What is the most you would be willing to pay for the following items?

...and WHY??

Marketing Mix - Price

Learning Objectives:

- To understand the different influences on price.
- To Understand the different Pricing strategies.
- Be able to choose a suitable pricing method for a product.

- **Before we sell a product we must first decide how much we will sell the product for. This is called the**

PRICE

- **How do we choose what the price for a product will be?**

- **In your pairs discuss how much you would sell the following product for and give reasons why you would sell it for that price:**

Extension task: based on what you have discussed, what factors might influence price?

Influences on Price

Factors that influence what price we will charge our customers for the product or service:

Internal

- **Costs of Production**

External

- **Competitors' prices**
- **Position of the firm in the market (*market share and market dominance)***

PRICING STRATEGIES

- Cost plus pricing
- Psychological pricing
- Competitive pricing
- Price Skimming
- Penetration pricing

Your Task:

In your groups you will be assigned one of the above pricing strategies. You must read the information given to you and then describe the pricing strategy as well as give examples of its use. This must be done on your A3 sheet and only by drawing up-to 10 pictures (NO WORDS!).

PRICING STRATEGIES

Your Task:

- **1 member of your group will now teach this strategy to other groups. The other members of the group will carousel around the room and learn about the other strategies. All information must go onto your information grid.**
- ***You will only have 1 minute at each station.***
- **At the end of the carousel the teachers will be taught by their group members about the other strategies.**

Feedback...

- Pick a Pricing Strategy for one of the following Products
- Box of Chocolate Biscuits
- Diamond Ring
- Ticket for a concert
- New games console

What goes into the strategy:

- What the product is
- What pricing strategy you have chosen
- Explanation of that pricing strategy
- Why have you chosen that pricing strategy over a different strategy?

Pricing Poets

Write a poem about one of the pricing strategies without using the name of the strategy in the poem.

To know: what makes products either elastic or inelastic

To understand: the significance, determinants and the problems of measurement of PED

To be able to: use the price elasticity coefficient to show the effects of price changes on total revenue

Price Elasticity

Starter

- Think about the prices that different businesses can charge for almost identical products. You're going to buy a piece of jewellery, put these businesses in the order you think they'd charge from cheapest to the most expensive.

Price refers to what the customer will pay for a product. This usually represents their perceived value of the product or service.

Elasticity – the concept

- The responsiveness of one variable to changes in another
- When price rises what happens to demand?
- Demand falls
- BUT!
- How much does demand fall?

Elasticity – the concept

- If price rises by 10% - what happens to demand?
- We know demand will fall
- By more than 10%?
- By less than 10%?
- **Elasticity measures the <u>extent</u> to which demand will change**

Elasticity

- Price Elasticity of Demand
  - The responsiveness of demand to changes in price
  - Where % change in demand is greater than % change in price – **elastic**
  - Where % change in demand is less than % change in price - **inelastic**

Elasticity

The Formula:

$$\text{Ped} = \frac{\text{\% Change in Quantity Demanded}}{\text{\% Change in Price}}$$

