Marketing Modules Series
Module 6: Price
Teaching Slides

Setting a Price is An On-Going Process!!

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Complete Marketing Modules Series available at: http://hortmgmt.gomez.dyson.cornell.edu/Marketing-Modules.html
Setting a Price is:

- The result of your firm’s objectives and goals
- A fundamental component of your marketing mix
- A key element to your firm’s success (revenue and profits)

When Setting Prices Keep in Mind that:
- The customer is the focus of your business
- You operate in a competitive environment
- Your prices reflect your position in the market
Market Price as a Benchmark

- Can you charge a higher price or do you have to go with the market price?
- Will you be able to make a profit at this price or will you lose money and be out of business?

Constantly check if your Price is in line with:

- Your customer’s perception of the quality and service of your **Product**
- The **Distribution** channels you are using
- Your **Promotional** message
Common Pricing Strategies

- **Skimming Pricing** – no competitor in the market
- **Penetration Pricing** – to increase presence in the market
- **Premium Pricing** – high price for a unique product
- **Economy Pricing** – “no frills” price

*Which of these would be the most appropriate for your business?*
Two Common Mistakes in Pricing

- Lowering prices to compete on price alone
- Lowering prices without reducing the benefits/services

Be Smart!
Avoid Common Pricing Mistakes!
Calculating your Prices
Price = Costs + Profits

You need to know:
• Your Total Costs
• Your Direct/Variable Costs
• Your Indirect/Fixed Costs
• Your Production Costs/Unit
• Your Contribution Margin/Unit
• Your Break-Even Point
• Your Profit Goals
Cost & Profit Pricing Methods
Gross Margin, Markup & Break–Even Point

**Gross Margin (GM) Pricing:**

Selling Price = \( \frac{\text{Cost of Goods Sold}}{1 - \text{Desired GM}} \)

*Example:*
- Cost of Goods Sold = $2.39
- Desired Gross Margin = 40% (0.4)
- Selling Price = \( \frac{2.39}{1-0.4} \) = $3.98

**Markup Pricing:**

Selling Price = \( \text{Cost of Goods Sold} + (\text{Markup} \times \text{Cost of Goods Sold}) \)

*Example:*
- Cost of Goods Sold = $2.39
- Desired Markup = 40% (0.4)
- Selling Price = $2.39 + (0.4 \times 2.39) = $3.35

**Break-Even Point Pricing Method:**

Break-Even Price = \( \frac{\text{(Direct Costs+Indirect Costs)}}{\text{Number of Units Produced}} \)
Planning for Profits Pricing Methods
Setting a Profit or a Sales Volume Goal

Setting a Profit Goal:

Profit Break-Even Point = \( \frac{\text{Profit Goal}}{\text{Contribution Margin/Unit}} \)

*Where*

Contribution Margin/Unit = Price/Unit – Direct/Variable Costs/Unit

Setting a Sales Volume Goal:

Profit = (Sales Volume x Contribution Margin/Unit) – Total Costs (Direct+Indirect)
Price Setters & Price Takers

Price Setters determine the prices they charge. Price Takers have to settle for the market prices.

Price Takers:
- Produce and sell an identical product
- Operate in a market with no barriers to entry
- Participate in a specific market along with a large number of firms
- Each firm supplies only a small portion of the total demand
- Face a totally elastic demand for their product

How Can Price Takers Change their Fate?
- Developing alternative products/markets
  - Ex: ethnic foods, baby vegetables, fresh herbs, edible flowers
- Differentiating
  - Ex: Locally-grown produce
- Adding Value
  - Ex: Pre-cut vegetables for grilling
Prices and Your Firm’s Income
Reducing or Increasing Your Prices

Reducing Prices to:
• Face competition
• Attract customers
• Sell overstocked, seasonal or damaged products

Increasing Prices to reflect:
• Uniqueness
• Prestige image
• Special service

When Changing your Prices Keep in Mind that:
• Any action you take will have an impact on your firm’s income
• Before taking any action you need to anticipate/forecast the impact of it over your firm’s income
Beware of Price Wars or Competition-Based Pricing

Avoid Price Wars by carefully studying and understanding the demand for your product/service:

- Examine your competitor’s offer
- Determine the ceiling price for your product
- Estimate the price elasticity of demand for your product

Price Elasticity of Demand = \( \frac{\% \text{ Change in Quantity Demanded}}{\% \text{ Change in Price}} \)
Always consider your pricing decisions very carefully, the future of your business depends on them!