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E-CONTENT FOR M.COM (SEMESTER-2)

SUBJECT: MARKETING MANAGEMENT

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UNIT-5: MARKETING MIX

TOPIC: PRICING – FACTORS AFFECTING PRICING DECISION AND PRICING STRATEGIES

PRICING

Factors affecting pricing decision:

1) Objectives of the firm-

There may be various objectives of the firm such as getting reasonable rate of return, profit maximization, to attain market share etc. A pricing policy, thus should be established only after proper consideration of the objectives of the firm.

2) <u>Cost of the Product</u>-

While determining the price of the product cost of the product must be considered. The price of the product must be able to cover the total cost of the product.

3) <u>Competitor's Price</u>-

It also plays a key role in the price decision of product. The company must consider the prices fixed and quality maintained by the competitors for their products.

4) <u>Distribution Channel Policy</u>-

The nature of distribution channels used and trade discounts which have to be allowed to distributors and the distribution expenses also affect the pricing policy decision.

5) <u>Government Policy</u>- Price discretion is also affected by the price control by the government through enactment of legislation or government policies. Ex. GST

6) Customer’s Demand-

Firms set the price of their product on the basis of demand of the product. If the demand of the product is high then the price of the product will also be high.

7) Product Differentiation-

The price of the product also depends upon the characteristics of the product. In order to attract the customers, different characteristics are added to the product such as quality, quantity, size etc.

Pricing Strategies:

A business can use a variety of pricing strategies when selling a product or service. The price can be set to maximize profitability for each unit sold or from the market overall. It can be used to defend an existing market from new entrants, to increase market share within a market or to enter a new market.

Following are some of the pricing strategies:

1) Skimming Pricing- Under this strategy a high introductory price is charged for an innovative product and later on the price is reduced when

more marketeers enter into the market with same type of product.

Ex. Sony, Samsung etc

To adopt this strategy, the product must be highly distinct and able to maintain its uniqueness and able to target customers who value the uniqueness and ready to pay high price.

2) <u>Penetrating Pricing</u>-

Their strategy means using lower initial price to capture a large market. This forces the customers to buy the product and company can capture a very big share and leave very small share for competitors. Penetration pricing is adopted when company has to face high competition while launching the product and customers are highly price sensitive.

Ex. Jio telecommunication

3)<u>Premium/ Prestige/ Image Pricing</u>-

In this pricing strategy, price is marked at higher than the competitors' products. This strategy encourages the perception of customers about the product that expensive products must be better in quality. This strategy has the advantage of producing higher revenues and building premium brand image.

4) Economy Pricing-

This strategy is used essentially to attract most price conscious consumers. The key to success using economy pricing strategy is to sell a large volume of goods and services at low price.

5) Psychological Pricing-

In this pricing strategy, marketers trigger the emotion rather than logic to sell their products to customers.

Ex. By printing double price label, 999 rounds off price, buy one get one, bundle pricing etc.

6) Cost plus pricing or mark-up pricing-

It is a pricing strategy in which certain % of mark-up is added to the cost of the product to determine the selling price. In order to apply the mark-up pricing, firstly the company must determine the cost of a product and decide the amount of profit to be earned over.

Selling Price= Cost + Mark-up

7) <u>Geographical Pricing</u>-

As the name suggests, geographical pricing is a pricing model where the final price of the product is decided on the basis of the geography or location where the product is being sold. (due to taxation law, transportation cost, uniform deliver pricing, zone pricing and other reasons.)

8) <u>Follow the leader pricing</u>-

A follow the leader pricing strategy in which firms in a particular market tries to follow pricing strategy of the market leader. If the leader increases the price of the good to a particular level the player also increases the price of its good to that level and vice-versa.

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