Chapter 10: Pricing for Profit and Customer Value

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Reaching Your Customer

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Learning Objectives

LO 10-1 Explain the importance of pricing strategy to every organization.
LO 10-2 Outline the steps in setting a price.
LO 10-3 Compare the pricing tactics marketers can use.
LO 10-4 Explain the influence of technology on pricing.
LO 10-5 Summarize the major challenges of pricing for international markets.
LO 10-6 Explain the major legal and ethical issues associated with pricing.
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Executive Perspective

Mark Duckworth
Chief Executive Officer and Founder, Optus Inc.

- Dreamed of being a successful entrepreneur. Discovered his love of sales and established his company after gaining experience in the business world.
- Feels his success has come from creating genuine relationships with employees, customers, and vendors. Believes sales success is created because of purchasing efforts beforehand.
- Advice to graduates: get a robust education and consider graduate school. Consider working in a related industry for a year or two before entering into entrepreneurship.
- "Our success stems from having great products, pricing them at maximum value, promoting and delivering them in a way that brings value to the customer."
- His personal brand: providing unique value not offered by the competition.

Mark Duckworth
Chief Executive Officer and Founder, Optus Inc.

A passion for sales and an entrepreneurial spirit led Mark Duckworth to establish Optus. He uses his experience to provide insight in answering the following questions:

- What has been the most important thing in making you successful at your job?
- What advice would you give soon-to-be graduates?
- How is marketing relevant to your role at Optus?
- What do you consider your personal brand to be?

Later in the chapter you see how Mark later elaborates on:
- The most problematic step for marketers in the price-setting process (p. 293)

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LO 10-1: Explain the importance of pricing strategy to every organization.

- Price is the amount of something—money, time, or effort—that a buyer exchanges with a seller to obtain a product.
- Pricing is one of the most important strategic decisions a firm faces because it reflects the value the product delivers to consumers as well as the value it captures for the firm.
- Revenue is the result of the price charged to customers multiplied by the number of units sold.
- Profits are simply revenue minus total costs.
- The objective of strategic pricing is profitability.
- The majority of marketers and firms throughout the world seek to increase revenue, which can ultimately lead to increased profits.
• There are only two ways to increase revenue: sell more products or sell them at a higher price

• Ultimately, marketers want to charge as much as they possibly can as long as the consumer still perceives value in the product at that price

• Integrating the pricing strategy with other marketing mix elements ensures that the firm’s products include only those features that add value to customers

• Many factors influence how a firm sets prices

• A firm’s various stakeholders may voice a preference for higher or lower prices depending on their point of view

• Marketing executives in search of substantial profits typically want high prices across the products they sell, while customers and salespeople often want low prices to increase the perceived customer value and ultimately the number of units sold

Figure 10.1 The Price-Setting Process

Thoughtful consideration of the impact on all stakeholders at each step in the price-setting process increases the likelihood that the final price captures value for the firm and delivers value to the customer. Marketers use a six step, systematic process to evaluate relevant factors when setting a price.

Insight Questions:
What increases the likelihood that the final price of a product captures value for the firm and delivers value to the customer? (Answer: thoughtful consideration of the impact on all stakeholders at each step in the price-setting process)
Outline the steps in setting a price for a familiar product and service. Does the process differ? (Answer: open ended)
Step 1: Define the Pricing Objectives

- Profit maximization or price skimming
- Volume maximization or penetration pricing
- Survival pricing

LO 10-2: Outline the steps in setting a price.

- The first step in setting a price is to clearly define the pricing objectives.

- Pricing objectives should be an extension of the firm’s marketing objectives.

- Profit maximization, or price skimming, involves setting a relatively high price for a period of time after the product launches.

- For a profit maximization strategy to work, firms must use the other marketing mix elements to make sure the product is produced, delivered, and promoted in a way that clearly differentiates it from competing alternatives.

- Volume maximization is designed to maximize volume and revenue for a firm.

- Volume maximization, often referred to as penetration pricing, is the process of setting prices low to encourage a greater volume of purchases.

- By lowering prices, marketers lower the level of involvement for the consumer.

