

Marketing

Second SA edition
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**Chapter 13:
Pricing Concepts and
Setting the Right Price**

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Introduction

- Price is the marketing element that generates revenue
- To the consumer price it is cost - to the seller it is revenue
- Price is an indication of value
- Price is what is given up in an exchange
- Prices replaced barter trading

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The Importance of Pricing

- Prices must represent value to buyers to facilitate exchange
- Prices must not be too low or too high
- Prices can:
 - influence perceptions and positioning
 - be a competitive advantage

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The Importance of Price (cont)

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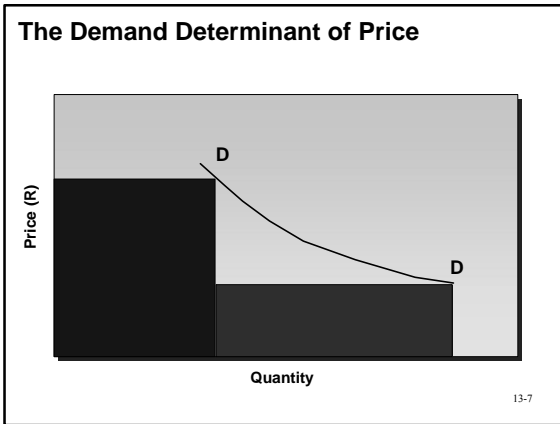
Pricing Objectives

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Price Objectives (cont)

- Profit-orientated price objectives
 - profit maximisation
 - satisfactory profits
 - target return on investment
- Sales-orientated price objectives
 - market share
 - sales maximisation
- Status-quo price objectives

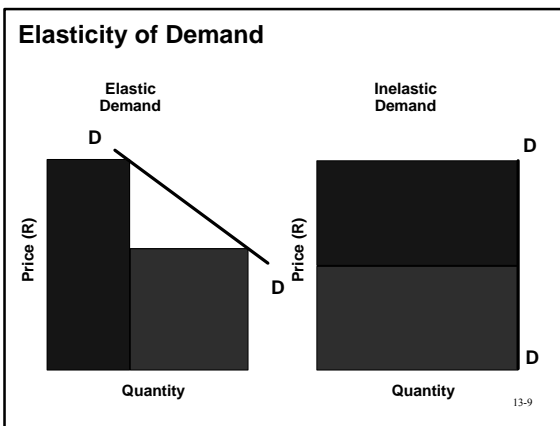
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The Demand Determinant of Price (cont)

- Demand: quantity of a product that will be sold at a given price level
- Economic theory: as price increases demand declines - and vice versa
- Supply: quantity of a product that will be supplied to the market at a given price level
- Economic theory: as supply increases prices decline - and vice versa
- Demand and supply determine prices

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Factors that Affect Elasticity

- Availability of substitutes
- Price relative to purchasing power
- Product durability
- A product's other uses

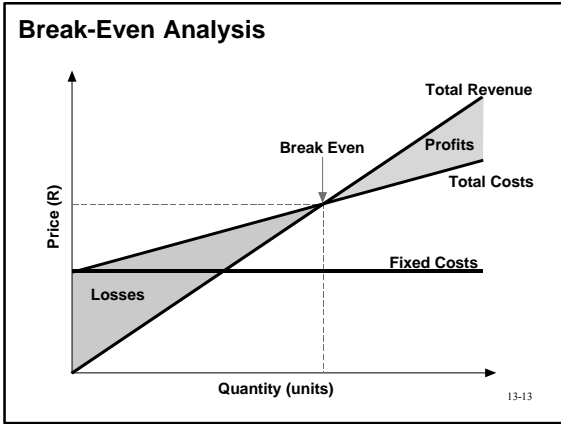
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The Cost Determinants of Price (cont)

- Costs can be used to set prices in three ways:
 - mark-up pricing
 - profit-maximisation pricing
 - break-even pricing

