SNS B-SPINE

Coimbatore-35
An Autonomous Institution

DEPARTMENT OF MANAGEMENT STUDIES

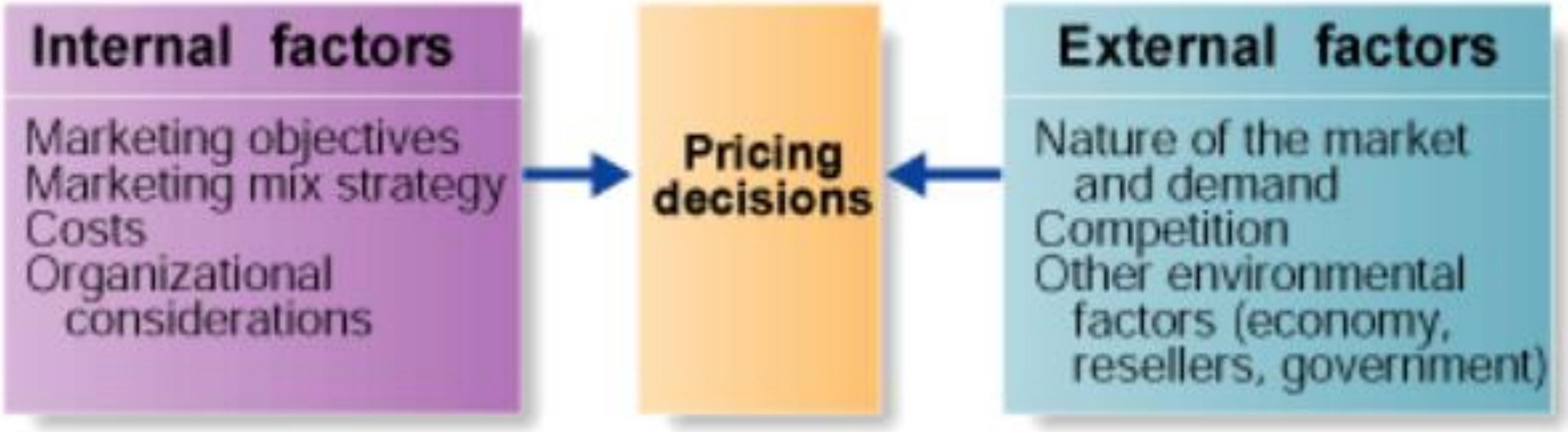
23BAT607 – MARKETING MANAGEMENT

I YEAR I SEM

UNIT 4 – PRODUCT MANAGEMENT AND PRICING

TOPIC 5 – Factors affecting pricing decision

Factors affecting pricing decision



Internal Factors Affecting Pricing Decisions

Marketing Objectives

- Pricing decisions should align with the marketing objectives of the business.
- For example, if the objective is to penetrate the market and gain market share, a lower price may be set initially. Conversely, if the objective is to position the product as a luxury brand, a higher price may be set to reflect exclusivity and perceived value.

- Apple's marketing objective for the iPhone was to position it as a premium and innovative product.

- This objective influenced their pricing decisions, setting higher prices compared to other smartphone brands in the market.

Marketing Mix Strategy

- Pricing is a critical element of the marketing mix strategy, which includes product, price, promotion, and place

- The pricing strategy should be consistent with the overall marketing mix strategy to effectively reach the target market and achieve desired positioning.

- Many firms support pricing – positioning strategies with a technique Target Costing – Pricing that starts with an ideal selling price, then targets cost that will ensure that the price is met.

- P&G – Crest Spin Brush – Electric Toothbrush – target Costing

Costs

- Internal costs incurred in producing, marketing, and distributing the product or service are important considerations when setting prices.

- Pricing decisions need to ensure that costs are covered while allowing for a reasonable profit margin.

- Automobile manufacturers consider various costs such as raw materials, labor, production, marketing, and distribution costs when setting prices for their vehicles. These costs influence the pricing decisions to ensure profitability.

Organizational Considerations

Internal organizational factors such as financial goals, production capacity, resource availability, and business strategies can impact pricing decisions.

The organization's overall capabilities and objectives need to be taken into account.

A small startup may adopt a competitive pricing strategy to gain market share and establish a customer base. On the other hand, a well-established luxury brand may use premium pricing to maintain exclusivity and higher profit margins.

External Factors Affecting Pricing Decisions

Nature of the Market and Demand

- External market factors, including market size, growth rate, customer demand, and buying behavior, play a significant role in pricing decisions.

- Understanding market dynamics and demand patterns is crucial for setting optimal prices.

The demand for seasonal products such as winter clothing or holiday decorations can fluctuate significantly.

Businesses need to adjust prices accordingly to match customer demand during peak seasons.

Competition

- Competitor pricing strategies and actions directly influence pricing decisions.

- Monitoring and analyzing competitor pricing is essential to remain competitive in the market and position the product effectively.

- Airlines continuously adjust their prices based on competitors' pricing and market conditions.
- They may lower prices during off-peak seasons to attract customers away from competitors or match prices to maintain market share.

Other Environmental Factors

Various external environmental factors can impact pricing decisions. These factors include the state of the economy, reseller relationships, government regulations, and social concerns.

Government regulations such as taxes, tariffs, and price controls can significantly affect pricing decisions. Pharmaceutical companies need to consider pricing regulations and access to healthcare systems in different countries when setting prices for their medications.

Activity

Pricing Simulation Game