Price

by Sophia

WHAT'S COVERED

What do you think is the right price for a product? We know that price is important: too high and people won't buy it; too low and you won't make any money. So, what is it about the marketing mix and price that can help determine what the right price is? This tutorial will focus on price, which is one of the 4 P's in the 4 P's marketing model. Our discussion breaks down as follows:

1. Price in the Marketing Mix

As you know, pricing is part of the four P's:

- Product
- Price
- Place
- Promotion

Pricing in this instance is merely determining what the retail price is--that price that you're going to sell your product to the final consumer for.
So, why would something have a higher price than other goods like it? Well, for example, there may be sourcing expenses such as the cost it takes to market, or the research and development that went into it, or the workers.

> EXAMPLE Consider the Chevrolet Volt. You may think that $41,000 is an awful lot of money for a Chevrolet. Well, even though Chevrolet isn't making as much money as they'd like selling each car, they have to pay for the R&D that it took to develop that car. This is one of the reasons why you're seeing the price quite high early on and slowly coming down over time as more cars are sold. In addition, the cost of manufacturing may be higher than other products, as well as other non-cost things, like brand positioning, or putting it in the right spot in the market.

Conversely, why would something be lower priced than other things in its category or spot in the market? One factor could be the quantity purchased. You see, manufacturers and wholesalers will sell large bulk items to clear stock off of their shelves, and they'll offer this at a lower price. When the retail stores buy that product at a lower price, they're able to sell it to the consumer for a lower price and still maintain their margin or markup on the product.

Sourcing could also be an issue. If you can source your item at a lower price, then you, as a retailer, are able to sell it at a cheaper price than your old wholesaler. Other expenses like worker salary, rent, utilities, or taxes can play a big part in pricing because the retail store has to cover its expenses.

The cost of manufacturing may be high, and the cost of non-production--again, choices like brand positioning--may not be as high. You may have a very good and efficient way of manufacturing this item which allows you to offer it to the consumer at a lower price at the very end.

Lastly, let's consider why something might be on par, or on average with everything else on the market in that particular sector. One reason is perfect competition. If you recall, perfect competition is when you have a lot of competition with very similar or almost identical products.

HINT

One issue with perfect competition is that your other competition will react to any price change you make very quickly, meaning that even if you lower or raise your price a little bit, the other competitors will react to that in order to gain an advantage for themselves against your pricing scheme.

2. Skimming and Penetration Pricing

Skimming pricing involves setting up a steep introductory price with the intent of generating consumer interest, as seen in our previous example of the Chevrolet Volt. Typically, you'll see that early adopters, or people who are excited by the technology, are the ones who will want to buy it, and the price isn't so much of an issue. Also, setting a high price in this instance gives a sense of exclusivity to the product, and because it's exclusive, it will help to generate consumer interest in that product down the road.

Penetration pricing is exactly the opposite. This refers to setting a low price so the organization can enter the market and gain traction within the market. In this case, you're looking at on par pricing or even lower pricing than the other products within that market sector and the competition.

THINK ABOUT IT

New products can be a challenge. Which one of these do you choose? Do you try to skim price it and generate interest later on, but not sell as many upfront, or do you try to penetrate early on?

We've discussed the Chevrolet Volt, which was an example of skimming pricing early on, primarily because they had to make up for their research and development costs.

When Toyota introduced the Prius, they did exactly the opposite. They purposely lost money on the car in order to push the car out to the consumer, getting more people actually behind the wheel and generating marketing traction in that manner.

TERMS TO KNOW

Skimming Pricing
Setting a steep introductory price with the intent of generating consumer interest.

Penetration Pricing
Setting a low price so the organization can enter the market and gain traction within the market.

3. Pricing by Product Classification

Convenience goods are those things that are purchased without much forethought. With these types of goods, pricing is going to vary mainly by place and cost of living, and what that particular neighborhood or small market is willing to pay for those goods. Pricing will still be on par with everything else, but it will vary depending on where it is sold.

Shopping goods, on the other hand, have to watch out for substitution pricing and how the competition is pricing their products. If the consumer can get a reasonable substitute for your product somewhere else at a better price, they're going to go there. Therefore, you have to watch how your competition is pricing their products and react accordingly.

Specialty goods reflect brand positioning pricing, and these things are highly varied. If you remember, with specialty goods, price isn't as big an issue with these consumers. It's more about where the brand is positioned. Therefore, you might offer a higher price in order to establish your product into the rarefied air of a luxury good or something highly desirable in order to generate interest. This is highly varied depending on the market that you're in.

SUMMARY

Today, we learned about the place of **price in the marketing mix**, as one of the 4 P's. We also learned about **skimming pricing** and **penetration pricing**, and how that affects a product as a company is trying to introduce it into the market. Lastly, we learned about **pricing by product classification**, exploring the pricing variables for convenience goods, shopping goods, and specialty goods.

Good luck!

Source: adapted from sophia instructor james howard

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