SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION

MBA FA- 206

SUBJECT NAME: FUNDAMENTALS OF MARKETING

UNIT-IV

TOPIC NAME: PRODUCT PRICING POLICY DECISION

Concept of product policy decision

Product Policy plays a very significant and crucial role in the product establishment and its growth in the market. The marketer has to keep mind the product policy decision while introducing a product. Product Line decision, It involves decision like Product line stretching and Product Line filling.

Nature and Scope of Product policy decision

The marketer has to keep in mind the product policy decision while introducing a product. As it is a competitive tool in the hands of the marketer. It involves four basic decisions. These are:

1.) Individual product decision:-

i) Product attribute: it refers to the quality, feature, style and design of the product. With the help of the quality manufacturer can give the customers assured quality product. Feature helps in differentiating the product from other products. Style and design helps to bring the attention of the customers towards the product.

ii) Product branding: it is very essential to give a product a brand name. Only with the help of brand name the customer can differentiate the product from the other products. Branding facilitates the marketers in promoting the product and making consumer brand conscious.

iii) Product packaging: packaging means the wrapper which contains the product. Like a pack of Cadbury chocolate has a primary golden color wrapper and then a secondary wrapper to cover it. Packaging act as a silent salesman. It is with the help of the packaging the customer come to know about the product quality, quantity, weight, price etc.

iv) Product labeling: labeling gives the consumer information regarding the manufacturer's name, place, date of manufacturing, expiry date, calories, carbohydrates, nutritional value etc.

v) Product support services:- it means the services which are provided to the customer after selling the product to the customer like after sale services, installation etc.

2.) Product line decision:–

it means group of product which are closely related to each other. Like lakme, maybaline etc. in product line decision the marketer has to make decision regarding the product line length, which means the number of product in the product line. There may be short product line, means the marketer can increase the profit by adding new product or there may be long product line. There are two ways of adding the product.

i) Product line stretching: it means when company adds a new product by stretching the product line by upward, downward or both ways.

ii) Product line filling: it means adding a new product within existing range of products.

3.) Product mix decision:-

it means the complete set of product line produced and sold by the company. Like nestle produces, milk powder, maggi, ghee, sugar, tea etc. product mix consists:

i) Product mix width: refers to how many products company is offering. Like soap, shampoo, powder etc.

ii) Product mix length: refers to how many no. of items in each product line. Like 5 kind of soap, 7 kind of powder etc.

iii) Product depth: refers to different items in each product line. Like Hindustan liver ltd. offering different kind of soap eg. Lux, santoor, hamam.

What is Pricing Policy?

In business, a systematic approach is required in pricing the commodities produced. Decision-making in this respect is very important, as it leads to a permanent source of revenue to the business and also survival in the venture. It is the most important device for the firm to expand its market. If the price is too high, a seller may have to go out of the market. If the price is too low, the firm may not cover its cost and face loss. Hence, setting prices is a complex problem. There is no cut and dried formula for fixing the prices. It depends upon various situations in the business.

Strategy of pricing policy

The following sections explain various ways companies develop pricing policy and strategy. First, cost-based pricing is considered. This is followed by the second topic of value-based pricing. Third, demand-based pricing is addressed followed by competition-based pricing.

COST-BASED PRICING

The traditional pricing policy can be summarized by the formula:

Cost + Fixed profit percentage = Selling price

Cost-based pricing involves the determination of all fixed and variable costs associated with a product or service. After the total costs attributable to the product or service have been determined, managers add a desired profit margin to each unit such as a 5 or 10 percent markup. The goal of the cost-oriented approach is to cover all costs incurred in producing or delivering products or services and to achieve a targeted level of profit.

VALUE-BASED PRICING

Value prices adhere to the thinking that the optimal selling price is a reflection of a product or service's perceived value by customers, not just the company's costs to produce or provide a product or service. The value of a product or service is derived from customer needs, preferences, expectations, and financial resources as well as from competitors' offerings. Consequently, this approach calls for managers to query customers and research the market to determine how much they value a product or service. In addition, managers must compare their products or services with those of their competitors to identify their value advantages and disadvantages.

DEMAND-BASED PRICING

According to this pricing policy, managers try to determine the amount of products or services they can sell at different prices. Managers need demand schedules in order to determine prices based on demand. Using demand schedules, managers can figure out which production and sales levels would be the most profitable. To determine the most profitable production and sales levels, managers examine production and marketing cost estimates at different sales levels. The prices are determined by considering the cost estimates at different sales levels and expected revenues from sales volumes associated with projected prices.

