UNIT –IV

Pricing – Meaning –Influencing factors – Objectives – Pricing methods.

CHAPTER 18

Pricing Strategy

- *Introduction*
- *What is price*
- *Importance of price*
- *Pricing Objectives*
- *Factors Affecting pricing Decision*
- *Procedure for Price Determination*
- *Kinds of Pricing*
- *Price Leader*
- *Factors Affecting changes in Price*
- *Price as an Indicator of Quality*
- *One Price Vs. Variable Price*
- *Resale Price Maintenance*
- *Case Study-1*
- *Questions*

INTRODUCTION

Pricing assumes a significant role in a competitive economy. Price is the main factor which affects the sales organisation. A good price policy is of great importance to the producers, wholesalers, retailers and the consumers. Marketers try to achieve their long-run pricing objectives through both price policies and price strategies. If the prices are high, few buyers purchase and if the prices are low, many buyers purchase. Thus market may be reduced or increased. That is, the price increases in relation to the sales revenue. Thus pricing is a critical situation. Therefore, a sound pricing policy must be adopted to have a maximum sales revenue.

In the early stages of men, prices were set by buyers and sellers negotiating with each other. The seller may demand a higher price than expected and the buyer may offer a price less than the expected one. Ultimately they arrive at an aggreeable price through bargaining. Now in the competitive economy, development of large business aims to have one price policy. In certain cases, the buyer looks at the price as an indicator of product quality. If the price is higher, the buyer believes the products to be of high quality. In case the quality is not up to the mark he expects, he feels that the price is high. Hence, one cannot say that the price is high or low, without considering the quality of the product to be purchased. The price is greatly affected or influenced for future production and marketing.

Prices play an important role in the economy. The time within which the product is sold varies. The goods, which are of a perishable nature and frequent changes of style, may not be stocked for long time. In the case of durable goods, they can be stocked for longer time, in the hope of getting favourable price rise. Holding the stock depends upon the financial resources of farmer, middleman, wholesaler etc., and the perishability of the goods.

What is Price?

Price may be defined as the exchange of goods or services in terms of money. Without price there is no marketing in the society. If money is not there, exchange of goods can be undertaken, but without price; *i.e.*, there is no exchange value of a product or service agreed upon in a market transaction, is the key factor which affects the sales operations.

What you pay is the price for what you get.

Price is the exchange value of goods or services in terms of money.

Price of a product or service is what the seller feels it worth, in terms of money, to the buyer.

228

You pay a $\boxed{\text{PRICE}}$ →	When you pay tuition fees to a teacher. When you engage a labour on wages. When you pay rent on your house. When you pay commission to a broker. When you pay subscription. When you pay salary to salesmen. When you pay charges on your trip. When you pay premium. When you pay advertisement bill. When you pay interest on loans.

Importance of Price

The market price of a product influences wages, rent, interest and profits. In other words, the price of a product influences the price paid for the factors of production–labour, land, capital and entrepreneurship. The price is a matter of vital importance to the buyer and the seller. Exchange of the goods or services takes place only when the prices are agreed upon by the seller and the buyer. Price can decide the success or failure of a firm. Prices are important economic regulators. By transferring to money economy from barter economy, the importance of price has been increased. Price is a primary source of revenue which, all firms try to maximise by expanding markets. The marketing demand for a product or service to a large extent depends upon the price of the product. Price will affect the competitive position and share of the markets. Pricing policy, no doubt is a potential weapon, specially in a planned economy like ours where it can be used in such a way as to bring about a proper allocation of resources according to planned priorities.

When a firm sets a price for its goods, it has to consider many factors–demand, existing competition, legal restrictions etc. Only the cost of production is not enough to fix the price, but the objectives of the firm may also be considered. In consumer-oriented marketing, the product must have utility to the buyer, who must have satisfaction. If a consumer is not satisfied, he may refuse to buy the product. Then, in monopoly, a firm can fix the price of its product. The market is full of competitors and many substitutes also appear. When a new firm launches a promotion campaign, introduces a new product, or reduces its price to expand the market, the market goes to competitors. Under these circumstances, price reduction or changes in the price structure will help to overcome the situations.

