Sales and Distribution Management
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Lecture – 07
Determining Sales Related Marketing Policies

[FL]. We will now be continuing with our second lecture on second module of this course on Sales Management. This particular lecture is lecture 7 and we would be continuing with the previous topic, which is Determining Sales related Marketing Policies.

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In this particular lecture, we should be continuing with the marketing-mix policies. In the previous lecture, we have spoken about the basics of sales related marketing policies, and we have also discussed the product and distribution related policies. In this particular lecture, we will be speaking about price related policies.

So, let us first begin with the basics of sales related marketing policies. And I will just give you an in brief introduction in fact a quick recap of what we did in the previous session. And where we spoke about how important sales related policies are for salesperson and for the sales executive. While these policies are formulated by the top management, the performance of the sales executives and the sales team actually depends upon these policies. And the manner in which or the success of a salesperson and the sales team depends immensely on the policies which are enunciated by the middle and the top management.

While the sales team or the sales executive do not play a role in the planning or in the policy or setting up of policies with respect to the marketing-mix, their performance is affected. And they do play a very minor role, when if and when the middle and the top management does seek advice or does seek opinion from them, you know with, you know maybe it is customer feedback, or maybe it is customer reaction, or whether there is you know the middle management, or the top management seeks information related to the market conditions, or the competitors, or the customer reactions, or you know customer suggestion.

So, these are things which are this kind of information is collected by the sales team. And further transferred to, or communicated to the middle management, or the top management who formulate these policies. The implementation of the policies is the job of the sales team. And whatever these policies are with respect to the 4 p's the performance of the sales team and the achievement of the targets and the performance of at the sales office depends immensely on these policies.

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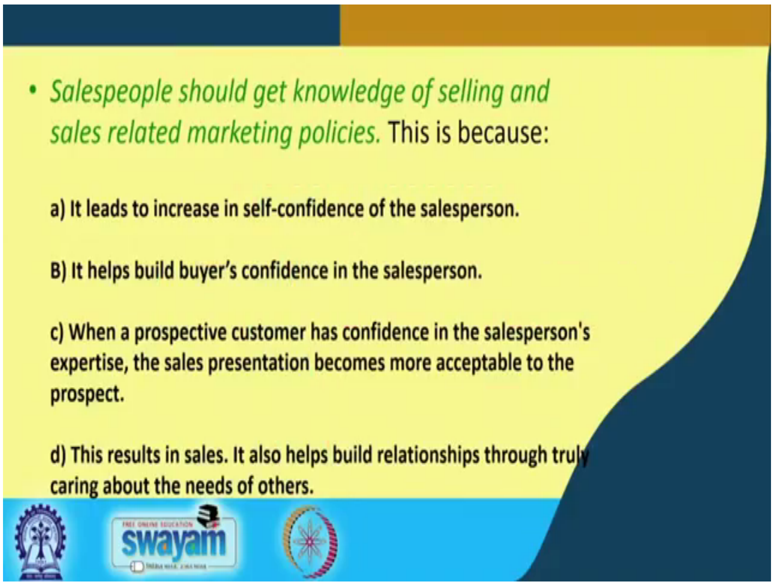

So, in the pre is we, we have discussed in the previous lecture that salesperson should get knowledge about, the selling and the sales related policies, because it builds confidence in them. And when they are confident about what they are saying and speaking and the manner each, which they are communicating with the customers whether existing or actual also instills a feeling of confidence in the buyer. And the buyer feels that yes, I am being taken care of the salesperson is something somebody who knows business, who knows things and I can rely upon him for advice. And I in case I do buy a product or the service, I can be convinced that I am doing the right thing and I can be assured of service in future.

So, sales people must actually have knowledge about their organization. They must have knowledge about the market share, the size of operations of the organization, the kind of products that the organization, manufactures and sells. Also they must have idea about the different kinds of products manufactured, the mid the big clients that the company has. And they should have information about the entire marketing make speed the product, the price, the place or the promotion. So, that would help the sales people and that is why the sales people should have an idea even about the marketing-mix policies.

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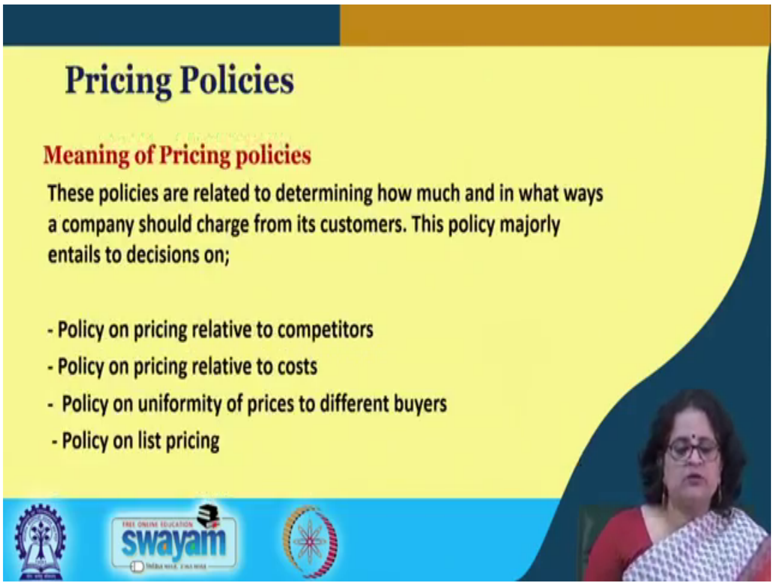

So, we will now talk about the pricing policies. Now, pricing policies are related to determining how much and in what way a company would charge from the customers. Majority of decisions which are taken with respect to purchase decisions are always taken keeping the price in mind more many of us by products and services keeping the cost factor in mind. In the case of B to C, we often driven by deals and discounts and prices; in the case of B to B scenario, it is the quality you know which matters, but it is also price which matters and min very often companies see as for bids and the bid, the goes in is goes in favor of those who have quoted the least in terms of pricing.

