UNIT 7 PRODUCT PRICING

Objectives

After reading this unit you should be able to :

- explain the concept of pricing with other elements of marketing mix
- understand the factors which influence the pricing decisions
- discuss various types of pricing, discounts and strategic implications of pricing
- creatively implement pricing decisions for the products and/or services as successful marketing managers/product managers.

Structure

7.1 Introduction
7.2 Relationship of Pricing to the Marketing Mix
7.3 Factors Influencing the Pricing Decisions
7.4 Types of Pricing
7.5 Discounts
7.6 Discriminatory Pricing
7.7 Strategic Significance of Pricing
7.8 Summary
7.9 Self Assessment Questions
7.10 Further Readings

7.1 INTRODUCTION

Usually when one thinks about the very important element of marketing mix i.e. PRICING, what comes to the mind is the price-tag on a product. The price of a soap, toothpaste, refrigerator, television set, camera, shoes, shirts and many other products that we use in our daily lives. It is true Pricing does concern all of these product categories and it should be looked upon with all of them in mind. But it should be emphasised here that the scope of pricing is not only these or similar product categories. The scope. of pricing is much wider.

Pricing should also be looked upon as an effective marketing technique for other, more intangible products. We can think of pricing when it comes to deciding the tariff of a hotel room. Isn't buying a ticket for travel from Agra to New Delhi by a train amount to paying a price for the service rendered by Indian Railways.

We do not pay a price only when we buy a pen, the money paid for buying a 2-V_2 hour movie ticket is also the price charged by the theatre owner.

It is not only that the techniques of pricing can be applied in the field of soaps and detergents. The same elements of the marketing mix including the Pricing can be applied by a creative management of a cinema hall, a water park, an airline or even a state road transport corporation. Mother dairy has applied the same principles to sell vegetables. and intelligent entrepreneurs have realised the potential of pricing in selling even the wheat flour to the Indian housewife.

It was in December 1998, just a day before the launch of Indica, the small car by TELCO (Tata Engineering and Locomotive Company) that Maruti Udyog Limited reduced the.PRICE of its cars. Even though upto one day earlier, the executives at Maruti Udyog were actually ruling out the possibility of such a decision they finally did what was expected of them. They reduced the price.

Since Maruti expected, and rightly so, that with the launch of Indica and its features, the prospective customers will shift to the new car, it reduced the price so as to widen the gap between their model and the new competitor's car. This, the executives at Maruti would have thought, will not justify the high price of Indica (by lowering Maruti's price they intended to project Indica as a much higher priced car in the consumer's mind and thought that Maruti will still retain its present as well as prospective buyers).

In the pharmaceutical industry the same drug/medicine is launched by more than one companies, though under different brands names, on the same day. This is usually done to achieve the advantages of first entry into the respective market segment. While doing so, none of these companies will ever reveal the prices till the final launch of its brand. This is to pre-empt the launch of the same medicine at lower price. To illustrate, medicine (X) was planned to be launched on the same day by three companies viz. A, B and C. Since the medicine (X) is the same, all its features and benefits will also be the same. If any of the companies i.e. A, B, or C launches this medicine at a lower price than other companies it will automatically stand to gain a better market share. And with the information on other companies pricing, one company can take the advantage of the situation and can actually market the medicine (X) at a lower price.

To pre-empt such a situation the companies do not reveal their price to any outsider.

We almost daily observe, many FMCG companies trying to attract the prospective buyers by announcing lower prices of their products or by offering discounts on purchase of their brands. A few examples of such moves are :

- You buy one 21" colour TV, you get one 14" colour TV free (The well publicized and successful offer from AKAI Televisions).
- You buy any two shirts and get one shirt free (The offer from VIVALDI SKIRTS).
- You buy one shirt, you get a pair of socks free; you buy two shirts, you get one tie free; buy three shirts, you get one shirt free (The offer from ARROW SHIRTS).

Such examples of discounts and offers can be observed in plenty in FMCG, consumer durables and in pharmaceutical industry.

All these examples demonstrate the importance of PRICING in today's marketing and the seriousness with which this very important element of marketing is considered by the marketing managers.

7.2 RELATIONSHIP OF PRICING TO THE MARKETING MIX

The field of Marketing Management or Product Management largely concerns itself with managing five different Ps of marketing mix. These Ps are :

- Product
- Price
- Promotion
- Place / Distribution
- Packaging

All these individual components constitute the marketing mix.

