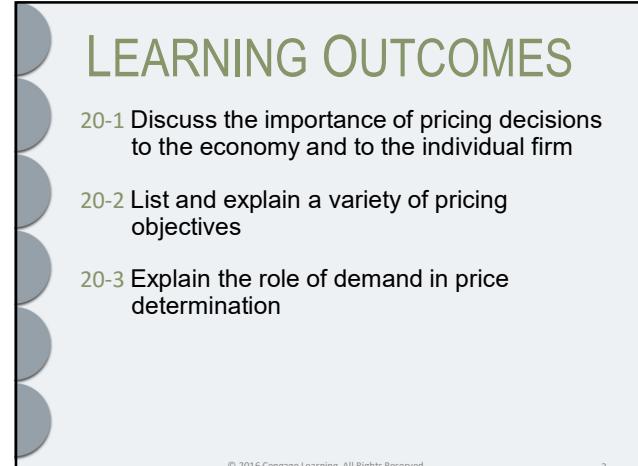
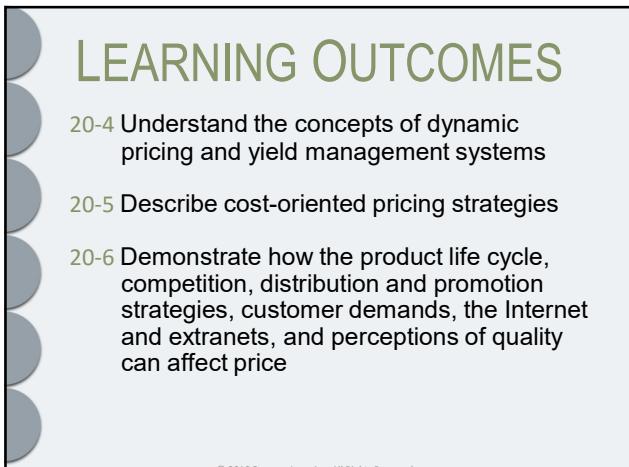


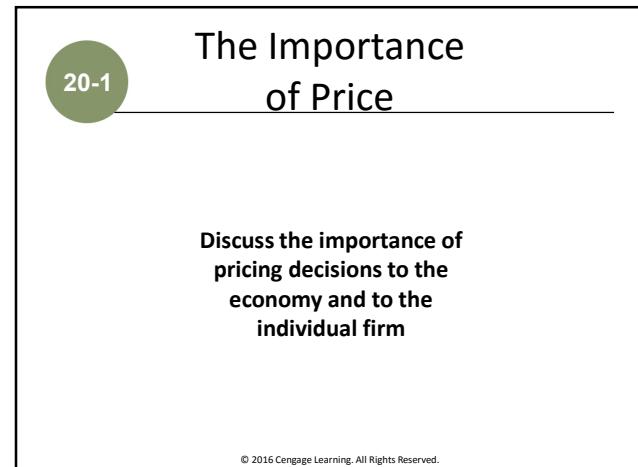
The image shows the cover of Chapter 20 Pricing Concepts. The cover is divided into three horizontal sections: a light gray top section, a yellow middle section, and a red bottom section. The title "Chapter 20 Pricing Concepts" is in the top section. The authors' names "MKTG9 Lamb, Hair, and McDaniel" are in the bottom section. A large red "SALE" graphic is overlaid on the yellow and red sections. The bottom right corner of the yellow section contains the text "© 2016 Cengage Learning. All Rights Reserved." and the number "1".



The image shows the learning outcomes for Chapter 20. It features a title "LEARNING OUTCOMES" and three numbered objectives: 20-1, 20-2, and 20-3. The objectives are: 20-1 Discuss the importance of pricing decisions to the economy and to the individual firm; 20-2 List and explain a variety of pricing objectives; and 20-3 Explain the role of demand in price determination. The bottom right corner contains the text "© 2016 Cengage Learning. All Rights Reserved." and the number "2".



