UNIT 8: PRICING

OUTLINE

Price & Demand Elasticity

- Impact of internal & External factors on pricing
- Market types

Pricing strategies, Demand and Revenue management

- Pricing strategies
- Low cost carriers & traditional carriers pricing
- Conditions of sale
- Revenue management

PRICE & DEMAND ELASTICITY

- Price is the money charged for goods or services, it is the value that customers apply to goods or services they buy.
- Price is the result of a complex set of calculations, research and understanding and risk taking ability.
- Firms rely on price to cover the cost of production, to pay expenses, and to provide the profit incentive necessary to continue to operate the business.

PRICING OBJECTIVES

Pricing decisions are based on the objectives to be achieved.

Pricing objectives are the goals that guide your business in setting the cost of a product or service to your existing or potential consumers.

A pricing objective should reflect your company's marketing, financial, strategic and product goals, as well as consumer price expectations and the levels of your available stock and production resources

Survival: Enable their organizations to continue in operation for the long term. For a commercial firm, the price paid by the buyer generates the firm's revenue.

Profit: All business enterprises must earn a long term profit. For many businesses, long-term profitability also allows the business to satisfy their most important constituents–stockholders. Lower-than-expected or no profits will drive down stock prices and may prove disastrous for the company.

Sales: Just as survival requires a long-term profit for a business enterprise, profit requires sales. The task of marketing management relates to managing demand. Demand must be managed in order to regulate exchanges or sales. Thus marketing management's aim is to alter sales patterns in some desirable way.

Market share: Management of all firms, large and small, are concerned with maintaining an adequate share of the market so that their sales volume will enable the firm to survive. Pricing strategy is one of the tools that is significant in creating and sustaining market share. Prices must be set to attract the appropriate market segment in significant numbers.

Image: Price policies play an important role in affecting a firm's position of respect and esteem in its community. It must convey the message to the community that the firm offers good value.

DETERMINE YOUR PRICING STRATEGY

There are a number of pricing strategies you can employ when setting your price, including strategies based on:

costs

competition

perceived value

product.

When choosing your pricing strategy, keep your overall marketing strategy in mind to ensure your strategies complement one another.

Cost-based pricing strategies

1. **Cost-plus pricing:** a strategy that adds a small margin or mark-up to the costs of producing and distributing the product or service.

Care should be taken when calculating your price to ensure that all relevant costs such as cost of goods sold, fixed costs including Goods and Services Tax (GST) and other taxes are factored in.

If your calculations are accurate this strategy can keep your price competitive while ensuring that you still make a profit.

2. **Charge per hour:** this strategy is often used by service-based businesses and independent contractors. The 'per hour' method calculates all the relevant costs of a business at an hourly rate.

Competition-based pricing strategies

1. **Going rate pricing:** The strategy means you price your products and services close to the market price leader.

2. **Value-based pricing strategies**

There's a number of value-based pricing strategies you can use including:

- **Value pricing:** this strategy is based on what customers think a product or service is worth, rather than actual costs. The value is determined through market testing and a price is set based on this value. For example, sometimes customers will pay more if it saves them a lot of time. The price reflects this saving.

Premium pricing: this strategy reflects the prestige, luxury or exclusive value of the products or services you provide. Typically, at a premium price customers have high expectations of quality, performance and service.

Product-based pricing strategies

There's a number of product-based pricing strategies you can use including:

1. **Penetration pricing**: this strategy provides you the opportunity to set a low initial price on a new product or service to gain high sales or market share. Once this point is reached, the prices are increased to normal pricing levels.

2. **Skimming pricing**: this strategy sets a high initial price which aims to excite audiences who desire products or services that are in high demand and are highly valued. Once the required profits are made, the price is then lowered for a wider market.

3. **Loss leader pricing**: this strategy aims to attract customers by offering a product or service at below cost. The strategy hopes that customers will also purchase other products or services with a higher profit margin.

