Pricing Strategy Analysis
CHAPTER - 6

(1) INTRODUCTION:

In the preceding chapter we have discussed about channel of distribution analysis. In this chapter, we propose to discuss different aspect of pricing strategy analysis. Price denotes the value of a product or services is money. It is a vital importance to both the seller and buyer in the market place. Price influences consumer purchase decision reflects purchasing power of currency and affects the general living standards.

So this chapter has comprised of pricing objectives factors affecting pricing, pricing policies in public enterprises, pricing in public enterprises. Theories of price policy in public enterprises.

(2) PRICING OBJECTIVES:

Pricing is a very important factor in all-industrial economics. Price is not only affect to the consumer but also to the enterprises. Pricing decisions are equally important for both the private and public enterprises. It helps to achieve the company / firms goods whether it is private or public enterprises. Although both the sector are differ with one another, but setting of pricing is very critical process for both the sector. It is because of the fact that pricing is the only a element of business which generates revenue, rest of other element are cost items.

Pricing objectives are specific quantitative operating targets that reflect the basic roll of pricing in the marketing plan. Pricing objectives
depends upon the overall objectives of a company. However, pricing objectives of the private and public enterprises are differ from one another, not only private to public enterprises but also one private enterprise to differ from another private enterprise like that one public enterprises pricing objective is differ from another public enterprise pricing objectives, it is depending upon the nature of company and its foals. Pricing objectives can be differ for one product to another product and for different markets. As a matter of fact, the India public enterprises are not fully free to decide their pricing objective. The important pricing objectives are:

Survival, short and long run profitability, acquiring public image, making latest discoveries and improvement the development cost return on investment capital, return on sales volume / sales growth, attainment of market share, rapidly establishing market position, provide a promotional them, pricing subordinated to product differentiation, discourage entrants.

About pricing objectives have classified into primary objectives and secondary objectives, which have exhibited in the table 6.1. In the primary sector consist of growth (survival, attainment of market share & sales growth), profit (short & long run profitability, return of invested capital) and in the secondary sector consist of following objectives competitive (Discourage entrants. Rapidly establish market position), cash flow (Improvement the development cost) and other strategy enhancement.

## PRICING OBJECTIVES

<table>
<thead>
<tr>
<th>PRIMARY OBJECTIVES</th>
<th>SECONDARY OBJECTIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth</strong></td>
<td><strong>Cash Flow</strong></td>
</tr>
<tr>
<td>(i) Survival</td>
<td>(i) Improvement</td>
</tr>
<tr>
<td>(ii) Attainment of market share</td>
<td>the development of cost</td>
</tr>
<tr>
<td>(iii) Sales growth</td>
<td></td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td><strong>Other</strong></td>
</tr>
<tr>
<td>(iv) Short &amp; long run profitability</td>
<td>(ii) Acquiring public image</td>
</tr>
<tr>
<td>(v) Return of invested capital</td>
<td>(iii) Provide a proportioned theme</td>
</tr>
<tr>
<td>(vi) Discourage entrants</td>
<td>(iv) Pricing &amp; Divided to product differential</td>
</tr>
<tr>
<td>(vii) Rapidly establishing market position</td>
<td></td>
</tr>
</tbody>
</table>
As for H.M.T. is concern, H.M.T. pricing objectives are classified into two, which are primary objectives and secondary objectives exhibited in the table 6.2. In the primary objective consist of sales growth, Attainment of market share, long run profitability, rapidly establishing market position, discourage entrants. Secondary objectives consist of provide promotional theme, contribute to the image of the product and the company.

(3) FACTOR AFFECTING PRICING:

Pricing is a typical job for a company management. A Marketing management must make judgments on a wide variety of situation and often company have minimum information regarding to setting the pricing of the products. But before setting the price, a company should know about the affecting factors or determinants of pricing. Price is an important factor of marketing mix, which affects the rest of the 3 P's (Product, place & promotion).

A seller / Manufacturer has to find quit that whether price is a determinates factors or an influencing factors. In both the situation there may be different prices for the same goods. A part from that there are mainly several factors which are normally taken into consideration while deciding the pricing of the products. These factors can be classified into two: - Internal factors and external factors. These factors has been exhibited in the Table 6.3. Internal factors are such as: - Business
objectives, pricing objectives, cost of production, strength and weaknesses etc. On the other hand external factors are such as: - Buyer Income, economic condition, price policy of Govt./public policy, competitive situation, Distribution of channel.