Pricing Objectives

To perform the marketing job efficiently, the management has to set goals first. Pricing is no exception. Before determining the price itself, the management must decide the objectives of pricing. These objectives are logically related to the company's overall goal or objectives. The main goals in pricing may be classified as follows:

1. **Pricing for Target Return** (on investment) (ROI): Business needs capital, *i.e.*, investment in the shape of various types of assets and working capital. When a businessman invests capital in a business, he calculates the probable return on his investment. A certain rate of return on investment is aimed. Then, the price is fixed accordingly. The price includes the predetermined average return. This is seller-oriented policy. Many well-established firms adopt the objective of pricing in terms of ''return on investment.'' Firms want to secure a certain percentage of return on their investment or on sales. The target of a firm is fixed in terms of investment. For instance, a company may set a target at 10 or 15% return on investment. Further, this target may be for a long term or short term. Wholesalers and retailers may follow the short term, usually a year. They charge certain percentage over and above the price, they purchased, which is enough to meet operational costs and a desired profit. This target chosen, can be revised from time to time. This objective of pricing is also known as pricing for profit. Certain firms adopt this method as a satisfactory objective, in the sense they are satisfied with a certain rate of return.

2. **Market Share :** The target share of the market and the expected volume of sales are the most important consideration in pricing the products. Some companies adopt the main pricing objective so as to maintain or to improve the market share towards the product. A good market share is a better indication of progress. For this, the firm may lower the price, in comparison to the rival products, with a view to capture the market. By reducing the price, customers are not exploited, rather benefited. The management can compare the present market share with the past market share and can know well whether the market share is increasing or decreasing. When the market share is decreasing, low pricing policy can be adopted by large-scale manufacturers, who produce goods needed daily by the consumers. So margin of profit comes down because of low price, but the competitors are discouraged from entering the market. By low pricing policy, no doubt, market share can be increased, besides attracting new users.

Objectives of a Firm in Pricing	
1.	To profit maximisation
2.	To earn target return (ROI)
3.	To face competition
4.	To increase market share
5.	To enter new market
6.	To achieve a particular market share
7.	To keep competition out
8.	To keep parity with competition
9.	To attain a target market
10.	To bring price stability
11.	To survive in competition field
12.	To balance price over product line.

3. **To Meet or Prevent Competition :** The pricing objective may be to meet or prevent competition. While fixing the price, the price of similar products, produced by other firms, will have to be considered. Generally, producers are not in a haste to fix a price at which the goods can be sold out. One has to look to the prices of rival products and the existing competition and chalk out proper price policy so as to enable to face the market competition. At the time of introduction of new products to the market, a low price policy is likely to attract customers, and can establish a good market share. The low price policy discourages the competitors. This low price policy can be adopted before the obsolescent stage under PLC.

4. **Profit Maximisation :** Business of all kinds is run with an idea of earning profit at the maximum. Profit maximisation can be enjoyed where monopolistic situation exists. The goal should be to maximise profits on total output, rather than on every item. The scarcity conditions offer chances for profit maximisation by high pricing policy. The profit maximisation will develop an unhealthy image. When a short-run policy is adopted for maximising the profit, it will exploit the customers. The customers have a feeling of monopoly and high price. But a long-run policy to maximise the profit has no drawbacks. A short-run policy will attract competitors, who produce similar goods at low cost. As a result, price control and government regulations will be introduced.

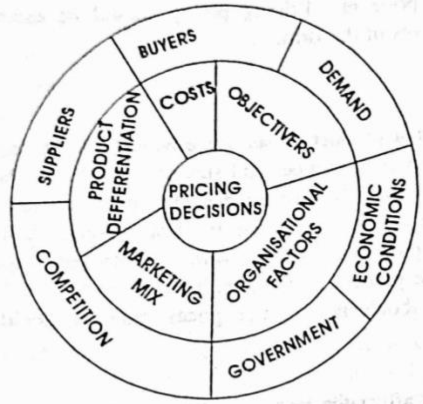
5. **Stabilise Price :** It is a long-time objective and aims at preventing frequent and violent fluctuations in price. It also prevents price war amongst the competitors. When the price often changes, there arises no confidence on the product. The prices are designed in such a way that during the period of depression, the prices are not allowed to fall below a certain level and in the boom period, the prices are not allowed to rise beyond a certain level. The goal is to live and let live. Thus firms forego maximum profits during periods of short supply of products.

6. **Customers' Ability to Pay :** The prices that are charged differ from person to person, according to his capacity to pay. For instance, doctors charge fees for their services according to the capacity of the patient.

