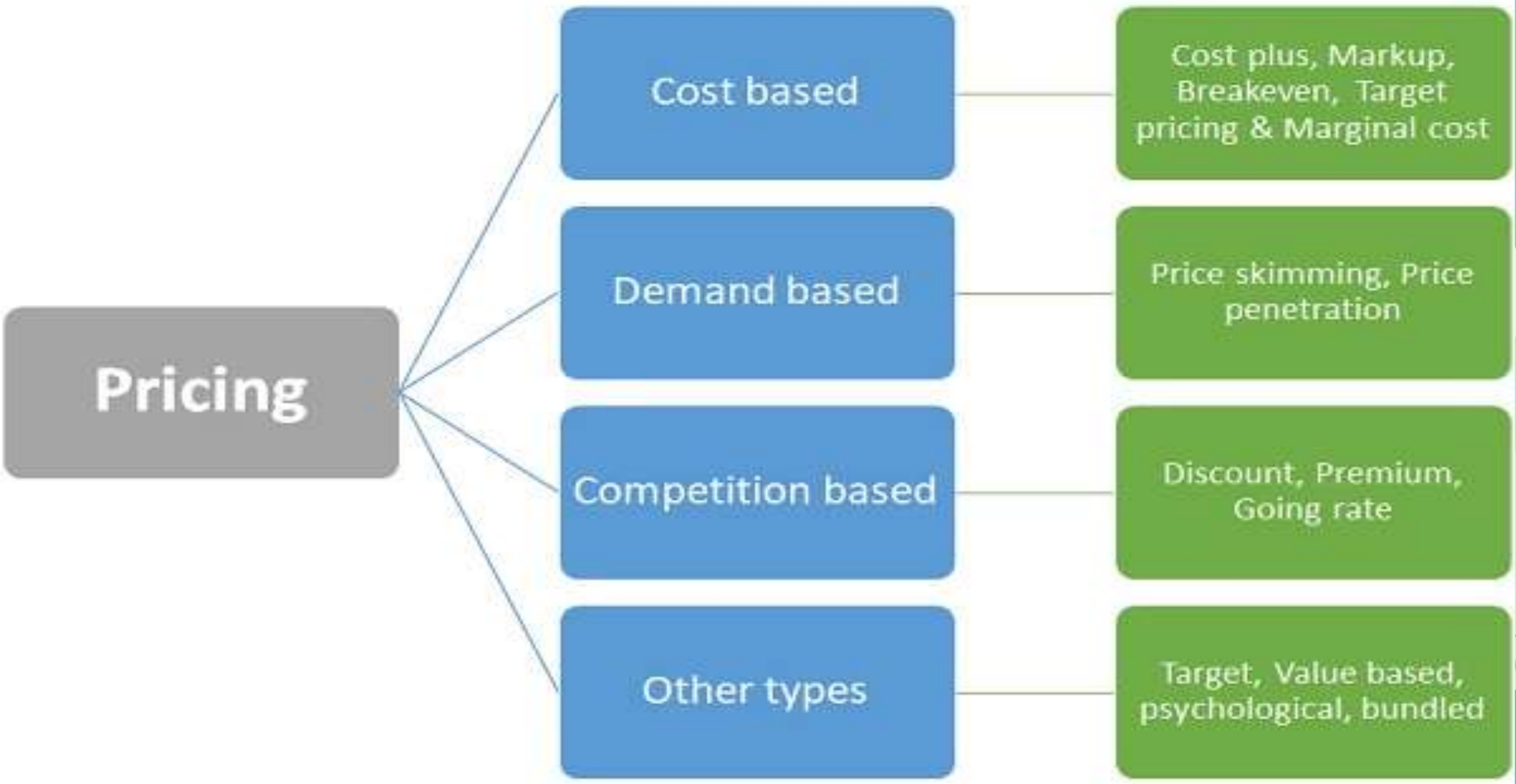
Unit 5 Pricing

Price: Price can also be seen as a measure of a product's value, sofar as people are willing to pay a certain monetary amount to buy it.

What is Pricing Strategy?

- Pricing strategy is the amount of money a company must charge a buyer.
- Pricing is the monetary value which a customer pays to fulfill a need for using a product of service.
- Pricing strategy is an activity which determines what should be the payable amount for a product depending upon factors like demand, cost, competition, market etc.

