CHAPTER IV

PRICING
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4.1 Introduction:

The FMCG Industry Comprises of goods which are of mass-use, directly Consumable, having significant demand in low to middle income strata, characterized by highly price sensitive customers.

Price is the major element of marketing mix. Ultimately price generates income. Price is a strategic issue, as it is related to positioning. Pricing affects other marketing mix elements such as product quality, distribution system and promotion strategies. The right price influences the quantities a customer buys, which in turn determines the total revenues, in turn profit of the business. Price is the determinant of the market demand.

At the beginning of the privatization process in India, many MNCs had given priority to FMCG sector expecting handsome profits. Thus out of top 10 FMCG companies in India, 4 are MNCs and other two have significant MNC shareholdings. This resulted in to great price wars. Companies have started giving freebies in addition to reducing prices, curtailing the profits. Other competitors are also forced to follow the suit. The most premium Toilet soap brand ‘Dove’ has decreased its price from Rs.43 to now available at just Rs.25/=. Popular brands like Clinic Plus, Rejoice were forced to bring down their prices.
4.2 Price- ‘the concept’

Price represents the market value for a product. Among the 4 as of rural marketing viz., Affordability, Availability, Awareness and Acceptability. The major determinant of consumption is affordability.

This, in turn determined by 2 factors.

1) The income of the consumer
2) Price of the product. That’s why companies concentrate on pricing policies and strategies, to make the product affordable to many consumers.

Price is a two dimensional concept.

- To the company- it is a revenue generating factor with cost plus.
- To the company- it is the cost of purchase.

Price is quantitative, unambiguous but quality, image and other qualitative factors are indicative through price. Looking from social angle, price symbolizes quality, value, status and life style of the buyers.

4.3 Pricing objectives:

The customers of 21st century are more informed. They seek qualitative products. At the same time, they look at ‘value for money’. In order to woo customers, companies big and small are forced to offer “qualitative products at affordable reasonable prices”.

Broadly speaking, pricing objectives need to be compatible with marketing strategies. Normally, there is a trade-off between the quality on offer and the price. A firm’s pricing objective must be clearly identified in order to determine optimal pricing. In the present competitive markets, it is price based competition rather than promotion.
The pricing objectives may be as follows:

4.3.1. Profit maximization in the long run:

Companies cannot expect profits in short term, when they enter rural market. Initially they have to develop the market by introducing the product at a low price. (Penetration price)

4.3.2. Minimum returns on sales turnover:

It is difficult to make instant profits in rural markets. Hence company has to prepare its pricing in such a way that it can recover costs involved in distribution, production, dealer margins etc.

4.3.3. Deeper penetration into the market:

When a company’s objective is market expansion, pricing objective should be to workout lower prices. For example,

- Premium Brand ‘Lux’ came out with small Rs.5/= tablet. Lifebuoy at Rs.3/= 5.
- Britannia Tiger at Rs.1, Rs.2 and Rs.4 price points. With this, Britannia’s market share of 14% in 1998 increased to 40% volume share.

4.3.4. Competitor’s pricing/ keeping up with the competition:

If a firm wants to meet the competition, has to set a price to beat competitor’s price. For this marketers are forced to become the ‘lowest cost producers’ and manage with few intermediaries and minimum distribution cost. Keep an eye on competitor’s price and adjust prices, accordingly, in order to maintain parity.
4.3.5. Increasing sales volumes and Market Share:

In sales maximization, company sets an acceptable level of profitability and tries to maximize sales. For this a company has to adopt intensive cost reduction strategy. With large sized rural markets, marketers are assured of availing economies of scale. To have high volume sales at lower cost, companies have to spend more on R & D to manufacture qualitative products at lowest costs. For example: Cavin Kare did rural market research to find what customer expects, went back, did R&D to bring out Shampoo sachets at 0.50 paise, without compromising on quality and it is No.1 now in rural markets.

4.4 Influences on Price:

The factors affecting the price can be divided into 2. (1) internal factors and (2) external factors.

4.4.1 Internal factors:

Marketers have control over these factors and can use them in compatibility with external forces. The main internal factors affecting the price are: cost and company's pricing objectives.

Costs:

Costs cover not only costs of production, but company's investment / costs involved in promotions and distribution. As rural markets are distorted, more costs incurred in distribution & promotion strategies. These may pay rich dividends in a longer time, but companies should be in a position to absorb these costs.

For example, HLL made sustained effort to tap rural markets by investing innovative distribution channels, 'Project Shakti' and
‘Operation Bharat’ for promotion. HLL, because of large market size and wide basket of goods could reach economies of scale, to reduce prices.

4.5 External Influences

Internal forces can be controlled by the company, looking at its resources but external influences are either not or only to some extent controllable.