Though for the sake of study one can seggregate them but in essence they should always be. looked upon in unison. All of the Four 5 Ps should be recorded a holistic approach. In other words, while deciding on a particular component of marketing mix other components should be matched. It has to be a synergestic approach in marketing.

It is like how a doctor, looks at the human body. While treating some eye disease, the doctor matches the prescribed medicine with other parts of the body too. If the patient has high blood pressure, he will not prescribe a medicine which also increases the blood pressure. Since such a medicine can be detrimental to the patient, he will prescribe some other medicine which has equal effectiveness on the eye disorder but has no detrimental effect on the blood pressure.

While deciding upon various components of Marketing mix too, one must see them in totality.

- A lower quality product can not support a high price tag.
- A high priced product should support high quality.
- High priced product should be supported with high promotion.
- Low priced product can not have high support promotion.
- High priced product should carry a matching packaging.

This aptly explains the relationship of PRICING with other components of marketing mix.

After having understood the importance of pricing and its relationship with other components of marketing mix, let us understand the factors which influence the pricing decisions.

7.3 FACTORS INFLUENCING THE PRICING DECISIONS

Objective

The objective behind marketing a product is one of the major factors influencing the PRICE. This is particularly true in a competitive market situation.

Usually the marketing department is governed by either of the two objectives. It is either the higher profits or higher market share.

In a competitive situation, when more brands compete for the same number of prospects or buyers, a company can increase or maintain its brand's market share by reducing the price as explained in the first para of this unit, Maruti reduced the price of its cars to maintain its market share, though it will certainly lose the profits at least on every car sold. However, it can still earn the same total profit by selling more number of cars such a situation is generally true for all the organisations in all the industries.

The situation can still be better understood with the help of following illustration. aj

a) When the competition is non-existent or is negligible.

Price of	Cost of	Number	Total	Cost	Total	Total	Market,
the	the product	of units	Value	of goods	profit	Market	Share
A per unit	A per unit	in a year	of Sales	sold	Gross		
Rs.	Rs.		Rs.	Rs.	Rs.	Rs.	
1	2	3	4	5	6	7	8
10	4	10,100,000	1,00,00,000	40,00,000	60,00,000	10,00,00,000	10%

b) When the competition increases

7.50	4	14,00,000	1,05,00,000	56,00,000	49,00,000	10,00,00,000	10.05%

In the illustration cited above, the company has successfully maintained its market share by reducing its price from Rs. 10/- per unit to Rs. 7.50 per unit. It could maintain its market share by selling 14,00,000 units instead of 10,00,000 units. In the process the company lost its gross profit by Rs. 11, 00,000/-. The company can still maintain its contribution from the product A by spending Rs. 11, 00,000/- less on promotion of the brand.

Since the objective of the company was to enjoy its market share, the decision to reduce the price was right.

Had the objective of the company was to earn as much profits as possible on the product, it would not have reduced its price and would have earnled the same unitwise profits as before:

In a growing market when everybody is growing and the company prefers the profit over market share, maintaining a higher price would entail higher total profits too Apart from the objectives of higher market shares, or high profits, a company can reduce the price of its products for stalling the entry of competitors, or to keep away from government controls or regulations, etc.

Other Components of Marketing Mix

Pricing decisions are and should be influenced, by other elements of marketing mix. A product designed for people with high income, possessing features and benefits which match the taste of such people, costly and attractive packaging and distributed through elite retail stores should have high price tag.

To illustrate, can we expect Mercedes Benz car to be priced low. Even if Procter and Gamble can afford, should they reduce the price of Dove Soap? Will the Escorts Heart Institute have the same prestige if they reduce the price for a by-pass surgery? What will happen if the railway charge same amount of fare for 2nd class ordinary and 1st class travel?

Product Life-Cycle

Apart from the components of the marketing mix, the product life-cycle concept is also one of the major determinants of PRICE. At the introduction, stage of a products life-cycle a company can decide between two pricing options.

