Introduction

Pricing is strongest p among all Ps of marketing mix. A ‘Price policy’ is a guide-line 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, help or hinder the force of salesmen in effective selling. Thus, the role of pricing is pivotal in the four branches of economics namely, exchange, production, consumption and distribution.

A price is the amount we pay for a good or a service or an idea.
A more contemplative person may say that price is the monetary value of all the offers made by marketer which have gone into the creation of buyer satisfaction.

Definition

Pricing is the art of translating into quantitative terms the value of the product or a unit of service to customers at a point in time. It is the process of setting objectives, determining the available flexibility, developing strategies, setting prices and engaging in implementation and control.

“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.” **Prof. K.C. Kite**

Significance of Pricing

1. **Price helps to demand:** Marketing manager can regulate the product demand through this powerful instrument. Price increase or decrease the demand for a product. To increase the demand, reduce the price and increase the price to reduce the demand. Improper pricing may completely sap the effectiveness of the well-conceived marketing program. Price can defame a good product and fame well a bad product too. So, it is the strongest P of the four Ps of mix.
2. **Price is a competitive weapon:** Any company whether it is selling high or medium or low priced merchandise will have to decide as to whether its prices will be above or equal to or below its competitors. Price acts as a basic policy issue that affects the entire marketing planning program. Since the product life span is directly related to the product's competitiveness, pricing helps to meet competition and increase its life span.
3. **Price is the determinant of profitability:** Price of a product

4. **Price as a base for crucial decisions:** In the areas of marketing management, decisions are more crucial because, they have bearing on the other branches of business. Price can be a better criterion for arriving at cutoff point because, price is the determinant of profit. If a decision regarding selecting product improvement possibilities is to be taken, select that possibility which gives the highest revenues as compared to the cost.

5. **Price is powerful agent for sustained economic development:** In the economic system, price is the mechanism for allocating resources and reflecting the degrees of risk and competition. In the free market economy, resources can be allocated by the process of price reduction and price increase. It is the prime mover of the wheels of economy namely, production, consumption, distribution and exchange. Thus, it is a pivot of an economy.

Objectives of Pricing

1. **Market share:** pricing objective can be either to maintain the market share, to increase it or sometimes to decrease it. The company uses the price as an input to enjoy a target market share. Target market share means that portion of the industry sale which a company aspires to attain and achieve. Thus, price is one of the most important variable in improving or maintaining market share
2. **Cash-flow management:** The rapid expansion of new product research and decentralized distribution networks and the explosions of aggressive selling have made it necessary to commit sums of money to marketing. Since, there are many other demands within the firm such as research and development, adverting, product expansion, market research, transportation, channel development, it is quite imperative that the price objective is to retain as much cash possible within a given period of time.

4. **Meeting cut throat competition:** Price can be used as a weapon to meet the competition or eliminate it. Matching or marring the competitors is the simplest strategy in case of those companies that are more interested in non-price strategies. Meeting of competition implies keeping more or less same prices as fixed by the competitors. This can be called as ‘maintenance pricing policy’. ‘Destroyer pricing policy’ compels the competitor to leave the line as prices are reduced as compare to the competitive products and services.
5. **Profit maximization:** Profit maximization is the age-old objective of pricing. Here, price policy followed by the management helps the firm to maximize its earnings under given market conditions. Profit maximization can be a long term objective but in the short run, there is need to build up minimum market share, sales volume which is possible with lower prices and lower profit.
6. **Price and Profit stabilization:** Stabilization of prices and margins can be a long term objective of a firm. Fluctuating

7. **Survival:** Organizations tolerate almost any kind of deficiency say, short run losses, reduction in the size of operations and the like in order to continue in existence. Therefore, at least in the short-run, some organizations price the products with the objective of obtaining working capital for uninterrupted operations. However, 'survival price objective, is short term goal.
8. **Target return on investment:** Pricing to obtain predetermined profit involves the establishment of specific profit goals either as a percentage of sales or ROI. Thus, pricing objective is to yield sales revenue at the end of the financial year sufficient enough to cover overall costs and to leave desired margin equal to the rate of return.
9. **Maintaining the image:** Every company has an identity from the moment it is established. It is the sum total of the impression that people have about the firm, its product, package, trade mark, employees, marketing programs and the

FACTORS AFFECTING THE PRODUCT PRICING DECISIONS:

The marketing executives set the product prices between an upper and the lower limits. Upper limit is the highest value that the customer is likely to pay whereas lower limit covers costs and leaves reasonable margin. Within these extreme limits, the actual prices is influenced by **internal and external factors**. It is crystal clear that the marketeer can exert deeper control over internal factors while the external factors control his thinking and action.

