

Marketing Management II
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Lecture No. W5-L1
Introducing to Pricing

Hello and Welcome to our course Marketing Management part II. I am Shashi Shekar Mishra, I am offering this course in collaboration with my senior colleague Prof. Jayantha Chatterjee. Till now we have talked about the first P, that is product in the brand in this module of this course. So, today what I am going to talk about is pricing the second P in this Marketing Mix.

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And as you can recall from if you have gone through the first part of this course, that is Marketing Management Part I. You will understand that certain pricing blunders can cause so heavily to organizations. So, we are again to talk about some of those cases when we discuss this topic what we are going to cover in this topic is like how basically the companies price their products and how basically consumers evaluates the price?

So, we are going to discuss about the pricing in the consumer decision making process towards pricing. Then how do we design? or how do we manage the pricing for the new offering? So, the one of the key question when a new product is launched for when there is no substitute or where no comparable product is present how do you price a product in those

scenarios. So that is another very important aspect of pricing module. Then third thing we are going to talk about is the price adaptation.

So, there is something very important and we see or almost on daily basis that when the company's talk about their pricing. They failed to adopt the pricing with changes in the market and the other important conditions. And then basically we are going to talk about the price change. Basically, how and which conditions you should change the price? How you should change the price, how you should execute the changes in the price? And How you should basically integrate these changes in the pricing with the other aspect of the marketing.

Then we are going to also talk about the response a competitor's price challenge. That is another important aspect that you need to understand it. It cannot be just simply answered in terms of matching the competitor's prices.

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So, I will take you to this marketing in strategic. Marketing process frame work there you can understand that pricing is basically one of the marketing mix that is used to execute the strategic marketing is or the marketing strategies part. So, the pricing is a basically a component or tool to implement basically the this positioning part. Now you will see that there are very common mistakes that companies make by pricing and these common mistakes happens.

I have just listed some of these pricing blunders in the slide that pricing is independent to positioning. Now I would like you to refer back to our one session way here, where we have talked in much detail about the pricing that has costed. So much to the launch of TATA

NANO. What has happened in that the case of TATA NANO, When the NANO was launched.

It was the engineering marvel from the TATA really, we see in India that the R&D is being done and so indigenously and a product comes out almost indigenously from the organization and company has done so much of progress in terms of the engineering and technology. So, what happens is in that case the product is absolutely fine, but when the product was launched at the cost of it was so much of a debate and topic of discussion.

When this was launched at the price point of 1lakh that it was not something which was covered by the Indian media the pricing of the TATA NANO has attracted the attention of entire media from the worldwide. Because many articles came across the worldwide where they talked about a price, a car which is coming at the price less than 2500 dollars which was probably the cheapest car in the world.

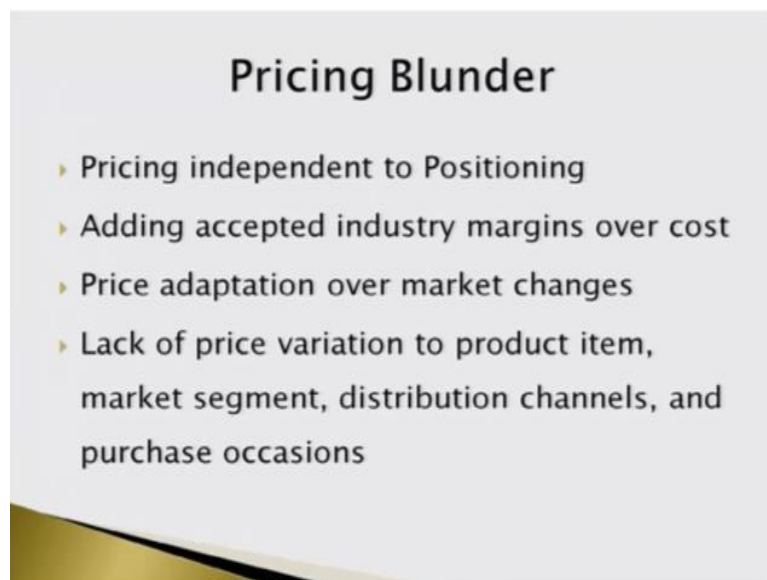
And all this cheapest car tag cost as so much to this car that once it was launched besides the initial rush to have this car. People started looking this car as a basically a very cheap alternative. So, this cheap car tag has costed so much that it has heard the positioning of this product where it was seen something which was indigenously developed. It was very good product in terms of engineering whatever initial problem in any new product or the technology faces with those problems and the media attention and this tag.

