Marketing Management - II
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Lecture No. W5-L6
Different Methods of Pricing II

Hello Friends, Welcome our concluding section on this of module of pricing. So, we were talking about the method of setting the prices and then we have started discussing of about different methods which are available at the disposable disposal of a marketeer to at probably to use them for coming out with the final price of their product.

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And we have discussed about markup pricing and then we have discussed about target return pricing and we have discussed about perceived value pricing. Now just to gave you a brief recap of what we have discussed in this three different types of Pricing Method Markup Pricing is about this formula that you have a desired return on sales in your mind as a marketeer you assess the what should with the ideal desired return on a scale.

So that you can achieve the amount of profit or revenues that you are targeting as well as you can you use or what will be the market response or what kind of market response will be and based on those things you basically come out at market price unit cost divided by 1 - desired return on sales.

You can recall that, I gave you example in the numerical calculation that if a product is a of unique cost is 80 rupees and your desired return on sales is 20 percent the Market pricing will come out to be 100 rupees. Now I also told you about this thing that markup pricing actually mixes on the some of the important contingent factors which are present in the market.

Like competition perceived value of the product that and the demand and the current demand of the product. So, these factors are ignored in this pricing methods though despite these thing this methods is popular in some of the industries wise practices are market pricing. Because it's quite a simplified method of pricing a product and estimation of demand compared to estimation of the demand estimation of the cost be much more easier.

In that way, the pricing is easier for marketeer to implement actually then I talked about target return pricing actually assumes are predict that with what kind of sales level the product and achieve the based on that the number of unit that will be sold you apply this formula of target return pricing and you get basically the final value of the target return and price.

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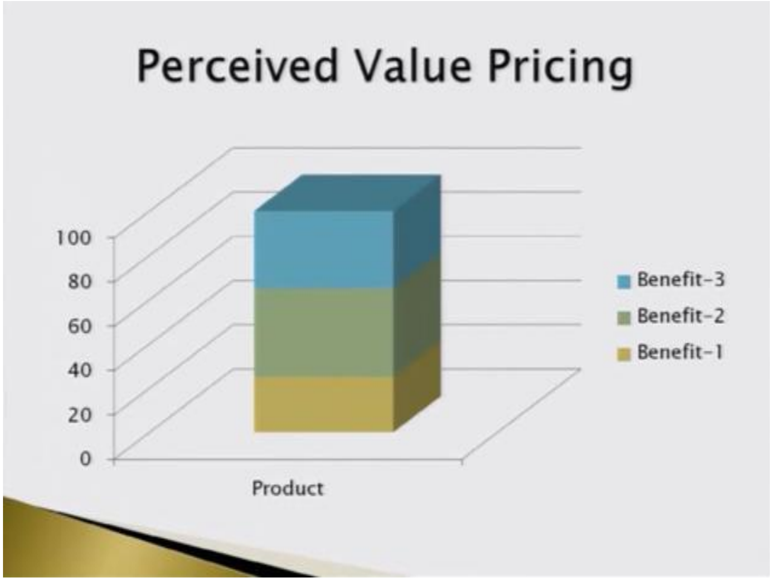

So, then the third was then now one thing I would like to again to bring you notice on here is this target return pricing and this markup pricing is more of a seller's perspective that what they want to basically the price or what is their cost and how they want to sell. On the other side, the next method I have discussed was perceived value pricing which is more from the customer side or the benefit that is being offered by a product or the value that is being catered by a product.

So pressured value pricing is about the total benefit that product creates and what is the value of those benefits and accordingly you price your product.

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So, then this is more of a basically a market based or the pressured value that a customer believes that a product is delivering it is from that perspective.

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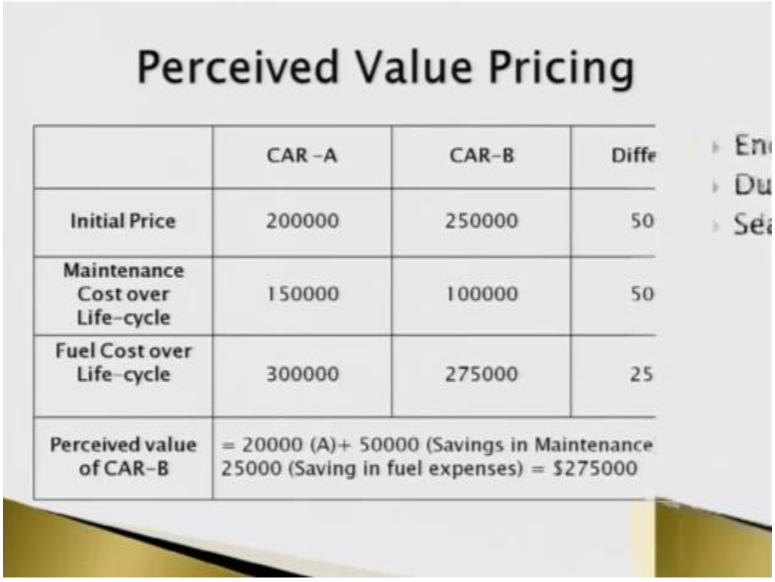

