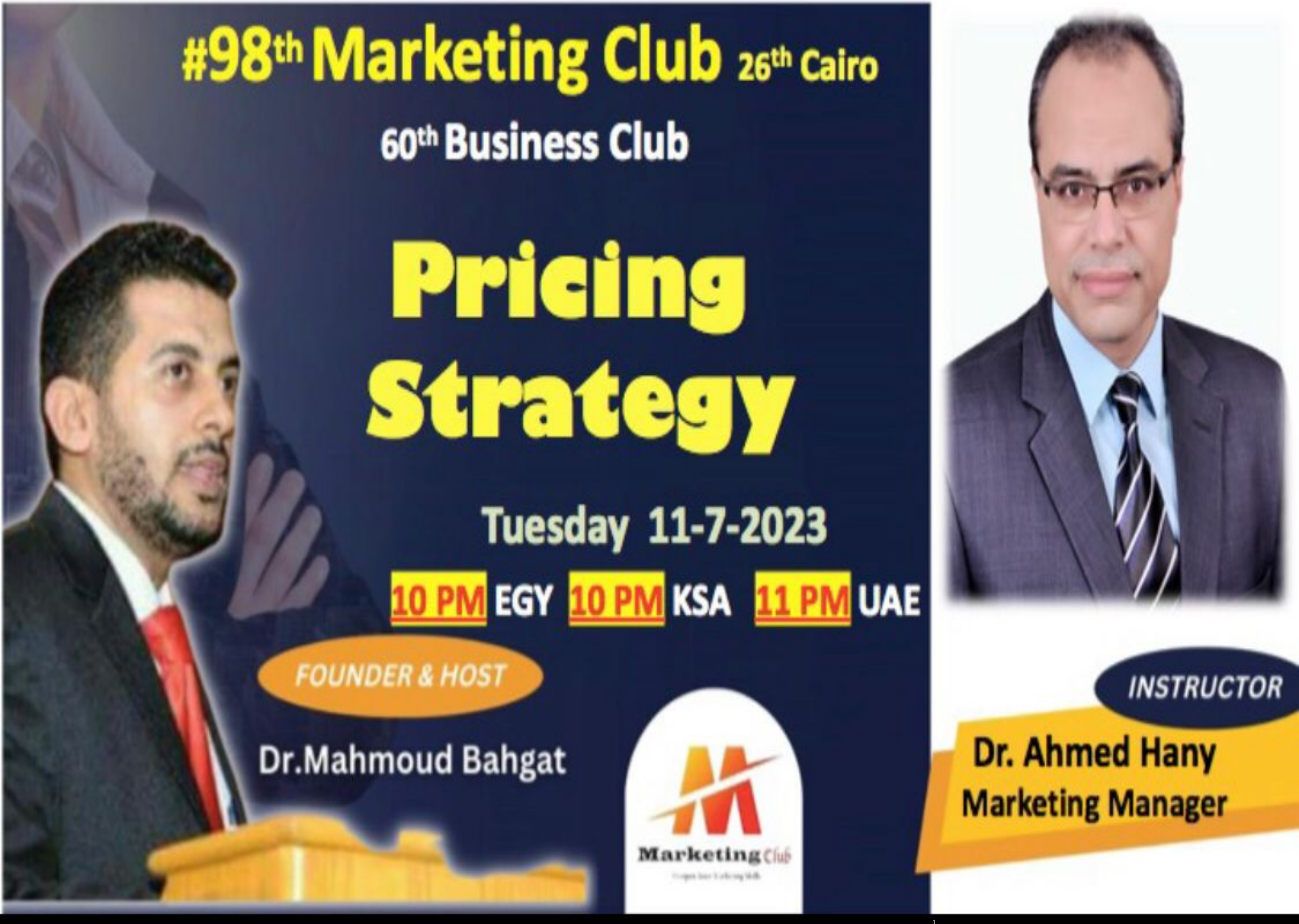

#98th Marketing Club 26th Cairo
60th Business Club
Pricing Strategy
Tuesday 11-7-2023
10 PM EGY 10 PM KSA 11 PM UAE
FOUNDER & HOST
Dr.Mahmoud Bahgat
Marketing Club
INSTRUCTOR
Dr. Ahmed Hany
Marketing Manager

Who am I?

- Graduated from faculty of vet. Medicine 1998
- Diploma in sales management from AUC-2009
- Diploma in marketing management from AUC-2010
- MBA/Marketing from AASTMT – 2015
- More than 23 years experience in sales and marketing through Pharmaceutical, food supplements and cosmetics fields

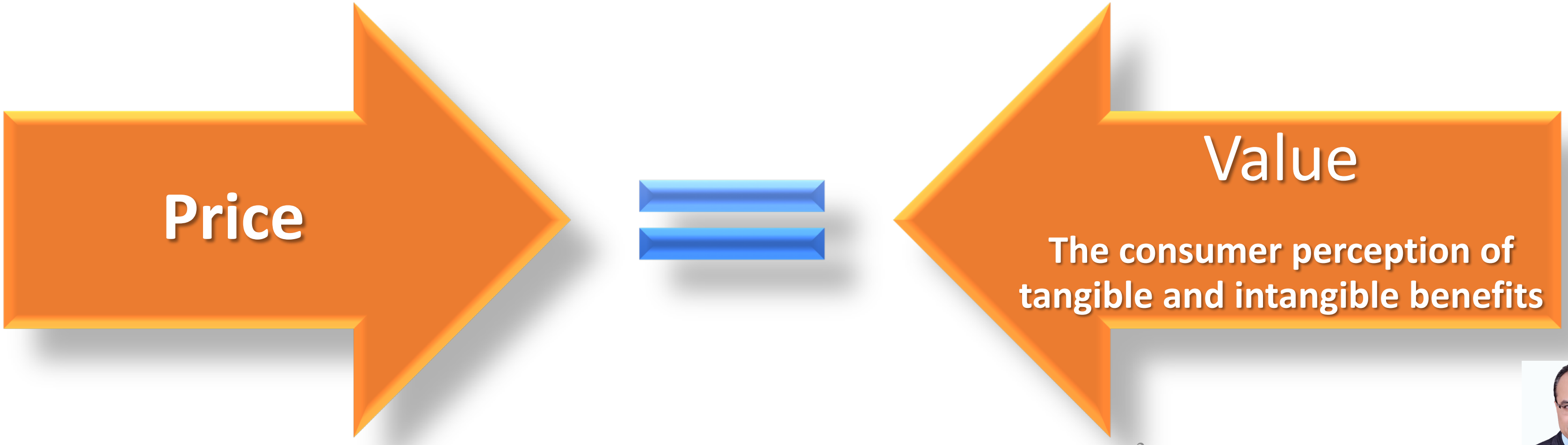
  From 2000 to 2010 , sales experience

  From 2011 till 2023 , marketing experience

What Is Price?

- **<u>Definition:</u>**

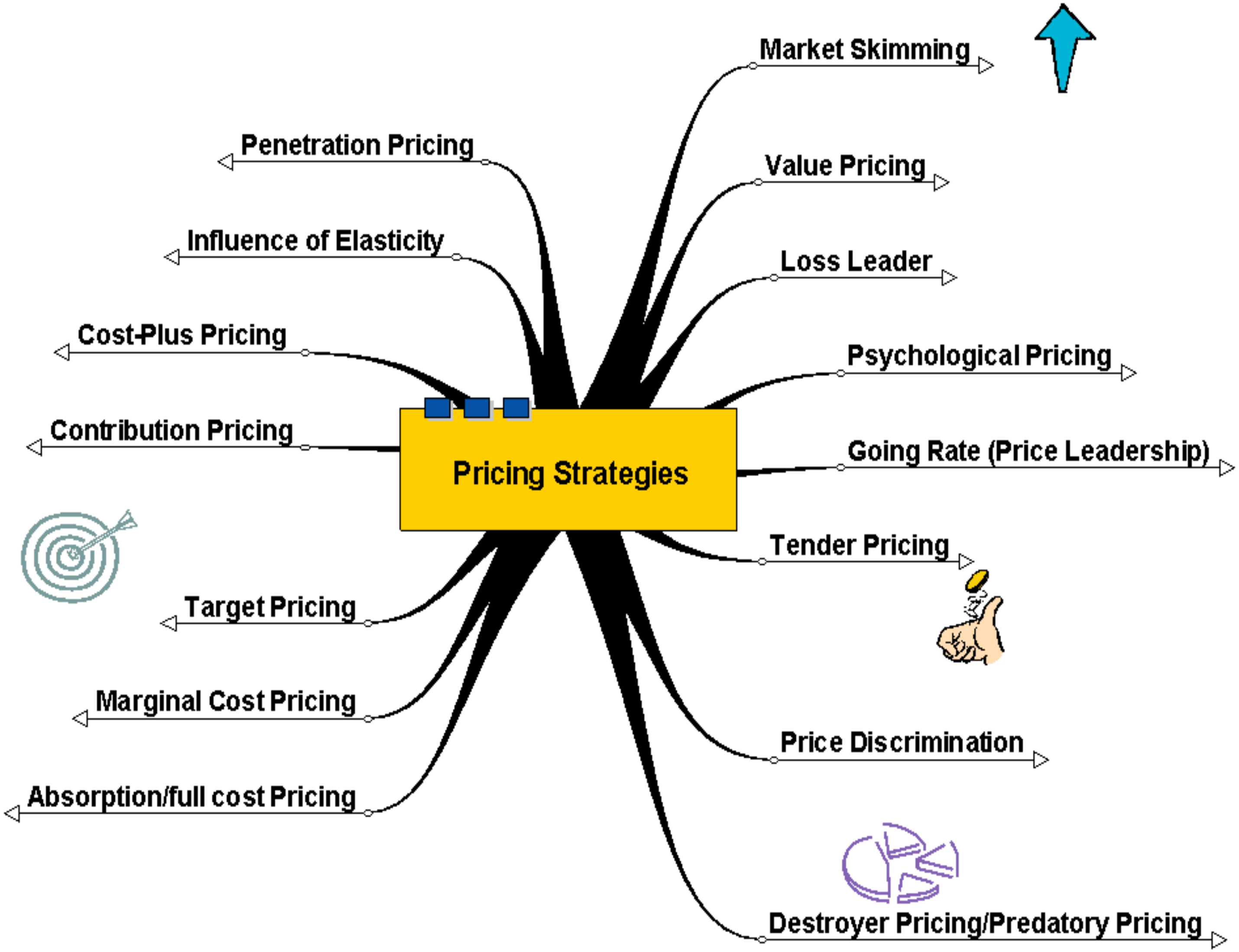
"The amount of money charged for a product or service. More broadly price is the sum of the values that consumers exchange for the benefits of having or using the product or service."