1). Internal Factors:

Every decision of a company always relating with the over all business objective and goods which can be expressed in term of survival, sales growth, social obligations, earning profit etc. So pricing is also depend upon the company objectives where as the cost component is concern, it is depend upon the manufactures policy and for public enterprises, it is depend upon the Govt policy. Govt provides incentives or bears the losses through public exchequer.

Pricing objective is also influence to selling the price of the products. Pricing objectives could be such as - for make competition, for attainment profit, for survival, for social benefits. So before selling the price above factors should be consider by the management, and another factor is also be kept in mind while deciding the price of the products that is strength and weaknesses of company mostly be concentrated in weaknesses of the company and trying to minimize that weak points.

ii). External factors:

By Income influence the purchasing capacity and its also influence on price. The consumer can be classified into three level as per income: - Low level income, Middle level income and High income
H.M.T. PRICING OBJECTIVES

<table>
<thead>
<tr>
<th>PRIMARY OBJECTIVES</th>
<th>SECONDARY OBJECTIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales growth</td>
<td>(i) Provide promotional theme</td>
</tr>
<tr>
<td>(i) Attainment of market share</td>
<td>(ii) Contribute to the image of the product and the company</td>
</tr>
<tr>
<td>(ii) Long run Profitability</td>
<td></td>
</tr>
<tr>
<td>(iii) Rapidly Establishing market position</td>
<td></td>
</tr>
<tr>
<td>(iv) Discourage Entrants</td>
<td></td>
</tr>
</tbody>
</table>

(TABLE 6.2)
level. Every consumer behavior are different with one another. Low level income customer can be purchase low price product, Middle level customer can efforts sum high price than lower-income customer. High income customer always be try to purchase the product as per his status. They are not much affected by the price. So before decide the price a company management should be kept the above factor in mind.

Economic factors have tremendous impact on prices. This affects consumers real purchasing power as well as their confidence in purchasing. In the market economy prices are governed by the interplay of demand and supply. The economic theory believes that the higher the demand, the greater the price and lower the demand, the lower the price. Some of the practical life this principle does not real apply. Public policy has impact the significant way on pricing decision. Anti trade, unfair means of sales wets all restrict certain pricing practices. Price setting in public enterprises is guided by the Govt. No public enterprises could go beyond that.

The marketing system has become increasing competitive. One firm’s marketing process or decisions influence its market and are in turn affected by competitors decisions. All the management are develop an effective strategy for dealing with the competitive environment. Pricing decision is an important part of the strategy.
### FACTOR AFFECTING PRICING

<table>
<thead>
<tr>
<th><strong>INTERNAL FACTORS</strong></th>
<th><strong>EXTERNAL FACTORS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Business objectives</td>
<td>(i) Buyer Income</td>
</tr>
<tr>
<td>(ii) Pricing objectives</td>
<td>(ii) Economic condition</td>
</tr>
<tr>
<td>(iii) Cost</td>
<td>(iii) Public/Govt. policy</td>
</tr>
<tr>
<td>(iv) Strength &amp; weaknesses</td>
<td>(iv) Competitive situation</td>
</tr>
<tr>
<td>(v) Distribution of channel</td>
<td></td>
</tr>
</tbody>
</table>

*(TABLE 6.3)*

---

161
Channel of distribution are also an important factor, which affected to the pricing. Channel of distribution perform different kind of services for manufacturer, it provided by different channel members must be paid for the affects the pricing the product.

iii). Pricing policies in public enterprises:

Price policy provides the guidelines within which pricing strategy is formulated and implemented. The pricing policies in PE’S not only affect the consumer but the entire community. Its affects profit which affects growth and development. The general objectives of pricing polices is to achieve maximum economic growth and social justice. A number of pricing policies are these: One price policy, flexible price polices, meeting competition policy, under the market policy, above market policy, bait pricing policy, leader pricing policy, skimming pricing policy, penetration policy, psychological pricing policy, basing point pricing policy. production point pricing policy freight absorption pricing policy.