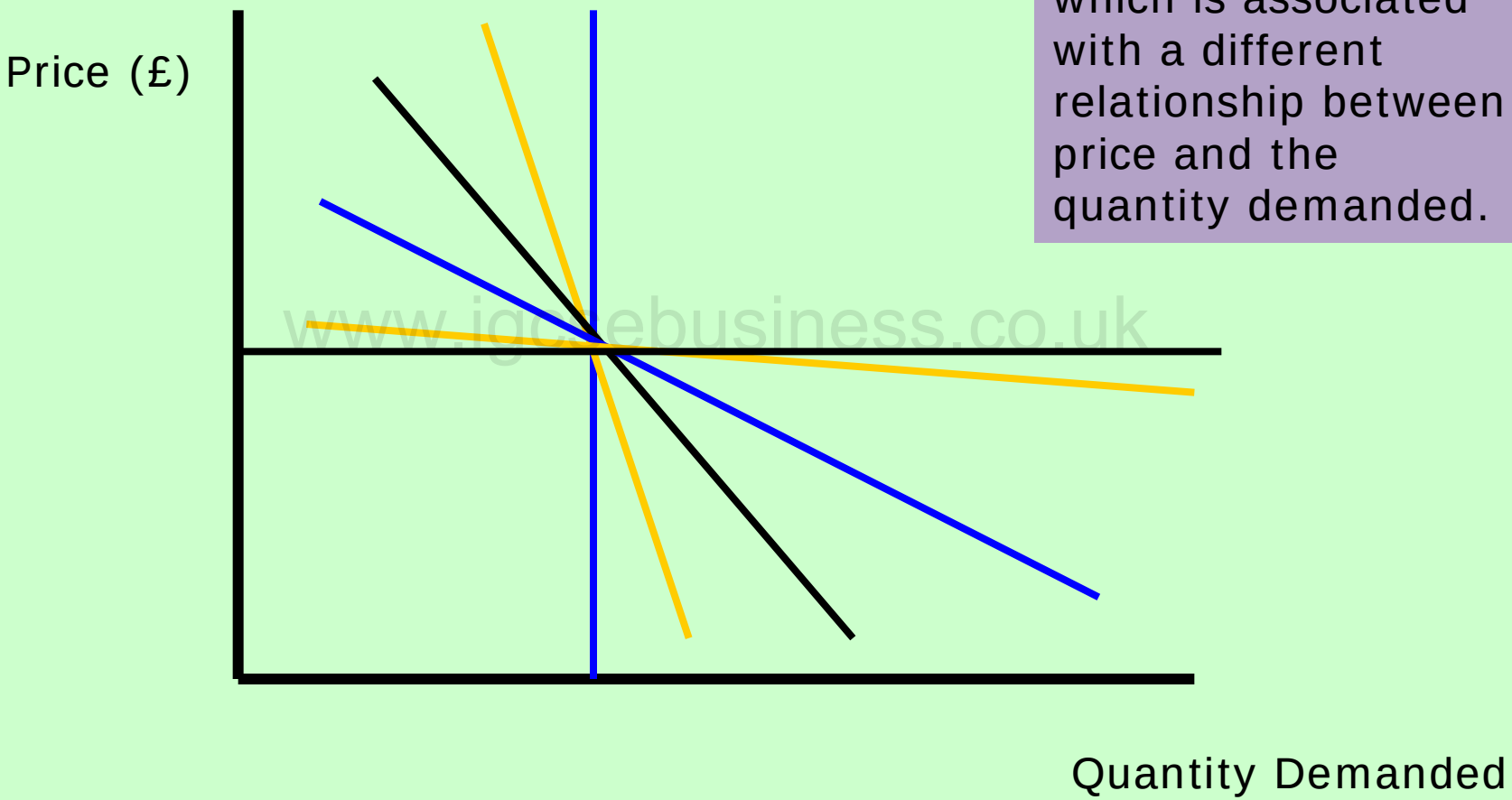
If answer is between 0 and -1: the relationship is inelastic

If the answer is between -1 and infinity: the relationship is elastic

