PRICING

Marketing Mix - Pricing in 4Ps of Marketing

Pricing is an important element of marketing mix. Every company should choose **strategic choices** when pricing the products to successfully achieve business objectives. Marketing Mix Pricing is the only element that generates revenue while the other three elements represent costs.

Marketing Mix Price Definition

Price —The amount of money charged for a product or service, or the sum of the values that consumers exchange for the benefits of having or using the product or service.

Today companies pricing environment is dynamic. The **economic fluctuations** put companies in a crucial position. According to some marketers virtually they don't have pricing power. They don't have any chance to raise prices instead they are slashing the prices on and off. This way pricing affecting both the manufacturing and services industry – hotels to automobiles and so on.

Importance of Pricing in Marketing Mix

Most of the time marketers give more importance to activities like market research, **product management**, promotion and distribution. These are considered important aspects of marketing mix. But pricing is also a very important element in the 4 P's of **marketing mix**. This is the only element that generates revenue and supports other activities like product distribution, promotion and advertisement.

Pricing is Flexible. Pricing is the only single variable that is flexible and can be changed within no time. On the other hand, the remaining elements of marketing mix like distribution channels, **promotional campaigns** and can increase the cost.

Set the right Price. When setting the price keep in mind the strategic objective of the organization. For example, if a marketer set too high or too low in both pricing decisions it can affect the sale growth.

Positioning. When setting a price, it conveys a message to your potential customers about your product and service and creates a perceived value of marketing mix. This perceived value can affect the **consumer decision-making** process. High pricing means high-quality products and services. **Low pricing** products and services indicate that you are a low-cost provider.

Marketing Mix Pricing Objectives

A company pricing decision are based on objectives to be attained in the future. Following are some of the pricing objectives.

- Profit maximization
- Profit margin maximization
- Sales Growth
- Market Share
- Survival

Factors Affecting Pricing Strategies

Before discussing pricing strategies, let us discuss what factors to consider when companies setting prices.

Internal Factors Affect Pricing Decisions

Those internal factors affect the pricing consist

- **Cost.** It is the base for the price that can be charged for products and services. When setting the prices, a company should cover both fixed and variable costs.
- **Marketing mix strategy.** price is important marketing mix tool that helps to achieve the marketing objectives. Price decisions coordination product, placement and **promotion decisions** must be coordinated
- **marketing objectives** of your company like your **target market** and positioning strategies
- **Product Life Cycle.** Different **stages of product life cycle** affect the pricing decisions
- **Image of the Firm.** Another factor affects the pricing decision is the image and goodwill of the company.

External Factors Affect Pricing Decision

- **Competition.** When setting the product price, the company must understand the level of competition in the market.

- **Consumers.** When fixing the price keep in mind the consumer purchasing power and price sensitivity.
- **Economic Conditions**. The economic factors include interest rate, inflation and economic boom and recession.
- **Government** Controlled Economy is another factor to be considered.

Different Pricing Strategies

Types of Pricing Strategies

The Pricing Strategy table below provides the definition for ten different pricing strategies and an example to explain each pricing strategy.

Pricing Strategy	Definition	Example
Penetration Pricing	Here the organisation sets a low price to increase sales and market share. Once market share has been captured the firm may well then increase their price.	A television satellite company sets a low price to get subscribers then increases the price as their customer base

Pricing Strategy	Definition	Example
		increases.
Skimming Pricing	The organisation sets an initial high price and then slowly lowers the price to make the product available to a wider market. The objective is to skim profits of the market layer by layer.	A games console company reduces the price of their console over 5 years, charging a premium at launch and lowest price near the end of its life cycle.
Competition Pricing	Setting a price in comparison with competitors. In reality a firm has three options and these are to price lower, price the same or price higher than competitors.	Some firms offer a price matching service to match what their competitors are offering. Others will go further and refund back to the customer more money than the difference between their price and the competitor's price.

Pricing Strategy	Definition	Example
Product Line Pricing	Pricing different products within the same product range at different price	An example would be a DVD manufacturer offering different DVD recorders with different features at different prices e.g. A

Pricing Strategy	Definition	Example
	points.	HD and non-HDversion. The greater the features and the benefit obtained the greater the consumer will pay. This form of price discrimination assists the company in maximising turnover and profits.
Bundle Pricing	The organisation bundles a group of products at a reduced price. Common methods are buying one and get one free promotion or BOGOFs as they are now known. Some firms are now moving into the realms of buy one get two free.	This strategy is very popular with supermarkets who often offer BOGOF strategies.
Premium Pricing	The price is set high to indicate that the product is "exclusive"	Examples of products and services using this strategy include Harrods, first class airline services, and Porsche.
Psychological Pricing	The seller here will consider the psychology of price and the positioning of price within the market place.	The seller will charge 99p instead Rs.1 or Rs.199 instead of Rs.200. The reason why this method work, is because buyers will still say they purchased their product under

