III. Business Skills and Marketing

Topic 37c

How to Price Your Products

FACT SHEET

III. Business Skills and Marketing

<u>Topic 37c:</u> How to Price Your Products

What is a price?

The **price** is the amount that is paid for a product. A price can come in different currency, such as the U.S. dollar or Euro. In Nigeria, most prices are in Naira.

How are prices determined?

Prices are **influenced** by different components:

- **Demand:** The demand reflects the customer's desire for the good. If the demand is high, customers are generally willing to pay a higher price. If the demand is low, customers will pay a lower price.
- **Supply:** The supply reflects availability of the product. If the supply is low, there are not many products on the market, which makes prices higher. If the supply is high, there are many products on the market, which makes prices low.
- **Costs:** Every product has its cost price, which is determined by the production costs, transport costs, storage costs, perishability of the product, etc.
- **Environment:** The environment includes government policies (e.g., the percentage of value-added tax), the prevailing business climate (confidence in the market, investment climate, etc.), and competition. The higher the competition, the lower the prices will be because the supply will be higher.

There are two major **approaches to setting prices**:

	Cost-Based Pricing	**Market Pricing**
Objective	Make a profit	Marketing tool
Activity *(also see Topic 36b)*	Selling	Marketing
Suitable for	Regulated market	Competitive market
Price structure	Price includes all costs and profit	Prices are flexible depending on marketing strategy

ADDITIONAL INFORMATION

III. Business Skills and Marketing

Topic 37c: How to Price Your Products

A price can also be **in-kind**, which means that the payment is in the form of a product or service. In this case, products or services are exchanged without the involvement of currencies. This is called the **barter system**. For example, a farmer pays in crop produce for a bag of fertilizer.

Demand

The demand for a product will fluctuate over time and depends on different factors, such as:

- Needs and wants: A customer's demand for a product depends on what crops he/she grows (protecting the crops, stimulating growth, etc.).
- Season: Some products will be high in demand during planting time, and others will be in demand during the growing season.
- Marketing: Demand can be stimulated by advertisements and word-of-mouth promotion.
- Price and price of substitutes: Prices and the financial ability of the farmers also play an important role in influencing demand.

Supply

The supply of a product will also fluctuate over time and could depend on:

- Government regulations: Government control of products can be time consuming and cause a delay in the arrival of the product. Other products are prohibited by law to enter the country.
- Transport: If transport is not available, the product will take longer to arrive.
- Marketing: Part of the marketing mix could be to overload the market with a certain product or to withhold the product for a while.
- Market prices: If the product prices are low, supplies to the market can get diminished, especially when the raw material prices in manufacturing the goods are high.

Cost-Based Pricing

When setting the price based on costs, the following costs must be considered:

- **Purchase costs:** This is the amount that was paid to buy the product from the importer or wholesaler.
- **Transport costs:** The total transport costs should be divided by the number of products to get the transport price per item.

- **Storage costs:** If the dealer stores the products in the store, the costs can be part of the operational costs. Sometimes products are stored in a separate warehouse and should be taken into account separately.
- **Operational costs:** Every business costs money to operate. Examples of costs include renting a shop, salaries, utilities, stationery, etc. These costs need to be covered in the price.
- **Financial costs:** If the dealer has obtained short term inventory financing loans from a bank, the cost of this financing will also need to be covered in the price.

INSTRUCTIONS

III. Business Skills and Marketing

Topic 37c: How to Price Your Products

Materials needed:

- ☑ Flip-sheet board with flip-sheets
- ☑ Markers (1 black, 1 blue, 1 green, 1 red)
- ☑ Colored cards

Time needed: 45 minutes

Preparations:

- ☑ Two products (for example, two bananas or two bottles of water). Make sure the two products are the same but of different quality or quantity (for example, one large banana and one that is very small or half rotten, or one half-liter bottle of water and one 1.5-liter bottle).
- ☑ Flip-sheet with the heading *Influence on Price.*
- ☑ Kraft paper (or other large piece of paper) with the following table:

	Cost-Based Pricing	**Market Pricing**
Objective		
Activity *(also see Topic 36b)*		
Suitable for		
Price structure		

- ☑ Colored cards with the following text:
  - – *Profit*
  - – *Marketing Tool*
  - – *Selling*
  - – *Marketing*
  - – *Regulated Market*
  - – *Competitive Market*
  - – *All Costs and Profit*
  - – *Flexible*

Set up

Attention: Show the two products and ask participants to estimate the price. They will give different prices for the two products. Ask why they would give different prices for two products that are the same (bananas or water). They will say that either the quality or quantity is different.

