

Pricing/Product Development



Factors Affecting Price

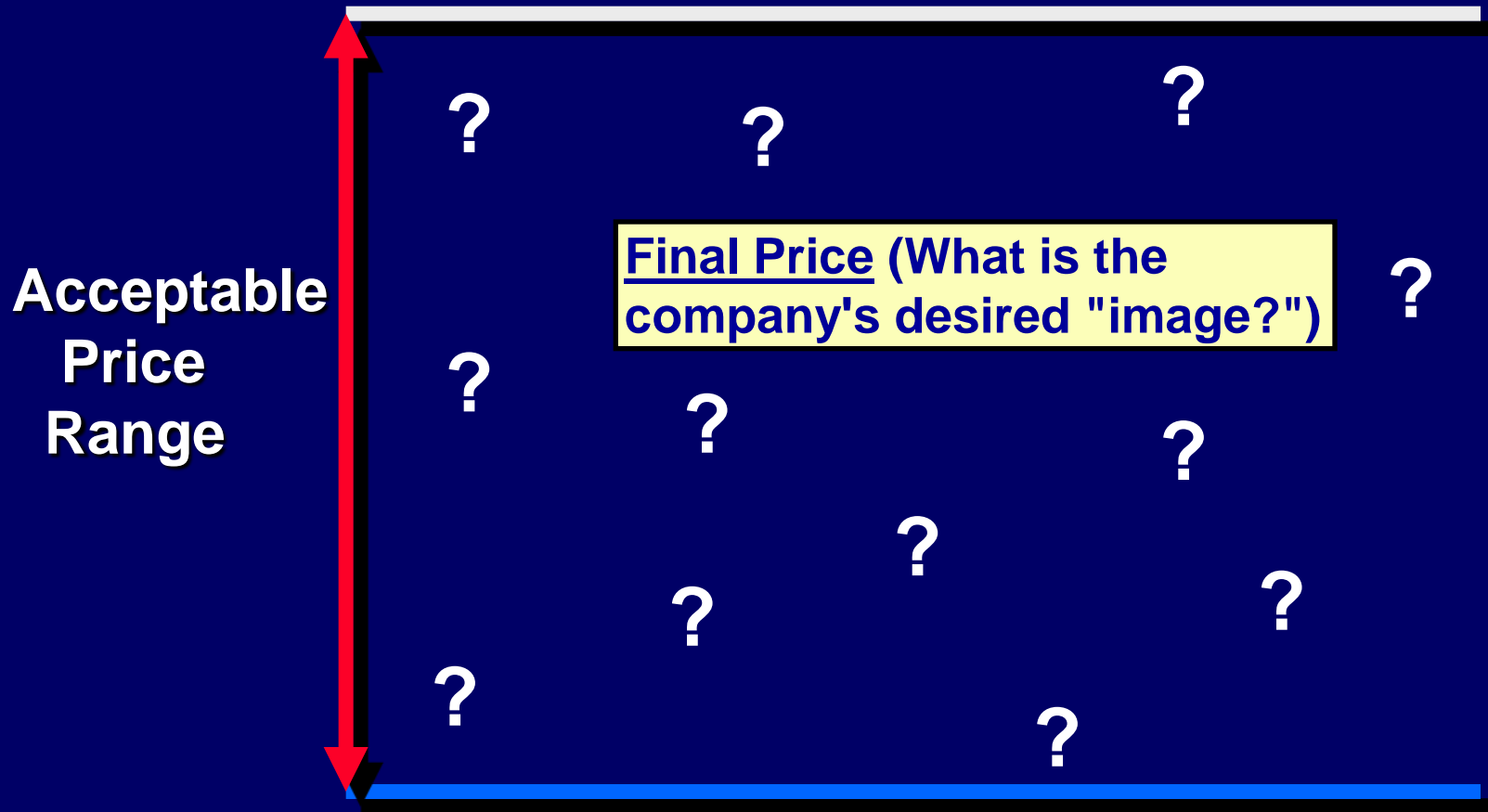
Pricing: A Creative Blend of Art and Science

- **Product or service costs**
- **Customers' characteristics**
- **Market forces**
- **Competitors' prices**
- **Sales volume**
- **Company's image**
- **Customers expectations**

- **Economic conditions**
- **Seasonal fluctuations**
- **Customers' price sensitivity**
- **Psychological factors**
- **Credit terms and purchase discounts**
- **Desired image**

What determines price?

Price Ceiling ("What will the market bear?")



Price Floor ("What are the company's costs?")

Pricing: Dealing with Rapidly Rising Costs

- Communicate with your customers
- Include a surcharge
- Eliminate discounts, coupons, or “freebies”
- Focus on efficiency
- Consider absorbing cost increases
- Emphasize the value your company provides to customers
- Try to lock in prices with suppliers

Three Pricing Forces: Image, Competition, and Value

- **Price conveys image**
 - Prices send signals to customers about quality and value
 - Key is understanding your target customers
- **When setting prices, business owners must consider competitors' prices**
 - Competitors' locations
 - Nature of the competing goods

Three Pricing Forces: Image, Competition, and Value

- **When setting prices, business owners must consider competitors' prices**
 - **Avoid price wars!**
- **Focus on value**
 - **Objective value vs. perceived value**
 - **Three reference points:**
 - **Price paid in the past**
 - **Prices competitors charge**
 - **Company's costs**

Pricing: Established Goods and Services

- Odd pricing
- Price lining
- Leader pricing

Pricing: Established Goods and Services

- **Geographic pricing**
 - **Zone pricing**
 - **Uniform delivered pricing**
 - **F.O.B. seller**
- **Opportunistic pricing**
- **Discounts (or markdowns)**
- **Multiple pricing**

Pricing: Established Goods and Services

- **Bundling**
 - **Optional product pricing**
 - **Captive product pricing**
 - **By-product pricing**
- **Suggested retail prices**
- **Follow-the-leader pricing**

Introducing a New Product

Three Goals:

- Get the product accepted
- Maintain market share as competition grows
- Earn a profit

Introducing a New Product

Three Strategies:

- Penetration
- Skimming
- Life cycle pricing

Conclusion

Pricing requires a knowledge of accounting to determine the firm's cost, strategy to understand the behavior of competitors, and psychology to understand the behaviors of customers

Conclusion

Company pricing policies offer potential customers important information about the firm's overall image. Accordingly, when developing a marketing approach to pricing, business owners must establish prices that are compatible with what their customers expect and are willing to pay. Too often, small business owners under price their goods and services, believing that low prices are the only way they can achieve a competitive advantage. They fail to identify the extra value, convenience, service, and quality they give their customers all things many customers are willing to pay for.

Conclusion

An important part of setting appropriate prices is tracking competitors' prices regularly; however, what the competition is charging is just one variable in the pricing mix. When setting prices, business owners should take into account their competitors' prices, but they should not automatically match or beat them. Businesses that offer customers extra quality, value, service, or convenience can charge higher prices as long as customers recognize the "extras" they are getting. Two factors are vital to studying the effects of competition on the small firm's pricing policies: the location of the competitors and the nature of the competing goods.