Skimming Pricing

As a high price strategic option. The product is marketed at A high price with the objective of attracting consumers who pay the desired price, to earn highest per unit profit so as to offset the high cost of promotion which usually comes alongwith the product at the introduction stage. As we know, this is so because when a new product is introduced in the market or the consumers are unaware about the product. The company has to reach the target customer and disseminate information on features and benefits of the product. This amounts to large promotion costs. Examples of products introduced with SKIMMING PRICE include Dove Soap, Mercedes Benz Car, Philips Flat TV, Arrow Shirts, Cifran - the Antibiotic etc.

Penetration Pricing

As a low price option than the competitors in the introduction stage. In this case the product is marketed at a low price to appeal to the price_conscious customers. This strategy is exercised so as to gain a quick market share and to provide value for money to its buyers. Such a pricing strategy is good for companies which enjoy the lower costs of production and economies of scale. The examples of products introduced at penetration pricing include Nirma washing powder, Peter England Shirts, Timex Wrist Watches, etc.

As with the introduction stage of a product, life-cycle, a company can creatively take different pricing decisions at growth, maturity and decline stages also.

Costs

Costs are the most important determinants of pricing. While deciding about the price of a product, the company must recover its production costs (raw material, packing material and production overheads) marketing costs (promotion, distribution,: personnel costs) salaries of its employees and other benefits to them and still make some profits and earn a handsome return on investment.

All the costs of a company can be grouped under three types. These are: fixed costs, variable costs and total costs.

Fixed costs are the costs which remain constant or fixed, irrespective of the units manufactured by the company. Such costs include the salaries of its employees, electricity, rent etc.

Variable costs, on the other hand vary with the volume of production. These costs relate to the material used in each unit of the product manufactured. The ingredients in one 100 ml. bottle of Glycodin are going to be the same and so will be their cost. But the total cost will vary if 10,000 bottles are manufactured instead of 5000 bottles. Suppose the cost of all the material used in one bottle is Rs. 3.50, the total cost at the production level of 5000 units will be Rs. 17,500/- which move up to Rs. 35,000/- with the production level of 10,000 bottles. Thus, variable costs vary with the level of production while fixed costs remain fixed.

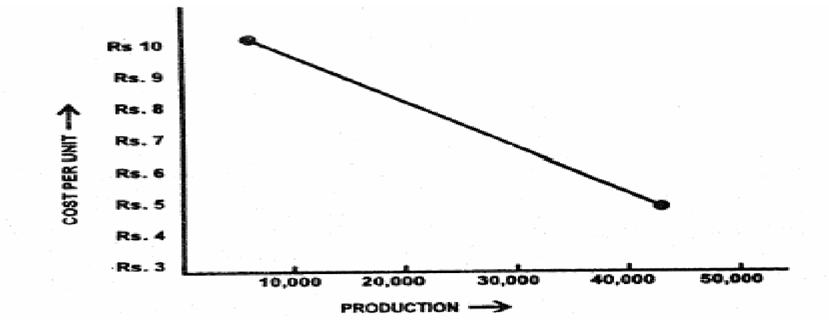
Total costs are the total of fixed costs and variable costs for any level of production

How the costs vary with production

Since the fixed costs remain fixed at any level of production, the cost per unit will be high if the total units produced are low. Suppose the fixed cost of a company is Rs. 100,000% and variable cost per unit of production is Rs.3.50 per unit total cost for different levels of production can be calculated as follows:

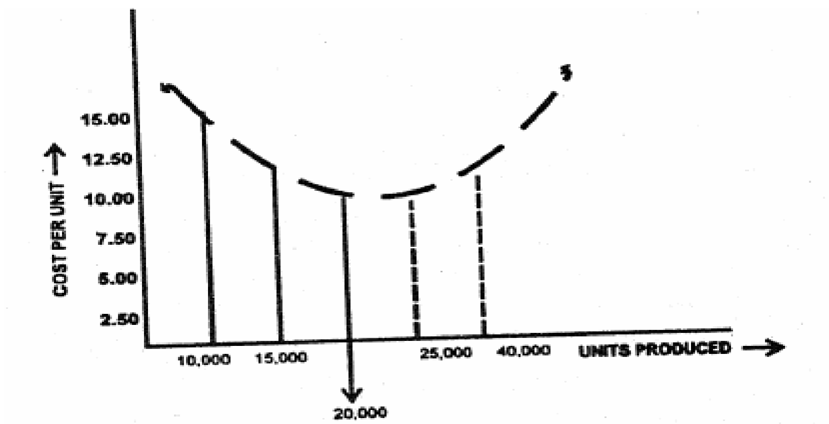
No. of Units produced	Fixed Cost (Rs.)	Variable Cost @ Rs.3.50 per unit	Total Cost	Total Cost per unit
10,000	1,00,000	35,000	1,35,000	13.50
15,000	1,00,000	52,500	1,52,500	10.17
20,000	1,00.000	70,000	1,70,000	8.50
25,000	1,00,000	87,500	1,87,500	7.50
40,0017	2,00,000	1,75,000	3,75,000	9.37

