PRODUCT LINE PRICING

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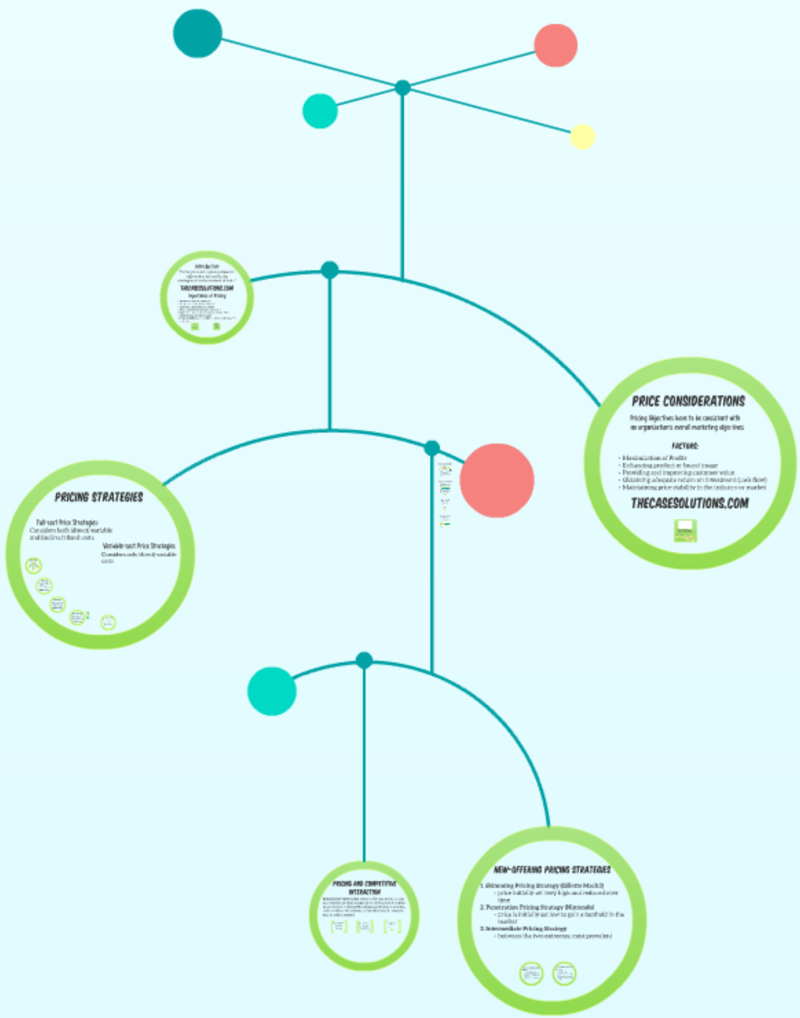

