

# PRICING

BY: MARTINA

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# HOW TO SET A PRICE FOR YOUR PRODUCT?



# WHAT IS PRICE?

RENT

TUITION

INTEREST

COMMISSION

FARE

FEE

HONORARIUM

WAGE

TAXES

# PRICE IS....

- The amount of money charged for a product or service
- The sum of the values that consumers exchange for the benefits of having or using the product or service
- Most flexible of all marketing mix elements
- Directly affects revenue
- Easy and expensive to manipulate with

# PRICE WITHIN 4Ps



# FREQUENT PROBLEMS WITH PRICING

- Cutting prices too quickly in order to boost sales
- Pricing is too cost-oriented rather than value-oriented
- Prices are not revised often enough due to changes in micro and macro environment
- Prices that are not varied enough for different products, market segments and buying occasions

# THE CHALLENGE

Finding the price that will let the company make a fair profit by harvesting the customer value it creates.

# FACTORS INFLUENCING PRICING DECISIONS



## Internal

- Marketing objectives
- Marketing mix strategies
- Costs (fixed, variable and total costs)
- Organization (who makes decisions on prices?)

## External

- Demand and supply
- Competition
- Other elements (economic environment, government, dealers...)



COSTS?



# FIXED COSTS

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



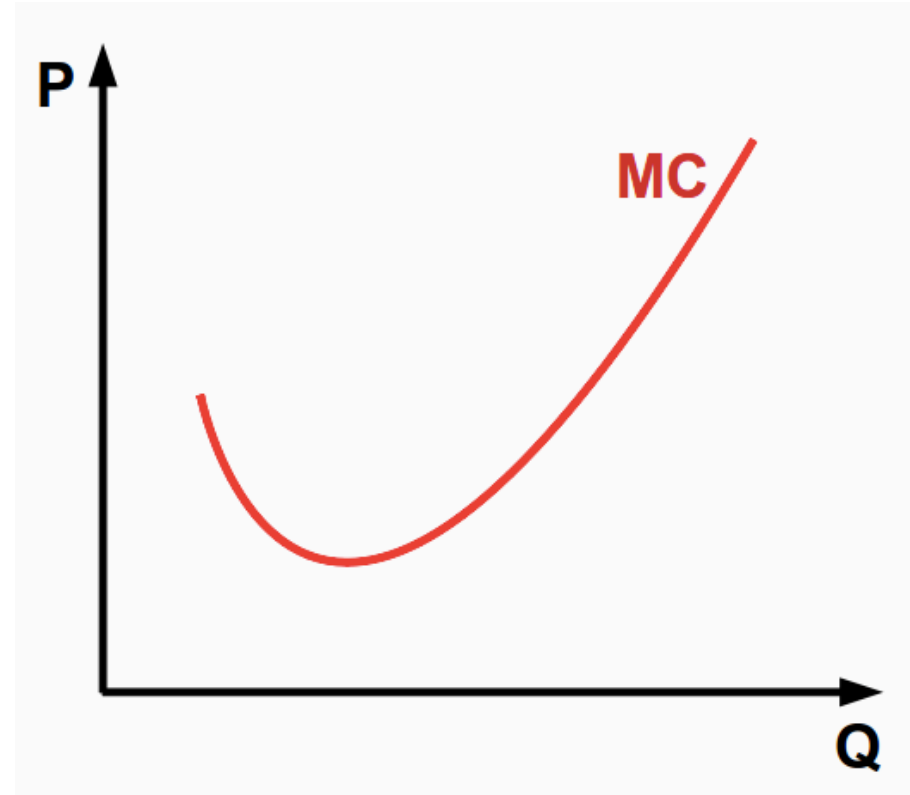
# VARIABLE COSTS

- **Variable costs** are costs that change in proportion to the good or service that a business produces.



# MARGINAL COSTS

- **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.



