SUBJECT – MARKETING MANAGEMENT
UNIT II – PRODUCT AND PRICING DECISIONS (PART – V)

PRICING DECISIONS

Meaning of Price

- Generally, the amount to be paid for any goods or service is called price.
- Price is one of the important factors of marketing mix.
- This is also the main source of income of any business organization.
- So, profit or loss of business organization depends on the price of products.
- Price also expresses the quality of products/goods. Generally, high quality goods have high price and low quality goods have low price.
- Customers select goods on the basis of the price according to their buying capacity.
- Without certain price no exchanges of any goods or services can be done.
- Generally, price is measured in currency.

Different writers and experts have defined 'price'. Some important ones are as follows:

- **According to Prof. William J. Stanton**, *"Price is the amount of money and/or other items with utility needed to acquire a product.*
- **According to Prof. Philip Kotler**, *"Price is the only element in the marketing mix that produces revenue, the other elements produce cost."*
- **According to David J. Schwartz**, *"Price is the exchanged value of the product or service expressed in terms of money."*

Meaning of Pricing

- Pricing means the process of selecting the pricing objectives, determining the possible range of prices, developing price strategies, setting the final price, and implementing and controlling pricing decision.
- The determination of price is very important and crucial decision.
- It affects all parties involved in the production, distribution, and consumption of goods.
- Price affects the volume of production and the amount of profit.
- It is a source of income to distributors.

- According to **M.J. Jones and S.W. Jetty**, “Pricing begins with an understanding of the corporate mission, target markets, and the marketing objectives; then pricing objectives are developed; next management estimates as to extent of flexibility in establishing prices by studying costs and profits internally and demand and competition externally; prices are, then set between these two extreme ends by deciding price strategies in the light of objectives so set; specific methods are used to set prices; final aspects in implementation and control that includes effective monitoring to get feedback on consumer response and competitive reaction.”
- According to **W.J.Stanon**, “Pricing is the functions of determining the products value in monetary terms.”
- **Pricing** is the process whereby a business sets the price at which it will sell its products and services, and may be part of the business's marketing plan.
- In setting prices, the business will take into account the price at which it could acquire the goods, the manufacturing cost, the market place, competition, market condition, brand, and quality of product.

Pricing Objectives

1. Profits-related Objectives:

Profit has remained a dominant objective of business activities.

Company’s pricing policies and strategies are aimed at following profits-related objectives:

i. Maximum Current Profit:

- One of the objectives of pricing is to maximize current profits.
- This objective is aimed at making as much money as possible.
- Company tries to set its price in a way that more current profits can be earned. However, company cannot set its price beyond the limit.
- But, it concentrates on maximum profits.

ii. Target Return on Investment:

Most companies want to earn reasonable rate of return on investment.

Target return may be:

(1) fixed percentage of sales,

(2) return on investment, or

(3) a fixed rupee amount.

Company sets its pricing policies and strategies in a way that sales revenue ultimately yields average return on total investment. For example, company decides to earn 20% return on total investment of 3 crore rupees. It must set price of product in a way that it can earn 60 lakh rupees.

2. Sales-related Objectives:

i. Sales Growth:

- Company's objective is to increase sales volume.
- It sets its price in such a way that more and more sales can be achieved.
- It is assumed that sales growth has direct positive impact on the profits.
- So, pricing decisions are taken in way that sales volume can be raised.
- Setting price, altering in price, and modifying pricing policies are targeted to improve sales.

ii. Target Market Share:

- A company aims its pricing policies at achieving or maintaining the target market share.
- Pricing decisions are taken in such a manner that enables the company to achieve targeted market share.
- Market share is a specific volume of sales determined in light of total sales in an industry. For example, company may try to achieve 25% market shares in the relevant industry.

iii. Increase in Market Share:

Sometimes, price and pricing are taken as the tool to increase its market share.

When company assumes that its market share is below than expected, it can raise it by appropriate pricing; pricing is aimed at improving market share.

3. Competition-related Objectives:

- Competition is a powerful factor affecting marketing performance.
- Every company tries to react to the competitors by appropriate business strategies.