These external influences may be:

4.5.1 Customers:

Target segment for marketers are customers. The price sensitivity of customers poses a major challenge to marketers. Rural consumers have limited and fluctuating income. Keeping this in mind, marketers build pricing strategy. ‘Chik’ shampoo’s 0.50 paisa sachets are the success story now. Many national players have adopted similar strategies.

But in case of consumer durables, it is reverse strategy. Villagers attach a level of family prestige and social reputation in buying wedding items viz colour Television and Motor Cycles. And prefer to pay more for good quality. Marketers need to understand the psyche of the rural consumers and set prices accordingly.

4.5.2 Competitors:

With about 70% of the population living in rural areas, ranging from MNCs to national players to regional and local players, many are into manufacturing selling of FMCG products to these rural markets. Tough competition is felt for all the companies. Large companies have technical edge whereas small companies are manufacturing according to
the requirements of villagers, without spending much on packaging or promotion. This enables them to sell at lower prices. However, looking at each other, companies are forced to reduce their prices, to be compatible with competitors. With the presence of multiple players and huge demand, the rural market is also becoming more competitive. Companies have to set their prices against competitors. Now a days, it is a ‘competitor driven market’.

4.6 Pricing strategies for rural markets:

4.6.1 Low price points:

About 40% of villagers are daily wage earners. They never have sufficient money to invest on large packages. Hence companies need to introduce “Low- Point price packs”, so that it can be added to the daily basket of the wage earner.

This strategy is already implemented by all companies. HLL’s Pepsodent available in sachet for Rs.4/=, Parachute hair oil & Navarathna hair oil are available in Rs.1/= sachets, Lux shampoo in 0.50 paise and Rs.1/= sachets.

4.6.2 Avoid Sophisticated Packaging:

Rural consumers want ‘value for money’ packs, without compromising on quality. This should be the prime objective of the company. Sophisticated packaging adds to the cost and rural people may not be ready for paying higher prices. Simple packing can be adopted.

- For example, Nirma won the detergent market by cost cutting on packing, without compromising on core quality. Its success, because of low price is a well known history in management.
• Local & Regional Companies are following this practice and able to sell at lesser prices than MNCs. These local companies are making more profits than Large Companies. HUL and other MNCs have to still come down on packaging.

4.6.3 Highlight the value not price:

Though the rural customer is price sensitive, he is ready to pay more if he sees value in a product. Price can be compared but all companies are selling Rs.1/= sachets of shampoo. If a company highlights the benefits of the core product, then customer will prefer to buy.

4.6.4 Product Bundle pricing:

Combining 2 or more products and selling at discounted prices is called as product bundling. Rural consumers like such offers as they will get 2 products, also at lesser price. Hair oil with comb 11, shampoo sachets with soap, tooth paste & brush are such examples. Such sales offers have reached desired heights.

4.6.5 Economy pricing:

This is a “no frills low price”. Cost of marketing and manufacturing kept to minimum. Regional and local manufacturers usually follow this strategy. They make no or limited investments on brand building and developing channels.13

Case: Example is a very interesting case in Mysore district. In detergent soaps market, big wigs like Rin, wheel, Nirma and other brands are established. But a lesser known brand ‘Arasan’ with no advertisements and channel spending is sweeping the market like undercurrent.
When the researcher surveyed 1000 respondents in 7 taluks, covering about 100 villages to know what detergent soap they use, the result was astonishing. Following table depicts the results.

**Table 4.1**

**Consumer’s usage of detergent soap.**

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Rin</th>
<th>Nirma</th>
<th>Arasan</th>
<th>Wheel</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000</td>
<td>150</td>
<td>131</td>
<td>459</td>
<td>96</td>
<td>164</td>
</tr>
<tr>
<td>%</td>
<td>15%</td>
<td>13%</td>
<td>45.9%</td>
<td>9.6%</td>
<td>16.4%</td>
</tr>
</tbody>
</table>

*Source:* Consumers opinion survey

![Figure 4.1 Consumer’s usage of detergent soap](image)

**Note:** others include many local brands.

A relatively unbranded lesser known soap ‘Arasan’ from Tamilnadu is sweeping of sales in Mysore district. No Ads or no campaigns 45.9% consumers are using it.
When enquired for more details, researcher came to know that:

1. A soap quality is good useful for hard water.
2. Manufacturer's vans come every week remote villages & directly supply to retailers, avoiding more distribution costs.
3. Margin given to retailer is double than what reputed brands are giving. Hence, retailers are happy to sell.
4. MRP is Rs. 13/= for 250 gm soap cake. But sold at 8 to 9/= to consumer at discounted price. Consumer is happy. By reducing/avoiding promotions & distribution costs, manufacturer is selling at less than market price 7 the product has quality. Lot to learn for large companies.
Table 4.2

Taluk wise consumer usage of detergent soap for washing clothes.