INTERNAL FACTORS

Internal and Controllable factors affecting the price decisions are:

- **Organisational factors:** These refer to the internal arrangement or mechanism for decision making and its implementation. These arrangements differ widely from concern to concern at different times. Overall price strategy is the prerogative of the top executives who determine the basic price range for the product range in reference to market segments. However, the actual pricing is dealt at the lower level. Price decision is the actual outcome of production and marketing specialists.
- **Marketing mix:** Though price is an important component of marketing mix, other components cannot be ignored. Therefore, pricing decisions must be seen not in isolation but as a part of total marketing strategy and should avoid conflict with other elements namely, product, promotion and place.

- **Product Differentiation:** It is the ability of a manufacturer to make his product distinctive from others in the market. In case of consumer goods, product differentiation is seen to the maximum possible extent. The differentiation can be in the form of package design, smell, colour, shape, features, quality, advertising theme, brand name, after sales services etc.. Greater differentiation leads to higher prices.

- **Product Costs:** Costs have relevance if market demand and competition are taken into account. Product costs merely determine the business existence and it is the demand and the competition that determine price. There is close relationship between costs and product prices. It is the efforts of every concern to cover all the costs so that the firm has the fair chance of marketing surplus.

- **Product life Cycle:** Pricing policy is to be formulated in relation to the stage of life cycle the product is in. In introduction stage, price policy may be of penetration. In growth stage, prices can be raised to

- **Pricing objectives:** A price policy is the means to achieve the price goals. It is these pricing objectives that provide the focus for framing policies and strategies. Pricing objectives can be survival, targeted return, desirable market share, price and profit stabilization, resource mobilization, meeting competition, maintaining image etc. Therefore, a firm is expected to define its price goals in clear-cut terms so that they are accepted and acted upon.

- **Functional Position:** If the firm has a longer channel of distribution, the product price for the consumer is bound to be higher than in case of a smaller channel. A sound channel can bring about considerate slicing down in costs. There is need for co-ordinated functioning of these manufacturers and middlemen so that control over internal operations, selling, advertising, and administrative costs can be possible.

EXTERNAL FACTORS:

External and uncontrollable factors which are to be carefully analysed and interpreted correctly, are:

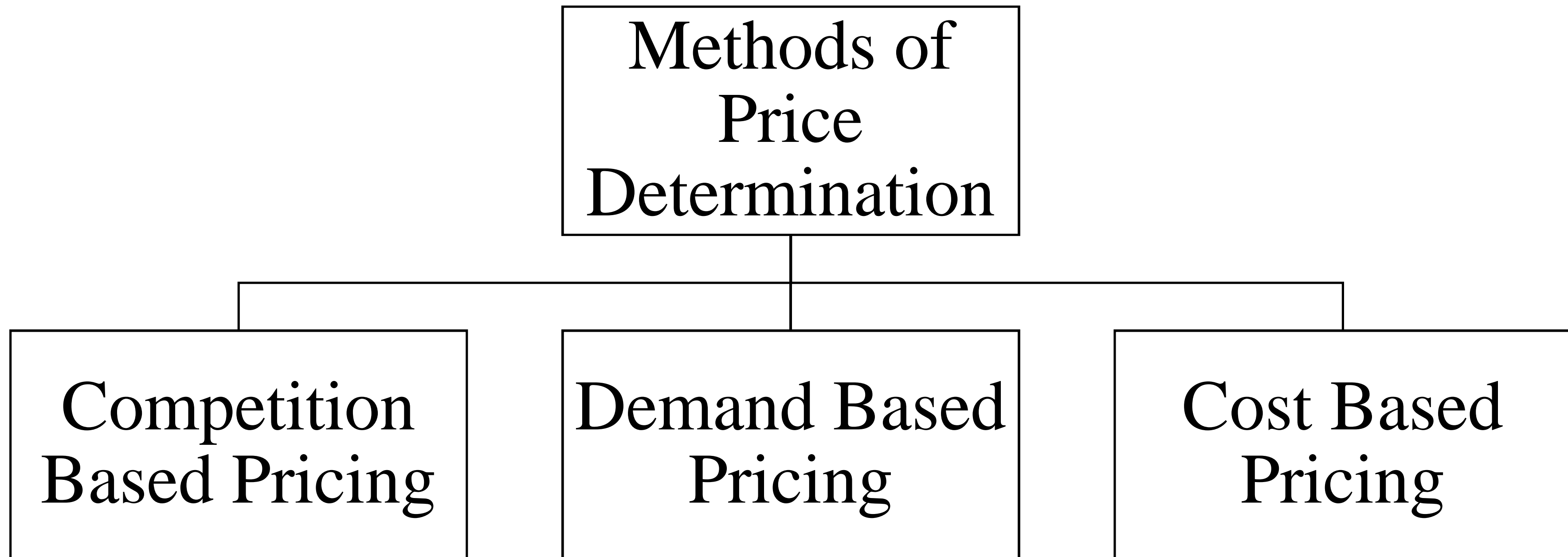
- **Product demand:** Demand is the single most imported factor having tremendous impact on price, pricing policy and strategy followed by the firm. Demand may be elastic or inelastic or perfectly elastic or perfectly inelastic. The demand conditions are not absolute but relative.

- **Competition:** Knowing one's competitors is critical to successful marketing planning. The firm should constantly compare its products, prices, channels and promotion with those of competitors. A competitor's objectives and strengths and weaknesses go a long way towards elucidating firm's possible moves and reactions such as price hike or price cut, rigorous or moderate promotion, introduction of new product, liberal or stringent credit facility.

- **Economic conditions:** The economic conditions prevailing in the country have a decisive impact on firm’s pricing policy. A period of boom brings monetary satisfaction to the people. However, it also encourages competitors to enter the market to take advantage of profit margin. Generally, the established competitors have greater flexibility as they chew the prosperity. Also, when the suppliers smell that the manufacturers are making higher profits and their inputs are significant and cannot be substituted, they raise prices of inputs which shoot ups the cost of manufacturing too.

- **The buyer behaviour:** Generally, if the buyers are more in number and smaller in strength, lesser will be the impact on the company’s pricing as they are too small to influence unless they are well organised. On the other hand, industrial buyers are few but are bulk buyers so they have profound influence on the pricing decisions. Thus, the pricing policy to be followed would be different in case of industrial users and the final users.

Methods of Price Determinants



COST BASED METHODS

A Pricing method in which costs establish the floor for the possible price range and there are two commonly used cost oriented pricing methods to set the product prices. These are:

- Cost Plus Pricing Method
- Target return Pricing Method

Cost Plus Pricing Method: It involves simply adding a percentage of the cost to arrive at the price. There is slight difference between cost plus and mark-up pricing. Mark-up pricing is an addition of profit calculated as a percentage of sales rather than as a percentage of cost.

This can be explained as follows:

THE PRODUCTS SOLD BY THE FIRM

	Radio Mono (In Rs.)	Two-in-one (In Rs.)	Stereo-deck (In Rs.)
Prime Cost	500.00	800.00	1700.00
Manufacturing Overheads	300.00	400.00	600.00
Administration Burden	100.00	200.00	400.00
Selling and Distribution Expenses	50.00	100.00	300.00
Cost of sales	950.00	1500.00	3000.00
Profit (25% on cost)	237.00	375.00	750.00
SELLING PRICE	1187.00	1875.00	3750.00