- For this type of strategy to work over the long term, the firm must have a significant cost or resource advantage over competitors.

- The survival objective is designed to maximize cash flow over the short term and is typically implemented by a struggling firm.

- Survival pricing is the process of lowering prices to the point at which revenue just covers costs, allowing the firm to endure during a difficult time.

- It should not be a permanent pricing objective, but it can be useful as a temporary means of staying in business.
Step 2: Evaluate demand

- Marginal revenue
- Marginal cost
- Price sensitivity
- Price elasticity of demand
- Inelastic demand
- Elastic demand

The second step in setting a price is evaluating demand for the product at various price levels.

The concept of supply and demand sits at the heart of setting prices.

Marginal revenue is the change in total revenue that results from selling one additional unit of product, while marginal cost is the change in total cost that results from producing one additional unit of product.

Price sensitivity is the degree to which the price of a product affects consumers’ purchasing behavior.
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• The degree of price sensitivity varies from product to product and from consumer to consumer.

• Price elasticity of demand is a measure of price sensitivity that gives the percentage change in quantity demanded in response to a percentage change in price.

• Inelastic demand refers to a situation in which a specific change in price causes only a small change in the amount purchased.

• Elastic demand is a scenario in which demand changes significantly due to a small change in price.

• Prices are generally more elastic in the early stages of the product life cycle and increasingly inelastic in the later stages of the product life cycle.

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Because demand for Netflix’s DVD and online streaming services is inelastic—not significantly affected by changes in price—the additional revenue it earned when it increased prices for each service more than outweighed the revenue it lost due to unhappy customers.
Executive Perspective: The most problematic step in the price-setting process is determining costs. In order to make sure that you are pricing in a way that can keep your business profitable, you have to make sure all of the fixed and variable costs, whether that be the rent for the warehouse, salaries for the human resources team, or the cost of staples at your desk, are accounted for in each product price.

• Accurately determining the costs of a product sets a lower price limit for marketers and ensures that they will not lose money by pricing their products too low.

• While a firm may temporarily sell products below cost to generate sales as part of a survival pricing strategy, it cannot endure for very long employing this tactic.

• Costs that remain constant and do not vary based on the number of units produced or sold are called fixed costs (salaries, rent, insurance, and advertising costs).

• Costs that vary depending on the number of units produced or sold are called variable costs (material, sales commissions, utilities, and delivery costs).

• Once a company estimates fixed and variable costs, it can incorporate them into a break-even analysis to determine how much it would need to sell to make the product profitable.

• Break-even analysis is the process of calculating the break-even point, which equals the sales volume needed to achieve a profit of zero.

• The break-even point is the point at which the costs of producing a product equal the revenue made from selling the product.

• Once the firm has established the break-even point, it has a starting point for estimating how much revenue it must generate to earn a profit.
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• While marketers must understand a firm’s costs to set prices effectively, costs should never dictate price.

Figure 10.2 Break-Even Analysis

The break-even point is the point at which the costs of producing a product equal the revenue made from selling the product. Once the firm has established the break-even point, it has a starting point for estimating how much revenue it must generate to earn a profit. To calculate the break-even point, we divide total fixed costs by the unit contribution margin, which is determined by subtracting the variable cost per unit from the selling price per unit with fixed and variable costs considered. Notice that fixed costs remain flat while variable costs increase as the amount of sales increases. Once unit sales pass the break-even point, the firm begins to generate a profit.

Insight Questions:
Explain how break-even analysis only analyzes the costs of the sales. (Answer: it does not reflect how demand may be affected at different price levels, and does not measure price sensitivity)
Should costs dictate price? (Answer: No. Strategic pricing requires firms to integrate costs into other aspects of the marketing mix, including what value the customer places on the product and the price environment in the industry.)
Step 4: Analyze the competitive price environment

- Match competitor
- Price lower than competitor
- Price higher than competitor

*Marketers must consider what competitors charge for their products*

*Marketers can choose to match competitor prices, price lower than competitors thus offering customers greater value, or price higher because the firm offers a superior product*