# TOTAL COST

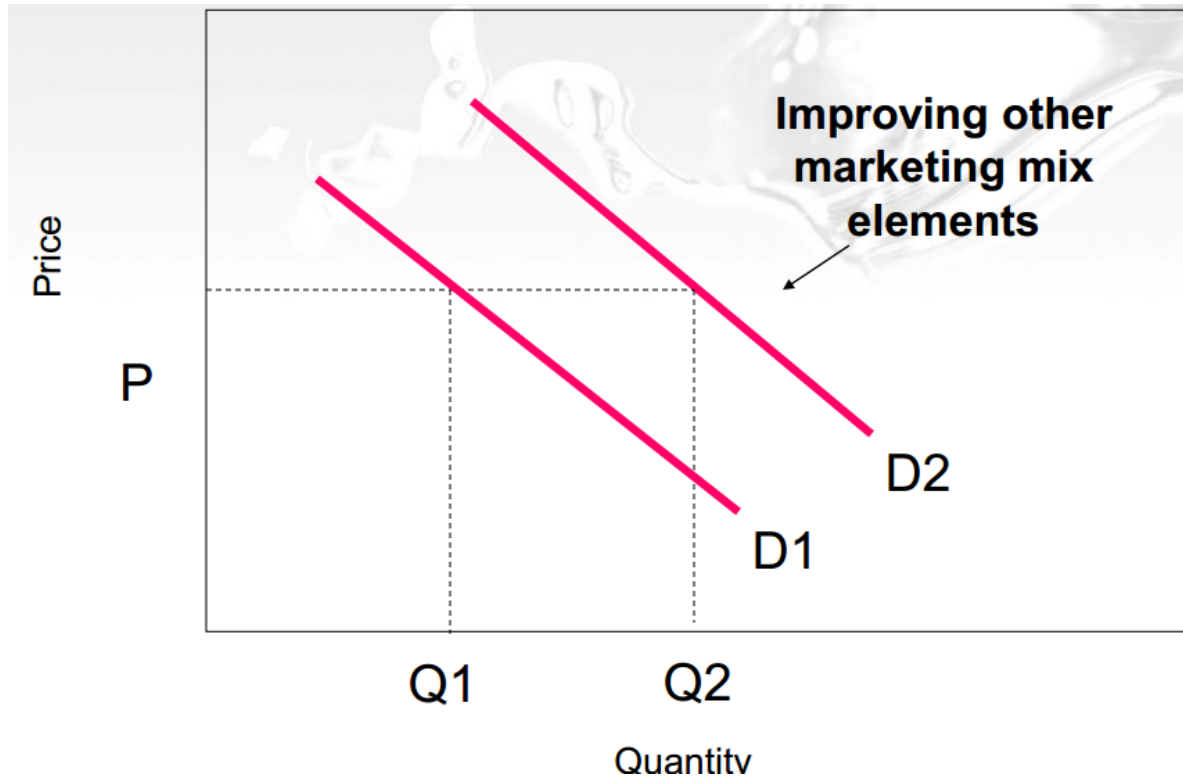
- The sum of the fixed and variable costs for any given level of production.

Total Cost = Cost of Production  
+ Selling and Distribution Overheads

DEMAND?

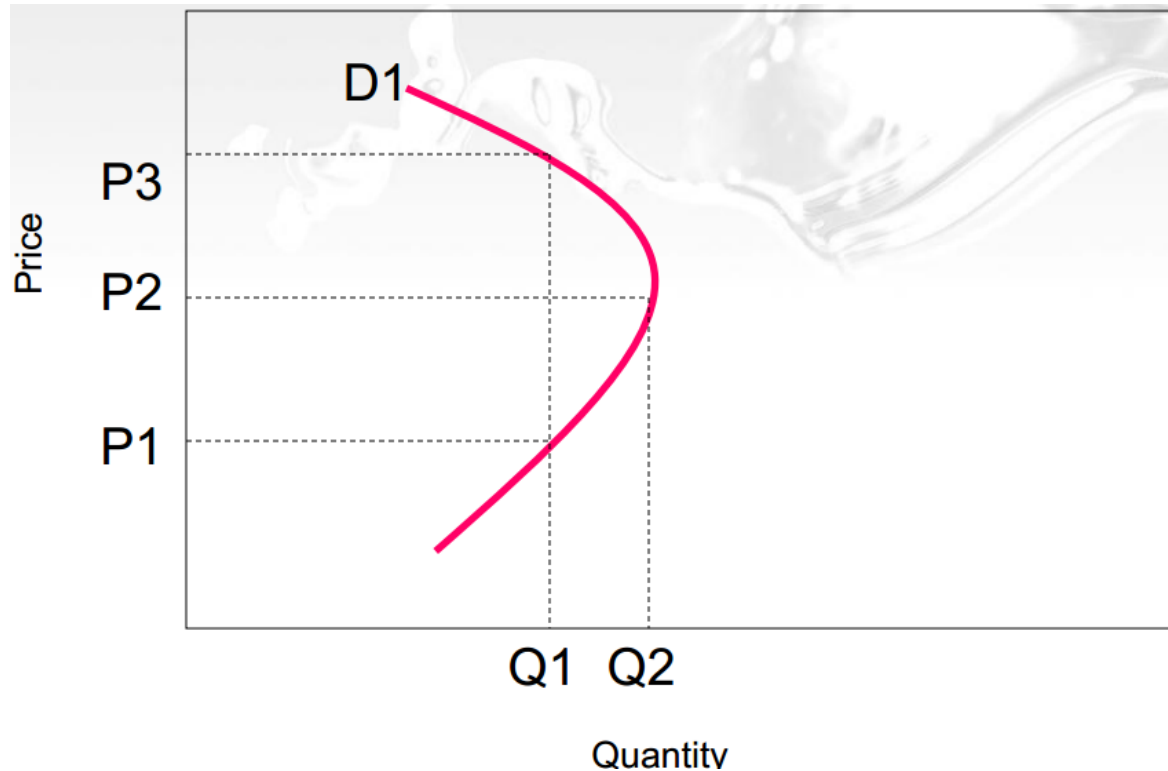


# CLASSIC DEMAND CURVE



The demand curve shows the number of units that the market will buy in a given time period at different prices that might be charged.

