

7.2 IMPORTANCE OF PRICING

➤ *Price is the pivot of an economy:* In the economic system, price is the mechanism for allocating resources and reflecting the degrees of both risk and competition. In an economy particularly free market economy and to a less extent in controlled economy, the resources can be allocated and reallocated by the process of price reduction and price increase.

Price policy is a weapon to realize the goals of planned economy where resources can be allocated as per planned priorities. Price is the prime mover of the wheels of the economy namely, production, consumption, distribution and exchange. As price is a sacrifice of purchasing power, it affects the living standards of the society; it regulates business profits and, hence, allocates the resources for the optimum output and distribution. Thus, it acts as powerful agent of sustained economic development.

➤ *Price regulates demand:* The power of price to produce results in the market place is not equaled by any other component in the product-mix. It is the greatest and the strongest 'P' of the four 'Ps' of the mix. Marketing manager can regulate the product demand through this powerful instrument. Price increases or decreases the demand for the products. To increase the demand, reduce the price and increase the price to reduce the demand.

Price has a special role to play in developing countries where the marginal value of money is high than those of advanced nations. De-marketing strategy can be easily implemented to meet the rising demand for goods and services. As an instrument, it is a big gun and it should be triggered exclusively by those who are familiar with its possibilities and the dangers involved. It is so because; the damage done by improper