

Price Decision

To Customer :-

“It represents a monetary sacrifice to get the good and services”

To Manufacture :-

“Price represents the quantity of money received by the firm or seller for its products or services”

Steps in Setting Prices

Step 1

◆ Selecting the Price Objective

- ◆ Survival
- ◆ Maximum Current Profit
- ◆ Maximum Market Share
- ◆ Maximum Market Skimming
- ◆ Product Quality Leadership
- ◆ Other Objective

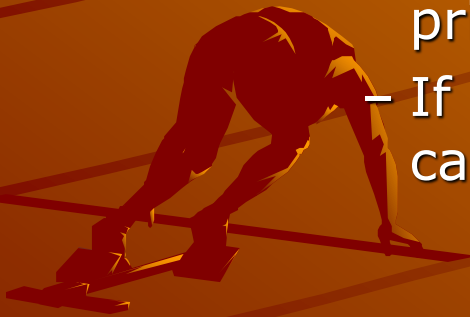


Step 2:- Determining Demand

- ◆ Price Sensitivity :-

- ◆ Price Elasticity of Demand

- If demand hardly changes with a small change in price the demand is called inelastic.
- If demand changes considerable the demand is called elastic



Step :- 3 Estimating Costs

◆ Types of Cost and Level of Production

- Fixed Cost :- Fixed cost that donot vary with production of sales revenue.
- Variable Cost :- VC varies directly with the level of production.
- Total Cost:-TC consist of the sum of the FC and VC.
- Average cost:- AC is the cost per unit at that level of production.

◆ Accumulated Production

◆ Activities Based Cost



Step :- 4 Analyzing Competitors' cost, Prices and Offers



Step :- 5 Selecting a Pricing Method

- ✦ **Markup Pricing** :- Add standard markup to the product cost.
- ✦ **Target Return Pricing** :- In TRP the firm determines the price that would yield its target rate of return on investment.
- ✦ **Perceived Value Pricing**
- ✦ **Value Pricing**
 - **Everyday Low Pricing** :- Everyday low pricing involves consistently low price in some items.
 - **High-low Pricing** :- This strategy entails alternating between regular high and low pricing in the most visible product offered by a retail firm.

Step :- 6 Selecting the final price

- ◆ Impact of other marketing activities
- ◆ Company Pricing policies
- ◆ Gain and Risk sharing pricing
- ◆ Impact of price on other parties



Adapting the Price

- Geographical Pricing :-
 - Cash
 - ◆ Point of Production Pricing
 - ◆ Uniform Delivery Pricing
 - ◆ Zone Delivery Pricing
 - ◆ Freight Absorption Pricing
 - Buyback Arrangement



New Product Pricing

- ◆ Market skimming price
- ◆ Market penetration pricing



Product mix pricing

- ◆ Product line pricing
- ◆ Optional product pricing
- ◆ By product pricing
- ◆ Captive product pricing



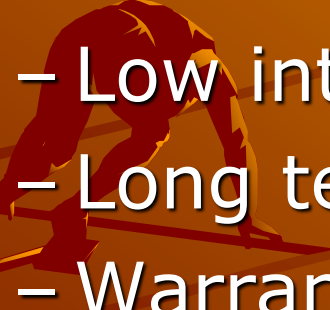
Price Adjustment

- Price Discount and Allowances
 - Cash Discount
 - Quantity Discount
 - Trade Discount
 - Seasonal Discount
 - Other Discount and Allowance





Promotional Pricing

- Leader pricing
 - Special event pricing
 - Cash rebates
 - Low interest financing
 - Long term Payment
 - Warranties and service contracts
 - Psychological discounting
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◆ Differentiated Pricing

- Customer segment pricing
- Product form pricing
- Image Pricing
- Channel pricing
- Locating Pricing
- Time pricing

Initiating and responding to Price Change

◆ Initiating Price Cuts

◆ Initiating Price Increase

◆ Cost Inflation

◆ Over Demand



Reaction to Price Change

◆ Customer Reaction :-

- ◆ The item is about to be replaced by new model.
- ◆ Firm is in financial trouble.
- ◆ Quality is reduced.