Pricing


Pricing
Cost based
Demand based
Competition based
Other types
Cost plus, Markup, Breakeven, Target pricing & Marginal cost
Price skimming, Price penetration
Discount, Premium, Going rate
Target, Value based, psychological, bundled

Pricing

Types and Examples of Different Pricing Strategies

- Pricing methods are the methods that firms use to calculate the price of their products. The various methods are as follows:

1. Cost oriented pricing

- After calculating the total production costs, a target profit margin is levied on it.
- **Example** – If the production cost of a pen is Rs.100 and the target profit margin is 10%, then the price of pen would be 100 + 10% of 100 = Rs110.
- Some of the other cost-based methods are cost plus, markup, break even, target & marginal cost strategy.

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- **Cost Plus Pricing**: It is also called as full cost pricing or mark up pricing. In this pricing, the manufacturer calculates the cost of production sustained and includes a fixed percentage (also known as mark up) to obtain the selling price. The mark up of profit is evaluated on the total cost (fixed and variable cost).
- **Markup Pricing-** Here, the fixed number or a percentage of the total cost of a product is added to the product's end price to get the selling price of a product.
- **Target-Returning Pricing-** The company or a firm fix the cost of the product to achieve the Rate of Return on Investment.

Pricing

2. **Demand based pricing** :This strategy is used when their price is determined by customer demand.

Example- price of hotels & hospitality increases during the festive season owing to high demand. Some of the demand-based strategies are price skimming & price penetration.

a. Price skimming: A company enters the market with a higher initial price than their competitors, then lowers it as demand decreases.

b. Penetration pricing: A company enters the market with a lower initial price than their competitors, then raises it after their customer base is established.

Pricing

Skimming price : Take the Apple iPhone, for example – often utilize a price skimming strategy during the initial launch period. Then, after competitors launch rival products, i.e., the Samsung Galaxy, the price of the product drops so that the product retains a competitive advantage.

Penetration Pricing: For example, Reliance JIO entered the Indian telecom industry with a penetration price approach. With its financial capabilities, Reliance JIO was able to acquire the essential facilities and offer the services for three months without charge. However, after three months, the prices steadily rose.

Pricing

3. Competition based pricing

- The prices in this type of method are decided by what the competition is offering. The different types of pricing strategies include discount, premium & going rate methods.
- Example: The rivalry between Coca-Cola and Pepsi is one of the most famous examples of competition-based pricing. Both companies constantly monitor each other's pricing and promotional strategies and adjust their prices accordingly to stay competitive.

Pricing

- With competition-based pricing, competitors' prices are used as a benchmark. and products are priced at, below, or above competitor prices, rather than pricing based on customer demand or production costs.
- It's also known as a competitor-based pricing or a competitive pricing strategy.

Pricing

4.Target Pricing

- Here total investments are determined and a target rate of return is applied to it to attain the desired return on investment.
- **Example** – If the investments in the production of cups are Rs.100 and the target rate of return is 5%, then the price of the cups will be 100 + 5% of 100 = Rs.105.
- Target pricing is a pricing method where a company determines the desired selling price of a product based on market research and competitive analysis. Once the desired selling price is established, the company subtracts its desired profit margin to arrive at the target cost for the product.

Pricing

5. **Value based pricing**

- Here, the price is calculated based on the value being provided to the customers.
- **Example** – If a personal coaching for 10 days in a particular subject is equivalent to attending a coaching class consisting of 20 students for 20 days, then the person would be willing to pay the fee that he pays for the coaching classes for his personal tuitions.
- This is assuming that the coaching class charges higher fee than the personal coaching.

Pricing

6. Psychological pricing

- This is based on the psychological impact that the price would produce on the customers.
- **Example** – These days we see a lot of products are priced at an amount less than some round figure (say Rs.199 instead of Rs.200). This is so because the customers respond positively to such prices.
- Some other pricing strategies which be used as per the requirement, factors, market conditions, margins etc. are bundled, prestige & affordable pricing.

7. **Going-Rate Pricing-** In this method, the company reviews the competitor's rate as a foundation in deciding the rate of their product. Usually, the cost of the product will be more or less the same as the competitors.

