**STUDY NOTE**

**UG : SEMESTER----2**

**Subject: Marketing Management**

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**LECTURE NO. 01**

**UNIT—IV: PRICING**

**Definition:**Pricing is the method of determining the value a producer will get in the exchange of goods and services. Simply, pricing method is used to set the price of producer’s offerings relevant to both the producer and the customer.

Every business operates with the primary objective of earning profits, and the same can be realized through the Pricing methods adopted by the firms.

While setting the price of a product or service the following points have to be kept in mind:

* Nature of the product/service.
* The price of similar product/service in the market.
* Target audience i.e. for whom the product is manufactured (high, medium or lower class)
* The cost of production viz. Labor cost, raw material cost, machinery cost, inventory cost, transit cost, etc.
* External factors such as Economy, Government policies, Legal issues, etc.

**Pricing Objectives**

The objective once set gives the path to the business i.e. in which direction to go. The following are the pricing objectives that clears the purpose for which the business exists:

[](https://businessjargons.com/wp-content/uploads/2015/09/pricing-1.jpg)

1. **Survival:**The foremost Pricing Objective of any firm is to set the price that is optimum and help the product or service to **survive in the market**. Each firm faces the danger of getting ruled out from the market because of the intense competition, a mature market or change in customer’s tastes and preferences, etc.Thus, a firm must set the price covering the **fixed and variable cost** incurred without adding any profit margin to it. The survival should be the short term objective once the firm gets a hold in the market it must strive for the additional profits.The **New Firms** entering into the market adopts this type of pricing objective.
2. **Maximizing the current profits:**Many firms try to maximize their current profits by estimating **the Demand and Supply**of goods and services in the market. Pricing is done in line with the product’s demand in the customers and the substitutes available to fulfill that demand. Higher the demand higher will be the price charged. **Seasonal supply and demand** of goods and services are the best examples that can be quoted here.
3. **Capturing huge market share**: Many firms charge **low prices** for their offerings to capture greater market share. The reason for keeping the price low is to have an increased sales resulting from the **Economies of Scale**. Higher sales volume lead to lower production cost and increased profits in the long run.This strategy of keeping the price low is also known as**Market Penetration Pricing**. This pricing method is generally used when competition is intense and customers are price sensitive. **FMCG industry** is the best example to supplement this.
4. **Market Skimming:**Market skimming means charging a **high price** for the product and services offered by the firms which are innovative, and uses modern technology. The prices are comparatively kept high due to the high cost of production incurred because of modern technology. **Mobile phones, Electronic Gadgets** are the best examples of skimming pricing that are launched at a very high cost and gets cheaper with the span of time..
5. **Product –Quality Leadership**: Many firms keep the price of their goods and services in accordance with the **Quality Perceived** by the customers. Generally, the **luxury goods** create their high quality, taste, and status image in the minds of customers for which they are willing to pay high prices. Luxury cars such as **BMW, Mercedes, Jaguar**, etc. create the high quality with high-status image among the customers.

Thus, every firm operates with the ultimate objective of earning profits and, therefore, the price of a product must be set keeping in mind the cost incurred in its production along with the benefits it offers for which people are ready to pay extra.

**Significance of Pricing and Marketing Strategy**

Significance of pricing and marketing strategy are as follows: (a) The planed market position for the service product (b) The stage of the life – cycle of the service product (c) Elasticity of demand (d) The competitive situation (e) The strategic role of price.

**1. The planned Market Position for the Service Product:**

Market position means the place the service product is intended to take up and does take up in the customer’s eyes and in comparison with competitors. It refers to the customer’s perceptual posi­tioning of the service product: in other words how the service product is ‘seen’ in relation to others available. Clearly price is an important element in the marketing mix influencing this position. Tan­gible products may occupy a particular position by virtue of their physical characteristics (e.g. a grade of industrial steel tubing). Services, on the other hand, are more often ‘positioned’ on the basis of their intangible attributes.

**2. The Stages of the life – Cycle of the Service Product:**

The price of the service product will also relate to its life – Cycle. For example in introducing a new service an organization could opt to set low prices to penetrate markets and gain rapid market share. Alternatively an organization could opt to charge high prices to make as much profit as pos­sible in a short time (skimming policy). This strategy is only possible if there is no immediate com­petition and a high level of buyer need urgency (e.g. windscreen replacement services).

**3. Elasticity of Demand:**

The discretion a service organization has to determine its pricing objectives will be influenced by elasticity of demand in the market. Elasticity of demand refers to the responsiveness of demand to changes in price. In some markets demand is much influenced by price changes (e.g. urban bus services) in others this is less so. Clearly it is vital for a service organization to understand how elastic or inelastic demand for its services is in response to price change. For example, if a service company reduces its prices and demand is elastic then the effect would be to reduce margins with no compensating increase in demand. Elasticity may impose limitations on certain price options.

**4. The Competitive Situation:**

The strength of competition in the market influences a service organization’s discretion over its prices. In situations where there is little differentiation between service products and where competition is intense (e.g. a seaside resorts during a poor tourist season) then price discretion is limited. Competition of course has number of dimensions apart from inter-brand or inter-type competition. In transport services, for example, there is competition between different modes of transport (e.g. rail versus road), different brands, as well as alternative uses of the potential customers’ time and money (e.g. not to travel at all). Nevertheless a degree of price uniformity will be established in those markets with little differentiation between service products and strong levels of competition. In other settings tradition and custom may influence prices charged (e.g. Advertising agencies commission system).

**5. The Strategic Role of Price:**

Pricing policies have a strategic role aimed at achieving organizational objectives. Thus the pricing decision on any particular service product should fit in with strategic objectives. For ex­ample, new holiday company intent upon establishing itself in the package holiday market might use a deliberate policy of low prices to obtain substantial market share although this could mean unprofitable trading for some time. Maximum sales would be won through penetration pricing as a deliberate policy. Any pricing strategy must of course fit in with the way in which other elements of the marketing mix are manipulated to attain strategic ends.

**6. Price as an Indicator of Service Quality:**

One of the intriguing aspects of pricing is that buyers are likely to use price as an indicator of both service costs and service quality – price is at once an attraction variable and a repellent. Cus­tomers’ use of price as an indicator of quality depends on several factors, one of which is the other information available to them. When service cues to quality are readily accessible, when brand names provide evidence of a company’s reputation, or when level of advertising communicates the company’s belief in the brand, customers may prefer to use those cues instead of price. In other situations, however, such as when quality is hard to detect or when quality or price varies a great deal within a class of services, consumers may believe that price is the best indicator of quality many of these conditions typify situations that face consumers when purchasing services. Another factor that increases the dependence on price as a quality indicator is the risk associated with the service pur­chase. In high-risk situations, many of which involve credence services such as medical treatment or management consulting, the customer will look to price as a surrogate for quality. Because customers depend on price as a cue to quality and because price sets expectations of quality, service prices must be determined carefully. In addition to being chosen to cover costs or match competitors, prices must be chosen to convey the appropriate quality signal. Pricing too low can lead to inaccurate inferences about the quality of the service. Pricing too high can set expecta­tions that may be difficult to match in service delivery. Because goods are dominated by search properties, price is not used to judge quality as often as it is in services, where experience and credence properties dominate. Thus, services marketer must be aware of the signals that price conveys about its offerings.