So, pricing that definitely has a big role to play you know in determining whether a customer will favor a particular brand or it would favor another brand. And the policy is here basically related to determining, how much and in what way a company should charge from its competitors. So that they can you know gain a competitive edge in the market keeping in mind the price factor. The prices are such that they are they give profits, they earn profits for the company, but they also are low enough to you know to attract people towards them and not towards the competitor. So, we will speak about pricing on relative to competition, relative to costs, also policy on uniformity of pricing to different buyers and on list pricing.

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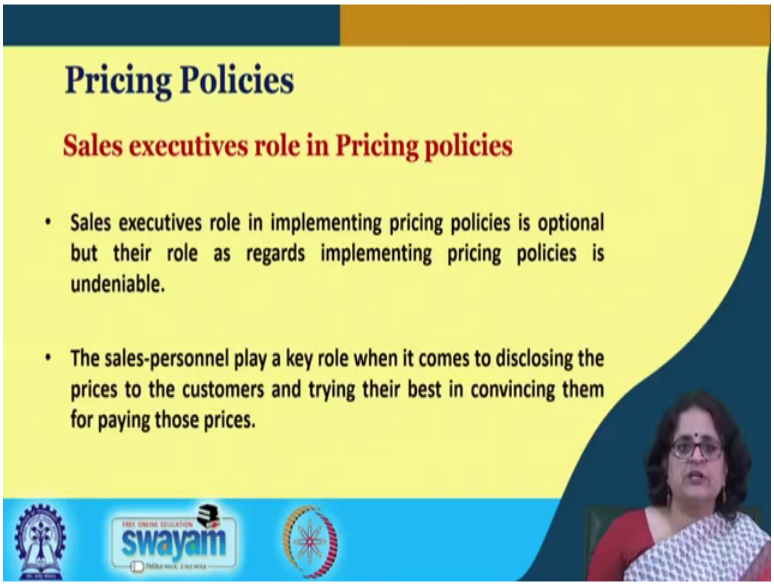

So, let us start with the first which is relative to competitor. Here again the sales executives roles in the pricing policy is optional, but as I said the role as regards implementing is undeniable. And again whenever salesperson plays a key role, he has to actually talk about prices, he has to disclose the prices to the customers, and he has to convince them for paying a particular price. Even if it is you know against you know a much lesser than the competitor, so that is why competitive pricing is important.

The sales executive as I said would not have a role again, a in determining the right price for the company or in setting the price, but they definitely have a role major role in implementing the pricing policy. And the when he has to sell the one big question, which the customer often ask is how much does it cost, what do I have to pay ok. Now, here the salesperson is has to deal with this tricky question, because he knows that if we you know the price maybe something, which may you know at attract the customer. And he know the customer may patronize this brand, or offering, or it may be such that if it is lower than the, if it is higher than the competitor, then the customer may get straight away towards the competitor, he may go away towards the competitive offering and no salesperson would want that.

So, in such situations the salesperson tries to talk about the price, and he tries to you know illustrate the value proposition by saying that what he gives as a product as a brand, as a value, as a service is something, which is more value to the customer as compared to the competitor. And then he has to prepare a presentation accordingly, and he has to convince him that what he is charging is the right price and why the customer should be actually paying their price ok.

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So, moving further when you are talking about pricing relative to the competitor. A company in order to survive cannot ignore competitors pricing policy. You know and price I would like to say here add a few lines, a few sentences more about price. Price is the only P in the marketing-mix, which is revenue generating all the other piece, whether it is product, whether it is place, whether it is promotion are all cost incurring ok. So, price is the only P which is revenue generated.

Second thing very important about price is that it is one of the most flexible piece or we can change it very quickly as and when we want it, you may reduce it, we may you know increase it, we may decrease it, we may increase it, we may change it. And it is something which is very flexible unlike other pieces, but it is also very volatile, because it brings in for a you know a lot of changes, a lot of reactions with respect to the various stakeholders any price change whether a price cut or a price rise will bring on a series of reactions from different stakeholders, be it competitors, be it customers, be it the dealers the distributors, be it the vendors. So, pricing decisions are one of the most crucial decisions that a company actually faces.

And coming through the pricing with respect to the competitive offering, your company here will always and always keep in mind, what is my competitor charging. If he charge; if I charge the same should, I charge the same, or should I reduce it, or should I increase it is going to be perceived differently absolutely differently by the different stakeholders ok. And it may also lead to reaction from the competitor, who may initiate a price cut if you have initiated a price cut, if you gone in for a price increase, he may also go in for a price increase. So, it is something which is very, very volatile and pricing decisions are one of the most crucial decisions that a company has to take.

