What are Prices?

- A measure of value
- A negotiation
- An assessment of the market
- Bounded by costs

Equations

- Profits = Revenues - Costs
- Revenues = Price * Quantity

P-Q Relationship

Role of Prices

- It is a signal to the consumer
  - may signal quality or not
- It is a decision aid
  - may trigger a buy or not
Pricing Boundaries

• Costs
  - Long-term and short term
  - Include R&D
• Do a cost analysis....

Inputs to Setting Prices

• Market Research
• Competitors
• Financial Goals of Company
• Strategic Goals of Company
• Whole product concept
• Distribution (S/H)
• Intangibles

Task: Market Research

• What do Target Customers Think?
  - Price sensitivity
  - What kinds of "whole product features" do they want?
  - Q: Will they accept lower prices if high? Will they accept higher prices if low?

Task: Competition

• Peruse the marketplace
  - catalogs
  - retail stores
  - magazines
  - call vendors

Task: Review Financial Goals

• How much must you make?
• What are your targets?
• Can you make a profit? (e.g., R-C = p)
  - Estimate revenues using a price range (produced by your analysis of the competition)

Task: Review Strategic Goals

• Market share
  - e.g., Netscape
• Basis for Competing
  - Differentiation
  - Low Cost
The Whole Product Concept

Task: Distribution

- Does the price reflect your distribution chain?
- Charge extra for shipping and handling

Task: Intangibles

- Strength of Technology
- Reputation
- Brand recognition

Pricing Models

- Tiered
  - User can decide level of support; e.g., manuals, tech support, etc.
- Upgrades and Updates
  - Small fixes vs. functional additions
  - Charge for upgrades
  - Must keep up with changes in software

Models (cont.)

- Site Licenses
  - Number of copies
  - Number of users (e.g., server based)
  - Concurrent vs. all
  - Off-loads manual distribution
  - Calculate by allocating the total number of copies by each price level

Models (cont2)

- Value Based Pricing
  - Calculate in units the customer can understand
  - E.g., based on hourly wage
  - Market is moving in this direction
- OEM Pricing
  - Bundle the software with a hardware purchase
  - Support?
  - Provides royalties of 1-2% of list.
General Price Guide

• Be flexible
  - Experiment!
• Start high and go lower
  - Caveat: unless you want market share
• Consider the demographics of the buyer
• Consider the class of machine you are running on

Summary

• Pricing is a VERY difficult and important decision
• Can make or break a company

end...