**Goenka College of Commerce and Business Administration**

**M. Com. - Semester-II**

Subject- Marketing Management Teacher: W.H.

Lecture No. – 1

**Topic Name: Pricing Strategy**:

**Definition of Pricing Strategy:**

Price is the value that is put to a product or service and is the result of a complex set of calculations, research and understanding and risk taking ability. A pricing strategy takes into account segments, ability to pay, market conditions, competitor actions, trade margins and input costs, amongst others. It is targeted at the defined customers and against competitors.

**Pricing Strategy:**

There are several pricing strategies: Name of the pricing strategy and discussion are given below:

**1) Penetration Pricing**

**2) Skimming Pricing**

**3) Psychological Pricing**

**4) Economy Pricing**

**5) Product Line Pricing**

**6) Captive Pricing**

**7) Premium Pricing**

**8) Bundle Pricing**

**9) Geographical Pricing**

**10) Competition Pricing**

**Penetration pricing*:***Price is set artificially low to gain market share quickly. This is done when a new product is being launched. It is understood that prices will be raised once the promotion period is over and market share objectives are achieved. Because of the low price, sale volume increases, completion falls down. Example: Mobile phone rates in India; housing loans etc.

**Skimming strategy:**

High price is charged for a product till such time as competitors allow after which prices can be dropped. The idea is to recover maximum money before the product or segment attracts more competitors who will lower profits for all concerned. Example: the earliest prices for mobile phones, VCRs and other electronic items where a few players ruled attracted lower cost Asian players.

**Psychological pricing**   
A price of Rs 9.95 is a psychological price, such that the customer feels he hasn't paid Rs 10, which may sound high, but less than that. At the end of the day, the customer still pays Rs 10, since India doesn't have 5 paise coins, but this price addresses the emotional rather than the rational side of the customer. Bata has been using this pricing for several years for its shoes.

Many customers use the price as an indicator of quality. Cost and other factors are important in pricing. Yet, psychology of the prices is also considered. Certain people prefer high priced products, considered to be of high quality.   
 **Economy pricing:**

No-frills price. Margins are wafer thin; overheads like marketing and advertising costs are very low. Targets the mass market and high market share. Example: Friendly wash detergents; Nirma; local tea producers.   
**Product line pricing**

When there are several items in a product line, buying a series of them as a package could be cheaper than buying each separately. For example, Lux soap, Lux skincare and Lux shampoo; buy them in one set, it'll be cheaper than buying individually.   
**Captive pricing**   
In this strategy, the manufacturer will price the product low, but the consumables in it will be high since by that time the customer is used to the product. So, initial capital outlay may be low but working capital needed could be high. Blades are an example. While the razor may be cheap, the twin blade or Mach 3 blades are not.

**Premium pricing**: high price is used as a defining criterion. Such pricing strategies work in segments and industries where a strong competitive advantage exists for the company. Example: Porche in cars and Gillette in blades.

**Bundled pricing** Selling VCDs with Disc players is bundling two products for a price lower than individually. Other examples are in FMCG, buy mosquito mats, get the machine also at lower cost. This pricing can also remove old stock.   
**Geographical pricing**   
The distance between the seller and the buyer is considered in geographic pricing. In India, the cost of transportation is an important pricing factor, because of the wide geographical distance between the production centre and consuming centre. The majority of the producing centers are located in Mumbai, Delhi, Kolkata and Chennai; and at the same time the consuming centers are dispersed throughout India. There are three ways of charging transit: a) F.O.B. Pricing, b) Zone Pricing and c) Base point pricing.

**Competition Pricing**

Before pricing a product, every firm takes into account the conditions of competition. Policies are to be determined to fix the selling price at above, below or in line with competition.