# DEMAND FOR PRESTIGIOUS PRODUCTS



In the case of prestige goods, the demand curve sometimes slopes upward. Consumers think that higher prices mean more quality.





# PRICE ELASTICITY

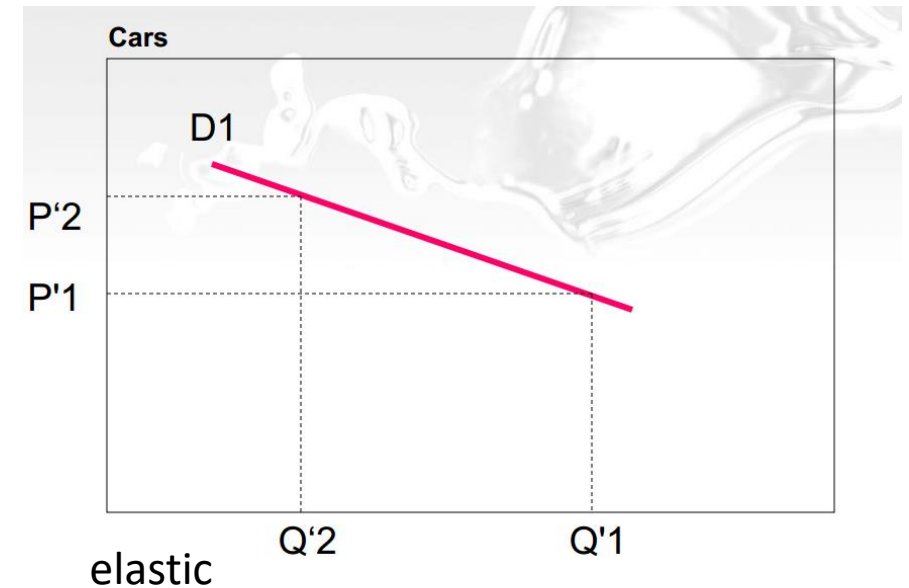
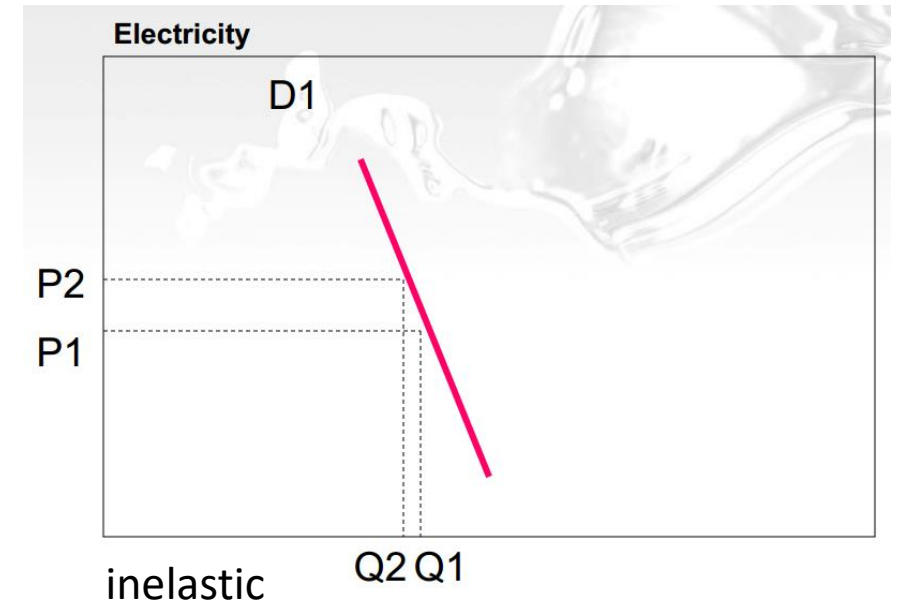
$$\text{Price elasticity of demand} = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$