Source: marketing management, product pricing by c.n. sontakki, 2014

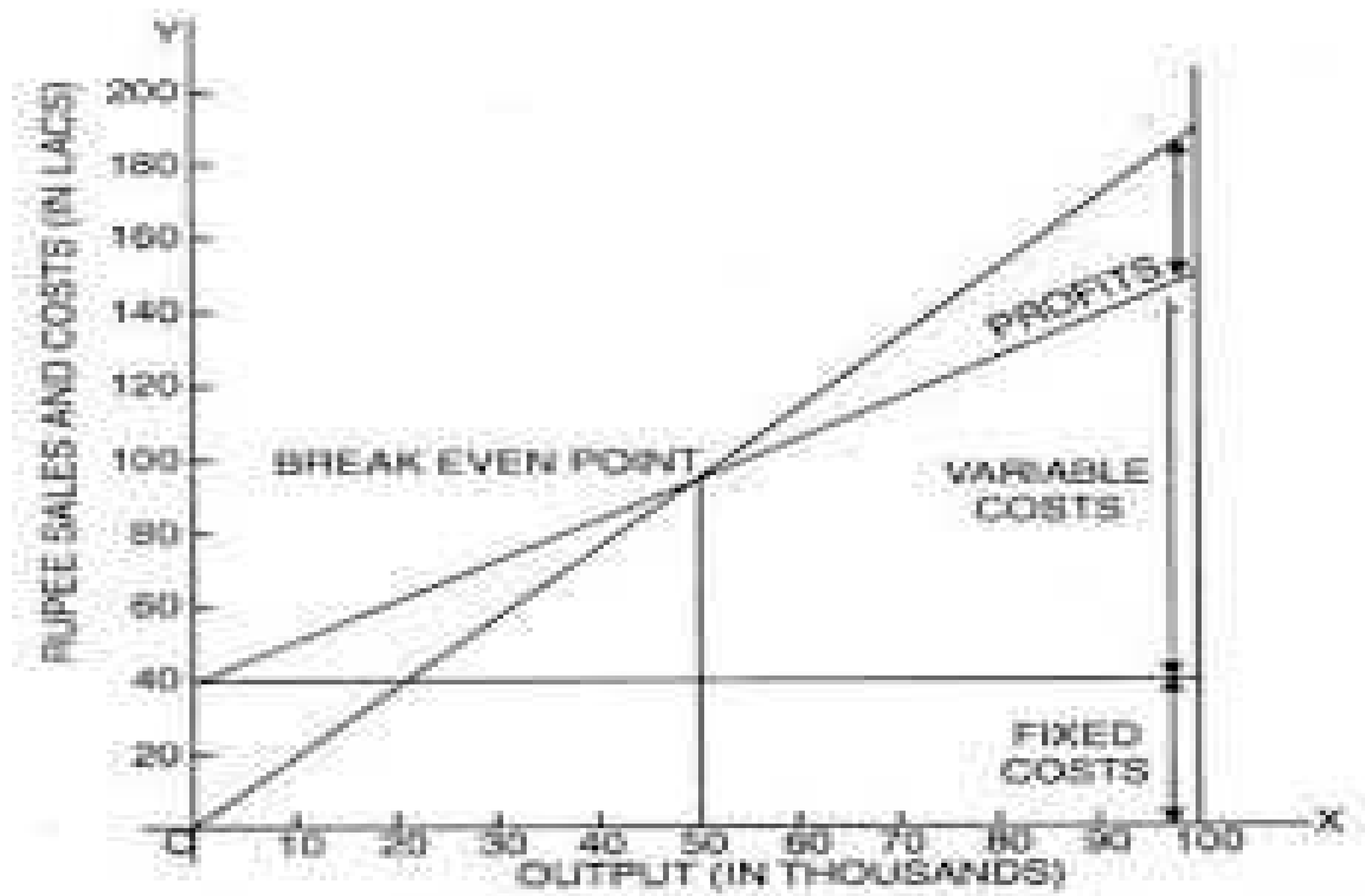


Fig. 2.02. Cost based pricing.

TARGET RETURN PRICING

It is based on the break even analysis. It sets the prices at a desired percentage return over and above the break even point. Thus, the costs of producing and offering the goods for sale are determined and a target percentage return is then added to those costs at a given standard output level.