*Marketers also should consider how competitors might respond to their pricing*

*How a firm reacts to a change in a competitor’s prices depends on whether the competitor is a stronger or weaker rival and whether the price reduction is cost justified, that is, if the lower price will allow the firm to remain profitable*

*Marketers must also take online competitors into account when determining the initial prices for both in-store and online-only items the pricing decision should be made with the goal of maximizing long-term, sustainable profits*
Step 5: Choose a price

- Reference prices
- Underpricing

- Choosing a price is a complicated process and marketers rarely do it perfectly
- Reference prices are the prices that consumers consider reasonable and fair for a product
- Instead of just seeking to identify reference prices, marketers can also seek to establish reference prices for consumers
- One of the most common mistakes in modern pricing is charging someone less than they are willing to pay, or underpricing
- Because revenue is simply the number of units sold multiplied by the price per item, marketers too often make the mistake of setting prices too low in an effort to increase the units sold side of the equation, without considering all of the other factors that contribute to the value a customer places on a product
Step 6: Monitor and evaluate the effectiveness of the price

- Unbundling
- Escalator clause

• Choosing a price is not a one-time decision and should be monitored and evaluated to determine how effectively the strategy meets the pricing objectives

• Pricing strategy evolves and should be reevaluated throughout the product life cycle

• One of the most challenging aspects of pricing is initiating price increases

• Unbundling provides value for customers who are focused on a specific price point rather than the complete product offering

• Unbundling involves separating out the individual goods, services, or ideas that make up a product and pricing each one individually, which allows marketers to maintain a similar price on the core product, but recover costs in other ways on related goods and services

• An escalator clause in an agreement provides for price increases depending on certain conditions

• The escalator clause ensures that providers of goods and services do not encounter unreasonable financial hardship as a result of uncontrollable increases in the costs of or decreases in the availability of something required to deliver products to customers

• Firms that decide to use escalator clauses should make them as transparent as possible and specify whether price adjustments will be made at fixed intervals (e.g., quarterly, semi-annually, or annually) or only at the expiration of the contract
The video discusses the art and the science of airline pricing that helps students understand why tickets on the same flight can have very different prices.

Click on the name tag to go to the video case.

Please complete the Connect exercise for Chapter 10 that focuses on the price-setting process. By understanding the dynamics of each step of the process, you will gain insight into how marketers set prices that maximize both profits and customer value.

**Insight Questions:**
What factors should be considered for setting prices in each step of the price-setting process?
How does the price-setting process seek to add value to customers?
LO 10-3: Compare the pricing tactics marketers can use.

• Once marketers have completed their analysis of demand, costs, and the competitive environment, they can use a number of different tactics to choose a final price.

• Markup pricing (also known as cost-plus pricing) is one of the most commonly used pricing tactics, largely because it is easy.

• In markup pricing, marketers add a certain amount to the cost of the product to set the final price.

• Though markup pricing has the advantage of being easy, it’s not very effective at maximizing profits, which is the ultimate objective of a good pricing strategy.

• Profit margin is the amount a product sells for above the total cost of the product itself.

• Odd pricing is a pricing tactic in which a firm prices products a few cents below the next dollar amount.

• Firms that use odd pricing still need to consider the impact of price elasticity of demand at odd-pricing points.

• Firms that want to promote an image of superior quality and exclusivity to customers may pursue a strategy of prestige pricing.

• Prestige pricing is a pricing strategy that involves pricing a product higher than competitors to signal that it is of higher quality.

• Price reductions given to customers purchasing goods or services out of season are called seasonal discounts.

• There are usually two ways to purchase products: à la carte (individually) or as a bundle.
Price bundling is a strategy in which two or more products are packaged together and sold at a single price.

Marketers often use bundling as a tool because they can charge higher prices for the bundle than they could for the elements individually. Price bundling has come up against increased customer resistance in some industries in recent decades.

Table 10.2 The Profit Implications of Using a Markup Pricing Strategy

Though markup pricing has the advantage of being easy, it's not very effective at maximizing profits, which is the ultimate objective of a good pricing strategy. Shown is an example of how markup pricing does not capture value for a lawn chair. The example shows four target customers who personally value the lawn chair at $10, $14, $15, and $20, respectively. The profit margin the firm can expect to earn on each lawn chair using a markup pricing strategy is shown.