With reference to price, following competition-related objectives may be priorized:

i. To Face Competition:

- Pricing is primarily concerns with facing competition.
- Today's market is characterized by the severe competition.
- Company sets and modifies its pricing policies so as to respond the competitors strongly.
- Many companies use price as a powerful means to react to level and intensity of competition.

ii. To Keep Competitors Away:

- To prevent the entry of competitors can be one of the main objectives of pricing.

- The phase ‘prevention is better than cure’ is equally applicable here. If competitors are kept away, no need to fight with them.
- To achieve the objective, a company keeps its price as low as possible to minimize profit attractiveness of products.
- In some cases, a company reacts offensively to prevent entry of competitors by selling product even at a loss.

iii. To Achieve Quality Leadership by Pricing:

- Pricing is also aimed at achieving the quality leadership.
- The quality leadership is the image in mind of buyers that high price is related to high quality product.
- In order to create a positive image that company’s product is standard or superior than offered by the close competitors; the company designs its pricing policies accordingly.

iv. To Remove Competitors from the Market:

- The pricing policies and practices are directed to remove the competitors away from the market.
- This can be done by forgoing the current profits – by keeping price as low as possible – in order to maximize the future profits by charging a high price after removing competitors from the market.
- Price competition can remove weak competitors.

4. Customer-related Objectives:

Customers are in center of every marketing decision.

Company wants to achieve following objectives by the suitable pricing policies and practices:

i. To Win Confidence of Customers:

- Customers are the target to serve.
- Company sets and practices its pricing policies to win the confidence of the target market. Company, by appropriate pricing policies, can establish, maintain or even strengthen the confidence of customers that price charged for the product is reasonable one.
- Customers are made feel that they are not being cheated.

ii. To Satisfy Customers:

- To satisfy customers is the prime objective of the entire range of marketing efforts. And, pricing is no exception.
- Company sets, adjusts, and readjusts its pricing to satisfy its target customers.
- In short, a company should design pricing in such a way that results into maximum consumer satisfaction.

5. Other Objectives:

Over and above the objectives discussed so far, there are certain objectives that company wants to achieve by pricing.

They are as under:

i. Market Penetration:

- This objective concerns with entering the deep into the market to attract maximum number of customers.
- This objective calls for charging the lowest possible price to win price-sensitive buyers.

ii. Promoting a New Product:

- To promote a new product successfully, the company sets low price for its products in the initial stage to encourage for trial and repeat buying.
- The sound pricing can help the company introduce a new product successfully.

iii. Maintaining Image and Reputation in the Market:

- Company's effective pricing policies have positive impact on its image and reputation in the market.

- Company, by charging reasonable price, stabilizing price, or keeping fixed price can create a good image and reputation in the mind of the target customers.

iv. To Skim the Cream from the Market:

- This objective concerns with skimming maximum profit in initial stage of product life cycle. Because a product is new, offering new and superior advantages, the company can charge relatively high price.
- Some segments will buy product even at a premium price.

v. Price Stability:

- Company with stable price is ranked high in the market.
- Company formulates pricing policies and strategies to eliminate seasonal and cyclical fluctuations.
- Stability in price has a good impression on the buyers. Frequent changes in pricing affect adversely the prestige of company.

vi. Survival and Growth:

- Finally, pricing is aimed at survival and growth of company's business activities and operations. It is a fundamental pricing objective.
- Pricing policies are set in a way that company's existence is not threatened.

Importance of Pricing

1. Importance to the economy

(i) Determinant of Demand and Supply:

- As the price of products directly affects demand, price plays an important role in determining the quantity of demand.
- So, price has been accepted as basic element.
- If the price is increased but the quality of the product is unchanged, and then demands of the products decreases, and if the price is decreased, demand for the products increases.
- In other words, when price decreases, demand increases, and when price increases, demand decreases, hence the low of demand applies.
- In this way, the quantity of demand and supply depends on price; price can be identified as determinant of demand and supplies.