So, the cheap car has costed that NANO does not have that kind of social status or it was seen as inferior product. Because it was prices at rupees 1lakh. So that has basically heard the intended positioning of the TATA and people in our society will prefer to have car as the basically one of the symbol of status and that is where it did not gel well with the perception of the people. It has costed a lot to the company you will find out so many examples of similar types and there you can understand when the positioning is the pricing is not use as the strategic tool to reinforce the intended positioning.

Probably car companies cannot expect a very good kind of a market outcome in those scenarios. Another problem that happens where, why pricing the products is that pricing is not in sync with this other three piece or in the case of services. It will be other six piece. So, you will see if you go back to this diagram which have shown to you that pricing is in conjunction with other marketing mix.

So, pricing has to be in close coordination with when you are doing or designing the pricing program you have to make sure that pricing reflect the kind of value inherited in the product. And it should also basically is communicated well and it should also be gel well with the other P that is for place.

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So, you will understand that this pricing is a basically the strategic tool and it has to fulfill the objective or the it has to reinforce the intended take positioning. As well as it has to be well coordinated with the other for three piece of the marketing mix. Then you will see that another problem which industry basically we observe that people just calculate the cost and add some industry accepted common margin to the product and they sell it.

So, now you understand the cost is basically the price is basically cost plus some accepted margin. However, the pricing should reflect the value which is embedded in the product or the value that the product cutters to the customer. So, you will find that the pricing and cost may not necessarily are in exact correlation we will find. We see very commonly in the pharmaceutical industries where the cost of the drug might be very less price, but they are priced on the higher side.

Because they cater to our they cater to the needs of the patients in a way that they are of very superior value every life is so precious. So, you cannot basically just look at in terms of cost plus thing. So, companies a price the product on a higher side and that's a basically a important or a smart marketing their side. Though it can be debated whether this kind of

practices good for the society are not. But apart from that not aspect you will see that the price has to reflect the value rather than basically just having the cost plus some kind of margin way of pricing the product.

Then this price adaptation overall the market changes that is another problem that is being observed in the pricing programs of the organization that once the price is fixed. There are not frequent changes or the price is does not changes from the changes with the changes in the market. It has to be sync with the market changes and one has to be very while designing the pricing program, one has to be very cautious about that they in that their pricing model.

Whatever way they design the pricing and it they should include all those variables in the this design of the pricing program. Then the last thing that is covered in this pricing blunder is that lack of price variation to product items. So, price is another way of differentiating among the product. A customer will expect that if there are two products from the same organization suppose you launch a basically you will very often see that in the car or the automobile industry companies are launching a different variants are same products.

So you will see that one is a standard product and then there is a high end product. So if customer is paying something more for a probably higher version of the product they will expects some kind of a additional. So, in that case, you will you have to understand that if you are providing something extra benefit. So, the pricing has to differentiate that extra level of the benefits. Another thing is pricing is also has to vary with this market segment wise pricing what we call is.

Another important think that you will see in fact we have talked about the example of IRCTC with this ticket booking process. Where what happens is that if you go and book the tickets through the regular window of this ticket railway reservation centers you will find that the price of those tickets are costlier. In the case of what of you booked through the IRCTC though it might be saving lot of costs on the part of railway to getting the tickets booked through those waves.