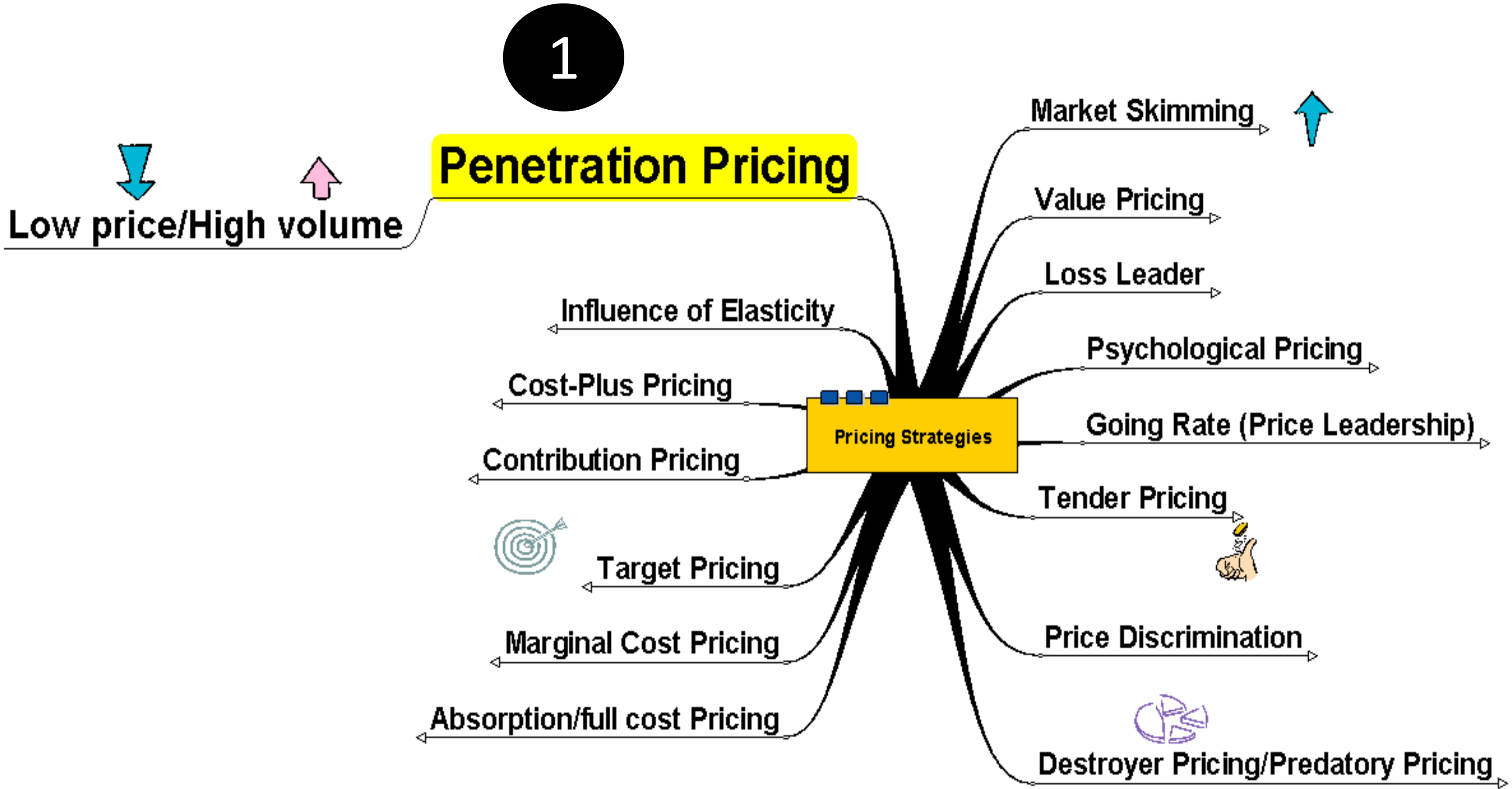
General Pricing Approaches

- **Buyer-Based pricing**
  - Value-Based Pricing
  - Competition-Based Pricing
- **Cost-Based Pricing**
  - Cost-Plus Pricing
  - Breakeven Analysis And Target Profit Pricing

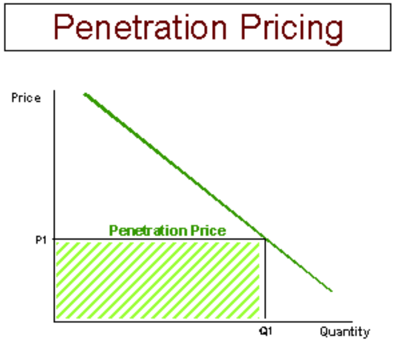
Pricing Strategies(15 strategies)



1- Penetration Pricing

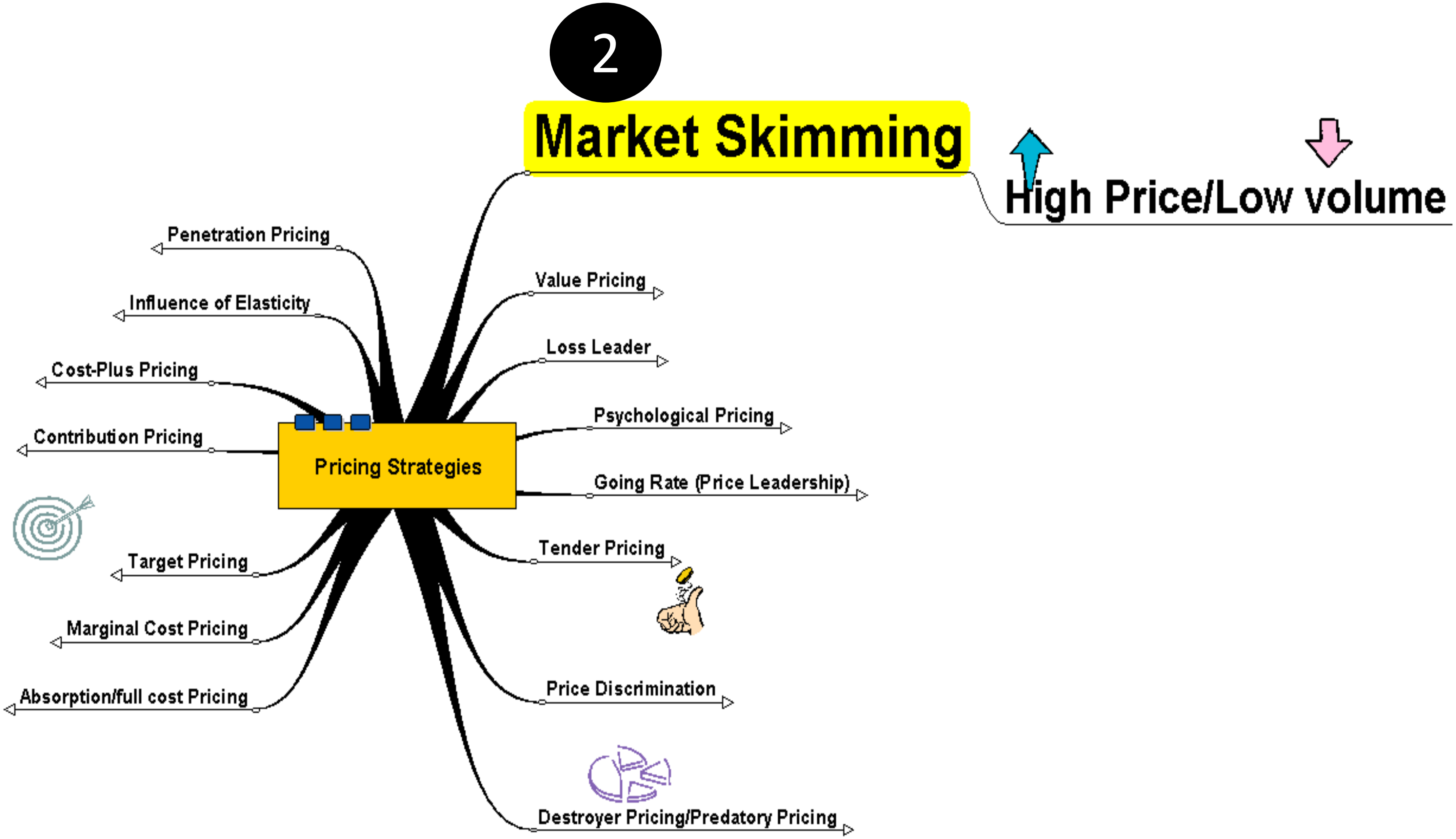


1- Penetration Pricing



- Price set to 'penetrate the market'
- 'Low' price to secure high volumes
- Typical in mass market products – chocolate bars, food stuffs, household goods, etc.
- Suitable for products with long anticipated life cycles
- May be useful if launching into a new market

