JAYOTI VIDYAPEETH WOMEN'S UNIVERSITY, JAIPUR

(Format for Preparing E Notes)

Faculty of FEM

Faculty Name- **JV'n Daksha l (Assistant Professor)**

Program- **B-des (FD)**7th Semester

Course Name - Fashion Marketing

Session No. & Name – 2023-2024

Academic Day starts with –

- Greeting with saying 'Namaste' by joining Hands together following by 2-3 Minutes Happy session, Celebrating birthday of any student of respective class and National Anthem.

Lecture Starts with-

Topic to be discussed today- Introduction to Pricing and Its Strategies

Introduction & Brief Discussion about the Topic

University Library Reference-

- E-notes, handmade notes.
- E- Journal
- Online Reference if Any.

- Suggestions to secure good marks to answer in exam-
- Explain answer with key point answers
- Questions to check understanding level of students-

- Small Discussion About Next Topic-
- Academic Day ends with-

National song' VandeMataram.'

Introduction to Pricing and Its Strategies

Meaning of Pricing:

- Setting a price is a way to determine how much a manufacturer will get in return for goods and services. The pricing strategy is used to modify the cost of the producer's products so that it is affordable for both the supplier and the buyer. Pricing is determined by comparing the buyer's perceived worth of an item to that of competitors' products as well as the typical prices charged by the company.
- Every entrepreneur begins a firm with the goal of being profitable. This goal can be achieved by a company's pricing strategy. The following factor should be taken into account while determining the price of goods and services:
- What the products and services are called
- The price of comparable products and services in the marketplace
- The intended consumer base for whom the products and services are created
- The overall cost of manufacturing, which includes expenses for labour, raw materials, equipment, transportation, inventories, etc.
- External factors, such as laws and policies, the economy, and so forth,

Goals for Pricing:

- • Survival: Setting a price that is both acceptable for customers and the producer to maintain their position in the market is the goal of pricing for any business. Every business faces the risk of being eliminated from the market due to fierce competition and shifting consumer tastes and preferences. As a result, all variables and fixed costs should be taken into account when estimating a product's cost. Once the company has survived

this phase, it can pursue higher profits. Growth of present profits: The majority of the company looks to increase its profit margin by assessing the supply and demand for products and services in the market. Therefore, the price is set based on the demand for the product and its alternatives. Prices will rise in tandem with increased demand.

- Controlling the market: Companies set low prices to allow products and services to capture a sizable portion of the market. Due to the technique's ability to raise demand and lower production costs, sales are increased.
- A market for creative ideas: in this case, the business charges a premium for its extremely creative goods and services.

What is Pricing Method-

A pricing method is a strategy used by businesses to assess the cost of their goods. This process is the hardest one a business faces because the pricing has to make money, compliment the company's expenses, and fit the present market structure. It must also take into account the prices of competitors' products, therefore selecting the appropriate pricing strategy is crucial.