**Insight Questions:**
How does perceived value elicit customer purchases? (Answer: open ended)

Why is markup pricing one of the most commonly used pricing tactics? (Answer: A pricing analyst can implement a markup pricing strategy easily by reviewing a spreadsheet and adding a percentage to the cost of each item.)

In what situation does the customer not decide to purchase the lawn chair? (Answer: when the perceived value is lower than the lower than the markup price of the chair)
Table 10.3 The Profit Implications of Using a Research-Based Pricing Strategy

Using an alternative pricing strategy, a researched-based pricing strategy, the firm has improved outcomes. Even though the firm ends up with one less sale because customer #2 perceives the price to be too high, the total profit of $10 is close to 50 percent higher than the $6 total profit the firm earned using a simple markup strategy.

**Insight Questions:**
How can marketing research assist the pricing strategy? (Answer: marketing research can tell a company what competitors charge for the same or similar product)

Compared to the markup pricing strategy, how does a research-based pricing strategy result in a higher profit margin? (Answer: Even though the firm ends up with one less sale because customer #2 perceives the price to be too high, the total profit of $10 is close to 50 percent higher than the $6 total profit the firm earned using a simple markup strategy.)
Forbes profile of how StubHub has changed ticket pricing for all types of events.

Click on the name tag to go to the video case.

Please complete the Connect exercise for Chapter 10 that focuses on pricing tactics. By understanding the dynamics of different tactics and being able to perform the necessary pricing calculations, you should gain insight into how marketers choose specific prices and when those tactics will be most effective.

**Insight Questions:**
Is there a particular pricing strategy that is always more effective than the other?
What factors make one pricing strategy more effective than another?
When competition is inferior in a marketplace, is there one pricing strategy that makes most sense?

LO 10-4: Explain the influence of technology on pricing.

• Technology influences pricing strategy in a significant and growing way

• Technology has helped to shift the balance of power from companies to customers, who are better informed about prices than ever before

• Smartphone and tablet technology has unleashed a new era of pricing transparency
as consumers use wireless apps and search engines on their mobile devices in stores to compare prices

• In response, marketers at traditional brick-and-mortar stores more aggressively review the prices of online stores when setting the initial price of an item as part of their analysis of the competitive price environment

• Since more people use their mobile phones and tablets to order products, apps are becoming increasingly important in directing users to online sites to complete a purchase

• While dynamic pricing is not new, its popularity has grown explosively due to improving and readily available technological tools that facilitate its use

• Dynamic pricing is a pricing strategy that involves constantly updating prices to reflect changes in supply, demand, or market conditions

• Dynamic pricing helps marketers emphasize yield management, which is a strategy for maximizing revenue even when a firm has a fixed amount of something (goods, services, or capacity), such as a sports team that has only a finite number of seats in its stadium
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Chicago White Sox VP discusses the marketing opportunities associated with Dynamic Ticket Pricing.

Click on the name tag to go to the video case.

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LO 10-5: Summarize the major challenges of pricing for international markets.

• Pricing is a critical component of a successful global marketing strategy

• Historically, companies have set prices for products sold internationally higher than the same products sold domestically

• Technological advancements and growing Internet access throughout the world have made global pricing more transparent and, in many cases, more competitive

• In addition, challenging economic conditions over the past decade have impacted pricing in a global context

• You have probably heard of the black market, which refers to the illegal buying and selling of products outside of sanctioned channels

• A lesser-known relative of the black market is the gray market

• The gray market consists of branded products sold through legal but unauthorized distribution channels

• This form of buying and selling often occurs when the price of an item is significantly higher in one country than another
• Gray market goods can be a boon for consumers, allowing them to obtain legally produced items for less than they could normally.

• Gray market goods cut into a firm’s revenue and profits, leaving marketers looking for ways to control and repress such activity.

• Many nations place tariffs on a variety of products, especially fruits and vegetables, which have tariffs in some countries of over 25 percent.

• Tariffs are taxes on imports and exports between countries.

