

PRINCIPLES OF MARKETING

DBB 1313

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CHAPTER 6: PRICING STRATEGY



LEARNING OUTCOMES

LO¹

Discuss the importance of pricing decisions to the economy and to the individual firm

LO²

Explain the role of demand in price determination

LO³

Describe cost and breakeven concept

THE IMPORTANCE OF PRICE

LO¹

Discuss the importance of pricing decisions to the economy and to the individual firm.



WHAT IS PRICE?

**Amount of money
that is given
up in an exchange to acquire
a good or service.**



PRICING STRATEGY

Penetration pricing

Price skimming

Competitor pricing

Value pricing

Cost-plus Pricing



PRICING STRATEGY

Penetration pricing

- Typically sets a low price for its product or service in hopes of attracting a lot of customer.
- The primary objective of penetration pricing is to appeal lots of customers with low prices and then use marketing strategies to retain them.

Price skimming

- A company sets its prices high to quickly recover expenditures for product production and advertising.
- The key objective of a price skimming strategy is to achieve a profit quickly.

Competitor pricing

- There are times when a small company may have to lower its price to meet the prices of competitors.
- A competitive-based pricing strategy happen when company charge the price of its product based on what the competitor charge.

Value pricing

- Price set in accordance with customer perceptions about the value of the product/service.
- Usually works in industries where a strong competitive advantage exists for the company.

Cost-plus Pricing

- Under this approach all cost are first added together.
- Later we add to it a markup price (to create a profit) in order to get the price of the product.
- In other words, the cost of the product + mark-up = selling price.



THE CONCEPT OF PRICE

**To the seller...
Price is revenue**

**To the consumer...
Price is the cost**



The Importance of Price to Marketing Managers

Revenue - The price charged to customers multiplied by the number of units sold.

Profit - Revenue minus expenses.



The Importance of Price to Marketing Managers

Importance of pricing

- Price affects demand
- Price affects savings
- Price regulates factors of production
- Pricing a major government activity
- Determining the revenue and profits
- Deal with competition
- Non price competition

LO¹

REVIEW LEARNING OUTCOME

THE IMPORTANCE OF PRICING DECISIONS

Price X Sales Unit = Revenue

Revenue – Costs = Profit

Profit drives growth, salary increases, and corporate investment



THE DEMAND DETERMINANT OF PRICE

LO² Explain the role of demand and supply in price determination.



DEMAND

Demand - The quantity of a product that will be sold in the market to the buyers.

Law of Demand – Buyer will purchase more as the price decrease and will purchase less as the price increase

Law of Demand



When the price of any product increases then its demand will fall.

When its price decreases then its demand will increase in the market.