2- Market Skimming

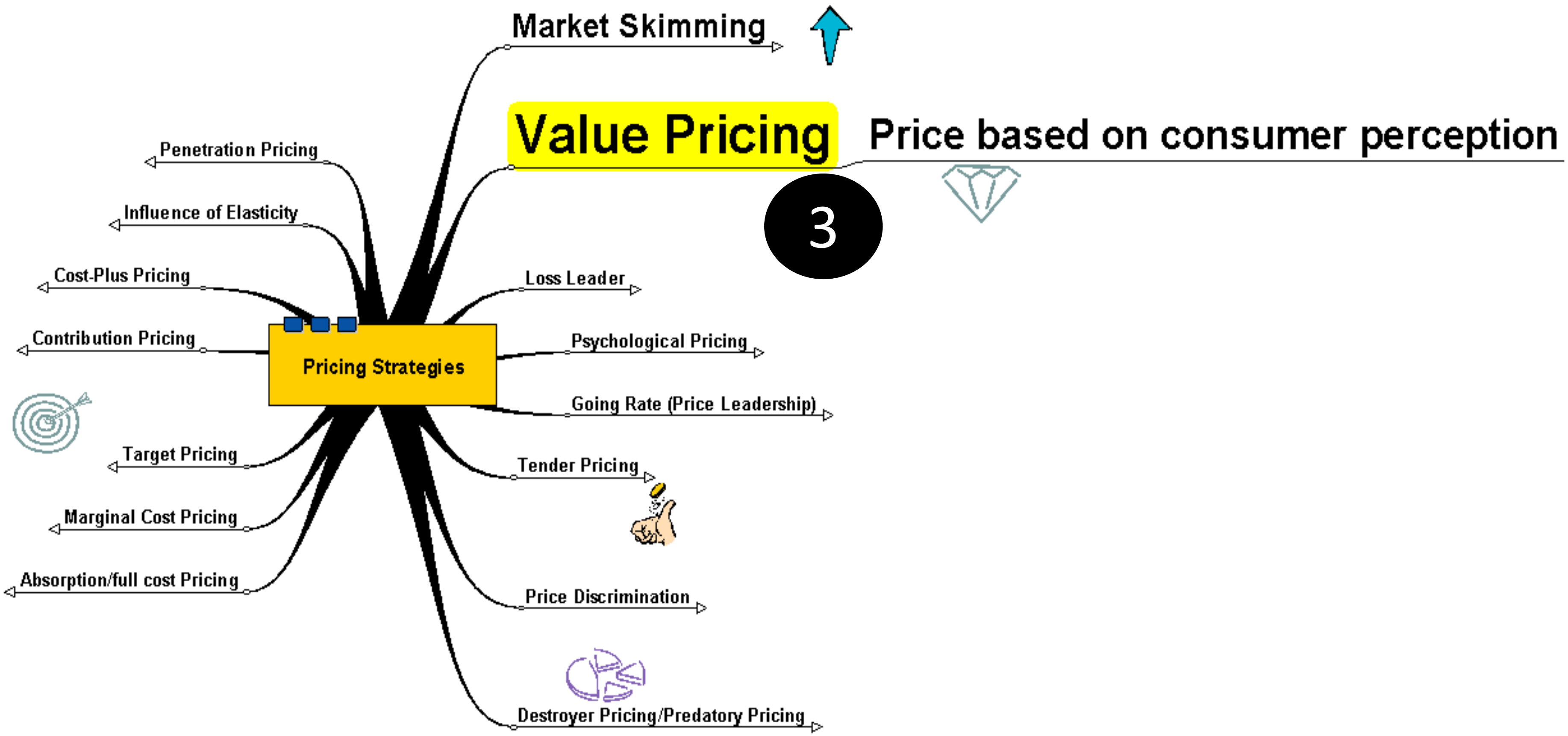


2- Market Skimming

Many are predicting a firesale in laptops as supply exceeds demand.

- High price, Low volumes
- Skim the profit from the market
- Suitable for products that have short life cycles or which will face competition at some point in the future (e.g. after a patent runs out)
- Examples include: PlayStation, jewellery, digital technology, new DVDs, etc.

3- Value Pricing



3- Value Pricing

- Price set in accordance with customer perceptions about the value of the product/service
- Examples include status products/exclusive prducts

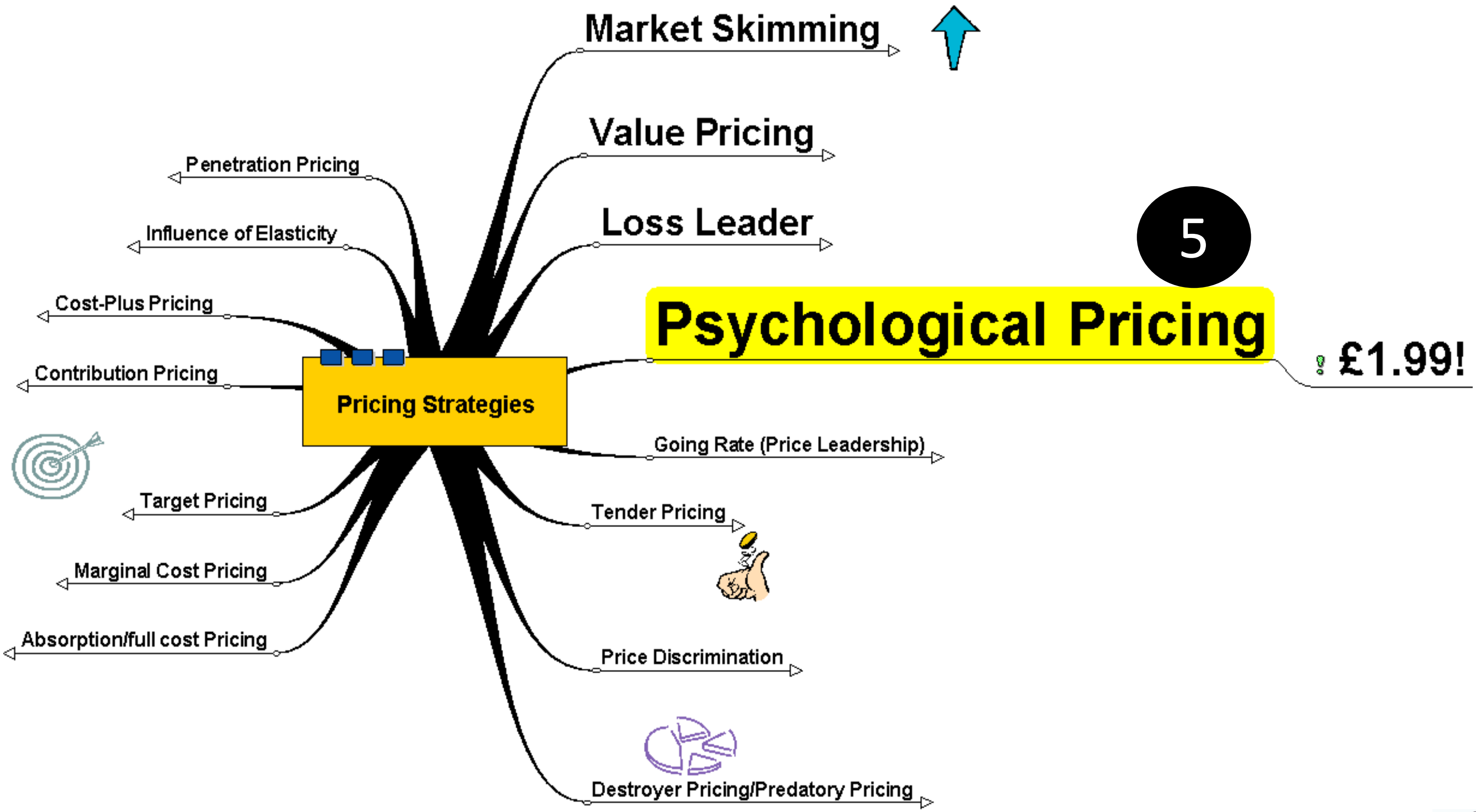
Companies may be able to set prices according to perceived value.

4- Loss Leader

4- Loss Leader

- Goods/services deliberately sold below cost to encourage sales elsewhere
- Typical in supermarkets, e.g. at Christmas, selling bottles of gin at £3 in the hope that people will be attracted to the store and buy other things
- Purchases of other items more than covers ‘loss’ on item sold
- e.g. ‘Free’ mobile phone when taking on contract package

5- Psychological Pricing



5- Psychological Pricing

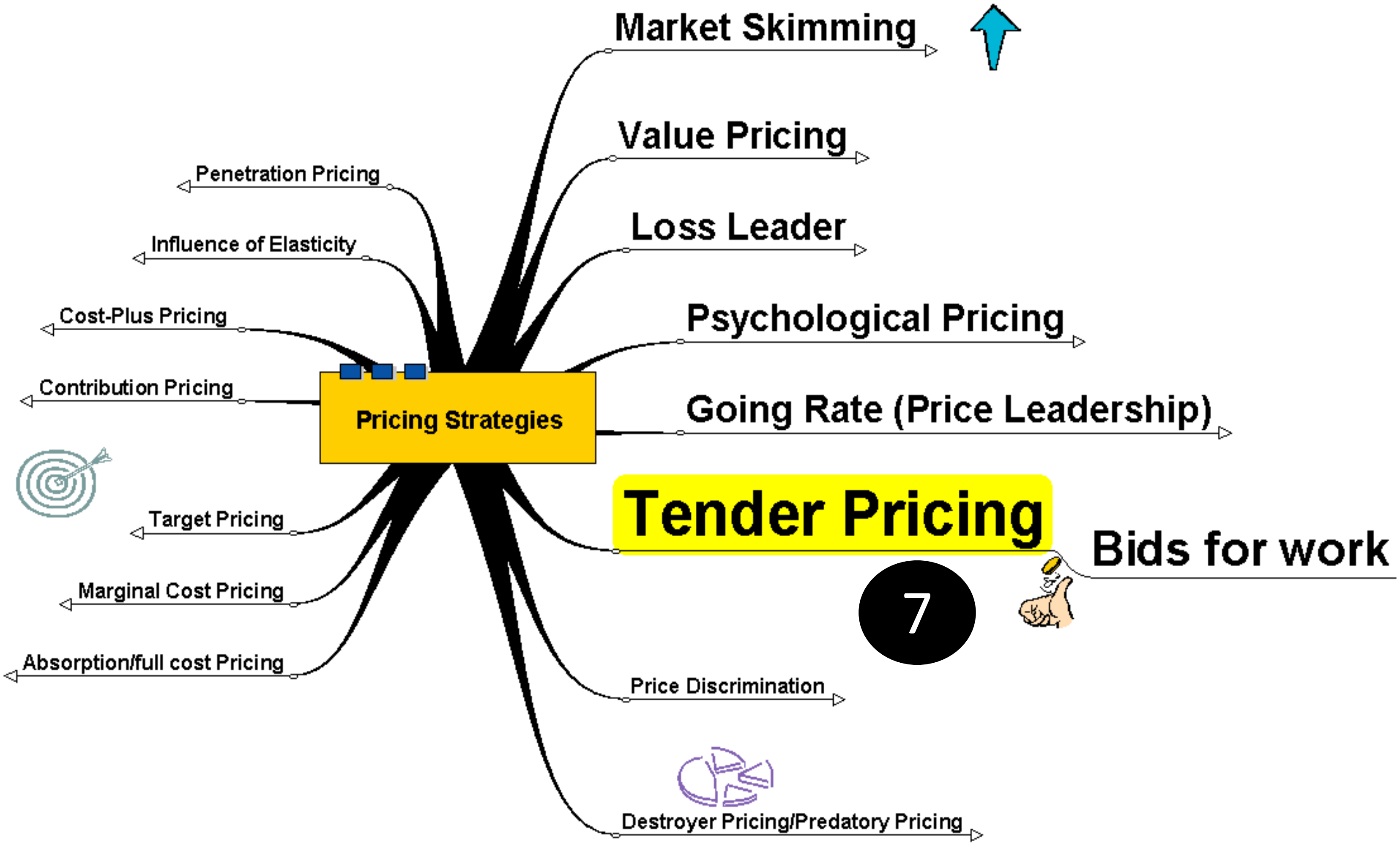
- **Used to play on consumer perceptions**
- **Classic example - £9.99 instead of £10.00!**
- **Links with value pricing – high value goods priced according to what consumers THINK should be the price**