These pricing policies can be classified on four basis: On the basis of flexibility, on the basic of price level, on the basis of specialty, on the basis of geographical condition.

1. ON THE BASIS OF FLEXIBILITY:

On the basis of flexibility pricing policy can be divided into two: One pricing policy, flexible pricing policy.

---

\[1^\text{Basic management - Cundill & still, P-465}\]
(a) **One Pricing Policy:**

It means that policy in which price of a product is changing equally to all the customers in the same time and in the same quantity of that product.

(b) **Flexible Pricing Policy:**

It means a company will sell the same products and quantity to different customers at different prices. Prices are varied on the basis of the particular customer ability and capability of bargaining. It may be appropriate under extremely competitive market circumstances.

2. **ON THE BASIS OF PRICE LEVEL:**

Each company decides whether it wishes to be the price leader or a follower in its industry. This decision is most often a function of a firm's economic strength in relation to that of its competitors - on the basis of price level there are following pricing policies:

(I) **Meeting Competition Policy:**

This policy is adopted when market is full with competition and a company has adopted the same pricing policy like another competitor pricing policies.

(II) **Under The Market Policy:**

This policy is adopted such a condition when a company wants to survive in the market or expand its market share. In this policy a company fixed the price below to the market pricing.
(III) **Abojee Market Policy:**

This policy is adopted by those companies who have captured the market fully and gives the maximum satisfaction to the consumers through its products. In this policy, companies make its price above in comparison to another competitor.

3. **ON THE BASIS OF SPECIALITY:**

On the basis of specialty, there are following major pricing policies: Bait pricing policy, leader pricing policy, skimming pricing policy, penetration pricing policy, psychological pricing policy.

(I) **Bait Pricing Policy:**

In this pricing policy, a company makes two similar products, one of them is low price and another one is high price. In this policy, first seller shows the low price product and try to attract towards the product after that he show the high price product and inspire the customer to purchase the product.

(II) **Leader Price Policy:**

In this policy, a manufacturer chooses the same specific products and fixed the low price value of the product for sale, by which he can signify that his company has a low price product and customer can be attract for purchase.
(III) Skimming Price Policy: - 

This policy is designed to take the cream of the market, for that company determine the high price. This process is often used to maximize profit on new-products. It is essentially appropriate:

(a) In the product introductory stage, when demand is fairly in the upper ranges.

(b) When the firm has established an accelerated target rate of capital recovery.

(c) When the firm initiated such a policy is a leader in the industry.

(IV) Penetration Pricing Policy: -

In this policy, company determine the low price in order to penetrate to the lower level of the market. This approach is attractive:

(a) When it forces competitors to "stay out" of market initially or even indefinitely.

(b) When a firm / company witness to encourage widespread adoption of the product.

(V) Psychological Pricing Policy: -

In this policy, a manufacturer makes the pricing of its product as per the psychological view of customers.

4. ON THE BASIS OF GEOGRAPHICAL CONDITION: -

for selling of the products, some transportation expenses are paid by the buyer. Some of the cases sellers are also incurred the
transportation expenses. So this pricing policy is determined on the basis of geographical condition. Under the geographical pricing policies, the following are the major are: - Basing point pricing policy, production point pricing policy, and freight absorption pricing policy.

(i) Basing Point Pricing Policy:

In this policy, the prices of the products include its price at the place of production plus transportation expenses from the places of production to the place of buyer changed on the basis of freight book and added to the price of the product. The only difference between this price policy and production point price policy is that under this policy, transportation expenses are including in the price of product while under production point price policy.

(ii) Production Point Pricing Policy:

In this policy, manufacturer determine the price of his product at the place of production. All the expenses of transportation from the point of production to the place of buyer are incurred by buyer.

(iii) Freight Absorption Pricing Policy:

In this policy, the absorption of transportation expenses from the place of production to place of buyer is shared both by the seller and buyer. A certain part of these expenses are borne by the seller and the remaining part is borne by the buyer. This policy is adopted when the buyer’s are located near the place of production.
As for as H.M.T. policy is concern, its adopted the competitive pricing policy, such type of competitive pricing policy is called as “Premium Pricing”, it means, how much a customer can be afford it. H.M.T. has always gone in for a premium pricing strategy. Since most customer assumes a price quality relationship. The premium pricing gives an image of exclusivity. These price range are aimed at the upper class buyers, who is price insensitive and goes in for impulse buying. H.M.T.'s pricing through premium is then potential foreign entrants. To has lower end of the market, Lalit is priced between Rs 495 - 2000 is lower then the Titan Sonata Rs, 695/= and H.M.T. Tennemax price in Rs 350 - 1145 also lower than sonata for the already existing brands pricing varies with change in the duty structure. So as to keep the margin above a certain percentage.