Pricing Strategy	Definition	Example
		Rs.200, even thought it was a rupee away.
Optional Pricing	The organisation sells optional extras along with the product to maximise its turnover.	This strategy is used commonly within the car industry as I found out when purchasing my car.
Cost Plus Pricing	The price of the product is production costs plus a set amount ("mark- up") based on how much profit (return) that the company wants to make. Although this method ensures the price covers production costs it does not take consumer demand or competitive pricing into account which could place the company at a competitive disadvantage.	For example, a product may cost Rs.100 to produce and as the firm has decided that their profit will be twenty percent, they decide to sell the product for Rs.120 i.e. Rs.100 plus 100/100 x 20
Cost Based Pricing	This is similar to cost plus pricing in that it takes costs into account but it will consider other factors such as market conditions when	Cost based pricing can be useful for firms that operate in an industry where prices change regularly but still want to base their price on costs.

Pricing Strategy	Definition	Example
	setting prices.	
Value Based Pricing	This pricing strategy considers the value of the product to consumers rather than the how much it cost to produce it. Value is based on the benefits it provides to the consumer e.g. convenience, well-being, reputation or joy.	Firms that produce technology, medicines, and beauty products are likely to use this pricing strategy.

Distinguish between Skim Pricing and Penetration Pricing

Points of Difference	Skim Pricing	Penetration Pricing
1. Price	Very high prices are set.	Attractively low prices are set.
2. Objective	The main objective of this pricing is to attract the rich or elite class of the society.	The main objective of this pricing is to attract the maximum number of customers.
3. Benefit	Skim pricing helps to build up rich brand image.	Penetration pricing help to capture larger market share.

4. Nature of users	Rich section of the society.	General customers of the society.
5. Cost Recovery	In skim pricing greater time is required to recover the cost.	In Penetration pricing less time is required to recover the cost.
6. Product Demand	In this case the demand is low.	In this case demand is high.

4.5. Service Product Pricing

The influence of price in consumer purchase decision-making of services cannot be overemphasized. In service marketing mix price is the only "P" which generates revenue for the organization and all others are associated with costs.The characteristics of services make the pricing of services different from the pricing of goods. Several services use a different terminology to denote the price which is given in the table below.

Different Terminology used in pricing of Services

Names of the Service Providers	Name of Price
Bank	Interest, service charge
Academic Institution, Legal service	Fees
Transport Provider	Fare, Freight
Agent	Commission
Insurance Companies	Premium

Road maintaining authority	Toll
Use of Property	Rent

According to **Kotler,** *A service is any act of performance that one party can offer to another that is intangible and does not result in the ownership of anything. Its production may or may not tied to a physical product.*

Characteristics of Services

The special characteristics of services are:

(i) **Intangibility:** A service cannot be touched, seen, felt, tasted, heard or smelt.

(ii) **Inseparability:** A service is inseparable from its owner. In buyer seller interaction, the production, delivery and consumption of service take place simultaneously.

(iii) **Heterogeneity:** Service cannot be standardized because it is provided by human beings when it is required by a customer, and the quality depends on the skill of the service provider.

(iv) **Perish ability:** Service is a perishable offering of an organisation because if it is not consumed as and when produced it perishes.

(v) **Availability of Substitutes:** The number of substitute services available in the market influences the price of a service.

(vi) **Nature of Service:** The complexity involved in a service, the stage it has reached in its life cycle, its uniqueness and its urgency to deliver also determine its price.

(vii) **Distribution Coverage:** If a service is offered in selective places, its price will be higher.

(viii) **Government Regulation:** Regulation made by the government and by the different authorities affects the price of a service.

(ix) **Customer's View:** Customers' affordability, price sensitivity and perception about service quality affect the price of services.

(x) **Level of Promotion:** When the cost of promoting a service is higher, the price of the service will be higher.

Pricing of Services

Pricing of services is more difficult than pricing of goods. In case of goods you can pinpoint the cost of making a physical product but it is more difficult to calculate the cost involved in creating an intangible service. The following factors make service pricing difficult:

1. No Ownership of Services: Services are intangible and perishable and that is why service consumers acquire experience and not the ownership of the service. In case of tangible goods it is very easy for the marketer to convince his customer because the customers will get the ownership of the goods through transfer of title. In case of service nothing remains after consumption, except the memory of it.

2. Variability: The pricing of services is difficult due to its variability. No one can expect the same service from the same seller second time. Moreover changes of service provider, tools and equipments used, time taken etc. makes the output of the service variable. As a result pricing of services varies significantly.

