INDIAN SCHOOL MUSCAT

DEPARTMENT OF COMMERCE AND HUMANITIES
LEARNING SUPPORT MATERIAL
MARKETING (812)
CLASS – XII
UNIT – II PRICE

SESSION 1: MEANING AND IMPORTANCE OF PRICE

Price is one of the most important elements of the marketing mix. This is the only element which generates revenue for an organization and determines its growth. The other three main elements of the marketing mix are Product, Place and Promotion. A firm incurs a certain cost to produce a Product or service. The Place element is concerned with the sale and distribution of the product through various channels, therefore a firm incurs some expense there, like in choosing the sales-methods, payment to salesmen, expense incurred on transporting products to place of selling, etc. The Promotion element, concerned with the advertising and promotion of the firm's product leads to expenditure on different promotion and advertising media like TV& Radio advertising, sample-promotion, etc. All of these are the variable costs for an organization, that is, these costs change with the changes in level of production and sales activity; therefore influence the process of setting the right price for the product. 'Right price' denotes the level of price which can cover all these expenditures on the final product and brings some profit to the firm.

Meaning of Price-

The term price denotes money value of a product. It represents the amount of money that customers pay to the sellers to gain benefits of having or using a good or service. In fact it is marketers' assessment of the value customers see in the product. So price indicates the money value which a buyer is ready to exchange for purchase of certain good or service.

Definition of Price-

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'.

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 product-price and vice versa.

Cost of manufacturing- If manufacturing cost is higher, the price of product will also be higher, whereas lower manufacturing cost leads to lower price. This cost includes the wages of labour, expenses on power and other overheads during manufacturing.
Market condition- When market has positive sentiment i.e. high demand for goods and services because of high incomes 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 by 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 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.

Price must be supporting other elements of the marketing mix. Too high or too low pricing of a product could mean lost sales for the organisation.

Objectives of Pricing

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. Pricing is not an end in itself, but a means to achieve certain objectives of the marketing department of a firm. Therefore, every firm should carefully set pricing-objectives so that there is clarity and consistency in the firm with respect to pricing in the long run.

The objectives of pricing are as follows:

Profitability objectives:

(a) **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.

(b) **Profit Maximization:** In practice, no firm expressly states this as an objective for fear of public criticism. However, in economic theory, 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 fulfil their societal obligations.

Market-Related Objectives:

(a) **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.

(b) **Maintaining or Improving Market Share:** 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. A firm might be earning a reasonable rate of return on investment or capital employed but its market share could be decreasing. Therefore, this is a worthwhile pricing objective for firms operating in expanding markets.

(c) **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.

Public Relations' Objectives

(a) **Enhancing Public Image of the Firm:** A company's public image is important to its success. 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. If this segment hasn't tried the product but is aware of its prestige and brand-value, it might desire to purchase its products because price is no longer a deterrent factor.

Importance of Pricing

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. Similarly consumers' buying decisions also depend upon price of the product up to a great extent. Highly priced commodities generally witness a sluggish sale trend in comparison to moderately priced goods.

Importance of Pricing for Firm-

Pricing is significant for firms in the following manner-

(a) **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.

(b) **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.

(c) **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.

(d) **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.

(e) **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.

(f) **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.

(g) **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.

(h) **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 market in spite of being high priced.

Importance of Pricing to Consumers-

(a) **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 ₹20,000, or from another shop which offers the same T.V. at ₹21,500 but gives free-repairs-service for five years.

(b) **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. By making 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.

(c) **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.

(d) **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 products in competitive market, consumers are benefitted. In this way, quality goods are available at competitive price which maximizing social welfare in society.

Knowledge Assessment I:

A. State whether the following statements are true or false:

1. The main elements of the marketing mix are Price, Product, Place and Promotion.
2. Price is marketers' assessment of the value customers see in the product or service and are willing to pay for a product or service.
3. For a given level of production, higher price means a higher revenue and higher profitability.
4. Highly priced commodities generally witness an increasing sale trend.
5. The wrong price can positively affect sales and cash flow to the firm.
6. Goods and services offered by various producers at different prices help the consumer to make rational and informed buying decisions.
7. The firms which are not able to market their products at good prices are able to pay for various factors of production adequately.
8. If prices are too high, the business is lost. If prices are too low, the firm may be lost.
9. A consumer purchasing expensive and branded items implies that he/she has a higher purchasing power and enjoys good standard of living.
10. To flaunt their status consumers generally buy cheaper goods.