PRICING IN PUBLIC ENTERPRISES:

Pricing is a very important factor in all the public enterprises. All though pricing objectives is made by the every enterprises, but there objectives and policies are not same with one another. Every enterprises set their objectives as per its social objectives, political & legal framework and their objectives varies as per the Govt. rule, regulations and Govt recommendation regarding to pricing. So every enterprises objective could be different with one another.

Here in order to assess the pricing policies and strategies of public enterprises in India. We have to look into report of different committees set up by the Govt from time to time. Here we present the main
impacts of reports, which have relation with pricing of products of the public enterprises.

1. Bureau Of Pe’s Guidelines:

The bureau of public enterprises laid down the following guidelines for pricing in public enterprises:

I). The public enterprises should be economically viable units and effort should be made to increase their efficiency and establish their profitability at the earliest.

II). In case of public enterprises operating in competition with domestic produces, the normal market forces of demand and supply will operate and their products will be governed by and large, by the competitive prices prevailing in the market.

The Bureau of public enterprises further enlarged its guidelines in June 1970 with regard to the pricing policy in public sector:

a). Where a line of production is fully established the units should be given sufficient delegation to operate within the margin preserved by the boards and.

b). In regard to production lives, which are being developed the units may be given the freedom to lower the margin suitably and even effect sales without any such margin should the need for competition so warrant.

ibid. P.220
2. RECOMMENDATIONS OF THE ARJUN SEN—GUPTA COMMITTEE:

Arjun sen gupta committee also considered the question of pricing in public enterprises. For improvement in pricing policy adopted by the Govt. in respect of the public enterprises in the last few years. The committee suggested the following principles for public enterprises:

a) In case of the public enterprises functioning under administered or retention price system, the periodicity of revision of such prices should be reasonable so that the profitability of the enterprise should not be affected due to the increase in inputs costs.

b) If the prices fixation is on the basis of the recommendation of the bureau of industrial cost and prices, a decision should be taken within a reasonable time or an additional element in the price must be added for the delay in decision.

c) The control in prices should be retained by Govt. only in those areas where the nature of product justifies.

d) The case of the public enterprises operating in competition with private enterprises and where there is no price control on the private enterprise, the public enterprises should be given free hand in fixing prices of their products on the basis of commercial considerations.

---

9 Arjun Sen Gupta:- Report on the committee of review policy for public enterprises. Govt. of India, Ministry of finance 1984 P-26
THEORIES OF PRICE POLICY IN PE'S:

As against the various consideration of pricing in public enterprises. Here some of the theories of pricing in public enterprises have put forward: Marginal cost, Average cost, No profit-No loss Theory, Below cost theory, Profit marketing theory, Cost-plus theory, Discriminating theory, Administrative theory, Competitive theory.

1. Marginal Cost Pricing:

The marginal cost is an additional cost required to produce an additional unit of output. It has argued that this policy would ensure higher output and maximum utilization of all factors of production and later on it was put forward as guiding principle for determine price theory / policy of public enterprises. The rationale behind the marginal cost of production theory is that if the consumer is willing to pay for extra output, welfare is enhanced if that output is made applicable to the consumer. This policy would also enable the optimal allocation of resources in the economy.

a). In order to meet out losses of public enterprises the Govt's would be compelled to impose additional taxes, which is not a practical solution.

b). There is no justification to subsidized class.
2. Below Cost Theory:

It is always discussed that public enterprises some key areas should keep their prices low because this would yield indirect benefit to the society. Another reasons could be higher prices in basic areas impact on the economy. So theory can be criticized on the following ground: -

a). It may lead to over-expansion of industry concerned if the demand for the product concerned is fairly elastic.

b). Confessional pricing of strategic in outs increase the profits of private enterprises as the prices of their products will be fixed on the basis of demand and supply consideration.

