Steps in price planning:

Successful price planning includes a series of orderly steps beginning with setting pricing objectives.

ODCPEST

1. Objectives to know if you have achieved the goals
2. Estimate the demand and then you determine the costs
3. eva:l: evaluate the whole business environment

At 6, you re-establish the objectives and it starts again

Step 1:

Pricing objectives revolve around profit, customer satisfaction, image enhancement, sales (or market share), competitive effect.

Type of objective	Example
Sales or market share	Institute pricing strategy changes to support a 5 per cent increase in sales.
Profit	During the first six months, set a price to yield a target profit of $200 000. Or Set prices to allow for an 8 per cent profit margin on all goods sold.
Competitive effect	Alter pricing strategy during first quarter of the year to increase sales during competitor's introduction of new product. Or Maintain low-end pricing policies to discourage new competitors from entering the market.
Customer satisfaction	Simplify pricing structure to simplify decision process for customers. Or Alter price levels to match customer expectations.
Image enhancement	Alter pricing policies to reflect the increased emphasis on the product's quality image.

Always make SMART OBJECTIVES: specific, measurable, achievable (attainable), relevant and time framed .

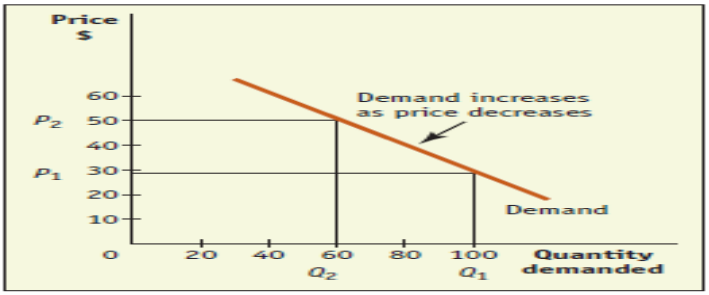
Step 2:

Demand refers to custoemrs' desire for a product. Often best explained using a demand curve.

Involves these questions:

- What is the likely demand for your product over the next 3mths?
- Is the demand gonna increase or dec. How do you know? – SWOT analysis and marketing analysis systems (these will help approx. Where the current deamdn will be)

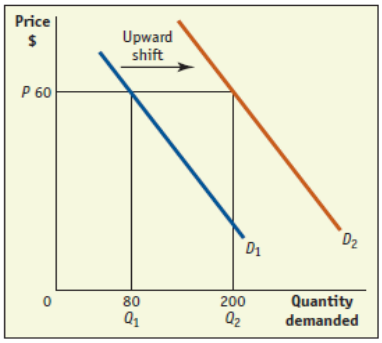
Normal demand curve: as price goes up, he qty demanded will decrease.



Normal products

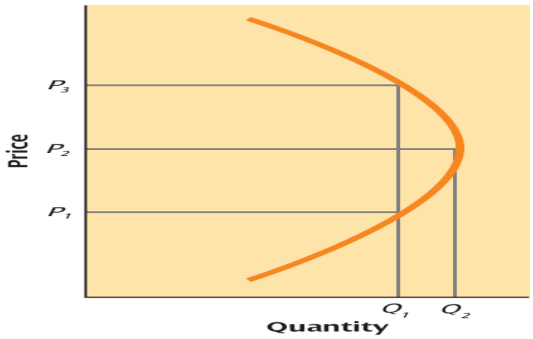
Shift in the demand curve:

Changes in the environment or in company efforts can cause a shift in the demand curve. A great advertising campaign, for example, can shift the demand curve upward.