A company if it has to survive cannot afford, to ignore what the competitor is doing and in terms of prices and companies often price the product at the same level at which the competitors are offering. In case they do not then they try, they try to showcase the product or something, which is more superior, which is better in quality, service or they would like to you know show, how it is a better value proposition than though that of the competitor.

So, in case the competition is not price based companies can adopt any one of the options, it can either match with the competitors prices. And so collective wisdom holds everybody all competitors in the industry charge the same prices ok. So, this particular company also decides to charge the same price, because the competitor is charging price X, I must also charge price X.

Another could be price above the competitors prices, where this marketer may have the option of pricing his product higher than what the competitor is doing. Now, this is possible only and only, when one you are offering a value proposition, which is more lucrative; two, you have a brand image and you have a it is a premium brand image, and you can afford to charge prices higher prices and people will be ready to buy ok.

Otherwise pricing above competitors prices may not be very, very easy. Another, you know or scenario very good prices if you are a first mover, and you come up with an innovative offering and which is something absolutely unique and novel. Another option when the marketer has is to price below the competitors prices. Now, this may bring in quick sales, this will bring in market share, but it also is a question mark, on the credibility, on the quality, on the value proposition. Why is he charging low than the competitor? It also could mean a dilution of your brand image ok. So, come the marketers have they can adopt any of these options, they can either match with the competitors prices, they can price above the competitor or they can price below the competitor.

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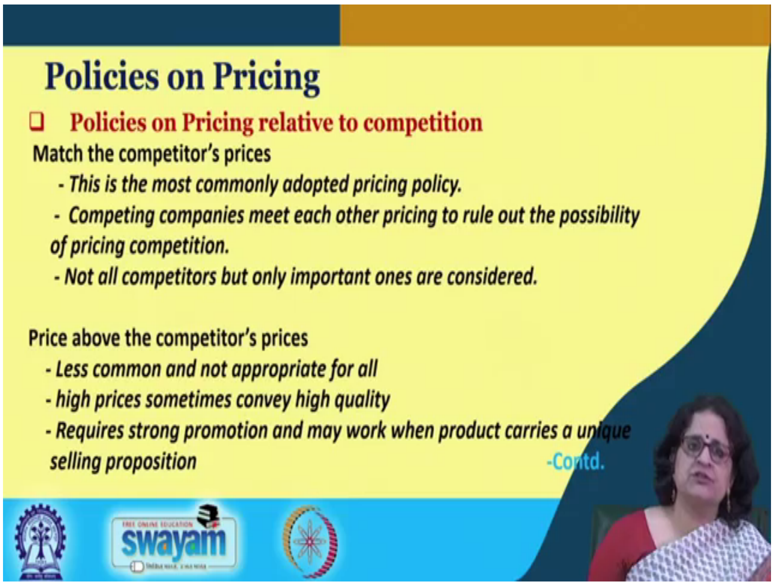

Now, I would like to add here that matching the competitors prices is the most commonly adopted policy. And you know not all competitors you will consider, but you will only consider your major competitors. So, you will consider, your important con competitor, and you will try to charge what this important contributor, relatively important contributor is charging. And in case you charge low of course it is less common and not always appropriate as I said, because if you charge low, it would be in a dilution of brand. If you charge high it would again convey high quality, but again it is less common and not appropriate.

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And you know even below as I said it would mean, you mid curve, you may be able to gain a market share, you may be able to capture a market share, but its again not very feasible or not very popular, because it could lead to a price war.

Also you know it you may feel in the short run you may feel that I am able to grab a larger market share ok. But in the long run you will realize that, because of the price war, you have suffered a lot of losses. Also you will also realize gradually that by charging less than the competitor, you are actually forgoing the profits which, you could earn had you priced similar to the competitor. So, these are certain you know advantages and disadvantages of pricing, you know against the competitor matching the price or pricing above or pricing below. If you are matching the competitor, it is fine it is collective wisdom, you should identify the more powerful ones, the more important ones, and you feel, you are you know providing a value proposition which is equitable.

So, you price, your product similar to that of competitor. Pricing above is not wise it is not always appropriate, because it could mean that you do not get quick sales, it would also mean that you lose market to the competitor. And until unless you are a first mover until and unless you have innovated, and until and unless you have a reason to strongly you know prove that you offer a better value proposition; it would not be a wise idea to price above the competitor. And if you price below your competitor again, it is not very appropriate, because one it could lead to a price war. He would also price, his product lower and it will go on and on to you will realize that gradually, you are losing out on profits which you could earn if you had kept your profit margins high, similar to that of the competitor ok.

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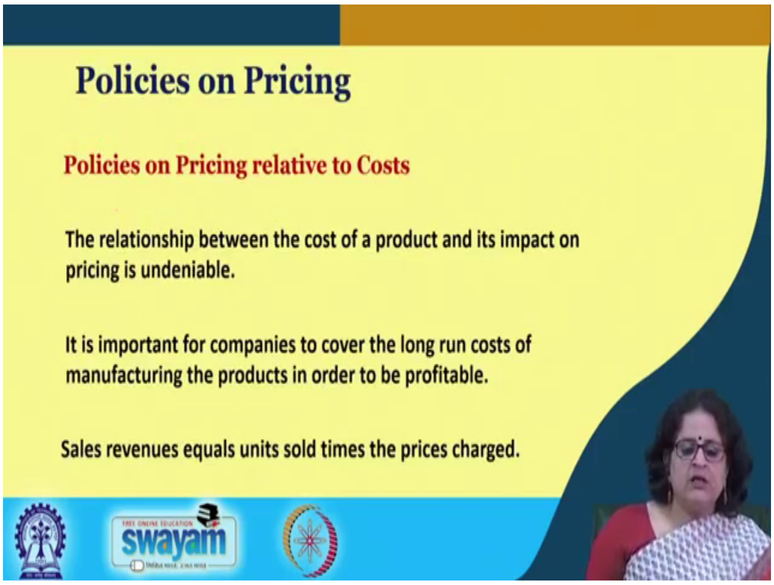

