IMPORTANCE OF PRICING METHODS IN FORMING A MARKETING MIX STRATEGY

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ABSTRACT

The main objective of this article is to describe the importance of relationship of various components of pricing methods for attaining competitive advantage in market. Pricing methods comprise of Product pricing methods and Service pricing methods. Generally the Product pricing methods consist of product, price, place and promotion and it is generally used for pricing methods of tangible goods. However Service pricing methods are related to three different variables for example people, process and physical evidence .In our economy; price influences the allocation of resources. In companies, price is one significant factor in attaining high market share. Main pricing objectives are, profit maximization, high market share, to attain status quo by stable price and meeting competition in the market. There are four major Methods for price determination,

- *Cost based pricing*
- *Demand based pricing*
- *Break even concept of pricing*
- *Price related to different market conditions*

KEYWORDS

Pricing Methods, Price customization, Market-skimming pricing, Market-penetration pricing, Price Competition, Price Discrimination

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INTRODUCTION

A product's price influences wages, interest, rent and profits. Price is a regulator of the economy because it regulates allocation of the factors of production. Pricing methods are the combination of different marketing decision variables being used by the firm to market its goods and services. A break-even point is that quantity of output at which total revenue equals to total costs, assuming a certain selling price. Another method of pricing is marginal analysis, which calculates demand as well as costs to determine the suitable price of the product. After identifying the market and gathering the basic information about it, the next step is the direction of market programming, is to decide upon the instruments and the strategy to meet the needs of the customers and the challenge of the competitors. It offers an optimum combination of all marketing ingredients so that companies can realise goals for example profit, sales volume, market share, return on investment etc.

Product's price is an important factor in determining it market demand. Some firms use higher prices to transmit an image of superior quality and it is most likely to work well in the case of services and certain goods for which consumers have difficulty in judging quality. Pricing should be aimed toward a

Basically pricing objectives are to achieve a targeted return, to profit maximization, to increase market shares, to stabilize prices and to meet the competition. The marketing manager has to take into account the impact of different factors which are categorised under the 4 P's to decide pricing methods for a product.

The pricing method or strategy means the route taken by the firm in fixing the price. Apparently, the method must be appropriate for achieving the set goals of pricing. There are several methods of pricing. Each of them is appropriate for achieving particular pricing objective.

IMPORTANT PRICE DETERMINATION METHODS

Always there are different factors that influence the development of strong customer relationships in market. Organizations are concentrating on the strong exchange relationships; and an understanding of relationship value of a customer as there is a framework which suggests that interrelationship between the variables of pricing methods at different levels. Each successive level of methods results in ties that bind the customer little closer to the firm. Price is the amount the consumer must exchange to receive the offering. As the price of a product depends on different elements and hence it is changes constantly thus the pricing should be dynamic so that it can bear the changes over duration. The important factor in

pricing is the deciding the cost of the product, strategy for marketing & its expenses related todistribution, advertisement expenses or any kind of price variation in the market. Nonetheless if there is change in all the variables then generally the pricing of the product may vary accordingly.

Pricing at prevailing market levels makes sense for firms selling standardized products and also for individual firms in oligopoly, two variations of market level pricing are to price below or above the levels of competitors.

PRICING

Price refers to a physical product or service for a consumer is ready to pay. Price is the amount of money paid by the buyer for acquiringa product or service. It includes tangible goods like furniture; garments, grocery items etc. and intangible products like services are purchased by consumers. The product is the key element of any pricing methods. The Pricing methods are conjuration and it can only be implemented by marketing managers. Pricing methods is a greatest strategy for attaining competitive advantage for any firm. The customer is king thus it is mandatory to employ excellent pricing methods by marketing manager is essential as these key elements will satisfy the customer needs and demands. It is highly necessary to plan and implement appropriate Pricing methods in 4P'S for competitive advantage. Marketing management is about placing the right product, at the right price, at the right place, at the right time. Following are the methods for pricing methods by 4p's for competitive advantage:

PRICING METHODS

Cost based Pricing

The following approaches are commonly used under cost basedpricing.

(i). Mark-up Pricing (Cost Plus Pricing)

In mark-up pricing the selling price of the product is fixed by adding a particular margin or mark up to its cost. Generally, distributive trade and marketing firms, who do not have any manufacturing of their own, prefer this method. The slower the turnaround of the product, the larger is the mark-up and vice-versa.

(ii). Full Cost Pricing (Absorption Cost Pricing)

Full Cost pricing is the pricing method that many among the manufacturer firms adopt. It is based on the estimated unit cost of the product with the normal level of production and sales. A profit margin is added to this unit cost. This method uses standardcosting techniques and

works out the variable cost and fixed costs involved in manufacturing, selling and administering the product.

