Pricing

Overview

Equate marginal costs and marginal revenue

Costs

Demand

- Lack of data
- Price perceptions
- Vary prices across segments

How do managers work all of this out?

Costs

Many firms do not know their costs

Easier to determine than demand

- Firms have cost data
- Additive not multiplicative

Interested in variable costs

- Not fixed costs
- Not sunk costs

Demand: Lack of Data

Availability of data:

– No data available for some products

– Data only valid within relevant range

– Data may not capture all effects (e.g. store count)

Demand: Price Perceptions

Coke

Baking Soda

Price Cues

Prices they do know

“Sale” claims

$9 price endings

Price guarantees

Demand for Corduroy Duster

Regular:	100 units
Pre Season Sale:	157 units

$9 Endings

Same shirt

3 price conditions:

- $34
- $39
- $44

Price Perceptions: Summary

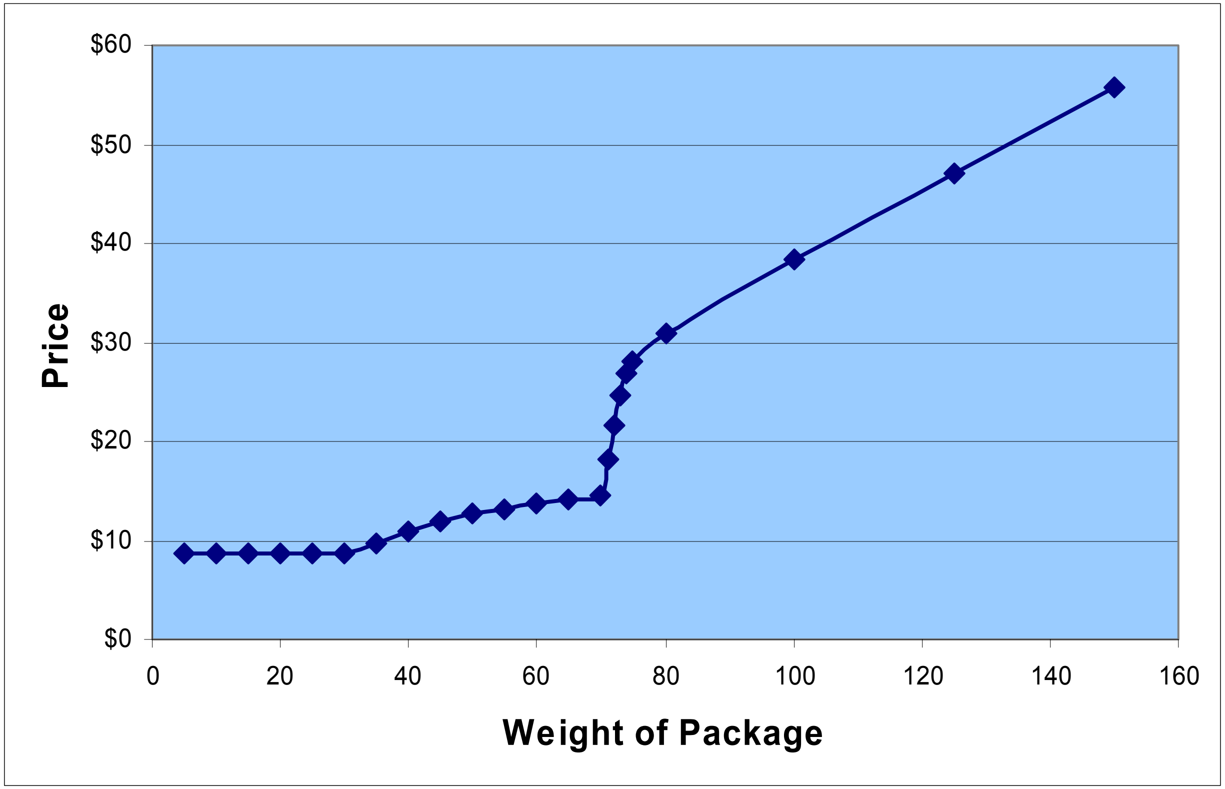
Items with poor price knowledge

- More sensitive to price cues than actual prices
- Avoid overuse
- Monitor quality perceptions

Items with good price knowledge

- Not sensitive to price cues
- Use to generate a favorable price image

Price Discrimination
UPS Prices: Rochester NY to Chicago



Price Discrimination

Target marketing:

- different segments have different demands
- different segments have different competition (UPS)

Must be able to restrict resale:

- size of product prevents re-shipment (cars)
- FDA or regulatory controls (crimps on toothpaste)
- perceived difference (dental products)

Can Managers Work All of This Out?

Much to consider:	costs
	demand elasticities
	cues (customer inferences)
	competitive reactions
Begin simply:	cost plus
	match competitors
	manufacturers' recommendation
Fine tune:	need detailed response information
	biased if feedback incomplete

Summary

What are the variables costs?

Is there sufficient demand data – if not begin by varying prices?

How well do customers know prices?

Do you have different customer segments – if so how can you discriminate?