## ▪ Inelastic demand

- Low elasticity: if product of prestige, if substitutes hard to find

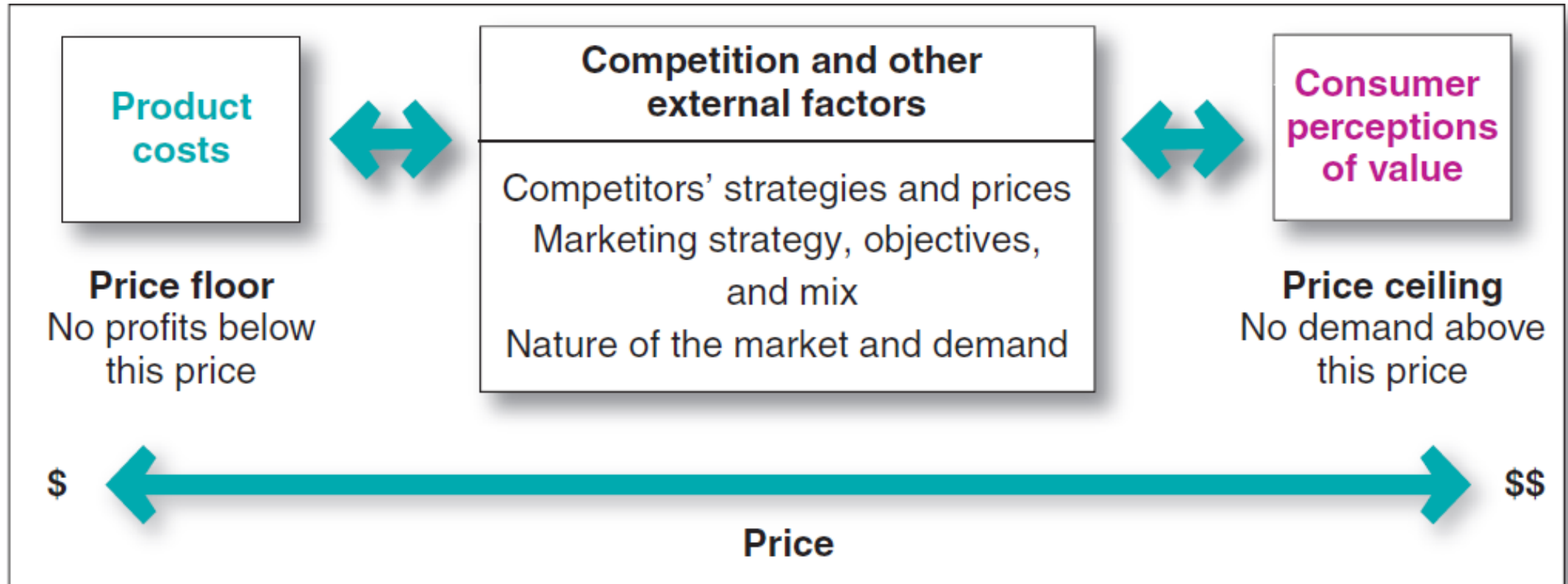
## ▪ Elastic demand

- High % change of quantity, influenced by the % change in price: might consider lowering P



# GENERAL PRICING METHODS

# SETTING PRICES – WHAT DO WE LOOK AT?



# COST-BASED APPROACH

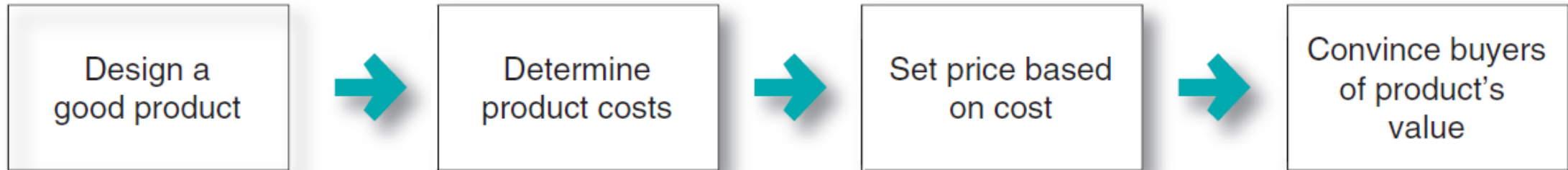
- Simplest method, adding standard mark up to the cost of the product
- To illustrate mark-up pricing, suppose a toaster manufacturer had the following costs and expected sales:

Variable cost	€10
Fixed cost	€300,000
Expected unit sales	50,000

- Now suppose the manufacturer wants to earn a 20 percent mark-up on sales. The manufacturer's mark-up price is given by:
- Method ignoring competitor prices and customer perceptions