7. **Resource Mobilisation :** This is a pricing objective, the products are priced in such a way that sufficient resources are made available for the firms' expansion, developmental investment etc. Marketers are interested in getting back the amount invested as speedily as possible. A product may have a short PLC. The management may fix a higher price and this trend will invite competitors with low priced similar products.

Factors Affecting Pricing Decisions

The pricing decisions are influenced by many factors. The price policies should be consistent



Factors Affecting Pricing Decisions

with pricing objectives. The influencing factors for a price decision can be divided into two groups: (1) Internal Factors and (2) External Factors.

(A) Internal Factors

(1) Organisational Factors

Pricing decisions occur on two levels in the organisation. Over-all price strategy is dealt with by top executives. They determine the basic ranges that the product falls into in terms of market segments. The actual mechanics of pricing are dealt with at lower levels in the firm and focus on individual product strategies. Usually, some combination of production and marketing specialists are involved in choosing the price.

(2) Marketing Mix

Marketing experts view price as only one of the many important elements of the marketing mix. A shift in any one of the elements has an immediate effect on the other three–Production, Promotion and Distribution. In some industries, a firm may use price reduction as a marketing technique. Other firms may raise prices as a deliberate strategy to build a high-prestige product line. In either case, the effort will not succeed unless the price change is combined with a total marketing strategy that supports it. A firm that raises its prices may add a more impressive-looking package and may begin a new advertising campaign.

(3) Product Differentiation

The price of the product also depends upon the characteristics of the product. In order to attract the customers, different characteristics are added to the product, such as quality, size, colour, attractive package, alternative uses etc. Generally, customers pay more price for the product which is of the new style, fashion, better package etc.

(4) Cost of the Product

Cost and price of a product are closely related. The most important factor is the cost of production. In deciding to market a product, a firm may try to decide what prices are realistic, considering current demand and competition in the market. The product ultimately goes to the public and their capacity to pay will fix the cost; otherwise product would be flapped in the market.

(5) Objectives of the Firm

A firm may have various objectives and pricing contributes its share in achieving such goals. Firms may pursue a variety of value-oriented objectives, such as maximising sales revenue, maximising market share, maximising customer volume, minimising customer volume, maintaining an image, maintaining stable price etc. Pricing policy should be established only after proper considerations of the objectives of the firm.

(B) External Factors

(1) Demand

The market demand for a product or service obviously has a big impact on pricing. Since demand is affected by factors like, number and size of competitors, the prospective buyers, their capacity and willingness to pay, their preference etc. are taken into account while fixing the price. A firm can determine the expected price in a few test-markets by trying different prices in different markets and comparing the results with a controlled market in which price is not altered. If the demand of the product is inelastic, high prices may be fixed. On the other hand, if demand is elastic, the firm should not fix high prices, rather it should fix lower prices than that of the competitors.

(2) Competition

Competitive conditions affect the pricing decisions. Competition is a crucial factor in price determination. A firm can fix the price equal to or lower than that of the competitors, provided the quality of product, in no case, be lower than that of the competitors.

(3) Suppliers

Suppliers of raw materials and other goods can have a significant effect on the price of a product. If the price of cotton goes up, the increase is passed on by suppliers to manufacturers. Manufacturers, in turn, pass it on to consumers. Sometimes, however, when a manufacturer appears to be making large profits on a particular product, suppliers will attempt to cash in on the profits by charging more for their supplies. In other words, the price of a finished product is intimately linked up with the price of the raw materials. Scarcity or abundance of the raw materials also determines pricing.

(4) Economic Conditions

The inflationary or deflationary tendency affects pricing. In recession period, the prices are reduced to a sizeable extent to maintain the level of turnover. On the other hand, the prices are increased in boom period to cover the increasing cost of production and distribution. To meet the changes in demand, price etc. several pricing decisions are available–(a) prices can be boosted to protect profits against rising cost, (b) price protection systems can be developed to link the price on delivery to current costs, (c) emphasis can be shifted from sales volume to profit margin and cost reduction etc.

(5) Buyers

The various consumers and businesses that buy a company's products or services may have an influence in the pricing decision. Their nature and behaviour for the purchase of a particular product, brand or service etc. affect pricing when their number is large.

(6) Government

Price discretion is also affected by the price-control by the government through enactment of legislation, when it is thought proper to arrest the inflationary trend in prices of certain products. The prices cannot be fixed higher, as government keeps a close watch on pricing in the private sector.

