

Price

The Reflection of Value

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“There is scarcely anything in the world that some man cannot make a little worse, and sell a little more cheaply. The person who buys on price alone is this man’s lawful prey.”

-John Ruskin

Pricing

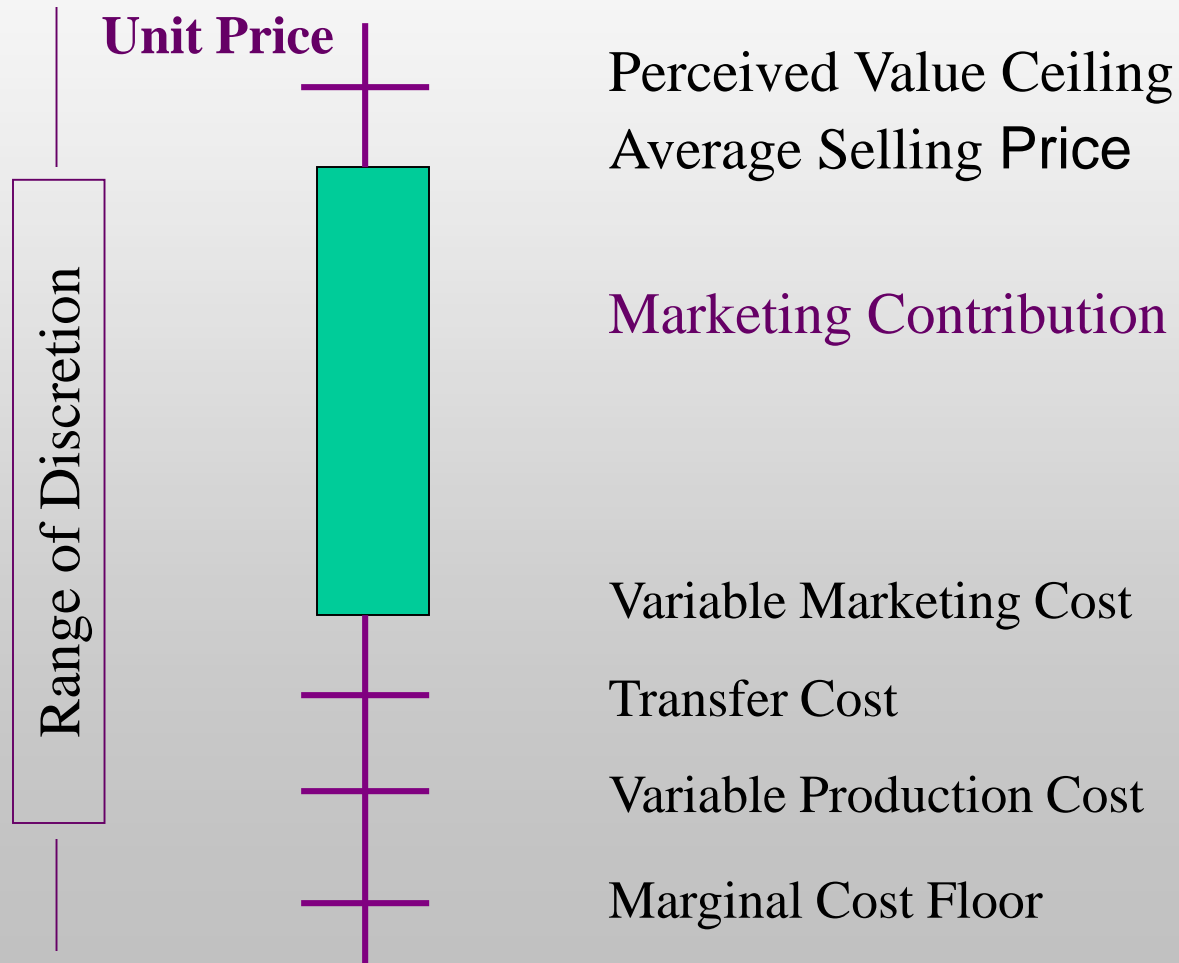
- Probably the most powerful tool available to marketers in developing and implementing a marketing strategy.
- Also probably the least appreciated, least understood and most abused.
- Customers buy a product or service when they perceive that the value to them in received benefits exceeds the price they have to pay.
- Given a choice among competitive offerings, the customer will most likely choose the brand with the highest value to price ratio.

A Customer Definition of Value

$$\text{Value} = \text{Benefits} - \text{Costs} - \text{Risks}$$

- Costs include:
 - price paid
 - investments in time, energy, resources (human and financial) and opportunity costs
- Risks include:
 - risk of failure, career risks, risks of obsolescence

Customer Price/Value Equation



Pricing Methods

■ **Cost Plus**

- Focuses on company, not customer value
- Ignores competitors' offerings
- Quick and easy to do with little data needed
- Anyone can set price

■ **Competitive Parity**

- Assumes same cost structure as competitors
- Assumes same relative customer value
- Assumes competitors correctly priced their product

Pricing Methods (cont.)

■ Perceived Value

- The correct way to set prices
- Compares customer value to product benefit
- Compares company products and prices to competitors' offerings
- Integrates pricing with other marketing mix variables

Setting the Price

- What are the two most important benefits for the customer?
- Who are the *real* competitors?
- What is the market's perception of the amount of benefit they receive from you and competitors?
- What are the competitor's prices?
- What should be your price to deliver the greatest value to the market *and maximize your profits?*

A Few Simple Rules

- Sample, don't discount
- Only sell at a price you can live with in the long-run
- Consider cross channel impacts
- Biggest challenge is fear