Now, second is pricing relative to cost. The relationship between the cost of a product and its impact on pricing is undeniable no marketer, no, no, no business organization would like to price its product, you know at losses. It would definitely want to recover all its costs. And any and every wise marketer would definitely want that you know he should be able to get quick profits for the company, the company should be able to get break even as quickly as possible, the company should be able to get a good return on investment.

And so it is important for companies to cover the long run costs of manufacturing the products in order to be profitable. And so sales revenue must equals units sold times the prices charged we all know that. And it is very important that revenues are earned by the company and to earn those revenues it is again essential that you earn, you actually price your product at a price, and you are able to sell huge volumes, so that you can get sales revenues and ultima and the company can actually make profits.

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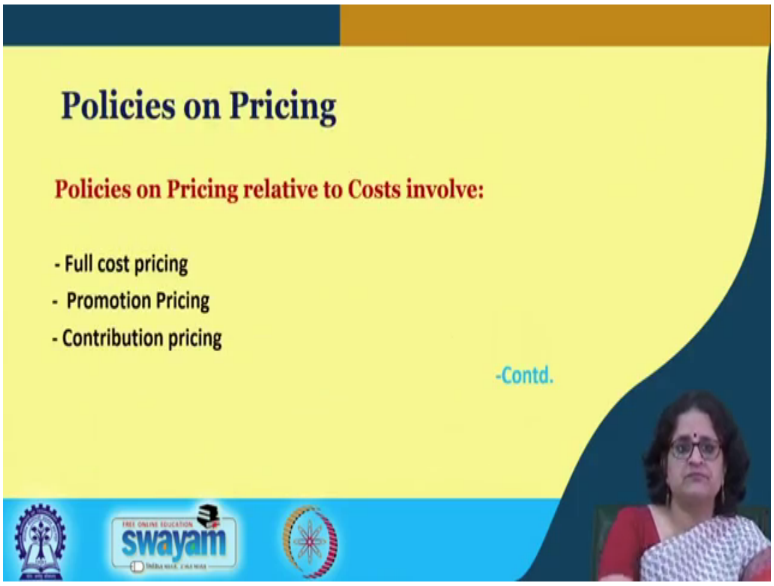

Now, a policies on pricing with respect to costs involve full cost pricing or it is promotion pricing or it is contribution pricing.

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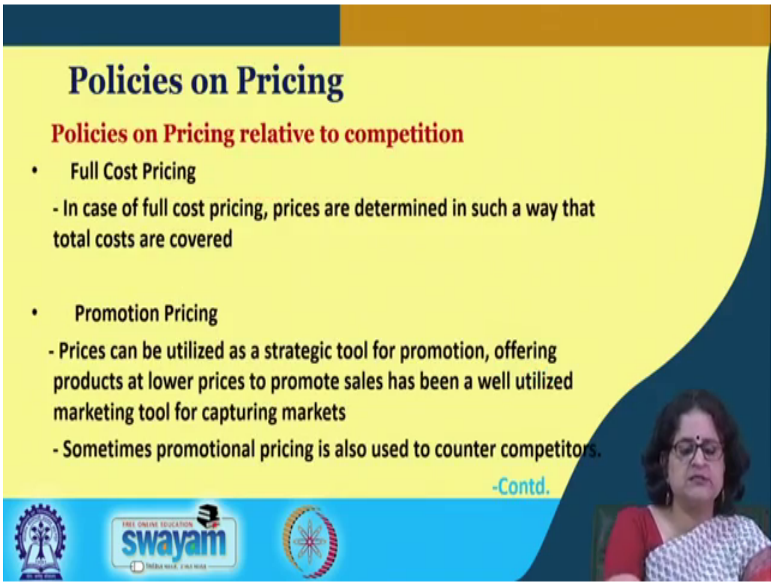

So, what is full cost pricing. In the case of full cost pricing prices are determined in such a manner that total costs are covered we all know total cost is equal to fixed cost and variable cost ok. Fixed costs are fixed costs which a company incurs and variable costs are those which vary per unit of production. So, based on units of production the variable cost would vary fixed cost plus variable cost is equal to total cost. And in terms in case of full cost pricing prices are determined in such a manner that a company is able to recover the total cost, which it has incurred with fixed cost and variable cost.

Second here a second type of pricing, which we talk of, is promotion pricing where prices are utilized as a strategic tool for promotion offering products at lower prices to promote sales is has been a well utilized marketing tool. We know for sales promotion which are you know short term incentives, which are offered to the customer in the form of deals, in the form of discounts, in the form of you know other you know ma incentives, which are used to counter competition or to quick, you know elicit trial, boost sales, fight competition and so a promotion pricing is something, which is very, very you know important for an organization.