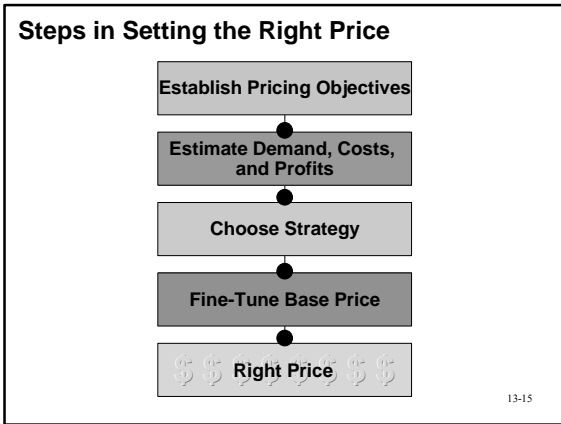
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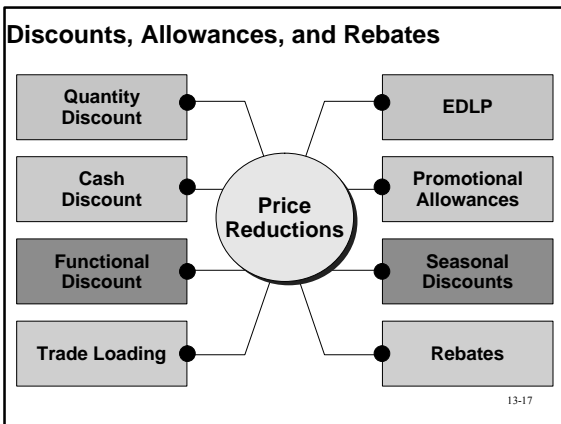
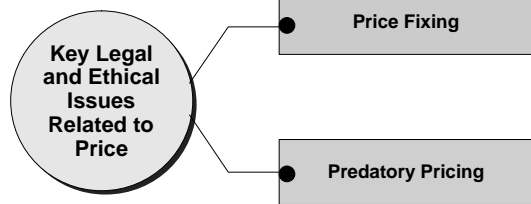
Other Determinants of Price

- **Stage in the Product Life Cycle**
 - introduction: price skimming or market penetration
 - growth: stabilisation of prices
 - maturity: prices tend lower as new competitors enter the market
 - decline: prices normally decline further
- **The competition**
- **The distribution strategy**
- **The promotion strategy**
- **The relationship between price and quality**

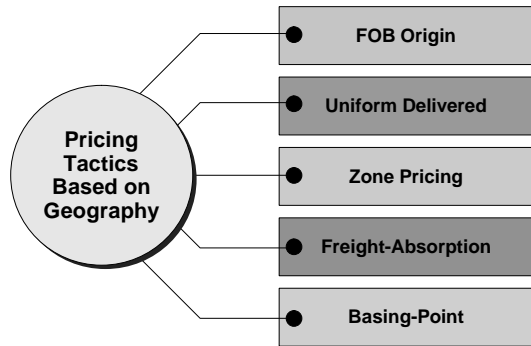
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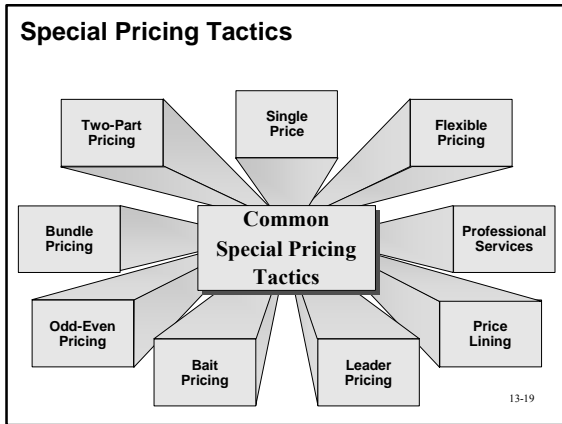


Legal and Ethical Issues in Pricing



Geographic Pricing





Product Line Pricing

- Product line pricing sets the price(s) for an entire product line
- Relationships among products will influence price levels:
 - demand for complementary products in a product line will influence each other
 - products in a product line can be substitutes which can influence demand for each product
 - a neutral relationship can exist

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Pricing During Difficult Economic Times

- Pricing during inflation
 - cost orientated pricing tactics
 - » deleting products from the product line
 - » delayed quotation pricing
 - » escalator pricing
 - demand orientated pricing tactics
 - » price shading
 - cultivate selected demand
 - create unique offerings
 - change the packaging
 - heighten buyer dependence

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Pricing During Difficult Economic Times (cont)

- Pricing during recession - reduced demand
 - value pricing
 - bundling pricing
- Pressurising suppliers
 - renegotiate contracts
 - offering help
 - pressurise for improvements, better deals
 - paring down suppliers

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