IMPACT OF INTERNAL & EXTERNAL FACTORS ON PRICING

- Internal factors
  - - Marketing objectives Ex. gain market share, market new route

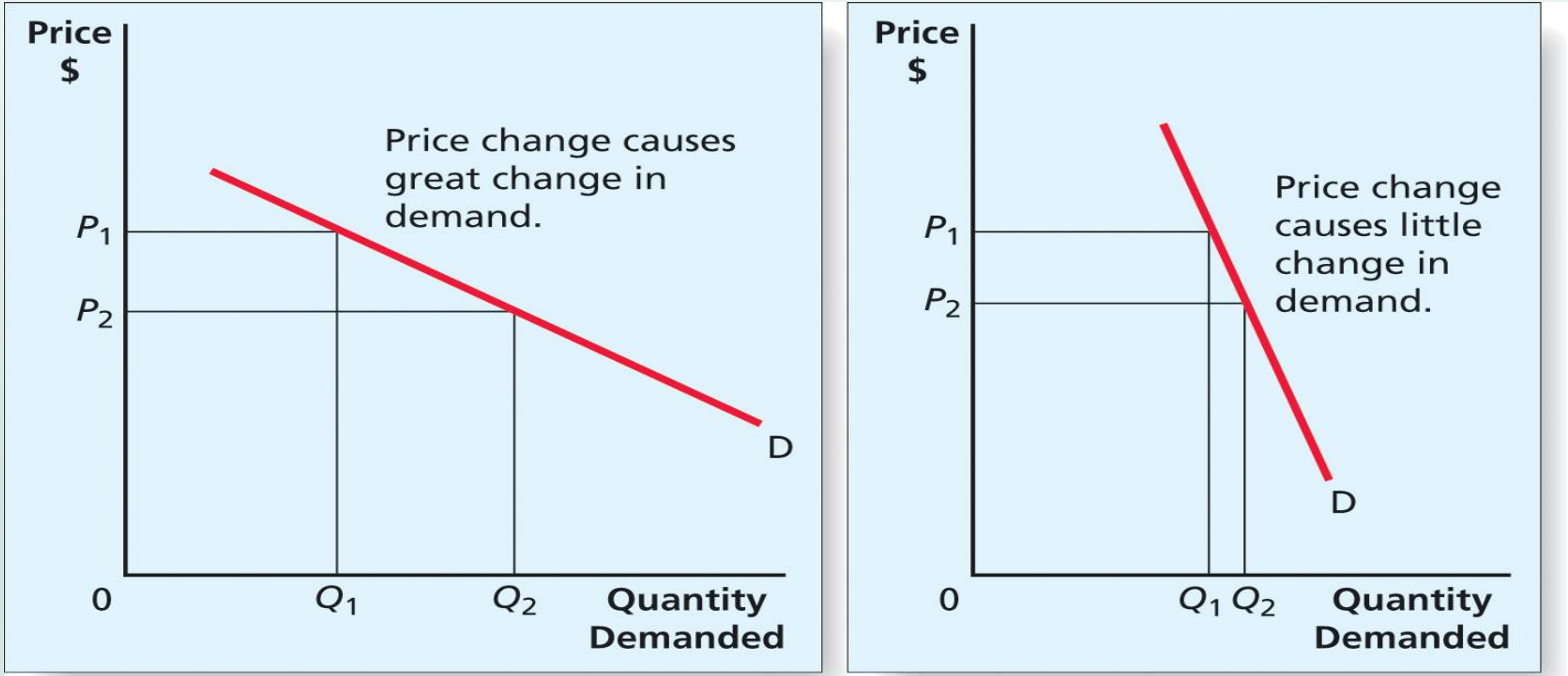
  - Marketing mix strategy = 4Ps.