Where prices are utilized as a strategic tool products are offered at lower prices to promote sales either one when the product is new. And the company wants to encourage a trial. Two when the company with the sales are sagging. And the company wants to give a boost to the sales. And so in these cases promotional tool promotional pricing is used, promotional pricing is also used when you realize that you want to grab larger market shares and you want to counter the competitor.

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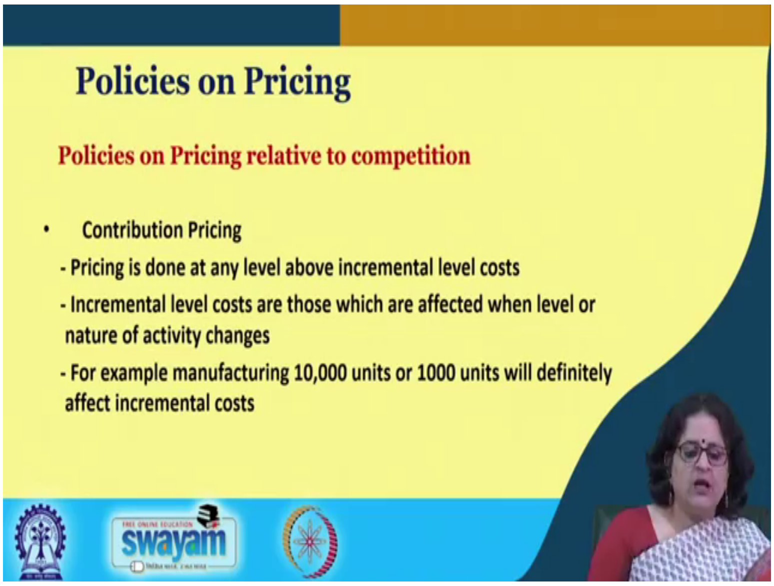

Contribution pricing now pricing is done at any level above incremental level costs. Incremental level costs are those costs which get affected when level or nature of activity changes. So, for example, manufacturing a 10000 units or 1000 units will definitely affect the incremental costs. So, based on the incremental cost a pricing is done at any level above the incremental cost and we call this contribution pricing.

All of these whether it is you know the competition for whether it is full cost you know pricing or whether it is contributory pricing or whether it is promotion pricing. They all have an impact on the say you know on the very fact that whether a sale would happen or not happen keeping in mind the manner in which the price is presented to the potential or to the prospective client.

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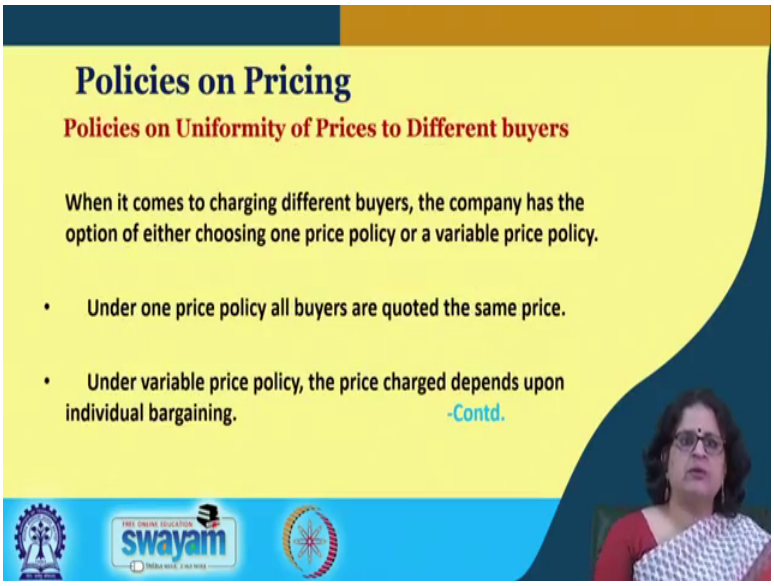

Now, we come to the next which is a policies with respect to uniformity of prices to different buyers. Now, when it comes to charging different buyers or different segments, the company has the option of either choosing one price policy or a variable price policy under one price policy all buyers are quoted the same price. So, irrespective of the segment irrespective of the fact that whether it is a B to B or a B to C scenario or whether it is you know a segment, segments with respect to age or gender or income levels or any of those.

The people are charged the same hey are quoted the same price and the variable price policy. The prices which are charged from the customer are based upon individual bargaining and negotiation. So, different buyers and different segments may be charged differently and they would pay differently to those to the seller. Now, some kind of variable pricing is acceptable as regarded as acceptable, but sometimes it is up it is taken as discrimination. So, when we talk of pricing and you know in the ee a pricing which is not the same and it is not one price, but a variable price we also discuss something which is called price discrimination.

Now, a price discrimination happens when the seller is going to charge differently from different buyers or from different segments. So, he may charge higher or lower depending upon several things one it could be, because nature of the segment with B to B, B to C, age effects, gender or you know socioeconomic classes or. So, so this is one another kind of you know discrimination we occur when, when the seller charges a based higher or lower based on urgency or immediacy of you know requirement or need fulfillment.

And another case would be when people buy in you know want to pay in lo have longer payment terms or want to buy in bulk or have certain specific requirements. So, in certain cases, a company may go in for a variable price policy, where it may charge different from different buyers or different segments.

