

## UNIT 4

Subject Name	Subject Code	Semester	Prepared by
Marketing Management	18BBA33C	III	Dr.R.Geetharamani, Assistant Professor

**Pricing** is the process whereby a business sets the price at which it will sell its products and services

Pricing is a process of fixing the value that a manufacturer will receive in the exchange of services and goods. Pricing method is exercised to adjust the cost of the producer's offerings suitable to both the manufacturer and the customer.

While fixing the cost of a product and services the following point should be considered:

- The identity of the goods and services
- The cost of similar goods and services in the market
- The target audience for whom the goods and services are produced
- The total cost of production (raw material, labour cost, machinery cost, transit, inventory cost etc).
- External elements like government rules and regulations, policies, economy, etc.

## **Objectives of Pricing:**

- **Survival-** The objective of pricing for any company is to fix a price that is reasonable for the consumers and also for the producer to survive in the market. Every company is in danger of getting ruled out from the market because of rigorous competition, change in customer's preferences and taste. Therefore, while determining the cost of a product all the variables and fixed cost should be taken into consideration. Once the survival phase is over the company can strive for extra profits.
- **Expansion of current profits-** Most of the company tries to enlarge their profit margin by evaluating the demand and supply of services and goods in the market. So the pricing is fixed according to the product's demand and the substitute for that product. If the demand is high, the price will also be high.
- **Ruling the market-** Firm's impose low figure for the goods and services to get hold of large market size. The technique helps to increase the sale by increasing the demand and leading to low production cost.
- **A market for an innovative idea-** Here, the company charge a high price for their product and services that are highly innovative and use cutting-edge technology. The price is high because of high production cost. Mobile phone, electronic gadgets are a few examples.

## **Factors Influencing Pricing decision:**

### **(i) Cost of Production:**

Cost of production is the main component of price. No company can sell its product or services at less than the cost of production. Thus, before price fixation,

it is necessary to compile data relating to the cost of production and keep that in mind.

There are two types of cost: (i) Fixed Cost (e.g., Rent of building, Salary of permanent staff, etc.) (ii) Variable Cost (e.g., Material, Labour, etc.). At least the price should be able to recover the variable cost as the fixed cost is incurred whether the production takes place or not.

**(ii) Demand for Product:**

Intensive study of demand for product and services in the market be undertaken before price fixation. If demand is relatively more than supply, higher price can be fixed.

**(iii) Price of Competing Firms:**

It is necessary to take into consideration prices of the products of the competing firms prior to fixing the price. In case of cut-throat competition it is desirable to keep prices low.

**(iv) Purchasing Power of Customers:**

What are the purchasing power of the customers and at what price and how much they can purchase? It should also be taken into consideration.

**(v) Government Regulation:**

If the price of the commodity and services is to be fixed as per the regulation of the government, it should also be borne in mind.

**(vi) Objective:**

Usually, at the time of price fixation a certain amount of profit is added to the cost of production. If company's objective is to earn higher profit it may add higher amount of it.

**(vii) Marketing Method Used:**

Price is also influenced by the marketing method used by the company, e.g., commission which is to be paid to the middlemen for sale of the goods is also added to the price. Similarly, if the customers are to be provided "after sale service" facility, then those expenses are also added to the price.

**Methods of Pricing**

- **Demand Pricing**

Demand pricing is also called demand-based pricing, or customer-based pricing. This pricing method uses consumer demand of a product or service as the main element of setting a price for a product or service. Also known as dynamic pricing. It is affected by consumer demand. Which is based on the perceived value of a product or service. Includes price skimming, price point, bundle pricing, penetration pricing, and other pricing strategies. Prices of products or services can increase due to bad weather, festive periods, or in the case of natural disasters. The price of a product or service increases as there is a likelihood that the price will also increase.

- **Competitive Pricing**

Also called the strategic pricing. Competitive pricing is a method that uses the prices set by other businesses (i.e. the competition). More or less using competitor's price to price your own products. Give or take a little percentage to fit what your product or service is worth.

- **Cost-Plus Pricing**

This pricing strategy is a cost-based one for setting prices of products and services. When setting the cost-plus price, you take the cost of the raw materials and the cost of production and add them to the overhead costs of a product or service. To this total, you add a markup percentage (this is your profit margin) and this total sum is your cost-plus price. As long as all the costs and sales have been accurately calculated, you will always run at a profit.

- **Penetration Pricing**

This pricing strategy uses low prices to enter a new market or to launch a new product or service. This strategy is used to entice customers to patronise a certain product or service. It also serves as a deterrent to the competition. To prevent them from entering the market with a similar product, because they will have to make their prices lower. Once a customer base has been established, you can subtly move your prices higher, to a moderate price for a longer-term strategy.

- **Price Skimming**

Also called the skim-the-cream pricing. This pricing strategy is used by businesses with a strong competitive advantage. They enter the market with high-priced products and services. This is to gain the most revenue. To get an immediate return on production costs before other businesses can come in with similar, cheaper products or services. Later in the product cycle, the companies will gradually moderate their prices to accommodate customers with more moderate price tastes.

