



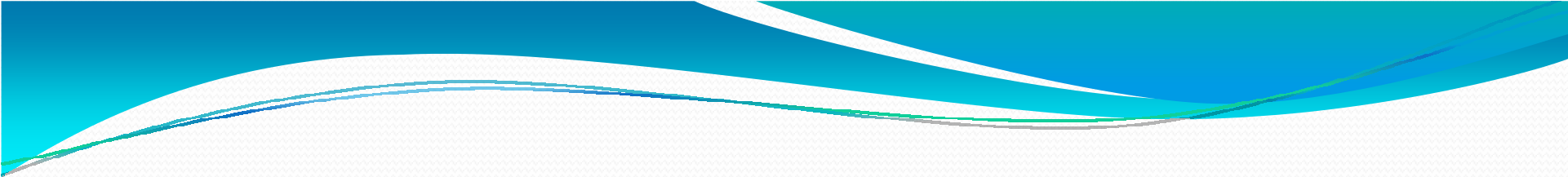
Pricing

Pricing Decisions

- **Survival:** when companies have a problem of over-capacity, intense competition, declining demand. E.g.: adopted by consumer durables companies; automobile companies reduce prices; telecom companies offer low rate call plans or else they cannot service in a highly competitive telecom service market
- **Maximise Current Profit :** Setting a price that would maximise current profits: Profit= sales less costs. When companies wish to maximise current profit, cash flows, rate of return on investment- ignores long term performance.
- **Maximise current revenue:** Revenue=Sales price x number of units sold . Increase Rupee value of sales as well as numbers of sales. for long term profit maximisation and market share growth. Can be adopted by FMCGs, and consumer durables.

E.g. of pricing for Survival

- (2011 report in ET) :Hundreds of regional detergent brands lost out in the detergent market. More than 500 local detergent brands such as XXX, T-Series, Vidsha, Tran Keri and Power Detergents have lost 10% of the 12,000-crore Indian detergent market, according to Nielsen data. Their combined market share slipped to just 2.9% in 2010 from 13% in the year earlier.
- This is mainly because the small players could not hold their price lines in the wake of inflating input costs, while national players such as Hindustan Unilever and Procter & Gamble either **cut or held** on to prices, bridging the price differences with local brands.
- The prices of crude oil, the key ingredient for making detergent, have almost tripled to \$112 per barrel from 2009 levels of around \$40 per barrel. "Unable to make low-cost detergents is one of the main issues faced by these smaller firms

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- **Maximise Sales Growth:** maximise unit sales. Higher volume sales would lead to lower unit cost and higher profits. Market-Penetration strategy. E.g.: many FMCGs , like Nirma; Chic shampoos of Cavin Care (sachets of Re 1 to Rs 2) e.g.: Nirma was introduced at a low price of Rs. 3 per kg, when the competition was selling at Rs. 13 per kgs. P&G gained sales through the low priced variant of Tide.
 - **Maximise Market Skimming:** setting of higher price to maximise initial profits; then reduce price to enter lower income segments. E.g: most PCs, mobile phones, telecom services : were introduced at high price; later prices reduced to reach other lower income groups to increase market size.
 - **To establish Product-Quality relationship:** pricing higher than competitors to exhibit higher quality: e.g.-Mercedes; Taj hotels; Parker pens.



Process of setting Price

1. Select pricing objectives
2. Determine demand , including price elasticity/sensitivities
3. Estimate Costs
4. Analyse Competitors' costs, prices and offers
5. Select a Pricing Method
6. Selecting the Final Price