• In recent years, the removal of tariffs due to international agreements has caused countries to switch to nontariff barriers, such as anti-dumping laws, to protect their local industries.

• Dumping occurs when a company sells its exports to another country at a lower price than it sells the same product in its domestic market.
Ken Sage
Senior Carrier Sales Coordinator, J.B. Hunt Transport Services, Inc.

Ken Sage is a negotiating yes-man. In choosing a career path that was out of the ordinary, he shares insight in answering the following questions:

Describe your job.
Describe how you got the job you have.
What has been the most important thing in making you successful at your job?
What advice would you give soon-to-be graduates?
What do you consider your person brand to be?

LO 10-6: Explain the major legal and ethical issues associated with pricing.

• Many legal and ethical issues impact pricing decisions

• Pricing is one of the most watched and regulated marketing activities because it directly impacts the financial viability of both organizations and individuals

• Price discrimination is the practice of charging different customers different prices for the same product

• Price discrimination sounds negative, but it is illegal only if it injures competition

• Organizations can charge customers different amounts for legitimate reasons

• When two or more companies collude to set a product’s price, they are engaging in price fixing

• Price fixing is illegal under the Sherman Antitrust Act of 1890 and the Federal Trade Commission Act

• Predatory pricing is the practice of first setting prices low with the intention of
pushing competitors out of the market or keeping new competitors from entering the market, and then raising prices to normal levels

• This type of long-term aggressive pricing strategy could be considered an attempt to create a monopoly and is therefore illegal under U.S. law; however, predatory pricing is difficult to prove

• Deceptive pricing practices can lead to price confusion, where consumers have difficulty discerning what they are actually paying

• Deceptive pricing is an illegal practice that involves intentionally misleading customers with price promotions

• The most common examples of deceptive pricing involve firms that falsely advertise wholesale pricing or promise a significant price reduction on an artificially high retail price.

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Companies ranging from AMC Theaters to Lowes to American Eagle Outfitters engage in legitimate price discrimination by offering goods and services to active military personnel and veterans for a lower price than other customers.
Social media are influencing the prices consumers see when buying products online. Rosetta Stone, which sells language-learning products, varies the prices for some of its products and the product bundles offered depending on whether or not a consumer comes to its site through a social media link. However, marketers should be careful as studies suggest that over 75 percent of consumers say they would be bothered if they knew that someone paid a lower price for the same product. Some organizations also offer different online prices based on what type of mobile device consumers use to access the site and where consumers are located. Office supply company Staples discounted the price of its online products for consumers who lived within a 20-mile range of major competitors. Some firms, such as travel website Orbitz, modified the prices consumers saw depending on whether the customer was using a specific type of mobile device. Consumers using an iPhone or Android phone saw discounts of up to 50 percent compared to what a person searching the site on a traditional computer saw. The Social Media in Action Connect exercise in Chapter 10 will let you make decisions about setting consumer prices based on the social media profiles of consumers. By understanding the insights that social media can provide, you will be able to develop pricing strategies that maximize profits from each individual consumer.


Insight Questions:
What information from social media consumer profiles can assist organizations in setting consumer prices?
Do you consider researching consumer profiles on social media outlets for the sake of setting prices an invasion of privacy? Why or why not?
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How can consumers use social media to share their thoughts and opinions on prices set by organizations?

Have you ever been witness to purchasing a product and receiving a discount when purchasing via a social media link or a mobile device?

If you were a marketer for an organization, how far would you decrease prices to entice people using social media or mobile devices to purchase your product? Browse Facebook and Twitter to find two examples of products that have price discounts if using social media and making purchases using a mobile device.

Legal and Ethical Issues in Pricing
- U.S. Laws Impacting Pricing
  - Robinson-Patman Act
    - Three scenarios allowing price discrimination
  - Federal Trade Commission Act (FTCA)
    - Established the FTC
  - Wheeler-Lea Act
  - The Advertising Act

*The United States government and other major economies, such as Japan and the European Union, are committed to stopping and punishing anticompetitive and harmful pricing behavior through a variety of laws and regulations.

*To combat price discrimination that injures competition, the United States government passed the Robinson-Patman Act as an amendment to the Clayton Antitrust Act of 1914.