	CAR -A	CAR-B	Diffe
Initial Price	200000	250000	50
Maintenance Cost over Life-cycle	150000	100000	50
Fuel Cost over Life-cycle	300000	275000	25
Perceived value of CAR-B	= 20000 (A)+ 50000 (Savings in Maintenance 25000 (Saving in fuel expenses) = $275000		

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And then basically you see that one is a seller basically more of cost one more of perceived value to however in the actual market you will see that the competition is another important factor that is presence that is present. So, another type in pricing method is, we actually capture the essence of the competitors in the market is this Auction-Type Pricing is in caution type pricing.

You will see that different ways of you will see that auction happened in different ways one is English auctions where you start from lowest price point and then you moved to on the highest bitter and the product is sold to the person who bits the highest. On the other side, the Dutch Auction is opposite to what the English auctions is.

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And here in the Dutch auction given you an example. Here is that, for example, let us assume company XYZ wants to share 10 million shares using a Dutch auction to participate in a Dutch auction.

An investor typical opens an account with the company XYZ jets underwriter usually a investment bank obtains a prospectors and obtains an excess code or bidder identification code with which they put their price in the optioning process and that option often occurs in online during bidder investor indicates how many shares they are willing to buy and the price they are willing to pay.

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Now in this examples of 10 million shares the building shares you will see that the bidding starts at a 40-dollar price bed and at that price point there is no bidder which is ready to buy at 40 dollar. On the other the next level which is 36 dollars you will find the two bits comes in and with basically that total share these bits are ready to Y1 million now at the dollar 35 we will find out another 4 bits are available at dollar of 35 the total numbers of cumulative share that can be sold is equals to 5 million.

At 34 dollars, you will find out that you have 10 bits and the total number of a share that can be sold is equivalent to 10 million. So, this is the final price according to Dutch auction method that all the 10 million share can be sold at 34 dollars to this among the state 10 bits which are which has come online.

So, in this way you will see that the price come from a ascending order in the descending order way and whichever is the final price the all the customers are sold the shares are whatever the product is on at that price point you will see those to summarize this entire different method of pricing method here you will understand that while we talk about more in terms of the seller’s perspective in the case of markup and target return pricing in the case of perceived value pricing.

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So, you look into the maximum value that product is creating and then you have to understand what is the willingness of the customer to pay so that is the higher or the seer top side or the ceiling of the pricing that can happen on the other side. You will see that pricing will see happen somewhere in between because competition based factors also comes in and depending on the what kind of competition you have if you have a very fierce competition.

Where the offerings among the different sellers are not differentiated much or for the sake the customer does not differentiate much among the offerings of the different seller you will see that what happen in that case is prices are predominantly determined by the competition or you will not find out much of the difference in the prices between different seller on the other side.

When you have a very differentiated offering which is present in the market though there might other products are the other substitute available but if the customer believes that the product is very different from the rest of the products available in the market. Then you will see the pricing is more titled towards super see value pricing another aspect of this pricing strategy or the final price point is that in depending on the kind of competition and the kind of the capacity.

If the supply is more than the demand you will see again this the pricing will move from competition based pricing towards more of a recovering the total cost of the product so in that case prices price this will tend to just recover the fixed cost plus variable costs kind of scenarios for all the place in the market.

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So, the summary of for the entire pricing it till now what we have discussed is if we try to understand the surprise quality perception of the customer that customer try to access the quality of a product were depending on its price a different kind of scenario can be built or depending on these two factors products quality in price. So, depending on what kind of product quality your product is delivering whether it is low medium or high or prices on a low medium and high side.

You will see that when the product is the cheap and the product quality is also very chill very low then that is basically chief value strategy. Where a customer is not at all expecting a product of high quality and neither they have value strategy on the other side. You will see that when your product quality is of highest in nature and your prices are on a higher side that that is a basically premium strategy on the other side there are some more recommended strategy like high value strategy.

Where your product quality is high but your prices are on the medium side. So, in that case basically you are delivering a superior value or what you say high value strategy the cases where product quality is high but you are selling at a very low price that is a super value strategy although it may sound very good in term of that it will attract lot of customer.

