Marketing 5

Creating Customer Value through Pricing

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Pricing
Pricing Methods

- Cost
- Competition
- Marketing
Determining the Break-Even Point

- **Money (£)**
- **Units of Production**
- **Total cost**
- **Total variable costs**
- **Fixed costs**
- **Losses**
- **Profits**
Determining the breakeven point

To compute a company's breakeven point in sales volume, you need to know the values of three variables:

- **Fixed costs**: Costs that are independent of sales volume, such as rent
- **Variable costs**: Costs that are dependent on sales volume, such as the cost of manufacturing the product
- **Selling price of the product**

**Fixed Costs ÷ (Price - Variable Costs) = Breakeven Point in Units**
Cost-based pricing

- Gives an indication of the minimum price needed to break even and make a profit.
- Takes into account fixed costs and variable costs.
  - **Full-cost pricing**
    - Can lead to a price increase if sales fall.
    - Is illogical, because a sales estimate is made before the price is set.
  - **Marginal-cost pricing** (prices to cover direct costs plus a contribution to overheads).
    - Popular with service companies
Competitor-Oriented Pricing

This type of pricing may take one of 3 forms:

1. Where firms follow the prices charged by leading competitors
2. Where producers take the going-rate price
3. Where contracts are awarded through a competitive bidding process
Competitor-Oriented Pricing

Exhibit 8.2 The launch price of the PlayStation 4 much more closely matched that of competitors than did its predecessor the PlayStation 3 which was priced significantly above the competition and did not reach sales targets as a result.

Predatory pricing

- Means pricing below the cost of production in order to bankrupt the competition.
- Sometimes used by large firms when entering new markets.
- For this to work, the firm needs deep pockets and the market must presently be dominated by firms that cannot sustain a price war.
- Japanese car manufacturers used this strategy when entering European car markets in the 1970’s.
Market-led Pricing

A key marketing consideration when pricing is estimating value to the customer. Three useful techniques for determining customers' perception of value are:

1. Trade-off analysis
2. Experimentation
3. Economic value to the customer analysis (EVC)
Trade-off analysis

- Measurement of the trade-off between price and other product features.
- Asks customers to react to profiled products consisting of different product features and prices.
- Computer models are used to measure the effects of price versus other product features.
- Often used at the test marketing stage for new products.
Experimentation

- Puts a product on sale at different prices in different areas.
- Matches the areas in terms of sales potential
- Measures the impact of price differences on sales
EVC analysis

- Used more in industrial markets
- A high economic value to the customer means that it can sell at a high price and still offer superior value compared to the competition.
- For example, the product may generate more revenue for the buyer, or its operating costs may be lower over its lifetime.
EVC

Estimating a product’s value to the customer: the more value a product gives compared to the competition, the higher the price that can be charged.
Other factors influencing price-setting decisions

- Positioning strategy
- New product launch strategy
- Product-line strategy
- Channel management strategy
- Competitive marketing strategy
- International marketing strategy
Price is a hotly debated aspect of marketing. There are several ways organisations can exploit consumers by overcharging for goods and service.

- Price fixing: companies collude with each other to ensure that everyone charges the same or similar prices.

- Deceptive pricing: prices are not the same as they may first appear. Consumers need to be very careful when judging the price of a good or service.