	Amounts (In Rs.)
Cost of 80,000 Tricycles	1,27,50,000
Fixed Cost	42,50,000
Variable Cost	85,00,000
Profit percentage on cost	20
Total Revenue	1,53,00,000
Selling Price per unit	191.25

Evaluation Of Cost Based Methods

ADVANTAGES

- Simplicity
- Harmonious Competition
- Socially Justifiable
- It is Safer
- It Moves with New Technology

DISADVANTAGES

- Ignores Demand and Competition
- Arbitrary Cost Allocation
- Cost Irrelevance
- Difficult to set price if the products is new
- No Penalty for Inefficiency

Competition Based Methods

A Pricing method in which a seller uses price of competing products as a benchmark instead of considering own cost or custom demand. Though, no firm can afford to disregard cost and demand factor in pricing, it gives major attention to position its prices just relative to the prices of its competitors. Competition based methods include:

- Going Rate Pricing
- Sealed Bid Pricing

Going Rate Pricing

Going rate pricing is the method of setting the prices in relation to the price of the competitors. The firm bases its prices largely on the competitor's prices with less attention paid to its own costs or demand. Three competitive pricing strategies are:

- Pricing your product/service the same as that of the competitors
- Pricing slightly below that of the competitors
- Pricing slightly above that of the competitors

Generally, in industries where oligopoly prevails such as steel, paper, fertilizers, aluminum, copper and the like, the firms charge the same price as their competitors. Some firms may charge higher or lower prices than their competitors.

GOING RATE PRICE FIXING

Price per ton

Cost and Mark up	Competitors	Alternative 1	Alternative 2	Alternative 3
Cost of sales	10000	11000	11000	11000
Profit margin	2000	1000	2000	800
Final price	12000	12000	13000	11800

Sealed Bid Pricing

In all those business lines where the firms bid for products or services, competition based pricing is followed rather than its costs and demand. The firm fixes its prices on how the competitor, price their products. It means that if the firm is to win a contract or a job, it should quote less than the competitors. With all this, the firm cannot set its price below a certain level. This is, it cannot price below the cost. On the other hand, higher price above its costs reduces the chance of winning the job. The net effect of the two opposite pulls can be described in terms of “Expected Profit” of a particular bid.

EFFECT OF DIFFERENT BIDS ON EXPECTED PROFIT

Case	Firm's bid	Firm's profit	Probability of getting bid	Expected profit
1	6500	100	85%	85
2	7000	500	36%	180
3	7500	1000	9%	90
4	8000	1500	3%	45
5	8600	2100	1%	21

Case 1 gives the lowest profit but the highest chances of getting the bid. With all that , profit is rupees 85. On the contrary case No.5 gives the highest profit with least chance of getting the bid with a profit of only rupees 21. under these circumstances, the best bid would be one that gives maximum expected profit and that is case No.2, with a profit of rupees 180.

EVALUATION OF COMPETITION BASED METHOD

ADVANTAGES

- It keeps the firm competitive with direct competitors in the eyes of customers.
- It is fast to develop as competitor price comparison is in hand.
- It is easier for customers to understand.
- It can be adjusted according to the needs.
- Low risk element of this strategy

DISADVANTAGES

- Market price may not provide the required profit margin.
- It does not take into account new entrants that offer substitutes.
- This method is difficult to implement for companies with small revenues.
- It needs resources to implement.

DEMAND BASED PRICING METHODS

Demand based pricing is a pricing method based on the customer's demand and the perceived value of the product. In this method the customer's responsiveness to purchase the product at different prices is compared and than an acceptable price is set. There are two important demand based methods:

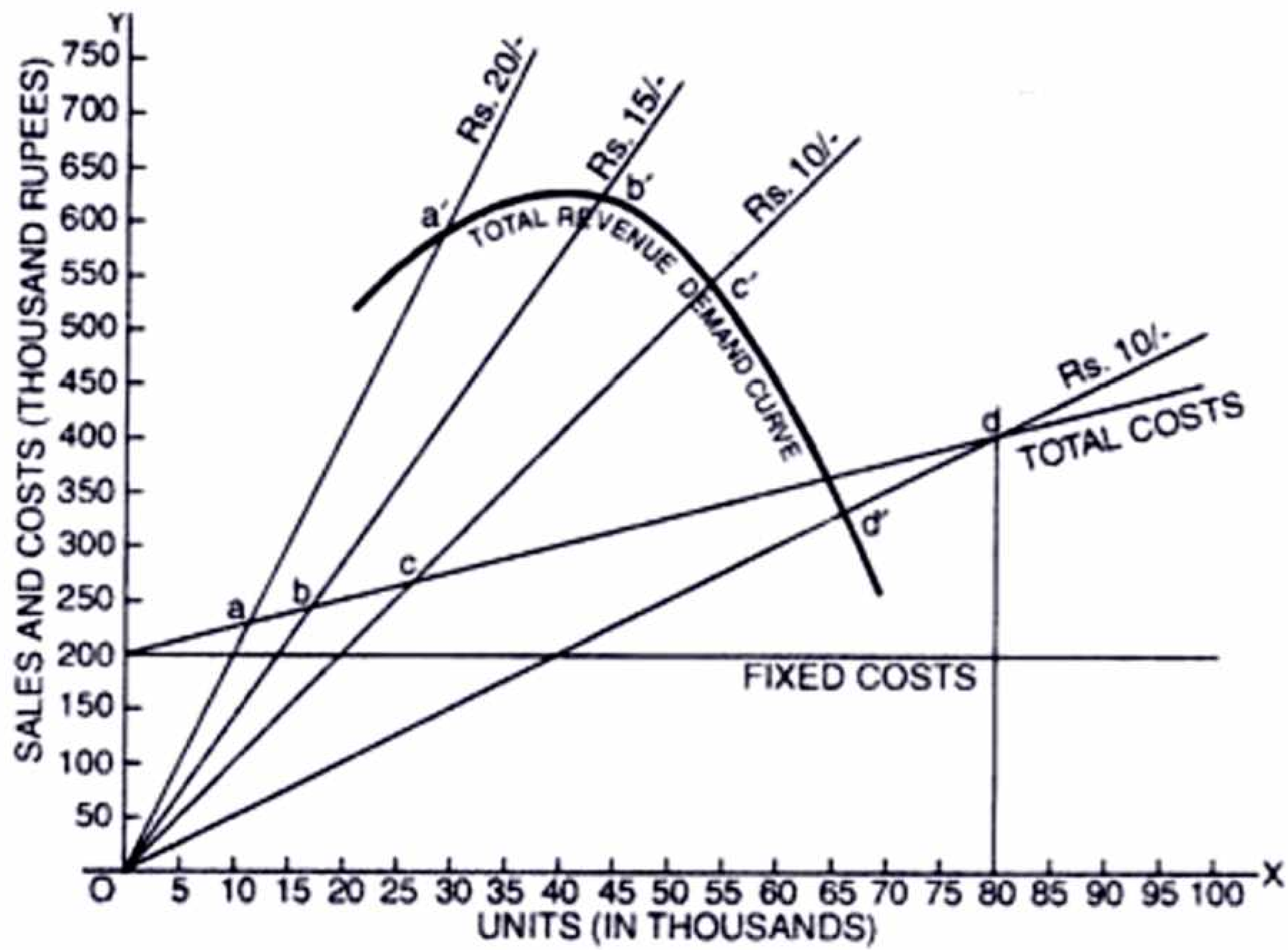
Demand Modified Break Even Analysis

Perceived Value Pricing

DEMAND MODIFIED BREAK EVEN ANALYSIS

Demand modified break even pricing is that method which sets the prices to achieve highest profit in consideration of the amount demanded at alternative prices. In other words, this method requires estimates of market demand at each feasible price break even points and expected profit levels of total sales revenue can then be calculated.

Unit price Rs.	Market demand (units)	Total revenue Rs.	Total point (units)	Break even point (units)	Expected profit Rs.
At 5	65,000	3,25,00	3,62,500	80,000	37,500
At 10	55,000	5,50,000	3,37,500	26,667	2,12,500
At 15	45,000	6,75,000	3,12,500	16,000	3,62,500
At 20	30,000	6,00,000	2,75,000	11,429	3,25,000



Y
750
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250
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SALES AND COSTS (THOUSAND RUPEES)
Rs. 20/-
Rs. 15/-
Rs. 10/-
Rs. 10/-
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c'
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TOTAL REVENUE DEMAND CURVE
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95
100
X
UNITS (IN THOUSANDS)

PERCEIVED VALUE PRICING

- It means valuation of goods and services according to how much the customers are willing to pay for it rather than upon its production and delivery cost.
- Perceived value can be based on brand image , product value based on its performance , quality , distribution network, after sale services etc. For example: Customer buy Sony products despite less price products are available in the market this is because Sony company follows the perceived pricing policy wherein the customer is willing to pay extra for better quality and durability of the product.
- Market research is needed to establish the market's perception of value as a guide to effective pricing.
- Firm can charge according to the value it offers to the customers.