The marketers obviously can exercise substantial control over the internal factors, while they have little, if any, control over the external ones.

Procedure for Price Determination

There is no specific procedure applicable to all firms for price determination. However, the following steps may be followed to determine the price :

1. Determine demand for the product.
2. Anticipate and analyse the competitive reaction.
3. Establish expected share of the market.
4. Select pricing strategy.
5. Consider company's marketing policies.
6. Set the price.

1. Determining Demand for the Product

The marketer has to make out an estimation for his product. Each price that the company might charge will lead to a different level of demand. There is a relation between the price charged and the resulting demand. In the normal case, demand and price are inversely related, *i.e.*, higher the price, lower the demand. There are two practical steps in demand estimation. They are, first, to determine whether there is a price which the market expects and second, to estimate the sales volume at different prices. Comparison of the prices of rival products is a good guide in pricing products. In certain cases, the marketer conducts regular survey of potential buyers, retailers, wholesalers etc., to determine the expected price. When we know the expected price, we can compute sales volume at different price levels. If demand is elastic rather than in-elastic, sellers will consider lowering their price, to produce more total revenue. That is a product with elastic market demand. It is usually priced lower than the product with an inelastic demand.

2. Anticipate and Analyse the Competitive Reaction

The competitors can influence the price. Competition may arise from (1) similar products (2) close substitute and (3) unrelated products seeking the same consumer's disposable income. When the marketing field is easy to enter, then the number of competitors is greater, and there is a room for more revenue. To anticipate the reactions of the competitors, it is necessary to collect information about their product, cost structure, market share etc.

3. Establish Expected Share of Market

A marketer must decide the share of the market at the expected price. Low priced products may capture large: share of the market, and a high priced product may capture a small share of the market. Large share of the market can also be captured by advertisements and non-priced competition. Share of the market is also decided by the factors, such as present production capacity, cost of plant extention etc.

4. Select Pricing Strategy

A good and proper pricing policy may be employed to achieve a predetermined share of the market. There are two methods:

(a) **Skimming Pricing :** This price strategy is characterised by high initial price of the product, at the time of introduction of the product in the market. Manufacturers aim at profit maximisation at the shortest period, where market conditions are also favourable. The price is brought down when competitors enter into the market field. Under this, the price is fixed high, because the product is characteristic for its distinctiveness and exclusiveness etc. Skimming is suitable for new products, because (1) at the initial stage, competition is at minimum, and the distinctiveness of the product leads the market, (2) if the market is unfavourable the price can be brought down easily. And at the same time, if the price is too low, it is very difficult to raise the price, (3) High price creates a vision of superior product.

(b) **Penetrating Price :** Price skimming strategy adopts a high introductory price to skim the milk of the market, whereas penetration pricing strategy adopts a low introductory price to speed up or capture the widespread market acceptance. Penetrating pricing strategy is characterised by low initial price of the product, when introduced in the market. The aims is to catch the major portion of the market. The policy is satisfactory, when (1) the cost of production comes down because of large-scale operations, (2) there is fear of stiff competition, (3) the product's demand is highly price elastic, (4) the public accepts the new product as a part of its daily life.

5. Consider Company's Marketing Policies

The price of product is influenced by the nature of product's durability–perishability or non-perishability. Perishable products have to be disposed of within a limited time e.g., fruits, milk, vegetables etc. Durable products e.g., car, radio, cloth, scooter etc., are concerned prices which need not be reduced. But when the fashion changes, the marketer may compel the stockist to sell out the stocks before they become obsolescent.

Channels of distribution select the types of middlemen, and the gross marginal requirements of these middlemen will influence a manufacturer's price. Wholesalers as well as retailers may purchase from a producer, who often sets a different factory price for each of the above two. Larger the promotional methods used, larger will be the expenses and this will reflect in the manufacturer's price, as the set price has to cover the expenses.