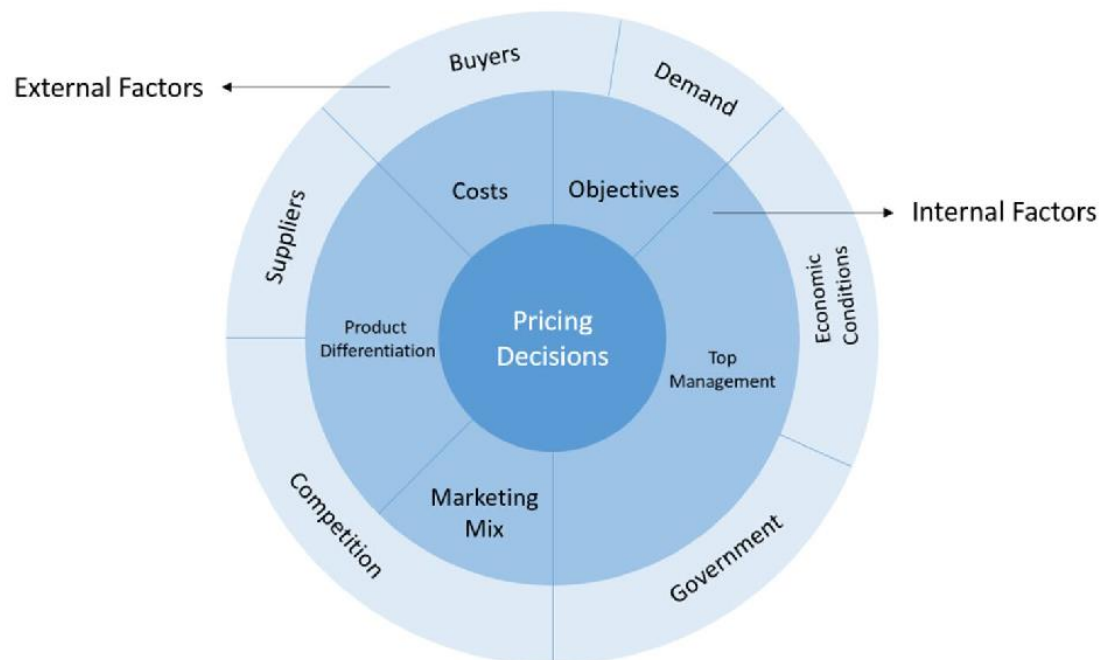
Answers: 1. True, 2. True, 3. True, 4.False, 5. False, 6. True, 7. False, 8. True, 9.True, 10.False

B. Make the right choice:

1. Price indicates the ----------which a buyer is ready to exchange for purchase of certain good or service.
   (a) satisfaction
   (b) money value
2. Buyers who are aware of Firm's----------- might desire to purchase its products because price no longer remains a limiting factor.
   (a) location
   (b) prestige
3. Availability of quality goods at competitive price ------------social welfare in society.
   (a) neutralizes
   (b) minimizes
   (c) maximizes
4. Generally price will be set relatively --------by the firm if manufacturing is expensive, distribution and promotion are exclusive.
   (a) high
   (b) low
5. Management of a firm can make estimates of ------------at different levels of production at different prices and can choose the best combination of production, volume, and price.
   (a) cost
   (b) profit

Answers: 1.b, 2.b, 3.c, 4.a, 5. B

SESSION 2: FACTORS AFFECTING PRICING



The decisions related to price and pricing policies of a firm are affected by several factors present in marketing environment. A firm plans production keeping in view the customers' needs, market characteristics, competing firms, behaviour of suppliers and distributors for its product and certain legislative factors. These factors give important inputs to the management for marketing-decisions. A firm also gives due consideration to these factors while determining price of the product. These are studied under two categories-

- Internal factors
- External factors

A. Internal factors

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.

The factors can be discussed as following-

(a) **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 profit, maximizing market share or maximizing customer satisfaction. The Pricing policy should be established only after clear consideration of the firm's objectives.

(b) **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.

(c) **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.

(d) **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.

(e) **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.

(f) **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 price of its products.

(g) **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 ₹1 or ₹2 shampoo-sachets instead of a big 200ml or 250ml bottle found in departmental stores in a large city of the same shampoo.

(h) **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.

(i) **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.

B. External Factors-

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-

(a) **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.

