MARKETING MANAGEMENT

UNIT-2

PART-XIII

FACTORS AFFECTING PRICE OF A PRODUCT

1. Product Cost:

The most important factor affecting the price of a product is its cost.

Product cost refers to the total of fixed costs, variable costs and semi variable costs incurred during the production, distribution and selling of the product. Fixed costs are those costs which remain fixed at all the levels of production or sales.

For example, rent of building, salary, etc. Variable costs refer to the costs which are directly related to the levels of production or sales. For example, costs of raw material, labour costs etc. Semi variable costs are those which change with the level of activity but not in direct proportion. For example, fixed salary of Rs 12,000 + upto 6% graded commission on increase in volume of sales.

The price for a commodity is determined on the basis of the total cost. So sometimes, while entering a new market or launching a new product, business firm has to keep its price below the cost level but in the long rim, it is necessary for a firm to cover more than its total cost if it wants to survive amidst cut-throat competition.

2. The Utility and Demand:

Usually, consumers demand more units of a product when its price is low and vice versa. However, when the demand for a product is elastic, little variation in the price may result in large changes in quantity demanded. In case of inelastic demand, a change in the prices does not affect the demand significantly. Thus, a firm can charge higher profits in case of inelastic demand.

Moreover, the buyer is ready to pay up to that point where he perceives utility from product to be at least equal to price paid. Thus, both utility and demand for a product affect its price.

3. Extent of Competition in the Market:

The next important factor affecting the price for a product is the nature and degree of competition in the market. A firm can fix any price for its product if the degree of competition is low.

However, when the level of competition is very high, the price of a product is determined on the basis of price of competitors' products, their features and quality etc. For example, MRF Tyre company cannot fix the prices of its Tyres without considering the prices of Bridgestone Tyre Company, Goodyear Tyre company etc.

4. Government and Legal Regulations:

The firms which have monopoly in the market, usually charge high price for their products. In order to protect the interest of the public, the government intervenes and regulates the prices of the commodities for this purpose; it declares some products as essential products for example. Life saving drugs etc.

5. Pricing Objectives:

Another important factor, affecting the price of a product or service is the pricing objectives.

Following are the pricing objectives of any business:

(a) Profit Maximisation:

Usually the objective of any business is to maximise the profit. During short run, a firm can earn maximum profit by charging high price. However, during long run, a firm reduces price per unit to capture bigger share of the market and hence earn high profits through increased sales.

(b) Obtaining Market Share Leadership:

If the firm's objective is to obtain a big market share, it keeps the price per unit low so that there is an increase in sales.

(c) Surviving in a Competitive Market:

If a firm is not able to face the competition and is finding difficulties in surviving, it may resort to free offer, discount or may try to liquidate its stock even at BOP (Best Obtainable Price).

(d) Attaining Product Quality Leadership:

Generally, firm charges higher prices to cover high quality and high cost if it's backed by above objective.

6. Marketing Methods Used:

The various marketing methods such as distribution system, quality of salesmen, advertising, type of packaging, customer services, etc. also affect the price of a product. For example, a firm will charge high profit if it is using expensive material for packing its product.