J.D. Women's College

Department of Management

Course name- PG Vocational MBA

1st Semester

Subject- Marketing Management

Faculty Name- Dr. Trishna

Topic- Pricing Decision (part 2)

A. Steps in Setting the Price of the Product

1. **Selecting Pricing Objectives-** the various pricing objectives are survival, growth, increase in sales volume, increase in market share, driving out competitors etc.

2. **Estimating Demand-** price and demand share an important interrelationship as explained in economical terms. Normally, the demand for a product increases if the price increases. But there are certain exceptions to this law as in case of luxurious goods, necessary goods etc. In Marketing terms the companies would prefer customers who are less sensitive to price of a product. However if the price increases too much the demand may decrease in that case.

   An important task of the marketers is to estimate the demand for their product which can be done through several sales forecasting methods like surveys, trend analysis, moving average method, method of least squares, barometric method etc.

3. **Estimating Costs-** the company would want to charge a price such that all its costs (fixed + variable) are covered and fair amount of profit could be added to it. At the very least the firm would want to keep the price such that it will at least cover the total production cost at any given level of production.
4. **Analyzing Competitors price-** it is essential to collect information about competitors regarding their cost structure, production capacity, market share, promotional strategies and various marketing policies. The firm may choose to keep its pricing higher or lower than the competitors depending upon their product offerings. The competitor may also react with a price change which may affect the sales of the firm; therefore it is always good to keep a close watch on the competitors.

5. **Deciding upon a suitable pricing method-** the price may be determined on the basis of cost of production, forces of demand and supply, on perceived value of the product or on the basis of prices charged by the competitors.

6. **Selecting the Price-** while selecting the final price of a product the company must take into account all other factors that may have impact on the pricing, including the company pricing policies, components of marketing mix, co's internal environment, effect of pricing on the distributors etc.

B. **Pricing Methods-** the company uses various pricing methods for setting the price of the product.

1. **Cost plus Pricing** (Mark-up Pricing)- this is the simplest price setting method in which the company consider the total cost of production and adds a standard mark-up (profit margin) to the product cost.

2. **Break- even Pricing-** the firm determines the level of sales required to cover all relevant cost (F.C + V.C), which means the firm attempts to find out volume of sales at which total costs are just equal to the sales revenue. At this level there is no profit and

no loss for the firm. i.e Sales revenue= total cost. At this point the firm can just recover its total cost.

3. **Target return Pricing-** the firm determines that level of price at which it can yield the target return on investment. For ex: a company may want 20% ROI, or if the investment of a company if 6 Crores it may want (6+1)Cr. as its ROI.

4**. Going rate Pricing** (Competitor Parity Method)**-** the firm fixes its price based on the prevailing price trend in the market (based on the competitors). The company may choose premium pricing (charging higher than competitor) or discount pricing (charging lower than competitor). Many companies use this strategy of following the market leaders.

5. **Perceived value Pricing-** in this method company takes consumers' perception of value as key to set the price of the product. Company tries to view the measure of buyers' regarding the price of the product. Perceived value is made up of elements like buyers image of the product performance, warranty, quality, trustworthiness, after sales service etc.

6. **Auction Based Pricing-** The primary purpose of auction type pricing is to dispose off surplus goods. It is used a lot in case of second time buying in which antiques, furniture, vintage cars, etc can be sold.

An important form of this type of pricing is **sealed bid pricing** (also known as tender pricing). This type of pricing is used in case of large orders or contracts especially those of industrial buyers, government dept. (as in case of building bridges , construction of roads etc.). Many firms or contractors submit their sealed bids or quotations in the form of tender. Buyer expects the lowest possible price and seller gives the best possible quotations. On a fixed date the sealed bids are opened and the bid with the lowest price and most favourable condition is selected.

C. Factors affecting Pricing decision-

Pricing decisions are taken keeping in mind the various internal and external factors. These decisions interconnect marketing actions with financial objectives of the company. **The various internal factors are:**

- The product life cycle
- Pricing strategies
- Marketing mix
- Product differentiation

The various external factors are:

- Competition
- Distribution Channel
- Government Regulation
- Image of the Company