

A?

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Costs, pricing & value





~~Sticker price~~

List Price: \$34.99

Price: **\$33.53** & **FREE Shipping** on orders over \$49.

Discount rate



Price: ~~\$39.99~~

Sale: **\$19.99** & **FREE Shipping** on orders over \$49. [Details](#)

US \$25.70

Approximately **£20.42**

Trending at: **£26.93** ?

Buy it now



Price: **\$29.99** & **FREE Shipping** on orders over \$49.



List Price: ~~\$99.99~~

Price: **\$64.99** & **FREE Shipping**. [Details](#)
You Save: **\$35.00 (35%)**

(Some) components of costs

Fixed costs

Fixed costs are expenses that do not change as a function of the activity of a business, within the relevant period.



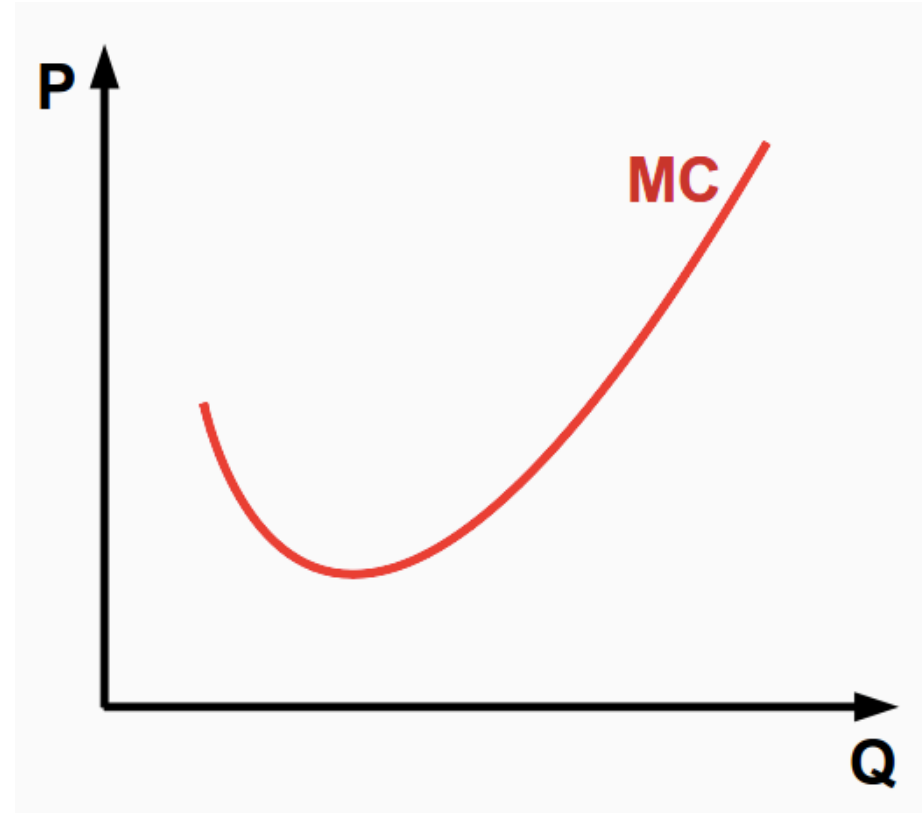
Variable costs

Variable costs are costs that change in proportion to the good or service that a business produces. Variable costs are also the sum of **marginal costs** over all units produced.



Marginal cost

Marginal cost is the change in the total cost that arises when the quantity produced is increased by one unit, that is, it is the cost of producing one more unit of a good. In general terms, marginal cost at each level of production includes any additional costs required to produce the next unit.



Prime Cost

Consists of the costs of **direct material**, **direct labour** and **direct expense** specifically attributable to the job. This is also known as flat, direct or basic cost.



Works Cost

Comprises of **prime cost** and **factory overheads**, (cost of indirect material, indirect labour and indirect expenses related to factory works). This cost is also known as factory cost, production or manufacturing cost.



Cost of Production (Office Cost)

The sum total of **works cost** and office and **administrative overheads** (Cost of indirect material, indirect labour and indirect expenses related to office works). This cost is known as **office cost**.

Cost of Production = Works Cost +
Office and Administrative
Overheads



Total Cost

Comprises of **cost of production** and **selling and distribution overheads** (Cost of indirect material, indirect labour and indirect expenses for selling and distribution activities).