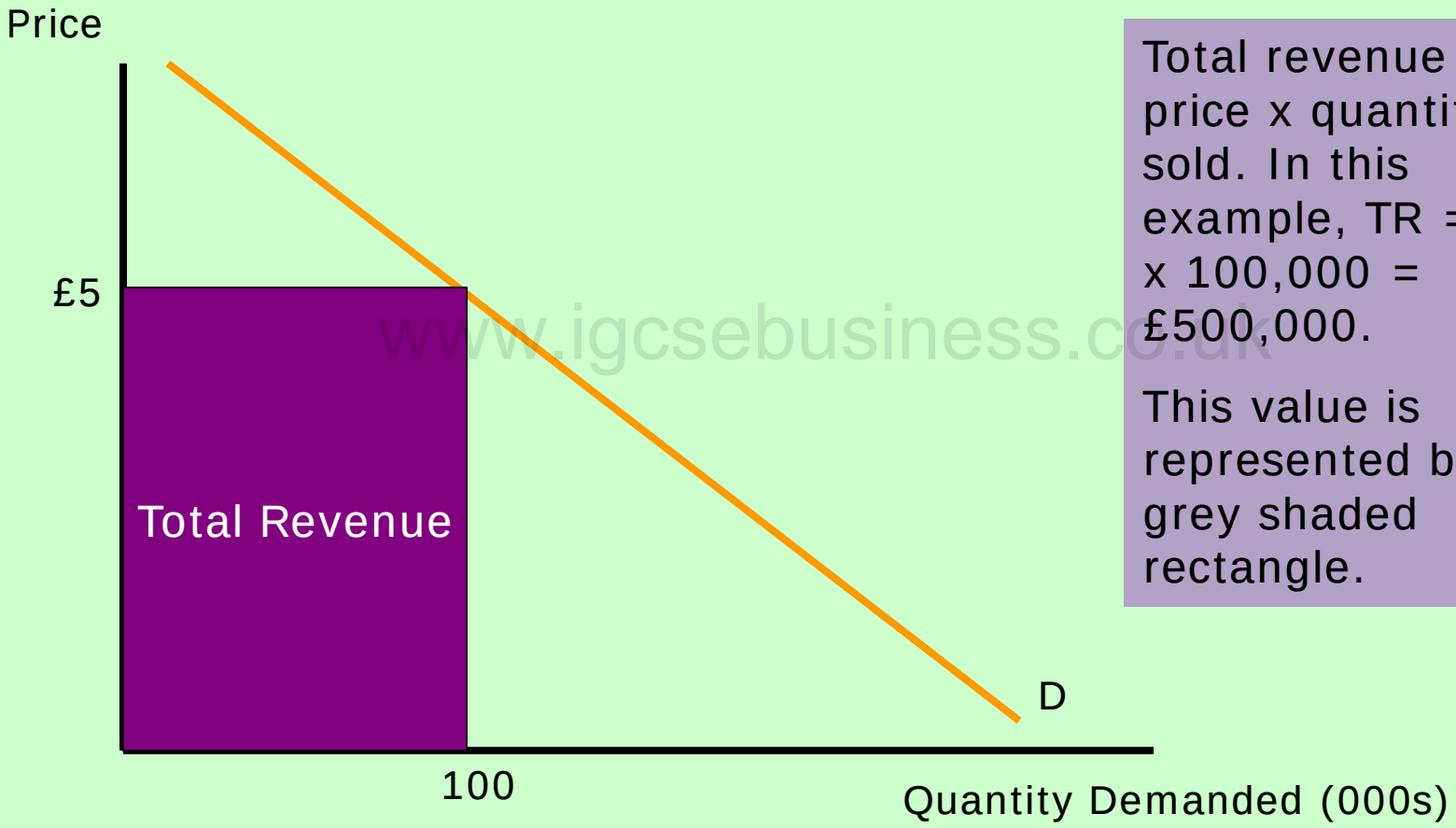
The calculation is really easy to use. You just need to remember that Quantity is always the top value and Price is the bottom.

