THE VILLAGE INTERNATIONAL SCHOOL THODUPUZHA
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Resource Person: SHEBA MARY JOHN **Ref. Book: CBSC STUDY MATERIALS**	**Hand Out No:** **Subject: Marketing** **Topic: Price _ Meaning, Importance and factors that influence pricing.**

Name of the Student: ________________________________ **Class & Section: XII /**	**Roll No.: ______** **Date: __________**

Q1. Define Price and Pricing.
The definition of Price according to Philip Kotler is- “Price is the amount of money charged for a product or service.” Similarly according to Stanton “Price is the amount of money needed to acquire some combination of goods and its companying services.”

Pricing is defined as ‘the process whereby a business sets the price at which it intends to sell its products and services’.

Q2. Explain the various aspect of Production.
It is the key variable in a firm’s marketing plan. While setting prices for its products, i.e. goods or services, the business takes into account various aspects of production, listed below.

 Price of raw material- The firm considers price at which it could acquire the goods and raw material to prepare final product to be sold in the market. A higher cost of acquiring these implies a higher productprice and vice versa. manufacturing- If manufacturing cost is higher, the price of product will also be higher, whereas

 Cost of

lower manufacturing cost leads to lower price. This cost includes the wages of labour, expenses on power and other overheads during manufacturing. condition- When market has positive sentiment i.e. high demand for goods and services because

 Market

of high income and purchasing power of consumers, companies set higher prices for their products. On the contrary when there is depression or negative sentiment due to lack of demand in market, price is also kept low by firms. For example, automobile companies increase prices of cars when there is high demand and offer heavy discounts when demand is low.

 Competition in the market - If there is no other firm in the market offering similar product, the firm may set a higher price for its product or service, but if there are many market players for the same product, the price will be kept competitive. For example, Airtel initially kept high prices for its mobile services, but with entry of Vodafone, Idea and Reliance Jio the prices for various mobile services have been slashed.

 Brand and quality of product - A higher brand-value and better quality corresponds to a higher product price in the market. For example, a simple jewellery store in the Chandni Chowk market of Delhi will set price of its ornaments based on cost of gold/silver and making charges (cost of labour for making a particular piece of jewellery). But a high-end jewellery store such as Kalyan Jewellers or Tanishq will price similar ornaments at a much higher price owing to its brand-value and reputation in the market.

Q3. Explain the different objectives of pricing.

Survival is the basic objective of any business. In order to continue their existence organizations may tolerate short run losses, but to obtain working capital for uninterrupted operations and sustainability appropriate pricing for the product is very necessary

As an element of the marketing-mix, a firm's pricing strategy should be directed towards the achievement of specific marketing-objectives which would lead to the accomplishment of overall organisational objectives
The objectives of pricing are as follows:

1. Profitability objectives:

 Target Rate of Return on Investment or Net Sales

This is an important goal of pricing policy of many firms. In this, the price represents cost of production and profit margin. The basic objective is to build a price structure to provide sufficient return on the investment or capital employed.

 Profit Maximization

Profit maximization is an important objective for any business for its survival. In recent times though, the business philosophy has changed. Businessmen have started to think from the perspective of society instead of only focusing on maximizing profits, and have incorporated business with other activities which help fulfill their societal obligations.

2. Market-Related Objectives:

 Meeting or Preventing Competition in the Market

Some firms adopt pricing policies to meet or prevent competition in the market. They are ready to fix their prices at a competitive level to meet competition in the market. They even follow "below cost pricing", that is, charge less than the cost because they believe it will prevent new firms from entering the market.

 Maintaining or Improving Market Share

Market share is meaningful measure of success of a firm's marketing strategy. This price objective helps to maintain the market share, i.e. either to increase or sometimes to decrease it. This pricing objective is followed by firms operating in expanding markets. When a market has a potential for growth, market share is a better indicator of a firm's effectiveness than target return on investment.

 Price Stabilization

Price Stabilization as an objective is prevalent in industries that have a price leader. For example, in an oligopoly, there are only a few sellers which follow one big seller who acts as the price leader, and try to stabilize their prices simultaneously. No firm is willing to engage in price wars. They may even forego maximizing profits in times of prosperity or short supply in order to stabilize prices. This is because price stability helps in planned and regular production in long-run.

3. Public Relations' Objectives

 Enhancing Public Image of the Firm

A company's public image is important to its success. Every company has an identity representing what it has done to convey the public about its product, packages, trademarks, brand names, employees and the marketing programme. This image is deeply influenced by how the company handles the delicate and sharp weapon of pricing. Suppose a company with an established reputation in the market based on existing products and price lines introduces a new product to a different market segment. This new product could be at a higher or lower price.