  - Airline cost structure

    -Organizational structures

- External factors
  - - Market demand: Peak, off-peak, price, time of booking rules, day of week, time of day
  - - Competitor airlines/products
  - - Economic factors
  - - Distribution channels

PRICE ELASTIC/ INELASTIC DEMAND



Elastic Demand

Inelastic Demand

PRICE & DEMAND ELASTICITY

Market types

- **3** market types to consider for demand
- A perfect market
- A monopoly market
- A oligopoly market

- Perfect market
  - Perfect elasticity, all airlines forced to charge the same price
- Monopoly market
  - Only one supplier, powerful to control supply
- Oligopoly market
  - Small number of suppliers or competitors dominate the market & act to keep the price high. Examples of oligopolies can be found across major industries like **oil and gas, airlines, mass media, automobiles, and telecom.**

PRICING STRATEGIES, DEMAND AND REVENUE MANAGEMENT

- **Pricing strategies** is the airline's overall approach/ method to maximize revenue
  - **Cost-based**
  - **Market based**
  - **Predatory**
  - **Premium**
  - **Marginal cost**
  - **Peak/off-peak**

- **Cost-based strategy**
- Calculate cost carefully both fixed cost and variable cost
- Fixed cost ex. Salaries
- Variable cost ex. Catering cost that varying flight by flight
- **3** key weaknesses are;
- Not easy to predict sale level
- Not innovative, there might be better method
- Less competitive with other airlines

PRICING STRATEGIES, DEMAND AND REVENUE MANAGEMENT

Market based

- Focus on prevailing fare in the market
- Competitive offering

Weaknesses:

- Costs are not consider: might cause unprofitable
- Leads to price war

Predatory

- Target particular market to increase sale
- The pricing of goods or services at such a low level that other suppliers cannot compete and are forced to leave the market.
- Airline fight off new entrant onto market

