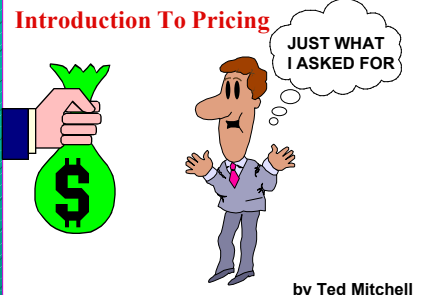


Demand Based Pricing

Introduction To Pricing



JUST WHAT I ASKED FOR

by Ted Mitchell

1

Pricing Two Views

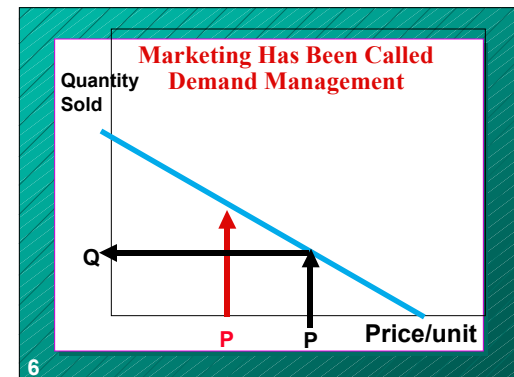
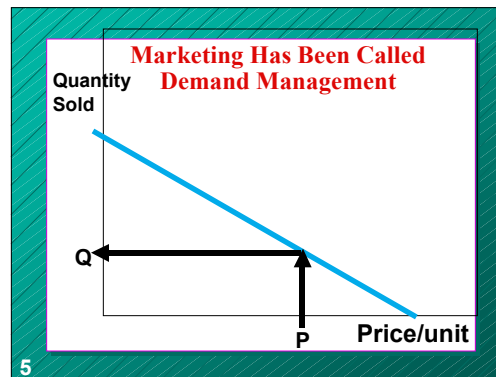
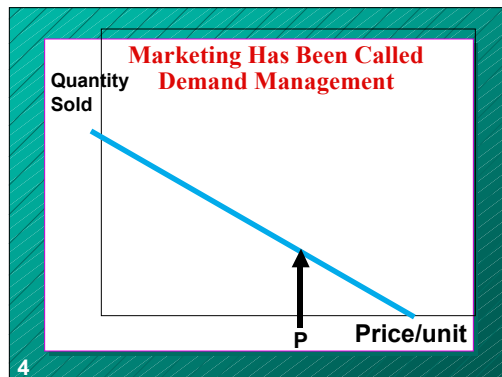
1. We give you a good price
2. We ask for this in exchange
 $\text{Price} = \text{Product} + \text{Place} + \text{Promotion}$

2

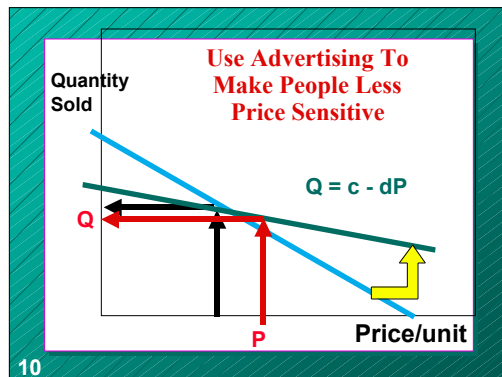
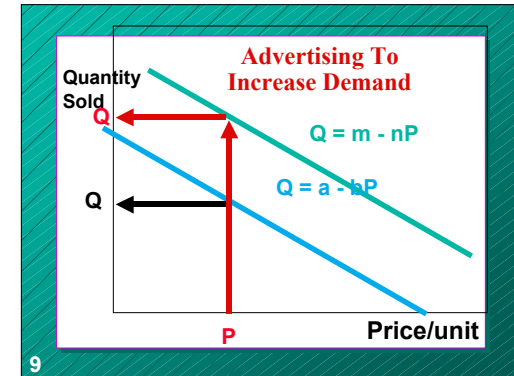
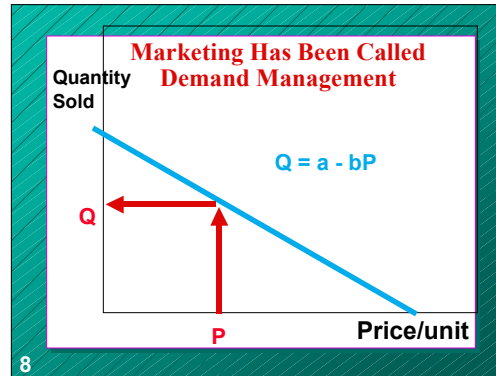
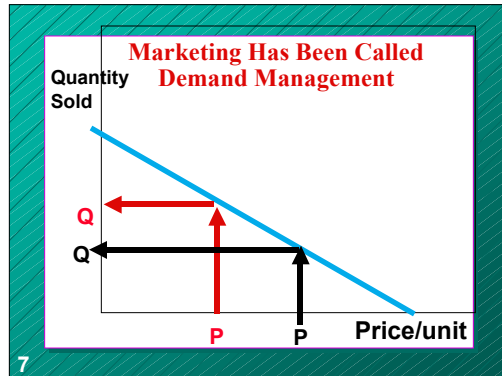
There are Price Setters and Price Takers

