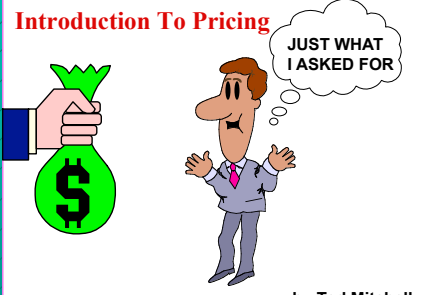


# Demand Based Pricing

**Introduction To Pricing**



JUST WHAT I ASKED FOR

by Ted Mitchell

1

**Pricing Two Views**

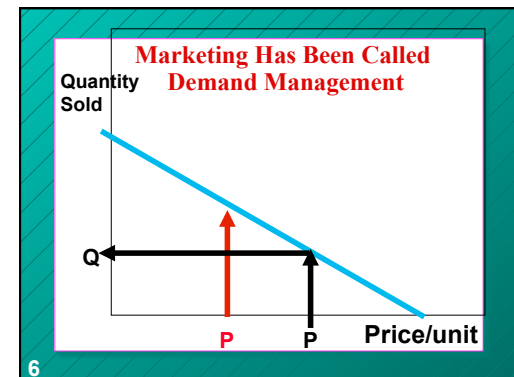
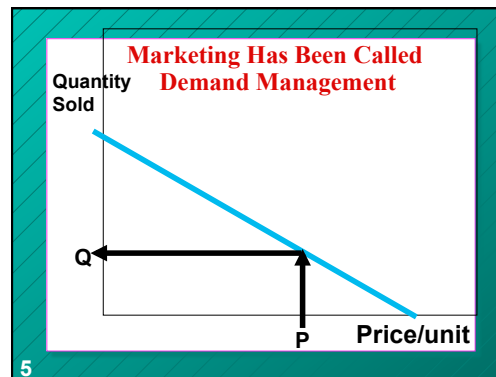
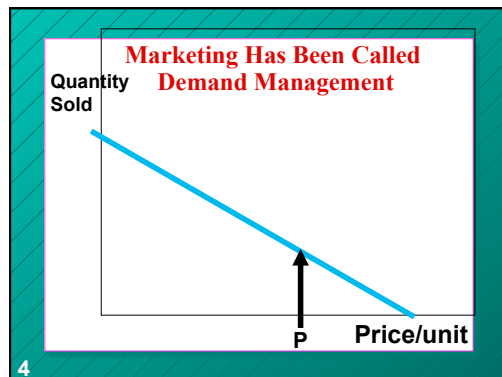
1. We give you a good price
2. We ask for this in exchange  
 $\text{Price} = \text{Product} + \text{Place} + \text{Promotion}$

2

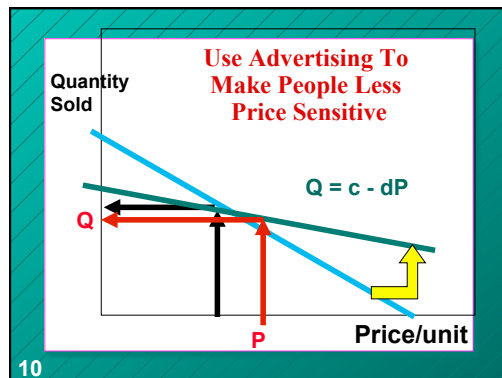
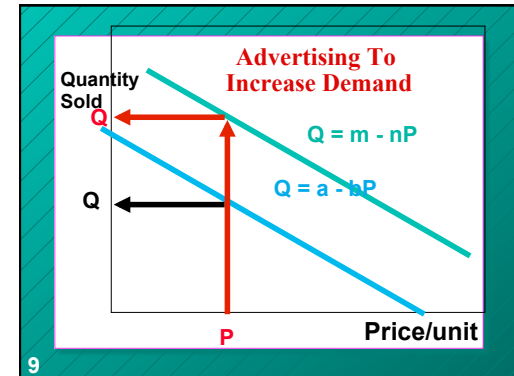
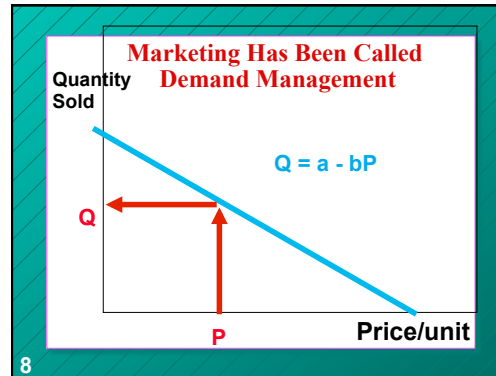
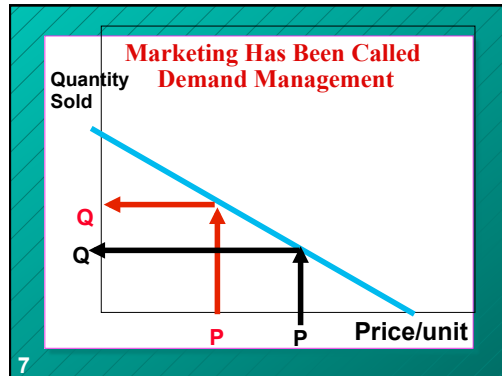
**There are Price Setters and Price Takers**

