Pricing Decisions

What is Price?????

- Price = Cost + mark up
- It is the monetary reward a product can fetch?

  So it is the value a customer obtains and is ready to sacrifice money for availing the benefit.

- Whatever customer willingly pays???

Assignment

- Identify a set of products across consumption spectrum alongwith their prices and bring forth change in its price over period of time. Also elucidate the reasons of price changes and relative success of such price changes.

There are three basic fundamentals of prices:

- Cost
- Existence of Demand
- Competition

Setting the Price

1. Selecting the Pricing Objective: Following are the objectives that a firm may have to fulfill through pricing:
   - Survival
   - Maximum Current Profit
   - Maximum Market Share
   - Maximum Market Skimming
   - Product Quality Leadership
   - Other Objectives

Contd…..

2. Determining Demand:

- Price Sensitivity:
- Estimating Demand Curves:
- Price Elasticity of demand:

  PEoD = % Change in quantity demanded / % change in Price

3. Estimating Costs:

4. Analysing Competitors’ Costs, Prices and Offers:

5. Selecting a Pricing Method: There are following pricing methods:

- Mark up Pricing: A marketer adds a mark up on its cost of the product. This is most common in retailing.

  Mark up expressed as a percentage of cost = Mark Up/ Cost

- Target Return Pricing: The marketer fixes the price of his product on the basis of target returns that he is expecting on the investment with the following formulae:

  Target return price = unit cost + (unit cost * invested capital)/ unit sales

– Perceived Value Pricing: Perceived value is calculated as a weighted average of the products' perceived attribute scores.
– Value Pricing: Marketer offer low price for high quality product.
– Going Rate Pricing: Similar price is fixed as that of the market. Here, marketer gives importance to the price changes made by the market leader.

– Auction Type Pricing

- English Auction- One seller many buyer. Open bidding is done after placing the offer and continues till the maximum price is achieved.
- Dutch Auction: Auctioneer announces the prices and gradually lowers the price till someone agrees to purchase.
- Sealed Bid auction: Would be suppliers can make only one bid and are not permitted to change.

6. Selecting the final Price:

i) Impact of Other marketing activities

ii) Company’s pricing policy

iii) Gain and Risk Sharing Pricing

iv) Impact of Price on other parties

Price Adaptation

- Geographical Pricing
- Price Discounts and Allowances
- Promotional Pricing
  - Loss Leader Pricing
  - Special event pricing
  - Cash Rebates
  - Low interest financing
  - Longer Payment terms
  - Warranties and service contracts
  - Psychological discounts

- Differentiated Pricing: To accommodate different categories of customers. There are variety of forms of Differentiated Pricing as
  - Price Discrimination
  - Differential Pricing

Other different forms of Differentiated Pricing are:

- Customer Segment Pricing
- Product Form Pricing
- Image Pricing
- Channel Pricing
- Location Pricing
- Time Pricing

Initiating Price Changes

Price change may be in form of

- Increase in Price or
- Decrease in Price

Both the strategies have their own fallouts

Responding to Price Changes

- Maintain Price
- Maintain price and add value
- Reduce Price
- Increase price and Improve quality
- Launch a low price fighter line

Case

- A, B, C and D were largest packaged drinking water brands in INDIA. The product was largely homogeneous and for 1 litre bottle of water, the market a fixed MRP of Rs 20.
- C in order to pose challenge before competitors and increase market share, got a market study conducted which suggested that a 20% reduction in the price of the 1 litre bottle will lead to 25% increase in sale. C followed the suit and reduced MRP of its brand by 20%.
- You are the marketing head of brand A. How would you handle this price reduction challenge?