

# Marketing Essentials



## Chapter 26

### pricing strategies

#### Section 26.1 Basic Pricing Strategies

#### Section 26.2 Pricing Process Strategies

# Basic Pricing Policies



## Before You Read

**PREDICT** Why do you think there is a variation in the prices of products?

# Basic Pricing Policies

## OBJECTIVES

- **Name** three pricing policies used to establish a base price.
- **Explain** two popular pricing strategies for introducing a new product.
- **Explain** the relationship between pricing and the product life cycle.

## **THE MAIN IDEA**

It is important to establish a base price from which price adjustments can be made. Various situations and company policies can affect the pricing of a product.

## VOCABULARY

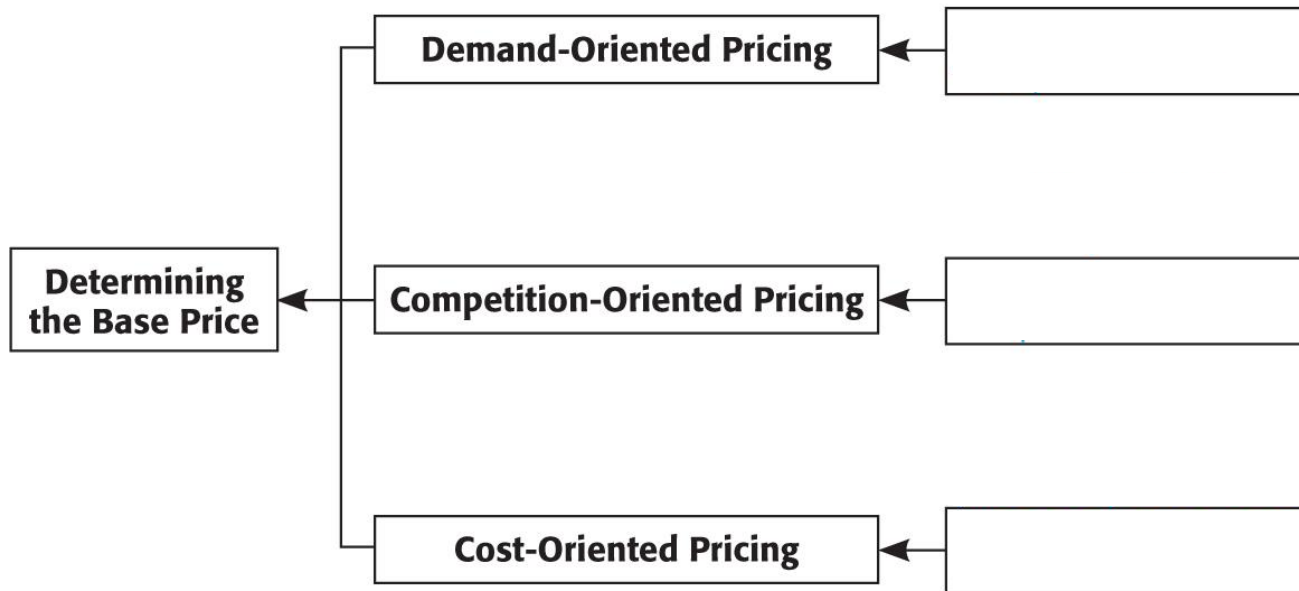
- markup
- one-price policy
- flexible-price policy
- skimming pricing
- penetration pricing