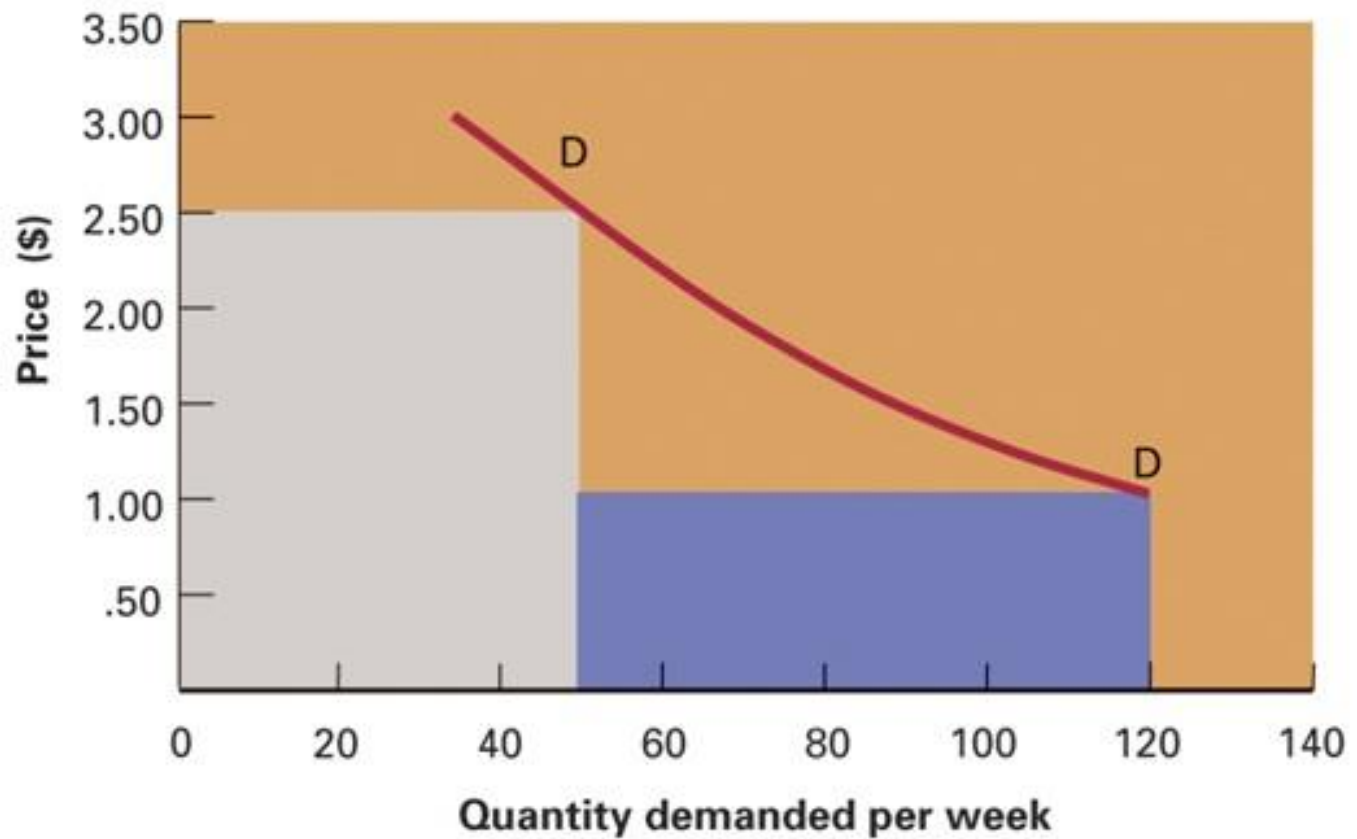


THE DEMAND SCHEDULE

Price per can of drinks (\$)	Can of drink demanded per week (unit)
3	35
2.5	50
2	65
1.5	85
1	120



THE DEMAND CURVE



SUPPLY

Supply- The quantity of a product that will be offered to the market by a supplier.

Law of Supply – Supplier will supply more as the price increase and will supply less as the price decrease

The Law of Supply

- According to the law of supply, the higher the price, the larger the quantity produced.