3. Profit Making Theory:

There is no doubt that private enterprises do maximise their profits. Under this theory public enterprises classes or imitate the private enterprises policy. The men on committee on parliament supervision over state undertakings also held the view that "Government companies should not only pay cost but make legitimate profits". The following arguments are given in favour of this theory of making profits:

a). Utilization of surplus in national interest.

b). Financing of expansion programmes.

c). Criteria of measuring efficiency.
But following arguments are against the above arguments,—

(a) Unsuitable for public utility.

(b) Importance of economic and social priorities.

(c) Arbitrary revision of prices to achieve the objective.

The marginal cost cannot be accurately assessed because of different sizes of units, products variation, and production conditions, joint cost etc. The marginal cost pricing principle does not pay any consideration to time. The question arises whether prices should be equated to 'long period' or 'short period' marginal cost. If the period is taken to be long, the marginal cost will be equal to average cost and if it is a short period the price will be equal to marginal cost and lead to frequent and substantial change in price levels.

4. AVERAGE COST PRICING:

The average cost pricing is considered to be fair and just by some economists on the following grounds9 — (a) It avoids exploitation since no body is required to pay more than the actual cost of the product. (b) Instead of paying the additional cost consumer base the entire cost of the unit. (c) Average cost pricing is reliable criteria for investment in many cases, (d) Average cost pricing covers entire expenditure of the enter price and thereby success the viability and the autonomy of the public enterprises and (e) Without seeking any profit the public enterprises ensure an optimum volume of supplies cheaply. Average cost principle is based on the

9 Theodore Themeyer - Thoies concerning the problem of price setting in public undertaking, annual of collective economic (July-Sept 1962) P-263
assumption of the minimisation of cost-inefficiency. This concept is popular in case of both public enterprise and private concern.

**5. No Profit - No Loss Method:**

The theory of no profit no loss has developed by Fabians in connection with municipal trading and it was said that Govt. should not earn profit. The advocates of public enterprises argued that great advantage of public ownership would be the freeing of industries from the tyranny of the profit and loss account. It is often said that public enterprises should not earn profit, but it is well established that investment in public enterprises should demonstrate profitable working. The theory of no profit-no loss in public enterprises is inconsistent with a socialist economy and in developing economy like our, it is not possible any more ad here to the traditions concept. Thus it is essential that public enterprises should not run at a loss on following grounds:

**6. Cost - Plus Theory:**

Cost - plus price means a price which include total cast and a reasonable percentage of profit cost - plus pricing as cost estimated with addition of some kind of profit. The theory has been criticized on the following grounds:

(a) Price formula simply makes every line of production profitable.
(b) This principle does not check the cost escalations.

(c) This theory may ultimately restrict the state's objectives of maximizing economic growth through socialist-industrialization.

7. Discriminating Price Theory:

A discriminating price is applied to encourage investments and to discourage consumption. Price discriminating is more pronounced in case of public utilities like: Transportation, gas etc. The following three conditions are necessary for success in price discriminating. They are 14:

(a) Monopoly on the supply side.

(b) Subdivision on total demand having different degree of elasticity as feasible and.

(c) Possible to separate the market from each other so as to eliminate the possibility of reselling of goods acquired at lower prices at higher prices.

The justification of the theory is made on the following grounds:

(a) They are equitable because the richer classes are made to pay higher prices.

(b) The Govt. may achieve a higher rate of economic growth as the theory encourage investment.

The public attitude to price discriminating always disapproves the theory.

8. Administrative Theory:

Administered price is a price which is determined by the Govt. when it considers desirable to regulate the prices of essential commodities to avoid the exploitation of consumers. The price fixed under this system does not have much relation to the public enterprises pricing principle. In other words, while fixing the prices under this system the national priorities are taken into consideration. The basic objective of this price policy is to achieve price and economic stability and growth of the economy as a whole. Administrative pricing is determined under this theory in both public and private concern.

The overall objective of setting this price is to ensure fair return on network depending upon variation and factors like Risk, Priority, Growth etc. The Govt. as a matter of policy has decided that the administered prices should be reviewed & frequently as it become necessary because long interval reviews would course hardship to the industry as well as to the consumers.\textsuperscript{15}

9. Competitive Pricing:

Now maximum public Enterprises are facing long competitive from other private concern which are producing similar products. This price policy ensures consumer's protection while providing good quality product at competitive prices. It also enables the cost efficiency and optimum expansion of the Enterprises. This pricing system should not be allowed in case of enterprises operating under monopolistic situation.