Elasticity

The demand curve can be a range of shapes each of which is associated with a different relationship between price and the quantity demanded.



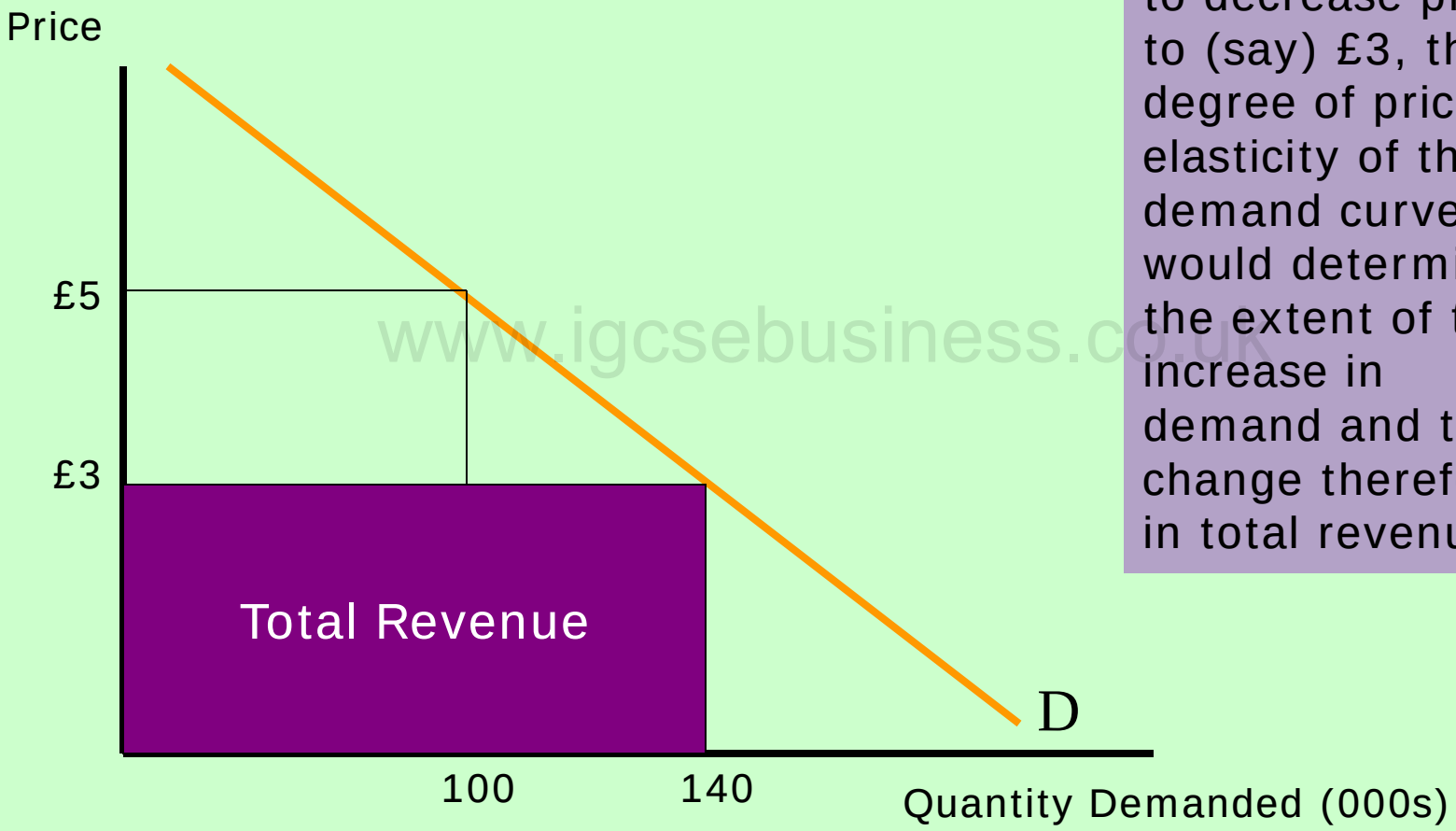
Elasticity



Total revenue is price x quantity sold. In this example, TR = £5 x 100,000 = £500,000.

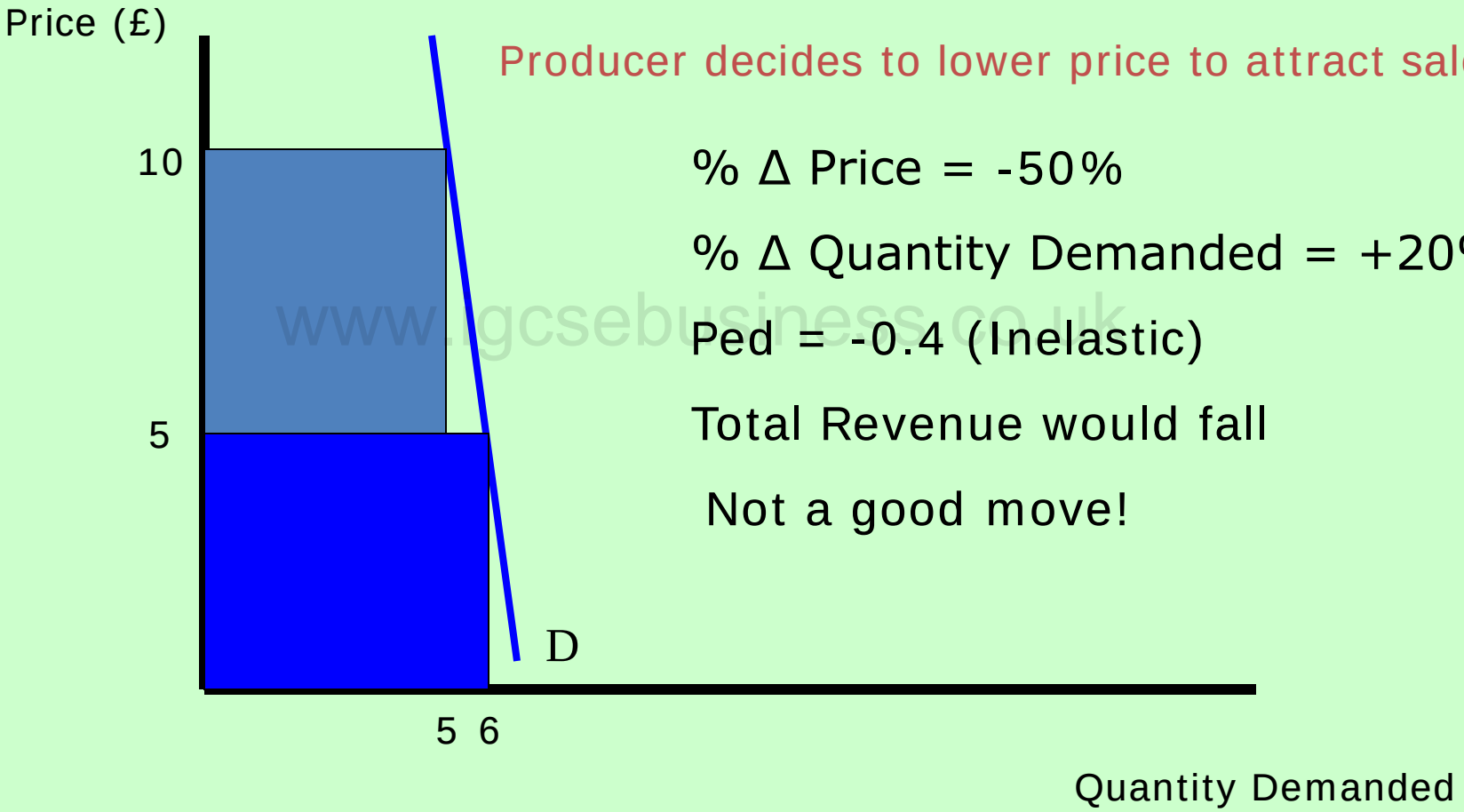
This value is represented by the grey shaded rectangle.