(b) **Buyers' behaviour:** Buyers' behavior also affects the pricing decisions. If they are habitual of the 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.

(c) **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.

(d) **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.

(e) **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.

(f) **Government Regulations:** If Government policies exert regulatory pressures, promote anti-price rise sentiment etc, then the companies cannot fix a higher price to capture the market. On the other hand, if government policies are supportive and promote businesses through healthy competition in the market, then firms can fix higher prices.

Knowledge Assessment – II

Fill in the blanks-

1. The decisions related to price and pricing policies of a firm are affected by -------------present in marketing environment.
2. Firms may pursue different objectives such as maximizing revenue, ------------------, maximizing market share or maximizing customer satisfaction.
3. If the cost of acquiring material and -------------- of the product is high, the price of the product in the market will also be higher.
4. The product price should be such that it covers the -------------on the other elements of the marketing mix.
5. If buyers are habitual of the product the price may be fixed ----------------
6. Favourable market-conditions due to '--------------- or inflationary trend, encourage firms to fix higher prices of their products.
7. If the supplier charges a high price for inputs, the manufacturer shifts this burden to the ------------- by charging a higher price for the final product
8. If the demand for a product is inelastic firms fix a -------------of the product.
9. Supportive government policies ------------ businesses through healthy competition.
10. Competitive firm tries to outsell others offering -------------- and better quality products in the market.

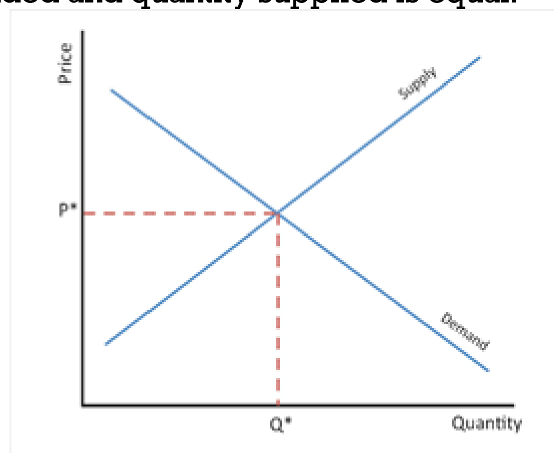
Answers: 1.several factors, 2. maximizing profit, 3. manufacturing cost, 4. expenses, 5. High 6. bullish attitude, 7. Consumer, 8.high price, 9. Promote, 10. lesser price

SESSION 3: TYPES OF PRICING

Firms, in a competitive market aim at profit maximization and long term growth. For devising a unique pricing policy for their product they have to methodically analyse the market situations.
Generally pricing can be put into following four categories-

- Demand-oriented pricing
- Cost-oriented pricing
- Competition-oriented pricing or market driven pricing
- Value- based pricing

Demand-oriented pricing: When customer demand sets up the price of a product in the market, it is called Demand oriented pricing. There is an inverse relationship between the price and quantity demanded of a commodity. Higher is the price of a product, lower will be its demand and lower is the price of a product, higher will be its demand in a market. The basic equilibrium price is determined by the forces of demand and supply. It is fixed at the level where quantity demanded and quantity supplied is equal.



If demand of a commodity increases with respect to previous supply, its price increases, and if supply of a commodity increases with respect to previous demand, its price falls. It is termed as price elasticity of demand, which is the core of product pricing. On the other hand necessity goods have inelastic demand as any change in price does not affect their demand, e.g. demand for bread, rice, milk or vegetables does not fall due to increased price. Advantage of demand oriented pricing to a firm is that it increases firm's ability to optimize prices using diagrams that predict ideal prices.

COST-ORIENTED PRICING:
A method of setting prices that takes into account the company's profit objectives and covers its costs of production is called Cost-oriented pricing. In this the marketer mainly takes production costs as the key factor for determining the initial price, but normally overlooks the target market's demand for that product. This pricing again is of three types-

- Cost plus Pricing
- Markup Pricing
- Break-even Pricing

(a) **Cost plus Pricing:** Cost plus pricing is a cost-based method for setting the prices of goods and services. This type of pricing is most common type of product pricing. In this approach the cost estimates of a product is made and margin of profit is added to determine the price. The formula for its calculation is-
Selling Price = Unit total cost + Desired unit profit

Cost plus pricing is advantageous as it tells firm what prices competitors are charging in the market, but it ignores replacement costs issue.