(ii) Effect to the Factors of Production:

- Price of products is very important to economy and industry.
- It directly affects wages, rent, interest and profits.
- Capital, labor, land and venture are the factors/means of venture productions.
- Wage for labor, rent for land, interest for capital, reasonable profits for venture should be distributed.
- The factors/means of production (land, ladour, capital and entrepreuner) affect demand and supply.
- Rate of wage attracts labor whereas high interest rate attracts capital.
- Hence, price strongly affects factors/means of productions.
- **(iii) Effect to the Saving and Investment:**
- Determined/fixed price for target market may affect inflation.
- This indicates that inflation causes increases in price of products.
- If the price of products or service increases, the customers get in difficulties.
- When the price of products or services increases, consumers' saving decreases, due to which investment is discouraged.
- But, if price decreases and saving increases investment, investment also increases.
- This situation contributes to the development of society and nation.

2. Importance to Organization

- Price of product or services is an important element/factor of marketing mix.
- Price management is very difficult task for profit making organizations.

- So, rational decision should be taken for price management.
- Success in market competition can be achieved; income and profits can be earned only through price. The following points are discussed to make the importance of price clearer:

(i) Revenue and Profit:

- Price plays an important role in determining income and profit of an organization.
- Total income can be made out/found out by multiplying per unit price by sold quantity.
- When sale quantity remains same, but price is decreased, income also decreases.
- If price is increased and sale quantity remains same, income is increased.
- Profit can be made out/found out also by subtracting total cost from total revenue.
- So, profit can be increased or decreased by increasing or decreasing price of products.
- But policy of frequent change in prices and profit/revenue is detrimental to the company.

(ii) Competition:

- Business organization should face various competitions appeared in market.
- It has to face price competition certainly.
- If market competition increases in the price already fixed, the organization can attract increased number of customers by decreasing the price.
- This increases sales volume and decreases production cost.

(iii) Expansion of the Product Line:

- Price directly affects organization to expand target markets and add product line.
- Price also helps in taking decision whether to add new product line or expand new product or not.
- This can be decided by comparing production cost with the price.
- If profit seems sure, decision for expansion should be taken.
- But, just opposite to it, if there is no possibility of profit but only loss, then decision should be taken not to expand the products.

3. Importance to the Customers

- Determination of price should be based on genuine reasons.
- If price has been determined rationally, this helps general customers.
- Following points can be discussed to make clearer the importance for general customers:

(i) Importance of the Product Selection:

- Most of the customers give priority to price and analyze it.
- They try to select products considering their prices. Such customers minimize quality and utility. They can take decision to buy the products which contain relatively low prices.

(ii) Importance of the Quality Perception:

- Price plays an important role to meet customers' necessity/want.
- Similarly, it is also equally helpful to assure them of the quality of the products.
- If high price products or services make the customers realize high quality and low price product signifies low quality.

(iii) Importance of Customers' Benefits:

- Price of products affects customers' benefits.
- The customers by low priced products/goods even when the income sources have fallen down.
- In the situation when income has increased, demand for products does not decrease even if the price is high.
- The customers who are sensitive to price may take decision to buy products when the price has decreased or discount is provided.
- Some customers give priority to their social dignity, respect and satisfaction.

Marketing Strategies

1. Penetration Pricing

- The price charged for products and services is set artificially low in order to gain market share. Once this is achieved, the price is increased.
- This approach was used by France Telecom and Sky TV.
- These companies need to land grab large numbers of consumers to make it worth their while, so they offer free telephones or satellite dishes at discounted rates in order to get people to sign up for their services.
- Once there is a large number of subscribers prices gradually creep up.
- Taking Sky TV for example, or any cable or satellite company, when there is a premium movie or sporting event prices are at their highest – so they move from a penetration approach to more of a skimming/premium pricing approach.

2. Economy Pricing

- This is a no frills low price. The costs of marketing and promoting a product are kept to a minimum.
- Supermarkets often have economy brands for soups, spaghetti, etc.
- Budget airlines are famous for keeping their overheads as low as possible and then giving the consumer a relatively lower price to fill an aircraft.