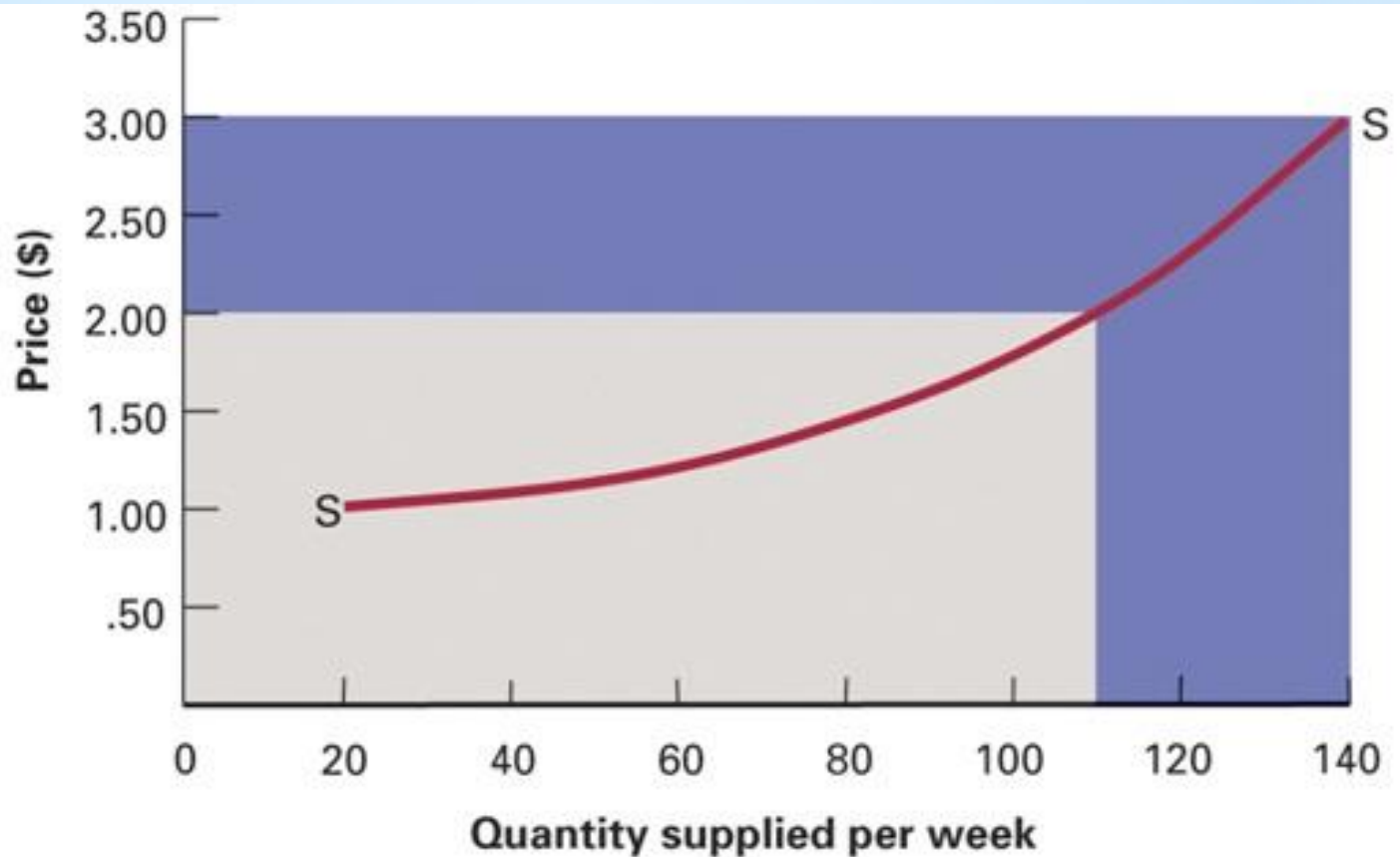


THE SUPPLY SCHEDULE

Price per can of drinks (\$)	Can of drink supplied per week (unit)
3	140
2.5	130
2	110
1.5	85
1	35

