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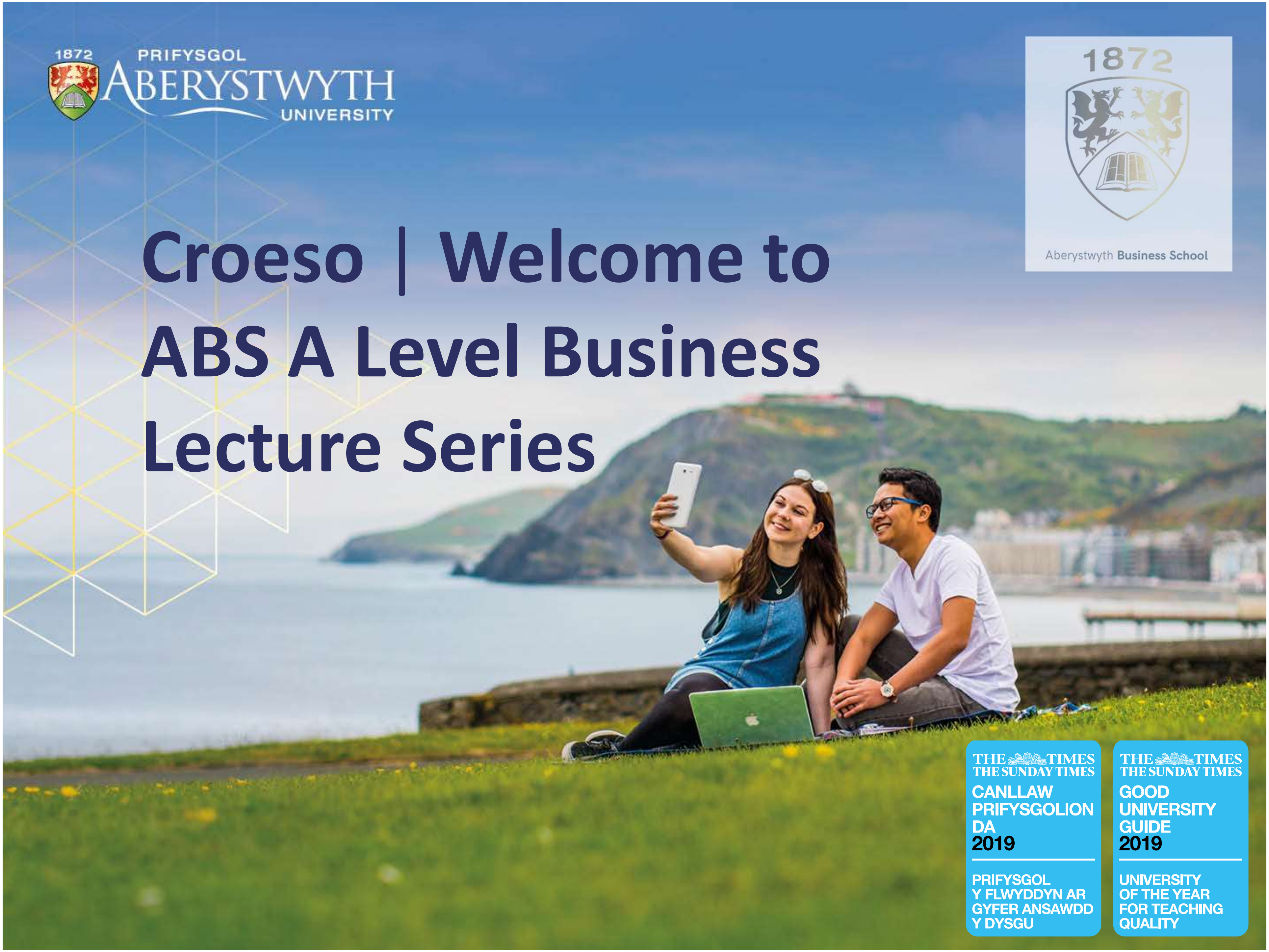
Aberystwyth Business School

Croeso | Welcome to ABS A Level Business Lecture Series



Pricing

- Content to support **Level 3 Business Qualifications**

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Learning Outcomes

- Understand the terms and approaches around pricing and different pricing strategies
- Understand cost bases in business

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Some Dictionary Definitions…

Price
•The amount of money expected, required or given in payment for something; something expended or endured in order to achieve an objective.