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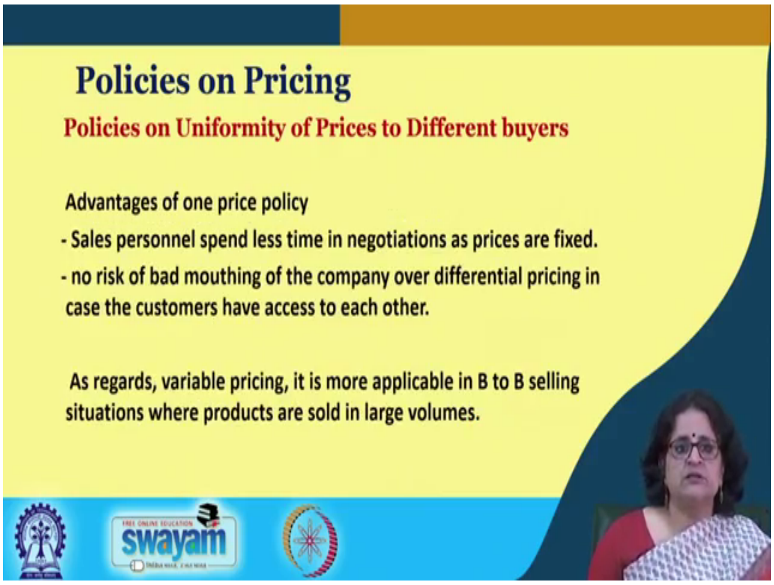

Now, what are the advantages of a one price policy salespeople pa spend less time in negotiation, the prices are already fixed. And whatever is quoted as a price is charged, there is no you know, there is no question of a bargaining or of a negotiation. And so he does not have you know have an he does not lead to an embarrassing situation for him to reduce prices.

There is no risk for bad mouthing of the company also, you know over differential pricing. In case the customers have access to each other, because they know that there is nothing called a differential pricing, it is all one price, which is charged from everybody. But with respect to variable pricing it is more applicable in B to B scenario, where products are sold in large volumes. And but even otherwise when it is done in there as I said with in certain cases the discrimination is regarded as something which is acceptable which is fair. But in most in others it may be re it may be treated as something which is unfair and unjust on the part of the marketer.

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Now, a policies on list pricing. Now, list pricing again helps control intermediaries resale pri pricing and aims at striking a parity in prices. The most common form of list pricing is selling on the basis of price printed on the package. So, you have the MRP listed there and the by the buyer pays what is listed. It is more apt to useless pricing when marketers utilize an exclusive or a selective distribution channel, because there in those cases you know, there is no way where you know the by the buyer would want to negotiate further ok. But, in the case of intensive distribution channels, the buyer may want to bargain or want to negotiate. So, list price is used when marketers utilize an exclusive or a selective distribution channel.

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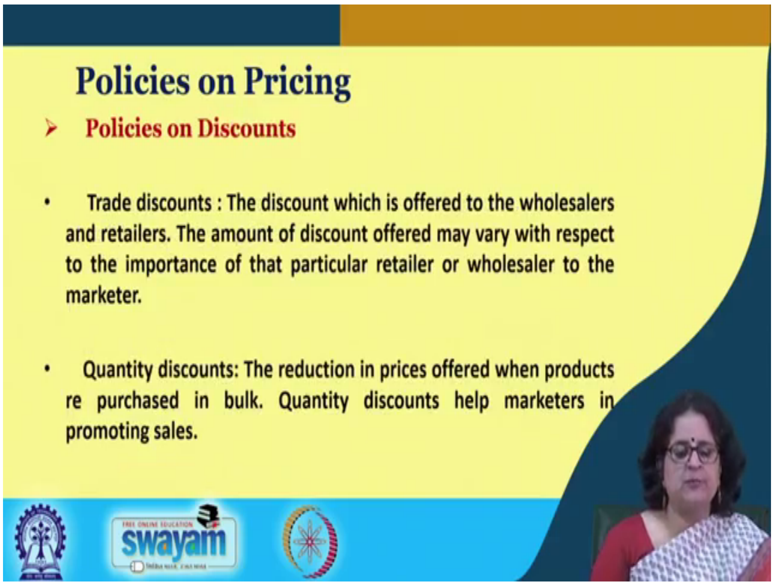

Trade discounts and quantity discounts. Now, companies also have policies on discounts trade discounts are those which are offered to wholesalers and retailers. The amount of discount offered to them will vary with respect to the product or with respect to importance that the retailer or wholesaler has you know in with, with the company and with the marketer. So, the more important the more significant, he is the better in his work, the higher potentially has the better, he is with interpersonal relationships with the company. So, he stands to gain higher in those cases.

So, here the amount of discount which is offered we will depend upon one, the potential that the wholesaler or the retailer has the kind of sales that he gives two the company to his interpersonal skills, interpersonal relationships with the company and with the salespeople three the reputation of you know and the popularity of the wholesaler or the retailer in the market with the customers. So, in those cases trade discounts which offered a higher on the contrary. In case where wholesalers and retailers are not very do not have high potentials or not very fruitful for the company in those cases those discounts will be lower.

Discounts are also offered when products are purchased in bulk. Now, a quantity discounts help marketers in promoting sales. And when people buy in bulk, they the companies offer them quantity discounts.

