

## Lecture 1- Introduction to pricing

### Price & The Marketing Mix

The 4 Ps

- Product, Price, Promotion, Place
- Additional P's include: People, Process, Physical Evidence

Price plays an important role within the Marketing Mix; it's the keep drive of profit.

### Definition of Price

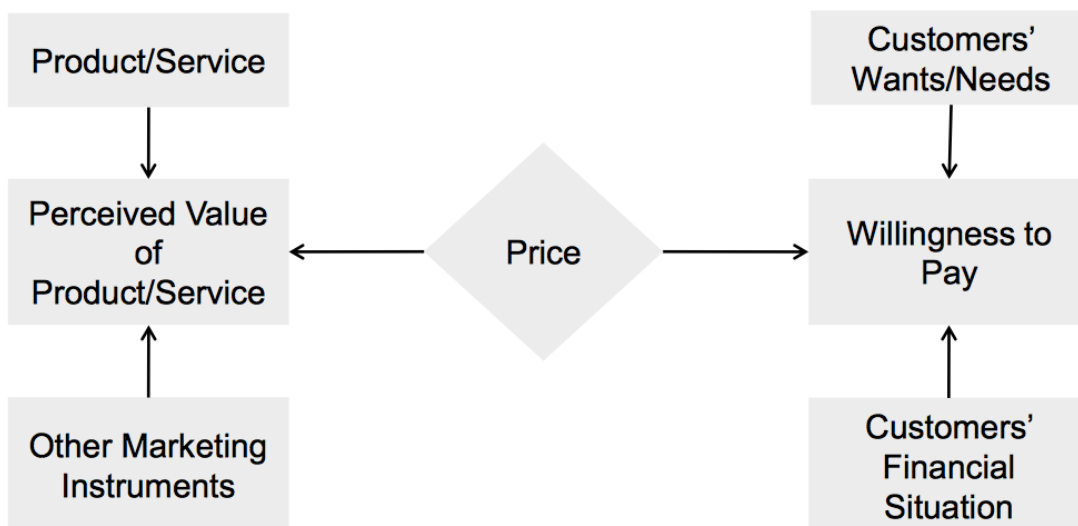
The price of a product of service is the number of monetary units a customer has to pay to receive one unit of that product or service.

### Importance of price

- Price is on the top of marketing manager's worries.
- Stores and businesses such as Aldi, Bing Lee and Pulse Pharmacy represent the increase in importance.
- Reasons for the increasing importance of price:
  - Increased competition
  - Lower customer loyalty
  - Consumers start cherry picking
  - New media enable price comparison (online).

### Price-Value Relationship

Pricing process need to take different aspects into account



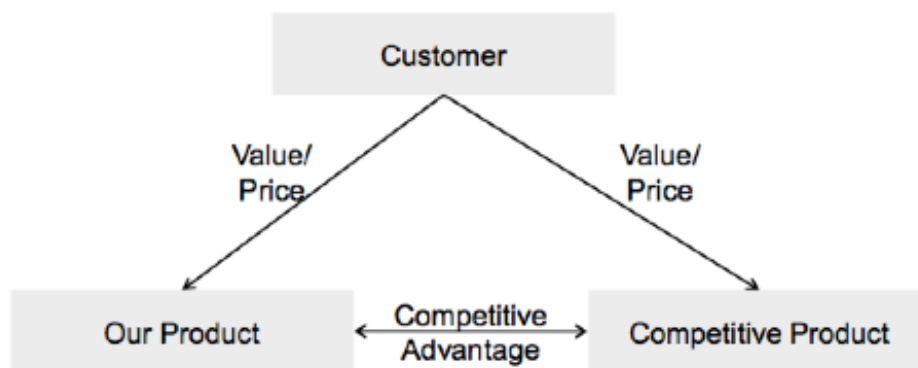
### Pricing in Balance:

- Pricing needs to find the balance between value delivery and value extraction
  - Value delivery: what do we offer our customer? (Utility for customer)
  - Value extraction: how can we get value back? (Sacrifice for the customer)
- Pricing process: a customer will buy a product or service if its perceived value is greater than the price. The customer will mostly prefer the product with the highest net value, i.e. the greatest differential between perceived value & price.

Value of a product is driven by three factors:

1. Unique selling proposition
2. Product design
3. Value added services

The role of price in the strategic triangle:



### Price as a profit driver

$$\text{Profit} = [(\text{price} - \text{variable cost}) * \text{volume}] - \text{fixed cost}$$

$$\text{Profit} = (\text{price} * \text{sales volume}) - \text{total cost}$$

$$\text{Price} = (\text{profit} + \text{fixed cost}) / \text{volume} + \text{variable cost}$$

$$\text{Volume} = (\text{profit} + \text{fixed cost}) / \text{new price} - \text{variable cost}$$

### Price As a Management Process

Pricing process – stages

1. Strategy
2. Analysis
3. Decision
4. Application