

## Pricing and the Management of Revenues: Mapping Sustainable Revenue Sources Presentation by:

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## Introduction











What do these organizations have in common?

## Introduction



- The key objectives of appropriate pricing strategies:
- ☐ To increase Revenues
- If able to control costs increase profits and achieve a certain return on equity and return on investment
- ☐ Maintain and/or increase market share

## Basics of Pricing



Generally, from your accounting studies, pricing is supposed to cover the cost of products and services and provide a reasonable return.

The costs incurred are usually, material, labor and production and non-production overheads.

# Basics of Pricing - Manufacturing



## QS 19-17 Absorption costing and product pricing LO

A manufacturer reports the following information on its product.

Direct materials cost	\$45.00 per unit
Direct labor cost	\$11.50 per unit
Variable overhead cost	\$ 5.50 per unit
Fixed overhead cost	\$ 1.50 per unit
Target markup	40 %

Compute the target selling price per unit under absorption costing.



## Basics of Pricing - Service

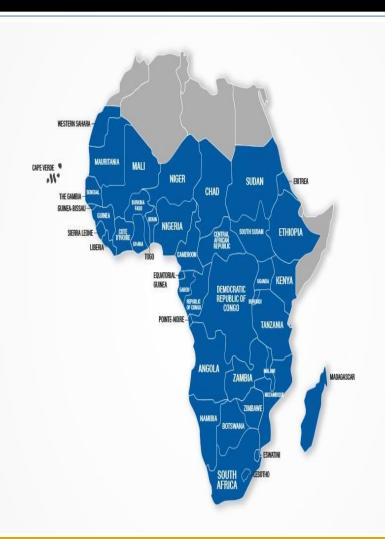


Variable Expenses on a \$200 same day room price		
Room Attendant Pay (30 min x \$24 per hour)	\$12.00	
Variable Employee Benefits (\$12 x 25%)	\$3.00	
Linen Cleaning - per room occ cost	\$2.25	
Guest Supplies - per room occ cost	\$3.60	
Paper Supplies - per room occ cost	\$0.50	
Cleaning Supplies - per room occ cost	\$1.40	
Travel Agent Commissions - used an OTA @ 18%	\$36.00	
Credit Card Commissions 3%	\$6.00	
Brand Fees 7%	\$14.00	
Energy Costs (some) (room vs. building) (25% of \$17)	\$4.25	
Total Variable Cost	\$83.00	
 Incremental Profit	\$117.00	



# Pricing Strategies - Geographical





## DSTV Kenya and South African Prices Comparison

Packages	Kenya		South Africa		Difference	
	Kshs.	Rand	Ksh.	Rand	Ksh.	Rand
Premium	8,200	1,059	5,413	699	2,787	360
Compact	3,250	420	2,470	319	780	101
Family	1,890	244	1,541	199	349	45
Access	930	120	767	99	163	21

# Pricing Strategies – Promotional Pricing



	BRONZE Plus	SILVER Plus	GOLD Plus	DIAMOND Plus
Bandwidth	5 mbps	10 mbps	20 mbps	40 mbps
Mobile Data	2 GB	4 GB	4 GB	4 GB
Mobile X-net Minutes	100	200	200	200
Mobile SMS	Unlimited*	Unlimited*	Unlimited*	Unlimited*
Monthly Cost	KES. 3,400	KES. 4,999	KES. 6,699	KES. 12,499

	Home Contents (HC)	High Risk Items- (Phones, Laptops, Jewellery etc)	
Plan	Sum Insured	Sum Insured	Monthly Premium
Hero	KES. 250,000	KES. 75,000	KES. 250
Pro	KES. 500,000	KES. 150,000	KES. 475
Fortified	KES. 1,000,000	KES. 300,000	KES. 1,350

# Pricing Strategies – Psychological Pricing





## Pricing Strategies – Penetration Pricing





Commodity	Naivas	Tuskys	Carrefour	Chandarana
Daima Yoghurt (500ml)	-	100	98	100
Delamere Yoghurt(500ml)	120	120	120	120
Superloaf Bread(400g)	49	49	48	48
Yellow York Eggs (Tray)		375	383	
Isinya Eggs(Tray)		390	383	

