MKT 201

Principle Of Marketing

Price

Chapter 11 & 12

Makers

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PRICE

- PRICE IS THE SUM OF ALL THE VALUES THAT CONSUMERS EXCHANGE FOR THE BENEFITS OF HAVING OR USING THE PRODUCT OR SERVICE.

- PRICE IS THE ONLY ELEMENT IN THE MARKETING MIX THAT PRODUCES REVENUES; ALL OTHERS REPRESENT COSTS

- PRICE IS THE MARKETING ELEMENT THAT GENERATES REVENUE.

- TO THE CONSUMER PRICE IS COST—TO THE SELLER IT IS REVENUE
- PRICE CAN :-

- --INFLUENCE PERCEPTIONS AND POSITIONING
- --BE A COMPETITIVE ADVANTAGES

- PROFIT = TOTAL REVENUE – TOTAL COST
- TOTAL REVENUE= UNIT PRICE* QUANTITY SOLD
- TOTAL COST = FIXED COST + VARIABLE COST

THE IMPORTANCE OF PRICE

TO EARN A PROFIT, MARKETERS MUST SELECT A PRICE THAT IS NOT TOO HIGH OR NOT TOO LOW,A PRICE THAT EQUALS THE PERCEIVED VALUE TO TARGET CONSUMERS(PR+S+PER+I)-(M+T+E+PSY)

LOST SALES MEAN LOST REVENUE; ON THE OTHER HAND,IF A PRICE IS TOO LOW, THE PRICE LOSES REVENUE . ADDITIONALLY,SETTING PRICES TOO LOW MAY NOT ATTRACT AS MANY BUYERS AS MANAGERS MIGHT THINK.

MARKETING OBJECTIVES

- **PROFITABILITY OBJECTIVES**
- PURPOSE
- PROFIT MAXIMIZATION (SET PRICE ON DEMAND)
- TARGET RETURN (SET PRICE ON PROFIT) **EXAMPLE:-**

- LOW INTRODUCTORY INTEREST RATES ON CREDIT CARDS WITH HIGH STANDARD RATES AFTER 6 MONTHS.
- **VOLUME OBJECTIVES**
- PURPOSE
- SALES MAXIMIZATION
- MARKET SHARE **EXAMPLE:-**

- DELL'S LOW-PRICED PC'S INCREASE MARKET SHARE & SALES OF SERVICE
- **MEETING COMPETITION OBJECTIVES**
- PURPOSE
- VALUE PRICING **EXAMPLE:-**

- PRICE WARS AMONG MAJOR AIRLINES

MARKETING OBJECTIVES

PRESTIGE OBJECTIVES

PURPOSE

.LIFE STYLE

.IMAGE **EXAMPLE:-**

HIGH PRICED LUXURY AUTOS SUCH AS FERRARI AND WATCHES BY ROLEX

NOT FOR PROFIT OBJECTIVES

PURPOSE

.COST RECOVERY-LOW PRICE(DU)

.TO REDUCE UNWHOLESOME DEMAND,SET HIGH PRICE

EXAMPLE:-

HIGH PRICES FOR TOBACCO AND ALCOHOL TO REDUCE CONSUMPTION.

COST-PLUS PRICING

- EASIEST,OFTEN MISLEADING
- A SIMPLE ALLOCATION OF FIXED & VARIABLE COSTS
- STANDARD MARK- UP- A STANDARD PROFIT MARGIN
- THE COST OF BUYING THE PRODUCT FROM THE PRODUCER PLUS AMOUNTS FOR PROFIT & FOR EXPENSES NOT OTHERWISE ACCOUNTED FOR EXAMPLE:-
- IF A PEN COSTS TK/-1.80 AND SELLS FOR IS TK/-2.20,THE MARK UP IS TK/-.40,OR 22% OF COST
- ADD A STANDARD MARK UP TO THE PRODUCT PRICE.(1.80+22%)
- UNIT COST=VC + FC/UNIT SALES(10+300,000/50,000)=16
- MU PRICE= UNIT COST/1-DESIRED RETURN(16/1-.20)=20
- TWO MOST COMMON COST ORIENTED PRICING PROCEDURES:-
- 1 .FULL COST PRICING
- 2. INCREMENTAL-COST PRICING

VALUE-BASED PRICING

- CHARGE LOW FOR HIGH QUALITY.
- TWO TYPES:-
- EDLP(EVERYDAY LOW PRICE).
- EDFP(EVERY DAY FAIR PRICE)
- CUSTOMER → VALUE → PRICE → COST → PRODUCT

COMPETITION-BASED PRICING

SETTING PRICES

GOING RATE

COMPANY SETS PRICES BASED ON WHAT COMPETITORS ARE CHARGING.