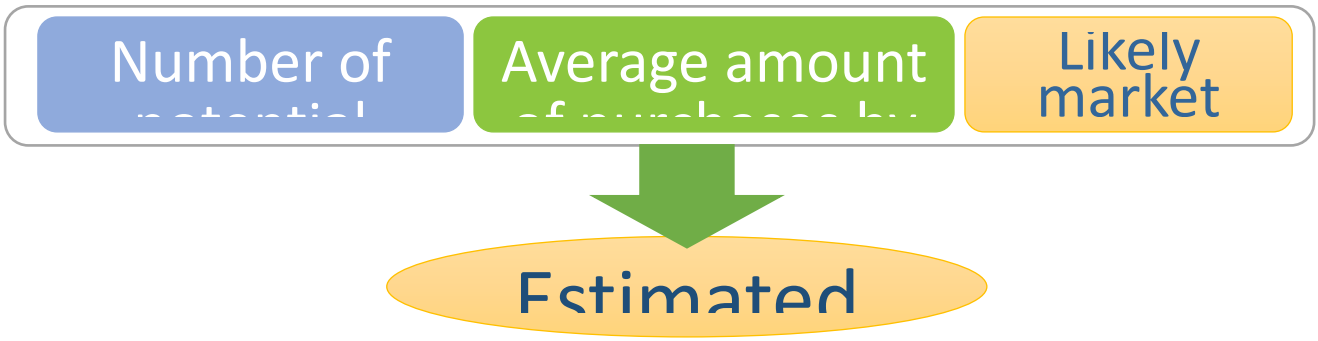
Some ad and promotion is done then you can shift the curve right. Thus, you have increased the demand for your products^.

Demand curve for prestige goods:



- Why do you sell more at p2? Because there is a perceived interaction between price and quality.
- But at p3, because although it is prestigious, people may not be able to afford it

Estimating Demand:



Price elasticity:

Elastic demand: demand in which changes in prices have a large effect on the amount demanded

Inelastic demand: demand in which changes in price have little or no effect on the amount demanded

Flatter the demand curve, the more elastic it is.

Notes:

Elastic: small changes in price will create big changes in the qty sold

Y axis has P and X axis has Qty

This is also based on % delta in qty demanded and % delta change in price

Flatter the curve, more elastic

Example:

- In: ciggarettes (people will pay whatever to smoke it)
- E: airline fares
- E: soft drinks
- In: coke isnt

- Petrol is E in short run. If price goes a little bit, people drive less. But in long run, it becomes IE as people don't give a damn.

Step 3:

Types of costs:

Variable costs: costs that vary with production i.e. units produced. E.g. wages

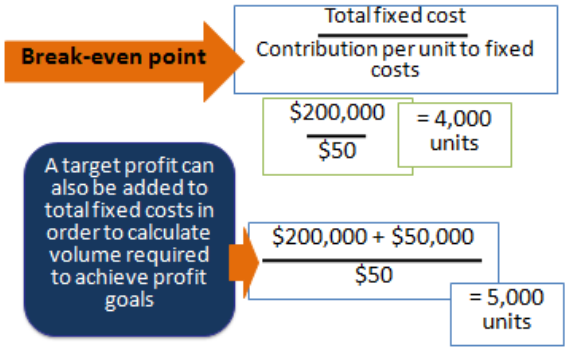
Fixed costs: the cost that stays the same regardless of the units produced. E.g. rent

Average fixed cost: the fixed cost per unit produced i.e. fixed cost/no. of units produced

Total cost: the total of fixed and variable costs for a set number of units produced.

Break-even alanysis:

- Where total cost and revenue intersect (equal)
- A technique used to determine athe number of units that need to be sold to cover all costs.
- **Formula: Total fixed cost/contribution per unit to fixed cost**



Contribution per unit to fixed cost: selling price-variable cost.

Target profit method: read text book

Marginal analysis:

This is where the marginal revenue intersect the marginal cost.

Maximise profit: 2 methods: marginal and break even analysis

Marg cost = marg rev is when there is maximised profit

Step 4:

External factors need to be considered: PEST. Micro and macro environments have an impact.

- Economy: economic growth, consumer confidence, inflation

- Competition: market structure: oligopoly, monopolistic competition, pure competition
- Consumer trends: lifestyles and demographics