# Pricing Strategies - Product Bundle Pricing







# Pricing Strategies - Value Pricing



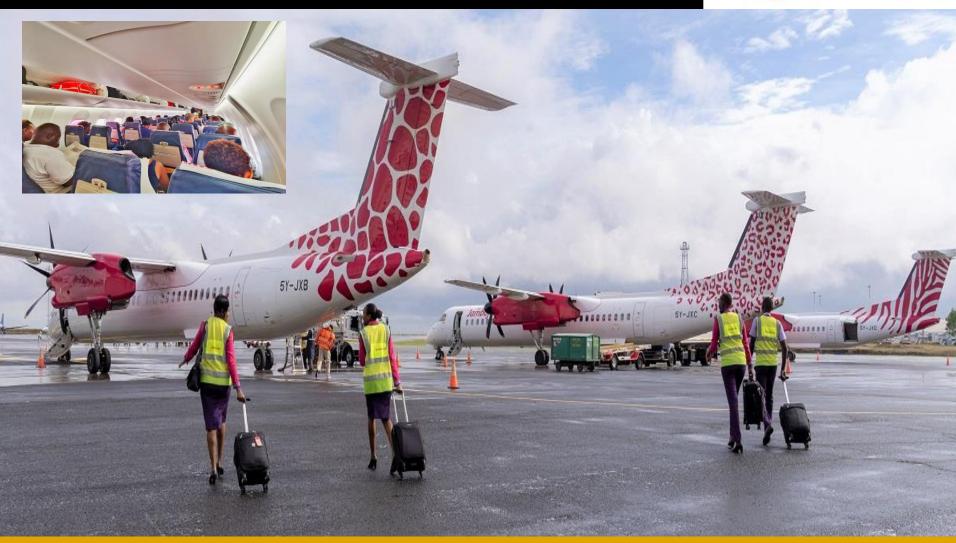






# Pricing Strategies – Economy Pricing





# Pricing Strategies – Premium Pricing





HOTELIERS SINCE 1897





### Villa Rosa Kempinski \*\*\*\*\* 🗂

Westlands, Nairobi - Show on map - 2.7 km from centre

Great value

Superior King Room - 🚢

1 bed (1 extra-large double)

Superb 559 reviews



1 night, 2 adults

KES 20,240

includes taxes and charges

**Breakfast included** 

## Factors to Consider - Macro Environmental Factors





## Factors to Consider -Industry Factors



### Porter's Five Forces Model

#### THREAT OF NEW ENTRANTS

- Barriers to entry
- Economies of scale
- Brand loyalty
- Capital requirements
   Switching costs
- Cumulative experience
- Government policies
- Access to distribution channels

#### BARGAINING POWER OF **SUPPLIERS**

- Number and size of suppliers
- Uniqueness of each supplier's product
- Focal company's ability to substitute

#### RIVALRY AMONG EXISTING COMPETITORS

- Diversity of competitors
   Brand loyalty
- Industry concentration
- Industry growth
- Number of competitors
   Quality differences

  - Barriers to exit
  - Switching costs

#### THREAT OF SUBSTITUTE PRODUCTS

- Number of substitute products available
- Buyer propensity to substitute
- Relative price performance of substitute
- · Perceived level of product differentiation
- Switching costs

#### **BARGAINING POWER** OF BUYERS

- Number of customers
- Size of each customer order
- Differences between competitors
- Price sensitivity

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- · Buyer's ability to substitute
- · Buyer's information availability
- Switching costs

# Factors to Consider – Organizational Factors



### Manpower

 People required to deliver the work

### Money

 The available or required budget

### **Materials**

Software or other materials

## Management

 Senior sponsor to support the project

### **Minutes**

 The timeframe needed to deliver the work

### Measurement

 The consistent KPIs or metrics used

### Method

 Approaches being used and if outsourcing is needed

### **Machines**

 Computers or other equipment needed

### Mother nature

 Environmental factors that may need to be considered

## END



## QUESTIONS AND ADDITIONAL COMMENTS BASED ON EXPERIENCE