6. Setting the Price

Study the business objectives, analyse each step (mentioned above) through its merits and demerits, then select a specific price for the products by the producer. There is no specific method for setting the price. Procedures used for setting a specific price vary under different competitive conditions. Complexity of the pricing policy has led to the development of numerous approaches to price setting. The following are the basic policies generally recognised for pricing:

1. Cost based
2. Demand based
3. Cost-demand based
4. Competition based

1. Cost Based

The price determination of a product, under cost-based method, is made on the basis of cost of production plus an additional margin of cost, that is, selling price is equal to cost of production plus anticipated profit. When the management adds to this cost some amount referred to mark up, this method is also called cost plus or target pricing method. Here, the cost of manufacturing serves, as a base, for price fixation. Cost-based price or floor price, sales below the floor price will be a loss to the firm. For instance, cost of a product is Rs. 100, the profit aimed (mark up) is Rs. 25 or the percentage mark up on cost is 25%, then the selling price will be hundred and twenty-five rupees. In India, a large number of companies follow this policy.

Its **advantages are**:

(1) Simple system
(2) Socially fair
(3) No price war among competitors
(4) Safe recovery of cost guaranteed
(5) Reasonable system in changing situation

Its **disadvantages** may be :

(1) Demand ignored
(2) Future cost not considered
(3) Unaccounted competition
(4) Inefficiency during manufacturing stage, not considered.
(5) Profitability of every product ceases initiation.

2. Demand Based

Weakness of the above cost based pricing is to determine the price on the basis of demand. On the basis of the demand for the product the price is fixed. One method is that the firm does not fix a price, but charges what a buyer can pay *i.e.*, charges what the traffic will bear. Price is fixed by simply adjusting it to the market condition. The price varies from consumer to consumer. A high demand is followed by a high price and a low demand is followed by a low price. Another method is that the management may enter into test marketing, through different prices and select the price which ensures the maximum revenue. In certain cases, the management may forecast prices on the basis of historical data available.

Merits of this policy are:

1. Consumer's price elasticity and preferences are considered.
2. Inefficiency is penalised.
3. New product pricing is facilitated.

Demerits, are:

1. It is socially unfair.
2. It does not ensure competitive harmony.
3. Consumers are at a disadvantage.

For a real price, both cost and demand are taken into account. Cost serves as a floor and demand serving as ceiling. The actual price lies in between these two.

3. Cost-demand Based

This method removes the deficiencies of the cost-based and demand based pricing. On the basis of cost data from accounting records, demand schedules are built so as to develop the break-even analysis. This is also known as break-even pricing. Because the interrelationship of costs and sales volume determines the amount of profit or loss, break-even analysis helps in estimating the effects of different prices on profits. The firm tries to determine the price that would produce the profit it is seeking. This is clear from the chart given below:

Illustration :

You are given the following data for the costing year of a factory:

Budget output	1,00,000 units
Fixed expenses	Rs. 5,00,000
Variable expenses	Rs. 10 per unit
Selling price	Rs. 20 per unit

Draw a break-even chart showing the break-even point. If the selling price is reduced to Rs. 18 per unit, what will be the new break-even point. *(B. Com., Jabalpur)*

Solution :

$$\text{B.E.P.} = \frac{\text{Fixed Cost}}{\text{Selling cost} - \text{Variable cost}}$$

$$= \frac{5,00,000}{20-10} = \frac{5,00,000}{10} = 50,000 \text{ units}$$

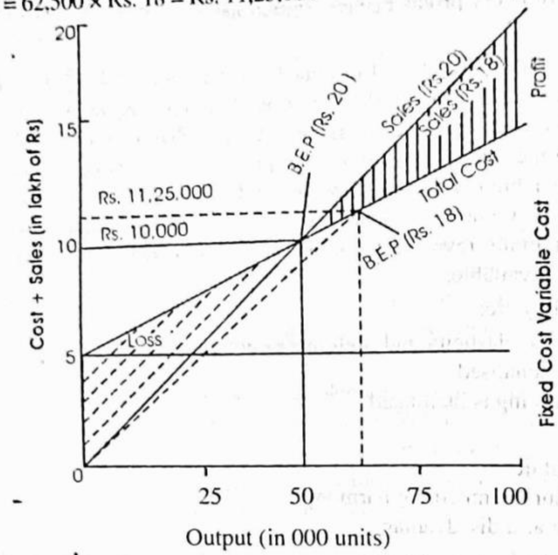
Break-even sales = 50,000 × Rs. 20 = Rs. 10,00,000

If the selling price is reduced to Rs. 18, then the contribution will be Rs. 8 *i.e.*, Rs. 18-10.