PRICING POLICIES AND STRATEGIES

Setting prices is one of the principal task of marketing and finance managers. Price of a product and services often plays a significant role in the product's success. Pricing policy refers to how a company sets the price of its product and services based on cost, value , demand , and competition. Pricing strategy refers to how a company uses pricing policy to achieve its strategic goals such as offering lower price to increase sales volume or higher prices to decrease sales. Pricing policies and strategies are the guidelines providing a focus within which the company management administers the prices to match to the market needs.

Pricing Policies

- Price Variation Policies
- Leader Price Policies
- New Product Price policy
- Promotional pricing
- Geographic Price Policy
- Price Differential Price Policies
- Psychological Pricing

A. Price Variation Policies

Price variation policies are those where in the firm attempts to vary the price of its products according to different market needs . There can be three variation of such price variation policies:

1. **Variable Price Policy:** Here, the company charges different prices for sale of its like goods at a given time to similar buyers purchasing in comparable quantities under similar conditions of sale. The price charged differ from buyer to buyer. It works well in small business where products are not standardized. This policy is flexible as a promotional tool but creates friction and dissatisfaction among consumers because of discrimination.

2. **Non-Variable Price Policy:** It is also called as ‘One Price’ policy because, the company charges similar price for sale of like goods at a given time to a class of buyers purchasing in comparable quantities under the similar conditions of sale. Here, the price charged varies from class to class such as wholesalers, retailers, distributors. Price differs class to class and not customer to customer.
3. **Single Price Policy:** in this price policy, all buyers irrespective of their class, size, or the conditions of purchases are charged similar purchase price under similar conditions of sale. This is the price policy that has no touch of discrimination and it is constructive in the sense that it helps in building goodwill. It is equally easy to administer as there is no scope for bargaining. However, bulk buyers feel that they are charged similar to small lot purchasers, thus, creates dissatisfaction.

B . GEOGRAPHIC PRICE POLICY

It is the practice of modifying a basic list price based on geographical location of buyers. The major geographical pricing policies are:

Point of origin price policy

It is that type of policy in which firm quotes ex-factory price and make no allowance for the transportation costs necessary to move the goods to the point of destination. There can be two variation in this policy namely:

Ex-factory: Price under ex- factory pricing holds buyer responsible for all the transportation costs both freight and cartage from the factory point to the point of destination.

Free on rail. F.O.R (free on rail) price is one in which the company bears cartage or carriage till the transport agency or the railway station . That is , the buyer are to meet freight from the transport agency or railway station to the point of destination.

Freight absorption policy

Uniform Delivered Price Policy: It is one in which the firm absorbs the full transportation costs and delivers the goods to all the buyers at their ends at a uniform price irrespective of location and distance. Under actual conditions, the firm averages the total freight charges of all the customers and add in the basic price to quote the final price.

Zonal Price Policy: The firm divides its market into zones and quotes uniform prices to all the buyers located in the identified zone. Prices differ from zone to zone. This policy stabilizes the prices within a zone and simplifies calculation of transport charges.

Base point Price Policy: Certain cities are designated as Base points . All goods shipped from a given base point are charged same amount. Buyer pay ex-factory price plus freight computed from the nearest base point to his destination irrespective of the actual freight incurred by the firm.

C . PRICE DIFFERENTIAL PRICE POLICY

Price differential price policy represents the differences between price quoted and the price charged to the buyer. Price differential have been accepted as a part of pricing strategies to encourage buyers, to meet competitive pressure , to attain financial objective and finally to compensate the buyers for the loss of value satisfaction.