The image shows the learning outcomes for Chapter 20. It features a title "LEARNING OUTCOMES" and three numbered objectives: 20-4, 20-5, and 20-6. The objectives are: 20-4 Understand the concepts of dynamic pricing and yield management systems; 20-5 Describe cost-oriented pricing strategies; and 20-6 Demonstrate how the product life cycle, competition, distribution and promotion strategies, customer demands, the Internet and extranets, and perceptions of quality can affect price. The bottom right corner contains the text "© 2016 Cengage Learning. All Rights Reserved." and the number "3".



The image shows the learning outcome for the importance of price. It features a title "The Importance of Price" and a numbered objective 20-1. The objective is: Discuss the importance of pricing decisions to the economy and to the individual firm. The bottom right corner contains the text "© 2016 Cengage Learning. All Rights Reserved." and the number "2".

The Importance of Price

To the seller...
Price is revenue

To the consumer...
Price is the cost
of something

**Price allocates resources
in a free-market economy**

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What is Price?

- 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.”

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The Importance of Price to Marketing Managers

Revenue

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

Profit

Revenue minus expenses.

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Trends Influencing Price

Flood of new products

**Increased availability of bargain-priced
private and generic brands**

**Price cutting as a strategy to maintain or
regain market share**

Internet used for comparison shopping

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20-2

Pricing Objectives

List and explain a variety of pricing objectives

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Pricing Objectives

Profit-Oriented

Sales-Oriented

Status Quo

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Profit-Oriented Pricing Objectives

Profit-Oriented Pricing Objectives

Profit
Maximization

Satisfactory
Profits

Target
Return on
Investment

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Profit Maximization

Setting prices so that total revenue is as large as possible relative to total costs.

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Return on Investment (ROI)

Net profit after taxes divided by total assets.

$$\text{ROI} = \frac{\text{Net profit after taxes}}{\text{Total assets}}$$

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Sales-Oriented Pricing Objectives

Sales-Oriented Pricing Objectives

Market Share

Sales Maximization

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Market Share

A company's product sales as a percentage of total sales for that industry.

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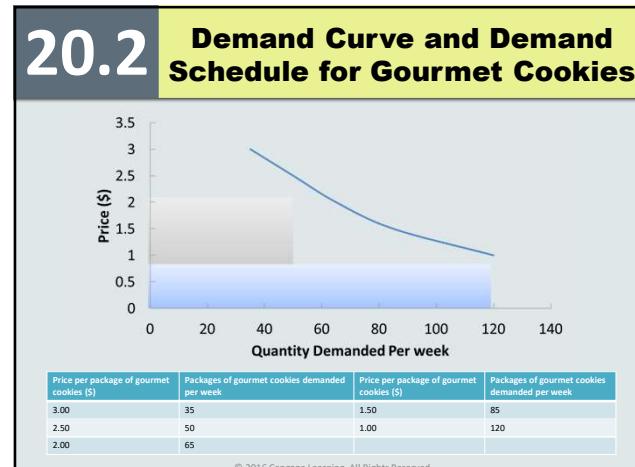
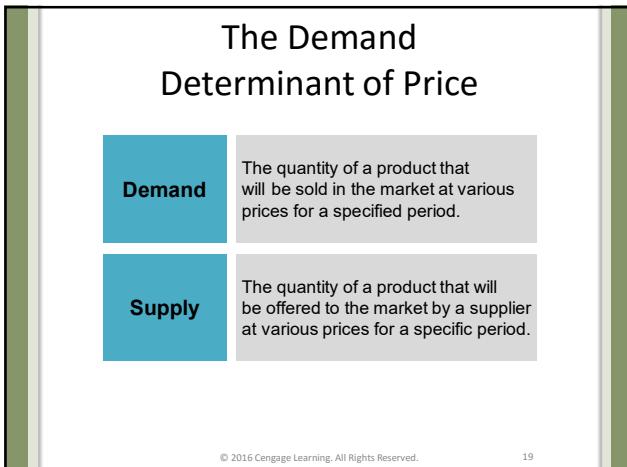
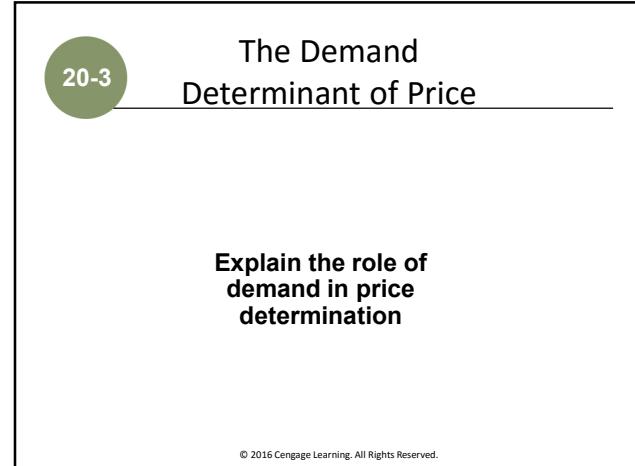
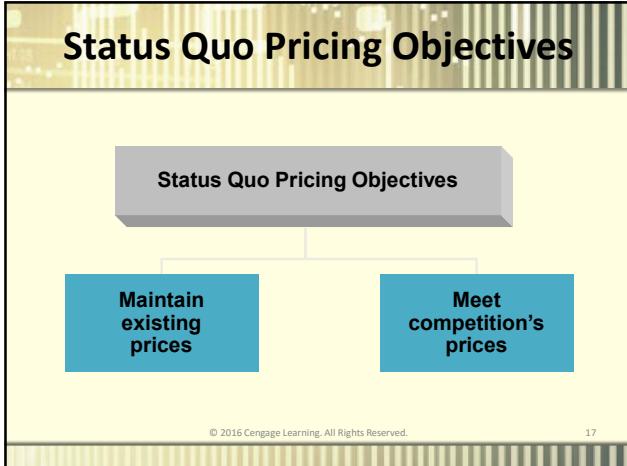
Sales Maximization