# Basic Pricing Policies

## Graphic Organizer

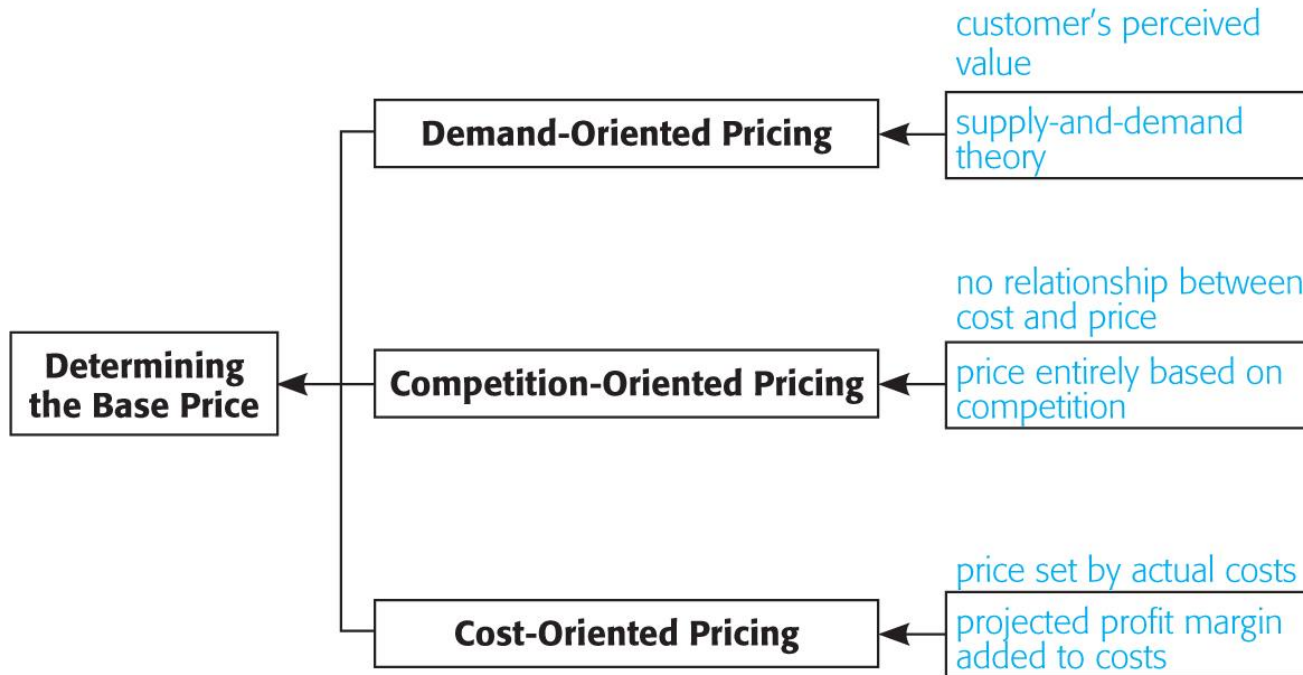
### Notes About the Pricing Policies That Can Affect the Base Price of a Product



# Basic Pricing Policies

## Graphic Organizer

### Notes About the Pricing Policies That Can Affect the Base Price of a Product



## Basic Pricing Concepts

### Three Strategies Used for Setting Base Prices

#### Demand-Oriented Pricing

- Attempt to determine what consumers are willing to pay
- Relies on premises of supply-and-demand theory and demand elasticity factors

#### Competition-Oriented Pricing

- Price above the competition
- Price below the competition
- Price in line with the competition

#### Cost-Oriented Pricing

- Resellers calculate prices using the concept of markup
- Used by wholesalers and retailers



#### **markup**

The difference between an item's cost and sale price.



# Basic Pricing Policies

## Basic Pricing Concepts

### CALCULATING THE WHOLESALE PRICE

Manufacturer's suggested retail price (MSRP)	\$100
Retailer's markup (40% of retail price)	<u>− \$40</u>
Wholesaler's price to retailer (subtract markup from MSRP)	= \$60
Wholesaler's markup (20% of wholesale price)	<u>− \$12</u>
Manufacturer's price to wholesaler * (subtract wholesaler's markup from wholesaler's price)	= \$48

\* This amount must cover costs, expenses, and profit

# Basic Pricing Policies

## Basic Pricing Concepts

CALCULATING THE RETAIL PRICE	
Cost of producing the item	\$40
Manufacturer's expenses and intended profit (20% of cost)	<u>− \$8</u>
Manufacturer's price to wholesaler ( <i>Cost plus expenses and intended profit margin</i> )	= \$48
Wholesaler's markup (25% of price wholesaler paid for item)	<u>+ \$12</u>
Wholesaler's price to retailer ( <i>Price to wholesaler + markup</i> )	= \$60
Retailer's markup (66.67% based on price paid to wholesaler)	<u>+ \$40</u>
Retailer's base price to consumer	= \$100