We can observe, though the variable cost is rising with the level of production from 10,000 units to 25,000 units, the total cost per unit is coming down from Rs.13.50 per unit to Rs. 7.50 per unit. It is only at the production level of 40,000 units that the total cost per unit has again, started rising. This is because at the level of 40,000 units, the company has to employ more number of workers and managers, it.has to increase its production capacities and has to buy more machinery. To sell higher number of units produced, the company has to employ more salesman also. Thus it has to increase its fixed costs. Hence, at the level of 40,000 units of production, the total cost per unit goes up The situation can be "graphically represented as follows:



Economies of Scale

With the production of Glycodin for over a fairly long period of time, the company gets experience with the product. It learns how to produce a product better. Workers become familiar with the production process and their machinery. Better production processes are discovered and more and more units are produced. With high volumes of production the company achieves ECONOMIES OF SCALE. Total outcome is that, with the experience the costs per unit of production fall this can be graphically represented as follows:



Thus the total cost of production per unit is Rs.10/- at the production level of 10,000 units, which falls to Rs.5/- per unit at the production level of 50,000 units. The fall in the production cost per unit is due to experience of production known as the EXPERIENCE CURVE. A declining experience curve is a good sign for the company. Since the company produces a significantly higher volumes of the product due to the experience curve, 4 has to have a market for consumption of the higher volume produced. The company should adopt the following PRICING STRATEGY.

At the early stage of its product life cycle, the company should price its product low. Its sales will obviously increase (lower than its competitors) but its costs will decrease, because of the experience curve (as the sales increase the production also increases). As the costs decrease, the company can further decrease the price and thus can increase its market share.

Competition

The competition poses different pricing challenges. These are basically four types of market competition situations. There are:

- Pure competition
- Monopolistic competition
- Oligopolistic competition, and
- Pure monopoly

Under padre competition, there are a large number of customers as well as products and companies. The products are largely homogenous (wheat, fruits, rice, other commodities) and it is difficult, for a company to differentiate its brand from those of competitors. For example, how can a seller tell its prospective customers that its mangoes are better than those of its competitors? It is very difficult. Thus, a company cannot ask for a higher price than its competitors because the customer can get the same benefits at a lower price. The companies or sellers need not lower their price either, because they can sell all their goods at the same price as it is the GOING RATE of the market.

If we happen to go to a large fruit market to buy a particular fruit, we usually observe that the price is the same with all the sellers at least in that particular market.

In case of the **monopolistic competition** also, there are many buyers and sellers. But the difference in this situation is that the seller or company can, differentiate their product or brands from those of the competitors (it was not possible under pure competition). Since the companies can differentiate their products, the prices would also vary. Either the product, can be physically differentiated by adding features, colours, packaging, flavours, shapes etc. or some extra services can be linked with the product. The products can be differentiated on the basis of new ingredients by educating the benefits to the customers or the technology involved. The companies, which are good at differentiating their products or brands are often able to charge a higher price than its competitors. Most of the advertising, that we come across on media is aimed at differentiating their brands. Examples are :

- Pantene shampoo contains pro-vitamin B5 - an exercise to differentiate it from other shampoos.
- Bournvita is now available with RD1 and vitamin B-complex factors - thus it is better than its competitors.
- For every piece of whisper (sanitary napkins) that you buy Rs.l/- goes for charity.

Thus there are many buyers and sellers in the pure as well as monopolistic competition, the **oligopolistic competition** differentiates itself by consisting of few sellers. Since, the sellers are few, they are conscious and concerned with each others prices, it is because of governmental regulations or other strict entry barriers that makes sellers a handful. A very good example of oligopolistic competition would be the civil aviation industry in India, as there are only 4-5 domestic Private operators operating in India.

