

CHAPTER 13: BUILDING THE PRICE FOUNDATION

I. NATURE AND IMPORTANCE OF PRICE

- a. **Price:** the money or other considerations (including other goods/services) exchanged for the ownership or use of a good or service
- b. Importance of Price: Price is the only thing we do that isn't an expense (Price is REVENUE)
- c. **Barter:** the practice of exchanging goods and services for other goods and services rather than money
- d. Price Equation: $\text{Final Price} = \text{List Price} - (\text{Incentives} + \text{Allowances}) + \text{Extra Fees}$

II. Price as a indicator of value

- a. **Value:** the ratio of perceived benefits to price
- b. $\text{Value} = \text{Perceived Benefits} / \text{Price}$
- c. Price cannot exceed the perceived value of the attributes being offered
- d. **Value-Pricing:** practice of simultaneously increasing product and service benefits while maintaining or decreasing price
 - i. But what happens if/when costs rise?
- e. Value Pricing is not necessarily inexpensive
 - i. PCs have seen collapsing prices as competition has become strong
 - ii. Low-Prices PCs are the fastest growing segment
 - iii. Solutions: adding features and services that add value

III. Price in the Marketing Mix

- a. **Profit Equation:** $\text{Profit} = \text{Total Revenue} - \text{Total Cost}$
- b. $= (\text{Unit Price} \times \text{Q. Sold}) - (\text{Fixed Cost} + \text{Variable Cost})$

IV. Six Steps in Setting Price

1. **Identify Pricing Objectives and Constraints**

- a. **Pricing Objectives:** specify the role of price in an organization's marketing and strategic plans
- b. Profit Objectives
 - i. Managing for Long-Run Profits
 - ii. Managing for Current Profit
 - iii. Target Return (Return on Investment)
- c. Pricing Objectives:
 - i. Sales (\$)
 - ii. Market Share (\$ or #)
 - iii. Unit Volume (#)
 - iv. Survival
 - v. Social Responsibility
- d. Pricing Restraints Caused By:
 - i. Demand for:
 1. Product Class (ex: Cars)
 2. Product (ex: Sports Cars)
 3. Brand (ex: Bugatti)
 - ii. Newness of the Product (Product Life Cycle Stage)
- e. Single Product vs. a Product Line (ex: Yoplait)
- f. Cost of Producing and Marketing a Product
- g. Cost of Changing Prices and Time Period They Apply
- h. Type of Competitive Market
 - i. Pure Competition:
 - ii. Monopolistic Competition:
 - iii. Oligopoly:

- iv. Pure Monopoly
 - i. Competitors' Prices
- 2. **Estimate Demand and Revenue**
 - a. **The Demand Curve:** graph showing relationship between price of a product and quantity sold at that price. Show max number of units that will be sold at a given price
 - b. Demand Curve Influenced By:
 - i. Consumer Tastes
 - ii. Price/ Availability of Similar Products
 - iii. Consumer Income
 - c. **Demand Factors:** Factors that determine consumers' willingness and ability to pay for goods/ services
 - d. **Total Revenue:** Total money received from the sale of a product
 - e. **Average Revenue:** average amount of money received for selling one unit of product (AKA Price)
 - f. **Marginal Revenue:** change in total revenue resulting from producing and marketing one additional unit