Price

P PRICE

The amount of money the customer must give up in return for a product or service, and the part of the mix that directly generates profit

Demand

The number of units that the market (customers) are willing and able to buy at a certain price.

Table and graph on pages 300-1

- What is the trend or pattern between price and demand?
- What does this mean for the marketing department when they are thinking about prices?

Supply

The number of units that the business is willing to offer for sale at a certain price.

Table and graph on pages 301-2

- What is the trend or pattern between price and supply?
- What does this mean for the marketing department when they are thinking about prices?

The Market Price

Also known as the market equilibrium – the point at which demand equals supply of the product.

Graph page 302

At a price of $1.75, 4 million units are both supplied AND demanded…there are none left over as waste and there are no customers left wanting one.

Try activity 20.1 on page 303

Factors affecting demand

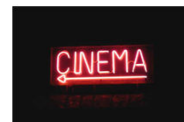
Trends / fashions 'cool'
Competition / substitutes
Advertising
Price (elasticity)
Demographics (income)
Reputation / brand loyalty
Weather (external)

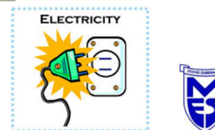
Elasticity of Demand

When prices change, ALL products will experience and change in demand…the question is, how BIG is the change?

If the change is significant, a product is PRICE ELASTIC.
If not, it is PRICE INELASTIC

Elastic or Inelastic?





Implications of Elasticity

If a product is price elastic, marketers need to be careful not to set the price…

too high (demand and revenue will fall) or
too low (supply will not cope with demand)

If a product is price inelastic, marketers can get away with setting a high price, however they need to be aware of competitors prices and consumer income so that demand does not fall.

Try activity 20.2 (307)

Pricing Aims

The amount of money the customer must give up in return for a product or service and the part of the mix that directly generates profit

Businesses can adopt pricing strategies for several reasons.

1. To enter a new market
2. To increase market share
3. To increase profit
4. To cover costs and earn a specific profit

Cost-Plus

Calculating the cost of producing the product, then adding a 'mark-up' to create the price. This creates a 'profit margin'

Cost of producing 2000 chocolate bars = $2000
Objective to make 50% profit on each bar

<u>$2000</u> = $1 + 50% = $1.50 selling price
2,000

Penetration pricing

- Can only be used for NEW products
- Setting the price lower than the competition to enter the market and gain customers quickly
- E.g. If Cadbury prices a chocolate bar at $1, a new company might price their new product at $0.75c

Price skimming

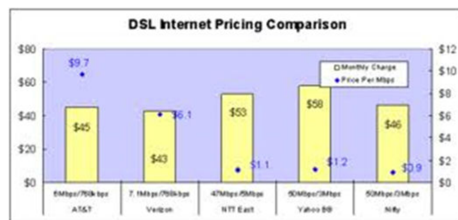
- Can only be used for new products
- Setting a high price based on the fact that it may be new and 'early adopters' will buy anyway
- E.g.

iPhone 5

The biggest thing to happen to iPhone since iPhone.

Competitive pricing

Pricing in line with competitors' prices. Prices are realistic but should still maintain a healthy profit margin



Promotional pricing

Pricing products at lower levels for a set amount of time. Useful to getting rid of unwanted/old stock or draw peoples' attention back to the business

Psychological pricing

Pricing to communicate quality or the illusion of being cheaper/better value.

Price and the Product Lifecycle

Read the information at the top of activity 19.5 (page 292) - imagine you are releasing this product.

What pricing strategy would you use at the following life cycle stages?

1. Introduction
2. Growth
3. Maturity
4. Decline