The selling price of the product is decided by adding the requiredmargin towards profit to such total costs. This method has some advantages and disadvantages. The main advantage of this method is that as long as the market absorbs the production at the determined price, the firm is assured of its profits . Firms preferring safety in their pricing may follow this method.

The disadvantages are that the method does not take cognizance of the demand factors at all; it simply assumes price to be a function of cost alone. In a competitive market, where demand for the firm's product at the determined price cannot be taken for granted, this method becomes ineffective. Secondly, the method relies excessively on standard costing and normal level of production and sales. The calculations are upset if the actual production and sales fall short of the normal (assumed) level.

Thirdly, often variations occur in the cost of the inputs, between the time when the absorption costs were worked out and the time of actual sale of the product. Fourth, absorption cost pricing is not a dynamic method. When a firm sticks to the policy of full cost pricing on each unit of sale, it loses the opportunity of trying other pricing alternatives and benefiting from them. Also, the firm practising this method become complacent in productivity and cost management.

(iii). Marginal Cost Pricing

Marginal cost pricing targets at maximising the contribution towards fixed costs. Marginal costs include all the direct variable costs of the product. In marginal cost pricing, these costs are fully realised and also a portion of fixed cost is also realised. The major difference in full cost pricing and marginal cost pricing is that the latter gives the flexibility not to recover a portion of the fixed costs depending upon the market situation. It also gives flexibility to recover a larger share of the fixed costs from certain customers, or certain segment of the business and smaller share from the others. It takes into account the cost and demand aspects. However it is cost based method. Under competitive market conditions, marginal cost pricing is more useful. Whenever a firm has a number of products/product lines, marginal cost pricing is useful. It gives the flexibility for realising fixed costs through different products/ product lines at different rates depending on market conditions while recovering all the marginal costs (i.e. direct variable costs) directly in assumptions regard the concerned product.

The disadvantage of the marginal costing makes certain assumptions regarding cost and revenue behaviour, that can be turn out to be incorrect in few cases. Marginal costing ignores a third class of costs i.e. the semi –fixed, semi-variable costs, or mixed costs. It can be employed only in the short run and only under specific circumstances. None of the organization can depend on this method as permanent method. In highly capital- intensive industries, selling on a marginal cost basis may bring additionalproblem if the difference between the marginal cost price and full cost price will be very large.

Break Even Analysis

Break –even concept is essential for correctly understanding mostof the cost-based method of pricing. In producing and selling a certain volume of any product, certain fixed costs and certain variable costs are incurred. When the volume is increased or decreased, the variable costs go up or down. The fixed costs usually remain the same. The firm is basically concerned with the total of the variable and fixed costs incurred for the particular volume.The break- even concept is aimed at a level where the total costs exactly equal to the total revenues, the result is zero profit and zero loss. At a level were the revenues exceed the costs, profits are earned and at the other level, losses are incurred. When more units of the break-even level are produced and sold at the given price, the profits go up. The graph in fig. 2 shows the break-even concept. Many firms use the break-even concept in their pricing methods. They not only use the concept for price fixation but also to determine the level of production which is required for achieving the desired profits.

DEMAND BASED PRICING

The following approaches are commonly used under cost based pricing

(i). Skimming Pricing

One of the most commonly used strategies is the skimming strategy. This strategy refers to a firm's desire to skim the market by selling at a premium price. This method literally skims the market in the first instance through high price and then settles down for a lower price. This means that at high price high profits in the introduction stage of the product. This method is especially useful in the pricing of new products of luxury. It also helps the firm to get the feel of the demand of the product and then make appropriate changes in the pricing strategy.

(ii). Penetration Pricing

As opposed to the skimming strategy, the objective of penetration price strategy is to gain foothold in highly competitive market. The main objective is to attain market share or market

penetration. Thismethod is quite useful in pricing of new products under specific circumstances. For illustration, when the new product is capable of bringing I large volume of sales, but is not a luxury item and there is no price insensitive segment backing it, the firm can choose the penetration pricing and make large-size sales at reasonable price before competitors. Penetration pricing in such cases will help the firm have a good coverage of the market and keep competition out for quite some time. A large number of south-Asian firms have used this strategy to enter foreign markets The problem with this strategy is that it often heralds a price war within the industry which could in turn, prove fatal to all firm's profit.