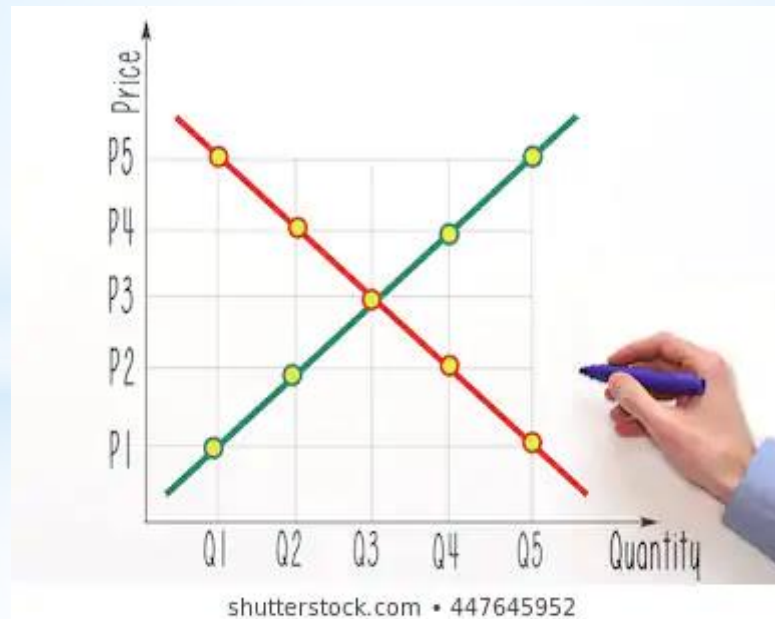


THE SUPPLY CURVE

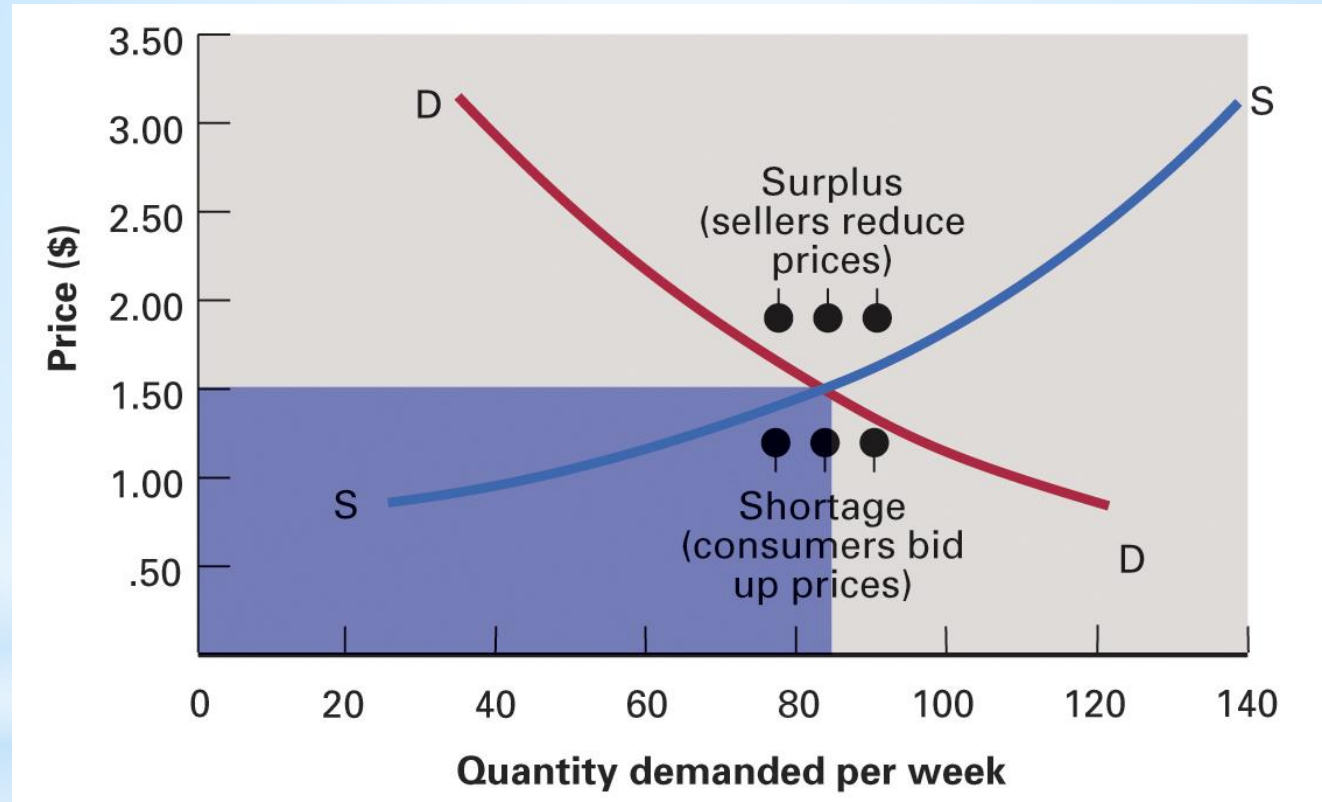


HOW DEMAND AND SUPPLY ESTABLISH PRICE

Price equilibrium - The price at which demand and supply are equal.



