PRICING

Pricing is the method of determining the value a producer will get in the exchange of goods & services.

OBJECTIVES

1. To increase sale volume.
2. To increase market share.
3. To achieve pre-determined profit level.
4. To counter market competition
5. To satisfy customer.

TYPES OF PRICING STRATEGY/DIFFERENT METHODS OF PRICING

The following are the different methods of pricing-

A. Cost based pricing

B. Competition oriented pricing

C. Demand oriented pricing

D. Strategy based pricing

E. Others

A. COST BASED PRICING

Cost- based pricing refers to a pricing method in which some percentage of desired profit margins is added to the cost of the product to obtain the final price.

The types of cost-based pricing is sub-divided in the followings:

1. Cost plus pricing:

Cost-plus pricing is also known as average cost pricing. This is the most commonly used method in manufacturing organizations.

Formula: Product unit total cost +percentage profit

Example : Commonly followed in departmental store.

2. Marginal cost pricing: Marginal cost-the cost of producing one extra or one fewer item of production.

- This pricing strategy is relevant in transport where fixed cost is relatively high.

3. Break even pricing : Break even price is the amount of money for which an assets must be sold to cover the cost of acquiring it.

4. Absorption cost pricing : This method is used by manufacturing firm. It is also known as full cost pricing. Absorption cost pricing =Fixed cost+Variable cost+ Selling & Administrations expense+ Advertisement cost + Profit

- It is also known as full cost pricing.

5. Mark-up pricing :

The selling price is fixed by adding mark-up or margin to its cost.

- It is usually used by distributors.

Mark up price= Unit cost/(1-Desired return sales).

B. Competition-oriented pricing

Competition-oriented price may be classified in the following-

1. Sealed bid pricing :All the tenders are opened on a scheduled date and the person who quotes the lowest price is awarded the contract.

2. Going rate pricing: In case of price leader reveals difficulty in competing on price-too high and they loss market share, too low and price leader would match price and smaller rival out of market. Where competition is limited 'going rate' price may be applicable.

Ex: Bank, Petrol

C. Demand based pricing :

The demand based pricing may be sub divided in the following-
1. Skimming pricing :
High price is set to skim the profit from the market.
• Suitable for products that have short life cycles.
Ex: Digital technology

2.Penetration pricing:
Low price is set to penetrate the market.
• 'Low' price to secure high volume.
• It may be useful if launching into a new market.

3. Differentiate pricing:
Charging a different price for the same goods/service in different market.
• Requires each market to be impenetrable.
• Requires different elasticity of demand in march market.
Ex: Price for rail travel differ for the same journey at different times of the day.

4. Perceived value pricing :

Price is fixed on the basis of the perception of the value of product.

Ex: Mobile phone

D. Strategy based pricing:

1. Matching pricing : A firm promises to meet match a lower price offered by any competitor while announcing its own price.

2. Promotional pricing : Promoting the product by intentionally charging over price to attract the customer.

3. Time to time pricing :

This is also called randomized pricing strategy where the firm varies its price from time to time, say hour to hour or day to day.

4. Target pricing :

This is a strategy where price is fixed keeping in view a targeted profit.

Ex: Market leaders or monopolistic used this pricing strategy.

E. Others:

1. Psychological pricing:

The prices under this method are fixed at a full number.

• Pricing is fixed on consumer perceptions. Ex: Rs. 999 instead of Rs 1000.

2. Odd pricing : It may be a pricing ending in an odd number.(Ex: Rs.499.95)

FACTORS AFFECTING PRICING

The factors of pricing may be categorized into two-

A. Internal factors B. External factors

A. Internal factors:

1. Cost: While fixing the price of a product, the firm should consider the cost involved in producing the product.

2. The pre determined objectives:

While fixing the prices of the product, the marketer should consider the objective of a firm. For instance, if the objectives of a firm is to increase rate of return on investment, then it may charge a higher price, and if the objective is to capture a large market share, then it may charge a lower price.

3.Image of the firm:

The price of the product may also be determined on the basis of the firm in the market. For instance, Procter & Gamble can demand high price for their brands,. As they enjoy goodwill in the market.

4. Product life cycle:

The stage at which the product is in its product life cycle also affects its price. For instance, during the introductory stage the firm may charge lower price to attract the customers and during the growth stage, a firm may increase price.

5. Credit period offered:

The pricing of the product is also affected by the credit period offered by the company.

Longer the credit period, higher may be the price, and shorter the credit period, lower may be the price of the products.

6. Promotional activities:

The promotional activity undertaken by the firm also determines the price. If the firm incurs heavy advertising and sales promotion costs, then the pricing of the product shall be kept high in order to recover the cost.

B. External factors:

1. Competition:

While fixing price of the product, the firm needs to study the degree of competition in the market. If there is high competition, the prices may be kept low to effectively face the competition, and if competition is low, the prices may be kept high.

2. Consumers:

The market should consider various consumer factors while fixing the prices. The consumer factors that must be considered includes the price sensitivity of the buyer, purchasing power and so on.

3. Government control:

Government rules and regulation must be considered while fixing the prices. In certain products, Government may announce administered prices, and therefore the marketer has to consider such regulation

while fixing the price.

4. Economic conditions:

The marketer may also have to consider the economic condition prevailing in the market while fixing the prices. At the time of recession, the consumer may have less money to spend, so the marketer may reduce prices in order to influence the buying decision of the consumer.

5. Channel intermediaries:

The marketer must consider a number of channel intermediaries, the higher would be prices of goods.

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