**Chapter 19**

**Price:** is that which is given up in an exchange to acquire a good or service

* **The Sacrifice Effect of Price**

Price is that which is sacrificed to get a good or service.

* **The Information Effect of Price**

People infer quality information based on price.

* **Value Is Based upon Perceived Satisfaction**

“Reasonable price” means “perceived reasonable value.”

**The Importance of Price:**

* To the seller: Price is revenue
* To the consumer: Price is the cost of something

**The Importance of Price to Marketing Managers;**

**Revenue:** The price charged to customers multiplied by the number of units sold.

**Profit**: Revenue minus expenses

**Pricing Objectives:**

1. Profit-Oriented
2. Sales-Oriented
3. Status Quo
4. **Profit-Oriented Pricing Objectives:**

* Profit Maximization
* Satisfactory Profits
* Target Return on Investment

**a) Profit Maximization:** Setting prices so that total revenue is as large as possible relative to total costs.

**b) Satisfactory profits:** Satisfactory profits represent a reasonable level of profits that is consistent with the level of risk an organization faces.

**c) Return on Investment (ROI):** The most common profit objective is a target ROI, or the return on total assets. It represents a firm’s effectiveness in generating profits with the available assets.

* **Net profit after taxes divided by total assets**

**ROI = Net profit after taxes**

**Total assets**

**2-Sales-Oriented Pricing Objectives:**

* Market Share
* Sales Maximization

**Market Share:** A company’s product sales as a percentage of total sales for that industry.

**Sales Maximization:** Maximization of cash should never be a long-run objective because cash maximization may mean little or no profitability. Without profits, a company cannot survive.

**3-Status Quo Pricing Objectives:**

* Maintain Existing prices
* Meet competition’s prices

**Types of Costs;**

**Variable Cost:** Varies with changes in level of output

**Fixed Cost:** Does not change as level of output changes

**Methods** **Used to** **Set Prices:**

* Markup pricing
* Keystoning

**a-Markup pricing:**

* is the most popular method to establish a selling price.

The cost of buying the product from the producer plus amounts for profit and for expenses not   
otherwise accounted for. The total determines the selling price.

**b-Keystoning:** Markups are often based on experience. For example : The practice of marking up prices by 100 percent over cost, or doubling the cost.

**---Other Determinants of Price:**

* Stages of the PLC
* Competition
* The Internet and Extranets
* Promotion Strategy
* Price versus Quality

**1-Stages in the Product Life Cycle:**

* **Introductory stage: Price is high**
* **Growth stage: Price stabilizes**
* **Maturity stage: Price decreases**
* **Decline stage: Price decreases**

**2-The Competition:**

* Competition varies during the product life cycle.
* Sometimes competition can lead to price wars.

**3-The Impact of the Internet and Extranets:**

* Extranets are private electronic networks that link companies with their suppliers and customers.
* The Internet connects sellers and buyers quickly, and allows product and price comparison, putting them in a better bargaining position.

**4-Promotion Strategy**:

Price is often used as a promotional tool to increase consumer interest.

**5-The Relationship of Price to Quality**:

When a purchase decision involves uncertainty, consumers tend to rely on a high price as a predictor of good quality.

**--Setting the right price is a four-step process--****:**

**Choose a Price Strategy:**

1. **Price Skimming:** A firm charges a high introductory price, often coupled with heavy promotion.
2. **Penetration Pricing**: A firm charges a relatively low price for a product initially as a way to reach the mass market.
3. **Status Quo Pricing:** Charging a price identical to or very close to the competition’s price.