PRICE EQUILIBRIUM



SHORTAGE AND SURPLUS

Shortage – Occur when quantity demanded is more than quantity supplies.

Surplus – Occur when quantity supplied is more than quantity demanded.

A red, distressed-style stamp with the word "SHORTAGE" in bold, uppercase letters. The stamp is tilted at an angle and has a double-lined border.

LO² REVIEW LEARNING OUTCOME

Role of Demand and Supply in Price Determination

Law of Demand – Buyer will purchase more as the price decrease and will purchase less as the price increase

Law of Supply – Supplier will supply more as the price increase and will supply less as the price decrease

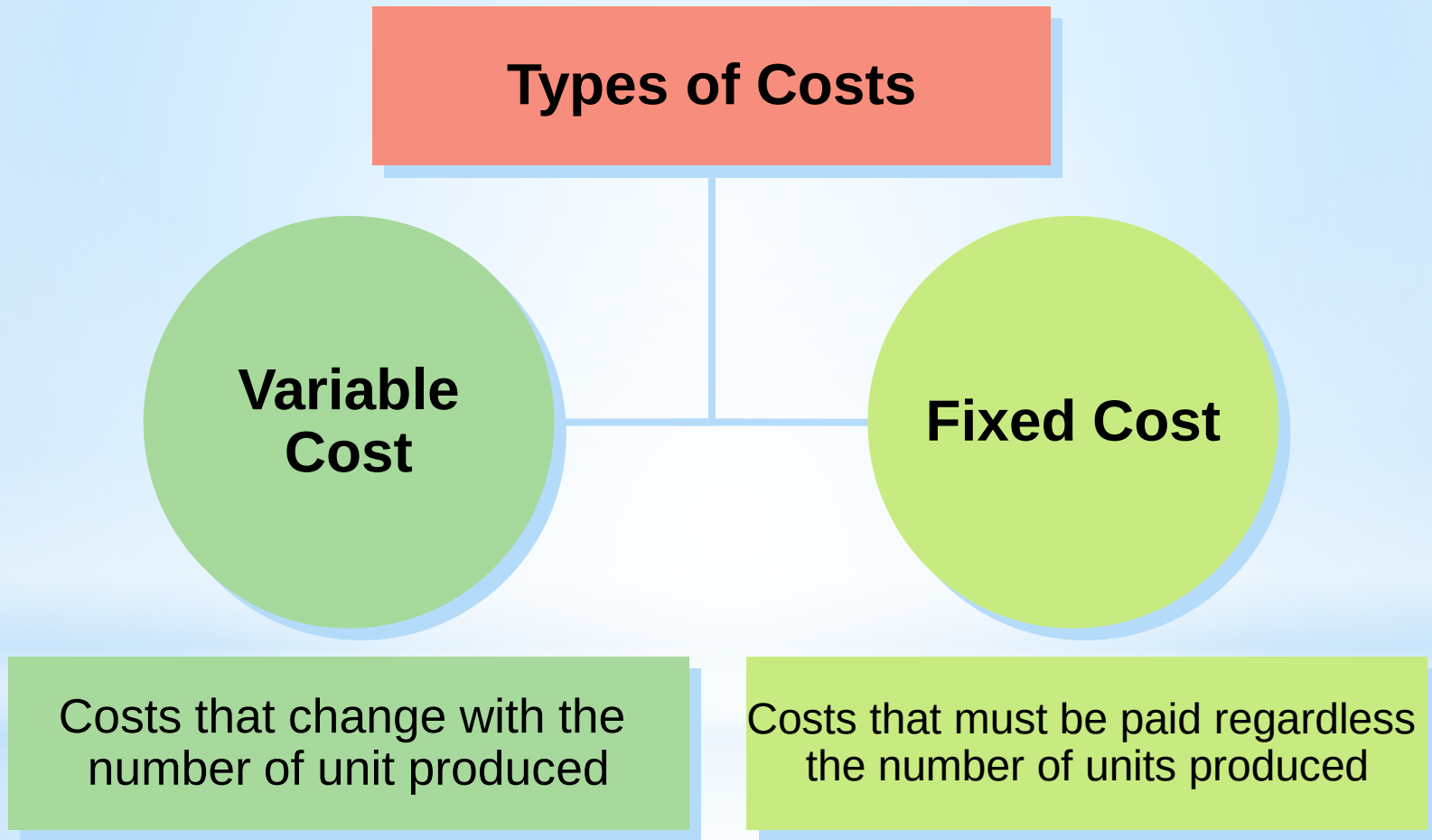
THE COST DETERMINANT OF PRICE

LO³

Describe cost and breakeven concept.



THE COST DETERMINANT OF PRICE



BREAK-EVEN ANALYSIS

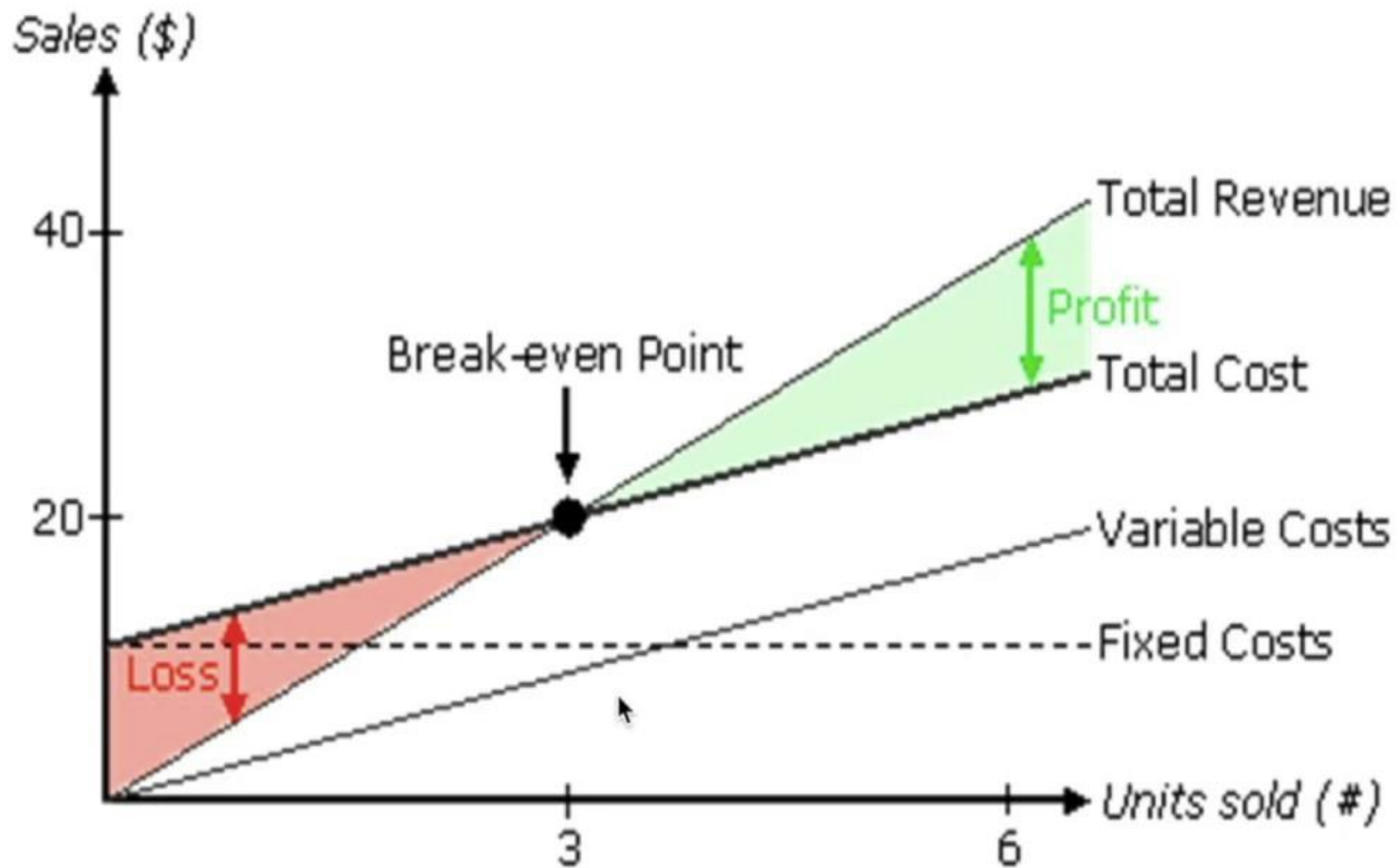
Break-even point: Number of products that must be sold so total revenues exactly cover both fixed and variable costs (**Total Revenue = Total Cost**)