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

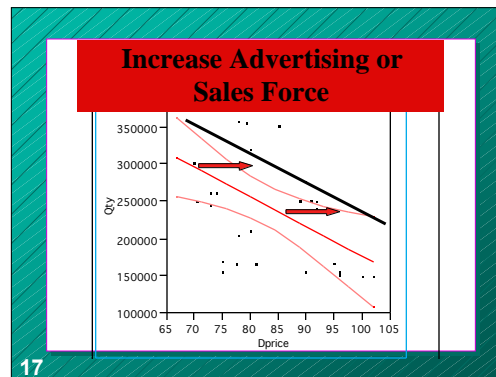
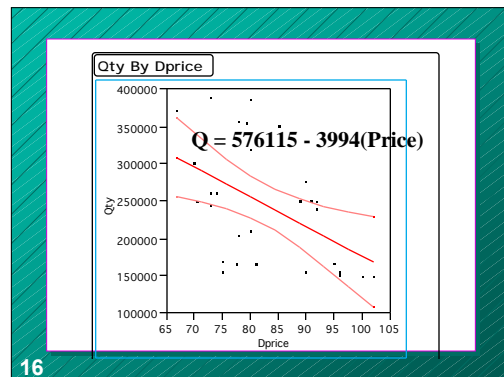
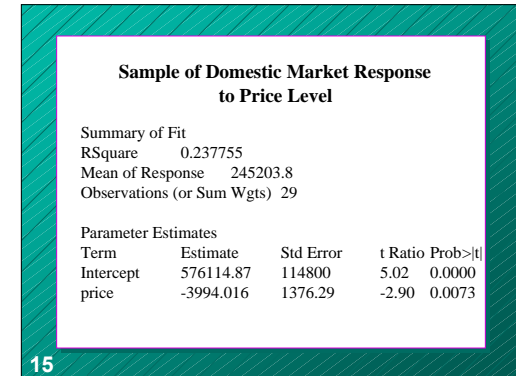
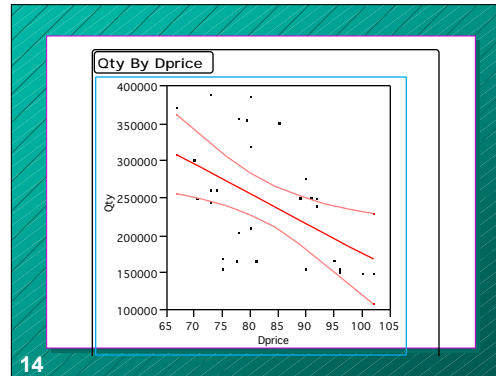
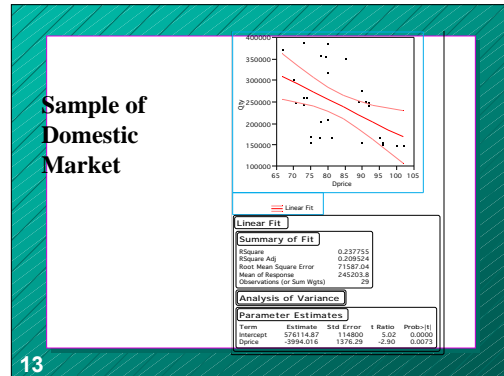


- How To Find The Price That Maximizes Revenue?**
- Demand equation is represented by
 - $Q = a - bP$
 - where
 - a = market potential with zero price
 - b = number of sales lost for a one dollar increase in price
 - P = price per unit
 - Q = quantity sold at price, P
- 11