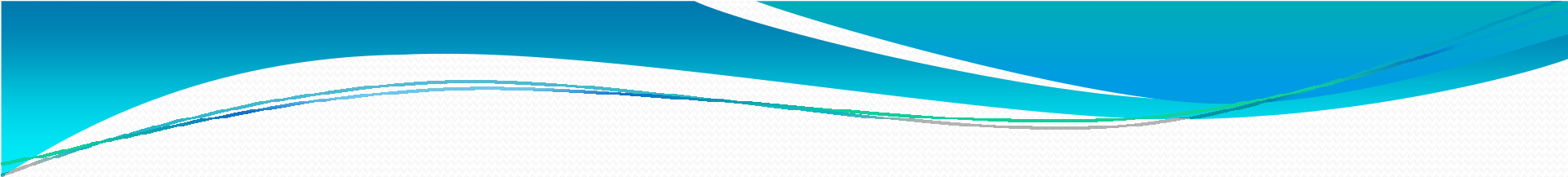
Pricing Methods

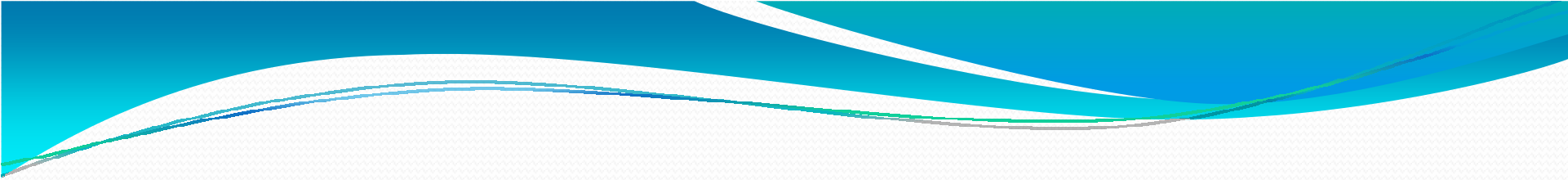
- **Mark-Up Pricing** : Cost plus Margin: e.g.-Apple 's i-pod is priced such that it earns a margin of 35%.
- **Target Return Pricing** : Determination of price that would result in a pre-determined/target Return on Investment. Practiced by General Motors which prices its automobiles to achieve 15-20% ROI.

Target Return Price: $\text{Unit Cost} + (\text{desired return} \times \text{invested capital}) / \text{unit sales}$.

e.g.: $\text{Rs. } 16 + (.20 \times 10,00,000) / 50,000 = \text{Rs. } 20$

However, this method depends on sales estimations which may or may not come true.

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- Reacting to increased costs: Consumer durables makers such as LG, Samsung and Godrej have increased prices of home appliances by 2-5%, their second hike in three months to offset cost pressures due to depreciating rupee and escalating raw material prices.

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- **Perceived Value Pricing:** Price fixed based on customer's perception of value. Price is set according to product positioning. Thus, if a product is positioned as a premium (high quality, high price product, meant for high income class), price shall be set high.

Example: A firm can charge this type of pricing its tractor by:

Price of equivalent competitor: Rs. 50,000

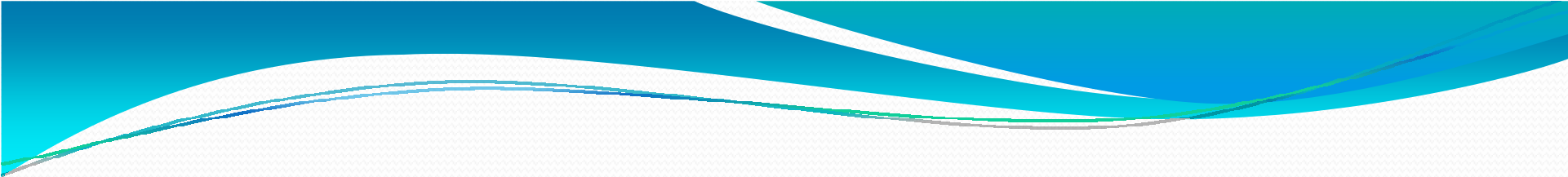
Add price premium for higher durability: Rs. 5000

Add price premium for superior service: Rs. 5000

Add price premium for superior brand: Rs. 10,000

Total: Rs. 70,000

e.g.: **Blackberry's tablet**-The Blackberry Playbook is priced between \$ 400 to \$699 depending on its storage capacity (value)

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- **Going Rate Pricing:** charging according to what competitors are pricing: firm may charge same, less or more than competitor. In perfect competition: firms charge the same price; in Oligopoly (e.g.: cement: telecom services) major firms fix the price, other smaller firms price according to the leader's; some firms may charge slightly more or less to maintain some difference.
 - E.g.: In 2009, P&G launched a low-priced variant of its washing powder brand Tide at 50 per kg to take on Hindustan Unilever's Rin, which was priced at 70 per kg. The market leader reacted by slashing the price of Rin to 50 per kg.

Pricing strategies in consumer durables

- Consumer durable companies offer product variants at various price points, giving customers a large choice.
- In the case of mobile handsets, raw materials form a major part of the production costs.
- Price rivalry is high in this industry
- Onida found cost of doing business in Mumbai to be high, so focus on South India, Gujarat and the North for its airconditioners.

Selecting the Final Price

- **Psychological pricing:** for many customers, price means quality and increasing the price may mean increase of quality. **Odd pricing:** pricing at rates such as Rs. 999 ; Rs. 99 (Bata)
- **Influence of other marketing mix elements:**
Product: with higher relative quality; stronger brands; grater advertising can charge higher price
- **Company pricing policy**
- **Legal requirements :** pricing of important medicines/essential commodities is often overseen by government



Adapting the Price

- Price allowances and discounts : cash discounts; quantity discounts
- Geographical pricing –distances covered by transportation (airlines, freight).
- Discriminatory pricing: different prices for different customer segments (airlines); different prices according to different product forms (sizes); image pricing; location pricing (movie-theaters); time pricing (peak season versus low demand time)