## Pricing Policies and Product Life Cycle

### One-Price Policy

versus

### Flexible-Price Policy



#### **one-price policy**

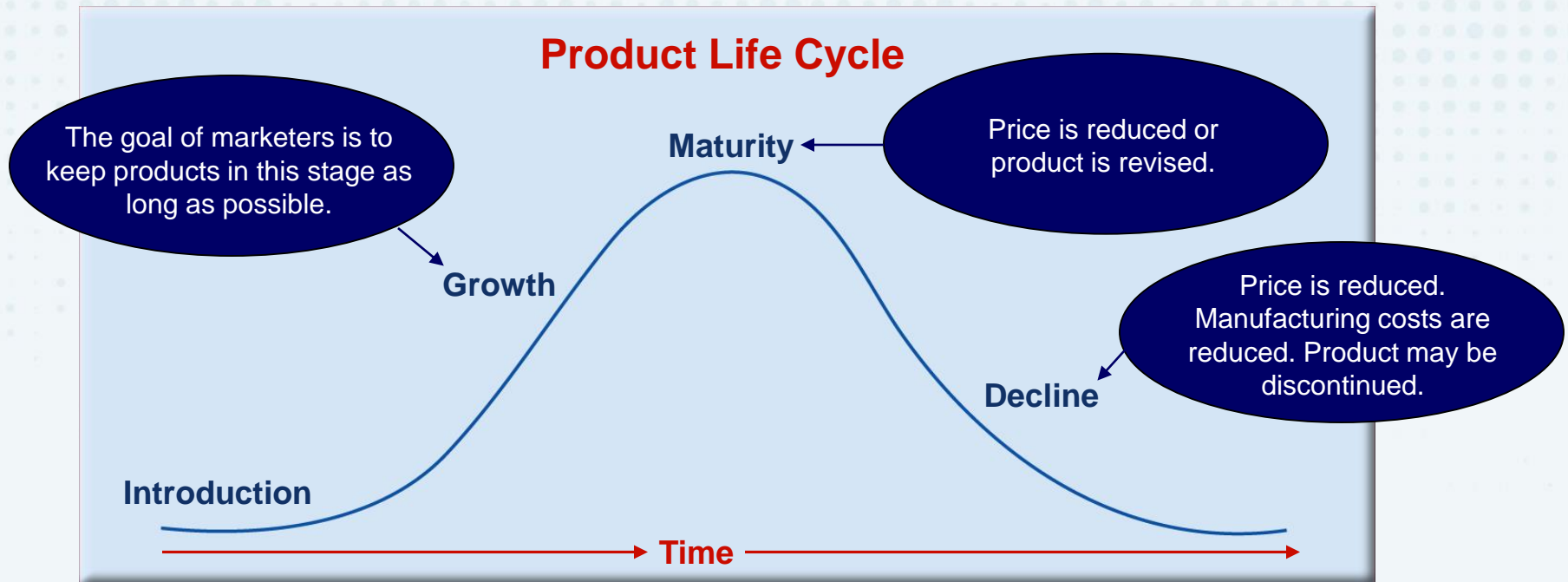
A policy in which all customers are charged the same prices.



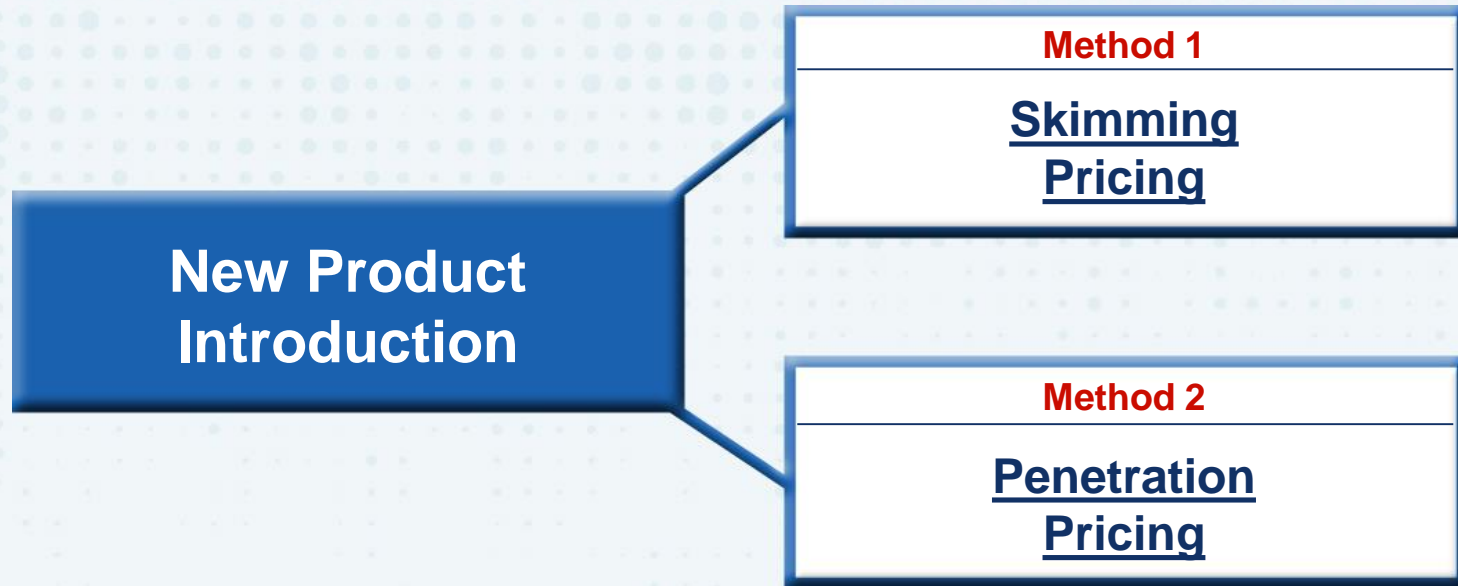
#### **flexible-price policy**

A policy in which customers pay different prices for the same type or amount of merchandise.