COMPETITION-BASED PRICING

With a competition-based pricing policy, a company sets its prices by determining what other companies competing in the market charge. A company begins developing competition-based prices by identifying its present competitors. Next, a company assesses its own product or service. After this step, a company sets it prices higher than, lower than, or on par with the competitors based on the advantages and disadvantages of a company's product or service, as well as on the expected response by competitors to the set price. This last consideration—the response of competitors—is an important part of competition-based pricing, especially in markets with only a few competitors. In such a market, if one competitor lowers its price, the others will most likely lower theirs as well.

This pricing policy allows companies to set prices quickly with relatively little effort, since it does not require as accurate market data as the demand pricing. Competitive pricing also makes distributors more receptive to a company's products because they are priced within the range the distributor already handles.

Five main objectives of pricing Policy:-

(i) Achieving a Target Return on Investments (ii) Price Stability (iii) Achieving Market Share (iv) Prevention of Competition and (v) Increased Profits.

Objectives of a properly planned pricing policy should be logically related to overall managerial goals.

(i) Achieving a Target Return on Investments:

This is the most important objective which every concern wants to achieve. The objective is to achieve a certain rate of return on investments and frame the pricing policy in order to achieve that rate. For example, the concern may have a set target of 20% return on investment and 10% return on investments after taxes. The targets may be a short term (usually for a year) or a long term. It is advisable to have a long term target.

Sometimes, it is observed that the actual profit rates may be more than the target return. This is because the targets already fixed are low and new opportunities and demand of the product exceeding the return rate already fixed.

(ii) Price Stability:

This is another important objective of an enterprise. Stability of prices over a period reflects the efficiency of a concern. But in practice, on account of changing costs from time to time, price stability cannot be achieved. In the market where there are few sellers, every seller wants to maintain stability in prices. Price is set by one producer and others follow him. He acts as a leader in price fixation.

(iii) Achieving Market Share:

Market share refers to the share of the company in the total sales of the product in the market. Some of the concerns when introduce their product in the competitive market want to achieve a certain share in the market in the initial stages. In the long run the concern may aim at achieving a sizeable portion of the market by selling its products at lower prices.

The main objective of achieving larger share in the market is to enjoy more reputation and goodwill among the people. The other consideration of widening the markets by lowering prices is to eliminate competitors from the market.

(iv) Prevention of Competition:

Modern industrial set up is confronted with cut throat competition. Pricing can be used as one of the effective means to fight against the competition and business rivalries. Lesser prices are charged by some firms to keep their competitors out of the market. But a firm cannot afford to charge fewer prices over a long period of time.

(v) Increased Profits:

Maximization of profits is one of the main objectives of a business enterprise. A firm can adopt such a price policy which ensures larger profits. However, such enterprises are also expected to discharge certain social obligations also.

Considerations Involved in Formulating the Pricing Policy:

(i) Competitive Situation:

Pricing policy is to be set in the light of competitive situation in the market. We have to know whether the firm is facing perfect competition or imperfect competition. In perfect competition, the producers have no control over the price. Pricing policy has special signifi-cance only under imperfect competition.

(ii) Goal of Profit and Sales:

The businessmen use the pricing device for the purpose of maximising profits. They should also stimulate profitable combination sales. In any case, the sales should bring more profit to the firm.

(iii) Long Range Welfare of the Firm:

Generally, businessmen are reluctant to charge a high price for the product because this might result in bringing more producers into the industry. In real life, firms want to prevent the entry of rivals. Pricing should take care of the long run welfare of the company.

(iv) Flexibility:

Pricing policies should be flexible enough to meet changes in economic condi-tions of various customer industries. If a firm is selling its product in a highly competitive market, it will have little scope for pricing discretion. Prices should also be flexible to take care of cyclical variations.

(v) Government Policy:

The government may prevent the firms in forming combinations to set a high price. Often the government prefers to control the prices of essential commodities with a view to prevent the exploitation of the consumers. The entry of the government into the pricing process tends to inject politics into price fixation.

(vi) Overall Goals of Business:

Pricing is not an end in itself but a means to an end. The fundamental guides to pricing, therefore, are the firms overall goals. The broadest of them is survival. On a more specific level, objectives relate to rate of growth, market share, maintenance of control and finally profit. The various objectives may not always be compatible. A pricing policy should never be established without consideration as to its impact on the other policies and practices.

(vii) Price Sensitivity:

The various factors which may generate insensitivity to price changes are variability in consumer behaviour, variation in the effectiveness of marketing effort, nature of the product. Importance of service after sales, etc. Businessmen often tend to exaggerate the importance of price sensitivity and ignore many identifiable factors which tend to minimise it.

(viii) Routinisation of Pricing:

A firm may have to take many pricing decisions. If the data on demand and cost are highly conjectural, the firm has to rely on some mechanical formula. If a firm is selling its product in a highly competitive market, it will have little scope for price discretion. This will have the way for routinised pricing.