

Knockout.Economics by Kru P'Eve & Kru P'Da

# IGCSE -Business studies

## Marketing mix - Price



- Executive summary IGCSE Business studies
- Series of exam questions each chapter
- Exam Strategies and exclusive tips to achieve A\* from Knockout.Economics
- Exclusive Key Terms for IGCSE Business studies exam



# Overview

1. Pricing methods
2. Recommend and justify an appropriate pricing method in given circumstances
3. Understand the significant of price elasticity : difference between price elastic demand and price inelastic demand



# 1. Pricing methods

**Cost-plus pricing**

**Competitive pricing**

**Psychological pricing**

**Pricing Methods**

**Penetration pricing**

**Price skimming**

**Promotional pricing**

**Dynamic pricing**

# 1. Pricing methods

## 1.1 Cost-plus pricing

: Setting a price by calculating the cost plus a profit mark-up.

: For example, Total cost of making a cup of coffee is 40 baht per cup. Owner want to gain profit 60% of each cup.

### Advantage

- It is easy to calculate and apply in the business.

### Disadvantage

- However, it is not appropriate for high competition in the market. If there are high competition in the market and firm sets high price, firm could lose sales.

# 1. Pricing methods

## 1.2 Competitive pricing

: Setting a price in the line of competitors price or just slightly below their price.

### Advantage

- This can be one choice for customers. Sales are likely to be made as product is not over or under priced.

### Disadvantage

- Firms need to survey what price competitors are charging. So, this can increase cost to firms in term of time and money.

# 1. Pricing methods

## 1.3 Psychological pricing

: Setting the price by using the power of psychology to push customers to spend.

For example : Firms set a price just lower than a whole number. E.g Mobile phone is set the price at 7,999 baht which makes customers feel that it is cheaper than 8,000 baht.

Or firms might charge higher price of products to make customers feel that firms sell high quality of products.

### Advantages

- When firms set the price just below whole number, customers feel that it is cheaper and this can stimulate volume and revenue.
- When firms set high price, people have the perception that there are high quality of products and this can improve brand image of the company.

### Disadvantage

- If the other competitors do the same way, the effect could be reduced.

# 1. Pricing methods

## 1.4 Penetration pricing

: Setting a very low price than competitors. The objective is to increase opportunity to enter to the market.

### Advantage

- 
- This can encourage customers to try products ; as a result ; this can increase the sales revenue.

### Disadvantage

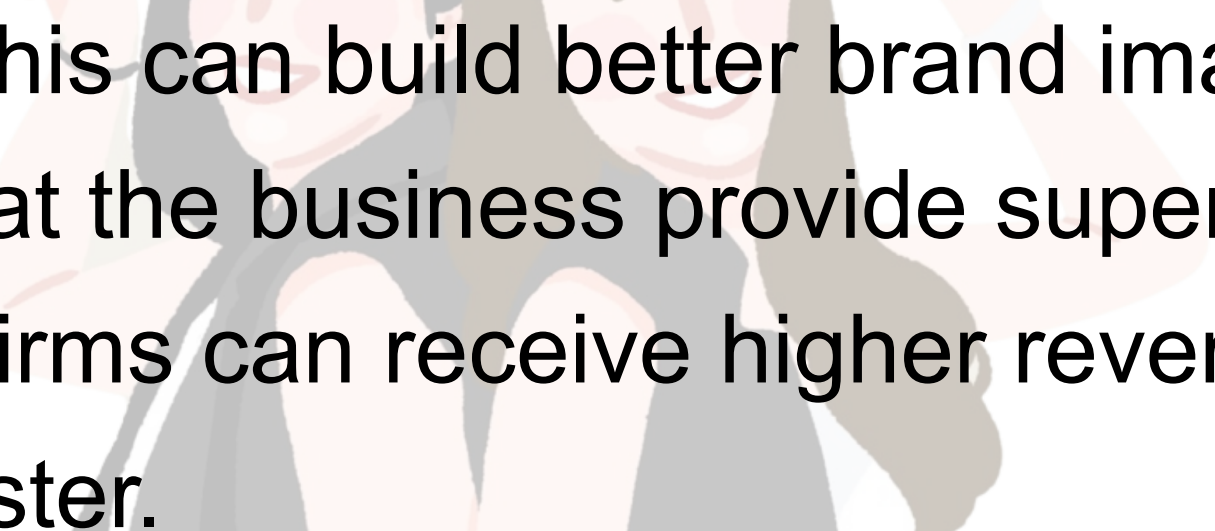
- Since product is sold at low price, profit might be low.