In such a market, the prices usually remain the same for a given product category or service because each seller keeps itself informed of its competitors strategies. If one company reduces its price, other companies can soon follow it. In an oligopolistic market, Product Pricing a seller cannot be sure of permanent gain by reducing the price of its products. In case a seller increases the price, the customers will soon move to its competitors and the initiator will have to revert back to its old price. Thus it is very important to understand the competitors moves and strategies in an oligopolistic market.

In a pure monopoly market situation consists of only one seller. The example in this case would be the Indian Railways. In such a situation, the prices may be fixed differently under different situations.

The Indian Railways could fix the price of ordinary second class travel even below the cost. This is done to make railway travel affordable by the poorest of the poor. This is one of the reasons why there is hardly any increase in the ordinary second class travel in different railway budgets. On the other hand the increase in fares of upper classes are appreciably high.

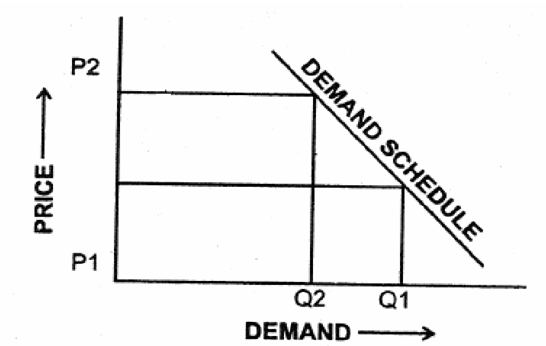
Thus pricing may be looked upon differently under varied market conditions. The decision should and ought to be influenced by the market and the competitive situation.

Price Demand. Relationships

Let us try to understand what is the relationship of price to demand. The demand of any product is usually different at different prices. If the price of computers is generally reduced, there will be more buyers for the same. This is because the number of people who know the benefits of owning a computer at home is definitely more than the number who actually own one. We can now understand that if the price of computers is reduced, more households will buy them and thus the demand of computers will go up. At every alternate price, the demand for a product will differ. This relationship between the price and demand can be studied by what is known as demand schedule.

The demand schedule gives us an understanding of how many units of a product will be sold at a given price. Under normal conditions, the demand reduces with increase in price. Thus there is an inverse relationship between the price and the demand more the price, lesser the demand.

If the company raises its product price from PI to P2, it can expect the demand to come down to Q2 from Q1.

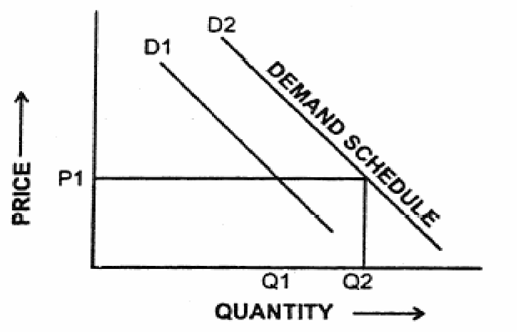


Different companies apply different methods to calculate their demand schedules. Such a job is usually entrusted with the marketing researchers who apply different innovative methods to estimate the demand schedules. Some of these methods are:

- Keeping the same products at a superstore with different price tags at different times and thus estimating the demand at different prices.
- Visiting the households and surveying their reaction to various prices of the same product.
- By utilizing different marketing research techniques like focus groups, survey of knowledgeable persons etc.

While doing the demand schedules the researcher should ensure that the factors, other than the price, which influence the demand remain constant. This is so because apart from the price, the demand is influenced my many other factors. These factors could be advertising, sales promotion, trade discounts, more services etc. All these factors may change the demand curve. Suppose the initial demand curve was DI at the price Pl, the company is selling a quantity Q1 of a product.

Now suppose the company doubles-up its advertising budget or the economy suddently booms up and the demand for all the goods generally increases. In such a situation, people will buy more of all goods. Hence the demand curve itself will move from DI to D2.



Thus at the same price of P1, the company will now sell the quantity Q2 of the same product which is more than the earlier quantity of Q1.

Let us, once again take the example of computers. Suppose the firms marketing computers do not reduce their price. But the economy suddently booms-up and the percapita income doubles-up. This will ensure appreciably more disposable income. Hence more people will buy computers and at the same price, thereby' firths marketing computers will sell appreciably more quantities of their product. Computers is just an example the same thing can happen with other product categories.