## Pricing Policies and Product Life Cycle



## Pricing Policies and Product Life Cycle



### skimming pricing

A pricing policy that sets a very high price for a new product.



### penetration pricing

Setting the price for a new product very low to encourage as many as possible to buy the product.



# Basic Pricing Policies



## After You Read

## Section 26.1

1. **Name** the types of businesses that use markup to determine prices.

Markup is used primarily by wholesalers and retailers who are involved in acquiring goods for resale.

# Basic Pricing Policies



## After You Read

## Section 26.1

2. **Explain** why manufacturers consider the final consumer with a suggested retail price when calculating the price to charge wholesalers.

Manufacturers will often do research to determine the price the final consumer is willing to pay for an item. That price becomes the manufacturer's suggested retail price (list price) from which the company expects wholesalers and retailers to take their customary markups. Customary markups are well known in each industry.

# Basic Pricing Policies

**After You Read****Section 26.1**

3. **List** the advantages of using a one-price policy.

The advantages of using a one-price policy are that they offer consistency and reliability, which allows retailers to estimate sales and profit because they know the set price.

# Pricing Process Strategies



## Before You Read

**PREDICT** Why do you think prices change over time?

## OBJECTIVES

- **Describe** pricing strategies that adjust the base price.
- **List** the steps involved in determining a price.
- **Explain** the use of technology in the pricing function.



## **THE MAIN IDEA**

Price adjustments allow businesses to stay competitive. The right pricing strategy can help increase sales and profitability.

## VOCABULARY

- product mix pricing strategies
- price lining
- bundle pricing
- geographical pricing
- segmented pricing strategy
- psychological pricing
- prestige pricing
- everyday low prices (EDLP)
- promotional pricing

# Pricing Process Strategies

## Graphic Organizer

### Identify Strategies for Adjusting Prices and Steps in Setting Prices

Price Adjustment Strategies	Six Steps in Determining Price
<b>1. Product mix strategies</b>	<b>1.</b>
<b>a. Price lining</b>	<b>2.</b>
<b>b.</b>	<b>3.</b>
<b>c.</b>	<b>4.</b>
<b>d.</b>	<b>5.</b>
<b>e.</b>	<b>6.</b>

