**COMSATS University Islamabad, Virtual Campus**

**MGT210 Principles of Marketing**

**Lecture 17 Handouts**

**Pricing: Understanding and Capturing Customer Value**

A price is the amount of money charged for a product or a service, the sum of the values that customers exchange for the benefits of having or using the product or service. Price is the only element in the marketing mix that produces revenue, all others are costs. Setting the right price is one of the most complex tasks. Good pricing starts with customers and their perception of the value of the product.

**Customer value-based pricing** is setting price based on buyer’s perceptions of value rather than on the seller’s cost. The value customers attach to a product might be difficult to measure, so the company must work hard to establish estimates. There are two other types of value-based pricing: good-value pricing and value-added pricing.

* Good-value pricing means offering the right combination of quality and good service at a fair price.
* Value-added pricing means attaching value-added features and services to differentiate a company’s offers and charging higher prices.

**Cost-based pricing** means setting prices based on the cost for producing, distributing and selling the product plus a fair rate of return for effort and risk.

**Product Cost**

There are two forms of costs: fixed costs (overhead) are costs that do not vary with production or sales level. Variable costs are costs that vary directly with the level of production. Total costs are the sum of the fixed and variable costs for any given level of production.

The experience curve (learning curve) is the drop in the average per-unit production costs that comes with accumulated production experience. Put more simply: as workers become more experienced, they become more efficient and costs drop.

The simplest pricing method is cost-plus pricing or mark-up pricing: it means adding a standard mark-up to the cost of the product. However, this method ignores demand and competitors prices and is therefore unlikely to lead to the best price. Break-even pricing (target return pricing) means setting the price to break even on the costs of making and marketing a product or setting price to make a target return. The break-even volume is the amount of units that need to be sold to break even. Competition-based pricing means setting prices based on competitor’s strategies, prices, costs and market offerings.

Beyond customer value perceptions, costs and competitor prices, the firm must also think of other factors. Price is only one element of the marketing mix and the overall marketing strategy must be determined first. Target costing is pricing that starts with an ideal selling price and then targets costs that ensure the price is met. Good pricing is based on an understanding of the relationship between price and demand for the product.