3. Price-Value Relations: Sometimes cost of services is not known to the customers. For this reason they are unable to assess the price-value relationship. Generally, most of the customers use personal reference price which includes price paid last time, the price most frequently paid or the average of all prices paid for similar service offerings.

Factors Affecting Pricing of Services

The pricing of services, is more difficult than pricing of products. The price of a product is more objective. The price of a service is more subjective so that there is a gray area. Pricing is both an art and a science. According to experts the following factors should be considered when trying to determine what price to charge for a service.

1. Cost-plus pricing: This traditional and simple method of pricing in business seeks to first determine the cost of providing a service like, direct costs, indirect costs, and fixed costs and then add the desired profit to arrive at a price. When the demand for a service is stable then this approach of pricing is more convenient. But in case of fluctuating demand trends this method is not appropriate because the fixed cost component will be very high compared to the total cost. The major disadvantage of cost plus pricing is that it is very difficult to find out the cost of each unit of a service like consultancy service, legal service, education service etc., and also the hidden costs involved.

2. Competitors' pricing: Before determining the price of services information relating to the prices charged for similar types of services is to be collected first. Because the price set must be commensurate with the price of the competitors. If the price is set higher than competitors then customers will be motivated to avail the services of the competitors and if the price is set too low then they will express their suspicion about the quality of service. So price should be set in between these two extremes.

3. Perceived value to the customer: This is where a lot of the subjectivity comes in when setting a price for a service. When customers are not aware of the costs of services and unable to determine the price-value relationships then they use personal reference price which includes price last paid, the price most frequently paid or the average of all prices paid for similar service offerings. But the reference price is not accurate because the needs of individual customers vary from time to time, place to place and situation to situation. So reference price is not accurate.

4. Distribution Coverage: The price will be higher, if a service is offered from selective places.

5. Government Regulation: The price of a service is influenced by regulation made by the government and the intervention of different authorities and public.

6. Level of Promotion: The price of the service will be higher, when the cost of promoting a service is higher.

7. Nature of Service: The price of a service also depends on its nature like the complexity involved in a service, its uniqueness, urgency to deliver and the stage it has reached in its lifecycle.

8. Customers' View: The views of the customers like price sensitivity, customers' affordability and perception about service quality also affects price of services.

EXERCISE

� MCQ QUESTIONS	Carrying 1/2 mark each

1. In this case the product or service is marketed at a high initial price with the objective of attracting customers and earning highest per unit profit. It refers to what type of pricing?

(a)Penetration pricing (b) Skimming pricing

(c)Cost plus pricing (d) Marginal cost pricing

Ans. (b)

2. In the introduction stage, the product is marketed at a low price to appeal to the price conscious customers. It refers to what type of pricing?

(a)Market based (b) Penetration pricing

(c)Cost plus pricing (d) Marginal cost pricing

Ans. (b)

3. Variable price policy is suitable for which type of business?

(a)Medium-sized (b) Small

(c)Large (d) Multinational

Ans.(b)

4. In which pricing policy transport cost is given the major thrust?

(a)Variable price policy (b)Non-variable price policy

(c)Leader price policy (d)Geographic price policy

Ans.(d)

5. It is also called as 'one price' policy. It refers to which price policy-

(a)Leader price policy (b) Geographic price policy

(c)Variable price policy (d) Non-variable price policy

Ans.(d)

5. A price of ₹9,900 means that there is little change from ₹10,000 but it is a 4-digit figure. Anything 5 digit i.e., over ₹10,000 is in the next price band, which

consumers perceive as being more expensive than it actually is. It refers to what type of pricing?

(a)Cost plus pricing (b) Odd/Even pricing

(c)Marginal cost pricing (d) Skimming pricing

Ans. (b)

6. In which pricing the objective is to stimulate early purchase on the part of consumers?

(a)Cost-oriented pricing (b) Psychological pricing

(c)Promotional pricing (d) Skimming pricing

Ans. (c)

7. In this case a firm in the industry initiates price changes and these price changes are so effective that other firms soon follow it. It refers to what type of pricing?

(a) Psychological pricing (b) Skimming pricing

(c)Penetration pricing (d) Leader price policy

Ans. (d)

8. Most of the supermarkets and departmental stores deliberately reduce the prices of its products below cost or offer heavy discounts on well known brands or desirable products to attract more and more customers in order to increase sales.

(a)Penetration pricing (b) Odd pricing

(c)Cost plus pricing (d) Loss leader pricing

Ans. (d)

9. Price should be determined in such a way so that the demand of the product can increase and it is also possible to earn profit. It refers to -

(a) Pricing strategies (b) Penetration pricing

(b)Pricing policies (d) Skimming pricing

Ans.(a)