Chapter 17
Pricing Objectives and Policies

What is Price?
• Price is whatever is exchanged for the value offered. High price is a reward for providing greater value than competitors.

Value

Price

• The purpose of price is not to recover costs, but to capture value in the mind of the customer.

Value = Ceiling

Price is based on strategic objectives, e.g., Joy Perfume

Cost = Floor

Price

• Price is the value exchanged for a product
  – Cash
  – Credit/Checks

What name is given to the following “Prices?”
• Price of attending UWG
• Price of parking on campus
• Price of parking illegally on campus
• Price of borrowing money from a bank
• Price of room and board at an apartment building or rooming house
Two Perspectives on Price

- Economic Perspective
  - Price \(\rightarrow\) Demand

- Marketing Perspective
  - Price, Product, Promotion, Place \(\rightarrow\) Demand

Pricing Terminology

- List Price - basic price quoted for a product. Actual price may include adjustments from the list price
- Price Competition is particularly visible for commodity products
- Non-Price Competition is typically preferable and allows a marketer to compete on another marketing mix variable

Sample Pricing Objectives

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<thead>
<tr>
<th>Profit-Oriented Objectives:</th>
<th>Status Quo-Oriented Objectives:</th>
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<tr>
<td>ROI, ROA</td>
<td>Meet Competition</td>
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<tr>
<td>Target Profitability</td>
<td>Avoid Competition</td>
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<td>Maximize Profitability</td>
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<tr>
<th>Sales-Oriented Objectives:</th>
<th>Social Concern-Oriented Objectives:</th>
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<td>Market Share</td>
<td>Maintain Employment</td>
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<tr>
<td>Sales Volume</td>
<td>Behave Ethically</td>
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Pricing Policies

- One-Price vs. Flexible Pricing Policies
- Penetration vs. Skimming Pricing
- Introductory Price Dealing
- Value Pricing

Demand

Demand is the quantity customers will purchase at a given price

Demand Curve is a graphic representation of a product’s demand

Skimming Pricing
Penetration Pricing

Price Adjustments
- Quantity Discounts
  - Cumulative Discounts
  - Noncumulative Discounts
- Seasonal Discounts
- Cash Discounts
- Trade (Functional) Discounts
- Sale Price

Price Adjustments
- Over 60 percent of sales in department stores and specialty chains and over 50 percent of non-chain specialty stores’ sales come from marked-down merchandise.
- Consumers in the U.S. redeem about 7 billion coupons per year, saving over $3 billion.

Distribution-Based Pricing
- F.O.B. Pricing
- Zone Pricing
- Uniform Delivered Pricing
- Freight Absorption Pricing
- Basing-Point Pricing

Legal Issues in Pricing
- Dumping
- Phony List Prices
- Price Fixing
- Price Discrimination
  - meet competition
  - cost-justification
- Retail Price Maintenance
- Price Advertising (Bait and Switch)