

Marketing Essentials



Chapter 25 price planning

Section 25.1 Price Planning Issues

Section 25.2 Price Planning Factors

Price Planning Issues



Before You Read

PREDICT How do you think the other Ps of the marketing mix will affect pricing?

OBJECTIVES

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

THE MAIN IDEA

Price is one of the Ps of the marketing mix. As such, many factors must be considered when pricing a product.

VOCABULARY

- price
- return on investment (ROI)
- market share
- market position

Price Planning Issues

Graphic Organizer

Notes About the Scope, Significance, and Major Goals of Pricing

Scope and Significance	Goals

Price Planning Issues

Graphic Organizer

Notes About the Scope, Significance, and Major Goals of Pricing

Scope and Significance	Goals
Value in money (or equivalent) for a good or service	Earn a profit
Price comes in various forms, including rent, salary, wage, and interest	Gain market share
Price affects profits	Meet the competition
Price affects a company's image and competitive edge	Establishes brand

Price Planning Issues

What Is Price?

Price is the essential basis of commercial transactions.

The oldest form of pricing is the barter system.



price

The value in money or its equivalent placed on a good or service.

Price Planning Issues

What Is Price?

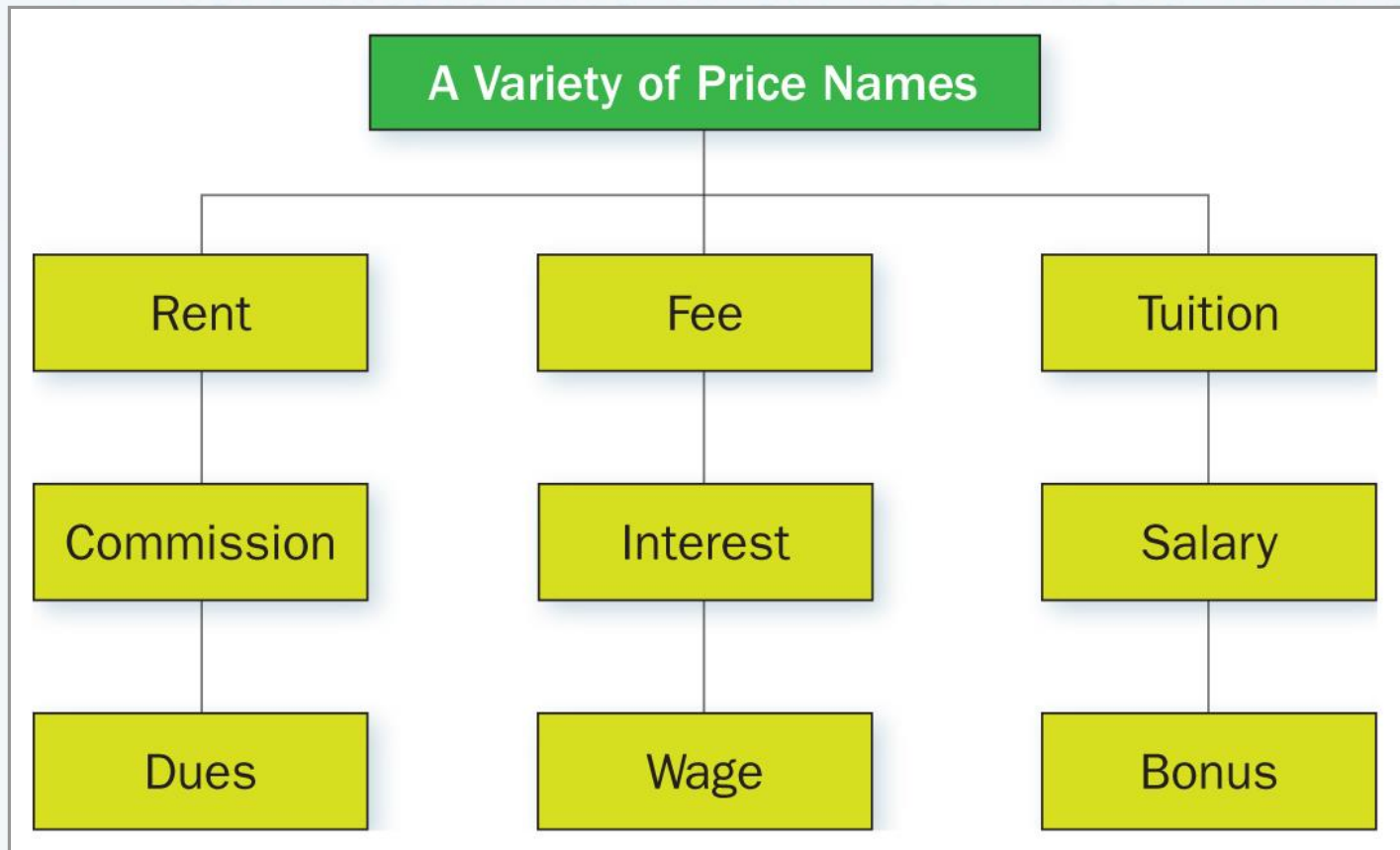
Relationship of Product Value



A seller must be able to gauge where a product will rank with customers.

Price Planning Issues

What Is Price?



Price Planning Issues

What Is Price?

The Importance of Price

Customers use price to make judgments about products and the companies that make them.

Advertising strategies are closely aligned to a company's image.

Price helps determine profits.

Price Planning Issues

Goals of Pricing

Earning a Profit

Return on Investment (ROI)

Gaining Market Share

Market Position

Meeting the Competition

Nonprice Competing Factors



return on investment (ROI)

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



market share

A company's percentage of the total sales volume generated by all companies that compete in a given market.



market position

The relative standing a competitor has in a given market in comparison to its other competitors.

Price Planning Issues



After You Read

Section 25.1

1. **Explain** the relationship between product value and price in a consumer's mind.