Elasticity



If the firm decides to decrease price to (say) £3, the degree of price elasticity of the demand curve would determine the extent of the increase in demand and the change therefore in total revenue.

Elasticity



Producer decides to lower price to attract sales

% Δ Price = -50%

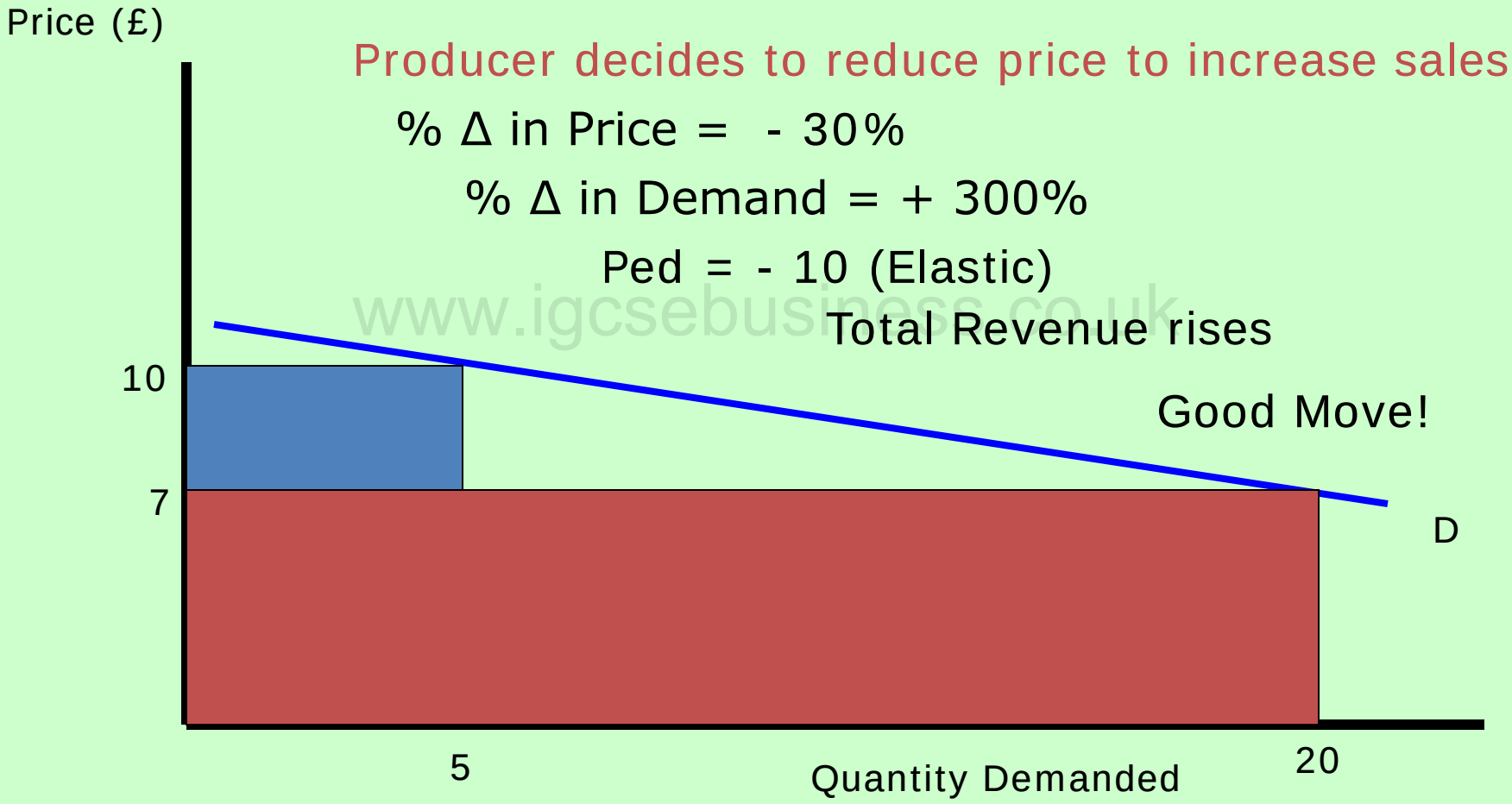
% Δ Quantity Demanded = +20%

Ped = -0.4 (Inelastic)

Total Revenue would fall

Not a good move!