SEALED-BID

COMPANY SETS PRICES BASED ON WHAT THEY THINK COMPETITORS WILL CHARGE

BID AND NEGOTIATED PRICING

- **BID—TENDER , AUCTION**
- **NEGOTIATED—FISH MARKET, ORNAMENT MARKET**

DEMAND

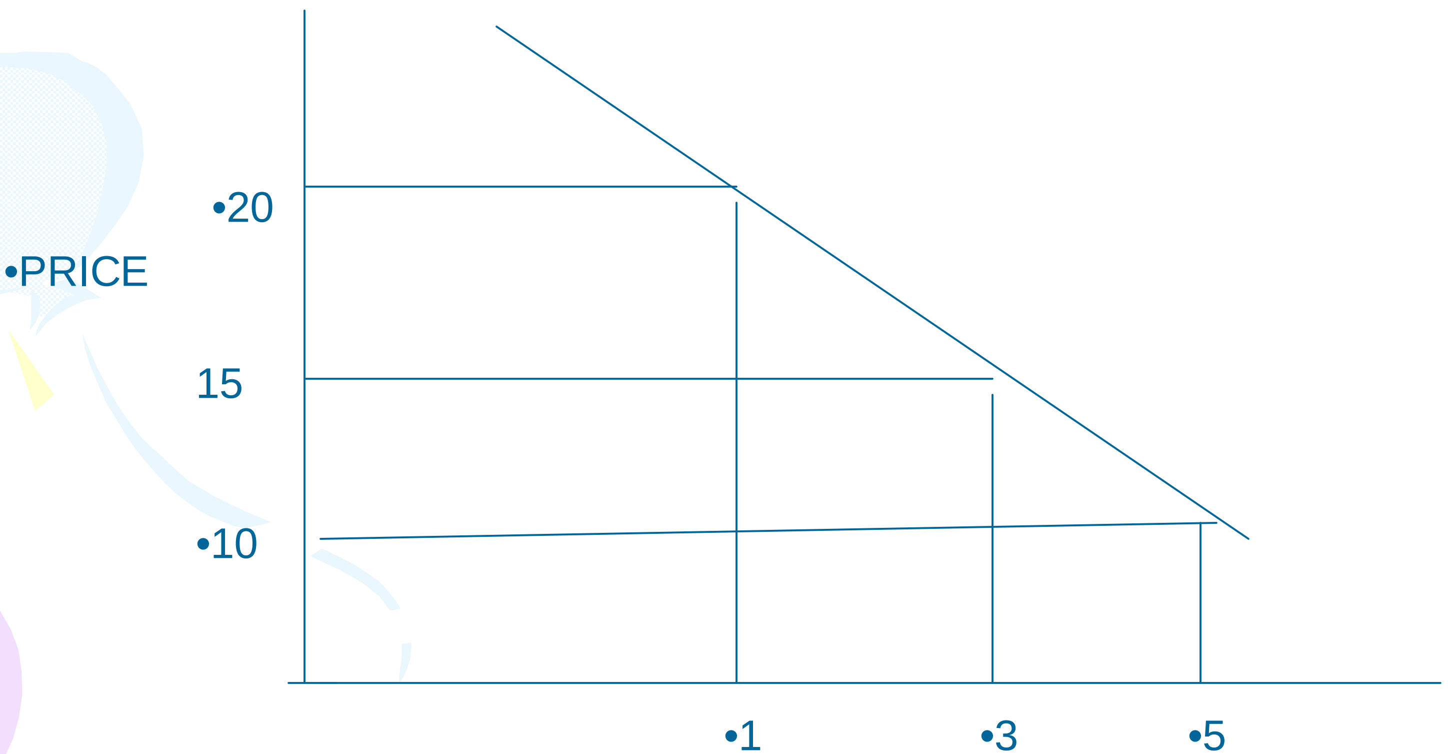
- THE QUANTITY OF A PRODUCT THAT WILL BE SOLD IN THE MARKET AT VARIOUS PRICES FOR A SPECIFIED.

- **DEMANDCURVE**
- APPLE

PRICE	DEMAND
10	5
15	3
20	1

DEMAND CURVE

- **APPLE**



ELASTRICITY OF DEMAND

CONSUMERS' RESPONSIVENESS OR SENSITIVITY TO CHANGES IN PRICE

ELASTRICITY(E)=

$$\frac{\text{PERCENTAGE CHANGE IN QUANTITY DEMANDED}}{\text{PERCENTAGE CHANGE IN PRICE}}$$

ELASTICITY DEMAND:-CONSUMER BUY MORE OR LESS PRODUCT WHEN THE PRICE CHANGES.

*IF E IS GREATER THAN 1,DEMAND IS ELASTIC

INELASTIC DEMAND:-AN INCREASE OR DECREASE IN PRICE WILL NOT SIGNIFICANTLY AFFECT DEMAND.

*IF E IS LESS THAN 1, DEMAND IS INELASTIC.

UNITARY ELASTICITY:- AN INCREASE IN SALES EXACTLY OFFSETS A DECREASE IN PRICES, AND REVENUE IS UNCHANGED

*IF E IS EQUAL TO 1 ,DEMAND IS UNITARY