# Pricing Process Strategies

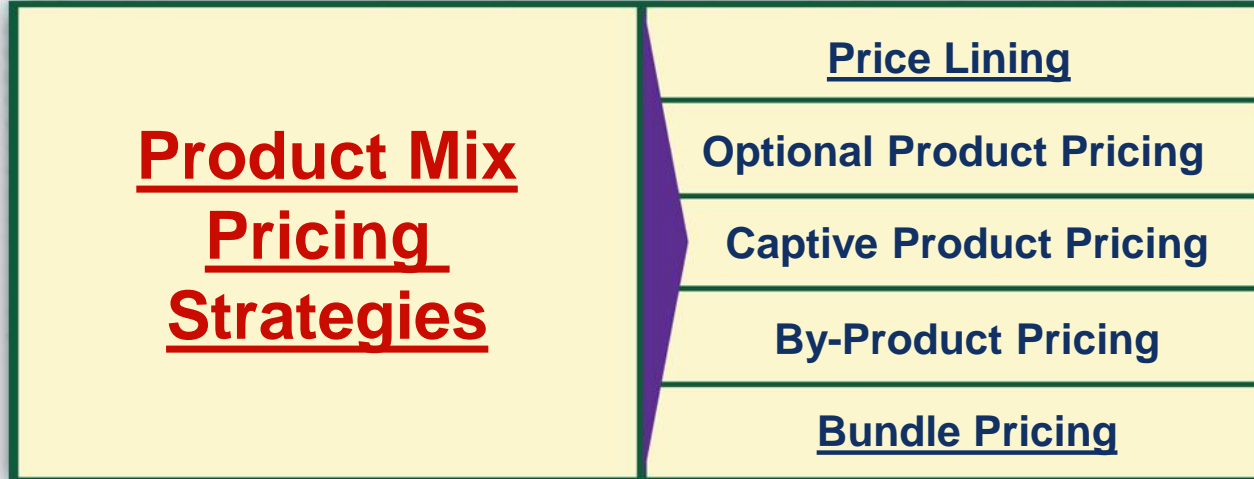
## Graphic Organizer

### Identify Strategies for Adjusting Prices and Steps in Setting Prices

Price Adjustment Strategies	Six Steps in Determining Price
<b>1. Product mix strategies</b>	<b>1.</b> Establish pricing objectives
<b>a. Price lining</b>	<b>2.</b> Determine costs
<b>b.</b> Optional product	<b>3.</b> Estimate demand
<b>c.</b> Captive product	<b>4.</b> Study competition
<b>d.</b> By-product	<b>5.</b> Decide on a pricing strategy
<b>e.</b> Bundle pricing	<b>6.</b> Set prices

# Pricing Process Strategies

## Adjusting the Base Price



### **product mix pricing strategies**

Adjusting prices to maximize the profitability for a group of products rather than for just one item.



### **price lining**

A pricing technique that sets a limited number of prices for specific groups or lines of merchandise.



### **bundle pricing**

Pricing method in which a company offers several complementary, or corresponding, products in a package that is sold at a single price.



# Pricing Process Strategies

## Adjusting the Base Price

What is geographical pricing?



### **geographical pricing**

Price adjustments required because of different shipping agreements.

# Pricing Process Strategies

## Adjusting the Base Price

**With FOB (Free on Board) destination pricing, the seller pays for the shipping and assumes responsibility for the shipment until it reaches the buyer.**

# Pricing Process Strategies

## Adjusting the Base Price

### Considerations for International Pricing

**Consumers**

**Competition**

**Laws**

**Regulations**

**Economic Conditions**

**Monetary Exchange Rate**

**Shipping and Tariff Costs**

**Distribution Systems**

# Pricing Process Strategies

## Adjusting the Base Price

The segmented pricing strategy helps businesses optimize profits and compete effectively.



### **segmented pricing strategy**

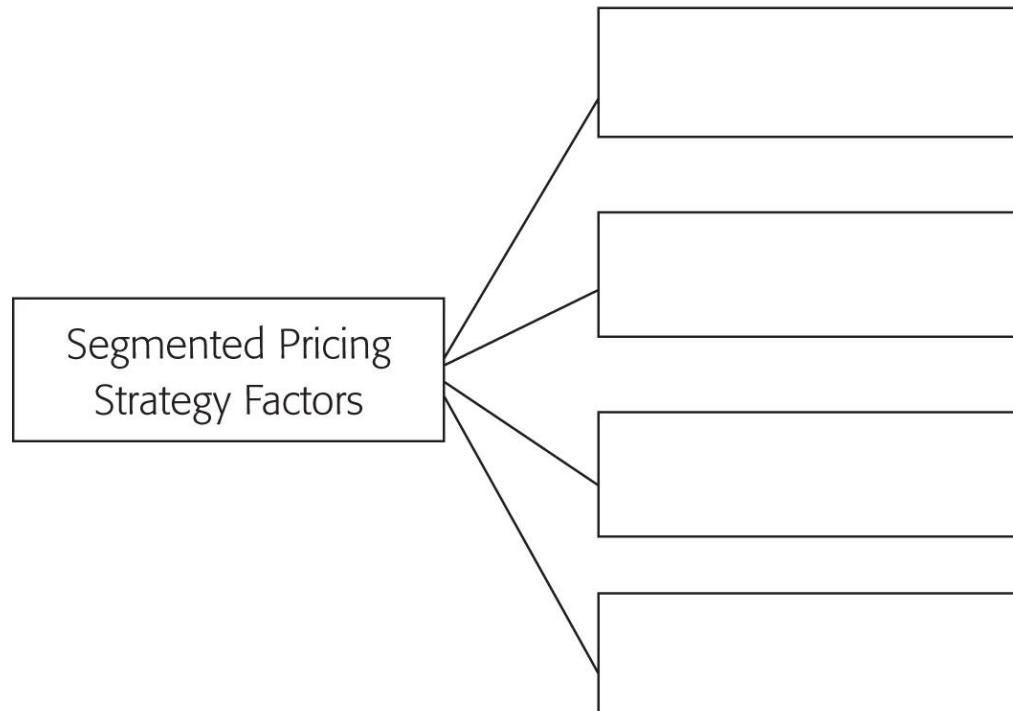
A strategy that uses two or more different prices for a product, though there is no difference in the item's cost.