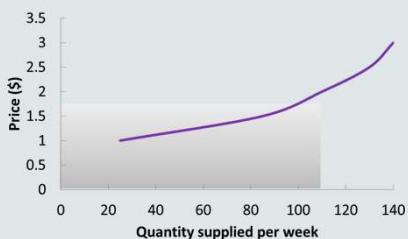
Rather than strive for market share, sometimes companies try to maximize sales.

- ◆ Uses a short-term objective to maximize sales
- ◆ Ignores profits, competition, and the marketing environment
- ◆ May be used to sell off excess inventory

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20.3**Supply Curve and Supply Schedule for Gourmet Cookies**

Price per package of gourmet cookies (\$)	Packages of gourmet cookies supplied per week	Price per package of gourmet cookies (\$)	Packages of gourmet cookies supplied per week
3.00	140	1.50	85
2.50	130	1.00	25
2.00	110		

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How Demand and Supply Establish Price**Price Equilibrium**

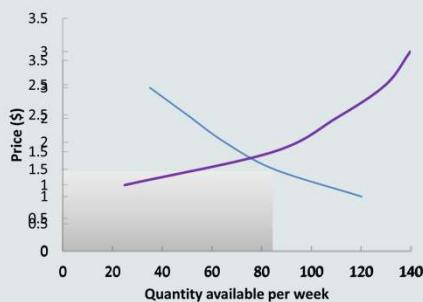
The price at which demand and supply are equal.

Elasticity of Demand

Consumers' responsiveness or sensitivity to changes in price.

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20.4**Equilibrium Price for Gourmet Cookies**

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Elasticity of Demand**Elastic Demand**

Consumers buy more or less of a product when the price changes.

Inelastic Demand

An increase or a decrease in price will not significantly affect demand.

Unitary Elasticity

An increase in sales exactly offsets a decrease in prices, so total revenue remains the same.

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Elasticity of Demand

$$\text{Elasticity } (E) = \frac{\text{Percentage change in quantity demanded of good A}}{\text{Percentage change in price of good A}}$$

If $E > 1$, demand is elastic.
 If $E < 1$, demand is inelastic.
 If $E = 1$, demand is unitary.