(b) **Markup Pricing**: Markup is the difference between the cost of a good or service and its selling price. This pricing policy is generally adopted by the resellers who obtain the product from producers or whole sellers use a percentage increase on the top of product cost to arrive at an initial price. Retailers apply a set percentage for each product category according to their marketing objectives. For example at the time of annual sale firms adopt mark-up pricing on their products. The advantage of mark-up pricing is that this method helps firms fight the inflation effects throughout periods of increasing cost. With this firms can pass on increased production costs to its customers and generate a profit. But when firms feature prices too high or extremely low then these miss opportunities in terms of profit.

(c) **Break-even Pricing:** Break even pricing is the practice of setting a price point at which a business will earn zero profits on a sale. The cost of production is composed of fixed cost of production and variable cost of production. Fixed cost arises on fixed factors of production, which do not change during short run. Variable cost of production arises on variable factors of production, and increase with increased volume of production. Break even analysis uses market demand as a basis of price determination. The formula for its calculation is-

BEP = Total Fixed Cost / Selling Price per unit – Variable cost per unit

The equilibrium establishes at a point where total revenue is equal to total cost and the firm enters into 'Break-even'; a situation of 'no profit, no loss'.

C. COMPETITION-ORIENTED PRICING OR MARKET DRIVEN PRICING-

Competitive pricing is setting the price of a product or service based on what other firms are charging. This type of pricing generally takes place in perfect competitive market situation. Here product is homogeneous and buyers and sellers are well informed about market price and market conditions. The seller has no control on price and has to accept this customary or market driven price. He cannot increase price rather has to adjust his cost to this customary price by reducing the quantity of the product. For example, Airtel initially kept high prices for its mobile services, but by entry of Vodafone, Idea and reliance Jio the prices for various mobile services have been slashed. The advantage of competitive pricing is that it avoids price competition that can damage the company, but disadvantage is that this pricing method may only cover production costs, resulting in low profits to the firm.

VALUE- BASED PRICING:

Value-based price is a pricing strategy which sets prices primarily, according to the perceived or estimated value of a product or service to customer rather than according to the cost of the product. In this type of pricing price of a product is determined on customers' perception of value rather than the seller's cost. Pricing begins with analysis of consumers' needs and value perceptions and then company sets its target price and designs the product. It is quite opposite to cost based pricing as higher value of product is perceived due to company's brand image or marketing at prestigious retail outlets. For example, the products sold at 'Fab-India' or 'Forest Essentials' cosmetics are considered as premium products by the customers and so are priced high.

A Value-based pricing strategy can be advantageous because it goes inside the mind of the intended consumer to predict what the consumer would be willing to pay for a product and so helps firm in setting price.

<u>Major Pricing Methods:</u>

It is very difficult to ascertain precisely which pricing policy a firm practices because mostly, a firm uses a combination of different policies at once. It is also because not all the policies may be in explicit form.
The major pricing policies followed by business enterprises are discussed below:

- Competitive Pricing
- Penetration Pricing
- One Price versus Variable Pricing
- Market Skimming Pricing
- Discrimination or Dual Pricing
- Premium Pricing
- Leader Pricing
- Psychological Pricing
- Price Lining
- Resale Price Maintenance
- Everyday low pricing
- Team pricing

(a) **Competitive Pricing:** In this, the management of a firm fixes the price at the competitive level in certain situations. This method is used when the market is highly competitive and the product is not differentiated significantly with respect to competing products. For example, when Coca-Cola introduced the 200ml beverage bottles for ₹8 only, rival Pepsi followed suit to tackle the competition.

(b) **Penetration Pricing:** Under this pricing method, the company's objective is to penetrate the market; capture a large market share and develop popularity of the brand. For this purpose, prices are fixed below the competitive level. This method of pricing is usually found at the retail level of distribution, for products with a highly elastic demand. For example, the makers of Nirma detergent powder used penetration pricing to enter the market and raise its market share quickly at the cost of Surf.

(c) **One Price versus Variable Price Policy**: In case of one-price policy, the seller charges the same price to similar types of customers who purchase similar quantities of the product under the same terms of sale. The price may vary according to the quantity of purchase. For example, a seller may charge ₹10 per unit if less than one dozen units are purchased, and at ₹9 per unit if more than one dozen units are purchased.

In case of variable-price policy, the seller sells similar quantities to similar buyers at different prices. For example, a seller may sell the same product at a lower price to old or loyal customers. It usually happens for products such as refrigerators, automobiles, TVs etc.