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

3



# Demand Based Pricing

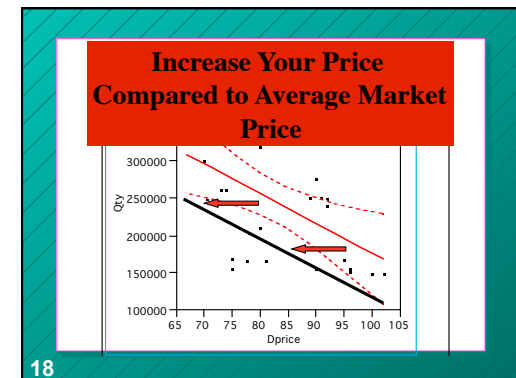
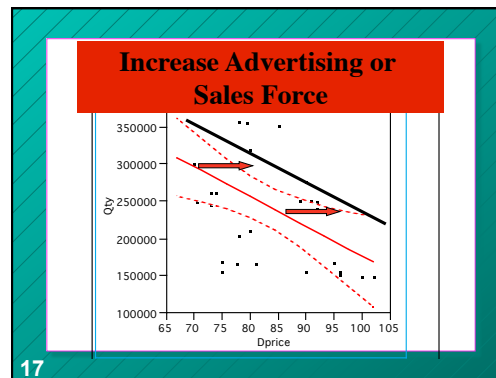
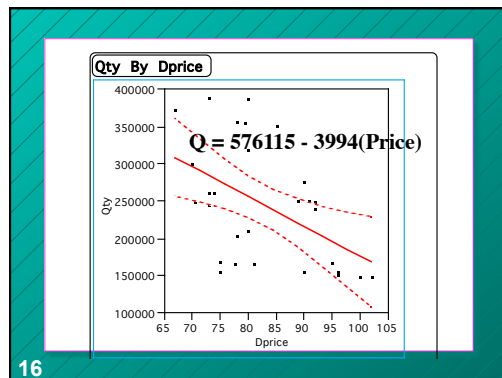
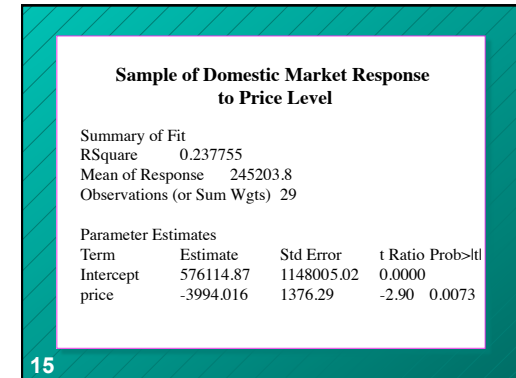
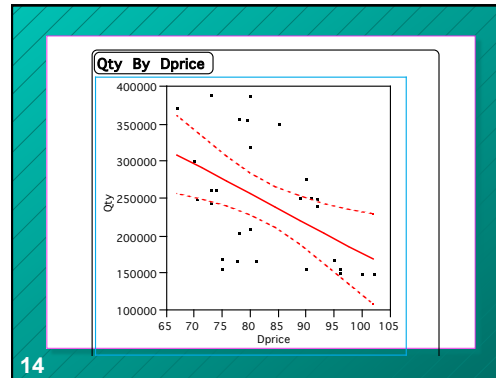
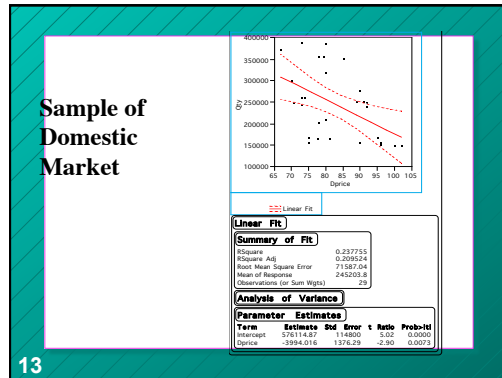


- How To Find The Price That Maximizes Revenue?**
- Demand equation is represented by
  - $Q = a - bP$ 
    - where
    - a = market potential with zero price
    - b = number of sales lost for a one dollar increase in price
    - P = price per unit
    - Q = quantity sold at price, P
- 11