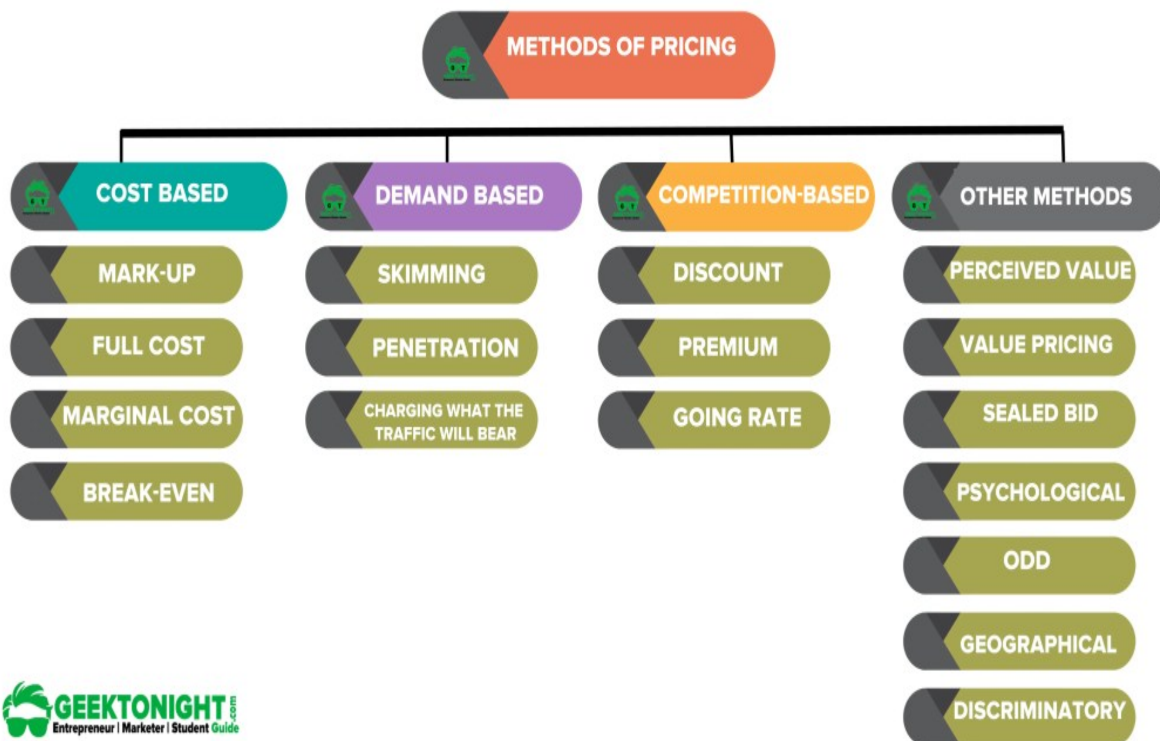
Pricing strategies and regulations

One important component of an organization's strategy for gaining a large market share is price. The primary goals of pricing are high market share, profit maximisation, maintaining the status quo through price stability, and competing in the market.

Therefore, one of a marketer's most important responsibilities is to develop price plans and procedures.

So, methods of pricing and pricing strategies is one of the critical tasks for a marketer.
Price setting is influenced by market conditions and changes as per marketing conditions and also with changing environmental factors.

Price is the amount of money paid by the buyer for acquiring a product or service. Marketing management is about placing the right product, at the right price, at the right place, at the right time.



Methods of Pricing

Below is the list of all the **Types of Pricing Strategy**:

Cost based Pricing

- Using the cost of production as the basis for pricing a product.

- Here the selling price of product a will be the cost to produce it.
- It includes:- Direct and indirect costs & Additional amount to generate profit.

Below price method/strategies are commonly used under **cost-based pricing**

Mark-up Pricing

In mark-up pricing, the selling price of the product is fixed by adding a particular margin or mark up to its cost.

Generally, distributive trade and marketing firms, who do not have any manufacturing of their own, prefer this method. The slower the turnaround of the product, the larger is the mark-up and vice-versa. It is also known as **Cost Plus Pricing**.

Full Cost Pricing

Full Cost Pricing is based on the estimated unit cost of the product with the normal level of production and sales and usually adopted by manufacturer firms. A profit margin is added to this unit cost.

This methods of pricing use standard costing techniques and work out the variable cost and fixed costs involved in manufacturing, selling and administering the product. The selling price of the product is decided by adding the required margin towards profit to such total costs. It is also known as **Absorption Cost Pricing**.

The **advantage of full-cost pricing** is that as long as the market consume the production at the determined price, the firm is assured of its profits.

The **disadvantages of full-cost pricing** is that the method does not take cognizance of the demand factors at all and relies excessively on standard costing and normal level of production and sales.

Marginal Cost Pricing

Marginal-cost pricing involves basing the price on the variable costs of producing a product, not on the total costs.

Fixed costs: capital equipment repayments, factory rental, and permanent staff salaries, short or medium term, remain unchanged regardless of the level of output achieved.

Variable costs: wages and electricity, raw material purchases which vary directly according to the level of output achieved.

Total costs = Fixed costs + variable costs

The major difference between full cost pricing and marginal cost pricing is that the marginal gives the flexibility not to recover a portion of the fixed costs depending upon the market situation.