*The Robinson–Patman Act (also called the Anti-Price Discrimination Act) was made into law in 1936 with the goal of requiring sellers to charge everyone the same price.

*A firm can charge different prices if it is part of a quantity or manufacturing discount program.

*A firm can lower prices for certain customers if a competitor undercuts the originally quoted price market conditions such as going-
out-of-business sales or situations in which the quality of products has changed give firms the opportunity to charge different prices for the same product

• The Federal Trade Commission Act (FTCA) was passed in 1914 and established the Federal Trade Commission (FTC), which had the authority to enforce laws aimed at prohibiting unfair methods of competition

• The Wheeler-Lea Act of 1938 (also called the Advertising Act) is an amendment to the FTCA

• Its passage removed the burden of proving that unfair and deceptive practices had to injure competition as well as customers and broadened the FTC’s powers to include protecting consumers from false advertising practices
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Complete the Connect exercise for Chapter 10 that focuses on important laws that impact pricing. By recognizing the specific requirements of each law, you will understand the legal requirements of pricing decisions and be able to help your firm avoid violating pricing rules and regulations.

**Insight Questions:**
Whose responsibility is it to be aware of the laws that impact pricing?
How are the pricing rules and regulations influenced because of globalization and the internet?

Chapter 10 video shows how a small candy store makes decisions on pricing ranging from seasonal discounts, to mark-up strategies, to how to price candy made at the store.

Click on the name tag to go to the video case.

DISCUSSION QUESTIONS

1. Why is it difficult to determine reference prices? Consider a new pizza restaurant opening near your campus. What challenges would the restaurant’s marketers encounter as they attempt to determine their customer’s reference prices? How could they find this information?
2. What is the problem with standard mark-up pricing? How do buyers and sellers lose from this type of pricing strategy?
3. Name a product that you think is underpriced. What price do you think should be charged and what would be the benefit of that higher price for the company that produces the product?
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**DISCUSSION QUESTIONS**

4. Name one product for which your demand is elastic and one product for which your demand is inelastic. For example, if Subway raised their price by 10 percent, would you reduce the number of times you eat there by 10 percent, by more than 10 percent, or would the price increase not change your purchase at Subway at all? Do you think most other consumers of these two products feel the same way? How would this information impact the pricing of those products?

5. Go to the Stubhub website (www.stubhub.com) and find an event for which you might be interested in buying tickets. Are prices higher or lower than you could buy directly from the venue? Why do you think that is? Why is Stubhub not violating price discrimination laws?

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**DISCUSSION QUESTIONS**

6. Think of your favorite brand of potato chip and then discuss what considerations affect how you would price that product in a neighboring country such as Mexico or Canada.

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**FORECAST**

1. Why is pricing important to my organization?
2. How do firms set prices?
3. What are specific pricing tactics that can be used by an organization?
4. How has technology changed pricing?
5. What are the challenges associated with pricing products in international markets?
6. What are the laws that I should be aware of when setting prices for my organization?

This chapter explores the importance of pricing, which is one of the most important strategic decisions a firm faces. Think about how many firms are impacted by how much they charge for their goods or services. Our guess is your list includes nearly every firm you know. Firms that set prices too high risk losing customers to competitors, but keeping prices lower than what customers are willing to pay leaves additional profits on the table that can never be recovered. In this chapter you will learn about the price-setting process, specific pricing tactics you can use to maximize profits, and important laws and regulations you must consider when pricing your products. As you read through the chapter, consider the following key questions:
1. Why is pricing important to my organization?

2. How do firms set prices?

3. What are specific pricing tactics that can be used by an organization?

4. How has technology changed pricing?

5. What are the challenges associated with pricing products in international markets?

6. What are the laws that I should be aware of when setting prices for my organization?

**Break-even analysis**

- The process of calculating the break-even point, which equals the sales volume needed to achieve a profit of zero.

**Break-even point**

- The point at which the costs of producing a product equal the revenue made from selling the product.

**Deceptive pricing**

- An illegal practice that involves intentionally misleading customers with price promotions.