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Elasticity of Demand

Price Goes...	Revenue Goes...	Demand is...
Down	Up	Elastic
Down	Down	Inelastic
Up	Up	Inelastic
Up	Down	Elastic
Up or Down	Stays the Same	Unitary Elasticity

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Factors that Affect Elasticity of Demand

- Availability of substitutes**
- Price relative to purchasing power
- Product durability**
- A product's other uses
- Rate of inflation**

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20-4

The Power of Dynamic Pricing and Yield Management Systems

Understand the concepts of dynamic pricing and yield management systems

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Dynamic Pricing

A strategy whereby prices are adjusted over time to maximize a company's revenues

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Yield Management Systems

Discounting early purchases

Limiting early sales at discounted prices

Overbooking capacity

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Yield Management Systems

Yield Management Systems (YMS) make it possible for a company to:

- 1. Stimulate demand when demand is low**
- 2. Maximize profits when demand is high**

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20-5

The Cost Determinant of Price

Describe cost-oriented pricing strategies

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The Cost Determinant of Price

Types of Costs

- Variable Cost**: Varies with changes in level of output
- Fixed Cost**: Does not change as level of output changes

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The Cost Determinant of Price

- Average Variable Cost (AVC)**: Total variable cost divided by quantity of output.
- Average Total Cost (ATC)**: Total costs divided by quantity of output.
- Average Fixed Cost (AFC)**: Total fixed costs divided by quantity of output.
- Marginal Cost (MC)**: The change in total costs associated with a one-unit change in output.

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Setting Prices

Methods Used to Set Prices

- Markup pricing
- Keystoning
- Profit Maximization Pricing
- Break-Even Pricing

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Markup Pricing

Markup Pricing	The cost of buying the product from the producer plus amounts for profit and for expenses not otherwise accounted for.
Keystoning	The practice of marking up prices by 100 percent, or doubling the cost.

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Profit Maximization

Profit Maximization

A method of setting prices that occurs when marginal revenue equals marginal cost.

Marginal Revenue (MR)

The extra revenue associated with selling an extra unit of output or the change in total revenue with a one-unit change in output.

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Break-Even Pricing

$$\text{Break-Even Quantity} = \frac{\text{Total fixed costs}}{\text{Fixed cost contribution}}$$

$$\text{Fixed cost Contribution} = \text{Price} - \text{AVC}$$

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20-6 Other Determinants of Price

Demonstrate how the product life cycle, competition, distribution and promotion strategies, customer demands, the Internet and extranets, and perceptions of quality can affect price

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Other Determinants of Price

Stages of the PLC

Competition

Distribution Strategy

The Internet and Extranets

Promotion Strategy

Demands of Large Customers

Price versus Quality

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Stages in the Product Life Cycle

Introductory stage: Price is high

Growth stage: Price stabilizes

Maturity stage: Price decreases

Decline stage: Price decreases

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The Competition

- ◆ High prices may induce firms to enter the market.
- ◆ Competition can lead to price wars.

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Distribution Strategy

Manufacturers

- Offer a larger profit margin or trade allowance
- Use exclusive distribution
- Franchising
- Avoid business with price-cutting discounters
- Develop brand loyalty

Wholesalers/Retailers

- Sell against the brand
- Buy gray-market goods

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The Impact of the Internet and Extranets

Shopping Bots

A program that searches the Web for the best price for a particular item.

Internet Auctions

Business-to-business auctions are likely to be the dominant form of online auctions in the future.

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Promotion Strategy

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

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Demands of Large Customers

Require suppliers to pay cash rebates if stores' profit margins aren't met.

Fines for violations of ticketing, packing, and shipping rules.

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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.

Prestige Pricing

Charging a high price to help promote a high-quality image.

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Dimensions of Quality

1. Ease of use
2. Versatility
3. Durability
4. Serviceability
5. Performance
6. Prestige

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Chapter 20 Video

Ski Butternut

Ski Butternut is a ski mountain in the Berkshires dedicated to offering a great family ski value. In this video, Matt Sawyer discusses the various ways that Ski Butternut uses pricing to drive new business and local business to the mountain. He also discusses how correct pricing can help the next year's business model through season pass sales.

[CLICK TO PLAY VIDEO](#)