Pricing

8.Auction Type Pricing- With more usage of internet, this contemporary pricing method is blooming day by day. Many online platforms like OLX, Quickr, eBay, etc. use online sites to buy and sell the product to the customer.

9.Differential Pricing- This method is applied when the pricing has to be different for different groups or customers. Here, the pricing might differ according to the region, area, product, time etc.

Design of sales organisation

- `Sales Organisation' is part and parcel of the general business organisation of the firm.
- The job of a sound sales organisation is to provide an efficient,economical and flexible administrative set up to ensure timely movement of products from the warehouses to the door of consumers, on such terms satisfactory to both the buyer and the selling house.

Various Forms of Sales Organisation

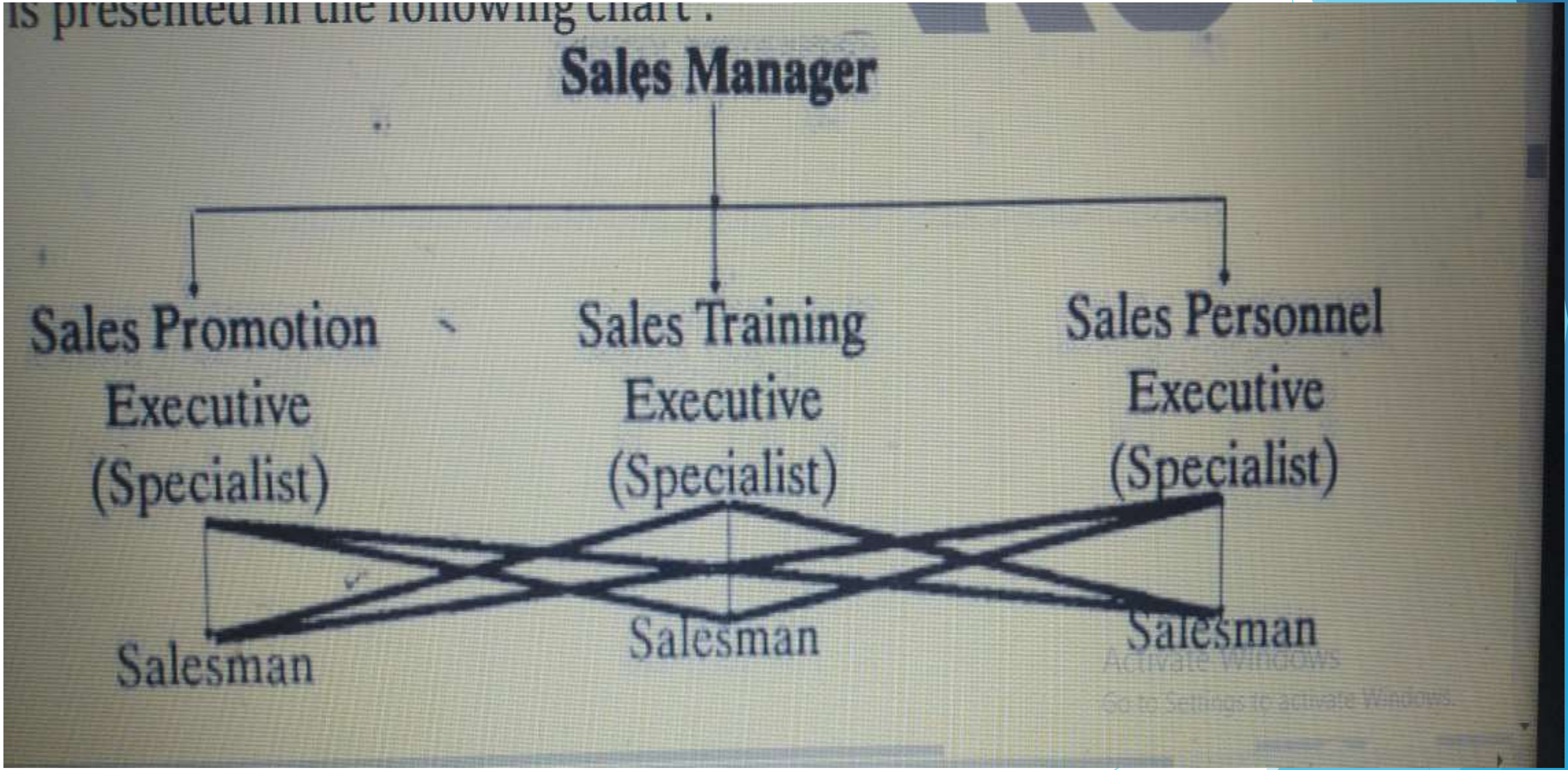
1. Line type of sales organisation
2. Functional Type of Sales Organisation
3. Line and Staff type of Sales Organisation
4. Committee Type of Sales Organisation

