MARKETING MANAGEMENT

UNIT-2

PART-XI

PRICING

Pricing the product or service is one of the most important business decisions you will make.

You must offer your products for a price your target market is willing to pay – and one that produces a profit for your company – or you won't be in business for long.

According to Prof. K.C. Kite,

"Pricing is a managerial task that involves establishing pricing objectives, identifying the factors governing the price, ascertaining their relevance and significance, determining the product value in monetary terms and formulation of price policies and the strategies, implementing them and controlling them for the best results".

Pricing is not an end in itself but a means to achieve marketing objectives of the firm.

Therefore, the pricing strategy of a firm should be designed to achieve specific objectives. Like other operating objectives, the objectives of pricing are derived from the overall objectives of the firm. The basic objectives of a firm are survival and growth.

Pricing – Introduction

Pricing the product or service is one of the most important business decisions you will make. You must offer your products for a price your target market is willing to pay – and one that produces a profit for your company – or you won't be in business for long. There are many approaches to pricing, included scientific and unscientific. Here is one framework for making pricing decisions that takes into account your costs, the effects of competition and the customer's perception of value.

(i) Cost is the total of the fixed and variable expenses (costs to you) to manufacturer or offers your product or service.

(ii) Price is the selling price per unit that customers pay for your product or service.

So, the price you set is the cost to the customer. Ideally, it should be higher than the costs you incurred in producing the product.

Think of your cost as the surface of the ocean. You must set your price above the surface to cover costs or you will quickly drown. Of course, there will be times when you decide to set prices at or below cost for a temporary, specific purpose, such as gaining market entrance or clearing inventory.

How the customer perceives the value of the product determines the maximum price customers will pay. This is sometimes described as “the price the market will bear.” Perceived value is created by an established reputation, marketing messages, packaging, and sales environments. An obvious and important component of perceived value is the comparison customers and prospects make between you and your competition.

Somewhere between your cost and the price “the market will bear” is the right price for your product or service — a price that enables you to make a fair profit and seems fair to your customers. Consequently, once you understand your costs and your maximum price, you can make an informed decision about how to price your product or service.

However, while costs are important in setting your prices, don’t limit your thinking only to cost-based pricing. Value-based pricing makes you think about your business from the customer’s perspective. If the customer doesn’t perceive value worth paying for at a price that offers you a fair profit, you need to re-think your game-plan.

But there are several other key costs that customers may incur in using a service:

(i) Physical efforts may be required to obtain some services, especially if the customer must come to the service factory and delivery entails self-service.

(ii) Sensory costs may include putting up with noise, unpleasant smells, drafts, excessive heat or cold, uncomfortable seating, visually unappealing environments, and even unpleasant tastes (one of the reasons that many children dislike health care).

(iii) For customers, there is an opportunity cost to the time spent in pursuit of service, since that time could, perhaps, be spent in other ways.

(iv) Psychic costs are sometimes attached to the use of a particular service-mental effort, feelings of inadequacy, or even fear.

In short, as the bundle of benefits presented by the product must be traded off against the bundle of costs associated with using it. In any given situation, customers are making judgment about what they get in return for what they give.

Pricing – Meaning of Price and Pricing

Right price is one of the important determinants of business success. Right price, however doesn't mean a low price. What is the right price? It depends upon a number of factors like the nature of other elements of marketing-mix, nature of market, including demand and competition.

A price policy is a guideline set by the top management to bring about optimum product market integration. It is that sharp weapon by which the marketer can encourage or discourage competition, satisfy or dissatisfy the consumers, helps or hinder the army of salesman in effective selling. Price policies and strategies are important for all the members of channel of distribution.

A price is the amount one pays for a good or a service or an idea. Price is the amount for which a product, a service or an idea is exchanged, or offered for sale regardless of its worth or value, to the potential purchaser. Without price there is no marketing, in the society. To a manufacturer, price represents quantity of money (or goods and services in a barter trade) received by the firm or seller. To a customer, it represents sacrifice and hence his perception of the value of the product.

The term 'price' needs not be confused with the term 'pricing'. Pricing is the art of translating into quantitative terms (say rupees or dollars) the value of the product or a unit of a service to customers at a point in time.

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Thus, pricing refers to the value determination process for a good or service, and encompasses the determination of interest rates for loans, charges for rentals, fees for services, and prices for goods.

Pricing – Buyers' and Sellers' View

In general terms price is a component of an exchange or transaction that takes place between two parties and refers to what must be given up by one party (i.e., buyer) in order to obtain something offered by another party (i.e., seller).

Yet this view of price provides a somewhat limited explanation of what price means to participants in the transaction.

In fact, price means different things to different participants in an exchange:

1. Buyers' View:

For those making a purchase, such as final customers, price refers to what must be given up to obtain benefits. In most cases what is given up is financial consideration (e.g., money) in exchange for acquiring access to a good or service. But financial consideration is not always what the buyer gives up.

Sometimes in a barter situation a buyer may acquire a product by giving up their own product. For instance – two farmers may exchange cattle for crops. Also, as we will discuss below, buyers may also give up other things to acquire the benefits of a product that are not direct financial payments (e.g., time to learn to use the product).

2. Sellers' View:

To sellers in a transaction, price reflects the revenue generated for each product sold and, thus, is an important factor in determining profit. For marketing organizations price also serves as a marketing tool and is a key element in marketing promotions. For example – most retailers highlight product pricing in their advertising campaigns.