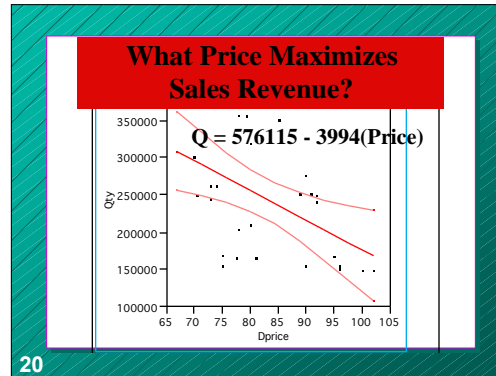
Use The Demand Equation to Estimate the number of shoes (Q) you will sell

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Demand Based Pricing



Demand Based Pricing



What Price to Pick?

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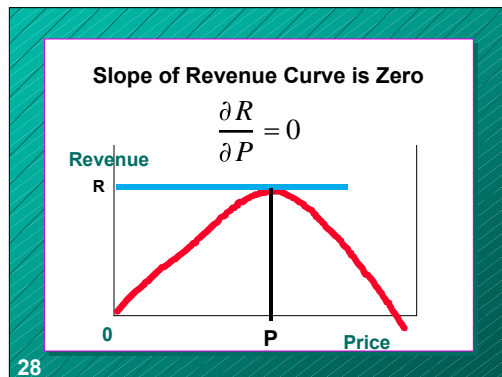
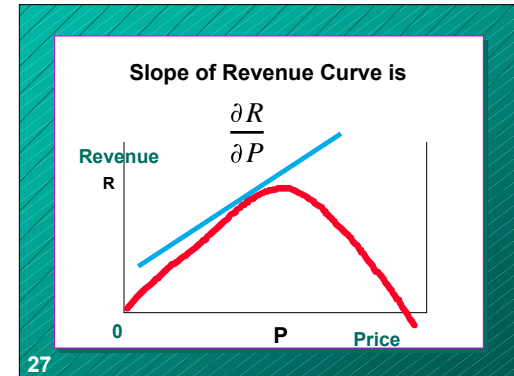
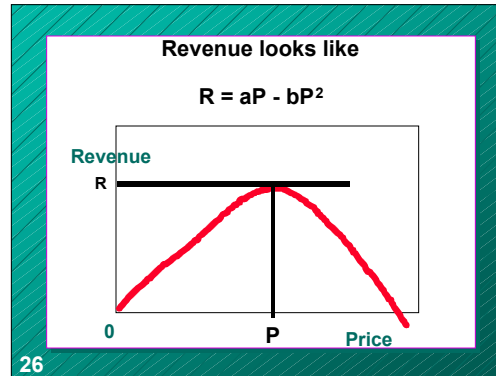
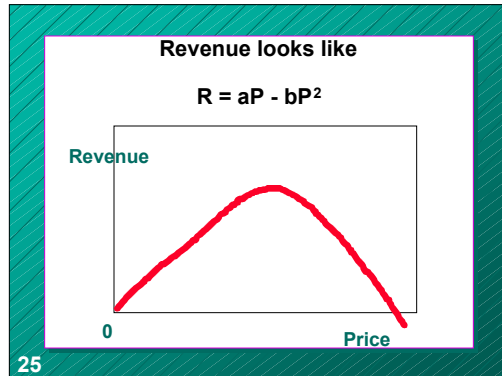
- Pricing Goals**
- Profit
 - long run, short run
 - Sales Revenue
 - Market Share (Penetration)
 - Unit Sales Volume (Learning Curve)
- 22

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

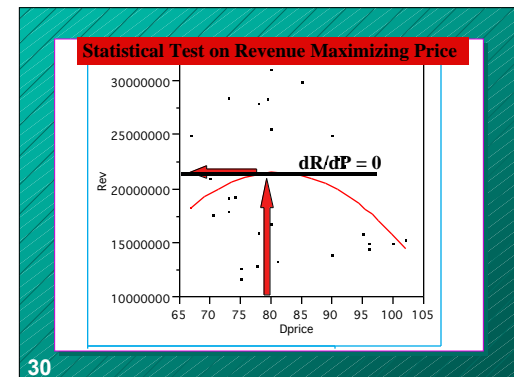
**Goal to Pick a Price That Will
Maximize Our Revenue**

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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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