(iii). Charging What the Traffic Will Bear

It points out demand price. As there are two principles in pricing, one is called cost of service principle and other is termed as value of service principle. The second term is charging what the traffic can bear. Professionals like doctors, lawyers, chartered accountants etc., adopt this principle. They charge their fees on the basis of ability to pay and the cost factor comes secondary in their charges. A monopolist can afford to adopt this principle to maximise his profits. This pricing strategy is also adopted by railways in India.

PRICING AS PER COMPITITION

Marketers will choose a brand image and desired market share as per competitive reaction. It is necessary for the market planners to know what the rival firm is charging. Level of competitive pricing enables the firm to price above, below, or at par and such a decision is easier in many cases. Higher initial pricing is possible in a smaller market share, however if a firm aims to have a largermarket share then it has to prefer relatively low pricing. Proper pricing strategy is evolved to reach the targeted market share either through penetration or through skimming price or through fair trading i.e. a compromise of getting a normal profit margin. The following approaches are commonly used under Pricing as per Competition.

(i). Discount Pricing

Discounts and allowances are price concessions offered to traders or buyers in the form of deductions from the list price of from the amount of a bill or invoice. These are forms of indirect price competition. The common forms of discounts are:

(a). Trade Discount

It is kind of functional discount. It is given to the buyers buying for resale, for example, wholesaler or retailer, in payment of marketing functions which thesetraders are expected to perform.Seller quotes price less discount rather than net price**.**

(b). Cash Discount

It is rebate or a concession given to the trader or consumer to encourage him to pay in full by cash or cheque within a short period of the date of the bill or invoice. It is a deduction from the amount of the bill or invoice amount to be paid. Generally the period to avail the cash discount is usually 10 days

(c). Quantity Discount

In order to encourage a customer to make bulk or large purchases at a time, quantity discount is offered. It can reduce the prices for bulk purchase order. These may be even cumulative, i.e., on total volume of purchases made during a certain period. They are really patronage discount.

(d). Seasonal Discount

The manufacturer may offer additional seasonal discount for example 10%, 15% to a dealer or a customer who places an order during the slack season. This will ensure better use of production facilities.

(ii). Premium Pricing

This strategy is used by a firm that has heterogeneity of demand for substitute products with joint economies of scale. For example a colour television set. There are different models available with different features, like few with remote control and another without These types are substitute of each other and also it satisfies customer's needs. But the firm may opt to premium price the first model and hence position it at the top of the product line for high income group of customers. This strategy is also used in retail marketing where a merchandize may be offered at a higher price in a premium store and at a lower market price in relatively low image store catering to the mass market. This strategy applies to complementing products also.

(iii). Going Rate Pricing (Parity Pricing)

This is a method which is competition oriented. In this method, the firm price its products at the same level as that of competition.

This method assumes that there will be no price war within the industry. It is commonly used in oligopolistic market. Despite its advantages there are few limitations, the first is that it is not necessary that the leader firm had taken an apt decision thus the new firms may follow a wrong pricing strategy. Secondly, it is not always true that a decision taken in collective wisdom is the best. Especially not be so from customer's point of view.

CONCLUSION

This report is an overview that after deciding on pricing goals and deciding the price, Marketers must establish pricing methods to attain maximum market share. Price is the primary basis for attracting and retaining customers. It is a strategic activity. It is the biggest challenges before the Marketing professionals in today's world is to design an optimum pricing strategy which takes care of both customer's satisfaction and organisational goals.All the four variables help the firm in formulating strategic decisions necessary for competitive advantage. All the elements of pricing need careful alteration and minute study with complete concentration. Theprice which will be charged for the product and the procedure through which it would reach to the customer furthermore while deciding the price of product; the important things to consider are manufacturing cost of the product, promotion cost and amount incurred on distribution channels. All the four variables of pricing methods are related to the different circumstances and type of industry. By increasing the price of the product, the demand of the product will be lessened and lesser distribution points will be required. On the other hand, the product USP can be such that maximum concentration is on creating brand cognisance hence better pricing for a product. Finally, the overall pricing methods can result in dynamic modelling based on customer feedback for improving a product and the same can be launched as the upgraded product.

Price is one of the most important variables in the marketing

mix. Its importance has increased substantially over the years because of environmental factors like recession, intensity of inter firm rivalry, and the customer becoming aware of alternatives.

In order to arrive at the mot acceptable price level, the marketer needs the information on customers, competition, and the firm's cost structure. Marketing manager should be an expert in deciding pricing strategy as it is significant for market entry methods of an organization. Marketing manager should meet the demand from different markets and also match the competition in the market by delivering satisfaction to the customer as far as the pricing strategy is concerned. This is only possible by an accurate blend of all the elements pricing strategy as it helps in achieving organisational goals of profit maximization by high sales volume, attaining higher market share and satisfied customers.

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