Quality
•The standard of something as measured against other things of a similar kind

Value
•The regard that something is held to deserve; importance or worth; material or monetary worth; the worth of something compared to its price: at £12.50 the book is good value

Some Dictionary Definitions…

Price
•The amount of money expected, required expended or endured in order to achieve a

The amount the customer has to pay or exchange to receive a good or a service.

Quality
•The standard of something as measured

Standards to which a product or service performs as a need-satisfier.

Value
•The regard that something is held to dese worth; the worth of something compared tc

What we get for what we pay

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Fixed vs Variable Costs

- **Fixed Costs**
  - The expenditure incurred on the factors such as capital, equipment, plant, factory building which remain fixed in the short term and cannot be changed.
  - Fixed costs are independent of output in the short-term (i.e. even if no output is produced in the short-term these costs will remain the same)

Fixed vs Variable Costs

- **Variable Costs**
  - Costs incurred by the firms on the employment of variable factors such as labour, raw materials etc., whose amount can be easily increased or decreased in the short-term
  - Variable costs vary with the level of output in the short-term
  - If the firm decided not to produce any output, variable costs would not be incurred

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Examples

Table 9.1 Examples of fixed and variable costs

Fixed costs	Variable costs
Manufacturing plant and equipment	Equipment servicing costs
Office buildings	Energy costs
Cars and other vehicles	Mileage allowances
Salaries	Overtime and bonus payments
Professional service fees (e.g. legal, architectural)	Professional services fees (e.g. legal) in a business with a strong regulatory regime (e.g. pharmaceuticals)

Different Approaches to Pricing

- **Cost-based approach**
  - the original theory
  - most important element is the cost of the component resources.
- **Competition-based approaches**
  - 'going rate'
- **Value-based approaches**
  - set on buyer's perceptions of attribute value.

This is content that we test in the…

- *Aberystwyth University Entrance Exam*
- Successfully complete an exam (there are multiple points in the year and you can take it in the subject you are best at) and earn yourself an unconditional or reduced offer for the Business School
  - More details here (use short link): https://www.aber.ac.uk/en/undergrad/before-you-apply/scholarships/entrance-scholarships-merit-awards/

Pricing Policies

- **List pricing**
  - an unsophisticated approach to pricing where a single price is set for a product or service.
- **Loss-leader pricing**
  - occurs where the price is set at a level lower than the actual cost incurred to produce it.
- **Promotional pricing**
  - occurs when companies temporarily reduce their prices below the standard price for a period of time to raise awareness of the product or service to encourage trial, and raise brand awareness in the short term.

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Pricing Policies cont.

- **Segmentation pricing**
  - where **varying prices are set for different groups of customers**, e.g. Unilever's ice cream is offered as various different ice cream products at differing levels of quality and price ranging from their super premium (e.g. Ben & Jerry's ice cream available in video shops, cinemas, and elsewhere) to economy offerings (e.g. standard low-priced vanilla ice cream available in supermarkets).

Pricing Policies cont.

- **Customer-centric pricing**
  - Cross and Dixit (2005) suggest that companies can take advantage of customer segments by measuring their **value perceptions**, measuring the value created, and designing a **unique bundle of products and services** to cater to the value requirements of each segment, and continually assess the impact this has on company profitability, taking advantage of up-selling.

New Product Pricing Strategies

Market Skimming Pricing – Higher price initially to recoup R&D costs

Innovative new product + few competitors + 'innovative' market segment:

– set high price early in product life-cycle

– set lower price later (to a wider market, when rivals have imitated the product)

New Product Pricing Strategies

Market Penetration Pricing – Lower price to generate sales

- Easily-imitated new product + a potential mass market:
- Set low price early in product life-cycle (to win high market share & lower costs via economies of scale) match rivals price later

Summary

- This lecture has enabled you to:
  - Understand the terms and approaches around pricing and different pricing strategies
  - Understand cost bases in business

Diolch | Thank you