Elasticity



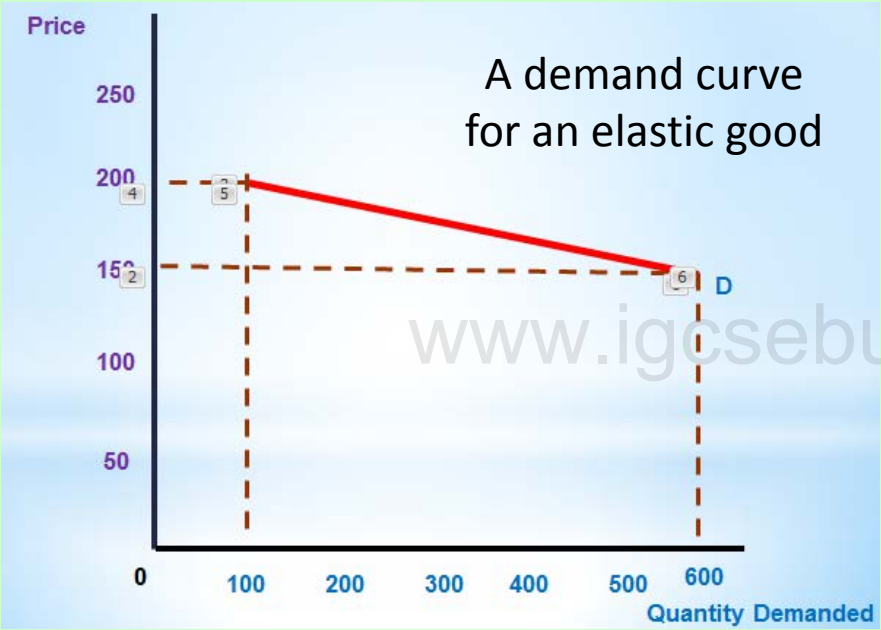
Elasticity

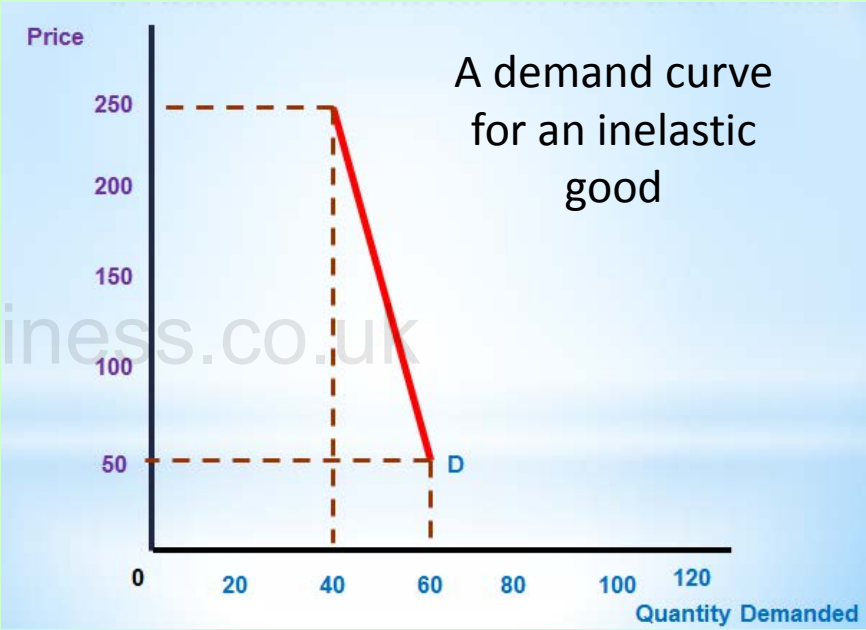
- **If demand is price elastic:**
- Increasing price would **reduce** TR (%Δ Qd > % Δ P)
- Reducing price would **increase** TR (%Δ Qd > % Δ P)

- **If demand is price inelastic:**
- Increasing price would **increase** TR (%Δ Qd < % Δ P)
- Reducing price would **reduce** TR (%Δ Qd < % Δ P)

Do now…

What do the following diagrams show?