<table>
<thead>
<tr>
<th>Taluk</th>
<th>Sample size</th>
<th>Rin %</th>
<th>Nirma %</th>
<th>Arasan</th>
<th>Wheel %</th>
<th>Others %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Nos.</td>
<td>%</td>
<td>Nos.</td>
<td>%</td>
<td>Nos.</td>
</tr>
<tr>
<td>1) T. Narasipura</td>
<td>150</td>
<td>20</td>
<td>13.33</td>
<td>9</td>
<td>6.00</td>
<td>86</td>
</tr>
<tr>
<td>2) Nanjanagud</td>
<td>150</td>
<td>16</td>
<td>10.67</td>
<td>18</td>
<td>12.00</td>
<td>78</td>
</tr>
<tr>
<td>3) H D Kote</td>
<td>150</td>
<td>18</td>
<td>12.0</td>
<td>19</td>
<td>12.67</td>
<td>69</td>
</tr>
<tr>
<td>4) Piriyaptna</td>
<td>130</td>
<td>14</td>
<td>10.77</td>
<td>19</td>
<td>14.62</td>
<td>58</td>
</tr>
<tr>
<td>5) Hunsur</td>
<td>120</td>
<td>17</td>
<td>14.17</td>
<td>18</td>
<td>15.00</td>
<td>48</td>
</tr>
<tr>
<td>6) K R Nagar</td>
<td>180</td>
<td>29</td>
<td>16.11</td>
<td>23</td>
<td>12.78</td>
<td>83</td>
</tr>
<tr>
<td>7) Mysore</td>
<td>120</td>
<td>36</td>
<td>30.00</td>
<td>25</td>
<td>20.83</td>
<td>37</td>
</tr>
<tr>
<td>Taluks</td>
<td>1000</td>
<td>150</td>
<td>131</td>
<td>459</td>
<td>96</td>
<td>164</td>
</tr>
<tr>
<td>Usage percentage</td>
<td>%</td>
<td>15%</td>
<td>13.1%</td>
<td>45.9%</td>
<td>9.6%</td>
<td>16.4%</td>
</tr>
</tbody>
</table>

**Source:** Consumer opinion survey.
Figure 4.2 Taluk wise consumer usage of detergent soap for washing clothes.
Table 4.2 depicts that,

Relatively unknown Company and Brand from Tamilnadu, “ARASAN” has made effective inroads in to the rural markets of Mysore district. This is evident by the statistics that 45.9% of the respondents are using ‘Arasan’ soap.

- Rin is a well known brand of HLL is preferred by 15% of the respondents, followed by Nirma, with users at 13.1%.
- Detergent soaps seems to be a scattered market as 16.4% of the respondents (164 people) are using other brands- local, regional and national brands.
- Mysore Taluk seems to be advanced and aware of brand, with 30% of respondents using Rin, 20.83% using Nirma, but 30.38% are using Arasan.
- Others is only 9.17%. This shown people know the brand and buying it.
- In T. Narasipur, Nanjangud and Hunsur taluks, one 5th i.e. 20% of the detergent market is covered by many brands. Then these customers seem to be
  1) either not aware of brand.
  2) or not particular of brand.
Table 4.3
Taluk wise usage of detergent powder by consumers.

<table>
<thead>
<tr>
<th>Taluk</th>
<th>Sample size</th>
<th>Nirma</th>
<th>Wheel</th>
<th>Others</th>
<th>Not using soap powder</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nos.</td>
<td>%</td>
<td>Nos.</td>
<td>%</td>
<td>Nos.</td>
</tr>
<tr>
<td>1) T. Narasipura</td>
<td>150</td>
<td>37</td>
<td>24.67</td>
<td>22</td>
<td>14.67</td>
</tr>
<tr>
<td>2) Nanjanagud</td>
<td>150</td>
<td>24</td>
<td>16.00</td>
<td>18</td>
<td>12.00</td>
</tr>
<tr>
<td>3) H.D Kote</td>
<td>150</td>
<td>31</td>
<td>20.66</td>
<td>27</td>
<td>18.00</td>
</tr>
<tr>
<td>4) Piriyaptna</td>
<td>130</td>
<td>26</td>
<td>20.00</td>
<td>30</td>
<td>23.08</td>
</tr>
<tr>
<td>5)Hunsur</td>
<td>120</td>
<td>27</td>
<td>22.50</td>
<td>335</td>
<td>29.17</td>
</tr>
<tr>
<td>6) K.R Nagar</td>
<td>180</td>
<td>33</td>
<td>18.33</td>
<td>48</td>
<td>26.67</td>
</tr>
<tr>
<td>7) Mysore</td>
<td>120</td>
<td>38</td>
<td>31.67</td>
<td>46</td>
<td>38.33</td>
</tr>
<tr>
<td>7 Taluks</td>
<td>1000</td>
<td>216</td>
<td></td>
<td>226</td>
<td></td>
</tr>
</tbody>
</table>