- The first few seats are sold at a very cheap price (almost a promotional price) and the middle majority are economy seats, with the highest price being paid for the last few seats on a flight (which would be a premium pricing strategy).
- During times of recession economy pricing sees more sales.
- However it is not the same as a value pricing approach.

3. Price Skimming

- Price skimming sees a company charge a higher price because it has a substantial competitive advantage.
- However, the advantage tends not to be sustainable.
- The high price attracts new competitors into the market, and the price inevitably falls due to increased supply.
- Manufacturers of digital watches used a skimming approach in the 1970s.
- Once other manufacturers were tempted into the market and the watches were produced at a lower unit cost, other marketing strategies and pricing approaches are implemented.
- New products were developed and the market for watches gained a reputation for innovation.

4. Premium Pricing

- Premium pricing strategy establishes a price higher than the competitors.
- It's a strategy that can be effectively used when there is something unique about the product or when the product is first to market and the business has a distinct competitive advantage.
- Premium pricing can be a good strategy for companies entering the market with a new market and hoping to maximize revenue during the early stages of the product life cycle.

The diagram depicts four key pricing strategies namely premium pricing, penetration pricing, economy pricing, and price skimming which are the four main pricing policies/strategies. They form the bases for the exercise. However there are other important approaches to pricing, which are as follws:

1. Psychological Pricing

- This approach is used when the marketer wants the consumer to respond on an emotional, rather than rational basis.
- For example Price Point Perspective (PPP) 0.99 Cents not 1 US Dollar.

2. Product Line Pricing

- Where there is a range of products or services the pricing reflects the benefits of parts of the range.
- For example car washes; a basic wash could be $2, a wash and wax $4 and the whole package for $6.
- Product line pricing seldom reflects the cost of making the product since it delivers a range of prices that a consumer perceives as being fair incrementally – over the range.
- It might benefit the manufacturer to sell them singly in terms of profit margin, although they price over the whole line.
- Profit is made on the range rather than single items.

3. Optional Product Pricing

- Companies will attempt to increase the amount customers spend once they start to buy.
- Optional ‘extras’ increase the overall price of the product or service.
- For example airlines will charge for optional extras such as guaranteeing a window seat or reserving a row of seats next to each other.
- Again budget airlines are prime users of this approach when they charge you extra for additional luggage or extra legroom.

4. Captive Product Pricing

- Where products have complements, companies will charge a premium price since the consumer has no choice.
- For example a razor manufacturer will charge a low price for the first plastic razor and recoup its margin (and more) from the sale of the blades that fit the razor.
- Another example is where printer manufacturers will sell you an inkjet printer at a low price.

- In this instance the inkjet company knows that once you run out of the consumable ink you need to buy more, and this tends to be relatively expensive. Again the cartridges are not interchangeable and you have no choice.

5. Product Bundle Pricing

- Here sellers combine several products in the same package.
- This also serves to move old stock.
- You might also see product bundle pricing with the sale of items at auction, where an attractive item may be included in a lot with a box of less interesting things so that you must bid for the entire lot.
- It's a good way of moving slow selling products, and in a way is another form of promotional pricing.

6. Promotional Pricing

- Pricing to promote a product is a very common application.
- There are many examples of promotional pricing including approaches such as BOGOF (Buy One Get One Free), money off vouchers and discounts.
- Promotional pricing is often the subject of controversy.
- Many countries have laws which govern the amount of time that a product should be sold at its original higher price before it can be discounted.
- Sales are extravaganzas of promotional pricing!

7. Geographical Pricing

- Geographical pricing sees variations in price in different parts of the world.
- For example rarity value, or where shipping costs increase price.
- In some countries there is more tax on certain types of product which makes them more or less expensive, or legislation which limits how many products might be imported again raising price.
- Some countries tax inelastic goods such as alcohol or petrol in order to increase revenue, and it is noticeable when you do travel overseas that sometimes goods are much cheaper, or expensive of course.

8. Value Pricing

- This approach is used where external factors such as recession or increased competition force companies to provide value products and services to retain sales e.g. value meals at McDonalds and other fast-food restaurants.