Formula to calculate Break-Even

$$\text{Break-Even Quantity} = \frac{\text{Total fixed costs}}{\text{Price per unit} - \text{Variable Cost per unit}}$$

BEA - GRAPH

Break Even Analysis

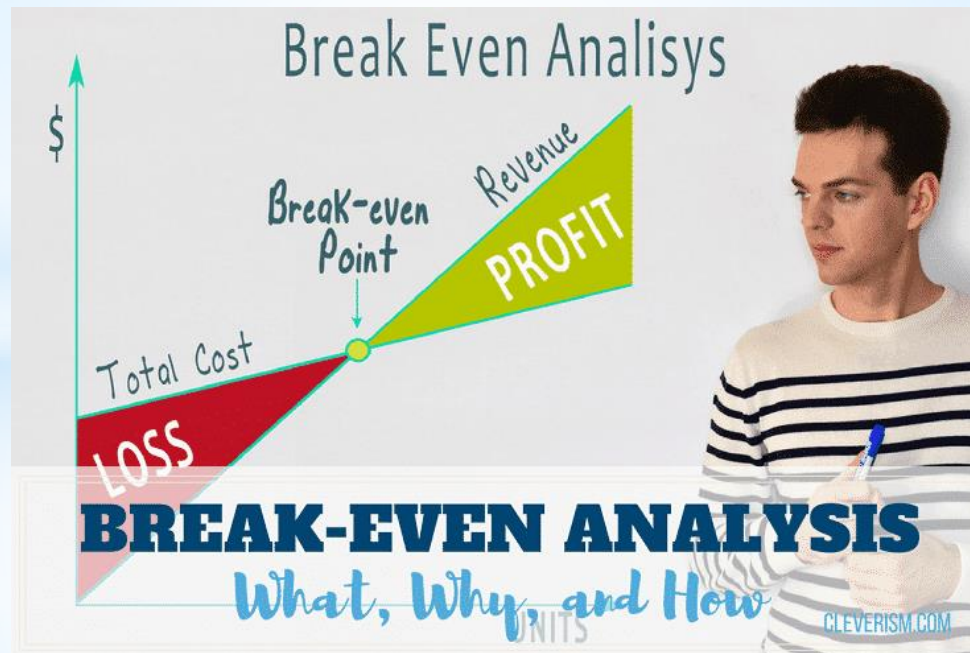


BREAK-EVEN ANALYSIS

ABC Incorporated sell their product at RM40 per unit.

Fixed operating cost is RM150,000 and variable cost per unit is RM10.

How many units need to be sold to breakeven?



IMPORTANCE OF BREAK-EVEN ANALYSIS

- Breakeven analysis gives you a point of focus, your minimum financial & operational performance level.
- Shows an insight into which costs are fixed and which cost is variable.
- It highlights the financial performance standards that need to be reached to start making money.
- It forms the basis for key pricing decisions and volume considerations in running your business.