J. D. Women's College
Department of MBA
Course- UG Vocational MBA
1st Sem
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Subject -Marketing Management
Topic- Pricing Policies and Strategies

It is imperative for any company to have an appropriate pricing policy and structure that would help them in decision making. Companies usually do not set a single price but rather a pricing structure that reflects variation in geographical demand and costs, market segment requirements, purchase timings, order levels, delivery frequency and many others. Variation in price helps them to cater to varying market needs. Several price adaptation strategies are followed by the marketers in this context: i) **Geographic Pricing ii) Promotional Pricing iii) Differentiated Pricing**

i) **Geographic Pricing**-

Price of the product is fixed on the basis of location and countries. Sometimes the price charged may be high for distant customers to cover up the transportation cost.

ii) **Differentiated Pricing**-

The firm charges different prices to different customers for the same product or service. This price discriminatory policy is followed at many levels. It can be followed in a

market where many segments exist with variations in demand or when some buyers agree to buy a large volume of goods.
Examples of differentiated pricing are channel pricing and image pricing. In channel pricing the firm prices its product depending upon the place that it is sold, eg: coca cola cans are sold at different prices in vending machine, departmental store and restaurants. Same product may be priced differntly at two different levels due to the different image it carries in the minds of the consumer. Eg: khadi clothes in a shop and khadi clothes in a designer studio.
At times sellers sell their goods below the cost of their product, it is known as predatory pricing and is considered illegal. Sometimes because of such pricing strategy the firm loses its reputation and goodwill of customers.

iii) **Promotional Pricing-**

The companies give discounts and offers in the final price of the product to stimulate early purchase by the consumers. Various strategies under this are:

- Loss leader pricing- many departmental stores decrease the price of their products on well known brands to attract more customers. They believe that **more sales can compensate for the lower profit margins on the popular brands.**
- **Special event pricing**- prices are reduced during festive times for spurt in sales.
- **Cash discounts and Rebates**- in case of automobiles and white goods like television , refrigerators etc. the seller gives rebates for a limited period.
- **Psychological discounting**- the price of the product is kept very high than it actually is and then a discount tag is attached to it to give an impression that a discount has been given to the customer. Ex. the price of the good is Rs. 300 and a discount tag of Rs. 250 is already attached to it. Sometimes the company and th product loses its credibility due to such tactics.

- **Warrantee and service contract**- many companies promote sales by adding a free or low cost extended warrantee service.

iv) **Psychological Pricing**-

The prices are fixed in such a way that it influences the psyche of the consumer and brings them into action. Such startegies are followed alot by Malls and apparel stores. The price of goods are marked at say Rs. 499 and not Rs. 500. It creates a perception that the product is cheap because the first digit shows 4 in the price tag and not 5.

Pricing Strategy-

1. **Market Skimming Strategy-** in this strategy the firm set high initial price to skim the cream from the market (high end customers who are price inelastic). Inelastic customer means that high price does not change their demand. The prices are lowered gradually when competitive pressure increases. The firm aims to earn maximum profit in less time. Such a strategy is applicable when the product is technologically advanced and innovative in nature.

2. **Market Penetration Strategy-** this strategy is applicable for the more price sensitive customers (demand is elastic- any change in price changes the demand). The firm sets low initial prices and aims to gain maximum customers as possible. By setting low intial prices the firm can increase its market share by generating large sales volume and can also drive away competition.