But one has to also look into the financial viability of this kind of pricing strategy there are a number of companies. Which are also operating in India which offer the superior value basically something like this at medium price level they provide a very high-quality product to the customer in the sense and companies like indigo airlines or if you take a barter or you take liberty or if you take the example of big bazaar they are all coming out with a very good quality product Or, then they are offering very good quality services but their prices are not that high so this is basically, superior value.

So kind of strategy on the other side you also have certain product where the product quality is not that high but the prices are basically on very higher sides so those are of a rip-off mind of product and in those the customer are I am not going to prefer unless and until it is a scenario where you do not have any other substitute for those kind of product and those are essential product without which the customer cannot survive actually, so with this basically that I come on thus the last step of this setting the price is that selecting the final price is that selecting the final price now when we go for we have selected the pricing method.

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And we coming on to this final price point we need also look into certain other factor like what is the impact of other marketing activities now what are the companies were the pricing policy of that company or the organization gain and risk sharing pricing policy and impact of prices on other parties. So, these are some of the important things which we needs to be considered before finally setting the prices.

And I will talk about some of the these things in next few slides so you see basically this one thing is that that whatever price you said you need to basically adapt your prices and this price adaptation happens in terms of geographical pricing in terms of discount and allowances.

That you offer depending on the market and competition factors then you have promotional pricing differentiated pricing in the geographical pricing you will see that this kind of pricing which is very obvious to be noted when you move from one place to other place particularly when you move from one country through to the other country or for that matter sometimes from one city to other city or from one state to the other state you will find that prices vary and why the prices vary.

Because of the different demand and the supply factor because the cost of delivering a product might be higher in one state compared to the other state for that matter the transportation costs the cost of the people and the labor costs might be hired that are going as an input costs in into the production in the delivery of those product. So, in those cases you will find out in the cost is either automatically the prices of the product are on going to be on a higher side and in those cases the pricing has to vary depending on the these variables.

The variation in these some of these variables another important aspect of this geographical price adaptation is that sometimes you will also observe that the demand also vary for the product from context to context so in one culture probably. Where the austerity is the way of life on the other culture where people love to indulge in the products so you will find out that restaurant might price in on higher side.

Where probably people love to basically hang out outside with the people on the other side you will find out that the other place where austerity and all those kinds of philosophical paradigms probably exists the customer may not be ready to pay or a much higher or in those kinds of scenario. So, going out and having time with friends might not be a probably a very common idea in those cases you will see that prices are not so that high to at least get some kind of hold on the market.

So, this is a basically one example of geographical price adaptation then you have discount and allowances in the form that you provide cash discount that to you this is very common in the B2B trade or any trade transaction that if the customer pays all the amount all the price of a product then they get certain kind of a certain amount of cash discount in terms of two percent three percent kind of the going rate of this cash discount.

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Then you have quantity discount that as you increase as you buy more of a product. You will see in a grocery product or in or many product you will see that this kind of thing exists even in the consumer market that the more that you buy you will get the more discount however in the Indian context you will also see that there are certain products.

Where the you buy more but as you buy as you buy more that the product price is on higher side one example of this is that shampoo so is the shampoo that comes in Shea is in much cheaper compared to the share the bottled shampoo product where the prices on a higher side. So, one has to understand because which is more important and which kind of segment they are selling to then you have functional discount that is offered to your trade partners depending on the kind of job are the kind of activities are the kind of value added activities.

They are providing to you so if they are partnering to you in the trade promotion if they are keeping extra stock of your product so in those cases functional discounts are also provided to your trade partners and then you have seasonal discount that that is being offered to trade partners in the sense.

That if you are selling more number of unit in or off time our off season then probably you get a better price there are other kind of basically price adaptation is things like butter compensation like deal buyback arrangement offset. So basically, the sellers basically try to come out with a mechanism. So that the buyer if he is not able to pay directly they can pay in terms of other product or other services like one example is that when pepsi sells that cola set off to its partners in the Russia they sell that in return for the vodka it sounds a good deal that you get her basically a liquor that in return of epoxy that you sell so these are the different kind of arrangement.

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That are possible then there are different kind of promotional pricing and tactics which exists like loss leader pricing that you sell certain product as a loss. So that you sell a product basically at the bare minimum price or you try to just recover the cost of the product. So that you can attract the customer to your basically place and you can acquire the customer. So that that is seen as a sacrifice for the profit margin for those product is seen as the customer acquisition cost and then you have a special event pricing that you sell.

A product on a certain occasion at a different price point or unknown lower prices so that you try to promote or you try to sell more number of products. So, cash rebates I have already discussed low interest financing which is very popular in the case of automobile you try to minimize the initial cost of the customer and you try to make the pricing which is easier for the customer to afford.