# VALUE-BASED APPROACH

## Cost-based pricing



## Value-based pricing

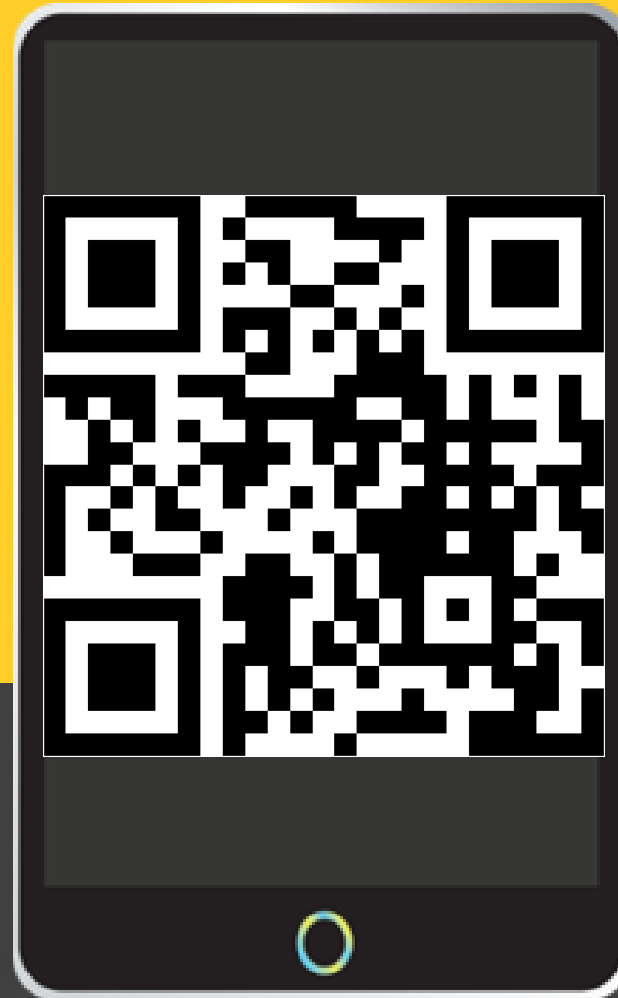


VALUE?



# WHAT IS VALUE?

Go to [menti.com](https://menti.com) and insert this code 94 40 07 3



# What is value?





# WHAT IS VALUE?

## The Elements of Value Pyramid

Products and services deliver fundamental elements of value that address four kinds of needs: functional, emotional, life changing, and social impact. In general, the more elements provided, the greater customers' loyalty and the higher the company's sustained revenue growth.