What does this mean!?

- If the demand for a product varies a lot with price:

PRICE ELASTIC!

- If the demand for a product stays relatively constant whatever the price:

PRICE INELASTIC

How do demand and price relate?

LAW OF DEMAND

Group activity

Using your knowledge of the Law of Demand and Price elasticity.

Identify and explain whether you think the following products have elastic or inelastic demand.

Elastic or inelastic?

Elastic or inelastic?

Elastic or inelastic?

Elastic or inelastic?

Elastic or inelastic?

Elastic or inelastic?

Elastic or inelastic?

Elastic or inelastic?

The formula:

$$\text{Price elasticity of demand} = \frac{\%\ \text{change in demand}}{\%\ \text{change in price}}$$

Eg,

Apple cut prices of their iPad's by 10% but demand only increases 5%. Would this be a [illegible]ion?

Demand is….

$$\text{PED} = \frac{5\%}{10\%} = -0.5\%$$

REMEMBER:
Nearly all PED results are negative therefore it is common to ignore the minus sign

What do the results show?

Think, pair, share – What does the figure tell us? Use business terms!!!

- **If Ped = 0** demand is **perfectly inelastic** - demand does not change at all when the price changes
- **If Ped is between 0 and 1** (i.e. the % change in demand from A to B is smaller than the percentage change in price), then **demand is inelastic**.
- **If Ped > 1**, then demand responds more than proportionately to a change in price i.e. **demand is elastic**. For example if a 10% increase in the price of a good leads to a 30% drop in demand. The price elasticity of demand for this price change is –3

Work out…

- In the exam – you wont always be given the percentage change in price so will have to work it out

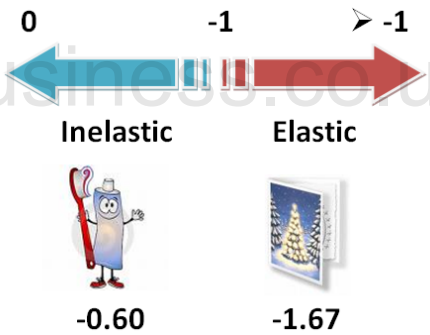
1. Calculate the percentage change in price if the price for Mars Bars was 35p in 2006 and went up to 55p in 2008. Show all of your working
2. Calculate the percentage change in price if the price for Mars Bars was 20p in 2006 and went up to 33p in 2008. Show all of your working
3. Calculate the percentage change in price if the price for Mars Bars was 48p in 2006 and went down to 40p in 2008. Show all of your working

Calculating PED

1. Imagine Paperchas christmas cards from £1 t ice, demand for t just 20. Work o

2. Imagine Co om £1.50 to £1. demand for t ek to 45. Work out

-1.67 for the cards and -0.60 for the toothpaste. What does this mean?



How could this look in the exam?

- Work in pairs to plan answers (10 mins)
- Use the mark scheme to improve (10 mins)
- Reflect: How do they compare? What parts did you find easy/not so easy?

Good practise for analysis – AO3

Can you connect?

Can You Connect?

- Labour Productivity
- Unit Costs
- Price
- Price Elasticity of Demand

ANSWER: An increase in labour productivity can result in reduced unit costs **because**..... A reduction in unit costs could allow the business to reduce its price, **enabling** the business to become more competitive. However, the decision to reduce the price would **depend** on the products price elasticity of demand etc

- Let’s have a look at how we can use this equation to help us decide whether to raise or lower our prices.

- Let's imagine that we want to raise our prices from 20p to 40p per Mars Bar. The first thing that we need to do is to calculate both the percentage change in price and also the percentage change in demand. So.....
- **% Change in Price**
-
- 40p – 20p = 20p
- 20 x 100 = +100% rise in price