The new break-even point

$$= \frac{5,00,000}{8} = 62,500 \text{ units}$$

Break-even sales = 62,500 × Rs. 18 = Rs. 11,25,000



Because the interrelationship of costs and sales volume determines the amount of profit (or loss), break-even analysis helps in estimating the effects of different prices on profits. The technique of break-even analysis can be made easy with the help of graph or mathematical formula. Graphical representation of break-even point (or cost-volume-profit) is known as the break-even chart. It is important to note that break-even point occurs where total costs equal total sales revenue. At this point it indicates that income exactly equals expenditure.

Profit planning is a plan for future operation or planning budget to attain the given objective to attain the maximum profit. The volume of sales required to maintain a desired profit can be known from the formula :

$$\text{Desired sales} = \frac{\text{Fixed cost + Desired Profit}}{\text{P/V ratio}}$$

$$\text{(or)} = \frac{\text{Required contribution}}{\text{New contribution per unit}}$$

4. **Competition Based**

Before pricing a product, every firm takes into account the conditions of competition. Policies are to be determined to fix the selling price at above, below or in line with competition. **Thus :**

(1) **Meeting the Competition :** Marketers competing on a non-price basis simply meet competitors' price. An important point of meeting the competition is that sellers have the means of non-price competition, for example, branding, packaging, sales promotion etc.

(2) **Pricing Above the Competition :** This policy is less common. Under this, the price is fixed above the market price, just to impress the buyers that the product is superior.

(3) **Pricing Under Competition :** Many firms set lower prices because of low production cost or low quality or to promote sales. There will be less profit.

Kinds of Pricing

By following the above principles, business firms may opt various kinds of pricing for their products. A few, important of them are explained below:

1. **Psychological Pricing :** Many consumers use the price as an indicator of quality. Costs and other factors are important in pricing. Yet, psychology of the prices is also considered. Certain people prefer high priced products, considered to be of high quality. Costly items like diamond, jewellery etc., reveal the status of the persons, who wear them. They demand highly priced items. For example, highly priced television sets carrying prestige prices are in demand. Then in the retail shops another pricing 'odd pricing' is used. The prices are set at odd amounts, such as Rs. 19.95 instead of Rs. 20; Rs. 299.90 instead of Rs. 300. Odd prices, by psychology, may bring more sales. An article priced at Rs. 9.90 will have more sales than when it is priced at Rs. 10.

2. **Customary Pricing :** Customers expect a particular price to be charged for certain products. The prices are fixed to suit local conditions. The customers are familiar with the rates and market condition. Manufacturers cannot control the price. Such products are typically a standardised one. Certain business people reduce the size of the product, if the cost of manufacturing increases. Sometimes, the firm changes the price by adopting new package, size etc. For example, confectionary items.

3. **Skimming Pricing :** It involves a high introductory price in the initial stage to skim the cream of demand. The products, when introduced in the market have a limited period free from other manufacturers. During this period, it aims at profit maximisation, according to the favourable market condition. Generally, the price moves downward when competitors enter into the market field.

4. **Penetration Pricing :** A low price is designed in the initial stage with a view to capture greater market share. That is if the pricing policy is to capture greater market share, then this is done only by adoption of low prices in the initial stage. Because of the low price, sales volume increases, competition falls down.

5. **Geographical Pricing :** The distance between the seller and the buyer is considered in geographic pricing. In India, the cost of transportation is an important pricing factor, because of the wide geographical distance between the production centre and consuming centre. The majority of the producing centres are located in Bombay, Delhi, Calcutta and Madras; and at the same time the consuming centres are dispersed throughout India. There are three ways of charging transit:

(a) **F.O.B. Pricing :** In FOB (original) pricing, the buyer will have to incur the cost of transit and in FOB (destination) the price influences the cost of transit charges.

(b) **Zone Pricing :** Under this, the company divides the market into zones and quotes uniform prices to all buyers who buy within a zone. The prices are not uniform all over India. The price in one zone varies from that of another one. The prices are uniform within a zone. The price quoted is by adding the average of the transport cost.

(c) **Base Point Pricing :** Base point policy is characterised by partial absorption of the transport cost by the company. One or more cities are selected as points from which all shipping charges are calculated.

6. **Administered Price :** Administered price is defined as the price resulting from managerial decision, and not on the basis of cost, competition, demand etc. But this price is set by the management after considering all relevant factors. There are many similar products manufactured by different firms and more or less the price tends to be uniform. Usually the administered price remains unaltered for a considerable period of time.

