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Marketing Modules Series

Module 6: Price

Teaching Slides

Value

Image

Profits

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Demand

Costs

Competition

Operating Expenses

Service

Setting a Price is An On-Going Process!!

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Complete Marketing Modules Series available at: <http://hortmgt.gomez.dyson.cornell.edu/Marketing-Modules.html>

Setting a Price is:

- The result of your firm's objectives and goals
- A fundamental component of your marketing mix
- A key element to your firm's success (revenue and profits)

When Setting Prices Keep in Mind that:

- The customer is the focus of your business
- You operate in a competitive environment
- Your prices reflect your position in the market

Setting & Getting the Right Prices

Price vs. Value

Market Price as a Benchmark

- Can you charge a higher price or do you have to go with the market price?
- Will you be able to make a profit at this price or will you lose money and be out of business?

Constantly check if your Price is in line with:

- Your customer's perception of the quality and service of your **Product**
- The **Distribution** channels you are using
- Your **Promotional** message

Common Pricing Strategies

- *Skimming Pricing* – no competitor in the market
- *Penetration Pricing* – to increase presence in the market
- *Premium Pricing* – high price for a unique product
- *Economy Pricing* – “no frills” price

Which of these would be the most appropriate for your business?

Two Common Mistakes in Pricing

- Lowering prices to compete on price alone
- Lowering prices without reducing the benefits/services

Be Smart!
Avoid Common Pricing Mistakes!

Calculating your Prices

$$\text{Price} = \text{Costs} + \text{Profits}$$

You need to know:

- Your Total Costs
- Your Direct/Variable Costs
- Your Indirect/Fixed Costs
- Your Production Costs/Unit
- Your Contribution Margin/Unit
- Your Break–Even Point
- Your Profit Goals

Cost & Profit Pricing Methods

Gross Margin, Markup & Break-Even Point

Gross Margin (GM) Pricing:

$$\text{Selling Price} = \frac{\text{Cost of Goods Sold}}{1 - \text{Desired GM}}$$

Example:

$$\text{Cost of Goods Sold} = \$2.39$$

$$\text{Desired Gross Margin} = 40\% (0.4)$$

$$\text{Selling Price} = \$2.39 / (1 - 0.4) = \$3.98$$

Markup Pricing:

$$\text{Selling Price} = \text{Cost of Goods Sold} + (\text{Markup} \times \text{Cost of Goods Sold})$$

Example:

$$\text{Cost of Goods Sold} = \$2.39$$

$$\text{Desired Markup} = 40\% (0.4)$$

$$\text{Selling Price} = \$2.39 + (0.4 \times \$2.39) = \$3.35$$

Break-Even Point Pricing Method:

$$\text{Break- Even Price} = \frac{(\text{Direct Costs} + \text{Indirect Costs})}{\text{Number of Units Produced}}$$

Planning for Profits Pricing Methods

Setting a Profit or a Sales Volume Goal

Setting a Profit Goal:

$$\text{Profit Break-Even Point} = \frac{\text{Profit Goal}}{\text{Contribution Margin/Unit}}$$

Where

$$\text{Contribution Margin/Unit} = \text{Price/Unit} - \text{Direct/Variable Costs/Unit}$$

Setting a Sales Volume Goal:

$$\text{Profit} = (\text{Sales Volume} \times \text{Contribution Margin/Unit}) - \text{Total Costs (Direct+Indirect)}$$

Price Setters & Price Takers

Price setters determine the prices they charge
Price takers have to settle for the market prices

Price Takers:

- Produce and sell an identical product
- Operate in a market with no barriers to entry
- Participate in a specific market along with a large number of firms
- Each firm supplies only a small portion of the total demand
- Face a totally elastic demand for their product

How Can Price Takers Change their Fate?

- Developing alternative products/markets
Ex: ethnic foods, baby vegetables, fresh herbs, edible flowers
- Differentiating
Ex: Locally-grown produce
- Adding Value
Ex: Pre-cut vegetables for grilling

Prices and Your Firm's Income

Reducing or Increasing Your Prices

Reducing Prices to:

- Face competition
- Attract customers
- Sell overstocked, seasonal or damaged products

Increasing Prices to reflect:

- Uniqueness
- Prestige image
- Special service

When Changing your Prices Keep in Mind that:

- Any action you take will have an impact on your firm's income
- Before taking any action you need to anticipate/forecast the impact of it over your firm's income

Beware of Price Wars or Competition-Based Pricing

Avoid Price Wars by carefully studying and understanding the demand for your product/service:

- Examine your competitor's offer
- Determine the ceiling price for your product
- Estimate the price elasticity of demand for your product

$$\text{Price Elasticity of Demand} = \frac{\% \text{ Change in Quantity Demanded}}{\% \text{ Change in Price}}$$

***Always consider your pricing
decisions very carefully,
the future of your business
depends on them!***