6- Going Rate (Price Leadership)

6- Going Rate (Price Leadership)

- In case of price leader, rivals have difficulty in competing on price – too high and they lose market share, too low and the price leader would match price and force smaller rival out of market
- May follow pricing leads of rivals especially where those rivals have a clear dominance of market share
- Where competition is limited, ‘going rate’ pricing may be applicable – banks, petrol, supermarkets, electrical goods – find very similar prices in all outlets

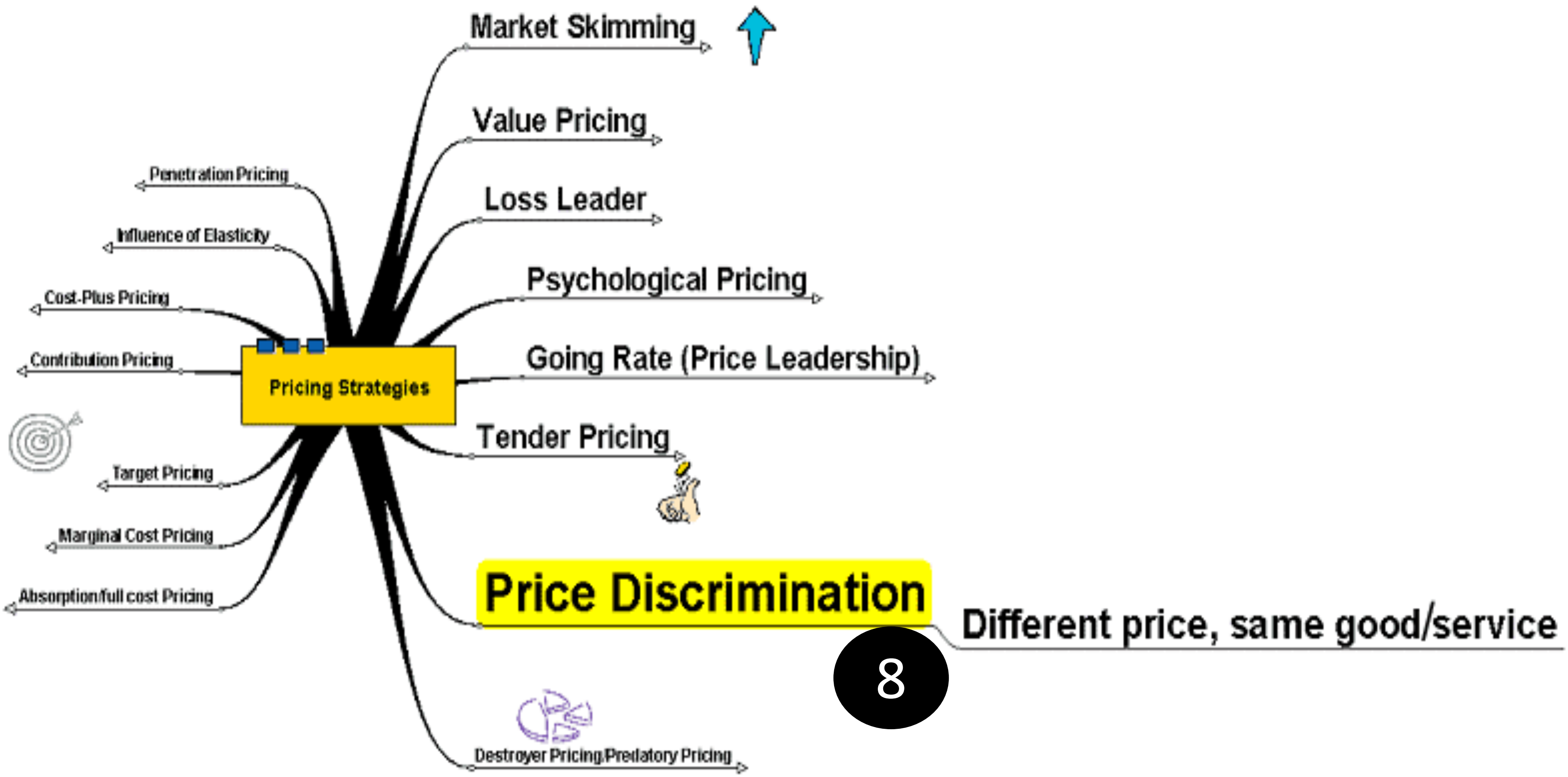
7- Tender Pricing



7- Tender Pricing

- Many contracts awarded on a tender basis
- Firm (or firms) submit their price for carrying out the work
- Purchaser then chooses which represents best value
- Mostly done in secret

8- Price Discrimination



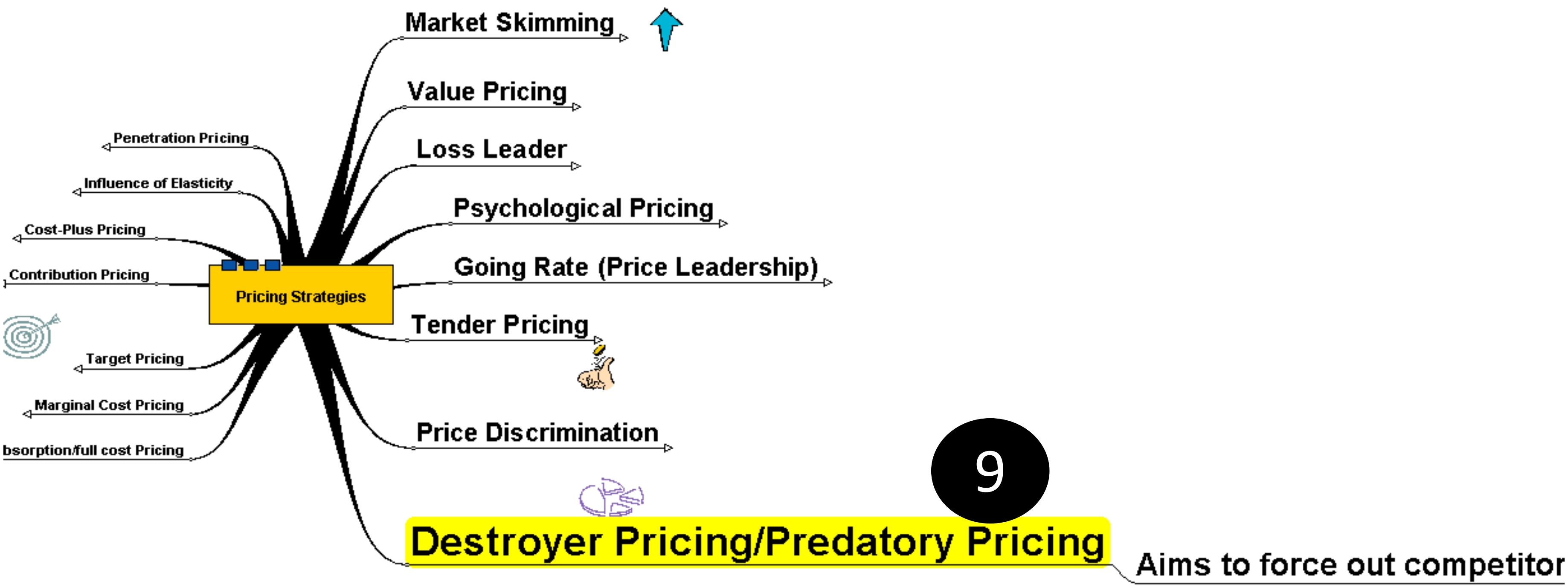
8-Price Discrimination

Admission	
General	$10
Students	$12
Under 4	$14

Prices for rail travel differ for the same journey at different times of the day

- Charging a different price for the same good/service in different markets
- Requires each market to be impenetrable
- Requires different price elasticity of demand in each market