- **Economy Pricing**

A very familiar pricing strategy with retailers and wholesalers. Economy pricing is a basic, low-cost marketing method. It keeps the prices of goods low, targeting sales at a particular segment of the market that is very price-sensitive.

- **Psychological Pricing**

This is a common pricing technique used by businesses. A minor difference in prices is a huge difference for customers. For example, an item whose price is listed as \$399.98 may be seen as much cheaper than a product or service priced at \$400.

- **Discount Pricing**

A pricing strategy that offers products and services at a reduced price. Discount prices can come in the form of seasonal discounts, loyalty rebates, et cetera.

- **Geographic Pricing**

This pricing strategy is one where different prices are charged in different geographical locations or markets for the exact same product or service. For example, instructional materials sold in Canada will be sold at a cheaper rate in Cameroun due to the disparity in wages, the economy, et cetera.

- **Price Bundling**

Also known as product bundling. This is a strategy is used when two or more products or services a priced together as a package, with a single price. These product bundles come in two types: pure bundles are products or services that are sold and bought only as a package; and mixed bundles, which are products or services that can be bought and sold as a package, or as individual products. Usually, the bundle prices are less when the products or services are bought separately.

## **Promotion**

Promotion is a term used frequently in marketing and is one of the elements of marketing mix. It refers to raising customer awareness of a product or brand, generating sales and creating brand loyalty.

**The following are the main objectives of promotion:**

- i. To create product and brand awareness – Several sales promotion techniques are highly effective in exposing customers to products and brands for the first time and can serve as key promotional components in the early stages of new product and brand introduction. This awareness is the basis for all other future promotional activities. Promotional activities motivate the customers to try new products and brand and the dealers also to push the new products and brands.
- ii. To create interest – Sales promotions are very effective in creating interest in a product. In fact, creating interest is often considered the most important use of sales promotion. In the retail industry an appealing sales promotion can significantly create customer interest.
- iii. To provide information – Promotional activities provide substantial information about the product to the customers. This goes a long way in converting interest into actual sales.
- iv. To stimulate demand – Effective promotional activities can stimulate demand for the product by convincing the customers to buy the products.
- v. To reinforce the Brand – Promotion can be used to reinforce or strengthen the brand in the minds of the customers. This will ensure repeat sales of the product in the long run.
- vi. To attract new customers – Sales promotion measures also play an important role in attracting new customers for an organization. Usually, new customers are those persons that are loyal to other brands. Samples, gifts, prizes, etc. are used to encourage consumers to try a new brand or shift their patronage to new dealers.



vii. To induce existing customers to buy more – Promotion activities can increase the purchases made by the existing customers by making them consume more quantity or consume on more occasions.

viii. To help the firm to remain competitive – Companies undertake sales promotion activities in order to remain competitive in the market. Therefore, in the modern competitive world no firm can escape sales promotion activities.

ix. To increase sales in off-seasons – Sales of the products naturally reduce during the off-season. Therefore promotional activities can be implemented during the off-season to maintain or even increase the sales. Techniques such as off-season discounts, off-season offers can achieve this.

x. To add to the stock of the dealers – Dealers like wholesalers and retailers usually deal with a variety of goods. Their selling activity becomes easier when the manufacturer supplements their efforts by sales promotion measures. When a product or service is well supported by sales promotion, dealers are automatically induced to have more of such items.

xi. To Keep Existing Customers – A sales promotion can be geared toward keeping existing customers, especially if a new competitor is likely to enter the market.

xii. To clear inventory – Promotional techniques can be effectively used to clear unsold inventory by giving effective offers.

### **Meaning of Promotion-Mix:**

Promotion-mix refers to an optimum combination of different promotional tools and techniques; with a view to maximizing sales and profits.

### **The main elements of promotion-mix are:**

(i) Advertising

(ii) Salesmanship (or personal selling)

(iii) Sales promotion techniques

**Factor Influencing Promotion-Mix:**

**Some important factors which have an influence on the formulation of promotion-mix are described below:**

***(i) Type of Product:***

In case of industrial goods and consumer durables, where demonstration of the product is required to explain their manner of handling, instructions for safety etc.; personal selling must be emphasized more than advertising and sales promotion. Standardized popular goods require more of advertising than personal selling to maintain and extend their demand.

In fact, products of different nature and varieties require different promotional devices; and there are no standard rules in this regard governing the choice among elements of promotion-mix.

***(ii) Age of the Product:***

For new and innovative products, personal selling is better; as salespersons can easily educate and convince prospects about the nature and utility of such products. Alongside, aggressive advertising is also necessary to prepare a base for demand creation.

For older products, whose popularity may be declining due to intense competition; sales promotion techniques might be better able to push demand by creating an interest in products, on the part of general publics.

***(iii) Number of Consumers and Their Spread:***

If the number of consumers is small and they are concentrated in particular geographical regions; personal selling might be more effective and cheaper. If, however, consumers are large in number and are widely spread; advertising might produce better results in terms of creating awareness about the product.

