

CHAPTER 12 - MGMT 105

□ Chapter 12: Pricing, Distribution, and Promoting Products

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- Determining Prices

- The second major component of the marketing mix is pricing – determining what the customer pays and the seller receives in exchange for a product.
 - Setting prices involves understanding how they contribute to achieving the firm’s sales objectives.

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- Pricing to meet Business Objectives

- Pricing objectives are the goals that sellers hope to achieve in pricing products for sale.
- Some companies have profit-maximizing pricing objectives, while others have market share pricing objectives.
- Pricing decisions are also influenced by the need to compete in the marketplace, by social and ethical concerns, and even by corporate image.

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- Market Share

- In the long run, a business must make a profit to survive.

- Because they are willing to accept minimal profits, even losses, to get buyers to try products, companies may initially set low prices for new products to establish market share (or market penetration) – a company’s percentage of the total industry sales for a specific product type.

- Price-Setting Tools

- o Whatever a company's objectives, managers like to measure the potential impact before deciding on final prices.
- o **Two tools used for this purpose are cost-oriented pricing and breakeven analysis.**
 - Although each can be used alone, both are often used because they provide different kinds of information for determining prices that will allow the company to reach its objectives.
 - Cost-oriented pricing considers a firm's desire to make a profit and its need to cover production costs.
 - Breakeven analyses assess costs versus revenues for various sales volumes and show, at any particular selling price, the amount of loss or profit for each possible volume of sales.

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- Pricing Strategies and Tactics
 - o The pricing tools help managers set prices on specific goods.
 - They do not, however, help them decide on pricing philosophies for diverse competitive situations.
 - Pricing strategy (pricing as a planning activity) and some basic pricing tactics (ways in which managers implement a firm's pricing strategies).
 - o PRICING STRATEGIES
 - Pricing is an extremely important element in the marketing mix, as well as a flexible marketing tool: it is certainly easier to change prices than to change products or distribution channels.
 - o PRICING TACTICS

- Regardless of its pricing strategy, a company may adopt one or more pricing tactics. Companies selling multiple items in a product category often use price lining – offering all items in certain categories at a limited number of prices.
 - Psychological pricing takes advantage of the fact that customers are not completely rational when making buying decisions. Finally, sellers must often resort to price reductions – discounts – to stimulate sales.
- The Distribution Mix
 - In addition to a good product mix and effective pricing, the success of any product also depends on its distribution mix – the combination of a distribution channels by which a firm gets products to end users.

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- Intermediaries and Distribution Channels
 - Once called middlemen, intermediaries help to distribute goods, either by moving them or by providing information that stimulates their movement from sellers to customers.
 - Wholesalers are intermediaries who sell products to other businesses for resale to final consumers. Retailers sell products directly to consumers.
 - A distribution channel is the path a product follows from producer to end user.

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- Wholesaling
 - The roles differ among the various intermediaries in distribution channels.