Chapter - XII

WHAT IS PRICE?

Price is a significant marketing management function, it increases the sale of products. It is a source of income to the seller. The higher the price the seller can get the greater profits. Although pricing is a very different marketing task, it cannot be performed whimsically. Prices are influenced by marketing forces. Therefore price is the mechanism by which the commodities making up the flow of goods are adjusted to the desires of consumers. Determine the right price for the right product is a vital factor because company's failure and success is dependent on it.

Chapter - XII

PROBLEMS OF PRICING

Pricing is an art, no doubt, it is complicated, risky. In setting price, the manufacturer faces several limitations for example, Some variables, which affect demand, are in a constant state of change. It is the basic task of marketers to identify the significant variable factors in a particular market at a particular point of time. Second, the marketer should recognize the demand and supply forces - the key words of pricing. Third, the forces, felt significant and strongly influencing to price determining theories, cannot be calculated to yield a specific optimum price based on perfect profit maximization.

Demand and supply are the two important words of marketing and their importance can appear as life and blood to marketer. Here the marketer has to face problem in order to identify the demand of product. In a market where perfect competition exists, the goods or products are identical and contd...p/2.
bears complete information therefore products equally available to all potential buyers. But there are sufficient producers to restrict supply to one or few producers. Such conditions hinder the marketers' effort of identifying demand.

To identify demand is really a complicated matter. Demand is not only influenced by need but by specific marketing effort to particular market sectors. Total population is increasing day by day, on the other hand they are becoming more mobile. Consequently their demands for both goods and services will depend on marketing effort in different sectors.

Second, the marketer faces problem to identify demand in a country like India where people of different income-groups live. In such a country there are some people of higher income level. Purchasing behavior of higher income group must differ. Not only that, even Govt. economic policy or taxation system may effect actual and anticipated disposable income levels. Expectation of earnings or profits has a marked effect on demand for luxury goods, equipment etc.

People buy goods or services for economic, social and psychological reasons. Sometimes current fashions, taste, relative convenience, comfort, security etc. also motivate consumer to buy. These are true, sometimes typical problem may lead the marketers to puzzling condition when they see sale of some products are better in certain markets because they are higher in price. Here, the underlying psychology contd...p/3.
is that the product of higher price range and has performance of other products is more trusted and accepted for health, and the purchaser likely to avoid untired commodities from little-known firms.

Advertising and promotion influences the consumer mind therefore can increase demand. A product must be familiar and known before it is bought. Selling skill of advertising may have a very considerable effect on purchasing action. Demand not only depend on the competitive price of products but on their performance, availability, length of service, reputation, flexibility etc.
Chapter - XII

IMPORTANCE OF PRICING A NEW PRODUCT.

Formerly, price was considered as one of the most important factors that can influence buyer choice behaviour. In 1950s and 1960s nonprice factors grew relatively more important. More recently, because of worldwide inflation, price has again attracted more attention and is now viewed by many marketers as the most important element in the marketing. Price is the only element in the marketing mix that creates sales revenue. Therefore, setting the right price of a new product is of high importance. In case of pricing a new product most companies set price too high as a result they fail to take sufficient account of demand intensity and customer psychology. On the contrary, if the price is too low the customer must have fear of being deceived by purchasing product of inferior quality. If, pricing a new product is done in a haphazard way, the product movement would be slow and could not support the sales and profit objectives and marketing positioning of the product in the target market.

The setting of price is rarely a simple matter. More precisely it is too hard risky job in a highly competitive market. In a market where perfect competition exists, customers are conscious enough so to convince them by offering a new product only at low cost in almost impossible because they expect extra benefits besides quality from the new one otherwise they would not bother above the new one.
Chapter XLI

PROCESS OF PRICING

The introduction of a new product is a very risky and rarely simple. A firm, of the time of introducing a new product, calculates a considerable amount of cost invested in it. Different activities associated with new product (such as research, planning, training for salesman, building stocks of material, informing customers etc.,) after represent a substantial cash outlay. Unless it is recovered, such an outlay can cause an impairment of the firm's cash position. While recovery of the firm's cash position is a prime consideration management usually has two broad strategy:

i) to set a high price to the new product with a substantial gross margin, ii) to price it expecting that its price would be settled after competition developed.