# Pricing Process Strategies

## Adjusting the Base Price

Graphic  
Organizer

### Four Segmented Pricing Strategy Factors



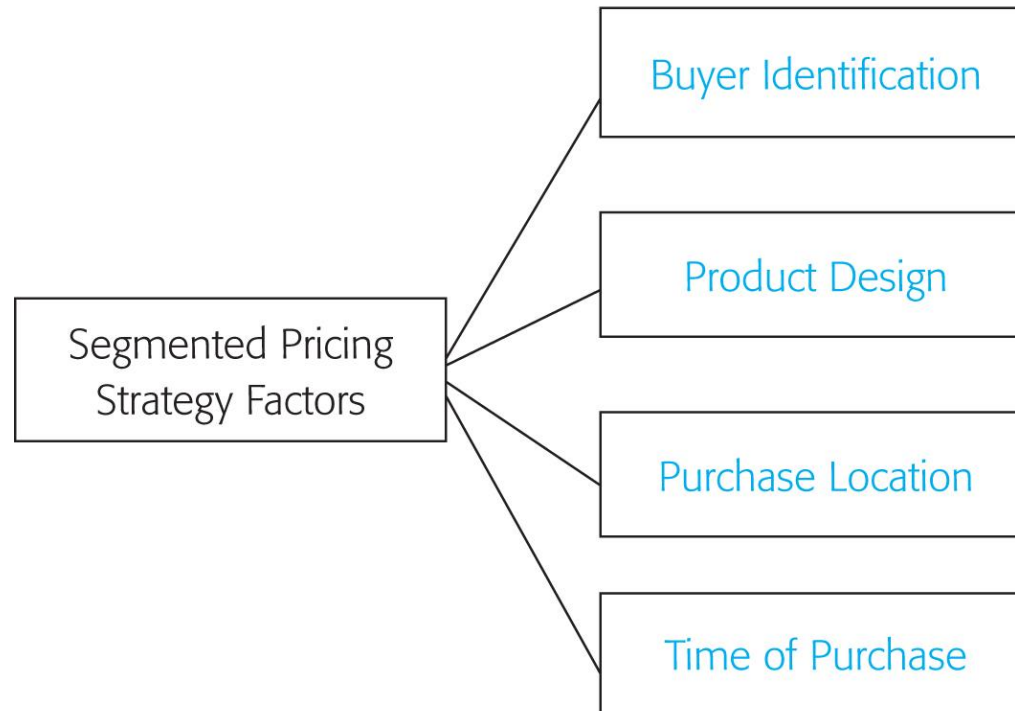


# Pricing Process Strategies

## Adjusting the Base Price

Graphic  
Organizer

### Four Segmented Pricing Strategy Factors



## Adjusting the Base Price

### Psychological Pricing Strategies

**Odd-Even Pricing**

**Prestige Pricing**

**Multiple-Unit Pricing**

**Everyday Low Prices (EDLP)**



#### **psychological pricing**

Pricing techniques that create an illusion for customers.



#### **prestige pricing**

Higher-than-average prices to suggest status and high quality to the customer.



#### **everyday low prices (EDLP)**

Low prices set on a consistent basis with no intention of raising them or offering discounts in the future.