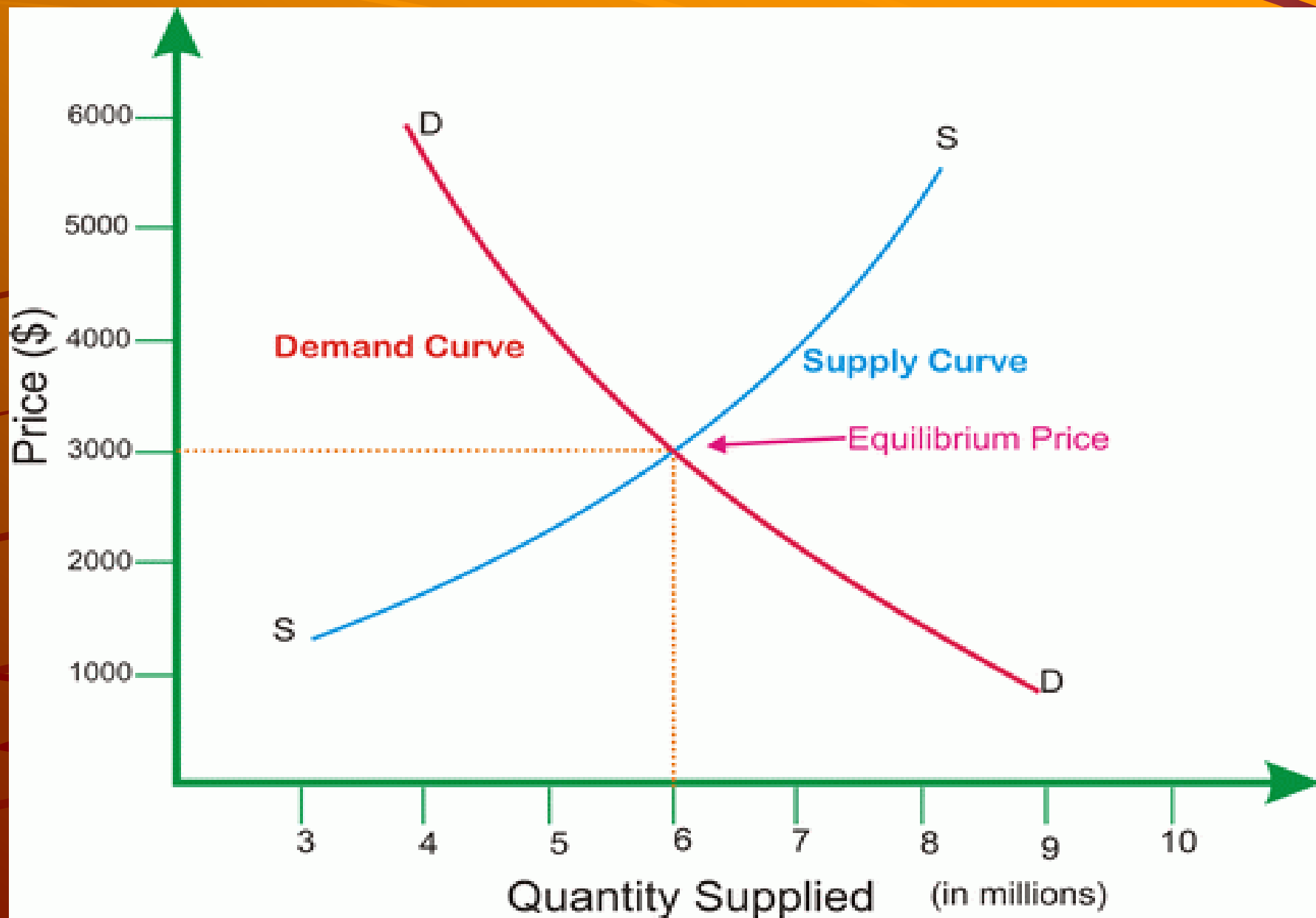
◆ Competitor Reaction:-



Response to competitor's price change

- ◆ Maintain Price.
- ◆ Maintain price and Add value.
- ◆ Reduce Price.
- ◆ Increase price and Improve quality.
- ◆ Launch a low price fighter line.





Price determination

Pricing in agriculture

- ◆ Different administered prices:
Minimum support prices,
statutory minimum prices,
procurement prices and issue
prices



CACP

- ◆ Set up in January 1965 in the name of Agricultural Prices Commission (APC)
- ◆ Set up under the recommendation of the Food grain prices Committee headed by Shri L.K Jha.
- ◆ All round economic overview, needs of farmers and consumers are taken into consideration while setting up price.

Considerations while recommending prices

- ◆ The need for incentives to farmers for the adoption of improved technology and maximization of production.
- ◆ The need for ensuring a rational utilization of land and other production resources.
- ◆ The likely effect of the price policy on the rest of the economy, particularly on cost of living.

Minimum Support Price



Procurement Prices

