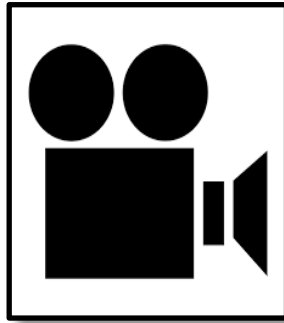


PowerPoint Guide



The **news icon** is hyperlinked to a related article or website. Simply click to access



The **film icon** is hyperlinked to a related clip. Simply click to access



The **discuss icon** indicates suggested points to discuss



The **writing icon** indicates a written activity or question time

2. Marketing

2.4 The marketing mix

Pricing methods

+10%



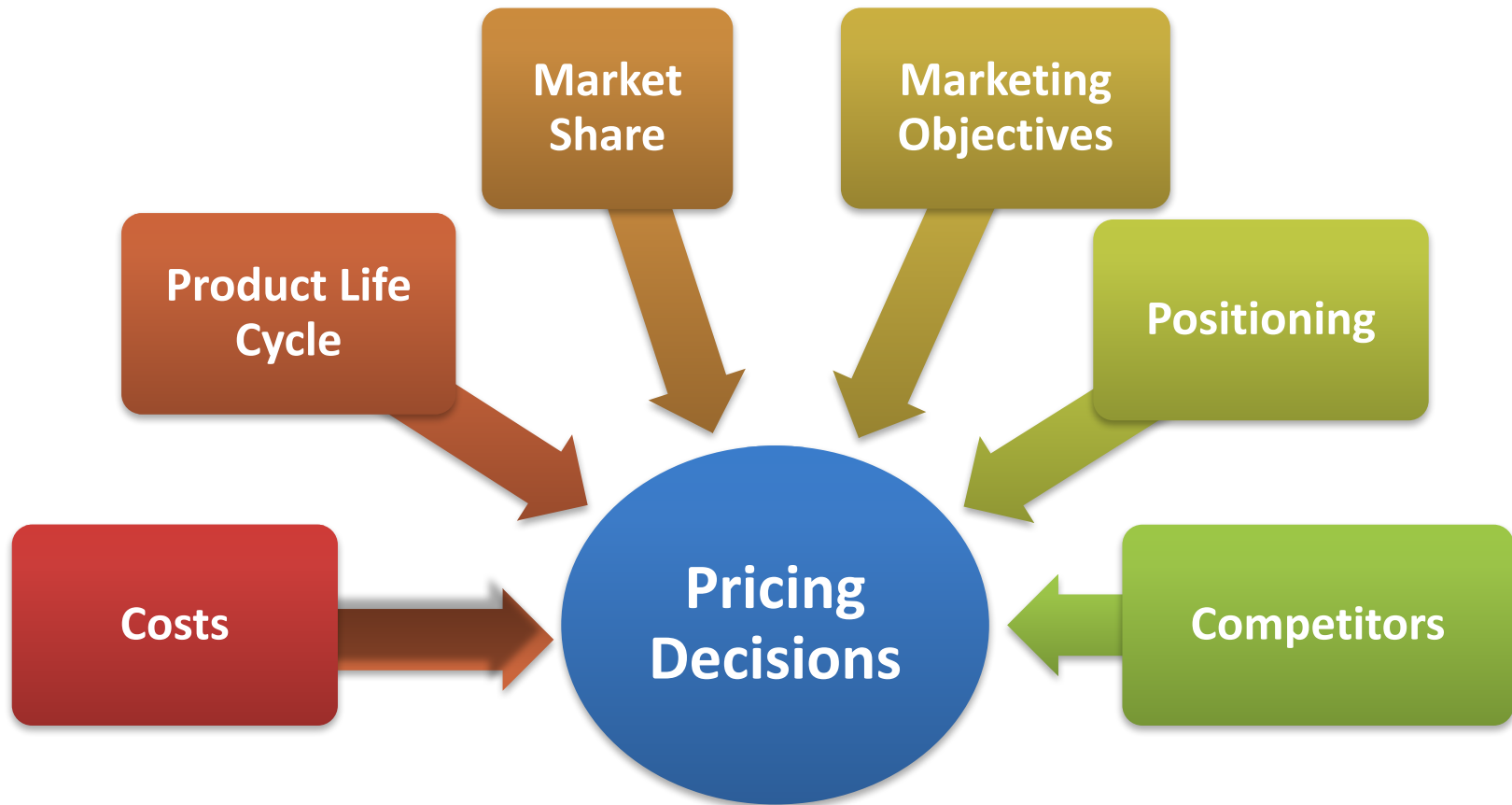
Price is....

- **The money charged for a good or service**
- Everything that a customer has to give up in order to acquire a good or service
- Usually expressed in terms of £'s

Why is price important?