But it is still they are pricing it on a higher side because they understand very well that as a customer you are saving lot in a terms of your time your psychological efforts. In fact, your physiological efforts that you have to stand in a long cue and with those kind of benefits they

are able to charge slightly higher and as a customer we don't mind paying something extra. So, the customer who are going through different channels actually they are charged differently.

Then you also see that distribution channels, you will see that the one very obvious example of this distribution channel is that online versus offline product pricing. So, or within online channels you will see that there are so many this E-Commerce vendors and the pricing prices across these vendors may not vary. Because associated services or the product quality for the product policies of these online vendors will differ and that is the pricing will differ and also the pricing differ in terms of the purchase occasions also.

So, depending on the what kind of purchase occasion or the consumption of case and it is the pricing also varies.

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So, you will understand in today in fact in today's capital is worth there is worth there is nothing like free lunch. So, everything that we free lunch, so everything that we consume or where everything that we purchase we have to pay the cost. I have listed some of the synonyms of this price as a customer what we pay. So, when stay in a rented house we have to pay the monthly or whatever mode of payment.

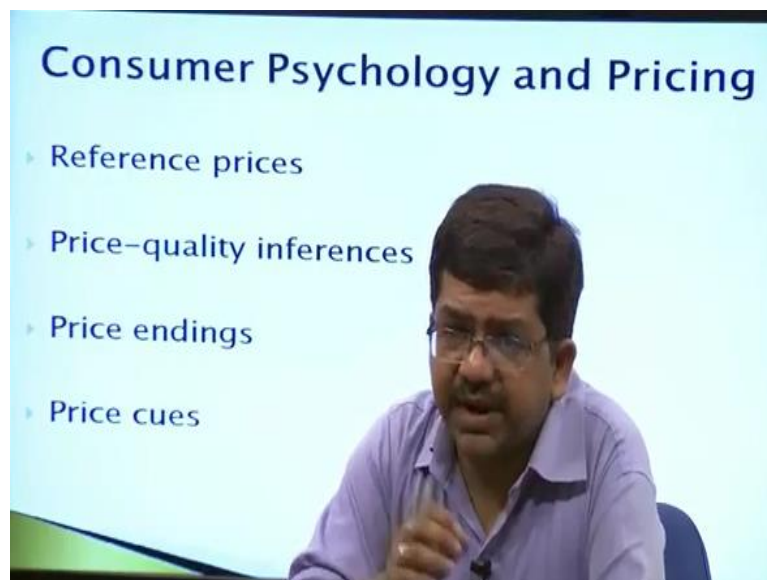
It is also we have to pay some rent as a student, you have to pay the tuition fee for your educational programs, as a basically a travelers we have to pay the fare for whatever transportation mode we are using the rate is also is another term. So, product are basically

kept in terms of the rate when you cross the highways or you have to pay the toll the premium.

That you pay for having some kind of product or the service honorarium that is provided additional to the salary or something for the extra work done by someone membership fees that if you are a some club or some kind of groups then you have to pay the membership fees very commonly known in our society. That this bribe is another form of a fee that a person has to pay to get his work done. So not a very ethical way.

But it exists, due salary these are some of the form of the price that one has to pay important way of an important way of an important form of prices that attacks that we have to pay for the services that is rendered by the government. So, you will see that nothing comes actually free and that is why I all this slide as no free lunch. You will see that we have to pay a price for almost every product or the service that we consume in the society with this.

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I will take you forward to the important thing in this pricing is that, how basically the consumer process is pricing information and as I have ready said like price should not only be seen a basically a price tag it should be seen as something in strategic tool and one has to understand how the consumer process this information of the pricing. So, one of the important thing in your will see that consumer psychology is that reference prices how basically consumers equate the prices of a product with the respect to different references we will talk about it.

Then price quality inferences price endings the numbers which are there. So, there is some kind of numerology inside it price cues now we're talking about consumer reference prices.

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We see that there are different ways in which actually a consumer create some kind of reference in their mind to see whether this price is in sync with our a this is a basically a price that they should pay. So, one will see that whether it is a fair price or from his past experiences or what he has learned over the period of time or what he has heard about the product or what he can guess from the constituent of the product based on some based on some of these things consumer can understand, whether this is the fair price for a product.