Various Forms of Sales Organisation

Characteristics of Functional Type of Sales Organization

1) This from of organisation depends on the principle of Specialisation.
2) Under this method, the work is divided to the last possible division.
3) In this method, the experts are in direct touch with the workers.
4) Employees are responsible to their experts.
5) A salesman gets orders and instructions from many different experts at a time.

Various Forms of Sales Organisation



Various Forms of Sales Organisation

Characteristics of line organisation:

1.There is linear relation between orders ,Orders flow from top to bottom.

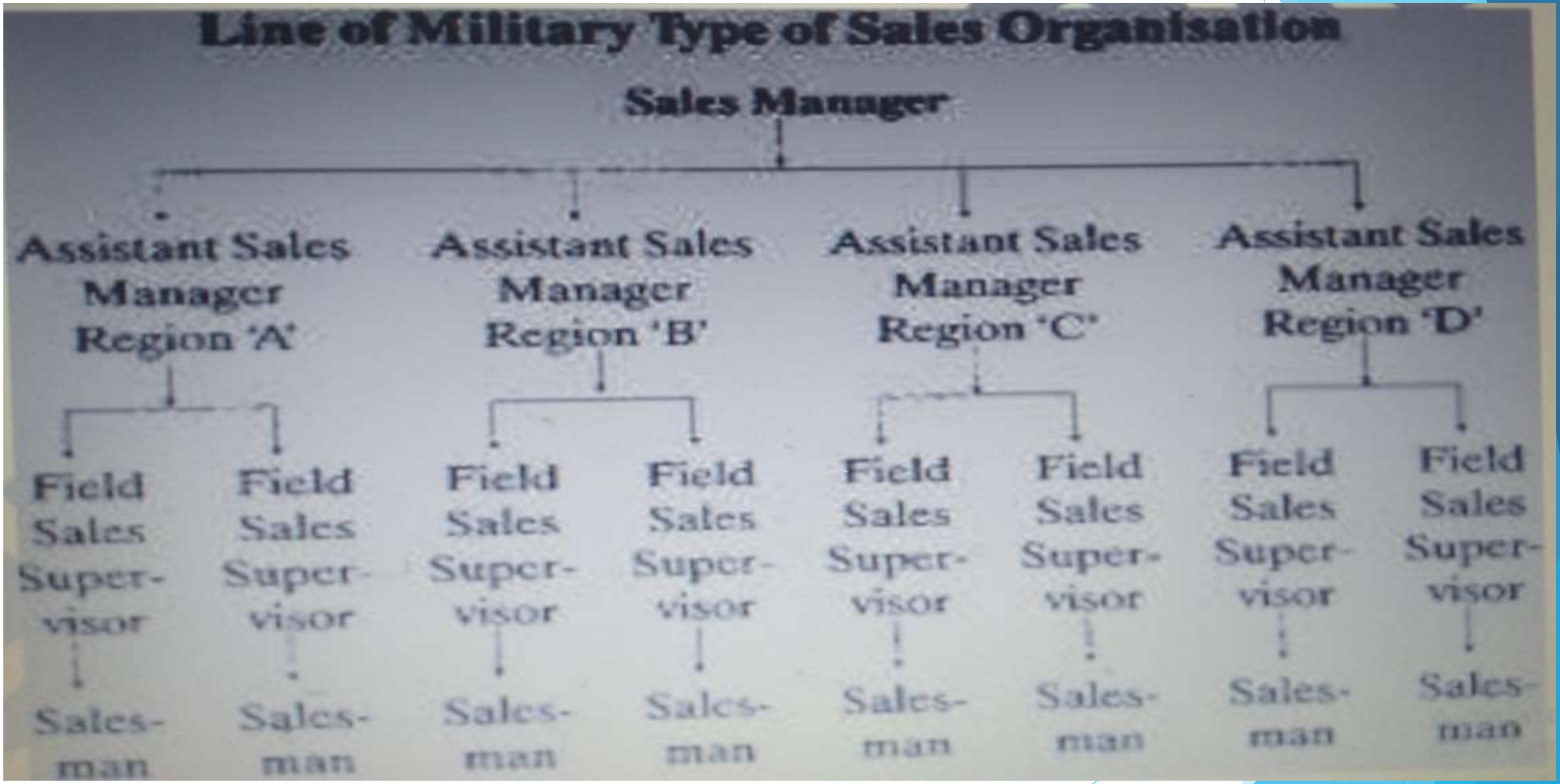
2.Communication between all the employees of organisation is serially arranged.

