Marketing math case: washburn guitars

Business, Marketing

The pricing of a new product is one of the most difficult, yet important decisions that a company must make. Before determining the appropriate price of the submarine sandwiches, Starbucks should first consider the following factors in relation to their company: positioning, demand curve, cost and environmental factors. Next, Starbucks should consider which of the following pricing objectives are applicable: short-term profit maximization, short-term revenue maximization, maximization of quantity, maximization of profit margins, differentiation or survival.

When considering pricing strategies, it must be remembered that there is no set rule for setting the right price. Each product must be considered based on its unique characteristics and the market circumstances. As such, more than one pricing strategy may be applicable. After considering the aforementioned factors and pricing objectives, the actual price of the product may be calculated. In order to determine the best price for Starbucks' submarine sandwiches, a combination of the following pricing strategies should be applied.

First, Starbucks should apply cost-plus pricing. Under this strategy, the production costs, including the cost of goods and fixed costs are considered, as well as a specified profit margin. In this manner, assuming the costs are accurately calculated, and the volume of sales has been correctly predicted, the new product will operate at a profit. Another strategy that should be applied is psychological pricing. Using this strategy, the consumer's perception of the product being offered and the price are considered.

Considering the fact that Starbucks markets its products as good quality luxury products, the price may be higher than the cost of production and the specified profit margin previously discussed. However, it must not be forgotten that consumers are more likely to buy products that they consider to be “ fairly” priced. In other words, the product should be priced in a manner that the customer will feel that they are getting good value for the price paid.

Starbucks is definitely entitled to make a fair profit on the submarine sandwiches, and even a substantial profit if the product creates value for their customers. Considering this, it must always be remembered that the submarine sandwiches are ultimately worth only what the consumers are willing to pay for it. REFERENCE: " Pricing Strategy. " NetMBA Business Knowledge Center. 30 Apr. 2009