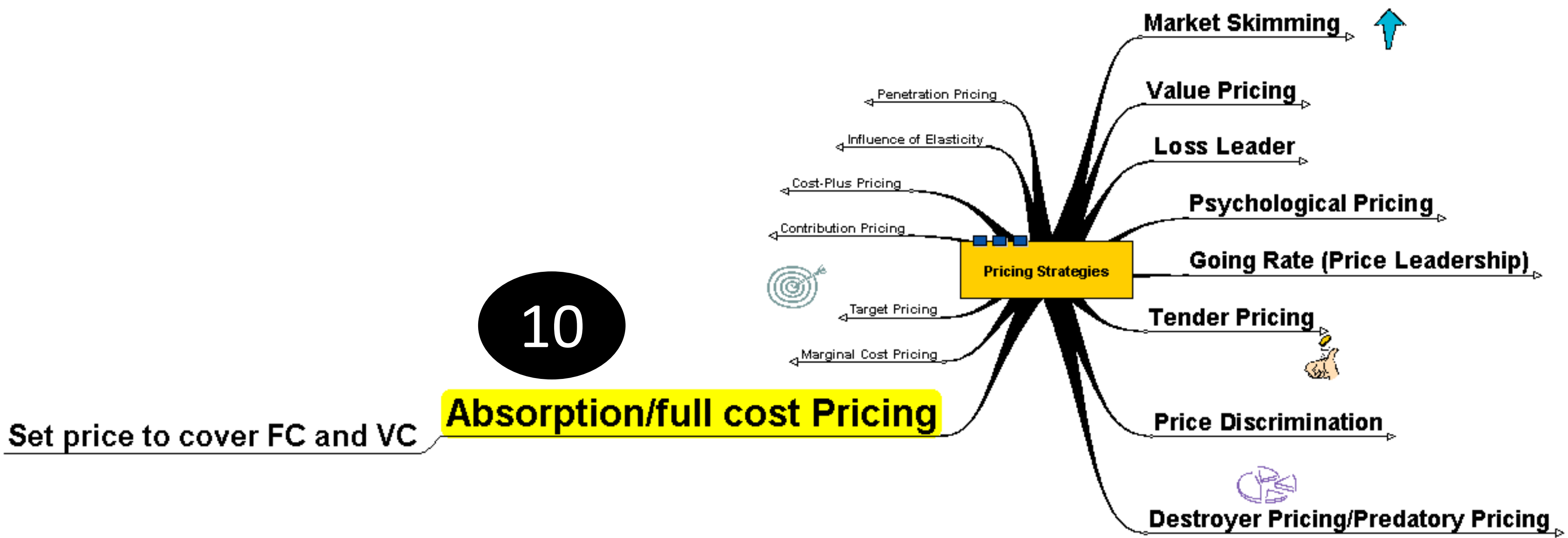
9- Destroyer Pricing/Predatory Pricing



9- Destroyer/Predatory Pricing

- Deliberate price cutting or offer of ‘free gifts/products’ to force rivals (normally smaller and weaker) out of business or prevent new entrants
- Anti-competitive and illegal if it can be proved

10-Absorption/Full Cost Pricing



10-Absorption/Full Cost Pricing

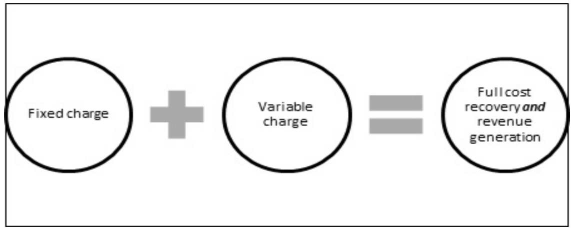
1. **Full Cost Pricing** – attempting to set price to cover both fixed and variable costs

- The pricing formula is:

$$\frac{\text{(Total production costs + Selling and administration costs + Markup)}}{\text{Number of units expected to sell}}$$

- Most commonly used in situations where products and services are provided based on the specific requirements of the customer; thus, there is reduced competitive pressure and no standardized product being provided.

FULL COST PRICING



The Full Cost Plus Calculation

- XYZ company expects to incur the following costs in its business in the upcoming year:

-Total production costs = $2,500,000

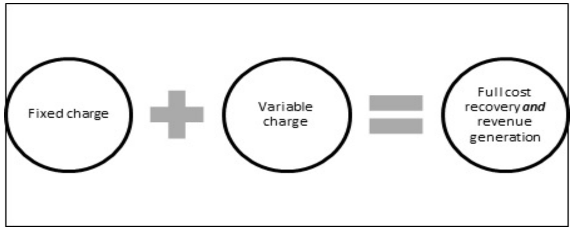
-Total sales and administration costs = $1,000,000

-The company wants to earn a profit of $100,000 during that time. Also, XYZ expects to sell 200,000 units of its product.

- Based on this information and using the full cost plus pricing method, XYZ calculates the following price for its product:
- ($2,500,000 Production costs + $1,000,000 Sales/admin costs + $100,000 markup) ÷ 200,000 units = $18 Price per unit

Marketing Club

FULL COST PRICING



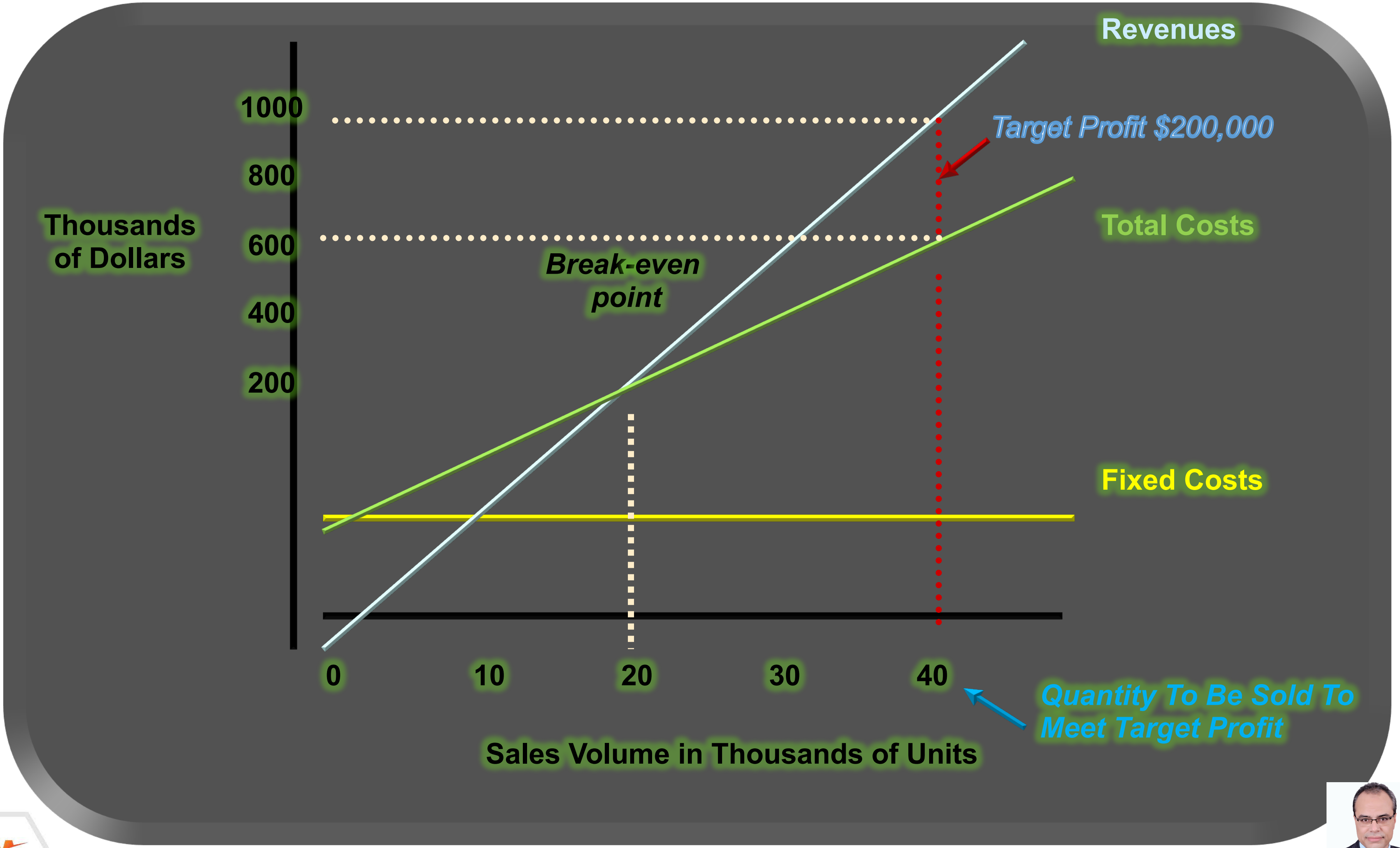
Advantages:

- Simple
- Likely profitable
- Justifiable

Disadvantages:

- *Ignores competition*
- *Ignores price elasticity*
- *Budgeting errors*
- More difficult to derive if there are multiple products

FULL COST PRICING



Absorption/Full Cost Pricing

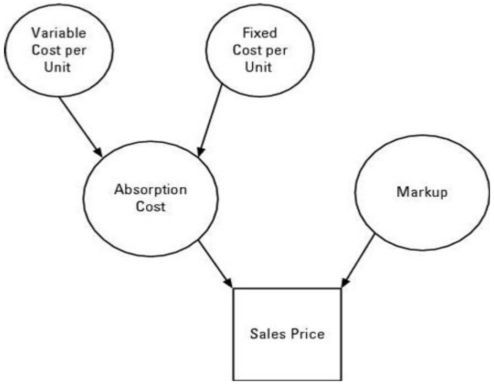
2. <u>**Absorption Cost Pricing**</u> – price of a product includes all of the variable costs attributable to it, as well as a proportion of all fixed costs

- The pricing formula is:

$$\frac{\text{Variable cost per unit + (Total overhead + administrative expenses)}}{\text{(Number of units produced)}}$$

- The formula may also include an additional markup for profit, according to the evaluation of the company.

Absorption Cost Pricing



The Absorption Cost Pricing Calculation

- XYZ company expects to incur the following costs in its business in the upcoming year:

-Total overhead expenses = $500,000

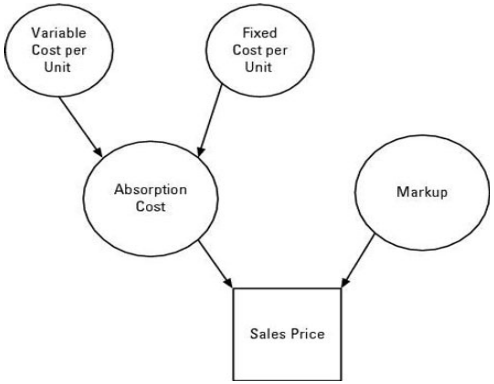
-Total administration expenses = $250,000

-The company only expects to sell its purple widget in the upcoming year, and expects to sell 20,000 units. Each unit has a variable cost of $10.00.