The forms of price differentials are:

1. Discounts
2. Rebates
3. Premiums

DISCOUNTS

Discount is the price differential that reduces the quoted price so that the buyer pays much less than the quoted price. It is further of three types:

- **Trade Discount:** It is the amount by which the manufacture reduces the retail price of a product when he sells to intermediaries because of the specific position enjoyed by them who further charge full retail price to their customers in order to earn profit.
- **Quantity Discount:** It is the reduction in the price of a product if buyer chooses to acquire goods in large quantity. It encourages bulk purchase and stabilizes orders booked.
- **Cash Discount:** It is the deduction granted to buyer for paying their bills within specified period of time . It is deducted after deducting trade discount and quantity discount. It is a reward to the buyer for timely and prompt payment.

REBATES

It is the deduction of the quoted price. Many a times , the buyers suffer loss of value satisfaction caused by certain factors . The causes of such dissatisfaction may be defective goods delivered , delays caused in delivery, goods damaged in transit , possible deterioration in quality on the shelves. In order to accommodate the genuine claims, concessions are given in the form of rebate.

Merits :

- It helps in boosting the sales of the defective goods .
- It acts as a instrument of wiping off the tears by compensating the value dissatisfaction suffered.

PREMIUMS

There are occasions where the actual price paid will be higher than the quoted price . Thus consumer durable manufacturing units can add premium to the price quoted for the one reason or the other. Price is high for extending warrantees , special after sales service , extra durability and so on. Let us take the example of washing machine manufacturing company:

Original price	40,000
Add : warrantee	3000
Add: After sale service	2000
Total	45000
Less : 5% discount	-2250
Net Price	42750

D . LEADER PRICE POLICY

Leader pricing is one where the firm in the industry initiates the price changes and these price changes are so effective that other firms follow it. This normally occurs in all those industries where the products are highly standardized and produced on mass scale. A company can afford to a price leader only when it enjoys lion's share of market, is well informed about its demand , supply and cost conditions and has reputation of sound pricing policies.

E . PSYCHOLOGICAL PRICING

Prices are fixed in such a way that they have some kind of psychological impact on buyers. It plays with the psychology of consumers to induce them to buy. Odd pricing is done which means setting the price slightly lower than the rounded number. For example, rupees 999 is quoted instead of rupees 1000 .

F . NEW PRODUCT PRICING POLICIES

Skimming Price Policy: It is the pricing strategy in which a marketer sets a relatively high initial price for a product or services at the initial stage of product life cycle to skim the cream of the market as there is no immediate competition and there are price inelastic customers. The prices are reduced at later stages of product life cycle to meet competition and maintain demand.

Example : Mobile phones and electronic items

Penetration Price Policy: Introduce new product at lower price than competitors to establish market share and to capitalize production economies. Price is raised once target market share is achieved.

Example : Reliance Jio

G . PROMOTIONAL PRICING

1. **Loss Leader Pricing:** Most of the supermarkets and departmental stores reduce the prices of products on well known brands to attract more and more customers to increase the sales. This pays, if, it generates additional revenue. Sales compensate for the lower margins on the loss leader items.
2. **Special Event Pricing:** Sellers fix special prices in certain seasons and events to draw more customers. Mostly seasonal products make it possible to make good margin.
3. **Cash Rebates:** In case of consumer durable goods especially white goods like two- wheeler, autos, car washing ,machines and home appliances including electronic goods, cash rebates are given to attract more customers.

4. **Longer Period Payments:** Consumers hesitate to buy products like cars, ready flats. In such cases, they do not mind paying comparatively higher rates of interest, but the period of payment is extended to make monthly installments quite handy.
5. **Warranties and Service Contracts:** In case of TV sets and other electronic goods, warranty period is extended because of which consumers come forward to buy these products without any hesitation.. They also extend service contracts at reasonable costs.
6. **Psychological Discounting:** It means that the price is originally at a high level much more than that of normal price. Later, high rate of discount is given, where the seller is at gain always.

CONCLUSION

Thus, pricing is the function of determining the products or services or idea in monetary terms by the marketer before it is offered to the target consumer for sale. Firms should be systematic in setting prices. Optimal prices cannot be established and pricing remains an art with a host of factors to be evaluated. Thus, price is a big gun in the armory of marketer that can make, maintain or mar the market share.