Fundamentals of Marketing

Instructor's Handouts

Chapter 7

Price Strategies

Chapter Objectives

- Defining the concept of price and emphasizing its importance as a revenues generator and short-term marketing tool.
- Identifying internal and external factors which influence pricing strategies
- Analysing consumer perceptions regarding price
- Describing the methods for pricing based on costs, on competition and the market or demand.
- Discussing the different price strategies

7.1 Concept and Importance of Price

- Price is the amount of money charged for a product or a service.
- However, from a marketing point of view, price is a relative variable since each consumer may perceive it in a different way.
- Therefore, price can be defined as the value the acquisition of a good represents for a particular person, understanding value as the product itself and its utility in time and space.

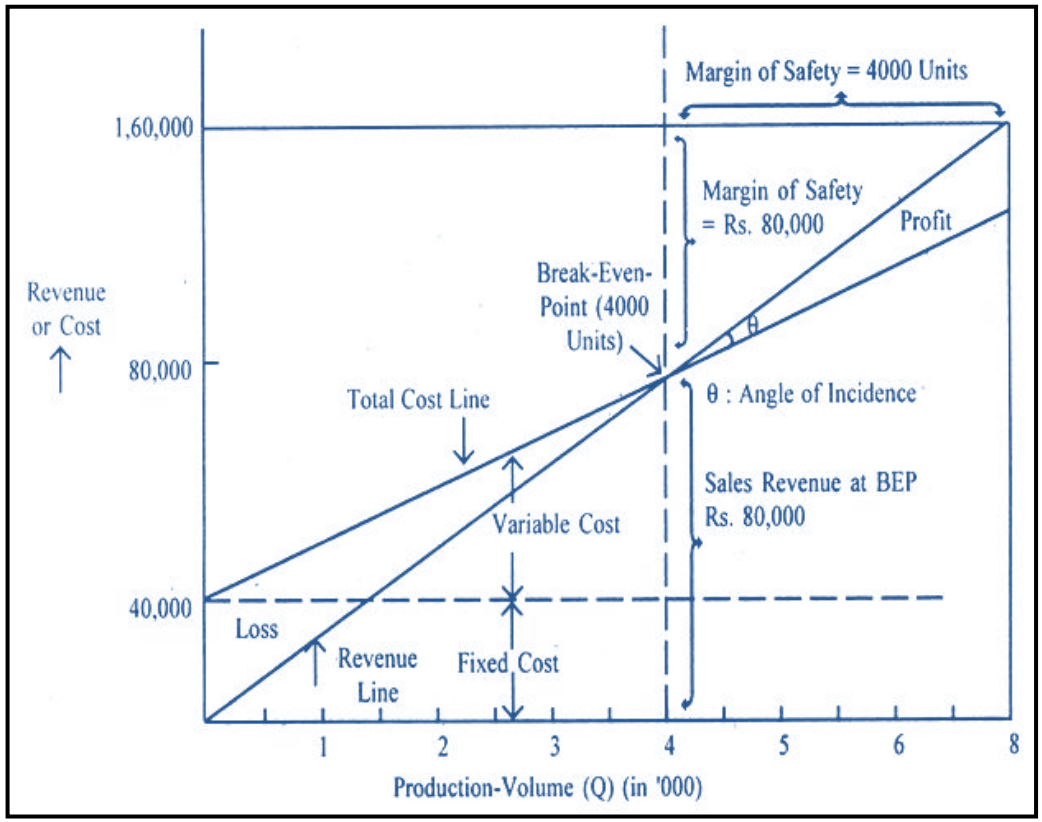
7.2 Pricing Condicioning

- Pricing is not arbitrary. There are a series of conditioning factors that act as restrictions and limit the possible alternatives:
  - Legal framework
  - Product lifecycle
  - Market and competition
  - Costs and product experience curve
  - Company objectives
  - Response to demand
  - Interested parties
  - Interaction of marketing tools
  - Cross elasticities

7.3 Methods based on cost

- They are the simplest methods and those with greater cultural and social tradition.
- From a marketing point of view, they are not always the most effective to attain the company objectives.
- These methods consist in adding a profit margin to the product cost. We can classify two basic types: the method of cost plus margin and the break-even pricing.

7.3 Methods based on cost



7.4 Methods Based on Competition

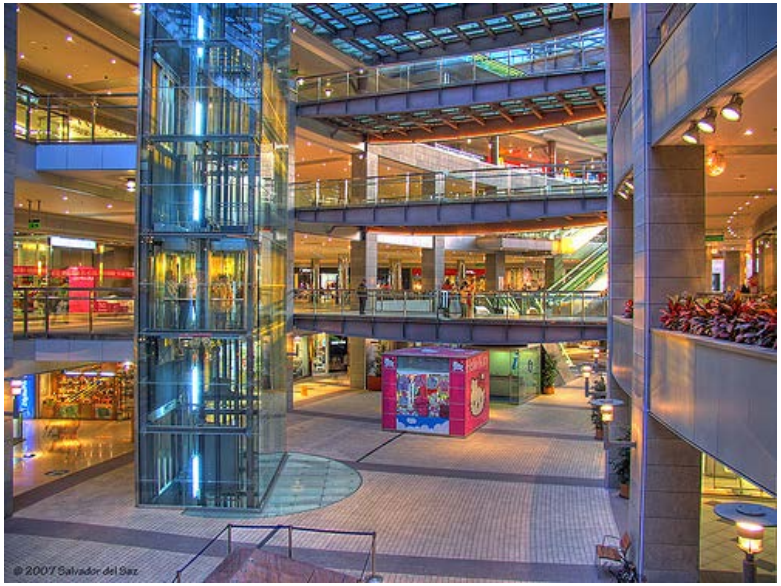
- In these methods, competition behaviour is the reference for pricing, although costs set the lowest price at which the product can be sold.

- Prices are set depending on the leadership position of the company. Generally, large companies are usually leaders and set prices, and the others, the smaller ones, follow them.

- In general, enterprises set a price similar to the one established in the sector, unless they have an advantage or disadvantage in quality, availability, distribution or complementary services, in which case, prices are set higher or lower respectively.

7.5 Methods Based on the Market

- These methods have a subjective foundation.
- The consumer's perceived value of a product sets the upper limit of the price.
- Prices are set considering the psychology of the consumer or taking into consideration the elasticity of the demand in the different market segments.



7.6 Pricing Strategies

- Type of strategies:
  - Differential strategies
  - Competitive strategies
  - Psychological price strategies
  - Price strategies for product lines
  - Price strategies for new products