Marketing Modules Series
Module 6: Price
Teaching Slides

Value

Profits

Demand

Image

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Costs

Service

Competition

Operating Expenses

Setting a Price is An On-Going Process!!

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Complete Marketing Modules Series available at: http://hortmgt.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

Setting & Getting the Right Prices
Price vs. Value

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:

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

Example:

Cost of Goods Sold = $2.39

Desired Gross Margin = 40% (0.4)

Selling Price = $2.39/(1– 0.4) = $3.98

Markup Pricing:

Selling Price =
Cost of Goods Sold + (Markup x Cost of Goods Sold)

Example:

Cost of Goods Sold = $2.39

Desired Markup = 40% (0.4)

Selling Price = $2.39 + (0.4 x $2.39) = $3.35

Break-Even Point Pricing Method:

$$\text{Break- Even Price} = \frac{\text{(Direct Costs+Indirect Costs)}}{\text{Number of Units Produced}}$$

Planning for Profits Pricing Methods
Setting a Profit or a Sales Volume Goal

Setting a Profit Goal:

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

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

$$\text{Price Elasticity of Demand} = \frac{\%\ \text{Change in Quantity Demanded}}{\%\ \text{Change in Price}}$$

Always consider your pricing decisions very carefully,

the future of your business

depends on them!