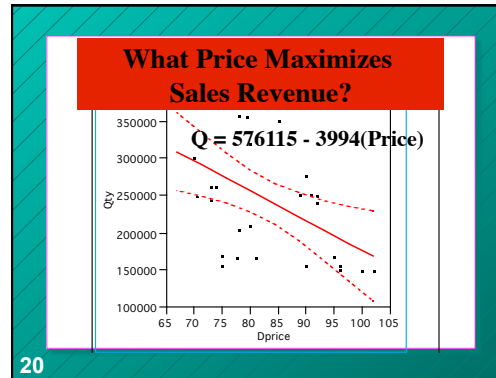
**Use The Demand Equation to Estimate the number of shoes (Q) you will sell**

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# Demand Based Pricing



# Demand Based Pricing



**What Price to Pick?**

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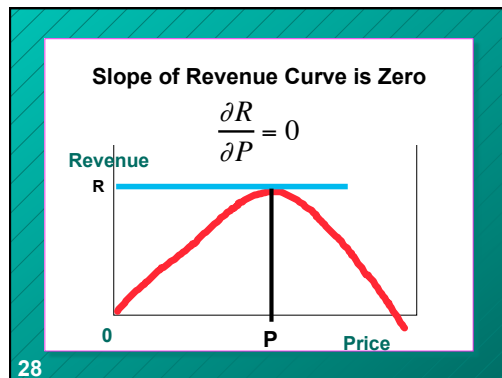
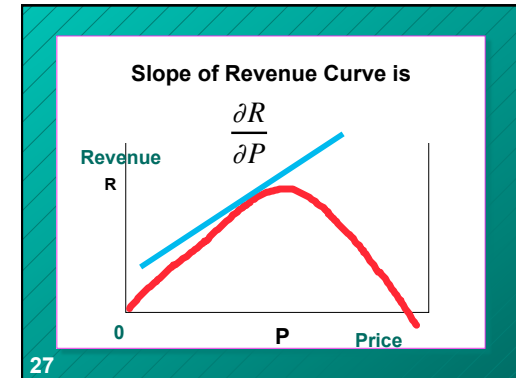
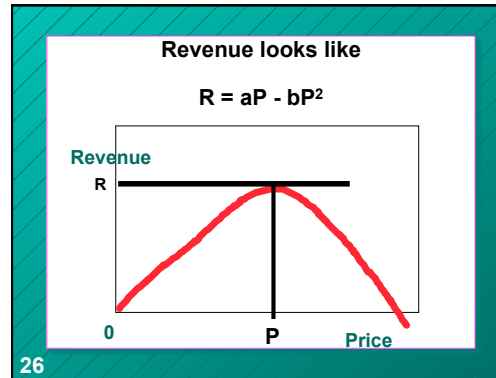
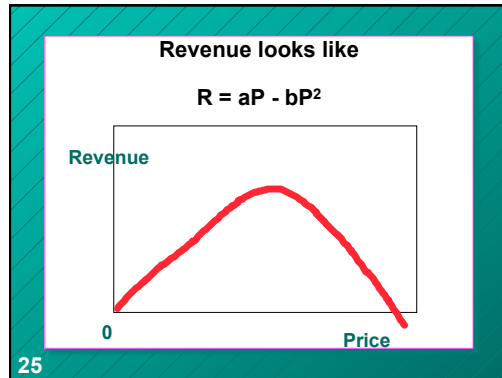
- Pricing Goals**
- Profit
    - long run, short run
  - Sales Revenue
  - Market Share (Penetration)
  - Unit Sales Volume (Learning Curve)
- 22

- Pricing Goals Cont' d**
- Image Maintenance
    - Image-Oriented Pricing
  - Cash Flow (survival)
  - Competitive Pricing (Stability)
    - Price leader, price taker
    - avoid price competition
- 23

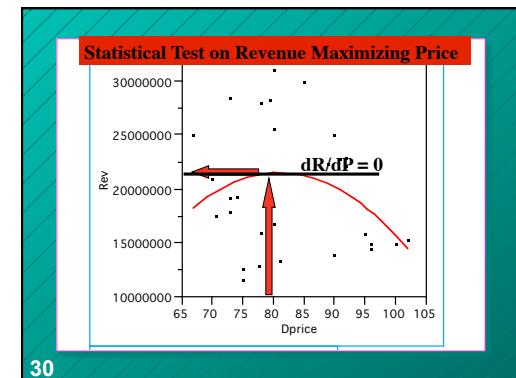
**Goal to Pick a Price That Will  
Maximize Our Revenue**

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# Demand Based Pricing



- Revenue Maximizing Price**
- Revenue = Price x Quantity
  - $R = PQ$
  - Where  $Q = 576115 - 3994P$
  - $R = P(576115 - 3994P)$
  - $R = 576115P - 3994P^2$
  - $dR/dP = 576115 - 2(3994)P$
  - Set slope = 0 and solve for P
  - $P = 576115 \div 7988 = 72$
- 29



# Demand Based Pricing

## Price That Maximizes Revenue

From the Statistical Evidence  
Price that Maximizes Revenue in the  
Domestic Market  
is probably between  
\$72 and \$78

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

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Are we having fun yet?



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