7. **Dual Pricing :** Under this dual pricing system, a producer is required compulsorily to sell a part of his production to the government or its authorised agency at a substantially low price. The rest of the product may be sold in the open market at a price fixed by the producer.

8. **Mark up Pricing :** This method is also known as cost plus pricing. This method is generally adopted by wholesalers and retailers. When they set up the price initially, a certain percentage is added to the cost before marking the price. For example, the cost of an item is Rs. 10 and is sold at Rs. 13. The Mark up is Rs. 3 or 30%.

9. **Price Lining :** This method of pricing is generally followed by the retailers than wholesalers. This system consists of selecting a limited number of prices at which the store will sell its merchandise. Pricing decisions are made initially and remain constant for a long period. The firm should decide the number of lines and the level of each price line. Many prices are not desired and the prices should not be too close to each other or too far from each other. For example, a shoe firm has several types of shoes, priced at Rs. 120, 140, 170 etc., a pair.

10. **Negotiated Pricing :** It is also known as variable pricing. The price is not fixed. The price to be paid on sale depends upon bargaining. In certain cases, the product may be prepared on the basis of specification or design by the buyer. In such cases, the price has to be negotiated and then fixed.

11. **Competitive Bidding :** Big firms or the government calls for competitive bids when they want to purchase certain products or specialised items. The probable expenditure is worked out. Then the offer is made quoting the price, which is also known as contract price. The lowest bidder gets the work.

12. **Monopoly Pricing :** Monopolistic conditions exist where a product is sold exclusively by one producer or a seller. When a new product moves to the market, its price is monopoly price. There is no competition or no substitute. Monopoly price will maximise the profits, as there is no pricing problem.

13. **Oligopolistic Pricing :** Oligopoly is a competitive market situation and the presence of a few large sellers, who compete for larger market share. None has control over the price it charges. Any firm may take initiative in fixing the price of a product and others will follow. For example, tyre, watch etc.

After the price is fixed, a businessman may face the problem of reduction in the quoted price. A difference between the price quoted and the net price charged, is known as price differential. This price reduction *i.e.*, price differential, is made in the form of incentives to buyers, to meet competitive pressure etc. It is considered before fixing the price. The price differentials are, in brief:

(a) **Trade Discounts:** Trade discount or functional discount is allowed in the form of deductions from the list price. Manufacturers give this type of discount to wholesalers and retailers as a consideration for the remaining marketing function to be performed by them.

(b) **Quantity Discounts :** Quantity discount is allowed to encourage a buyer to purchase in bulk. It is used as a sales device for slow moving items. For example, Rs. 3 for one pen, Rs. 25 for 10 pens, Rs. 45 for 20 pens etc. In certain cases, the quantity discount will be in the form of free units.

(c) **Cash Discount :** It is concession or deduction given to the consumer by the seller for remitting the bill within the specified period of time. It is a deduction from the invoice bill at the time of payment.

(d) **Seasonal Discount :** Seasonal discounts are allowed on purchases during slack season. For instance, air-coolers are generally sold during summer seasons, and to encourage sales during winter season (off season) where no sales may be possible, dealers will allow seasonal discount. This enables better utility of plant and reduce storage cost.

(e) **Allowances :** There may be special types of allowances offered to retailers, who are expected to perform promotional activities to push up the sales. For example, advertisement allowance, window display allowance, free samples, free display materials etc. Brokerage allowance is also offered to a trader or a firm, that links the buyers and sellers.

Price Leader

All the marketers should decide, whether as a matter of policy, they will initiate or follow price changes. The firm initiating price changes is called price leader and those following it, price followers.

Factors Affecting Price

Prices move up : reasons	**Prices move down :** reasons
1. There is more demand but less supply.	1. There is more supply but less demand.
2. Weak competitors exist.	2. Strong competitors exist.
3. Sellers hold up goods for higher price (bullish attitude).	3. Sellers push out goods. (bearish attitude)
4. There is increase in wage but not in productivity.	4. Wages are stable and productivity rises.
5. Factors of production are used inefficiently.	5. Factors of production are used efficiently.
6. Buyers are eager to possess ownership.	6. Buyers resist against purchase.
7. The supply of money increases.	7. The supply of money decreases.
8. Goods are non-perishable by nature.	8. Goods are perishable by nature.

Notes: Modern Marketing Principles and Practices – R.S.N. Pillai, Bagavathi