The calculation of the fully-absorbed price of the purple widget before the inclusion of a profit margin is:

- $10.00 Variable cost + (($500,000 Overhead + $250,000 Administration) ÷ 20,000 units)
  = $47.50/unit

Absorption Cost Pricing



Advantages:

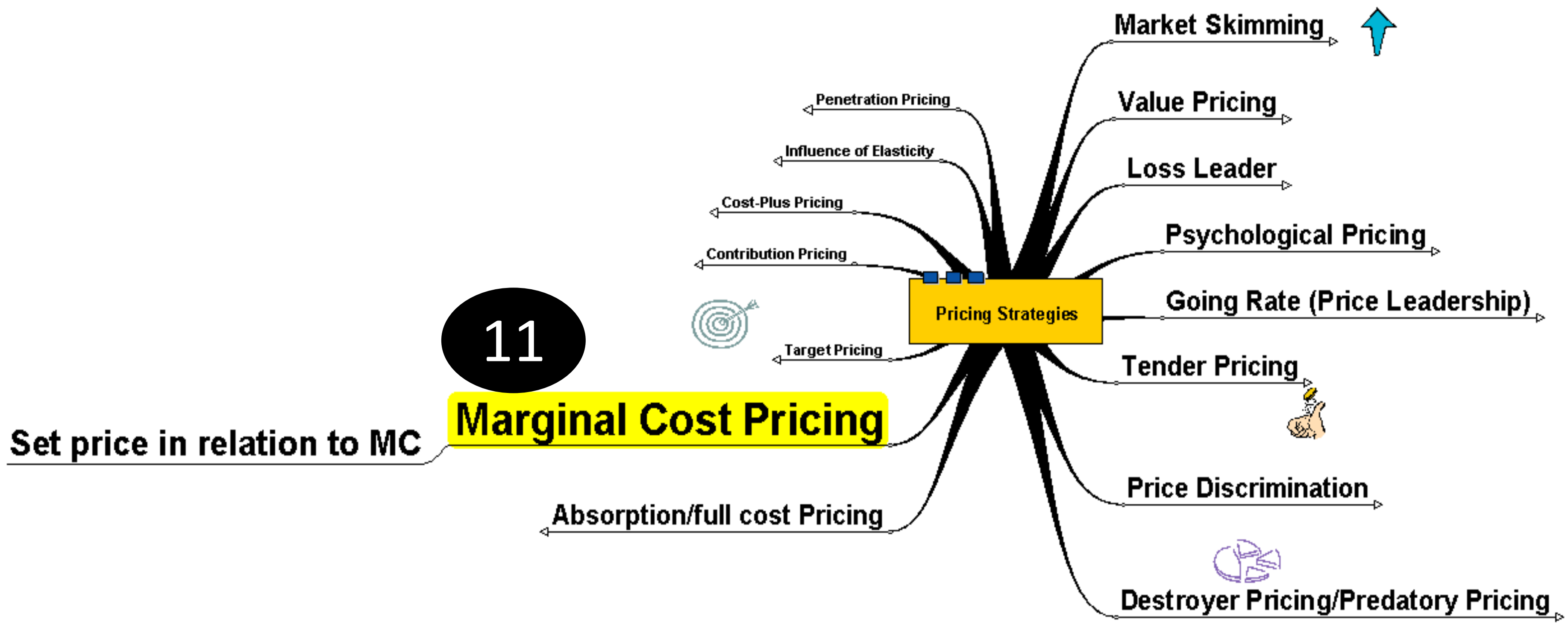
- Simple
- Likely profitable

Disadvantages:

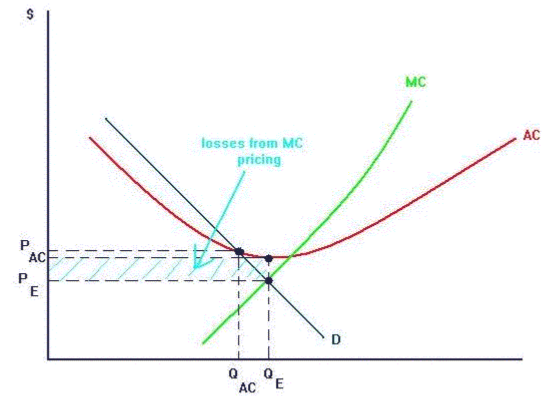
- *Ignores competition*
- *Ignores price elasticity*
- *Budgeting errors*

Note: It may be best simply to use this approach to *compare absorption-based prices to market prices*, to see if a company's cost structure will allow it to turn a profit.

11-Marginal Cost Pricing



Marginal Cost Pricing



- Marginal cost – the cost of producing ONE extra or ONE fewer item of production
- MC pricing – allows flexibility
- Particularly relevant in transport where fixed costs may be relatively high
- Allows variable pricing structure – e.g. on a flight from London to New York – providing the cost of the extra passenger is covered, the price could be varied a good deal to attract customers and fill the aircraft

Marginal Cost Pricing

- Example:

Aircraft flying from Bristol to Edinburgh – Total Cost (including normal profit) = £15,000 of which £13,000 is fixed cost*

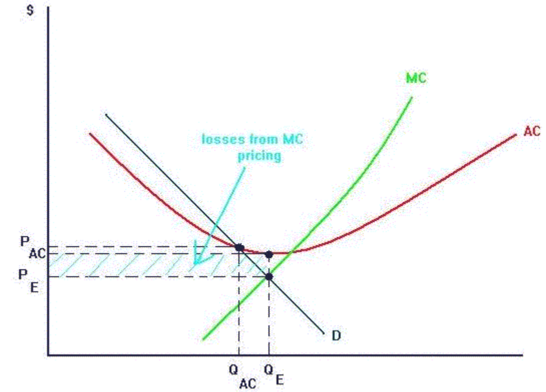
Number of seats = 160, average price = £93.75

MC of each passenger = 2000/160 = £12.50

If flight not full, better to offer passengers chance of flying at £12.50 and fill the seat than not fill it at all!

***All figures are estimates only**

Marginal Cost Pricing



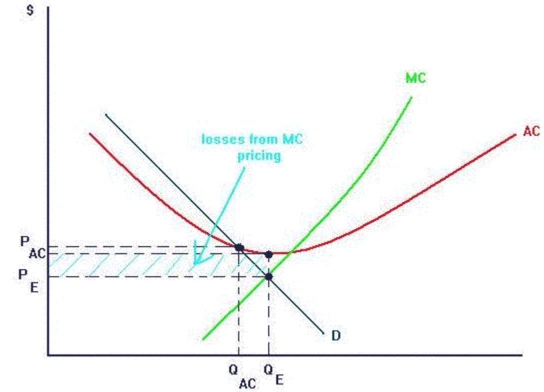
Advantages:

- Adds profit (specially for price sensitive customers)
- Facilitate market entrance

Disadvantages:

- *NOT a long term pricing strategy*
- *Ignores market price*
- *Customer loss*
- *Cost focus*

Marginal Cost Pricing

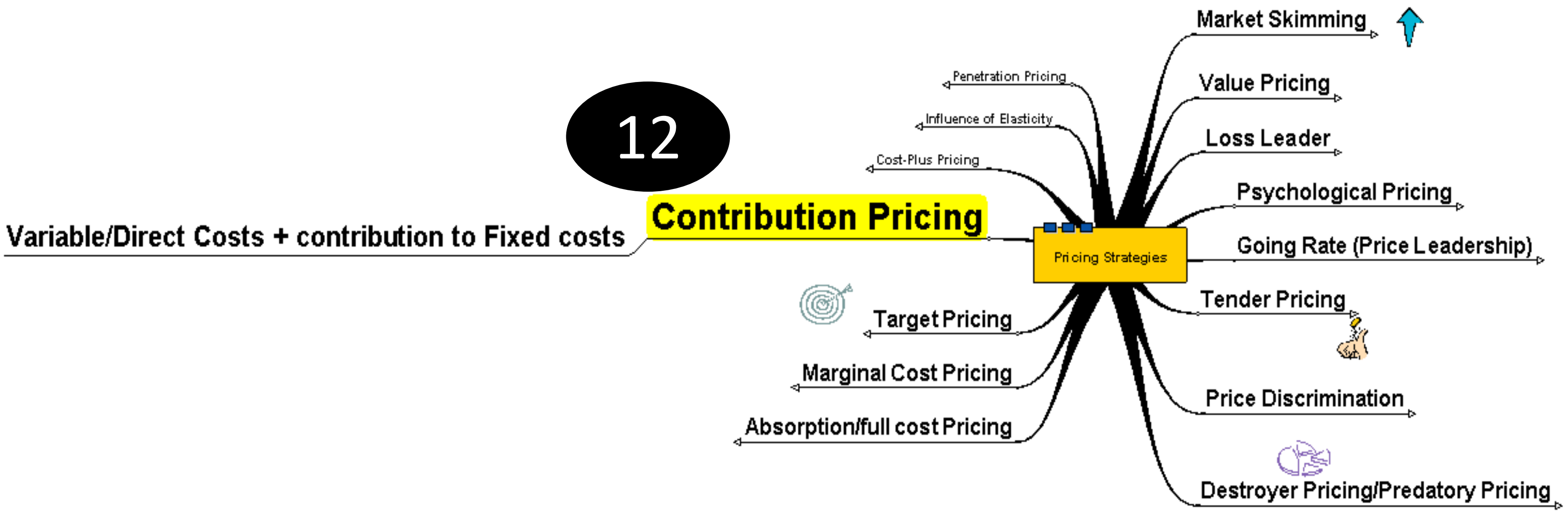


- **Evaluation:**

This method is useful only in a specific situation where a company can earn additional profits from using up excess production capacity.

It is not a method to be used for normal pricing activities, since it sets a minimum price from which a company will earn only minimal (if any) profits.