User percentage

| Source: Consumer opinion survey. |

<table>
<thead>
<tr>
<th></th>
<th>%</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>21.6%</td>
<td>22.6%</td>
<td>15.4%</td>
<td>40.4%</td>
<td></td>
</tr>
</tbody>
</table>
Table 4.3 shows that

- 40.4% of the respondents are not using soap powder. This gives rise to the opportunity for Companies to promote more soap powders into rural markets.
- When discussed, villagers felt that if Re.1 or 2 sachets available, they will use.
- While Wheel (HUL) has been able to cater to 22.6% of respondent villagers. Nirma is also on the same lines with 21.6%. Other unbranded small time soap powder manufacturers from Karnataka & Tamil Nadu are selling soap powders, sometimes even without printing in packets. Hope this is a hint for large companies, where they have to tap the resource.
Table 4.4
Consumers Preference in purchase decision.

<table>
<thead>
<tr>
<th>Taluks</th>
<th>Sample size</th>
<th>Brand name</th>
<th>Price</th>
<th>Retailers advice</th>
<th>All the 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Nos.</td>
<td>%</td>
<td>Nos.</td>
<td>%</td>
</tr>
<tr>
<td>T. Narasipura</td>
<td>150</td>
<td>30</td>
<td>20.00</td>
<td>69</td>
<td>46.00</td>
</tr>
<tr>
<td>Nanjangud</td>
<td>150</td>
<td>37</td>
<td>24.67</td>
<td>45</td>
<td>30.00</td>
</tr>
<tr>
<td>H.D Kote</td>
<td>150</td>
<td>24</td>
<td>16.00</td>
<td>81</td>
<td>54.00</td>
</tr>
<tr>
<td>Piriyapatna</td>
<td>130</td>
<td>23</td>
<td>17.69</td>
<td>76</td>
<td>58.46</td>
</tr>
<tr>
<td>Hunsur</td>
<td>120</td>
<td>25</td>
<td>20.83</td>
<td>60</td>
<td>50.00</td>
</tr>
<tr>
<td>K.R Nagar</td>
<td>180</td>
<td>28</td>
<td>18.67</td>
<td>84</td>
<td>46.66</td>
</tr>
<tr>
<td>Mysore</td>
<td>120</td>
<td>52</td>
<td>43.33</td>
<td>36</td>
<td>30.00</td>
</tr>
<tr>
<td>7 Taluks</td>
<td>1000</td>
<td>219</td>
<td></td>
<td>451</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>21.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>14.85</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Consumer opinion survey
Table 4.4 expresses that,

- Price is the most important consideration in purchase decision as 45.1% of the respondents expressed it.
- 21.9% of the respondents expressed that Brand name is important to them.

In rural marketing, retailer’s advice also plays a major role in purchase decisions as 18.2% of the respondents have said it.
4.6.6 Discounts & gifts:

These schemes attract rural customers very well. Reduction on MRP, gifts like buy 1 take one free (14), Buy 2 get 1 free, (15) comb free with hair oil, steel glass with coffee powder etc are well received in the rural markets. Already companies are using this strategy and encashing it.

Tooth paste manufacturer Anchor sells “50 gm tooth paste + 1 tooth brush “ combi pack for Rs. 10/=, so also Colgate does. Santoor soap is offering Buy 3 get 1 free, and Bundling price of 40/= for 4 soaps, (which is Rs. 60/=)16 Recently Vivel is offering “ Buy one get one free” for Rs. 18/= All these are a roaring success.

4.7 Coinage pricing:

This strategy is used in rural markets for FMC goods. This is used for the convenience of the customers and retailers, to avoid shortage of change. Prices are set at coin value viz Rs. 1/=, Rs.2/=, Rs.5/=.

HUL sells Pepsodent for Rs.5/=, Dreamflower talc powder in 5/= container, shampoos Lux & Clinic + at Rs.1/=, Rs. 2/= etc.

4.8 Conclusion:

Price plays a very vital role among 4ps. It decides the demand for the product. Pricing decisions are influenced by internal and external forces. Forces like customers, competitors are difficult to manage and has effect on business. Marketers offer various price assortments for all types of buyers. Companies have to follow optimal pricing strategy in accordance with customer’s tastes, preferences and requirements.
References:

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14. This strategy followed by ‘Arasan’ detergent cake and ‘ Shashi’ detergent cake brands.
16. Offer made by ‘Cinthol’ Brand of HLL.
17. Offer made by ‘Santoor’ Brand of WIPRO.