  20

PRICE	SUPPLY	DEMAND
10p	0	20
20p	5	15
30p	10	10
40p	15	5
50p	20	0

% Change in Demand

15 Mars Bars – 5 Mars Bars = 10 Mars Bars

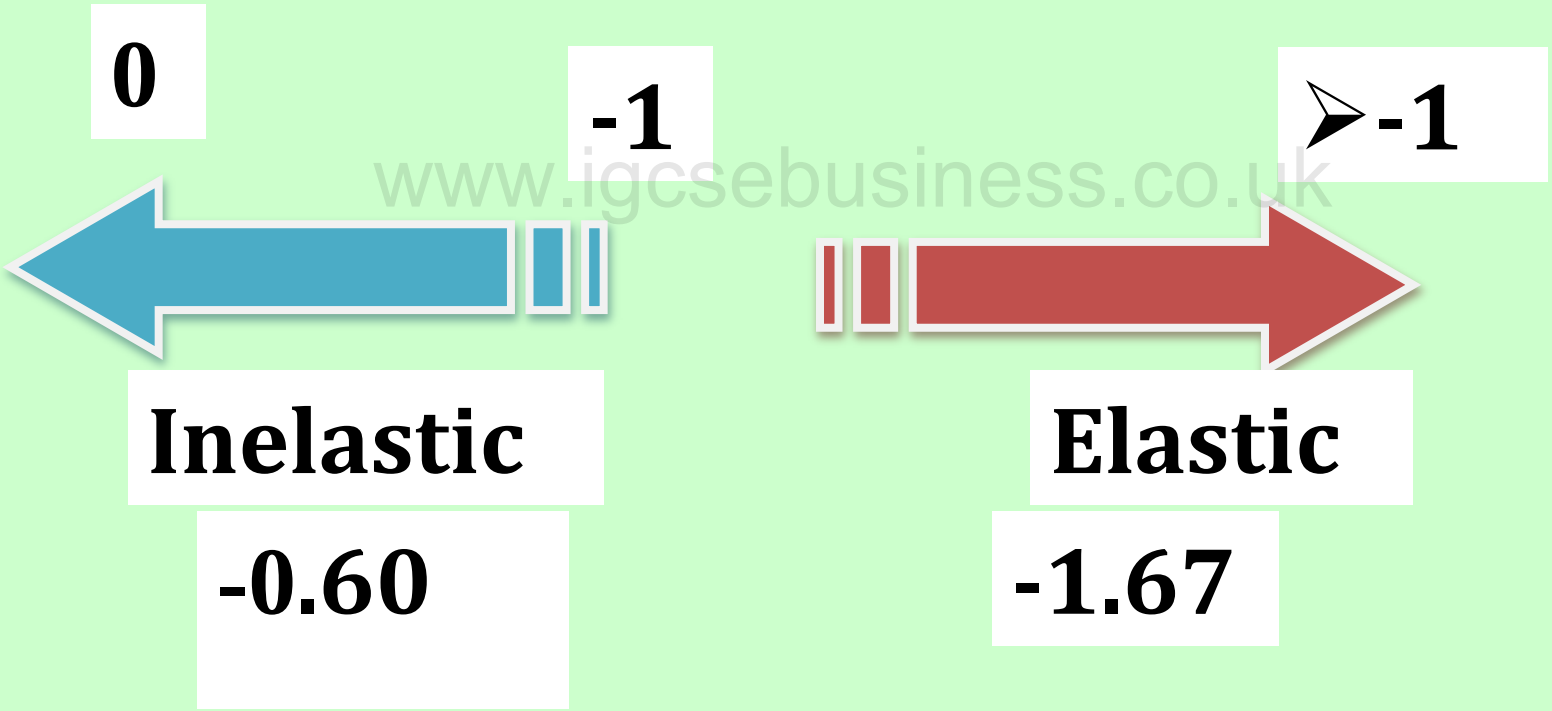
10 x 100 = -66.67% fall in demand for Mars Bars

15

So we now use the Price Elasticity formulae.

e.g. - 66.67% (% change in quantity demanded)=0.67 -

+ 100% (% change in price)



- **<u>PRICE ELASTIC</u>**
- If an item is found to be price elastic then this means that any percentage change in price will result in a **GREATER** percentage change in quantity demanded.

EXACTLY! Although you might want to think about lowering your prices as this will mean a larger percentage increase in demand!

Okay so I should not put my prices up then because I can expect a greater percentage fall in demand!

But what makes a good price elastic?

Well the main reason is that there are plenty of alternatives **(SUBSTITUTES)** that a consumer can turn to if your prices become too high for them.

Price Inelastic

If an item is found to be price inelastic then this means that any percentage change in price will result in a **SMALLER** percentage change in quantity demanded.

Okay so if I put my prices up demand will fall but only by a little bit....EXCELLENT!

EXACTLY! If you have an **INELASTIC** product, then it is generally not a good idea to think about lowering your prices as it is unlikely to result in many more customers buying your product!

But what makes a good price inelastic?

Well the main reason is that there are **VERY FEW** alternatives that a consumer can turn to if your prices become too high for them. A good example is petrol. We still buy it even if prices are high as we need it to run our cars.