- One of the most important decisions a business has to make
- Pricing decisions directly affect **revenue**
- Must be consistent with other elements of the marketing mix, as it will directly affect the consumer's perception of a good or service
- Making the wrong decision about pricing could have a serious effect on sales and cash flow

Main factors that influence pricing





Take the challenge



**HIGHER
or
lower?**



The new iPhone X retails at £999.00. Is the price of the products on screen **HIGHER** or lower than an iPhone X?

START

Type of pricing methods



Price skimming – new product

- **Price skimming** involves setting a **high price** before other competitors come into the market.
- Often used for the launch of a new product which faces little or no competition, usually due to the product possessing some new, advanced technological features.
- Such products are often bought by customers who are prepared to pay a higher price to have the latest or best product in the market.

Business example - Apple

This is the pricing strategy used by Apple when it launches new products onto the market.



Price skimming...

Advantages

- Potential for **high profits** straight away, which can help to pay back its **research and development costs**.
- Product may get a reputation for quality, encouraging brand loyalty.
- Additional profits made can be invested in the next new product.

Disadvantages

- Price skimming cannot last for long, as competitors soon launch rival products which puts pressure on the price.
- May slow down the growth in sales of the product, because it is expensive and no more customers can afford or are willing to pay the high prices.

Price penetration...

- The business offers low prices on goods and services.
- Often used by new businesses or to support a new product launch to draw consumers away from the competition.
- May result in initial loss of profits for a business, however, in the long-term the exposure gained can help to increase profits.

Business example - Netflix

Launched in 1977, Netflix started as a mail-order, online and streaming movie rental business.

Netflix used low price points initially to attract customers away from Blockbuster; its largest competitor at the time.



Price penetration – new product

Advantages

- Builds customer usage and loyalty.
- Can help develop long-term profitability of having higher sales and a higher market share.

Disadvantages

- In the short term, it is likely to result in lower profits than would be the case if prices were set higher.
- It may be difficult to raise the selling price in the future.

Cost plus...

+10%

This involves setting a price by adding a fixed amount or percentage to the cost of making or buying the product.

Pricing based on costs

- Cost is an important influence on pricing.
- Over time, a price must be more than the related costs in order to make a profit.
- Popular method of cost-based pricing is “mark-up” – widely used in retailing.

How high should the mark-up percentage be?

That largely depends on the normal competitive practice in a market and also whether the resulting price results in sales to customers.

A simple example would be a birthday card that a shop buys for 60p each. The average mark-up for birthday cards is 100% so the business will sell the cards at 60p + 100% of 60p i.e. $60p + 60p = £1.20$



Cost plus

Advantages

- A profit is guaranteed on each item sold.

Disadvantages

- If the mark-up is set too high, the price may be expensive compared to rivals and therefore uncompetitive.

Competitor pricing...

- A business will look at the prices charged by competitors. This will give an indication of what price to charge. Prices are then set based on these prices.
- Often used when there is strong competition in a market and customers are faced with a wide choice of where to buy from.
- Customers may buy from the cheapest provider or perhaps from the one which offers the best customer service. But, customers will certainly be mindful of what is a reasonable or normal price in the market.
- If there is little competition, this pricing method will not be important.

Competitor pricing...

Advantages

- Selling prices should be line with rivals, so prices should be competitive and therefore attract customers.

Disadvantages

- The business may need other ways to attract customers other than price. It may have to use non-price methods to compete, for example providing better quality, good customer service or better availability. It often leads to special offers or sales promotions.
- The business will need to research what its competitors are charging, which could increase costs and lower profits.

Promotional pricing...

- Promotional pricing is generally a short term pricing method.
- Involves a reduction in price to attract customers to buy existing products.
- Often used when sales have started to decline.
- May be used to sell off old stock (e.g. in a sale).



Promotional pricing

Advantages

- Sales volume will increase which improves cash flow and can increase market share.
- Encourages customers to trial a product, who may become loyal once the price has increased.

Disadvantages

- Customers may only buy the product when it is on promotion.
- The brand image may be tarnished by too many promotions; customers come to expect promotional offers.

Loss leaders...

Where a price is set deliberately at or below the cost of production in order to attract customers who will also, hopefully, buy other, more profitable products.

However, if this does not happen, the business will not make any profit on these items alone.



Business watch - Homework



- Visit your local shopping centre or research online.
- Your challenge is to find examples of as many different pricing methods as you can.
- Make a list and bring to your next business lesson to discuss.