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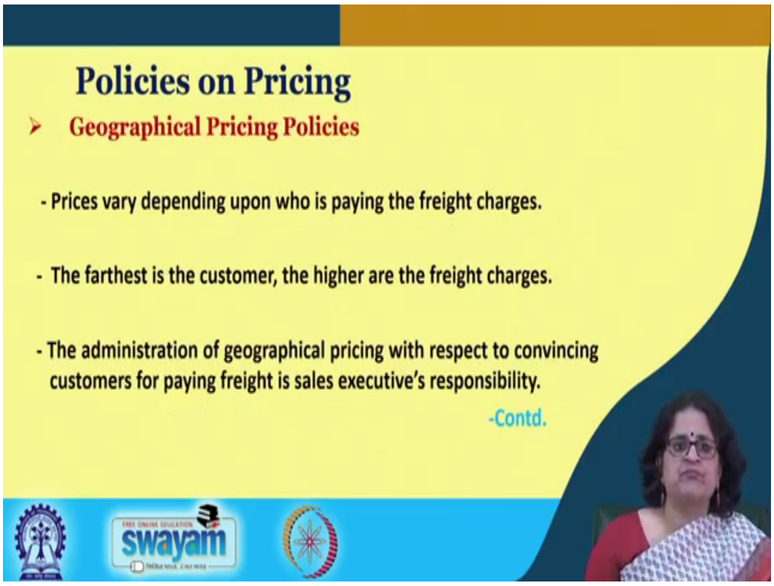

Now, the next we come to is geographical pricing. So, pri pricing can also be varied keeping in mind, the geographical location or the location, you know how far is it from the manufacturing unit, what are what would be travel and you know trans transport charge transportation charges, what would be logistic charges, how far or how long will it take to travel. So, keeping all these things in mind price the prices are adapted, you know, you know with the geography in aspect. So, prices vary depending upon who is also deep prices are also depend upon who is paying the freight charges. The farthest to the customer, the higher are the freight charges.

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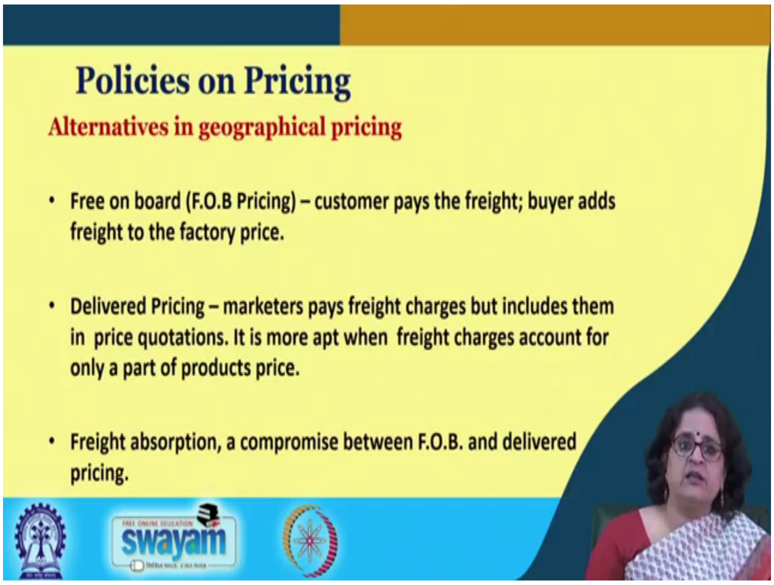

And you know it is again we have alternatives in charging freights, we have free on board where the customer pays the freight. The buyer adds the freight to the factory price. We have something called the deliver pricing, where the marketer pays the freight, but includes them in the price quotations. So, it is more apparent freight charges account for only a part of the products price. And the freight absorption is when there is a compromise between the freight on board and the delivered prices.

So, free so free on board or is FOB pricing where the customer pays the freight and the buyer adds freight to the factory price. Delivered pricing is when the marketer pays the freight and he includes it in the price quotation it is very useful, when the freight charges are very small and only a part of the product price. And freight absorption is when it is a compromise between the free on board or the FOB and the delivered pricing.

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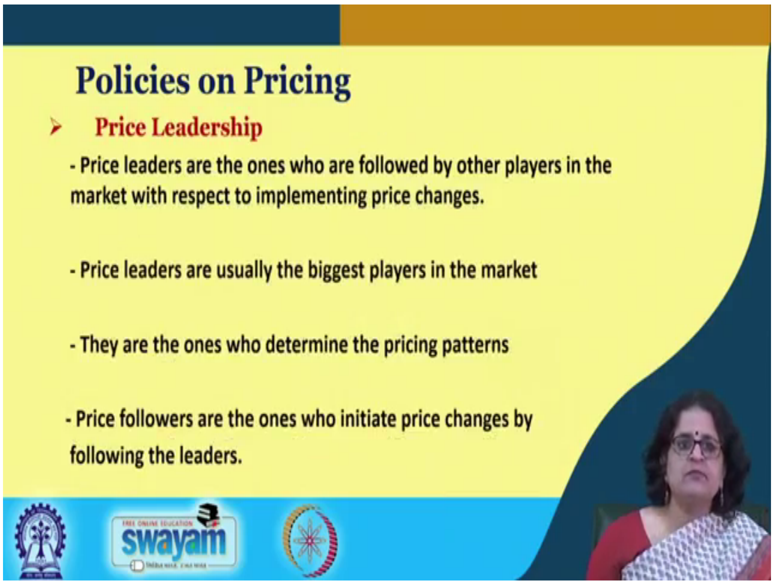

Price leadership is again an important issue. Price leaders are those who are followed by the players in the market with respect to implementing price changes. So, there is a they may be a company, which is always in the lead to initiate price carts or to initiate price increases. And price leaders are usually the biggest players in the market, and the others of you know follow them then. So, they have to the others who are following them quickly have to adapt if the leader has increased the prices, the others must act; if the leader has reduced prices again, the others must act.