Other Factors

Other factors which influence the pricing decisions include competitors prices. It is very important to be always aware of the competitors product prices. Since, the customers are intelligent, they compare the prices of various similar products before making a buyers decision. Except in the pure monopoly and to a certain extent in oligopolistic competition, a company cannot afford to he unaware of its competitors prices. A company can find out the priced of its competition by various means. A company should also consider the prevailing and changing ECONOMIC CONDITIONS, GOVERNMENTAL POLICIES AND REGULATIONS (very important for the phannaceutical industry) and BUSINESS LAW'S affecting its pricing decisions.

Activity 1

List out the major factors which marketers need to consider on pricing decision vis-a-vis with the company you are Associated/familiar with and bring out the major differences.

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7.4 TYPES OF PRICING

The basic principle which should always be-'kept supreme in the mind by the' marketer while deciding the price of a product is that the pricing should always create some profit for the company at the minimal level and it still should attract potential customers at the highest level. In other words, a marketer should not price its product lower than the product's cost nor should price it so high that the customer does not even consider the purchase. Keeping this principle in mind there' are 5 types of pricing options available to the marketer.

Cost-Plus Pricing

As the name suggests, this type of pricing involves adding a pre-determined profit to the total cost of a product and putting the sum arrived on the price-tag. While calculating the cost of a product, all the costs involved should be considered. These costs are raw material cost, other overhead costs (like electricity, rent, fixed costs involving salaries etc.) the distribution channel costs (margins to retailers and wholesellers) and freight etc. A reasonable profit is added to these costs and thus the pricing is arrived at.

Suppose a company marketing refriegerators produces 10,000 units in a year. Various costs incurred by the company are as follows:

1.	Raw material	=	Rs.	5,00,00,000
2.	Packing material	=	Rs:	5,00,000
3.	Rent	=	Rs.	10,00,000
4.	Electricity	=	Rs.	2,50,000
5.	Salaries to employees	=	Rs.	60,00,000
6.	Distribution costs	=	Rs.	20,00,000
7.	Other costs	=	Rs.	10,00,000
			Rs	6,07,50,000

Thus total cost of 50,000 units = 6,07,50,000

$$\text{Total cost of 1 unit} = \frac{6{,}07{,}50{,}000}{10{,}000} = \text{Rs. } 6075$$

Add : 20% profit = Rs. 6075 + 20% = Rs. 7290

Thus the price of one refrigerator = Rs. 7290

Though cost plus pricing ensures a definite percentage of profit, it ignores the competitive situation, and other factors which are also important. It can thus lead to ignoring the possibility of higher profits. This brings us to another type of pricing.

Target Profit Pricing

In this type of approach, the company targets some profit figure to be achieved. And prices its products so as to achieve the same profit objective.

A firm which intends to earn a total profit of Rs. 20,00,000/- in one year, producing 1,00,000 units would cost the company Rs. 1,00,00,000% including all the costs.

Thus, the cost of production of

1,00,000 units — (a)	**=**	**Rs.**	**1,00,00,000**
Profit Objective — (b)	**=**	**Rs.**	**20,00,000**
Total a + b = c	**=**	**Rs.**	**1,20,00,000**

$$\text{Price per unit } {}^{c}/_{a} \; \frac{\text{Rs. } 1{,}20{,}00{,}000}{\text{Rs. } 1{,}00{,}000} = 120/-$$

Thus if the company keeps the price of Rs.120/- per unit of its product, it will earn the targetted profit of Rs. 20,00,000/- in the year. Though this method aims at the targetted profit for the company it also ignores the competition. Moreover, this method does not consider the effect of the price on demand. The company can achieve the target profit only if it sells all the 1,00,000 units produced, at the price of Rs. 120% per unit. The limitation with this method that the company cannot be rest assured- that the set objectives would be achieved (products 1,00,000 units selling at a price of Rs.1207-) also the consumer may perceive the rival product a better choice.

Perceived Value Pricing

All of us do have buying experience. During the process of buying we would have experienced a peculiar market behaviour. To illustrate, once we decide to buy a non-branded commodity we survey different markets in the city for the same and very often find that the price of the commodity varies with the type of the market. In other words the same commodity will be available to the consumer at a lower price in an ordinary market and at a higher price in a high end super market.

