Marketing Mix Lesson 2: What's the Right Price?

SUBMITTED BY: Leya Matthew

SUBJECT(S): Marketing

GRADE LEVEL(S): 9, 10, 11, 12

OVERVIEW:

At what price should I sell my product? What perception of value does my price communicate to my potential customer? These are questions that must be carefully considered in any marketing strategy. This lesson introduces concepts about pricing and analyzes commonly used pricing strategies in market situations. The lesson begins with a shopping activity that places students in the role of the customer and facilitates analysis of consumer behavior as a response to pricing strategies. Students also learn to critically examine their own "shopping" behavior.

NBEA STANDARD(S):

- Marketing, I. Foundations of Marketing
- Marketing, IV. The Marketing Mix

RELATED ARTICLES:

- "A Platform for Selling Art and Pursuing Dreams"
- "9 Business Terms Making News During the Pandemic"

Common Core Standard(s):

1. CCR Standard for Reading: Read closely to determine what the text says explicitly and make logical inferences from it.

2. CCR Standards for Listening: Prepare for and participate effectively in a range of conversations and collaborations with diverse partners, building on each other's ideas and expressing their own clearly and persuasively. Evaluate a speaker's point of view, reasoning, and use of evidence and rhetoric.
3. CCR Standards for Speaking: Present information, findings and supporting evidence in such a way that listeners can follow the line of reasoning, and the organization, development and style are appropriate to the task, purpose and audience.

Objectives/Purposes:

Students will analyze pricing strategies, and design a pricing strategy for a product of their choice. Students will also develop the skills of teamwork, leadership and problem solving.

Knowledge@Wharton Article:

"Choosing the Wrong Pricing Strategy Can Be a Costly Mistake"

Other Resources/Materials: Internet access

Activity:

1. Lets go shopping *(5-8 mins)*

The teacher begins the class by asking students what they would like to shop for. The item has to be something all the students in the class want to shop for. My class chose to shop for sneakers. The teacher now pulls up online shopping options like Amazon.com, Google Shopping, etc., where the item can be purchased.

Students are asked to compare the prices of the articles and make choices. They have to record the product they would like to purchase, and its price.

2. How did we shop? *(10 mins)*

The students are asked to share their purchase decisions, and the prices of their products. The teacher now distributes the handout on pricing strategies (*see below*) that are commonly used in the market and discusses the strategies with the class. You could explain a strategy with an example and ask students for additional examples.

The teacher then asks students to identify the pricing strategies they think were used in the product they chose to buy. Students deliberate over their purchase decisions, the prices, the prices of the competitors, and the pricing strategies for a couple of minutes before sharing their thoughts with the class.

3. Working with the Knowledge@Wharton article *(10 mins)*

The teacher distributes copies of the article and has the students read it out aloud, in turns. The article provides additional illustrations and the perspective of a company trying to price its product right. The teacher leads a class discussion on pricing strategies and market dynamics using the initial activity and other examples from the article and student experiences.

4. Group Activity *(10 mins)*

Students are divided into small groups. Since this is a module lesson, students are asked to design their pricing strategies for the product they designed in the previous lesson. They are asked to consider competition prices, perception of value they want to communicate to the customer, cost of production, and profit margins as they work out their strategies.

5. Presentation *(10 mins)*

The groups present their pricing strategies to the large group. This can be done in the next lesson depending on the number of groups and the time required for the presentation. Ideally, each group should get about 5 minutes to present and at least 3 minutes of feedback and suggestions from the class.

Tying It All Together: As the Knowledge@Wharton article points out, choosing the wrong pricing strategy can be a costly mistake. Companies make their pricing decisions based on market inputs and for strategic purposes. This lesson introduces students to some of the most fundamental elements of pricing. This lesson begins with student participation in the shopping activity. This will easily lend itself to an analysis of pricing strategies. These concepts are further clarified by the article, which provides an overview of pricing strategies along with a case study.

The pricing task gives students the opportunity to apply, clarify, and internalize these concepts and strategies. The feedback evaluates the pricing strategies of the student groups and urges the groups to critically examine their assumptions and strategies.

Practice Outside of the Classroom: The next time you make a purchase, consider: What role did pricing play in your purchase decision? What value of the product was communicated by its price?

What Worked and What I Would Do Differently:

This lesson easily lends itself to a pricing project, where students can be asked to find out prices in a product category (e.g. soaps) and analyze the longitudinal pricing strategies employed by each market player. For example:

- What are the prices of the different soaps available in the market?
- What offers are available?
- When are these offers available?
- Are there any new players?
- What pricing strategies did older players use when a new player emerged on the market?
- What launch strategies were used by the new player?

The data can be analyzed for market segmentation and pricing strategies.

Other Related Knowledge@Wharton Articles:

- "The Price is Right, or Is It? Determining the Impact of Price on Sales" (Research Experiment)
- The Price is Right, but Maybe It's Not, and How Do You Know?" (Case Study)
- "Companies Must Learn to Achieve the Price Advantage (or Pay the Price)" (Interview)

Handout for Pricing Strategies

a. Competition-based pricing: Setting the price based on prices of similar competitor products.

b. Cost-plus pricing: A profit is added to the cost of producing the product; this is the price at which the product is available in the market.

c. Creaming or skimming: Selling a product at a high price, sacrificing volume of sales in favor of high profit, therefore 'skimming' the market. Commonly used in electronic markets when a new product is introduced.

d. Loss leader: A product sold at a low price (at cost or below cost) to stimulate other profitable sales. (Eg. cell phones sold cheaply but tied to phone plans)

e. Market-oriented pricing: Setting a price based upon analysis and research compiled from the targeted market.

f. Penetration pricing: Setting the price low in order to attract customers and gain market share. The price will be raised later once this market share is gained.

g. Price discrimination: Setting a different price for the same product in different segments to the market. For example, cinema tickets have different prices depending on time of screening.

h. Premium pricing: Premium pricing is the practice of keeping the price of a product or service artificially high in order to encourage favorable perceptions among buyers, based solely on the price.

i. Psychological pricing: Pricing designed to have a positive psychological impact. For example, selling a product at $3.95 or $3.99, rather than $4.00.

j. Dynamic pricing: Prices are adjusted according to a customer's willingness to pay. The airline industry often uses dynamic pricing. (similar to price discrimination)

k. High-low pricing: Product is priced higher than competitors, but lower prices are offered on key items or through sales offers.

l. Premium decoy pricing: Price of one product is set high to boost sales of a lower-priced product.

m. Value-based pricing: Pricing a product based on the perceived value and not on any other factor.

Complied from http://en.wikipedia.org/wiki/Pricing_strategies#Price_discrimination