# Pricing Process Strategies

## Adjusting the Base Price

Graphic  
Organizer

Briefly Describe Each Pricing Strategy

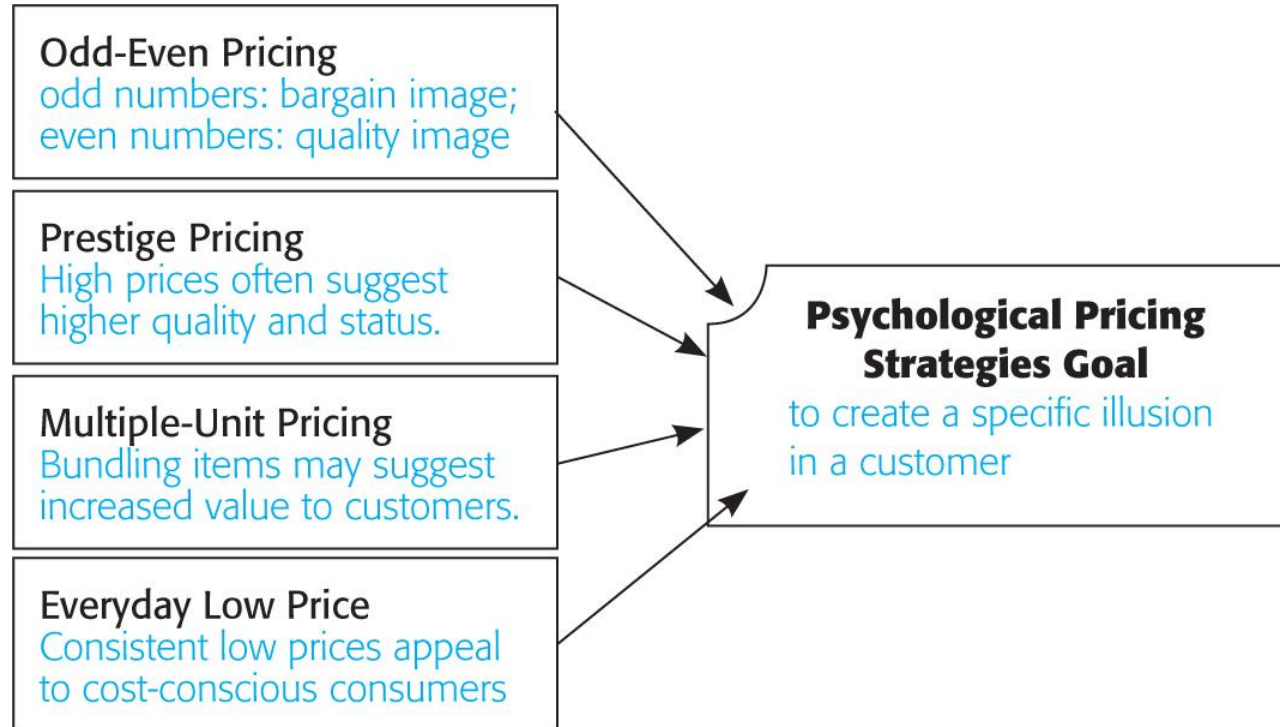


# Pricing Process Strategies

## Adjusting the Base Price

### Graphic Organizer

Briefly Describe Each Pricing Strategy



# Pricing Process Strategies

## Adjusting the Base Price

### Promotional Pricing

**Loss Leader  
Pricing**

**Special-Event**

**Rebates and  
Coupons**



#### **promotional pricing**

Used in conjunction with sales promotions when prices are reduced for a short period of time.