The same cuisine offered at the rate of Rs.40/- in an oridinary restaurant will be available at Rs.100/- in an airconditioned restaurant, Rs. 200/- at an airconditioned restaurant in a posh market and at Rs. 400/- at a five star hotel.

This is because a customer attaches the value of cosy surroundings and ambience to the price of the commodity and thus PERCEIVES the same to be higher.

Thus intelligent and alert marketers, can price a product based on target consumer's perceived value. This is known as the PERCEIVED PRICING.

It is very important for the company adopting this method of pricing to judge the customers perception of the price before the final price fixation is executed. Companies do this through various marketing research methods.

Going Rate Pricing

As the name suggests this type of pricing entails following the general prices for similar products in the market. The companies exercising such pricing keep a watch on the prices of their competitors. They increase or decrease the prices in accordance to its competitors strategy. In such a pricing behaviour the firms ignore the costing component structure on the profit objective.

Bid Pricing

Pricing strategy is exercised by companies operating in an industry where they bid for various jobs on a turnkey basis. The examples of such industries are construction industry, engineering industry, general supplier industry etc.

Since the job or the contract goes to the company with the lowest bid or quotation, the companies quote their price on the expectation of how their competitors will quote for the same contract or job. In doing so the companies should not bid below their costs. On the other hand if they quote at high for ensuring high profit, they may not get the contract or the job. Thus they should strike a balance between the probability of getting the contract and the profit.

Let us try to understand this with the following example. Suppose a company has the probability of 0.90 of securing a contract. If it bids at Rs. 10000/- than at this price the company can earn a profit of Rs.500/- the expected profit will be Rs 500 x 0.90 = Rs. 450/- only which it considers to be low. On the other hand if it bids at Rs. 12,000/- it increases its profit to Rs. 1500/- but decreases its probability of securing the bid to the 0.90. The expected profit in this case would be Rs. 150/- only. This expected profit is obviously less than on the first instance.

Thus a company should take into account the profit and the probability of winning the contract at that price. It should thus calculate its expected profit by multiplying the profit at the given bid price with the probability of winning the contract at that price. It should quote a price where the expected profit is the highest.

Activity 2

Examine the pricing strategies of two Indian soap brands, i.e. Dove and Pears and compare the similarities and dissimilarities in their pricing mechanisms.

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7.5 DISCOUNTS

Discounts are relatively temporary rewards which are announced by the marketers from tim6 to time in order to attract customers to their products or to reward the members of distribution channels (retailers or wholesellers) given below are various types of discount options available to marketers.

Cash Discounts

Generally marketer offers some extra discount to the stockist or wholeseller, if the latter pays for the purchased goods before the due date. This extra discount is offered by the marketer over and above the discount announced in the price list. This is usually denoted as 2/7 net 35". This means that under normal conditions, the stockist should pay within 35 days for the goods purchased by him to the company but if he pays, within 7 days, he should deduct another 2% from the total value of the goods. In other words, the stockist or the wholeseller gets 2% extra discount above the normal discount, if he pays within 7 days.

This practice is quite common in pharmaceutical and FMCG sectors.

Quantity Bulb Discounts

As the name suggests, the company offers more discounts to the buyers who purchase in large quantities. The company attracts the potential buyers for its products for repeat purchase and also the customers of competitors products to its own, by doing so.

One shirt free on purchase of three shirts is an example of quantity discount.

Seasonal Discounts

These discounts are announced to stimulate the sales of products during off seasons. The companies marketing fans, refrigerators or airconditioners usually offer discount on their products during summer. Hotels located at the Hill stations also offer discounted tariff to attract more tourists and increased occupancy during the non-summer months.

Trade-in Discounts

These discounts are offered on the purchase of a new item in return of an old item. We usually see such advertisements in newspapers communicating "Bring in your old TV and take a new one at 50% discount."

Activity 3

Try to interview about 6-8 consumers randomly to find out their opinion on discounts. Based on their views so obtained ascertain the importance and suggest how it would be helpful to the marketers in planning their promotion strategies.

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Apart from various types of discounts, there are some other options available to the company so as to increase its. sales and profits. These options can be grouped under DISCRIMINATORY PRICING.