Total Cost = Cost of Production
+ Selling and Distribution Overheads





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Exercise

Simplified cost-based pricing

Cost breakdown exercise

Use the total cost method to determine a wholesale price and a suggested retail price for cheeseburgers



Some products are easier to break down into their component costs than others



MATERIALS	QTY	COST	TOTAL
MATERIALS TOTAL			

LABOR	TIME	COST	TOTAL
LABOR TOTAL			



Product price breakdown:

materials + labor + overhead + profit = wholesale price

FINAL WHOLESALE PRICE \$ _____

wholesale price x 2 (at least) = retail price

SUGGESTED RETAIL PRICE \$ _____

Value

What is value?

The value of a product is what the customer believes the product or service is worth to them



2 39
/pll
Sis. pantin: 0,4
1,33€/l

4,50 €



Maslow's hierarchy of needs



The elements of value pyramid

Products and services deliver fundamental elements of value that address 4 kinds of needs

- Functional, emotional, life changing and social impact

In general, the more elements provided, the greater the customer's loyalty

SOCIAL IMPACT



Self-transcendence

LIFE CHANGING



Provides hope



Self-actualization



Motivation



Heirloom



Affiliation/belonging

EMOTIONAL



Reduces anxiety



Rewards me



Nostalgia



Design/aesthetics



Badge value



Wellness



Therapeutic value



Fun/entertainment



Attractiveness



Provides access

FUNCTIONAL



Saves time



Simplifies



Makes money



Reduces risk



Organizes



Integrates



Connects



Reduces effort



Avoids hassles



Reduces cost



Quality



Variety



Sensory appeal



Informs

Which element matters most?

- Products and services must attain a certain minimum level of (perceived) quality
- No other elements can make up for a significant shortfall on this one

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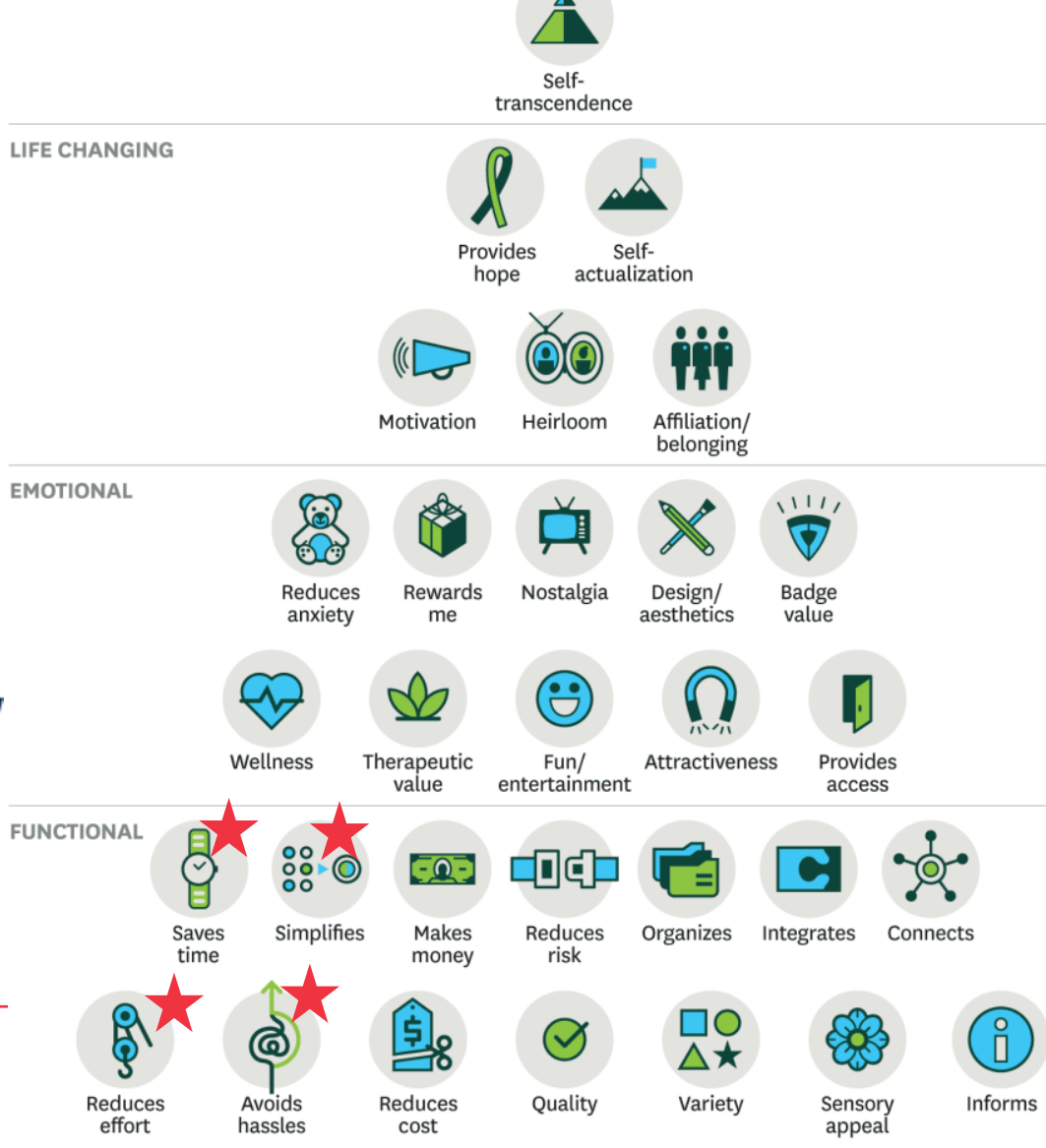
Sensory appeal



