MRS. SHALINI

ASSISTANT PROFESSOR (GUEST FACULTY)

VANIJYA MAHAVIDYALAYA,

PATNA UNIVERSITY, PATNA

CONTACT: 7903953783

EMAIL: shalinigalax@gmail.com

E-CONTENT FOR M.COM (SEMESTER-2)

SUBJECT: MARKETING MANAGEMENT

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UNIT-5: MARKETING MIX

TOPIC: PRICING- INTRODUCTION, DEFINITION, OBJECTIVES AND ITS IMPORTANCE.

PRICING

Price refers to the value of a product which a buyer is willing to pay and the seller is willing to accept. In this way, the level of satisfaction both of the buyer and the seller is greatly influenced by the price.

Pricing is the method of determining the value for goods and services.

Pricing is the method used by the company to fix or change its price with respect to costs, sales and profit targets, the pricing policies of competitors and the perceived value of the product by customers.

It is a crucial element of marketing mix because customer is very sensitive to this element.

Definition:

According to D.W. Cravens, G.E. Hills and R.B. Woodruff, "Pricing is the process of setting objectives, determining the available flexibility, developing strategies, setting prices and engaging in implementation and control,"

Objectives of Pricing:

The pricing objectives must be consistent with internal organisational environment and compatible with the external environment.

The objective of pricing must be related to the overall goal set by the organisation, which are as follows:

1) Survival- In order to exists the firm may incur short run losses, reduction in the size of operation, and many other difficulties. When the firm faces survival crisis, it prices its product at a level which will at least cover its organisational expenses.

2) Product Maximization- This is considered to be the most traditional and basic pricing objectives for any business firm.

3) Target market share- Every concern tries to attain big share in the market. Pricing acts as important tool. To capture big share in the market they keep their price low so that a greater number of people attracted to purchase the products.

4) Prevents competition- Pricing is competitive weapon for any concern used to beat competition. Generally concern keeps price equal to that of the competitors. Those concerns that are the

price followers adopts this policy. Sometimes concerns price their products below the price of the competitors in order to beat competition and to discourage the entry of new competitors.

5) Maximization of sales volume- Many firms have maximization of sales volume as their pricing objective. This is a long-term strategy where the firm tries to maintain the demand for the product in the market. This may have negative impact on profitability, but the demand remains intact.

Importance of Pricing:

1) Means of allocating resources- Price generates revenues which are made available for firm's expansion and development. It allocates the resources for the optimum output and distribution.

2) Pricing affects demand- Price has inverse relation with demand. Increase in price leads to fall in demand and vice-versa.

3) Pricing is competitive weapon- The company has to decide whether its prices will be above, equal or below its competitors. It must also decide its prices at various stages of Product Life Cycle considering the prevailing competitive conditions to compete in the market.

4) Pricing affects profitability- As we know, profit= Revenue- cost. It affects the total revenue and net profits of the firm. Therefore, it affects the profitability of the firm.

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