Task Guide

Pricing in the Marketplace

Responsible: Sales, Marketing & Accounting Departments

Project Description:

Pricing is one of the most important elements of the marketing mix, as it is the only mix, which generates a turnover for the organization. The remaining 3p's are the variable cost for the organization. It costs to **produce** and design a product, it costs to distribute and **position** product and costs to **promote** it. Price must support these elements of the mix. Pricing is difficult and must reflect **supply and demand** relationship. Pricing a product too high or too low could mean a loss of sales for the organization.

Pricing Factors

Pricing should take into account the following factors into account:

Fixed and variable costs • Competition • Company objectives • Proposed positioning strategies.
Target group and willingness to pay

Guidelines:

Step 1. Review the different pricing strategies below so that you understand how they work in the marketplace.

Pricing Strategy	Definition	Example
Penetration Pricing	Here the organization sets a low price to increase sales and market share. Once market share has been captured the firm may well then increase their price.	A television satellite company sets a low price to get subscribers then increases the price as their customer base increases
Skimming Pricing	The organization sets an initial high price and then slowly lowers the price to make the product available to a wider market. The objective is to skim profits of the market layer by layer.	A games console company reduces the price of their console over 5 years, charging a premium at launch and lowest price near the end of its life cycle.
Competition Pricing	Setting a price in comparison with competitors. Really a firm has three options and these are to price lower, price the same or price higher	Some firms offer a price matching service to match what their competitors are offering
Product Line Pricing	Pricing different products within the same product range at different price points	A DVD manufacturer offering different DVD recorders with different features at different prices ex. A HD and non HD version.. The greater the features and the benefit obtained the greater the consumer will pay. This form of price discrimination assists the company in maximizing turnover and profits.
Bundle Pricing	The organization bundles a group of products at a reduced price. Common methods are "buy one and get one free" promotions or BOGOF's as they are now known.	This strategy is very popular with supermarkets who often offer BOGOF strategies.
Psychological Pricing	The seller here will consider the psychology of price and the positioning of price within the market place	The seller will therefore charge 99¢ instead 1.00 or $199 instead of $200. The reason why this methods work, is because buyers will still say they purchased their product under $200, even thought it was a dollar away.
Premium Pricing	The price set is high to reflect the exclusiveness of the product.	An example of products using this strategy would be Hilton, first class airline services, Porsche etc.
Optional Pricing	The organization sells optional extras along with the product to maximise its turnover	This strategy is used commonly within the car industry.
Cost Based Pricing	The firms takes into account the cost of production and distribution, they then decide on a mark up which they would like for profit to come to their final pricing decision.	If a firm operates in a very volatile industry, where costs are changing regularly no set price can be set, therefore the firm will decide on their mark up to confirm their pricing decision
Cost Plus Pricing	Here the firm add a percentage to costs as profit margin to come to their final pricing decisions.	For example it may cost $100 to produce a widget and the firm add 20% as a profit margin so the selling price would be $120.00

.

Step 2: **Pricing Strategy** :
Based on the strategy tables decide on the type of strategy that the company will be using and write the comprehensive pricing strategy that will be used in the Price section of the marketing plan.

3. Submit for Approval

A. Print your pricing strategy, which will be used in the marketing plan.
B. Print this sheet and attach the above item for verification

Consultant Decision:
☐ Approved ☐ Not Approved Consultant Signature: __________________________ Date _________
Modifications or comments ____
____
____
____