

Chapter 13 --Building the Price Foundation

I. NATURE AND IMPORTANCE OF PRICE

a) **Price** -- the money or other considerations (including other goods and services) exchanged for the ownership or use of a good or service.

- The IMPORTANCE of PRICE?

Bugatti 2.1 million in 2010

b) **Barter** -- the practice of exchanging goods and services for other goods and services rather than for money.

i) Example: Restaurant and window cleaning—barter is the cost of food; 28-35% of price of meal

c) Price Equation

$$\text{Final Price} = \text{List Price} - (\text{Incentives} + \text{Allowances}) + \text{Extra Fees}$$

d) The “price” a buyer pays can take different names depending on what is purchased (Figure 13-1, text page 321).

PRICE EQUATION

ITEM PURCHASED	PRICE	= LIST PRICE	- INCENTIVES AND ALLOWANCES	+ EXTRA FEES
New car bought by an individual	Final price	= List price	- Rebate Cash discount Old car trade-in	+ Financing charges Special accessories Destination charges
Term in college bought by a student	Tuition	= Published tuition	- Scholarship Other financial aid Discounts for number of credits taken	+ Special activity fees
Merchandise bought from a wholesaler by a retailer	Invoice price	= List price	- Quantity discount Cash discount Seasonal discount Functional or trade discount	+ Penalty for late payment

i) **KSU Tuition Example:**

(1) The "price" for tuition at KSU: 3 credit hours= \$41.10 for each of the 30 classes

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For a full-time in-state student at 15 credit hours

?? \$6165 - \$1650- \$1000 + ??

PLUS ANY Miscellaneous Fees:

Legal Services Fee.....	\$7
College of Business U.G. Program Fee...	\$50
Admissions Service Fee.....	\$40
Matriculation Fee.....	\$150
Transient Application.....	\$10
Reinstatement Application.....	\$25
Returned Check.....	\$30
Late Registration.....	\$100
Late Installment Payment.....	\$30

SO, The "price" for tuition at KSU is:

"Tuition" = Published Tuition - Scholarship - Discount + Special Fees

II. PRICE AS AN INDICATOR OF VALUE

- a) Value is the ratio of perceived benefits to price

$$\text{VALUE} = \frac{\text{Perceived benefits}}{\text{price}}$$

And so PRICE needs to be equal to the perceived value of the attributes being offered.

- b) Value-pricing -- the practice of simultaneously increasing product and service benefits while maintaining or decreasing price.

i) Examples: McDonalds—Supersize extra value meal

ii) What if costs rise? With ingredients costs expected to remain high, McDonalds may raise prices on its popular dollar menu.

*Charge for condiments.

iii) Value-Pricing is not necessarily “Inexpensive”

III. PRICE IN THE MARKETING MIX

- a) Profit Equation

$$\text{Profit} = \text{Total Revenue} - \text{Total Cost}$$

$$= (\text{Unit price} \times \text{Quantity sold}) - (\text{Fixed cost} + \text{Variable Cost})$$

IV. Six Steps in Setting Price

- a) STEP 1: IDENTIFY PRICING OBJECTIVES AND CONSTRAINTS

i) IDENTIFYING PRICING OBJECTIVES – Pricing Objectives specify the role of price in an organization’s marketing and strategic plans.

(1) Profit Objectives

(a) Managing for Long-Run Profits