An added aspect here may be the type of consumers – ladies, gents, children, elderly persons etc. For developing popularity of the product e.g. among ladies or children, sales promotion techniques might better meet the expectations of the manufacturer in producing quick sales.

***(iv) Promotion Budget:***

Different elements of promotion-mix have different financial implications. The size of the promotion budget i.e. funds available for promotional purposes might have a decisive say, in the formulation of the promotion-mix.

***(v) Stage of the Product Life Cycle:***

Stage of the life cycle which a product is passing through, has an important influence on promotion-mix. During introduction stage e.g. there might be a need for emphasis on all aspects of promotion-mix to create maximum awareness about the product. At the saturation stage, aggressive advertising might better meet promotional requirements.

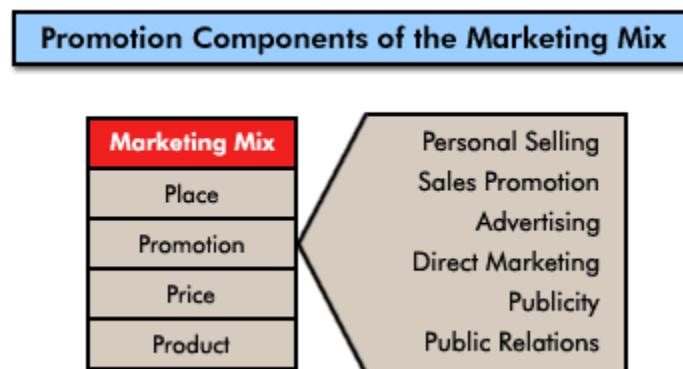
In the declining stage, there may be a need cut down expenditure and efforts on all elements of promotion-mix and so on. However, there is no standard formula for formulation of promotion-mix, in view of the product life cycle stage; as

different products have different implications of promotional efforts at different stages of their life cycles.

***(vi) Strategies Used by Competitors:***

An ideal promotion-mix of a company must be formulated against the background of the promotional strategies of competitors. In fact, it is desirable that the promotion-mix of a manufacturer must be in tune with the promotion-mix of leading competitors, in order to better face the challenges posed by them.

**Types of Promotional Activities**



Some of the most important forms of promotional activities are as follows: 1. Personal Selling 2. Advertising 3. Sales Promotion 4. Publicity 5. Public Relation 6. Point of Purchase Display 7. Packaging 8. Direct Mail 9. Other Forms of Promotion.

Personal selling and advertising are the two best known forms of promotion. In terms of cost and market impact, it is the most important form. Personal selling is an important part of promotional programme. It is commonly supported by advertising. The other forms of promotion are sales promotion, publicity and public relation. It is important for the successful promotional programme. The

other methods of promotion are point of purchase display, packaging and direct mail.

**1. Personal Selling:**

It is the most important, the most effective and the most costly form of promotion. It is the best means of oral or face to face or direct communication. Personal presentation has the prospect of effecting sales. Its effect is to push the product through the distribution channel.

**2. Advertising:**

It is an impersonal method of communication as well as an impersonal salesmanship for mass selling and it is a means of mass communication. Advertising is also an important form of promotion and it costs less than personal selling.

**3. Sales Promotion:**

The marketing activities other than advertising, publicity and personal selling are known as sales promotion. It serves as a bridge between personal selling and advertising. It is an aggressive method of a selling.

**4. Publicity:**

It is a non-personal stimulation of demand as advertising. It stimulates demand for a product or service or a business unit by making publicity in radio, television or stage.

### **5. Public Relation:**

It is a form of promotion. It creates, develops and maintains a bright image of an organisation on the public. Thus the goodwill of the seller increases and leads to good selling and promotes the sale of goods. Under competition and consumer-oriented marketing it is very effective.

### **6. Point of Purchase Display:**

It is the silent salesman that attracts the buyers' attention to the product and makes them decide to buy. Promotion at the point of purchase is more effective. Proper display of products is done by manufacturers or distributors. It varies widely. Automobile show-room with promotional literature and pricing information helps the buyers to test the products. Display serves to examine the product and make buying decision. With the combination of personal selling and advertising, display gives the maximum effectiveness.

### **7. Packaging:**

It differentiates and protects a product. It plays two critical promotional roles. First it calls the attention of the customer to the product in retail stores. Secondly it carries the selling messages and other information to make buying decision. Package provides product protection, ease of handling, selling ability, convenience and information. It attracts the customers.

### **8. Direct Mail:**

Newspaper advertisement reaches lakhs of people, while direct mail is sent to the selective customers. It will attract the customers to buy the goods. It is more effective than advertisement, because it gives information directly. It is a supplement to other forms of promotion. It helps the product awareness or

acceptance. It increases purchase probabilities, when buyers are contacted directly or when they see displays.'

***9. Other Forms of Promotion:***

Sampling is one form of special promotion. Sampling of new food products, and other consumer products, especially sample medicines to doctors are to introduce the new products to the consumers. Couponing is yet another form of promotion.

***The Content in the E-Material has been taken from the text and reference book as given in the Syllabus***