**Dynamic pricing**

- A pricing strategy that involves constantly updating prices to reflect changes in supply, demand, or market conditions.
Dumping

- A protectionist strategy in which a company sells its exports to another country at a lower price than it sells the same product in its domestic market.

Elastic demand

- A scenario in which demand changes significantly due to a small change in price.

Escalator clause

- A section in a contract that ensures that providers of goods and services do not encounter unreasonable financial hardship as a result of uncontrollable increases in the costs of or decreases in the availability of something required to deliver products to customers.

Federal Trade Commission Act (FTCA)

- A law passed in 1914 that established the Federal Trade Commission and sought to prevent practices that may cause injury to customers, that cannot be reasonably avoided by customers, and that cannot be justified by other outcomes that may benefit the consumer or the idea of free competition.

Fixed costs

- Costs that remain constant and do not vary based on the number of units produced or sold.

Gray market

- The sale of branded products through legal but unauthorized distribution channels.
Inelastic demand
• A situation in which a specific change in price causes only a small change in the amount purchased.

Marginal cost
• The change in total cost that results from producing one additional unit of product.

Marginal revenue
• The change in total revenue that results from selling one additional unit of product.
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Key Terms

Markup pricing
• A pricing method in which a certain amount is added to the cost of the product to set the final price.

Odd pricing
• A pricing tactic in which a firm prices products a few cents below the next dollar amount.

Predatory pricing
• The practice of first setting prices low with the intention of pushing competitors out of the market or keeping new competitors from entering the market, and then raising prices to normal levels.

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Key Terms

Prestige pricing
• A pricing strategy that involves pricing a product higher than competitors to signal that it is of higher quality.

Price
• The amount of something—money, time, or effort—that a buyer exchanges with a seller to obtain a product.

Price bundling
• A strategy in which two or more products are packaged together and sold at a single price.

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**Key Terms**

- **Price discrimination**
  - The practice of charging different customers different prices for the same product.

- **Price elasticity of demand**
  - A measure of price sensitivity that gives the percentage change in quantity demanded in response to a percentage change in price (holding constant all the other determinants of demand, such as income).

- **Price fixing**
  - When two or more companies collude to set a product’s price.

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**Key Terms**

- **Price sensitivity**
  - The degree to which the price of a product affects consumers’ purchasing behavior.

- **Profit margin**
  - The amount a product sells for above the total cost of the product itself.

- **Profit maximization (price skimming)**
  - A pricing strategy that involves setting a relatively high price for a period of time after the product launches.

**Price discrimination**

- The practice of charging different customers different prices for the same product.

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- The amount a product sells for above the total cost of the product itself.

**Profit maximization (price skimming)**

- A pricing strategy that involves setting a relatively high price for a period of time after the product launches.
Key Terms

**Profits**
- Revenue minus total costs.

**Reference prices**
- The prices that consumers consider reasonable and fair for a product.

**Revenue**
- The result of the price charged to customers multiplied by the number of units sold.

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**Robinson-Patman Act**
- A law passed in 1936 that requires sellers to charge everyone the same price for a product.

**Seasonal discounts**
- Price reductions given to customers purchasing goods or services out of season.

**Survival pricing**
- A pricing strategy that involves lowering prices to the point at which revenue just covers costs, allowing the firm to endure during a difficult time.
Chapter 10: Pricing for Profit and Customer Value

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**Key Terms**

- **Tariffs**
  - Taxes on imports and exports between countries.

- **Unbundling**
  - Separating out the individual goods, services, or ideas that make up a product and pricing each one individually.

- **Underpricing**
  - Charging someone less than they are willing to pay.

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**Key Terms**

- **Variable costs**
  - Costs that vary depending on the number of units produced or sold.

- **Volume maximization (penetration pricing)**
  - A pricing strategy that involves setting prices low to encourage a greater volume of purchases.

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**Key Terms**

- **Wheeler-Lea act**
  - An amendment to the Federal Trade Commission Act passed in 1938 that removed the burden of proving that unfair and deceptive practices had to injure competition.

- **Yield management**
  - A strategy for maximizing revenue even when a firm has a fixed amount of something (goods, services, or capacity).