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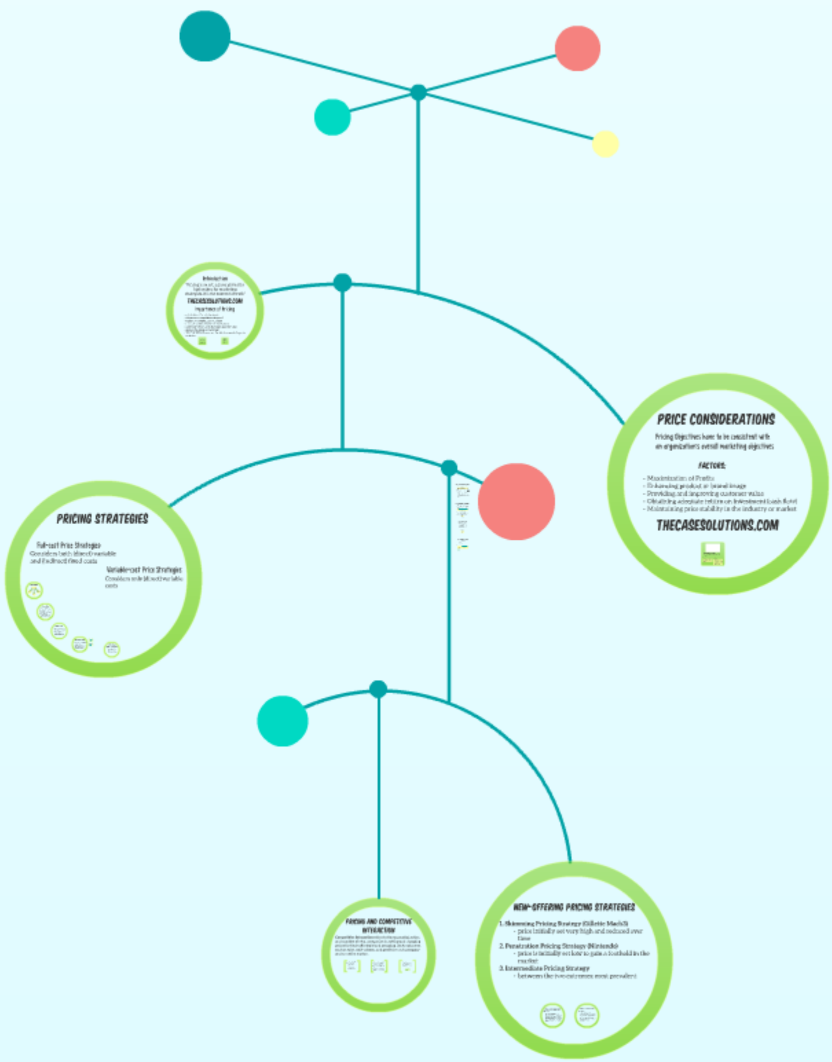


Introduction

"Pricing is an art, a game played for high stakes; for marketing strategists, it is the moment of truth"

Importance of Pricing

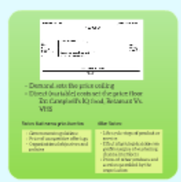
- determines type of customers
- determines competitors attracted
- easiest for competition to imitate
- direct determinant of profits (or losses)
- indirectly affects costs (through quantity sold)
- affects the image of the brand
- PRICING ERROR scan nullify all other marketing mix activities

PRICE CONSIDERATIONS

Pricing Objectives have to be consistent with an organization's overall marketing objectives

FACTORS:

- Maximization of Profits
- Enhancing product or brand image
- Providing and improving customer value
- Obtaining adequate return on investment (cash flow)
- Maintaining price stability in the industry or market



Factors Effecting Elasticity of Demand:

- The more substitutes the product or service has, the greater the elasticity
- The more uses a product or service has, the greater the elasticity
- The higher the ratio of the price of the product or service to the income of the buyer, the greater the elasticity

Product-line pricing involves determining:

1. the lowest-priced product and price
   - plays the role of traffic builder

2. the highest-priced product and price
   - positioned as the premium item

3. price differentials for all other products in the line
   - reflect differences in their perceived value of the products offered

   - Ex: Rate Fences in the Airline Industry
   - Ex: Holiday Inn Express vs Intercontinental
   - Ex: Budweiser vs Bud Select or Black Crown

MARKUP PRICING

- Selling price is determined by adding a fixed amount, usually a percentage, to the (total) cost of the product
- Most commonly used pricing method (e.g., groceries and clothing)
- Simple, flexible, controllable
- Example: If a product costs $4.60 to produce and selling price is $6.35, the market on cost is 38% and markup on price is 28%.

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BREAKEVEN PRICING

- Equals the per-unit fixed costs plus the per-unit variable costs
- Useful tool for determining the minimum price at which a product must be sold to cover fixed and variable costs
- Often used by non-profit organizations, or by profit-making organizations that may have a short-term breakeven objective

RATE-OF-RETURN PRICING

- Price is set so as to obtain a pre-specified rate of return on investment (capital) for the organization
- Assumes a linear demand function and insensitivity of buyers to price
- Most commonly used by large firms and public utilities whose return rates are closely watched or regulated by government agencies or commissions