# Pricing Process Strategies

## Adjusting the Base Price

### Discounts and Allowances

Cash Discounts

Quantity Discounts

Trade Discounts

Seasonal Discounts

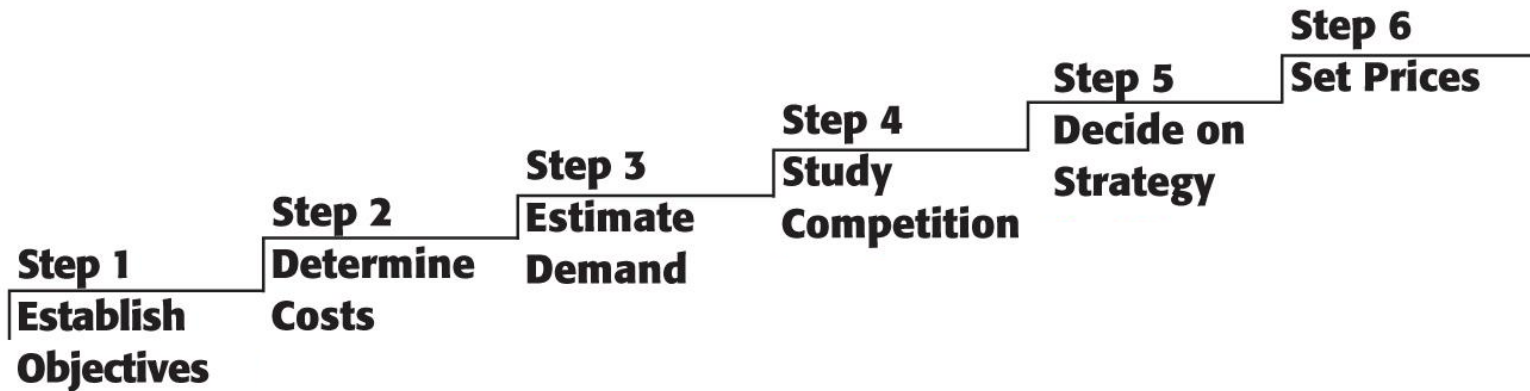
Special Allowances

# Pricing Process Strategies

## The Pricing Process and Related Technology

### Graphic Organizer

Identify the Purpose of Each of the Six Steps Used to Determine Price

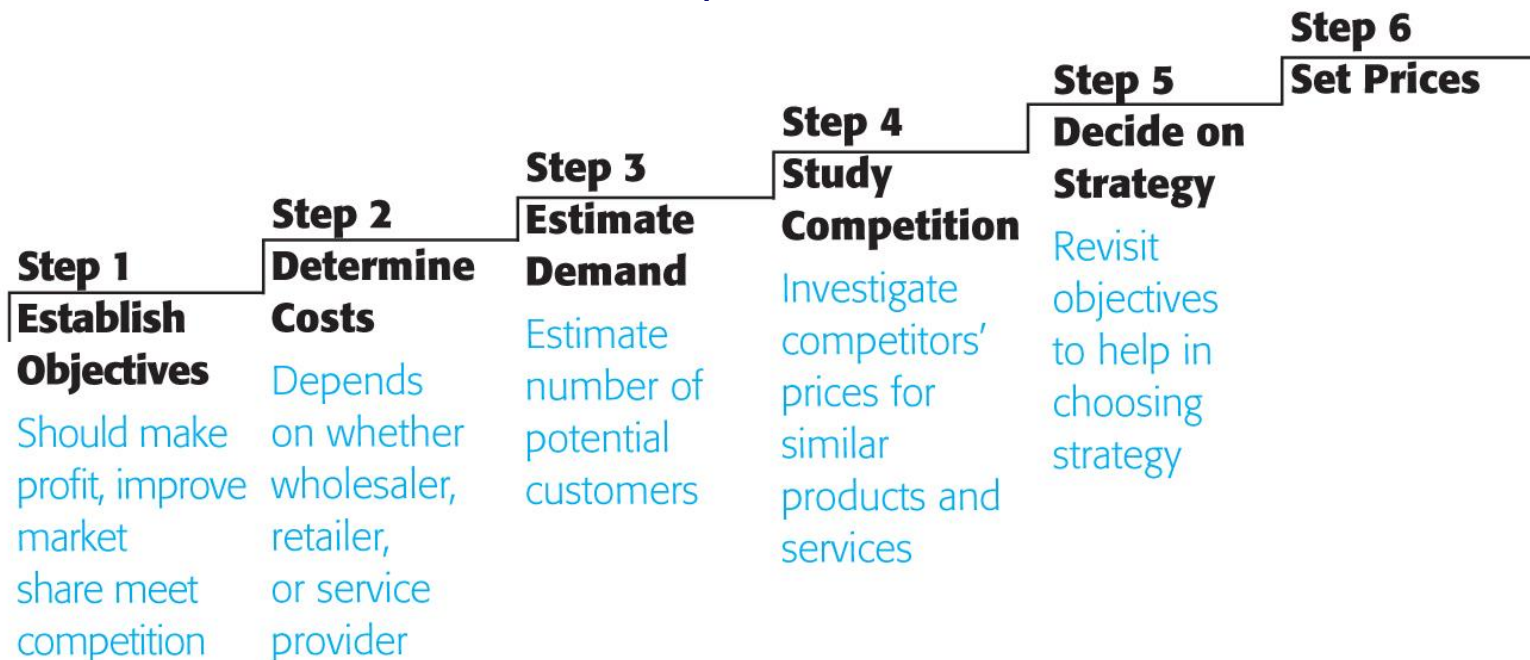


# Pricing Process Strategies

## The Pricing Process and Related Technology

### Graphic Organizer

Identify the Purpose of Each of the Six Steps Used to Determine Price



# Pricing Process Strategies

## The Pricing Process and Related Technology

### Pricing Technology

#### Smart Pricing

Decisions are based on large amounts of data.

#### Communicating Prices to Customers

Electronic gadgets and kiosks provide consumers with real-time information.

#### RFID Technology

Radio frequency identification (RFID) transmits information wirelessly.

# Pricing Process Strategies



## After You Read

## Section 26.2

1. **Identify** the key factor in deciding price lines.

The key factor in deciding price lines is the differential between the levels of pricing. The prices within the line must be far enough apart so that the customer can perceive that there are significant differences between the groups.



# Pricing Process Strategies

**After You Read****Section 26.2**

## 2. **Explain** why bundling discourages comparison shopping.

Bundling discourages comparison shopping because the grouping of products in the package may differ among competitors, making it difficult to see which one is the better deal.

# Pricing Process Strategies



## After You Read

## Section 26.2

### 3. **Compare** everyday low pricing with promotional pricing.

In everyday low pricing, the prices are low and they remain low with no intention of changing them in the future. In promotional pricing, prices are lowered for a short period of time, after which they go back up to the original price when the promotion is over.

# Marketing Essentials



## End of Chapter 26

### pricing strategies

#### Section 26.1 Basic Pricing Strategies

#### Section 26.2 Pricing Process Strategies