(d) **Market Skimming Pricing:** Under this pricing method, a seller may charge higher prices during the initial stages of the product life- that is, during the introduction of the new product in market. This is done to recover the initial investment on the product quickly and reap higher profits during the introduction stage, because of fear of competition at a later stage in the product-life-cycle, e.g. Apple's iphone-7 is highly priced in the market.

(e) **Discrimination or Dual Pricing:** Under this pricing method, a firm will charge different prices from different customers according to their ability to pay. This policy is popular with service-enterprises like legal and medical services, CAs, etc.

(f) **Premium or Prestige Pricing:** A company that sells a premium product, ie a product of supreme quality and unique features and technology will employ premium distribution channels and promotional strategies. To justify these, the pricing of such a product is also premium. Premium pricing can give rich dividend when buyers are not price-conscious and are willing to pay a higher price for a better product, e.g. consumers are ready to pay high price for Van Huesen shirts in comparison of local brands.

(g) **Leader Pricing**: Under this method of pricing, the prices of one or a few items may be cut temporarily to attract customers. Such products are called "loss leaders". Loss-leader products are mostly popular, highly advertised and purchased products. The rationale behind this method is that customers will come to the store to buy the advertised loss-leader product and then stay to buy other regular-priced products of the same company, leading to increased volume of sales.

(h) **Psychological Pricing:** Under this pricing method, the prices of products are set in such a way that has a psychological influence on the buyers. Customary Pricing and Price Lining are examples of psychological pricing. Odd Pricing is also a form of psychological pricing, whereby prices are set at odd numbers such as ₹99, ₹149, ₹990 which makes the customers falsely believe that they're paying a lesser price.

(i) **Price Lining:** This method is used extensively by retailers. In this, a retailer usually offers a good, better and best assortment of products at different price levels. For example, a retailer of readymade shirts may sell them at three prices: ₹90 for the economy choice, ₹150 for the medium quality and ₹500 for highest quality. Price lining simplifies pricing decisions in the future as retail prices are already set.

(j) **Resale Price Maintenance:** This type of pricing considers three parties, the manufacturer, the distributor of the manufacturer's products (who buys the products in bulk), and the consumer. Under this policy, the manufacturer sets the price below which his/her manufactured product will not be sold to the distributors or consumers. He/she may enter into a formal agreement with the distributors of product to not sell below this fixed price in any situation. The basic purpose of this policy is to protect the interest of the manufacturer and create a positive brand-image in the market.

(k) **Everyday low pricing:** In this type of pricing sellers determine price of the product according to everyday demand and supply. This is followed generally in case of perishable goods. Here price differs even on the basis of early hours of market and late hour of market, for example in vegetable market prices of vegetables are different every day.

(l) **Team pricing:** In this type of pricing companies sell a package or set of goods or services for a lower price than they would charge if the customer buys all of them separately. This is also called product bundling. Common examples of such pricing may be option packages on new cars, value meals at restaurants and holiday trips.

EXERCISE QUESTIONS:

1. Define Price and Pricing.
2. Discuss all the four elements of marketing mix.
3. "If prices are too high, the business is lost. If prices are too low, the firm may be lost." Comment on the statement.
4. Which aspects related to production a business should take into account, while setting price of a product?
5. How does price determine firm's Competitive Position and Market share?
6. How does pricing help in improving company's image?
7. How is pricing significant for a firm? Discuss.
8. Pricing is important for consumers in decision making. Explain how?
9. How does pricing maximizes social welfare in society?
10. "Generally price will be set relatively high by the firm if manufacturing is expensive, distribution and promotion are exclusive" Explain the statement.
11. What do you understand by external factors affecting price of a product?

12. What is meant by internal factors affecting price of a product?
13. Discuss the role of top management in price-determination.

14. Product Differentiation causes price variation in a firm's products. Explain the statement.
15. Discuss the coordination of all elements of marketing-mix in a firm.
16. How does the market demand for a product has a direct impact on its pricing?
17. 'Economic conditions and Government regulations play a vital role in determination of product price'; comment.
18. Differentiate Leader pricing and Psychological pricing.
19. What do you understand by Market skimming pricing?
20. Discuss the concept of penetration pricing with an example.
21. What do you understand by Value- based pricing?
22. Discuss Competition-oriented pricing with an example.
23. Explain Break-even Pricing.
24. What do you mean by cost based pricing?
25. Differentiate Cost plus Pricing and Markup Pricing.