 Resource Mobilization – Resource Mobilizing means the creating resources for either self – development or reinvestment in the firm. Prices are deliberately set high in certain cases to generate surplus for reinvestment in the same firm or its sister concerns, e.g. petrol rates are kept very high as it yields a good surplus (excess of income over spending) because gasoline automobiles depend fully on petrol. As a governmental exercise, it works well as the public escapes tax on their backs. This objective of price is mostly found in the developed countries where it adds to the exchequer (former government departmental in charge of national revenue) for reallocation.

Q4. How is pricing significant for a Firm. Discuss?

Pricing is an important element of the marketing mix of the firm. All other Ps of marketing i.e. Product, Place and Promotion are highly dependent on the price at which the firm can sell its products to the buyers. Price will usually be set relatively high by the firm if manufacturing is expensive, distribution and promotion are exclusive. On the contrary a low price may be a viable substitute for product quality, but firm requires effective promotion and an energetic selling effort to increase its market share.

Importance of Pricing for Firm-

Pricing is significant for firms in the following manner-

1. To determine firm's Competitive Position and Market share- Pricing Policy of a firm is a major determinant of a firm's success as it affects the firm's competitive position and share in the market. If prices are too high, the business is lost. If prices are too low, the firm may be lost. The wrong price can also negatively affect sales and cash flow to the firm.

2. To achieve the financial goals of the company- Price has an important bearing on the firm's financial goals, i.e. Revenue and Profit. For a given level of production, higher price means a higher revenue and higher profitability (revenue minus costs).With the help of price; a firm can make estimates of expected revenue and profits.

3. To determine the quantum of production – Price also helps in determining the quantum of production which should be carried out by the firm. The management of a firm can make estimates of profit at different levels of production at different prices and can choose the best combination of production, volume, and price.

4. To determine the product positioning and distribution in the market-The sale of product is supported by extensive advertising and promotional campaigns. What type of promotional techniques is to be used and how much cost will be incurred, these decisions depend upon prospective revenues of the firm, which again are influenced by the product price.

5. To determine the quality and variants in production-Before setting the price, managers try to explore 'Will customers buy the product at that price?' to fit the realities of the marketplace. This helps them to determine various product models that can be produced to fit different market segment, e.g. Samsung offers Samsung Grand for a medium-income group and Galaxy S7 Edge for a high-income group of consumers.

6. To establish consistency with the other variables in the marketing mix- Pricing decisions and policies directly influence the nature and quality of product, its packaging, promotion policies, channels of distribution etc. For instance, a firm may decide to improve the quality of a product, increase the number of accompanying services and spend more on promotion and packaging etc. only if it is confident to sell its product at the price which is good (high) enough to cover the cost of additional improvements and services. If this same product cannot command a very high price in the market, then the company will have to keep normal quality, reduce the number of accompanying services, go with different, less-expensive channels of distribution and simplify packaging etc. Therefore there is no doubt that the nature and type of product, promotion and distribution policies of the firm are influenced by the price-policy of the firm.

7. Helpful in maintaining system of free enterprise and long run survival of firms- Pricing is the key activity in the economy of a country which permits system of free enterprise. It influences factor prices, i.e. Wages, interest, rent and profit, by regulating production and allocating resources in a better way. The firms which are not able to market their products at good prices cannot survive in the long run as they are not able to pay for various factors of production. So pricing weeds out inefficient firms and shows way to long run survival.

8. Improvement in company's image- A company's image is important to its success and pricing helps to make that image. A firm with an established reputation for quality at existing price lines may introduce a new product at either higher or lower prices to attract different market segments. Buyers who are aware of its prestige might desire to purchase its products because price no longer remains a limiting factor for them. For example different models of Apple mobiles have good demand in the marketin spite of being high priced.

Q5. Discuss the importance of pricing to consumers.

Importance of Pricing to Consumers

1. Helpful in decision-making-

Goods and services offered by various producers at different prices help the consumer to make rational and informed buying decisions. For example, a person may choose to buy a T.V. from one shop which offers the product at Rs 20,000, or from another shop which offers the same T.V. at Rs 21,500 but gives freerepairsservice for five years.

2. Helps in satisfaction of needs: Goods and services offered by different producers at different prices help the consumer to take that buying-decision which will give him/her maximum satisfaction.Bymaking a market survey and comparing the prices of different variants available vis a vis his budget, the consumer tries to make the best choice. It gives him value for his money spent, and maximizes his satisfaction and welfare.

3. Helps determine the purchasing power and standard of living of the consumer- If a consumer purchases expensive, luxury items, it implies that he/she has a higher purchasing power and enjoys good standard of living. On the other hand, if a consumer purchases only low-priced, essential items, then he/she has a lower purchasing power and standard of living. This tendency generally persuades consumers to buy branded goods to flaunt their status.