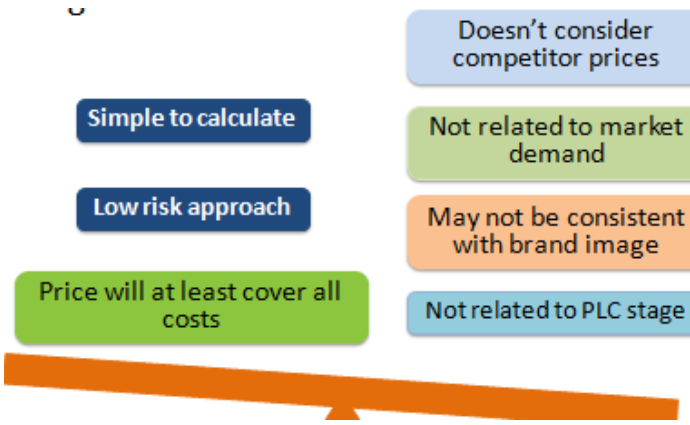
Step 5:

Choices for a pricing strategy:

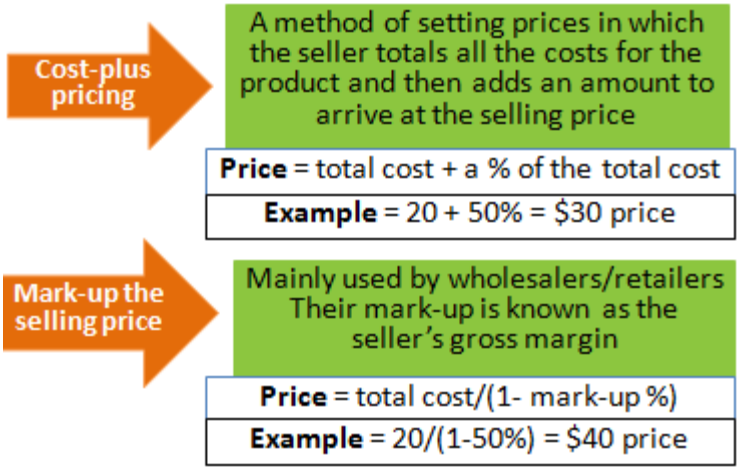
- Based on costs:
- Based on demand
- New product pricing:
- Based on competition
- Based on consumers' needs

Pricing based on costs: (Purely an accounting based approach)

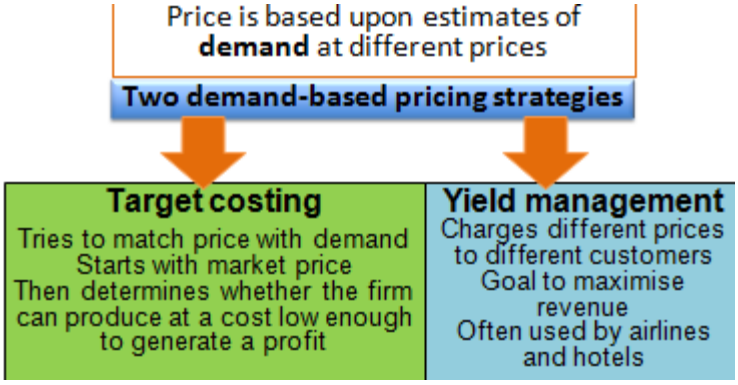
PLC: product life cycle: intro, growth, maturity, decline



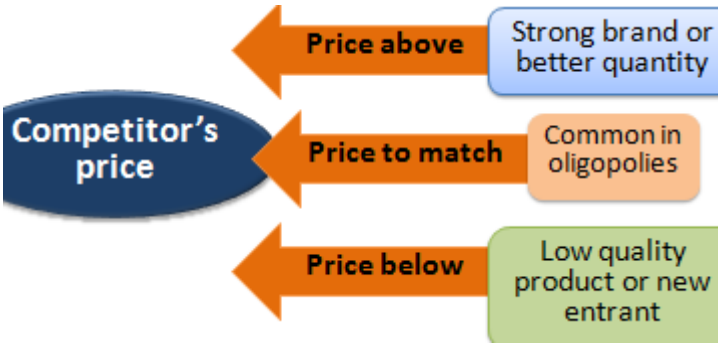
2 methods of cost based calculations:



Pricing based on demand:


Price is based upon estimates of **demand** at different prices
Two demand-based pricing strategies
Target costing
Tries to match price with demand
Starts with market price
Then determines whether the firm can produce at a cost low enough to generate a profit
Yield management
Charges different prices to different customers
Goal to maximise revenue
Often used by airlines and hotels

Pricing based on competition:

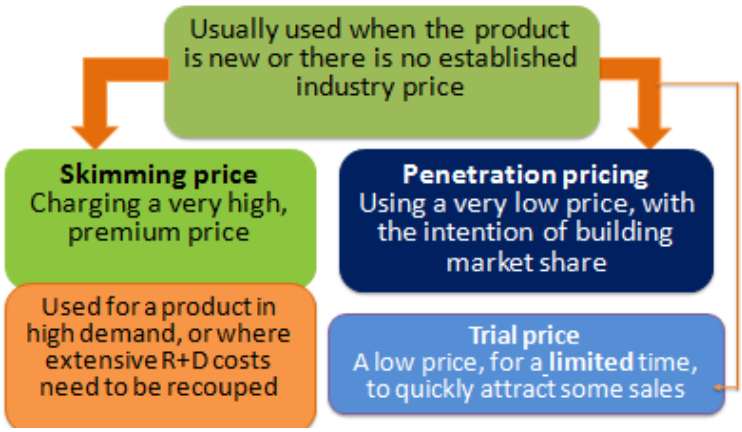


- Charge based on the competitor price level
- If your brand is stronger/higher quality, you can charge little
- Entrant: start off low and as customer acknowledgement increase, raise the prices

Pricing based on customer needs:

- Used when trying to gain and retain customers from the competition
    - Usually have the goal of long term customer retention
    - The firm promises ultimate value to customers (called value pricing)
    - Also known as EDLP (everyday low pricing)

New product pricing:



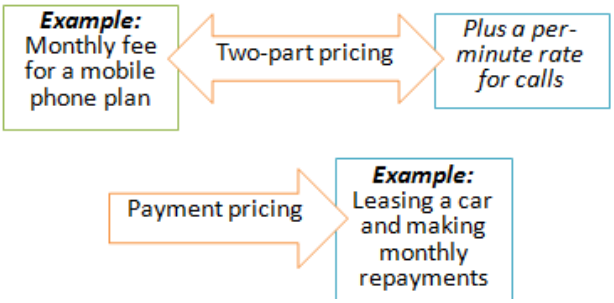
Notes:

Getting early adopters at the skimming price level (drug companies do it)

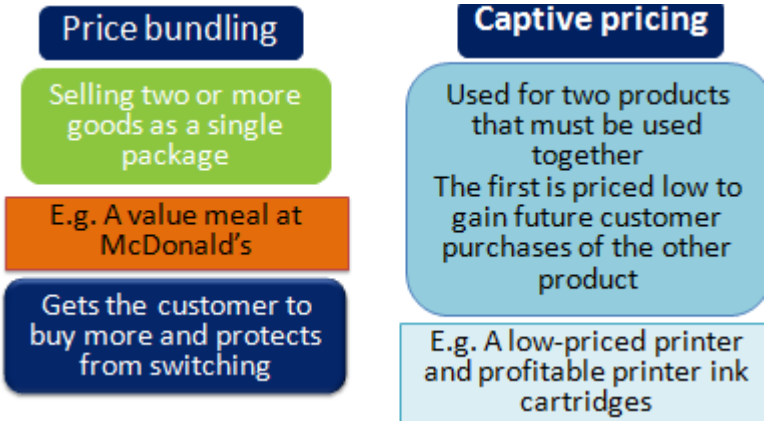
Penetration: discourages competitors to come into the market. At the end, no competitors and thus getting the market to yourself

Trial: adoption process.. Once they like it, keep coming back

Step 6: Pricing for individual products:



Pricing for multiple products:



Distribution-based pricing (business level):

Is a pricing tactic that establishes how companies handle the cost of shipping products to customers

F.O.B origin pricing *(F.O.B = free on board)*	Where the cost of product's transport is the customer's responsibility
F.O.B delivered pricing	Where the cost of product transport is paid by the manufacturer and included in the selling price
Basing-point pricing	Where the customer pays shipping charges from set basing point locations
Uniform delivered pricing	Where the company adds a standard shipping charge for all customers, regardless of location
Freight absorption pricing	Where the seller absorbs the total cost of transportation

FOB: more related to shipping^

Discounting for channel members: