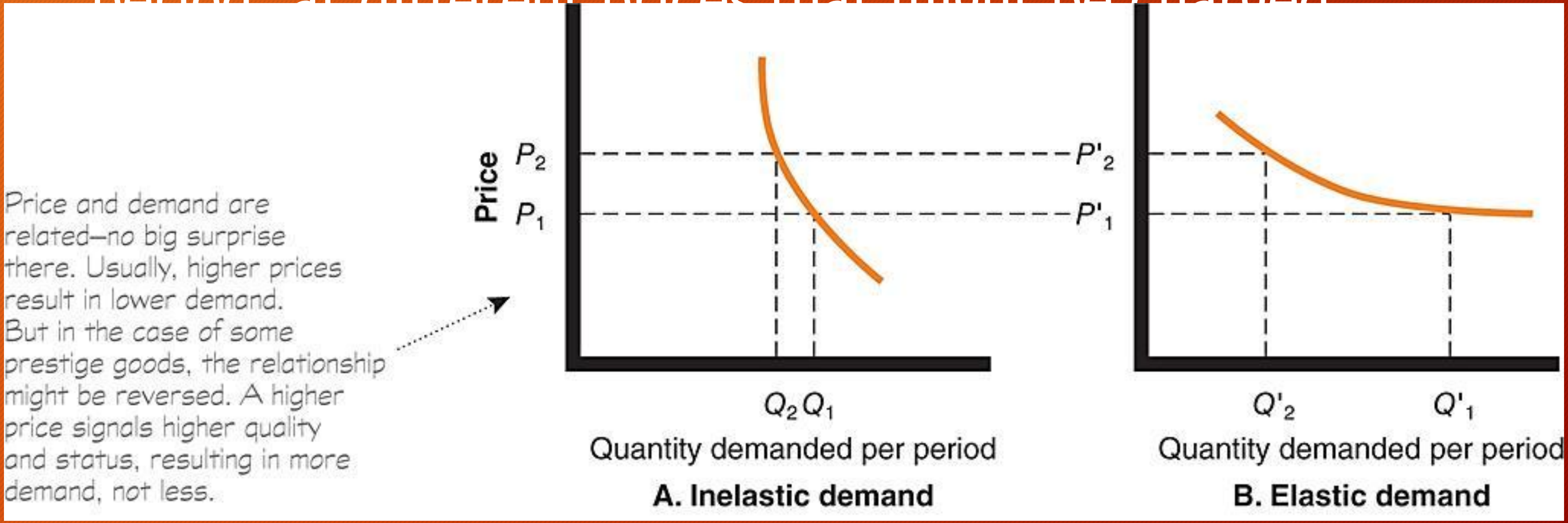
advertising, and personal selling to set their offers apart.

Pure Monopoly

- The market is dominated by one seller.
- The seller may be a government monopoly, a private regulated monopoly, or a private unregulated monopoly.

Analyzing the Price-Demand Relationship

- **Demand curve** is a curve that shows the number of units the market will buy in a given time period, at different prices that might be charged.



Price Elasticity of Demand

- **Price Elasticity** is a measure of the sensitivity of demand to changes in price.
- It is given by the following formula:

$$\text{price elasticity of demand} = \frac{\%\text{change in quantity demanded}}{\%\text{change in price}}$$

- If demand is elastic rather than inelastic, sellers will consider lowering their prices.
- A lower price will produce more total revenue.
- Marketers need to work harder than ever to differentiate their offerings when a dozen competitors are selling virtually the same product at a comparable or lower price.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10th Anniversary Pack

Other External Factors

- Resellers react to various prices
- Government