

Marketing

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Course & Class Inform

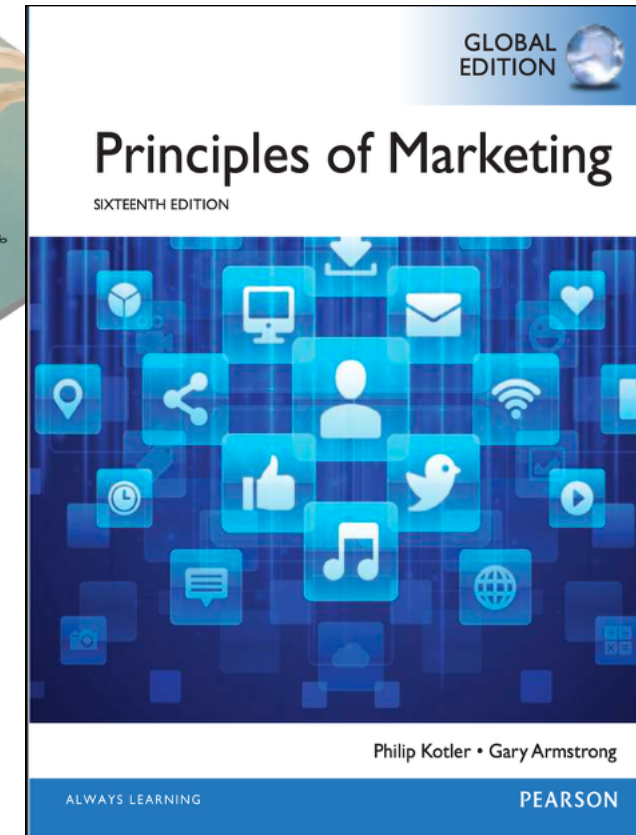
- **Course:** Marketing
- **Program:** Bachelors in Business Administration and Management
- **Credits:** 6 ECTS
- **Mode:** Onsite / Blended
- **Class 7 — Pricing Strategies: Designing the Value Exchange****Instructor:**
Dr. Leul Girma

Main Teaching & Learning Materials

- Core textbook
- Instructor lecture slides and notes
- Case studies and real-world examples
- Academic articles and selected readings

Digital resources:

- Company websites and annual reports
- Online marketing platforms and tools
(e.g., Google Analytics demos, social media dashboards)



Objective and Learning Outcomes

Objective:

To develop students' understanding of **pricing decisions and strategies** and enable them to set prices that reflect customer value, competitive positioning, and business objectives.

By the end of this class, YOU will be able to:

- Explain the role of price in the marketing mix
- Identify internal and external factors influencing pricing
- Apply basic pricing methods and break-even analysis
- Evaluate different pricing strategies in competitive markets

Cost → Price → Market Position

Part I

Pricing Foundation

What Is Price?

Price is the amount of money customers pay to obtain a product or service. In marketing, price represents the **value customers exchange for the benefits they receive** from a product offering (Kotler & Armstrong, 2021).

Think about the **product concept** you are developing:

- What benefit does the customer receive?
- Why might the customer accept the price?
- How does the price reflect the value of the product?



Output: Customer benefit + reason the price is acceptable.

The Role of Pricing in the Marketing Mix

Price is the **only element that directly generates revenue for the firm**. Pricing decisions **influence customer perceptions, competitive positioning, and the value captured** from the market (Kotler & Armstrong, 2021).

Focus on the **actual product** you are designing:

- Is it **low price, premium, or value for money?**
- How does the price support the product's **market position?**
- How might a **change in price affect customer perception?**



Output : Key features +one explanation of how price supports its market position.

Internal Factors Affecting Pricing

Marketing objectives, cost structure, product strategy, and brand positioning. These factors determine the firm's pricing goals and the minimum price needed to cover costs and achieve desired profitability (Kotler & Armstrong, 2021).

Focus on the product you are analyzing:

- What **pricing objective** might the company have?
- How should the price support the **brand positioning**?

Output: One internal factor influencing the price of the product.



External Factors Affecting Pricing

Customer demand, competitor pricing, market conditions, and economic factors. Companies must consider these conditions to ensure that the price remains competitive and **acceptable to customers** (Kotler & Armstrong, 2021).