### 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

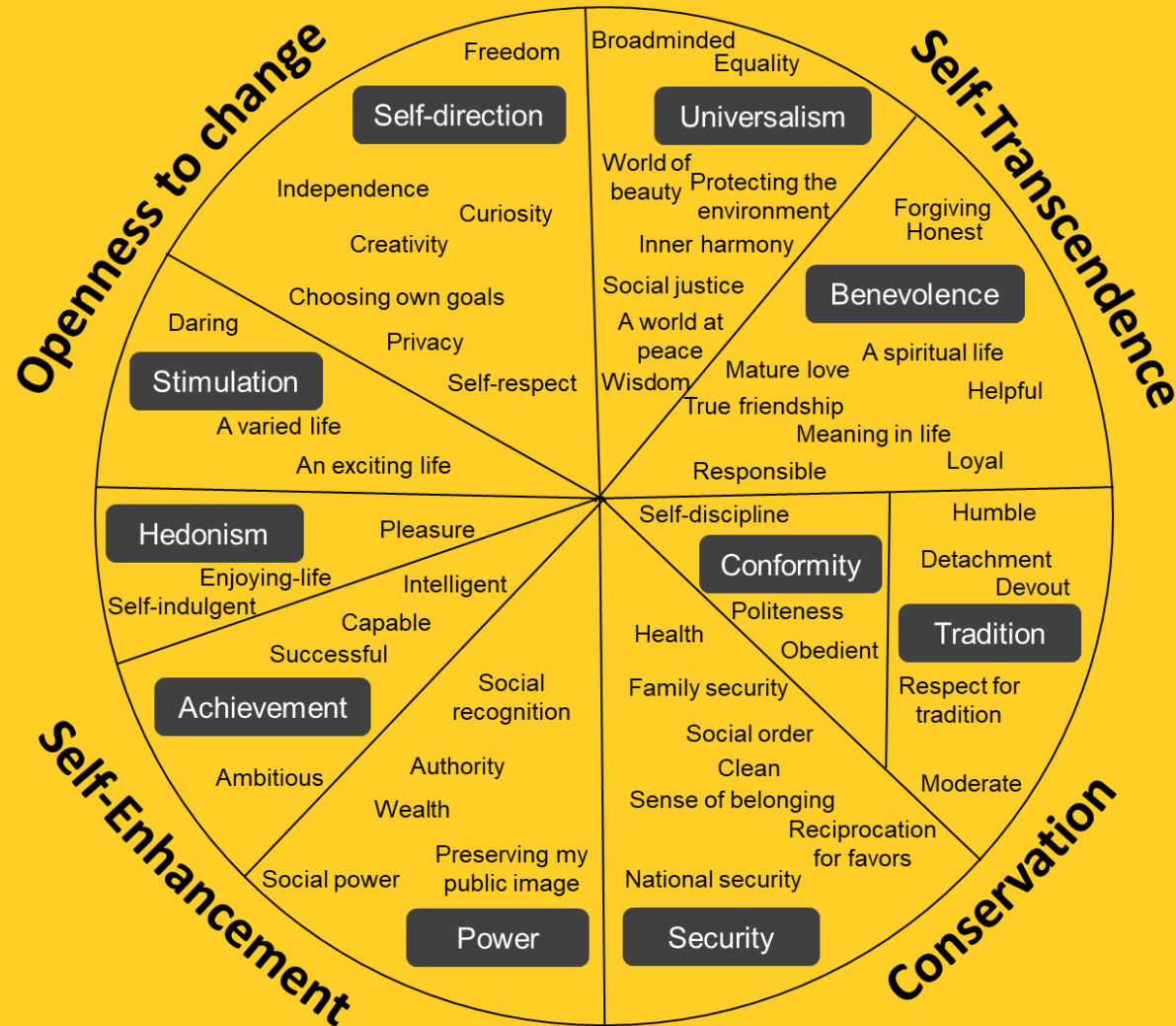


Sensory appeal



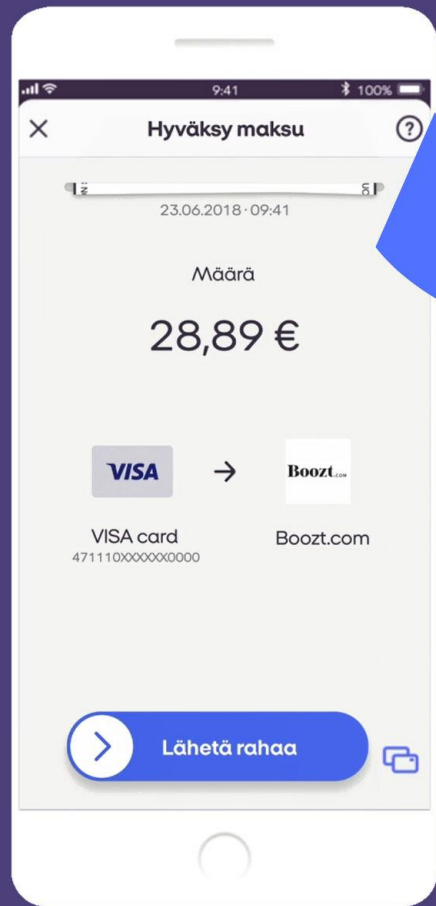
Informs

# PERSONAL VALUES



Note: Adapted from Schwartz (2012)

# WHICH ELEMENT MATTERS THE MOST?



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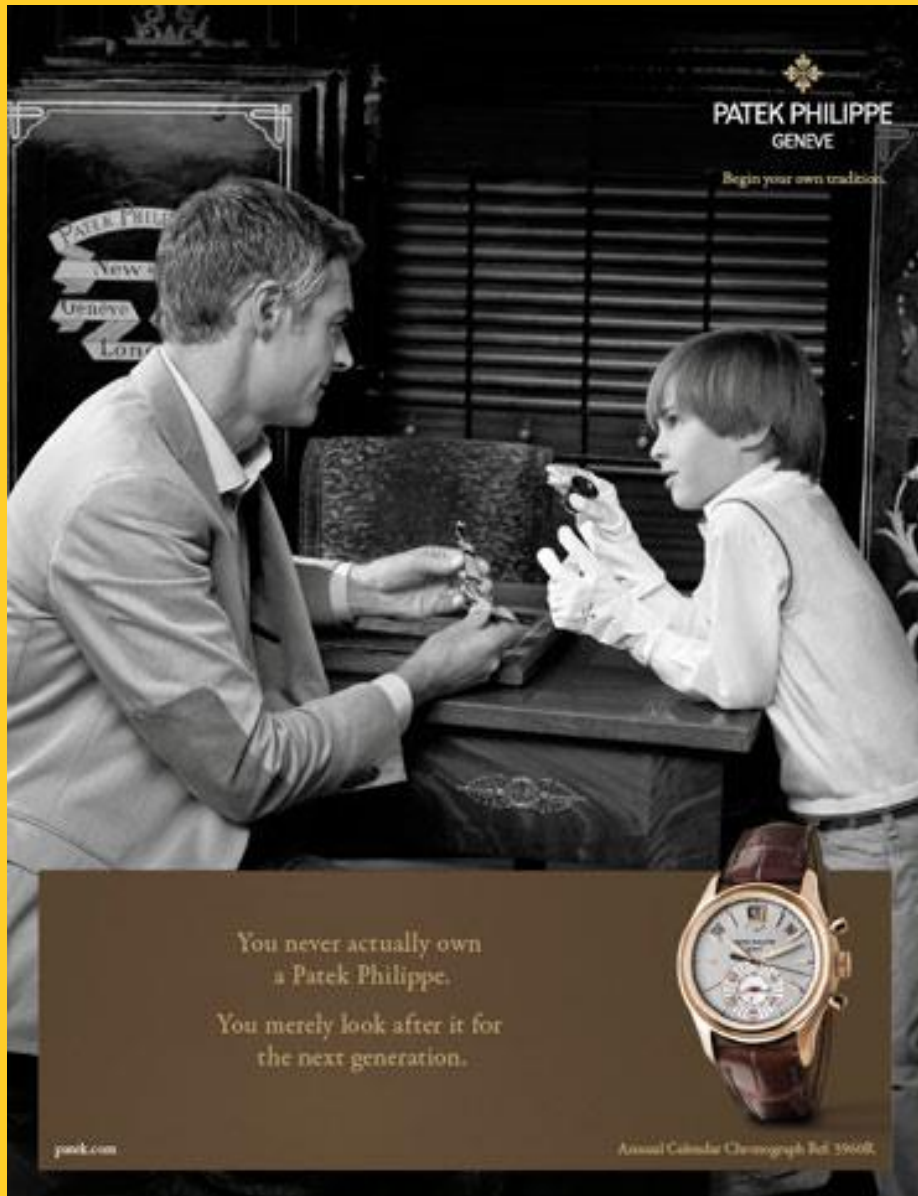