So, the price leaders they determine the pricing patterns and price follows are the one who initiate price changes by following the leaders. So, the e the actual price changes are done by the by the market leaders vigor players in the market and the market followers are the ones who initiate the price changes by following what the leader is doing.

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Competitive bid pricing is where when you know institutional buyers, government buyers or industrial buyers they solicit bids, it is a very it is a norm in many companies which is basically utilized by per picking purchases. Proposals I invited their proposal solicited, and they evaluated in terms of pre-communicated parameters or standards like pricing, reputation of the dealer, business lines carried by them, the you know the financial status, you know the delivery dates, additional services the that those that the channel partners can offer. And all the other members can offer and based on this you know they decide on the pricing.

So, proposals are invited and evaluated in terms of you know communication for a pre com pre-communicated parameters like the prices, or the reputation of the of the of the organization or of the marketer of the or the seller, it is flexibility, similar lines of business which he is catering to his financial status. The additional services that he can provide is flexibility, his reputation, his quality, etcetera. And then finally, the bid you know it is decided who would actually be given the bid. So, competitive pricing is a norm with many companies which is basically utilized by making purchases.

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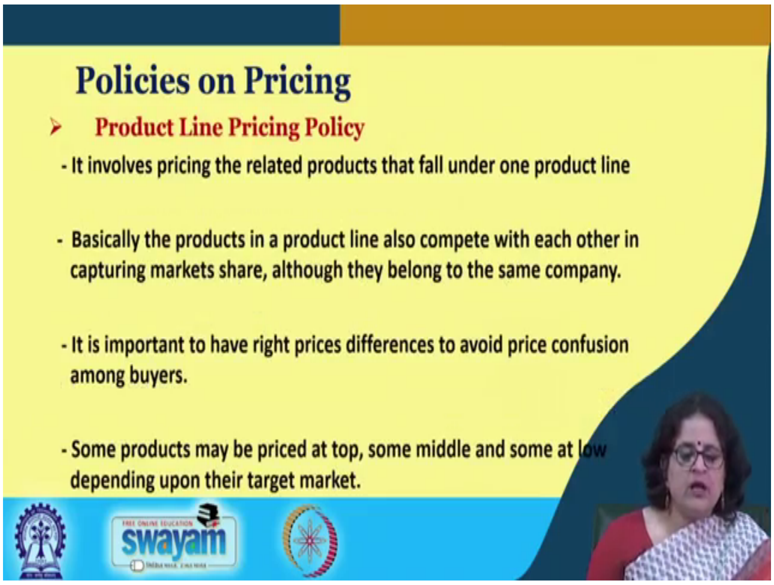

Product line pricing, it involves pricing related to the products that fall under one product line. Basically, the products in a particular product line will also compete with each other in capturing market share. Sometimes it also leads to cannibalization when one product eats away into the markets of the other. So, it is very important to have right price differences to avoid any kind of cannibalization or to also to avoid any kind of price confusion. So, c products in a product line may compete with each other. And it is very important that you have clear cut differences in the product variants, you must position them as different products meant for different segments otherwise they may cannibalize each other.

And it is also important to have right price differences to avoid com communicate to avoid any kind of confusion in the customers mind. Some prices some, some products may be priced a very high, some products may be priced at in the middle midpoint, some products may be priced at the lower points, so that depending upon the target market to which they are for which they are meant. So, that you know the products in the product line do not compete with each other.

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With this we come to an end of this particular session. The references are Still and Cundiff, Govoni and Puri, Sales and Distribution Management 6th Edition, 2017, Pearson India Education Services.

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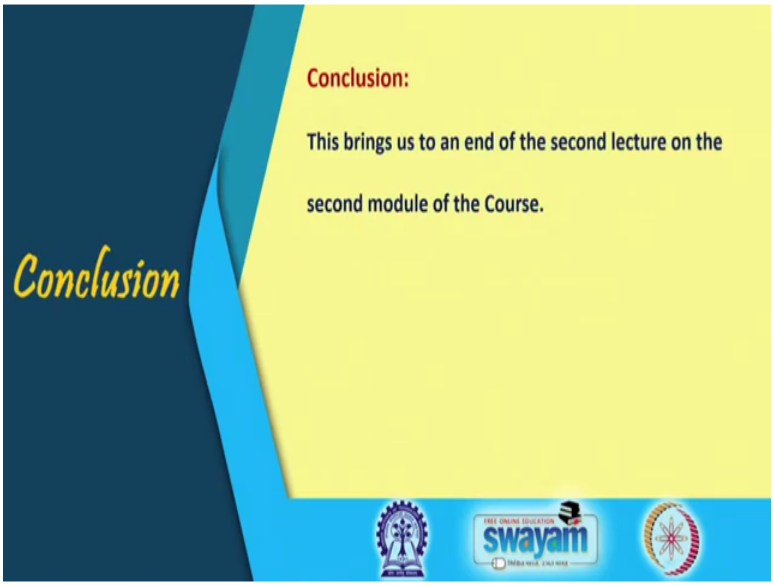

This brings us to an end of the second lecture on the second module of the course.

Thank you.