Think about a market example:

- **What competitor prices influence** this market?
- **How sensitive** are customers to price changes?
- **What market conditions** could affect pricing decisions?

Output: One external factor affecting the price of a product.

Part II

Pricing Analysis

Understanding Break-Even Concept

Break-even analysis identifies the sales level at which **total revenue equals total costs**, meaning the firm makes **no profit and no loss**. This concept helps understand the **minimum sales volume needed to cover fixed and variable costs** before generating profit (Kotler & Armstrong, 2021).

Think about your product:

- What are the **fixed costs** (e.g., rent, salaries, equipment)?
- What are the **variable costs per unit** (e.g., materials, production)?
- How many units must be sold to cover these costs?



Output : One product + some fixed cost + some variable cost example

Break-Even Analysis Example

Break-even analysis can be used to estimate **how many units a firm must sell to cover** its costs at a given price. Managers compare price, fixed costs, and variable costs to **determine the sales level required to avoid losses** (Kotler & Armstrong, 2021).

Formula:

$$\frac{\text{Total Fixed Cost (€30.000)} + \text{Total Variable Cost (€ 20.000)}}{\text{Number of unites produced (1000)}} = \text{Average unit cost € 50.00}$$

Markup € 15.000

Average unit selling cost 15.00

Total product unit cost 65.00

Pricing € 85. 00

Break-even point = 765 unit sold

Output: one total cost estimate + one price + one break-even quantity idea.

Part III

Pricing Methods and Strategies

1. Cost-Based Pricing

Cost-based pricing sets the **price of a product by adding a markup** to the cost of producing and selling the product. The firm first calculates the total cost and then adds a **margin to ensure profitability** (Kotler & Armstrong, 2021).



Basic idea:

$$\text{Cost} + \text{Markup} = \text{Price}$$

Output: One cost estimate + one markup + proposed price.

2. Competition-Based Pricing

Competition-based pricing sets the price of a product **based on the prices charged by competitors in the market**. Firms compare their offering with competing products and decide whether to **price below, at, or above the market level** (Kotler & Armstrong, 2021).

Think about a market example:

- Who are the main competitors?
- What price do they charge?
- Would your product be priced lower, similar, or higher?



Output: One competitor price + one proposed competitive price position.

3. Market-Penetration Pricing

Market-penetration pricing sets a **low initial price** to **attract many customers** and **quickly gain market share**. This strategy is often used when firms want to **enter a competitive market** and **build a large customer base** (Kotler & Armstrong, 2021).

Think about a market example:



- **What type** of product might use a **low entry price**?
- How could a low price **attract customers**?
- **What risk** might the company face **with this strategy**?

Output: One product example + one advantage of penetration pricing.

4. Market-Skimming Pricing

Market-skimming pricing sets a **high initial price** to **capture value** from customers who are **willing to pay** more for a **new or innovative product**. Over time, the firm may **gradually reduce the price** to reach additional market segments (Kotler & Armstrong, 2021).

Typical conditions:

- **Product innovation or uniqueness**
- **Limited competition at launch**
- **Customers willing to pay a premium**



Think about a market example:

- What type of product might start with a **high price**?
- Why would some customers **accept this price**?
- How might the **price change over time**?

Output: One product example + one reason customers may accept a high initial price.

5. Discount and Promotional Pricing

Discount and promotional pricing **temporarily reduce the price** of a product to **stimulate sales, attract customers**, or clear inventory. It may use a **seasonal promotions**, or **limited-time offers** to encourage **immediate purchasing** (Kotler & Armstrong, 2021).

Think about a market example:

- What type of promotion might encourage **your customers to buy quickly**?
- Why do you **use temporary price reductions**?
- How might this affect customer demand?



Output: One promotional pricing + one expected effect on sales.

In-Class Pricing Exercise

Use the product you developed in the previous classes. Your task is to propose a price by integrating the concepts discussed in this lecture

1. What is your product or service?
2. Where is your market?
3. What internal factors influence the pricing decision for your product or service ?
4. What external market factors must be considered?
5. How could break-even analysis help evaluate the price?
6. Which pricing method is most appropriate for your product or service ? Why ?
7. How does your proposed price support the product or service market position?

Part IV

In-Class Pricing

Thank you



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