Lesson 18

PRICE AND PRICING

PRICING

Pricing is one of the four p's of the marketing mix. The other three aspects are product management, promotion, and place.

PRICE

―In economics and business, the price is the assigned numerical monetary value of a good, service or asset‖. The concept of price is central to microeconomics where it is one of the most important variables in resource allocation theory (also called price theory).

Price is also CENTRAL TO MARKETING where it is one of the four variables in the marketing mix that business people use to develop a marketing plan.

PRICING DEFINED

―Is the manual process of applying value to purchase and sales orders‖.

MARKETING MANAGERS MUST ADDRESS TO THE FOLLOWING –VIS-À-VIS PRICING:

- How much to charge for a product or service?
- What are the pricing objectives?
- Do we use profit maximization pricing?
- How to set the price?: (cost-plus pricing, demand based or value-
- based pricing, rate of return pricing, or competitor indexing)
- Should there be a single price or multiple pricing?
- Should prices change in various geographical areas, referred to as?

Zone pricing?

•Should there be quantity discounts?
•What prices are competitors charging?
•Do you use a price skimming strategy or a penetration pricing?

Strategy?
•What image do you want the price to convey?
•Do you use psychological pricing?
•How important are customer price sensitivity and elasticity issues?

A well chosen price should do THREE THINGS:

- Achieve the financial goals of the firm (eg.: profitability)
- Fit the realities of the market place (will customers buy at that price?
- Support a product's positioning and be consistent with the other variables in the marketing mix

1. price is influenced by the type of distribution channel used, the type of promotions used and the quality of the product
2. price will usually need to be relatively high if manufacturing is expensive, distribution is exclusive, and the product is supported by extensive advertising and promotional campaigns
3. a low price can be a viable substitute for product quality, effective promotions, or an energetic selling effort by distributors

FROM THE MARKETERS POINT OF VIEW

An efficient price is a price that is very close to the maximum that customers are prepared to pay.
In economic terms, it is a price that shifts most of the consumer surplus to the producer. The Effective Price is the price the company receives after accounting for discounts, promotions, and other incentives.

Premium Pricing (also called prestige pricing) is the strategy of pricing at, or near, the high end of the possible price range.

People will buy a premium priced product because:

1. They believe the high price is an indication of good quality;
2. They believe it to be a sign of self worth - "They are worth it" - It authenticates their success and status - It is a signal to others that they are a member of an exclusive group; and
3. They require flawless performance in this application - The cost of product malfunction is too high to buy anything but the best - example: heart pacemaker

PSYCHOLOGICAL PRICING

Retail prices are often expressed as odd prices: a little less than a round number, e.g. $19.99 or £6.95. Psychological pricing is a theory in marketing that these prices have a psychological impact that drives demand greater than would be expected if consumers were perfectly rational. Psychological pricing is one cause of price points.

The psychological pricing theory is based on one or more of the following hypotheses:

- Consumers ignore the least significant digits rather than do the proper rounding. Even though the cents are seen and not totally ignored, they may subconsciously be partially ignored. Some suggest that this effect may be enhanced when the cents are printed smaller: $1999.
- Fractional prices suggest to consumers that goods are marked at the lowest possible price.
- Now that consumers are used to psychological prices, other prices look odd.

The theory of psychological pricing is controversial. Some studies show that buyers, even young children, have a very sophisticated understanding of true cost and relative value and that, to the limits of the accuracy of the test, they behave rationally. Other researchers claim that this ignores the non-rational nature of the phenomenon and that acceptance of the theory requires belief in a subconscious level of thought processes, a belief that economic models tend to deny or ignore. Research using results from modern scanner data is mixed.