Informs



MobilePay





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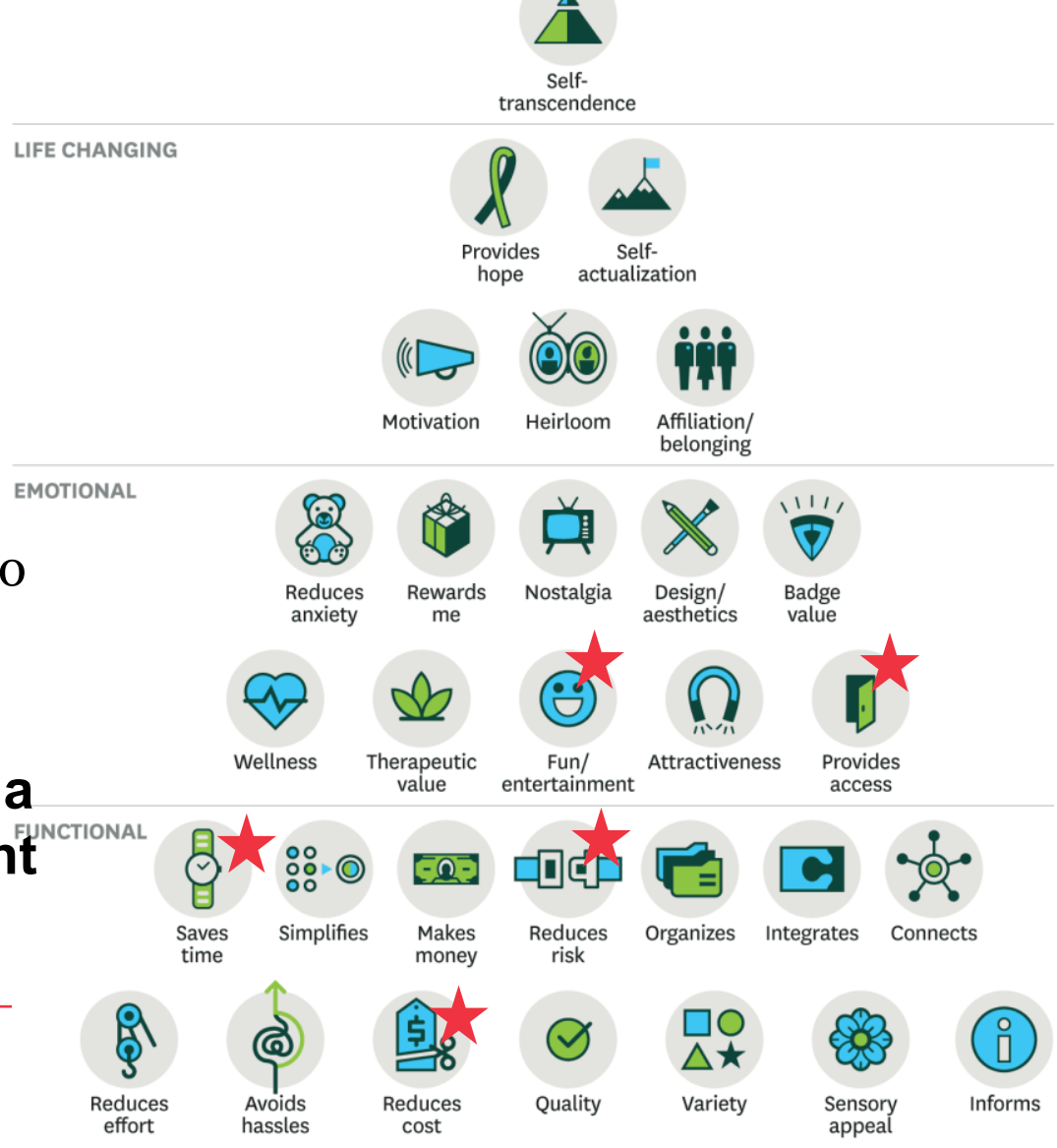
Informs