7.6 DISCRIMINATORY PRICING

Under the option of discriminatory pricing, companies alter prices for different types of customers or products or places. Various types of discriminatory pricing are as follows:

Customer-Based

The seller offers different prices for different customers for the same products.

Product-Based

In this option different versions of the same product are priced differently. Such prices have no correlation with the actual cost of the version. For example Hyndai Santro Car is available in three versions the GLS 2 version is costlier by Rs. 22,000/- than GLS version, which, in turn is costlier by Rs. 40,000/- than the standard version.

Place-Based

In this type of discriminatory pricing the price of different places is altered. For example, the first class traveller in an aeroplane pays more than the economy class.

Time-Based

The price is varied according to the time. For example, the charges for commercial electricity are more during the day time than during nights. Also the tariff/rate for making an STD call varies accordingly.

7.7 STRATEGIC SIGNIFICANCE OF PRICING

It is sometimes very interesting to experience that pricing can be utilised to achieve some startegic corporate goals. This dimension of pricing can be elaborated upon as follows:

Competitive Edge

Pricing can help establish an organisation even in the most competitive market, if applied intelligenly and in consonance with other elements of the marketing mix.

An excellent example of such creativity is Nirma washing powder. It is the story of not only the success at the national level but also at international level. Nirma is today the world's highest selling brand of a detergent next only to Tide of Procter and Gamble.

Nirma has, in its essence, not only nurtured a brand, it has built a strong and vibrant company on the global scene.

Another very good example of building a large organisation with a creative idea of pricing is that of Maruti 800 car. The car was launched with the price tag of Rs. 54,000/-only when other cars i.e. Ambassador and Fiat were relatively priced high.

Today, Maruti not only enjoys a huge 80% market share, but it also enjoys a giant and enviable organization.

Optimising Profits

Quite often the Chief Executive Officer may be faced with the problem of optimum profits.

In such a scenario, even a negligible increase in the price of a well established brand, may come for rescue. For instance, if the sales of a 2harainaceutical brand are 30 crore tablets a year, the increase of just 10 paise a tablet would amount to a profit of Rs. 3 crore. There are many pharma brands like Brufen etc. which sell even more than

30 crores tablets a year.

Of course, the company ought-to have established brands.

Increasing Captive Consumption

Pricing is often used as a tool to increase the captive consumption of a commodity, detergent powder or a drug which the company has the strength to manufacture. In order to achieve this objective the companies normally introduce larger packs. These packs are priced lower than the smaller packs of the same brand on a weight to weight basis.

Since the consumer thinks that on a weight to weight basis, the larger pack is economical, he buys it. For instance, if the 500 gm pack of Surf is available for Rs. 55/- and 1 Kg pack for Rs. 100/-, the latter is economical to the consumer on a gram to gram basis. The company benefits by selling double the weight of the detergent and thus increases its total consumption.

Thus pricing can be utilised creatively to realise larger corporate objectives.

7.8 SUMMARY

Pricing is such an important element of marketing mix that it should not only be looked upon as a creative tool for marketing tangible products, but should also be considered for intangible products and services.

Pricing has an active relationship with other elements of marketing mix, and it should be viewed in consonance with the same. All marketing mix elements should be accorded a holistic view. A manager should look at these variables, the way a doctor looks at the human body.

The factors which influence the pricing decisions have been discussed. Types of pricing and discounts have also been focussed.

A mention on the option of discriminatory pricing and strategic implications of pricing including gaining a competitive edge, optimising, profits and increasing captive consumption has been covered.

7.9 SELF ASSESSMENT QUESTIONS

1). What factors should be considered while making pricing decision? Would these factors change in case of a new product? Why?

2). Discuss the various pricing methods available to the Indian marketer. Pick up suitable examples from FMCG and consumer durables to substantiate your answer.

3). In Indian context discount sales is on the rise being organised by firms and retail stores mostly during festival time. Yet there are many large premium high end stores across the country (all metros) who do not have these sales and yet record larger sales turnover. Why is it so give reasons to support your statement.

4). As a marketing Manager, what pricing strategy/mechanism you would decide upon to introduce a range of natural fruit juices in view of the firms twin objectives of creating mass awareness and sales.

7.10 FURTHER READINGS

Product Management in India, Ramanuj Majumdar.

Pricing - Policies and Procedures, Neshim Hanna and H. Robert Dodge.