4. Enhancement in social welfare– Pricing decisions affect the competitive strength of the firm in the market. Since each firm tries to outsell others through price reduction and better quality productsin competitive market, consumers are benefitted. In this way, quality goods are available at competitive price which maximizing social welfare in society.

Q6. What is meant by internal factors affecting price of a product?

Internal factors are the forces which are within the control of a firm up to certain extent. The firm can regulate and change these factors as per requirement. For example all the P's of marketing mix, procurement of raw material, employment of labour and cost of production etc.not only determine the success of firm's operations, but also have great influence on product pricing. Thefactors can be discussed as following-

1. Objectives of the firm: A firm may have various objectives and pricing contributes in achieving them. Firms may pursue different objectives such as maximizing revenue, maximizing market share or maximizing customer satisfaction. The Pricing policy should be established only after clear consideration of the firm's objectives.

2. Role of Top Management: Usually, it is the top management that takes a firm's pricing decisions. But pricing activities are so crucial for future sales and profits that a marketing manager has to remain involved with the pricing. The role of the marketing manager is to assist the top management in price-determination and ensure that pricing takes place within the policies laid down by top-management.

3. Cost of the Product: There is a direct relation between the cost of production and price of a product. If the cost of acquiring material and manufacturing cost of the product are high, the price of the product in the market will also be higher and vice versa. The firm should also fix prices that are realistic, considering current demand and competition in the market.

4. Product Differentiation: The price of a product also depends upon its specifications. Generally, producers add more and more features to their products to attract customers, and the customers pay a price

for them. Therefore, a highly differentiated product will have more features and attributes, and a higher price than one which is less-differentiated.

5. Marketing Mix: Price being an important element of the marketing-mix must be coordinated with the other elements- product, place and promotion. The price should be such that it covers the expenses on the other elements of the marketing mix and corresponds to them ideally. For example- a high-priced branded electronic product should be sold in high-end urban showrooms instead of rural markets; the promotion technique should be TV-advertising and not personal-selling, etc.

6. Size of the organization: If the size of firm is big and the scale of production is large, it can afford to set lower product price and increase its sales. On the other hand small sized firm keep high priceof its products.

7. Location of the organization: Location of the organization is an important determinant of the price of a product. The price and product-size will vary depending upon whether the market is located in a rural or urban area. For example, in the kirana stores in smaller towns and villages, one will find the Rs 1 or Rs 2 shampoo-sachets instead of a big 200ml or 250ml bottle found in departmental stores in a large city of the same shampoo.

8. Nature of Goods: If product is necessity good, firm may set a moderate price keeping in view social welfare purpose; but if the product is luxury good in nature and is being demanded by high end consumers; its price will be high

9. Promotional programs: The extent of promotional programs and advertisement expenditure also influence the price of a product. If it is huge, the product will have high price and vice-versa.

Q7. What do you understand by external factors affecting price of a product?

External factors are forces which are beyond control of the firm. A firm cannot alter or change these factors or forces for its advantage. These factors can be discussed as following-

1. Demand:The market demand for a product has a direct impact on its pricing. Since demand is affected by prospective buyers, their incomes, tastes and preferences etc., they should be taken into account while making decision of pricing. For an instance if the demand for a product is inelastic, as in case of necessity goods, a high price may be fixed. But if the demand for a product is elastic, i.e., changeable in response to change in price, the firm should not fix higher prices; rather fix lower prices to grab major market share.

2. Buyer’s behaviour: Buyers’ behavior also affects the pricing decisions. If they are habitual ofthe product the price may be fixed high. Similar pricing decisions are taken by the firm, if buyers have a particular perception of the product being a symbol of prestige/ status, or utility, e.g. luxury cars.

3.Competition: Market-competition plays a crucial role in pricing. In a highly-competitive market, a seller’s objective is to give maximum utility at minimum-possible price. Each firm tries to outsell others offering lesser price and better quality products in the market. Therefore, prevailing information about what price the competitors are charging for similar products and what possibilities exist for increasing/decreasing price also affect pricing.

4. Raw Material or Input suppliers: Pricing decisions take into consideration three parties- the supplier of raw material, the manufacturer, and the final consumer. If the supplier charges a high price for inputs, the manufacturer shifts this burden to the consumer by charging a higher price for the final product. On the other hand, if a manufacturer is making large profit on a particular product, suppliers will also try to cash in on these profits by charging a higher price for the raw material. When this happens, the manufacturer would only want to absorb the additional cost and not increase the prices further.

5. Prevalent Economic Conditions: During a boom-period in the economy, when market conditions are favourable due to 'bullish attitude' or inflationary trend, firms can afford to fix higher prices of their products. On the other hand, during slump-period when market conditions are un-favourable due to 'bearish attitude', firms have to lower the prices of products to keep the business going and to clear off their old stocks.