Value is a matter of anticipated satisfaction. If a product is highly valued, the price can be a little higher, which is the case in very popular items like the iPod or certain video games. If a product is not of much value in a consumer's mind, the price cannot be very high. For example, an older version of a computer game may be valued much lower than the current version. Thus, the price for the older version must be lower.

Price Planning Issues



After You Read

Section 25.1

2. **Explain** why a higher price does not always bring in higher sales revenue.

Since fewer customers buy a product at a higher price, the volume is lower and so is sales revenue.

Price Planning Issues



After You Read

Section 25.1

3. **Identify** other ways, besides price, that marketers have to accomplish the goal for improving market share.

Other means of improving market share include increasing advertising expenditures, changing product design, and obtaining new distribution outlets.

Price Planning Factors



Before You Read

PREDICT What are some factors that might influence prices?

Price Planning Factors

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.

THE MAIN IDEA

Pricing requires the examination of many factors. Skipping even one aspect of the pricing process could cost a business millions of dollars in lost sales, fines, and/or lawsuits.

VOCABULARY

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

Price Planning Factors

Graphic Organizer

Factors That Affect Price and Legal and Ethical Considerations in Pricing

Factors That Affect Price	Legal & Ethical Considerations

Price Planning Factors

Graphic Organizer

Factors That Affect Price and Legal and Ethical Considerations in Pricing

Factors That Affect Price	Legal & Ethical Considerations
Costs and expenses	Price fixing
Supply and demand	Price discrimination
Consumer perceptions	Resale price maintenance
Competition	Price advertising

Price Planning Factors

Market Factors Affecting Price

Costs and Expenses

Responses to Increasing Costs and Expenses

Responses to Lower Costs and Expenses

Break-Even Point



break-even point

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

Price Planning Factors

Market Factors Affecting Price

Costs and Expenses

Responses to Increasing Costs and Expenses

Responses to Lower Costs and Expenses

Break-Even Point

Supply and Demand

Demand Elasticity

Law of Diminishing Marginal Utility

Inelastic Demand

Factors Influencing Demand Elasticity:

- Brand Loyalty
- Price Relative to Income
- Availability of Substitutes
- Luxury Versus Necessity
- Urgency of Purchase



demand elasticity

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



law of diminishing marginal utility

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

Price Planning Factors

Market Factors Affecting Price

Costs and Expenses

Responses to Increasing Costs and Expenses

Responses to Lower Costs and Expenses

Break-Even Point

Supply and Demand

Demand Elasticity

Law of Diminishing Marginal Utility

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Consumer Perceptions

Quality Equals Price

Service Adds to Perception About Price

Competition

Nonprice Competition Minimizes Price as a Reason for Purchasing

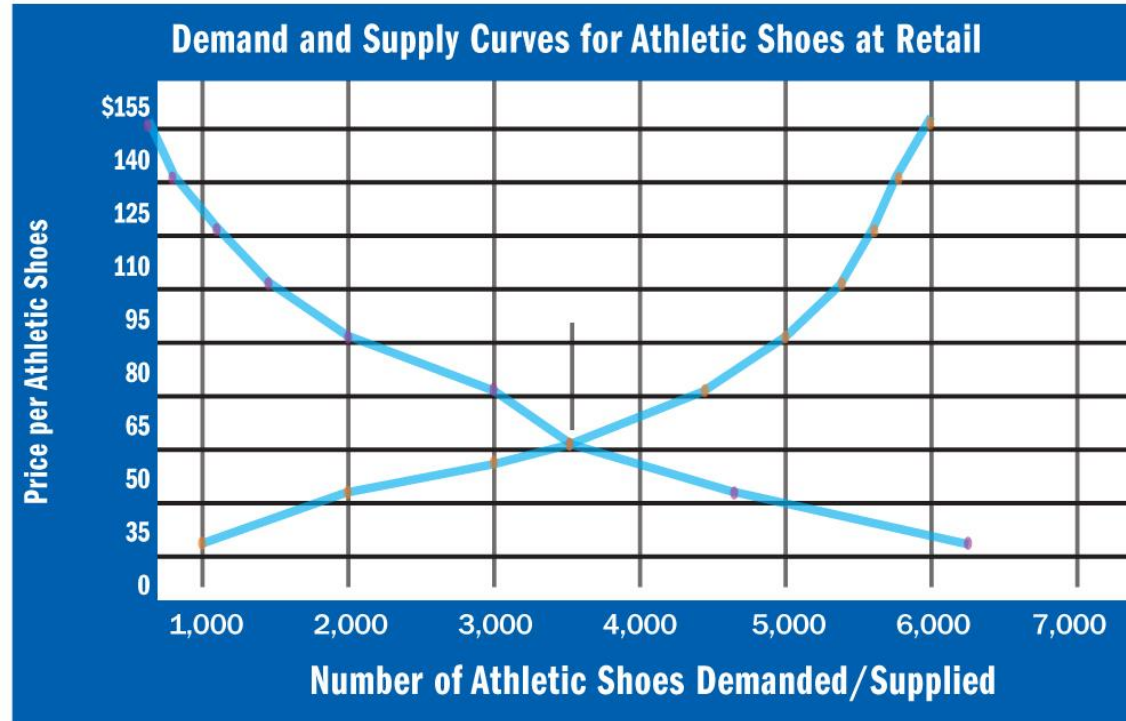
Battles to Attract Customers Can Result in Price Wars

