Demand Based Pricing

Introduction To Pricing

JUST WHAT I ASKED FOR

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Pricing
Two Views

1. We give you a good price

2. We ask for this in exchange
   Price = Product + Place + Promotion

There are Price Setters and Price Takers

A basic idea of marketing is to make your product sufficiently better than your competitor's and not to be a price taker.

Marketing Has Been Called Demand Management

Quantity Sold

Price/unit

P

Marketing Has Been Called Demand Management

Quantity Sold

Price/unit

Q

P

Marketing Has Been Called Demand Management

Quantity Sold

Price/unit

Q

P

22 - <#>
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Marketing Has Been Called Demand Management

Quantity Sold

Price/unit

Q = a - bP

Advertising To Increase Demand

Quantity Sold

Price/unit

Q = m - nP

Use Advertising To Make People Less Price Sensitive

Quantity Sold

Price/unit

Q = c - dP

How To Find The Price That Maximizes Revenue?

- Demand equation is represented by
  - Q = a - bP
    - where
      - a = market potential with zero price
      - b = number of sales lost for a one dollar increase in price
    - P = price per unit
    - Q = quantity sold at price, P

Use The Demand Equation to Estimate the number of shoes (Q) you will sell
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Sample of Domestic Market

Sample of Domestic Market Response to Price Level

Summary of Fit
R-Square 0.237755
Mean of Response 245203.8
Observations (or Sum Wgts) 29

Parameter Estimates
Term Estimate Std Error t Ratio Prob>|t|
Intercept 576114.87 114800 5.02 0.0000
price -3994.016 1376.29 -2.90 0.0073

Increase Advertising or Sales Force

Increase Your Price Compared to Average Market Price

Q = 576115 - 3994(Price)
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Improve Your Quality
Make Customers More Loyal

What Price Maximizes Sales Revenue?

What Price to Pick?

Pricing Goals
- Profit
  - long run, short run
- Sales Revenue
- Market Share (Penetration)
- Unit Sales Volume (Learning Curve)

Pricing Goals Cont’d
- Image Maintenance
  - Image-Oriented Pricing
- Cash Flow (survival)
- Competitive Pricing (Stability
  Price leader, price taker
  - avoid price competition

Goal to Pick a Price That Will Maximize Our Revenue
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Revenue looks like:
\[ R = aP - bP^2 \]

Slope of Revenue Curve is Zero:
\[ \frac{\partial R}{\partial P} = 0 \]

Revenue Maximizing Price:

- Revenue = Price x Quantity
- \( R = PQ \)
- Where \( Q = 576115 - 3994P \)
- \( R = P(576115 - 3994P) \)
- \( dR/dP = 576115 - 2(3994)P \)
- Set slope = 0 and solve for \( P \)
- \( P = 576115/7988 = 72 \)
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- Price That Maximizes Revenue
  - From the Statistical Evidence
  - Price that Maximizes Revenue in the Domestic Market is probably between $72 and $78

- All Marketing Managers whether they use a formal pricing formula or not have a sense of their customer’s sensitivities in price.

- Are we having fun yet?