Marketing-Price

Main factors that influence pricing

Why is price important?

- One of the most important decisions a business has to make
- Pricing decisions directly affect **revenue**
- Must be consistent with other elements of the marketing mix, as it will directly affect the consumer's perception of a good or service
- Making the wrong decision about pricing could have a serious effect on sales and cash flow

Pricing strategy	Definition
Penetration pricing	When a business is new to a crowded market, they price their products below that of competitors.
Cost plus	The costs of manufacturing plus what profit is wanted created the selling price.
Promotional	A reduction in the price to attract customers, boost sales or get rid of old stock.
Skimming	When a business has something new and unique it can set a high price until competition come into the market.
Competitor	When there is a lot of competition, a business will look at what other competitors charge and charge the same.

Price penetration – new product

Advantages

- Builds customer usage and loyalty.
- Can help develop long-term profitability of having higher sales and a higher market share.

Disadvantages

- In the short term, it is likely to result in lower profits than would be the case if prices were set higher.
- It may be difficult to raise the selling price in the future.

Price skimming…

Advantages

- Potential for **high profits** straight away, which can help to pay back its **research and development costs**.
- Product may get a reputation for quality, encouraging brand loyalty.
- Additional profits made can be invested in the next new product.

Disadvantages

- Price skimming cannot last for long, as competitors soon launch rival products which puts pressure on the price.
- May slow down the growth in sales of the product, because it is expensive and no more customers can afford or are willing to pay the high prices.

Promotional pricing

Advantages

- Sales volume will increase which improves cash flow and can increase market share.
- Encourages customers to trial a product, who may become loyal once the price has increased.

Disadvantages

- Customers may only buy the product when it is on promotion.
- The brand image may be tarnished by too many promotions; customers come to expect promotional offers.

Cost plus

Advantages

- A profit is guaranteed on each item sold.

Disadvantages

- If the mark-up is set too high, the price may be expensive compared to rivals and therefore uncompetitive.

Competitor pricing…

Advantages

- Selling prices should be line with rivals, so prices should be competitive and therefore attract customers.

Disadvantages

- The business may need other ways to attract customers other than price. It may have to use non-price methods to compete, for example providing better quality, good customer service or better availability. It often leads to special offers or sales promotions.
- The business will need to research what its competitors are charging, which could increase costs and lower profits.

Loss leaders…

Where a price is set deliberately at or below the cost of production in order to attract customers who will also, hopefully, buy other, more profitable products.

However, if this does not happen, the business will not make any profit on these items alone.