12- Contribution Pricing



Contribution Pricing

- **Contribution = Selling Price – Variable (direct costs)**
- Prices set to ensure coverage of variable costs and a 'contribution' to the fixed costs
- Similar in principle to marginal cost pricing
- Break-even analysis might be useful in such circumstances
- **Example:-**

you want to sell a roast beef sandwich…

– The nonfood costs + the profit for a month = $4000.00

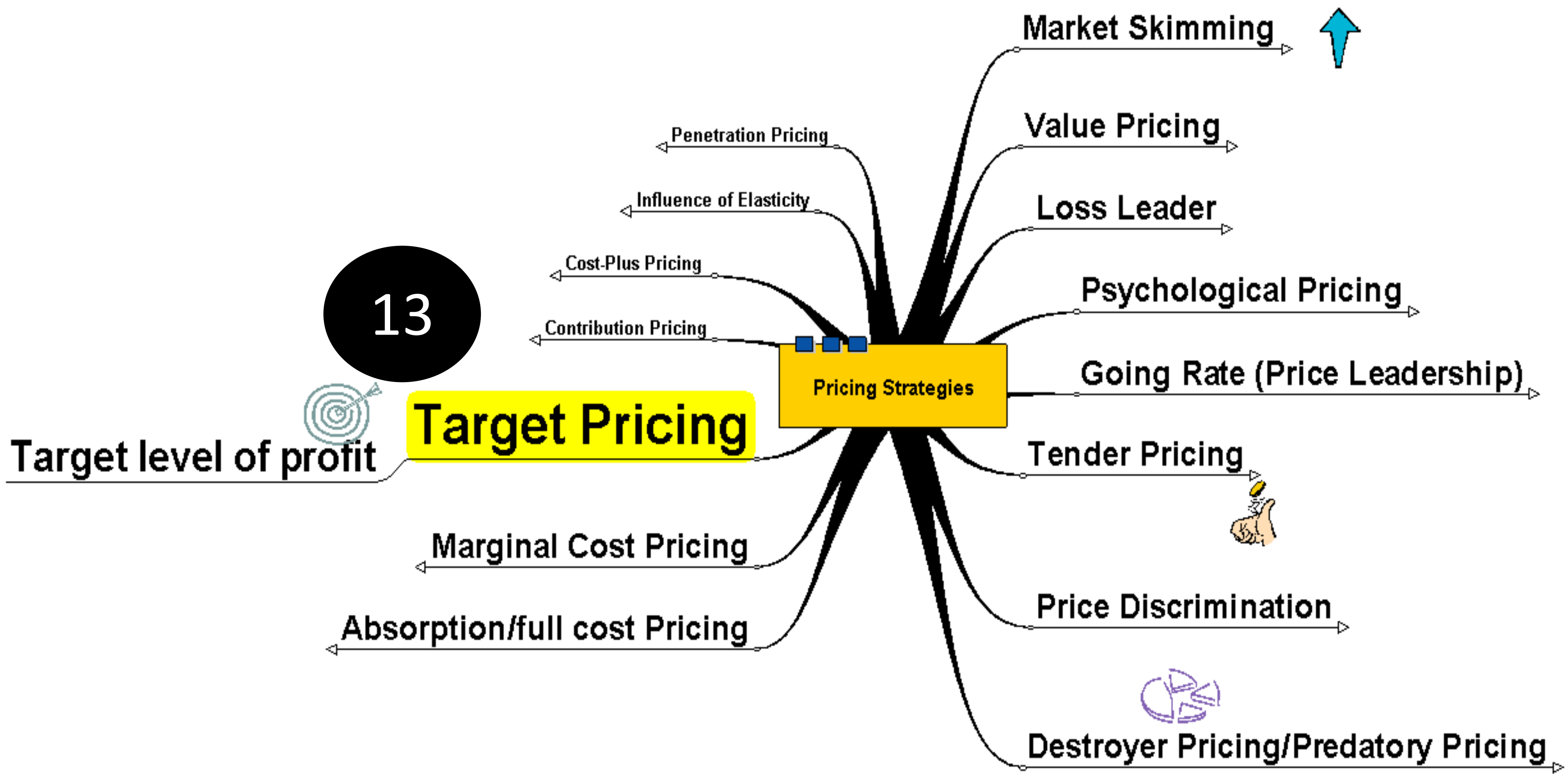
–The restaurant serves around 20 meals a day, averaging 800 a month

–The base food cost for the roast beef sandwich is $2.00

–$4000.00/800 = 5.00 (contribution margin)

–$5.00 + $2.00(Food Cost) = $7.00 (Selling Price) Contribution

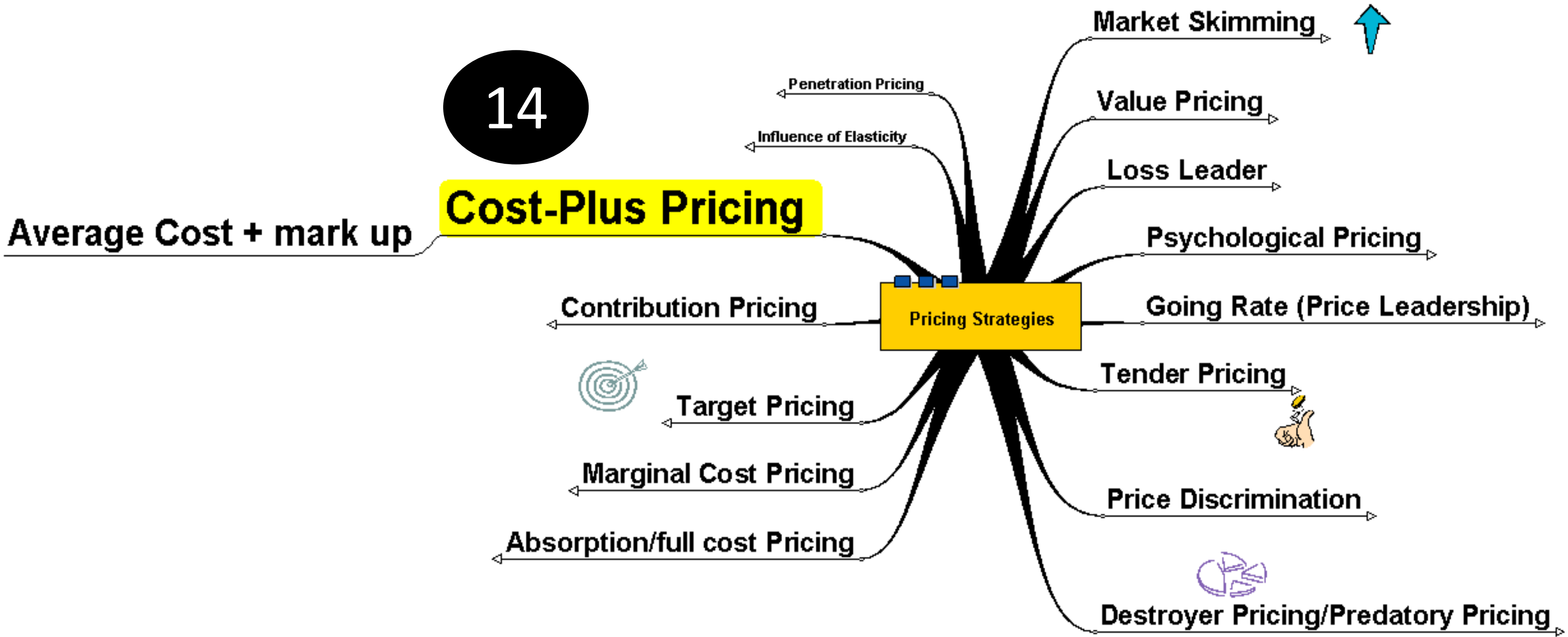
13- Target Pricing



Target Pricing

- Setting price to ‘target’ a specified profit level
- Estimates of the cost and potential revenue at different prices, and thus the break-even have to be made, to determine the mark-up
- Mark-up = Profit/Cost x 100

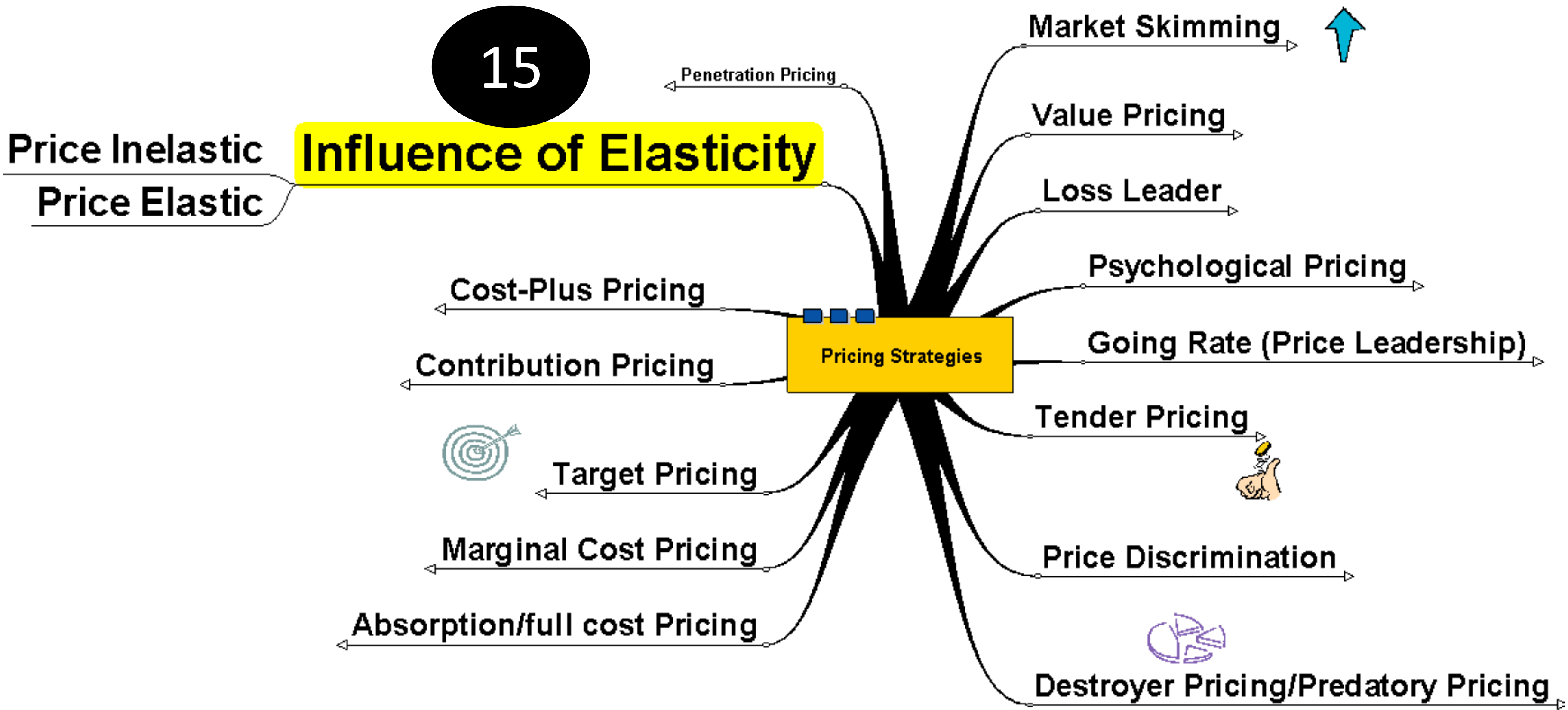
14- Cost-Plus Pricing



Cost-Plus Pricing

- Calculation of the average cost (AC) plus a mark up
- AC = Total Cost/Output

15- Influence of Elasticity



Influence of Elasticity

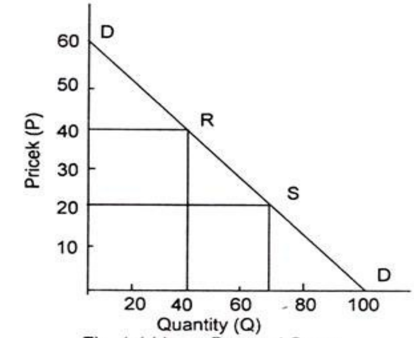


Fig. 1.1 Linear Demand Curve

- Any pricing decision must be mindful of the impact of price elasticity
- The degree of price elasticity impacts on the level of sales and hence revenue
- Elasticity focuses on proportionate (percentage) changes