Sensory appeal



Informs

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# COMPETITOR BASED PRICING

1. On the basis of the **price of competitors** (**Going rate pricing**: change in the price if market leader does the same)
2. **Sealed bid pricing** (firm bases its price on how it thinks competitor will price, rather than on its own demand and cost)
  - **English auction**—Price is raised successively until only one bidder remains.
  - **Dutch auction**—Prices start high and are lowered successively until someone buys.
  - **Collective buying**—An increasing number of customers agree to buy as prices are lowered to the final bargain price.
  - **Reverse auction**— Customers name the price that they are willing to pay for an item and seek a company willing to sell.

# NEW PRODUCT PRICING STRATEGIES

- **Market skimming pricing:** many companies try to “skim prices” to “skim revenues”
- **Market penetration prices:** low prices setting to attract more customers



# PRODUCT MIX PRICING

## Product line pricing

Setting price steps between product line items

iPad Touch 4<sup>th</sup> Gen    New iPad Touch



\$199



\$299

iPad2



\$399

New iPad



\$499



# PRODUCT MIX PRICING

Product line pricing	Optional-product pricing
Setting price steps between product line items	Pricing optional or accessory products sold with the main product



## 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.

**TOSHIBA**  
Leading Innovation >>>



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Carrying Cases



Monitors



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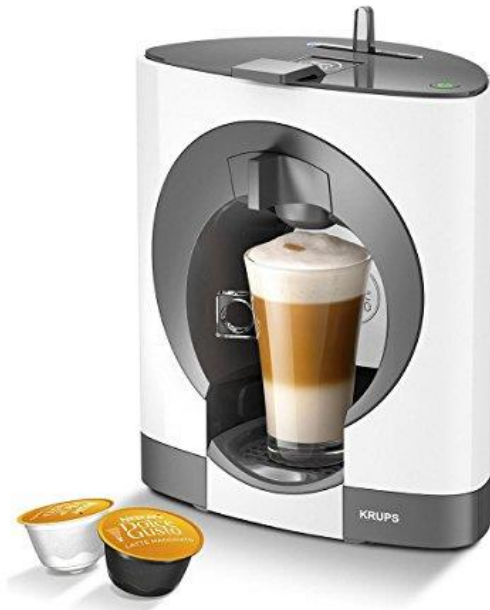
Mice, Keyboards & Pens



Multimedia

# PRODUCT MIX PRICING

Product line pricing	Optional-product pricing	Captive-product pricing
Setting price steps between product line items	Pricing optional or accessory products sold with the main product	Pricing products that must be used with the main product



HP DeskJet 1112 Printer

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**high price for ink**



HP Recycled Paper- 500 sht/Letter/8.5

**\$7.99**

# PRODUCT MIX PRICING

Product line pricing	Optional-product pricing	Captive-product pricing	By-product pricing
Setting price steps between product line items	Pricing optional or accessory products sold with the main product	Pricing products that must be used with the main product	Pricing low-value by-products to get rid of them



# PRODUCT MIX PRICING

Product line pricing	Optional-product pricing	Captive-product pricing	By-product pricing	Product-bundle pricing
Setting price steps between product line items	Pricing optional or accessory products sold with the main product	Pricing products that must be used with the main product	Pricing low-value by-products to get rid of them	Pricing bundles of products sold together





# PRICE-ADJUSTMENT STRATEGIES

## Discount and allowance pricing

Reducing prices to reward customer responses such as paying early or promoting the product

*Compare prices* Early birds save up to 10% on these prices with our Seasonal Discounts

JAN - JULY	AUG	SEPT	OCT	NOV
10% OFF	8% OFF	6% OFF	4% OFF	2% OFF

All prices exclude VAT. No minimum order. Add €40+VAT if you'd like to add our professional design service. Your seasonal discount will be automatically applied at the time of check-out.

Can't find what you're looking for?  
Request a bespoke quote

# PRICE-ADJUSTMENT STRATEGIES

## Discount and allowance pricing

Reducing prices to reward customer responses such as paying early or promoting the product

## Segmented pricing

Adjusting prices to allow for differences in customers, products and locations

**TICKET PRICES**

	OFF PEAK	PEAK
<b>IMAX<sup>®</sup> &amp; SCREEN 3</b>		
ADULT	£17.95	£19.95
CHILD   SENIOR   STUDENT	£10.95	£13.95
FAMILY	£43.80	£55.80
<b>IMPACT</b>		
ADULT	£15.00	£17.00
CHILD   SENIOR   STUDENT	£9.95	£12.50
BALCONY (Over 18's ONLY)	£16.00	£18.00
FAMILY	£39.80	£50.00
<b>GENERAL PRICING AT ALL TIMES</b>		
ADULT	£12.95	£9.95
CHILD   SENIOR   STUDENT	£9.95	£9.95
FAMILY	£39.80	£39.80

**EMPIRE 2** | **ALL OTHER AUDITORIA**

**3D SCREENINGS**

**£2.50\*** EXTRA PER TICKET

\*INCLUDES rental of IMAX 3D Glasses (non-refundable) or purchase of one pair of Master Image 3D Glasses for all other 3D performances

IMAX<sup>®</sup> is a registered trademark of IMAX Corporation.