- Value price means that you get great value for money i.e. the price that you pay makes you feel that you are getting a lot of product.
- In many ways it is similar to economy pricing. One must not make the mistake to think that there is added value in terms of the product or service.
- Reducing price does not generally increase value.
- See also eMarketing Price and international Marketing price.
- Our financial objectives in terms of price will be secured on how much money we intend to make from a product, how much we can sell, and what market share will get in relation to competitors.
- Objectives such as these and how a business generates profit in comparison to the cost of production, need to be taken into account when selecting the right pricing strategy for your mix.
- The marketer needs to be aware of its competitive position. The marketing mix should take into account what customers expect in terms of price.
- There are many ways to price a product. Let's have a look at some of them and try to understand the best policy/strategy in various situations.

Types Of Pricing Strategies

The table below explains different pricing methods and price strategies with an example of each pricing strategy.

Pricing Strategy	**Definition**	**Example**
Penetration Pricing	Here the organisation sets a low price to increase sales and market share. Once market share has been captured the firm may well then increase their price.	A television satellite company sets a low price to get subscribers then increases the price as their customer base increases.
Skimming Pricing	The organisation sets an initial high	A games console company reduces

Pricing Strategy	Definition	Example
	price and then slowly lowers the price to make the product available to a wider market. The objective is to skim profits of the market layer by layer.	the price of their console over 5 years, charging a premium at launch and lowest price near the end of its life cycle.
Competition Pricing	Setting a price in comparison with competitors. In reality a firm has three options and these are to price lower, price the same or price higher than competitors.	Some firms offer a price matching service to match what their competitors are offering. Others will go further and refund back to the customer more money than the difference between their price and the competitor's price.

Pricing Strategy	Definition	Example
Product Line Pricing	Pricing different products within the same product range at different price points.	An example would be a DVD manufacturer offering different DVD recorders with different features at different prices e.g. A HD and non HD

Pricing Strategy	Definition	Example
		version.. The greater the features and the benefit obtained the greater the consumer will pay. This form of price discrimination assists the company in maximising turnover and profits.
Bundle Pricing	The organisation bundles a group of products at a reduced price. Common methods are buy one and get one free promotions or BOGOFs as they are now known. Within the UK some firms are now moving into the realms of buy one get two free can we call this BOGTF I wonder?	This strategy is very popular with supermarkets who often offer BOGOF strategies.
Premium Pricing	The price is set high to indicate that the product is "exclusive"	Examples of products and services using this strategy include Harrods, first class airline services, and Porsche.
Psychological Pricing	The seller here will consider the psychology of price and the positioning of price within the market place.	The seller will charge 99p instead £1 or $199 instead of $200. The reason why this methods work, is because buyers will still

Pricing Strategy	Definition	Example
		say they purchased their product under £200 pounds or dollars, even thought it was a pound or dollar away. My favourite pricing strategy.

Pricing Strategy	Definition	Example
Optional Pricing	The organisation sells optional extras along with the product to maximise its turnover.	This strategy is used commonly within the car industry as I found out when purchasing my car.
Cost Plus Pricing	The price of the product is production costs plus a set amount ("mark up") based on how much profit (return) that the company wants to make. Although this method ensures the price covers production costs it does not take consumer demand or competitive pricing into account which could place the company at a competitive disadvantage.	For example a product may cost £100 to produce and as the firm has decided that their profit will be twenty percent they decide to sell the product for £120 i.e. £100 plus 100/100 x 20
Cost Based Pricing	This is similar to cost plus pricing in that it takes costs into account but it	Cost based pricing can be useful for firms that operate in an industry

Pricing Strategy	Definition	Example
	will consider other factors such as market conditions when setting prices.	where prices change regularly but still want to base their price on costs.
Value Based Pricing	This pricing strategy considers the value of the product to consumers rather than the how much it cost to produce it. Value is based on the benefits it provides to the consumer e.g. convenience, well being, reputation or joy.	Firms that produce technology, medicines, and beauty products are likely to use this pricing strategy.