- **PED = % Change in Quantity demanded/% Change in Price**

Influence of Elasticity

- **Price Inelastic:**

  % change in Q < % change in P

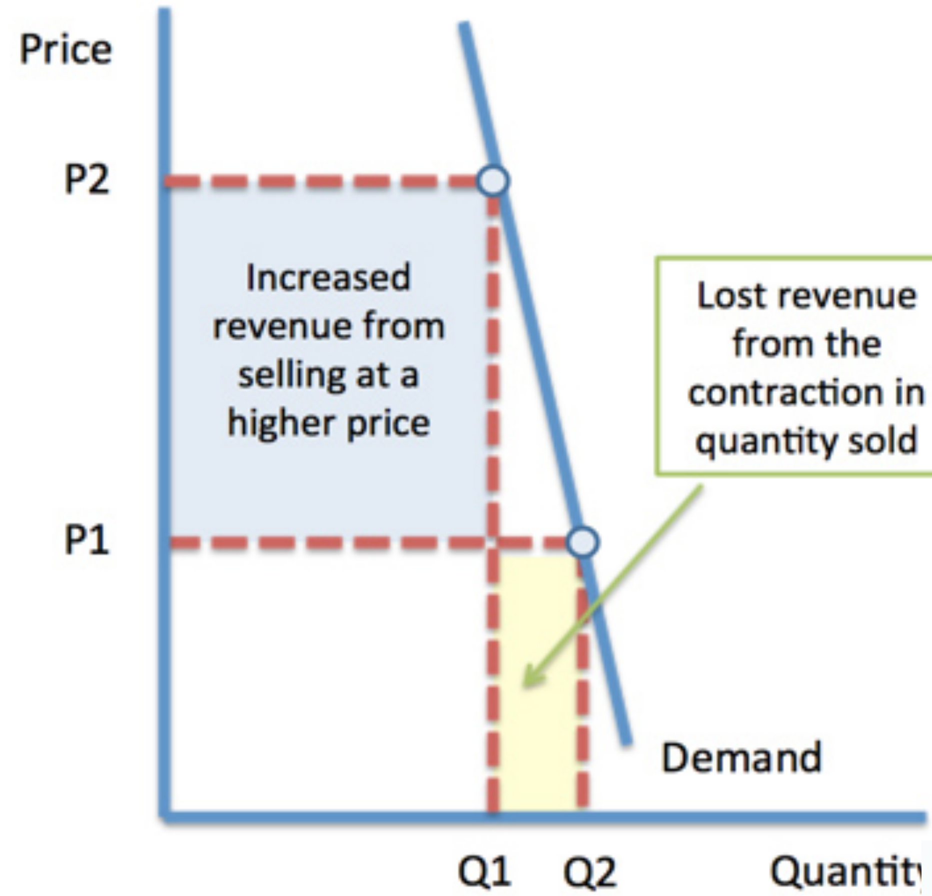
- **e.g.** a 5% increase in price would be met by a fall in sales of something less than 5%
- Revenue would rise

- A 7% reduction in price would lead to a rise in sales of something less than 7%
- Revenue would fall

Inelastic Demand (PED< 1)

If the co-efficient of price elasticity of demand <1, then demand is said to be price inelastic i.e. unresponsive to a change in price

- Following a change in price, the total revenue earned by the producing firm will depend on the PED for its product
- If the coefficient of PED is <1, a rise in market price (e.g. from P1 to P2) will lead to an increase in total revenue



Influence of Elasticity

- **Price Elastic:**

  % change in quantity demanded > % change in price

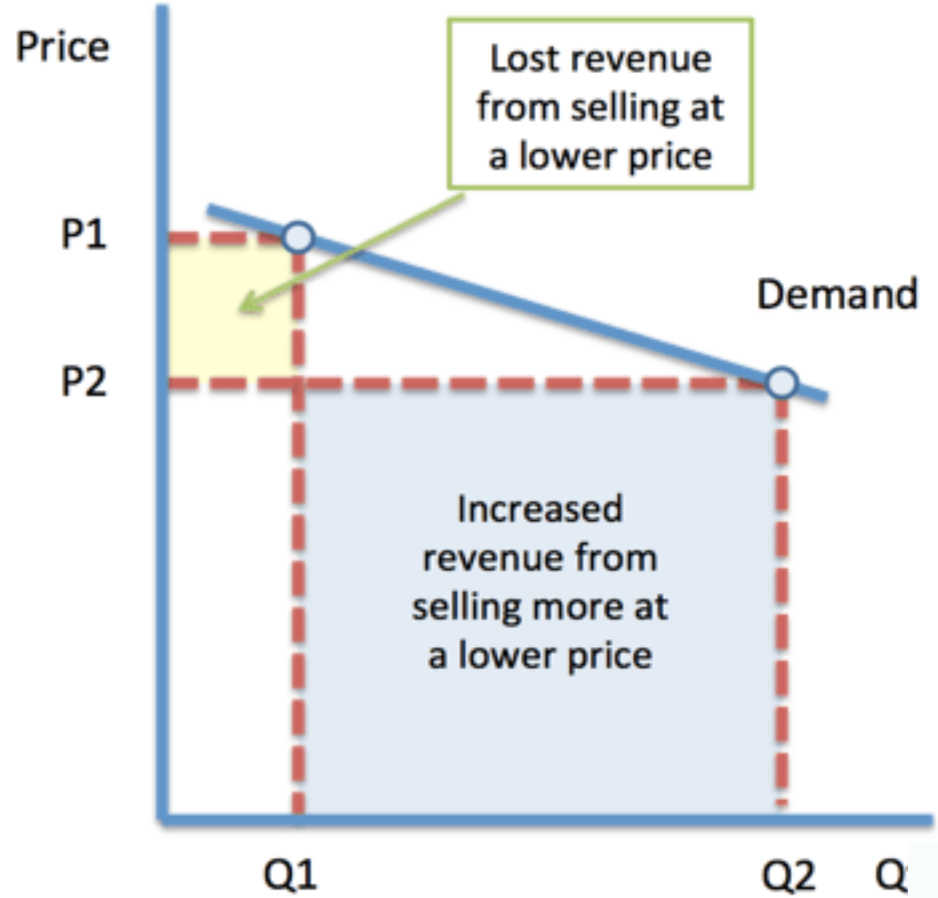
- **e.g.** A 4% rise in price would lead to sales falling by something more than 4%
- Revenue would fall

- A 9% fall in price would lead to a rise in sales of something more than 9%
- Revenue would rise

Elastic Demand (PED > 1)

If the co-efficient of price elasticity of demand >1, then demand is said to be price elastic i.e. highly responsive to a change in price

- If demand for a product is price elastic, a supplier stands to gain extra revenue if they reduce their prices.
- The change in quantity demanded will be proportionately higher than the reduction in price.



Finally

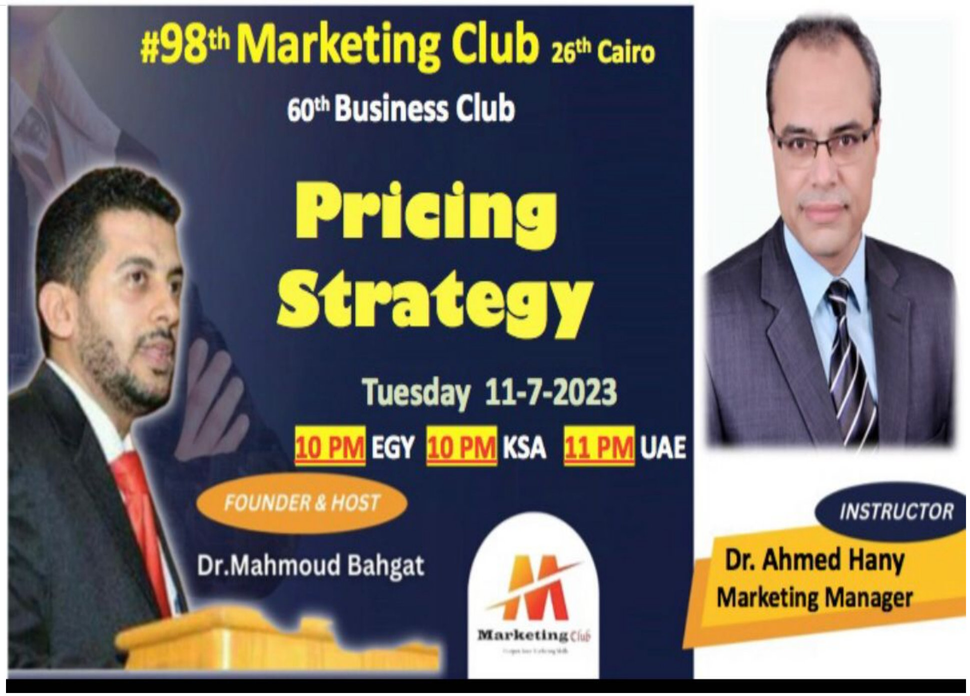
- **<u>Price and the Marketing Mix:</u>**
  - Only element to produce revenues
  - Most flexible element
  - Can be changed quickly

- **<u>Common Pricing Mistakes</u>**
  - Reducing prices too quickly to get sales
  - Pricing based on costs, not customer value
  - Not taking the rest of the marketing mix into account.

✓ As part of company's overall value proposition, price plays a key role in creating customer value and building customer relationship.

Q & A

Thank you



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