Premium pricing

- Charge brand premium
- Brand stronger than competitors

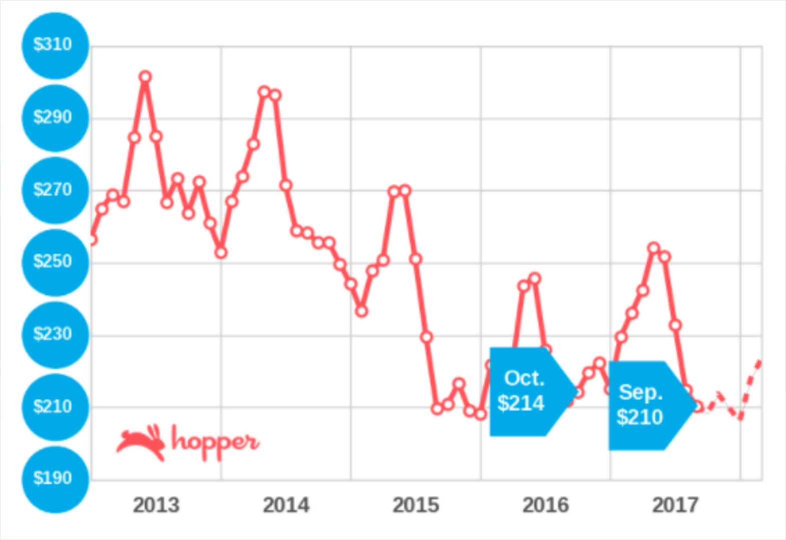
PRICING STRATEGIES, DEMAND AND REVENUE MANAGEMENT

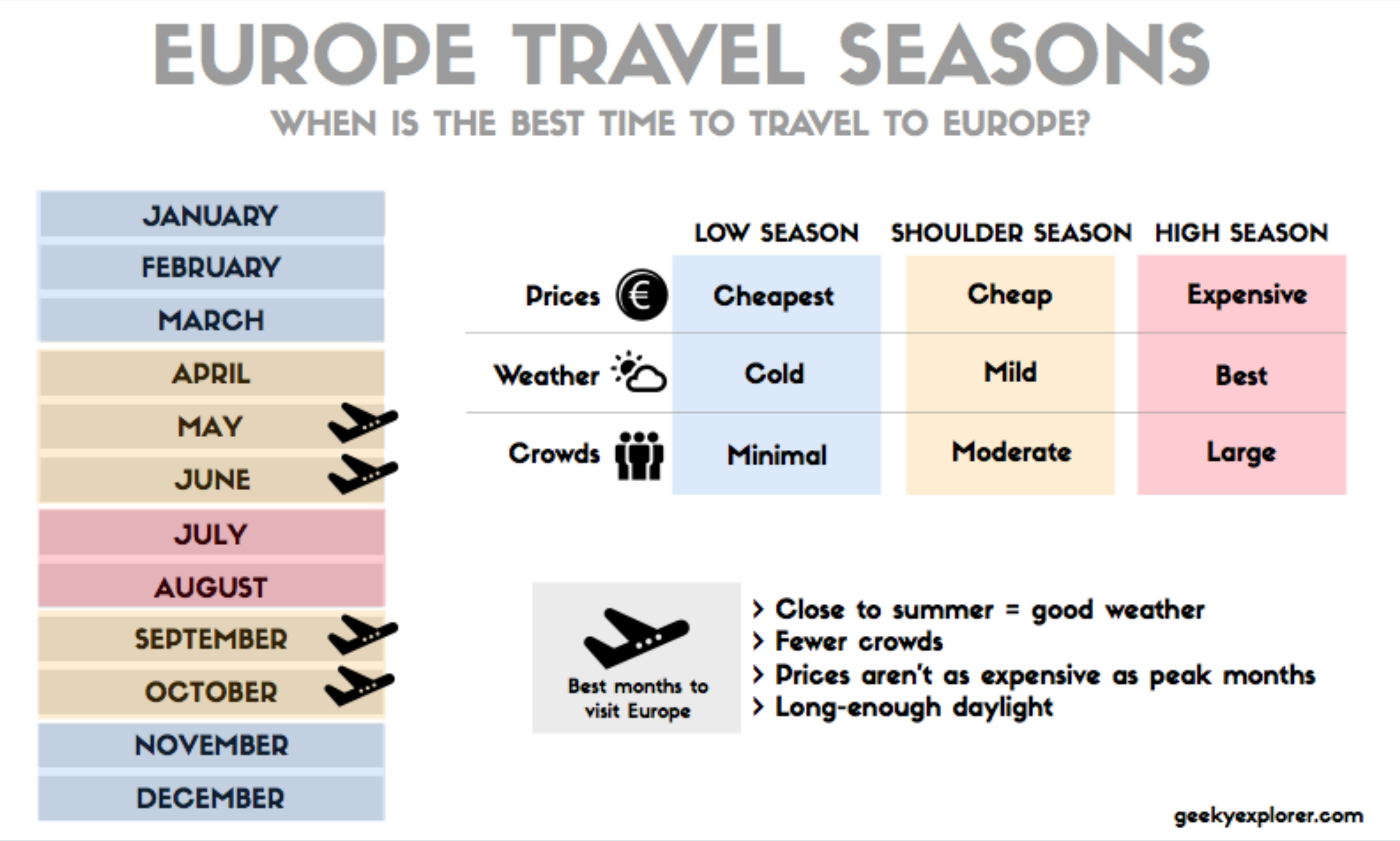
Marginal cost

- Marginal cost pricing is **setting the price of a product at or slightly above the variable cost to produce it.**
- Airline seats are perishable, so empty seats are offered '**last minute**' at discount
- to cover the cost of operation
- Strict condition ticket
- Be careful the price charge won't become normal → if so, airline will lost profit

Peak/off-peak

- Seasonal
- Weekly – weekend
- Time of the day




EUROPE TRAVEL SEASONS
WHEN IS THE BEST TIME TO TRAVEL TO EUROPE?
JANUARY
FEBRUARY
MARCH
APRIL
MAY
JUNE
JULY
AUGUST
SEPTEMBER
OCTOBER
NOVEMBER
DECEMBER
LOW SEASON
SHOULDER SEASON
HIGH SEASON
Prices
Cheapest
Cheap
Expensive
Weather
Cold
Mild
Best
Crowds
Minimal
Moderate
Large
Best months to visit Europe
› Close to summer = good weather
› Fewer crowds
› Prices aren't as expensive as peak months
› Long-enough daylight
geekyexplorer.com

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