Started with free shipping

- Expanded to include streaming media
- Expanded to unlimited photo storage on Amazon servers

Each new element attracts a different consumer segment



Can you guess which 5 elements matter most in

- **Apparel retail**
 - **TV service providers**
 - **Grocery**
 - **Smartphones**
 - **Auto insurance**
-
- **Take a few minutes to think about it**

Which elements matter most in this industry?



APPAREL RETAIL

QUALITY

VARIETY

AVOIDS HASSLES

DESIGN/AESTHETICS

SAVES TIME

Which elements matter most in this industry?



TV SERVICE
PROVIDERS

QUALITY
VARIETY

REDUCES COST

DESIGN/AESTHETICS
FUN/ENTERTAINMENT

Which elements matter most in this industry?



GROCERY
QUALITY
VARIETY
SENSORY APPEAL
REDUCES COST
REWARDS ME

Which elements matter most in this industry?



SMARTPHONES

QUALITY

REDUCES EFFORT

VARIETY

ORGANIZES

CONNECTS

Which elements matter most in this industry?



AUTO INSURANCE

QUALITY

REDUCES ANXIETY

REDUCES COST

PROVIDES ACCESS

VARIETY

To maximise your profitability, find out:

- What **benefits** your customers gain from using your product or service
- The **criteria** your customers use for buying decisions - for example, speed of delivery, convenience or reliability
- What **value** your customers place on receiving the benefits you provide

- Wherever possible, set prices that reflect the value you provide - not just the cost.

Which elements of value apply to your product, and why?

- Prepare a short presentation together with your team

(Some) pricing strategies

Have you ever sold something?

How did you price it?

Penetration pricing

Penetration pricing is the practice of initially setting a low price for one's goods or services, with the intent of increasing market share. The price may be set so low that the seller cannot earn a profit.



Economy pricing

A valuation technique which assigns a low price to selected products.

Economy pricing is widely used in the retail food business for groceries such as canned and frozen goods sold under generic food brands where marketing and production costs have been kept to a minimum.



Price skimming

Price skimming is a product pricing strategy by which a firm charges the highest initial price that customers will pay. As the demand of the first customers is satisfied, the firm lowers the price to attract another, more price-sensitive segment.



Psychological pricing

Psychological pricing (also price ending, charm pricing) is a pricing/marketing strategy based on the theory that certain prices have a psychological impact. Retail prices are often expressed as "odd prices": a little less than a round number, e.g. \$19.99 or £2.98.



Product line pricing

Is the process that retailers use to separate goods into various **cost categories** creating different quality levels in the minds of their customers. Product line pricing is more effective when there are ample price gaps between each category so that the consumer is well informed of the quality differentials.

iPad Touch 4th Gen New iPad Touch



\$199



\$299

iPad2



\$399

New iPad



\$499

Optional Product Pricing

Companies will attempt to increase the amount customer spend once they start to buy. Optional 'extras' increase the overall price of the product or service.



BARE FARE™

Our ultra-low Bare Fares get you from A to B with a personal item.

OPTIONS

Personalize your travel by adding the options that are important to you.

FRILL CONTROL™

Control how much you save or spend by customizing your trip with extras.



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Exercise

Preparing a pricing strategy

Let's calculate a price for your product!

- Using a flip chart poster, make a price tag for your product in your group (15 minutes)
- Be prepared to explain how you chose the price. What costs did you take into account? Which pricing strategies did you use? Make educated guesses and use the internet as a guide



How much did they actually cost?

Blender: 26,95€

Toothbrush: 22,95 €

Blood pressure meter: 25€

In conclusion

- The **cost** of your product or service is the amount you spend to produce it
- The **price** is your financial reward for providing the product or service
- The **value** is what your customer believes the product or service is worth to them