3.Every senior officer has complete command over his subordinates.

4.Every Subordinate is direct liable to his immediate officer.

5. Number of subordinates under the control of every officer is certain and limited.

Various Forms of Sales Organisation



DIFFERENCE BETWEEN LINE TYPE AND FUNCTIONAL TYPE SALES ORGANISATION

Basis of Difference	Line Type of Sales Organisation	Functional Type of Sales Organisation
1. Flow of Orders	In this form, the orders flows from top to bottom.	In this form, every worker gets the orders and instructions from many officers at one time.
2. Responsibility determination	In this form, responsibility of empolyees can be determined easily.	In this form, it is not possible to determine the responsibility of empolyees.
3. Specialisation	This form of organisation is not based on the principle of specialisation.	This form of organisation is based on the principle of specialisation.
4. Role of Experts	In this form, there is no role of experts.	In this form, experts play an important role.
5. Co-ordination	In this from, co-ordination can be established in the activities of enterprise easily.	In this form, it is very difficult to co-ordinate the different activities of the enterprise.
6. Discipline	In this form, there is very hard discipline.	In this form, the discipline is lethargic.

Various Forms of Sales Organisation

1.Line Type of Sales Organisation:

- It is characterised by direct lines of efforts flowing from top to the bottom of the organisational hierarchy and lines of responsibility flowing in an opposite but equal direct manner.
- Merit—Simplicity, Responsibility, Flexibility, Quick decisions, easy to control, Effective coordination, Proper discipline, Economy.
- Demerits—Over burden on top executives, Autocratic leadership, Lack of initiative at lower level, lack of specialisation, over dependence on top executives, Inflexibility, lack of Co-operation.

Various Forms of Sales Organisation

2. Functional Type of Sales Organisation:

- The work is divided in such a manner that all the officers below the rank of assistant superintendents do minimum possible work of decision making and the particular officer is made responsible for particular work.
- Merits—Efficiency, Large scale production, Research development, Suitable work, Due remuneration, Division of labour, co-operation, Flexible.
- Demerits—Slackness, Lack of Co-ordination, irresponsible, Lethargy, impracticable, Uneconomical, Unhealthy competition, Expensive

Various Forms of Sales Organisation

3. Line and Staff type of Sales Organisation:

- It is a combination of both the line organisation and staff organisation.
- Merits—Service of experts, Specialisation, Research and Investigation, Good opportunities, clear distinction, unity of command, Responsibility, Better decision.
- Demerits—Expensive, Inappropriate, Dependence on Experts, Conflicts, No responsibility of experts, Lack of Co-ordination.

Various Forms of Sales Organisation

4.Committee Type of Sales Organisation:

It consists of a group of people specifically designated some particular assignment on the condition that they will perform it jointly.

Merits—Collective decisions, Communication of information, Mutual Co-operation, Decentralisation of power, Democracy, Indiscrimate decisions, Member's ability, co-ordination, cast' to control.

Demerits—Delay in decision, delay in action, Lack of -motivation, lack of Responsibility, Not Common, Aggressive, Lack of Secrecy, Against minority members, Useless functions, slackness.

Factors Determining the Structure

Factors Determining the Structure

1. Nature of the Product
2. Price of the Product,
3. Nature of the Market
4. Size of the Enterprise
5. Executive Competence
6. Sales Policies
7. Distribution System
8. FinancialRequirements
9. Number of products
10. Extend of competition.