# 1. Pricing methods

## 1.5 Price skimming

: Setting a high price when launching the new products that there are no competitors in the market.

### Advantages

- 
- This can build better brand image. Customers have perceptions that the business provide superior quality of products.
  - Firms can receive higher revenue to cover the development cost faster.

### Disadvantage

- Firms could lose market share if the price is too high.

# 1. Pricing methods

## 1.6 Promotional pricing

: Setting a very low price for a short period of time.

### Advantages

- This can stimulate customers to buy product. As a result, sales volume will be higher.
- Firms can reduce unwanted stocks and some products that are out of trend.

### Disadvantage

- Profit will be lower because firms sell goods at lower price.

# 1. Pricing methods

## 1.7 Dynamic pricing

: Selling the same product at the different prices to different groups of people or different time as different time has different demand levels.

For example - Flight ticket and price of accommodation will be higher in high season and cheaper in low season.

### Advantages

- Firms can charge higher price in high season ; therefore ; firms can increase in sales revenue and profit.
- Firms charge low price in low season, this can encourage people and buy and firms can utilise spare capacity during this period.

### Disadvantage

- Firms need to constantly changing prices of business. It might be higher administration cost.

## 2. Recommend and justify an appropriate pricing method in given circumstances

### For example

**1. If firms produce new technology products that no competitors in the market.**

: Firms should apply “***price skimming***” since firms can gain more revenue faster to cover development cost.

**2. If firms would like to enter to the new market and there are some competitors.**

: Firms should apply ***penetration pricing*** since cheaper price can stimulate customers to try their new products.

### 3. Understand the significant of price elasticity : difference between price elastic demand and price inelastic demand

**Price elasticity** : the responsiveness of quantity demanded to a change in price.

- **Price elastic demand** : the percentage change in quantity demand **is bigger** than the percentage change in price.

For example - Price increase by 2% but quantity demand decrease by 10%, therefore the sales revenue will decrease.

Price decrease by 2% but quantity demand increase by 10%, therefore the sales revenue will increase.

**So if the firm knows that product is elastic demand, firm should introduce sale promotion to stimulate quantity demand and increase in sales revenue.**

- **Price inelastic demand** : the percentage change in quantity demand **is smaller** than the percentage change in price.

For example - Price increase by 10% but quantity demand decrease by 5%, therefore the sales revenue will increase.

Price decrease by 10% but quantity demand increase by 5%, therefore the sales revenue will decrease.

**So if the firm knows that product is inelastic demand, firm should set high price to increase sale revenue.**

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## Exercise- Marketing mix : Pricing



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# Exercise

1. ABC is a private limited company in country Y. It owns **100 supermarkets**, of which **20 are operated as franchises**. One of ABC's objectives is to **expand by opening 20 more shops in the next 10 months**. The Managing Director said: 'Market research shows that fewer people are going to the **local markets** every day to buy their **food**. It is important for us to **set prices at the right level**.'

A. State four factors a business should consider when deciding the price of a product. (4 marks)

Factor1:

.....

Factor2:

.....

Factor3:

.....

Factor4::

.....



## Exercise

2. XYZ makes a range of **breakfast cereals**. One of XYZ's objectives is to act in an ethical way with all of its stakeholders. The Marketing Director has been looking at XYZ's marketing strategy for 2 some of its products. **XYZ uses competitive pricing**. She thinks that product A, one of its **popular brands**, is in the decline stage of the **product life cycle**. She cannot decide what to do with product A.