\textsuperscript{15} Public enterprises survey - Govt. of India, vol - 1 1984-85 P-202
As for as H.M.T. (Watches) is concerned its using competitive pricing theory. Because some other private watches producing company gives the competitive to H.M.T. That is why H.M.T. is using this pricing system. Although H.M.T. have fixed the profit margin 10% - 20% on cost. It means H.M.T. also adopt the cost plus method. In the other word I can say that H.M.T. adopt the mixed method of both of the above before fixing the margin H.M.T. consider about the estimate sales volume, competitive conditions, cost, Govt. policies regarding to the PE's, customer behavior, and similar product. As per the company officials, price fluctuation and affect of Govt. rules and regulations are less serious and abstemious respectively. In the export of watches, management also considers the transport cost while fixing the profit margin.
CONCLUSION: Price is all around us. All profit concern and no profit concern face the task of selling a price on their product or service. Price not only effect to the consumer but also to the enterprises. Pricing objectives are specific quantitative operating target that reflect the basic role of pricing in the marketing plane and its given the support to making/deciding the pricing policies and adaptation of price method.

H.M.T. concern have many pricing objectives as per the common pricing objectives. Common pricing objectives contains growth, profit, competitive cash flow, other strategy enhancement. Where as H.M.T. has classified in to two objective – Primary objectives, & secondary objectives. In the primary objectives consist of sales, growth, attainment of market share, long run profitability, rapidly establishment market position, discourage Entrants. Secondary objective consist of provide promotional theme, contribute to image of the product and the company.

Different factor affecting the pricing after deciding about the price that price is determinants factor or influencing factor. Them factor has been classified into two internal factor and external factor. Internal factor consist of business objectives, pricing objectives, cost, strength & weakness. In the external factor consist of – buyer income, economic, candidates public/ Govt. policies, competitive situation, distribution of channel.

Pricing policies is based upon the external objective. A Govt. concern can not made the total objective of a concern. So H.M.T. follows the general objectives of the Govt. made it self. There are many types of...
pricing policies which are adopted by the different enterprises in its concern viz — on the basis of flexibility pricing have consist — one price policy, flexible pricing policy and on the basis of price level have consist — order the market price policies, above the market policies, meeting the competitive on the basis of specialty have contains— Bait Pricing policies / psychological pricing policies, Dealer pricing policies, skimming pricing policies, penetration pricing policies. On the basis of geographical condition have consist — basing point pricing policies, production point pricing policies, freight absorption pricing policies but where as the H.M.T. (watches) is concern, H.M.T. have adopted the competitive pricing policies such type of pricing policy is called as “Premium pricing” it means how much a consumer can be afford to Pay the price for a particular watches, which he is purchasing it could be names. When H.M.T. consider initiating a price change it must carefully consider consumer and competition nature of changing the price policies, basically H.M.T. premium pricing gives a image of exclusively. These price ranges are aimed at the upper class buyer’s who is price intensive and goes in far impulse buying, H.M.T. pricing through premium is then potential foreign entrants to tab the lower end of market. Lalit watch price between 495-2000 is lower to Titan, Sonata Rs. 695 and H.M.T. Tennemax price Rs. 350-1195 also lower than Sonata far already existing brand pricing.

Today there are many private concern gives the tough competition to H.M.T. There are many pricing method/theories are used by the different enterprises after seeing the market situation and its rival
concern method/policies/theories. Where as the H.M.T. is concern, H.M.T. has adopted the competition pricing theories and cost plus method it means H.M.T. has adopted mix pricing method. Before used the method H.M.T. consider about the margin % (Percentage), Market condition, cost, Govt. policies, rival policies, price fluctuation, volume sales quantity etc. so H.M.T. has adopted the mix method to give the stiff competition/meeting/ beating the market competition. Although H.M.T. have fixed the profit margin 10% to 20% on cost. It means H.M.T. also adopt the cost plus method. In the export of watches management also consider the transport cost while fixing the profit margin.