Title: Tell participants the title: *How to price your products.*

Credibility: Explain your experience with marketing/pricing.

Objectives: To explain how prices are influenced and approaches to setting the price of a product.

Benefits: Pricing can be a very useful marketing tool. It can help you to make more money.

Direction: First we will learn the definition of price and how it is influenced. Then, we will discuss two approaches: cost-based pricing and market pricing.

Delivery

Explanation, **D**emonstration, **E**xercise, and **G**uidance:

1. Ask participants to define **price**. The price is the amount that is paid for a product. A price can come in different currency, such as the U.S. dollar or Euro. In Nigeria, most prices are in Naira.
2. Tell participants that prices always **fluctuate** and are always **different**. At the market, prices even differ for tomatoes of the same quality and quantity. Show the flip-sheet with the heading *Influence on Price*. Explain that there are different components that **influence** the price of a product. Ask what these components are. If someone mentions a component, write the key words (in bold) on the flip-sheet and explain the component. Prices are **influenced** by the following different components:
   - **Demand:** The demand reflects the customer's desire for the good. If the demand is high, customers are generally willing to pay a higher price. If the demand is low, customers will pay a lower price.
   - **Supply:** The supply reflects availability of the product. If the supply is low, there are not many products on the market, which makes prices higher. If the supply is high, there are many products on the market, which makes prices low.
   - **Costs:** Every product has its cost price, which is determined by the production costs, transport costs, storage costs, perishability of the product, etc.
   - **Environment:** The environment includes government policies (e.g., the percentage of value-added tax), the prevailing business climate (confidence in the market, investment climate, etc), and competition. The higher the competition, the lower the prices will be because the supply will be higher.
3. Tell participants that there are several **approaches** to setting the prices. We are going to look at two approaches: the cost-based approach and the market

approach. Show participants the empty table. Divide participants into four groups. Two groups will discuss cost-based pricing (Groups 1 and 2) and two groups will discuss market pricing (Groups 3 and 4). Each group has to answer the following questions:

a. What is the **objective** of the strategy?
b. To what **activity** is it linked? (refer to Topic 36b)
c. For what type of market is this approach **suitable**?
d. How is the price **structured** or set?

4. Give every group enough time to discuss the answers. Let the groups write the answers in their notebooks.
5. When all groups are finished, ask them to pay attention to the table. Discuss the results for each question. Start with the objective of cost-based pricing. Ask Group 1 for its answer. Ask if Group 2 agrees. If they all agree and the answer is correct, paste the colored card with the correct answer on the table. Continue with the objective of market pricing. Ask Group 3 for its answer and ask if Group 4 agrees. If everyone agrees and the answer is correct, paste the colored card on the table. Continue with the activity, but now ask Group 2 for its answer and see if Group 1 agrees, etc. The results are as follows:

	Cost-Based Pricing	**Market Pricing**
Objective	Make a profit	Marketing tool
Activity *(also see Topic 36b)*	Selling	Marketing
Suitable for	Regulated market	Competitive market
Price structure	Price includes all costs and profit	Prices are flexible depending on marketing strategy

Finish

Summary: Give a summary using the flip-sheet and table. Repeat the definition of price, how it is influenced, and the two approaches.

Questions: Ask if anyone has a question or comment.

Evaluation: Ask participants to define price, how it is influenced (four components), and the four answers to the questions for cost-based and market pricing.

Next step: So far, we have discussed two parts of the marketing strategy (marketing channels and pricing). In the next session, we will discuss customers.

Distribute the **fact sheet** to all participants.