Price Planning Factors

Market Factors Affecting Price

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Organizer

Label the Demand Curve, Supply Curve, and
the Equilibrium Point

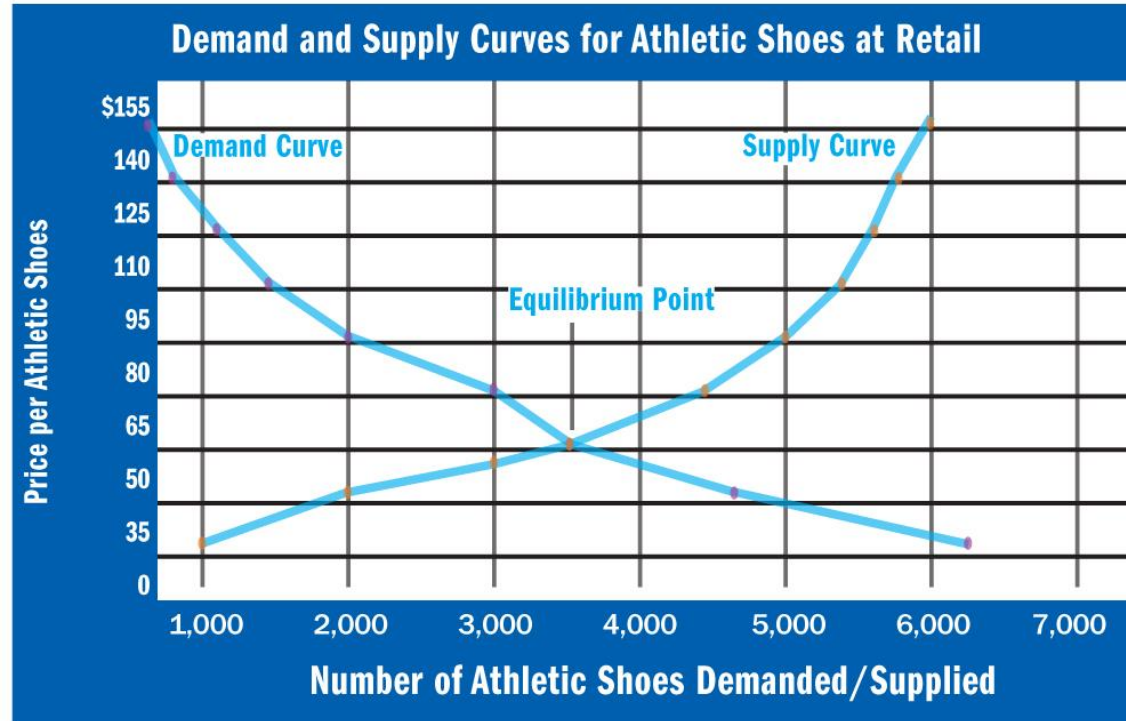


Price Planning Factors

Market Factors Affecting Price

Graphic
Organizer

Label the Demand Curve, Supply Curve, and the Equilibrium Point



Price Planning Factors

Market Factors Affecting Price

Graphic
Organizer

Fill this Graphic
with Examples

Brand Loyalty

Urgency of Purchase

**Factors That Determine
Demand Elasticity**

Price Relative to Income

Luxury Versus Necessity

**Availability of
Substitutes**

Price Planning Factors

Market Factors Affecting Price

Graphic
Organizer

Fill This Graphic
with Examples

Brand Loyalty

Always buy Apple
Computers rather
than PCs

Urgency of Purchase

Airline loses luggage while
on trip to Europe

**Factors That Determine
Demand Elasticity****Price Relative to Income**

Senior citizen on Social
Security stops going
to movies when price
increases

Luxury Versus Necessity

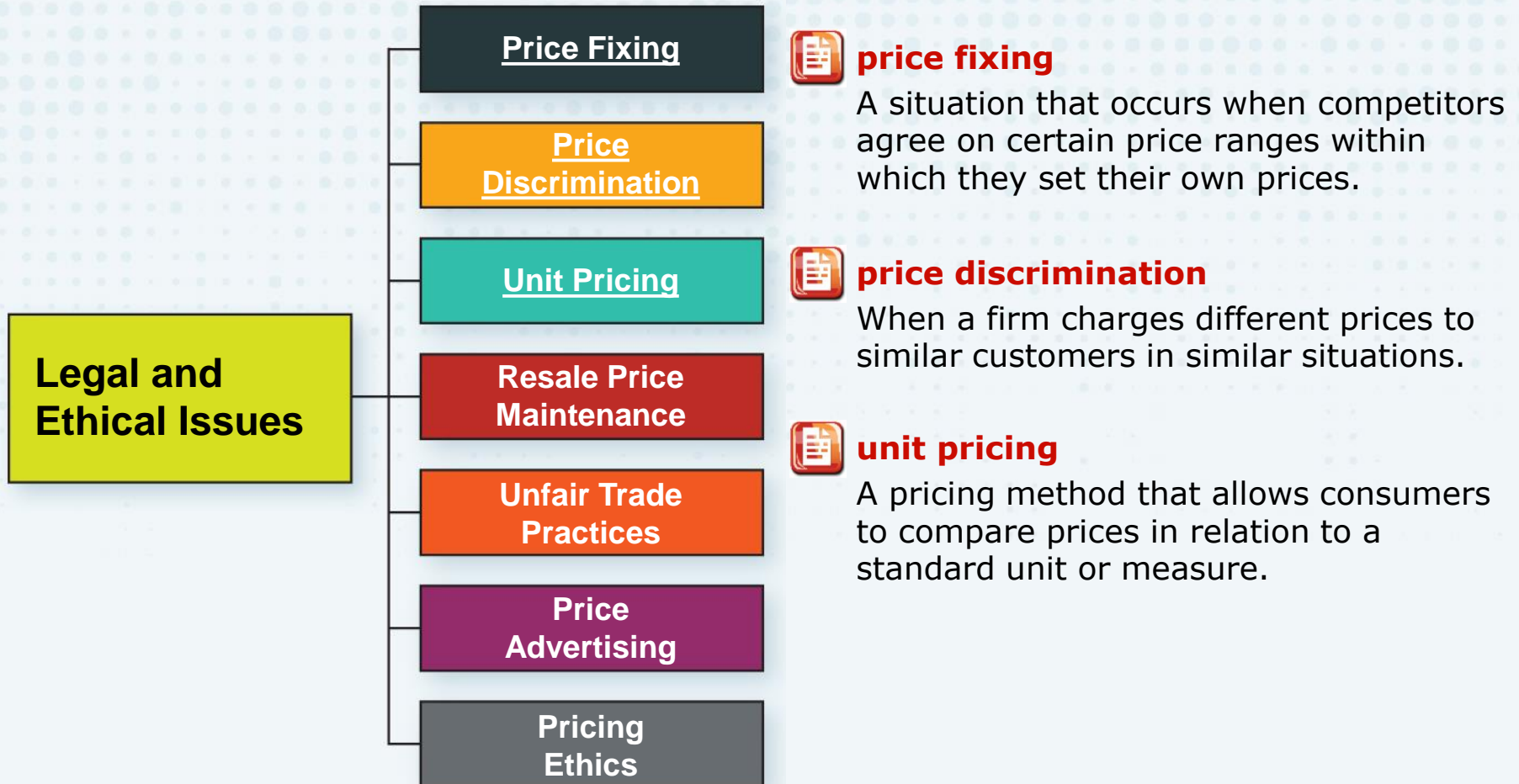
Need formula for infant

**Availability of
Substitutes**

Price of butter rises, so
some consumers switch
to margarine

Price Planning Factors

Legal and Ethical Considerations for Pricing



Price Planning Factors

Legal and Ethical Considerations for Pricing

Where legal, companies can use popular, well-advertised products as loss leaders.



loss leader

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

Price Planning Factors

Legal and Ethical Considerations for Pricing

Graphic