The motto of high price strategy is to make firm's cash position consolidate besides expedite recovery of investment. With this high price strategy a firm could have advantageous or healthy cost position over would-be competitors as a result its income in excess can be applied to improving the product. On the contrary, competitors, just immediately after entering into the market, could not apply their cash flow freely rather a part of it. Unless a real break through in product design is achieved by competitor he will be thrown out of the line of competition. The innovating firm enjoy few privileges behind its high price strategy as follows:

- a) A product which represent genuine innovation, b) an inelastic demand situation, c) Uncertainty concerning price sensitivity or competitive response, d) a product design that is difficult to copy or produce and lastly, it enjoys e) a strong patent position.

The spear of low-price strategy lies in the strong market position and the innovating firm may be able to win before competition develops. A strong market position achieved by an innovating firm entirely depend on the desire of customers, they can place huge order and split it. It does not mean that only low-price of a product can accelerate the speed of product distribution by generating the product demand. Therefore not extremely low price but relatively low-price can stimulate demand and expand sales rapidly provided if other conditions of the strategy are reasonable.
It is already said that pricing a product in rarely simple rather attention to be drawn to other elements exists beyond the cost of the product and its demand in existing market.

The firm, at the time of fixing price, must think through its pricing strategy for its distributors and dealers. Distributors and dealers undoubtedly, play a significant role in the process of marketing a product in a highly competitive market. And there is no doubt that quick success of a product is partly dependent on distributors and dealers. They will show great interest in selling if they get good percentage of profit in comparison with the other products of the same product line. Therefore, the firm must think distributors' reaction at the time of fixing price. It is evident that some companies set a price for distributors and allow them to set whatever final price they set. This is done where it is thought that each distributor is competent enough to determine the price suited to local conditions and to make the product popular by drastic selling offering gifts and other selling incentives. But, in fact, in most cases the distributors relinquishes control over final price. Sometimes, the manufacturer faces a problem to set distributors' margin. Therefore, it is the responsibility of the marketer to study the contemporary trend of the distributors' world and experience their reactions and to find out the ways to satisfy them.

The firm should consider suppliers, labour at the time of fixing price. The suppliers of raw materials, if
they found that product's price is high they would calculate as the Company's percentage of profit is high, consequently the supplies would force the company to purchase their materials at higher rate or to face different troubles. On the other hand, the reactions of labour unions will be that a high price, or price increase, constitutes grounds for higher wages.

Price is a concern to different parties within the company. The sales manager wants a low price because the sales representatives would have a definite chance to approach to customers as well as to convince them. The advertising manager, also becomes happy, if he finds that price is low, because through his promotion tactics he could generate buying attitude to the buying mass, therefore; low price is of great help in the promotion-tactics of the advertising manager. On the other hand, if the price is high, other executives within the organisation certainly hold a strong view that their product would be lagging behind the competition.

Finally, the company must consider the reaction of competitors. The price of product can give a drastic blow to competitors. In this respect, the firm should consider competitors' strength, their marketing strategy before sending product into market. Therefore price chosen is likely to influence the entry of new competitors.
Chapter-XII.
Advantages of right price.

Price objectives are essential. Price decision, though is a very complicated decision, if it is in line with the Company's objectives, then it has passed one of the major steps. Despite its complexity and risks it is a challenge to the top management to price a product rightly.

It is the target of any business organisation to achieve return on investment. Similarly it must be the policy of every manufacturing organisation to earn profit and it is only possible by fixing right price of their product or products.

If the price of a product is rightly fixed then the market stabilization can be achieved. When a right product at a right price is available in a market the movement of product is increased and it is certain that the product will be sold in a larger quantity. And the striking matter is that within a very short period the Company will create a better image into consumer mind.

Nowadays business world is very competitive everywhere and in this competitive-market if a firm wishes to survive then it has to pick prices for its product which would fit in. In this situation if price is not right then the firm could not meet competition. By fixing right prices a Company can maintain or improve its share of the market. In this

contd...
case the company's pricing policy must be according to what share of the market the Company has and share it wants to have, thereby using a price as a major competitive weapon. In any case if pricing policy of any organisation is unrealistic then the company would suffer.

It is true that if a company plans, at the time of initiating product, of maximizing profits then it would suffer because it is not a right pricing policy. Instead, if the Company place low price and attempt to win a maximum number of customers for that product, product over a considerable period of time will create maximum profits.

Therefore right price of a product not help the product to be sold in a huge quantity and it also help in creating Company's image.