And then you try to basically break the pricing in a way that the customer can you pay in installments or the easy emit which are manageable for them to afford on and you have longer payment terms you try to basically increase the term of or the tire time period in which the customer pays then.

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You have differentiated pricing now this is something which is an important aspect of the pricing is that market is tend to price product differently depending on the customer segments they are the selling that depending on the product from they are selling the kind of image they have the channel pricing the location the time and the yield so depending on this pricing you will find out that the pricing is differentiated and you will often see in that the customer depending on the customer segment.

Whether if, you are a premium segment or basically where you are a mass segment the pricing will differ you will see that in the in the basically airlines the customer in the economy are charged differently compared to basically what customer are charged for the business class because they are offered different kind of services convenience all the different kind of things in those case the customer segments pricing will you will see different level of pricing. Now you will also see that sometimes that that the product is not changed.

But the kind of ambience or the kind of environment or the associated services. Which are offered with the product that will actually cause a differentiation in the pricing another differentiation in the pricing that can be observed is in product form pricing. That if you change the form of the product the prices will differ because the changing the form may make it easier for the customer to have basically use the product or it will increase the kind of the kind of that convenience.

Or the utility of the product will get increased so the product form pricing is one I have talked about the iritic pricing very we you book the tickets online you get a product at that is the same product might the railway might be saving the money. But since you are getting more convenience the online pricing is on a higher side another star type product form pricing is that you see that a product is offered at the tree three level a basic product in the case of the automobile.

The base model will cost you the least on the other side the premium model with added features and some added components or some other benefits. You will find out in the case of those the highest variant will probably come at the much higher price then you will see that the price also changes with this yield. Actually, this is of a phenomena which is very common in the case of the services is that if you book the ticket much ahead of the time.

If you book at thrifty cut for any airlines three months prior to the travel then the prices might be on the lowest side. But if you book the same key cut for that II lines maybe one week before that the prices might be on the highest sides so and in the same airlines industry you will also find out that some airlines might be offering at the last-minute prices might be very less that is very common practice in the probably us and Europe among some of the airlines.

Where they do not want their capacity to go waste it because if a seat remains vacant in a any aircraft it is a basically a lost capacity those cases they just want to have the bare minimum cost or the lowest price is being offered to customer to recover some kind of customers so these are basically that the different examples of differentiated pricing.

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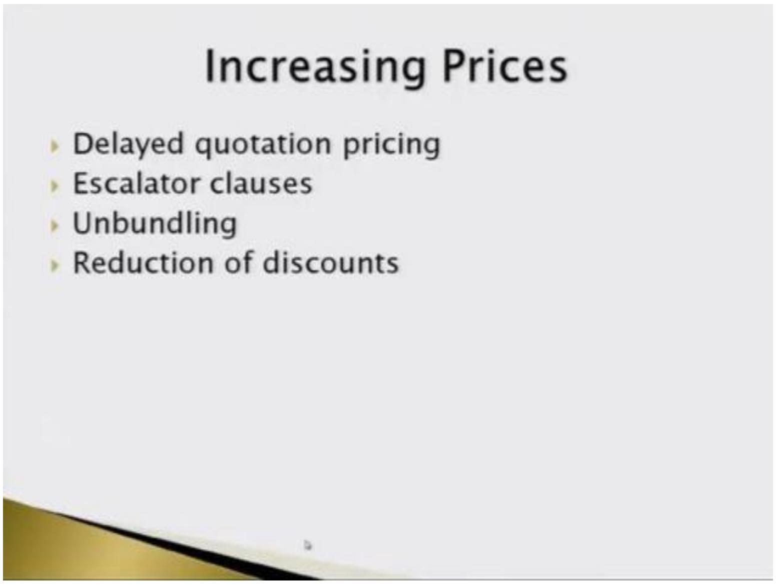

And you have something like, how you can increase the prices are in which cases the prices are increased is some of the examples are given here is a delayed quotation pricing. Where you do not submit the pricing at the beginning, you understand that cost is subject to variation in those cases once the project gets completed or the product is finally delivered you try to give the prices at that point of time some service provider or in some cases the prime in the in the product or that the contract which a buyer and seller gets into the there is arrangement for the escalation.

In the prices in the sense like if the currency fluctuation happens or the inflation happens in those cases the seller can revise the prices and that is another way of differentiated pricing also. So, with this I will stop here and most of the things. I have covered in the press pricing module and maybe you can go back and revise all the concepts that we have discussed and if you have any other query regarding this topic you can post in our discussion forum and when we will meet in the next week.

We will talk about another module or we will start a new topic on this marketing management part II. Thank you very much!