Table 1 : Information about XYZ's products

	Product A	Product B	Product C
Revenue 2017	£200,000	£300,000	£150,000
Years in market	10	5	3

# Exercise

A. Identify and explain one advantage and one disadvantage to XYZ of using competitive pricing. ( 6 marks)

## Command word

Identify : Name, Select and recognise

Explain : set out purposes or reasons / make the relationships between things clear / say why and/or how and support with relevant evidence

Advantage : .....

.....

Explanation : .....

.....

Disadvantage : .....

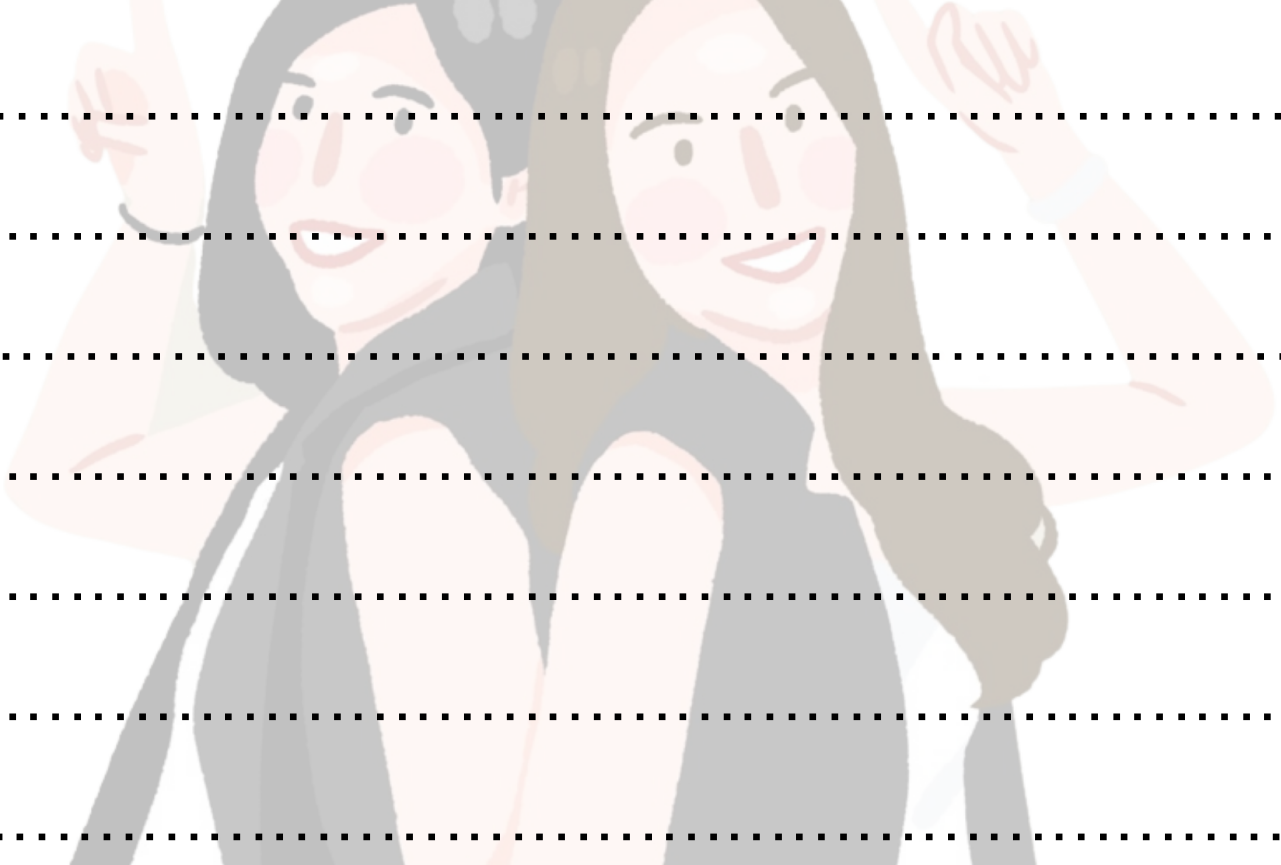
.....

Explanation : .....

.....

.....

.....



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