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FTC Guidelines for
Advertising Prices

**FTC Guidelines for
Advertising Prices**



Price Planning Factors

Legal and Ethical Considerations for Pricing

Graphic Organizer

FTC Guidelines for Advertising Prices

FTC Guidelines for Advertising Prices

Cannot advertise a price reduction unless product was previously offered at original price

Cannot say your prices are lower than competitors' prices without proof

Cannot use premarked or list price as reference for sale price unless item was actually sold at that price

Cannot use bait-and-switch advertising

Price Planning Factors



After You Read

Section 25.2

1. **Identify** four pricing options a business might consider in response to increased costs and expenses.

In response to increased costs and expenses, pricing options a business might consider are: pass the increase onto the consumer, reduce the size of the item or drop features to maintain the price, increase features, or upgrade materials in order to justify a higher price.

Price Planning Factors



After You Read

Section 25.2

2. **List** five factors that affect demand elasticity.

Five factors that affect demand elasticity are: brand loyalty, price relative to income, availability of substitutes, luxury versus necessity, and urgency of purchase.

Price Planning Factors

**After You Read****Section 25.2**

3. **Name** the government agency that regulates price advertising.

The Federal Trade Commission regulates price advertising.

Marketing Essentials



End of **Chapter 25** price planning

Section 25.1 Price Planning Issues

Section 25.2 Price Planning Factors