So, when you go for shopping a product you see whether when you see certain kinds of services being rendered and you see the time of that the time being invested in creating those kinds of services. You can understand that this is the unit cost of the people are the inputs in creation of that service and when you calculate you do some kind of backward calculation you can understand that is the cost of this product. So this is a whether the pricing that a vendor is offering is a offering fair price or not.

Then there is another reference price which is in the form of typical price like, what are the basically the prices that seem the market for such kind of product or the service this. Probably you know from mostly from your past experiences then we talk about the last price paid this comes from what you have purchased from the last time and from there. Basically, you see how much the difference in this new pricing and the last pricing is and if there is a increment or a decrease in the pricing.

You will try to first figure out whether there is some kind of reason or something is happening that is making basically making you to pay more or pay less. So, then the next thing is this upper bound prices the maximum price is the customer you can pay. It is related with the maximum value that product creates and willingness to pay. So, that is something then lower bound pieces lower bound crisis cannot be less than the cost of the product. Then what are the competitor's prices expected future prices and user usual discounted price.

This is something which is very commonly observed in today's world where companies price their product they will show the MRP and then will say some kind of 20 30 40 percent of the discount and then you understand this kind of discounts are very common for such kind of products and from there actually you see one of the basically the not so good side of this kind of discounted pricing is that consumers really figure out what is the true price or what is the exact or the fair price. But the one of the cues that company is giving from this kind pricing is that you are getting something at less than its actual value.

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So that is basically the efforts from the company side through this reference pricing then in terms of for this consumer perception versus reality you will see that many brands are overvalued brand or many brands which are undervalued brands. So, some of the brand from the survey of some of these US and European nations is like brand land rover Mercedes some of these grants are rated as overvalued brand in some of the service.

On the other side, there are undervalued brand also. So, and similarly you can see in Indian context also some of the brands are overvalued some of the brands are undervalued in the sense the does not cater the value or its price is much higher than what it should be actually. On the other side, there are brands which cater much superior value then actually the they costing to you as a consumer.

So maybe as an exercise what you can do in the forum is just a fun exercise you can rate a three are overvalued brand and three undervalued branch from the Indian context and you can post it. So that we can probably discuss it in our discussion section then I will talk about this price cues.

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So, there are some of the concept in the price cues of the concept in the price cues which are commonly known is that you see the company's why company or an organization is pricing a product at dollar 299 or rupees 299 rather than the rupees 300. When there is so much problem of this change of 1 rupees so why this kind of pricing happens the kind of pricing happens.

Because you yourself can observe right now that when you start looking at a price is then you do not start from the last digit that is the 9 or 00. You start your processing this information from the left to right. So first you look at the pricing at 200 range, so as a customer you try to see that the price is on the 200 side rather than it is at 300. So that is what basically the psychology that works here.

And there are other things also like odd number discount perception. That odd numbers are basically as a way of product which is available at the discount on the side the even number ending is basically seen as a something which is related with the high value product. Then also you will see that many a times where we see that the huge kind of banners outside the stores or within stores you will see that a different places in the stores.

You will see that sale sign is put to just to show that customer that the product is available at a discount. And that is something basically a catching point or something which attracts the consumer attraction which is getting short every day. So, this is used as a basically a tool to capture the consumer attraction.

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So these are some of the things that we have discussed in terms of the consumer psychology. But one has to be careful when they are trying to basically send some kind of cues to the customer through their pricing that the cues can be given in the situation. When the consumer knowledge is low or product is purchase infrequently or the design changes in the product quite often so.

So, the customers are unable to detect the changes. In this kind of price change over's and they can if they are able to detect the they will see that they have reason to justify this kind of changes. So, with this probably, I will stop here and when will meet in the next session, we will talk further about the pricing and then we look into the ways are the method of pricing and the different aspect of this pricing methods. Thank you very much!