Chapter37 Price

Overviews

1. The main pricing strategies and when they might be applied: cost plus, penetration, competition, skimming, promotional.

1.Pricing methods

1) Cost-plus pricing: the cost of manufacturing the product plus a profit mark-up.

2) Competition-based pricing: when the product is priced in line with or just below competitors' prices to try to capture more of the market.

Predatory pricing or destroyer: setting a low price until rivals have gone out of the business.

3) Penetration pricing: when the price is set lower than the competitors' prices in order to be able to enter a new market.

4) Price skimming: where a high price is set for a new product on the market.

5) Promotional pricing: when a product is sold at a very low price for a short period of time.

2. Pricing Method and an appropriate pricing method

Pricing Method	Explanation	Example	Advantages	Justification
Cost-plus pricing	Is the cost of manufacturing products plus profit mark-up eg. Cost 100 profit 10% therefore, setting price at 110.-	Single product business	Easy to calculate	If there are few competitors, it is possible for the business to set a markup price.
Competitive pricing	Is when the product is priced in line with or just below competitors' prices to try to capture more of the market.	E.g. gold which is difficult to make product differentiation and branding.	Demand is likely to be price elastic, if the business sells products at low price, they will gain higher revenue.	-Consumers may not buy at a higher price unless they think it is better quality. - Companies need to do research about competitor prices which is costly.
Penetration Pricing	Is when the price is set lower than the competitors in order to enter the new market.	Low price for a new product in a competitive market	It is likely to achieve high market share quickly.	Profit might be low.
Price skimming	Is where a high price is set for new innovation or new product in the market.	High price for newly developed products	- This can earn high profit and help to cover development costs. - This can help to establish the product as being of a good quality.	

Promotional Pricing	Is when a product is sold at a very low price for a short period.	Low price to sell unwanted inventories	- Reduce stock - It can help to renew interest in a business if sales are falling	-The sale revenue will be lower because the price of each item will be low
Psychological pricing	Is an approach when particular attention is paid to the effect that the price of a product will have upon consumers' perceptions of the product.	• Setting a high price for a quality branded product • Charging 99$	-It ensures that sales are made by reinforcing consumers' perceptions of the product - It increases brand image when the price is set high	-The competitors may do the same and it reduces the effect.
Dynamic pricing	charging different consumer groups different prices for the same product.	E.g. airline passengers are charged different prices depending on date of purchase.	-Increase revenue and profit	-It increases in cost as prices are constantly changing.