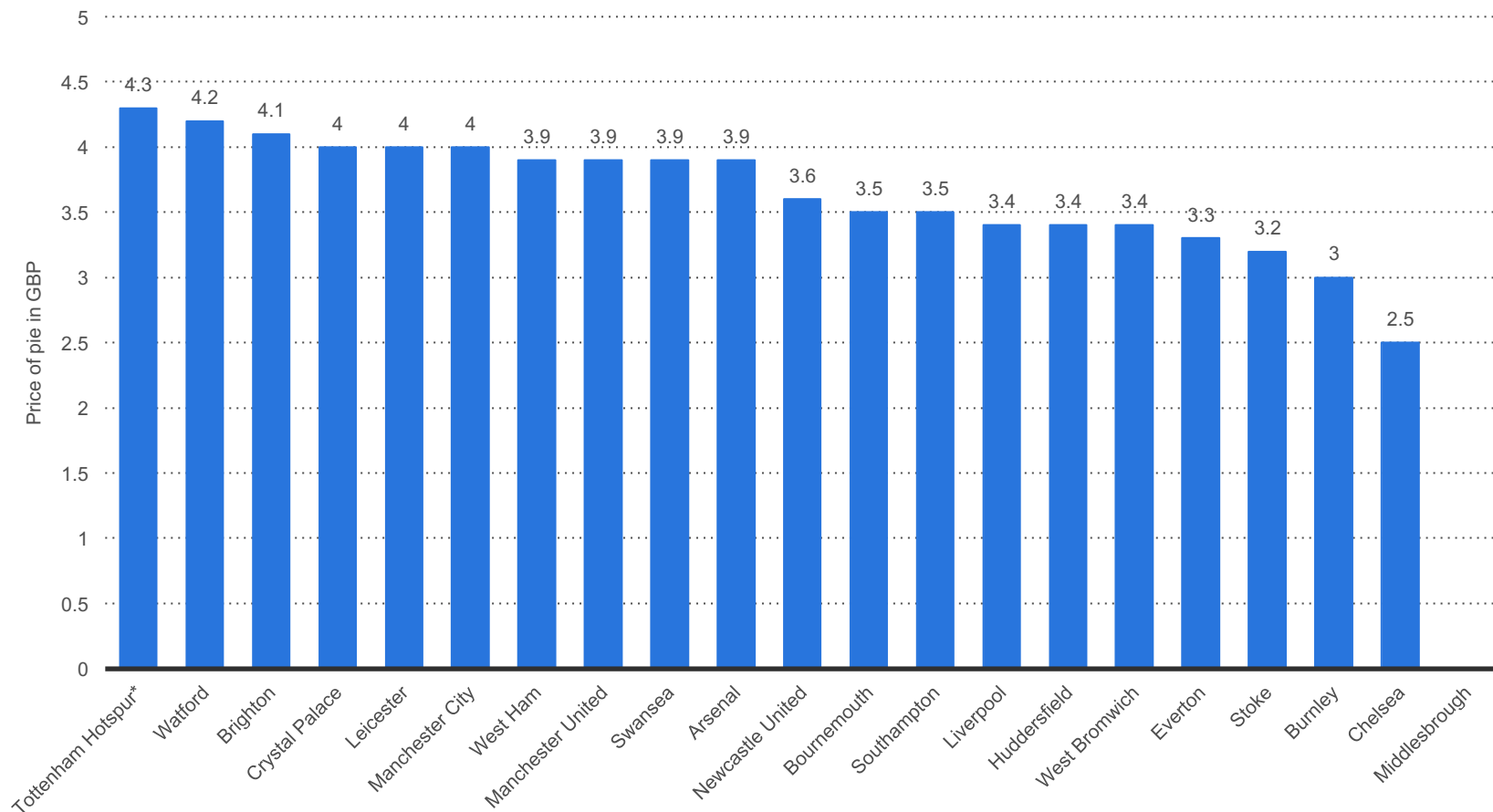
A day in the life of a football supporter



As you watch the clip, note down the prices paid for different elements of going to a football match.

Premier League clubs by price of a pie 2017/18

Teams of the Premier League ranked by the price of a pie in 2017/18 (in GBP)



Calculate the percentage difference between the highest and lowest priced pies in the Premier League

Price of a pie...

The catering kiosks
buy the pies in
bulk.

The firms decide to
use cost-plus
pricing to price the
pies on match day.



Cost plus calculations...



Type of pie	Cost price (per unit)	Price charged to customers
Steak Pie	£1.50	£2.63
Balti Chicken Pie	£1.25	£2.19
Cheese and Onion Pie	£1.05	£1.84
Meat and Potato Pie	£1.25	£2.19
Cornish Pasty	£1.35	£2.36

The caterers buy the pies for the price shown above. The mark up is 75%.

Calculate the price charged to customers.

Football fact file...

- The average adult shirt in the Premier League costs £50.90, while the junior shirt average is £40.25.
- Manchester City, Manchester United and Tottenham sell the most expensive adult shirts at £60. Manchester United sell the most expensive junior shirt at £50.



Using sticky notes, identify the factors that could influence the price of a football shirt



Once complete, stick them on the screen.

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