Prices shown are those available 'In-Cinema'. Remote Bookings are subject to a £0.70 per ticket 'Card Handling Fee'

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Off Peak: Before 5pm Mon-Thurs. Excluding Bank Holidays. Peak: After 5pm Mon-Thurs / All Day Fri-Sun & Bank Holidays | Family Ticket - 4 People With Minimum Of 2 Children | Child - Persons Under 15 Years Old | Student - Must Produce Valid ID | Prices above Relate To Standard Feature Films Only And Do Not Apply To 'Empire Extra' Presentations Which Will Be Priced Separately.

# PRICE-ADJUSTMENT STRATEGIES

## Discount and allowance pricing

Reducing prices to reward customer responses such as paying early or promoting the product

## Segmented pricing

Adjusting prices to allow for differences in customers, products and locations

## Psychological pricing

Adjusting prices for psychological effect



# PRICE-ADJUSTMENT STRATEGIES

Discount and allowance pricing	Segmented pricing	Psychological pricing	Value pricing
Reducing prices to reward customer responses such as paying early or promoting the product	Adjusting prices to allow for differences in customers, products and locations	Adjusting prices for psychological effect	Adjusting prices to offer the right combination of quality and service at a fair price



# PRICE-ADJUSTMENT STRATEGIES

<b>Discount and allowance pricing</b>	<b>Segmented pricing</b>	<b>Psychological pricing</b>	<b>Value pricing</b>	<b>Promotional prices</b>
Reducing prices to reward customer responses such as paying early or promoting the product	Adjusting prices to allow for differences in customers, products and locations	Adjusting prices for psychological effect	Adjusting prices to offer the right combination of quality and service at a fair price	Temporarily reducing prices to increase short-run sales



# PRICE-ADJUSTMENT STRATEGIES

Discount and allowance pricing	Segmented pricing	Psychological pricing	Value pricing	Promotional prices	Geographical pricing
Reducing prices to reward customer responses such as paying early or promoting the product	Adjusting prices to allow for differences in customers, products and locations	Adjusting prices for psychological effect	Adjusting prices to offer the right combination of quality and service at a fair price	Temporarily reducing prices to increase short-run sales	Adjusting prices to account for the geographical location of customers

How Many Bananas Can You Buy For \$5?



# PRICE-ADJUSTMENT STRATEGIES

Discount and allowance pricing	Segmented pricing	Psychological pricing	Value pricing	Promotional prices	Geographical pricing	International pricing
Reducing prices to reward customer responses such as paying early or promoting the product	Adjusting prices to allow for differences in customers, products and locations	Adjusting prices for psychological effect	Adjusting prices to offer the right combination of quality and service at a fair price	Temporarily reducing prices to increase short-run sales	Adjusting prices to account for the geographical location of customers	Adjusting prices in international markets

unbelievable price + tasse locali\* + SoftBank 24 mesi

	USA	Canada	Australia	UK	Japan	Switzerland	Spain	Italy	Germany
16 GB Wi-Fi	\$ 545	CS 620	AS 629	£ 429	¥ 48.800	CHF 649	19,6 €	20 €	19 €
32 GB Wi-Fi	\$ 654	CS 733	AS 759	£ 499	¥ 58.800	CHF 779	16 €	20 €	19 €
64 GB Wi-Fi	\$ 763	CS 846	AS 879	£ 599	¥ 68.800	CHF 899	16 €	20 €	19 €
16 GB Wi-Fi + 3G	\$ 687	CS 767	AS 799	£ 529	¥ 61.800*	CHF 799	16 €	20 €	19 €
32 GB Wi-Fi + 3G	\$ 796	CS 880	AS 928	£ 599	¥ 71.800*	CHF 929	16 €	20 €	19 €
64 GB Wi-Fi + 3G	\$ 905	CS 993	AS 1.044	£ 699	¥ 81.800*	CHF 1.049	16 €	20 €	19 €

<https://kahoot.it/>

The Kahoot! logo is centered on a dark blue background. The word "Kahoot!" is written in a bold, white, sans-serif font. A large, light blue arrow points from the top-left towards the bottom-right, passing behind the text. The entire logo is enclosed in a white rectangular border with a slight drop shadow.

**Kahoot!**





# Let's calculate a price for your product!

- 1) As a team, discuss and decide on a price tag for your product (15-20 minutes)
- 2) 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.

29,95 €



24,90 €



36,90 €



29,95 €



22,95 €



14,90 €





**THANK YOU!**

Email: [martina.caic@aalto.fi](mailto:martina.caic@aalto.fi)

LinkedIn: <https://www.linkedin.com/in/martina-caic/>