Break-Even Concept

The break-even analysis concept is aimed at a level where the total costs exactly equal to the total revenues, the result is zero profit and zero loss. At a level were the revenues exceed the costs, profits are earned and at the other level, losses are incurred.

Many firms prefer the break-even concept in their methods of pricing. The firm uses the concept for price fixation and also to determine the level of production which is required for achieving the desired profits.

Demand Based Pricing

- Pricing that is determined by how much customers are willing to pay for a product or service.
- This method results in a high price when demand is strong and a low price when demand is weak.
- May be differentiated based on considerations such as time of purchase, type of customer or distribution channel.

Below are the methods of pricing that are commonly used under **demand based pricing**

Skimming Pricing

One of the most commonly used strategies is the skimming strategy. In this strategy, the firm skim the market by selling at a premium price. Skimming method skims the market in the first instance through high price and then settles down for a lower price.

In the introduction stage firm keep a higher price means higher profit. This method is usually favourable for pricing of a new luxury product. It also helps the firm to get the feel of the demand of the product and then make appropriate changes in the pricing strategy.

Penetration Pricing

Penetration Pricing keeps a low price for a new product or service during its initial offering. The objective of penetration price strategy is to gain grip in a highly competitive market. Market share or market penetration are the two most important objective.

The problem with this strategy is that it often heralds a price war within the industry which could, in turn, prove fatal to all the firm's profit.

Competition-based pricing

Marketers will choose a brand image and desired market share as per competitive reaction. It is necessary for the marketer to know what the rival organisation is charging. Level of competitive pricing enables the firm to price above, below, or at par and such a decision is easier in many cases

Below are the methods of pricing that are commonly used under Competition-based pricing

Discount Pricing

Traders or buyers were offered price concessions in the form of deductions from the list price of from the amount of a bill or invoice. These are forms of indirect price competition.

The common forms of discount pricing are:

- **Trade Discount:** It is given to the buyers buying for resale, for example, wholesaler or retailer.

- **Cash Discount:** It is a rebate or a concession given to the trader or consumer to encourage him to pay in full by cash or cheque within a short period of the date of the bill or invoice.

- **Quantity Discount:** These are given to the customer to encourage to make bulk or large purchases at a time.

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- **Seasonal Discount:** Additional seasonal discount for example 10%, 15% are offered to a dealer or a customer.

Premium Pricing

Premium pricing is the practice in which a high-end product is sold at higher than that of competing brands to give it a snob appeal through an aura of exclusivity. It also referred to as **skimming**, **image pricing** or **prestige pricing**.

The firm may decide to charge a high initial price to take advantage of the fact that some buyers are willing to pay a much higher price than others as the product is of high value to them.

The skimming pricing is followed to cover up the product development cost as early as possible before competitors enter the market.

Going Rate Pricing

Going Rate Pricing is also known as Parity Pricing. In this method, the firm bases its price on the average price of the product in the industry or prices charged by competitors. This method assumes that there will be no price war within the industry. It is commonly used in the oligopolistic market.

Other popular methods

Perceived Value Pricing Method

In perceived value pricing method, prices are decided on the basis of the customer's perceived value. They see the buyer's perceptions of value, not the seller's cost as the key indicator of pricing.

Value Pricing Method

In value pricing, the marketer charges a fairly low price for a high-quality offering. This method proposes that price represents a high-value offer to consumers.

Sealed Bid Pricing

In sealed bid pricing, the firms submit bids in sealed covers for the price of the job or the service.

Psychological Pricing

In psychological pricing method, the marketer bases prices on the psychology of consumers. Price as an indicator of quality is perceived by many consumers.

While evaluating products, buyers carry a reference price in their mind and evaluate the alternatives on the basis of this reference price. Sellers often exploit these reference points and decide their pricing strategy.

Odd Pricing

In odd pricing method, the buyer charges an odd price to get noticed by the consumer. One such example is of Bata. Bata prices are always an odd number like 899.99, etc.

Geographical Pricing

Geographical pricing is a method in which the marketer decides pricing strategy depending on the location of the customer like domestic pricing, international pricing, third world pricing etc.

Discriminatory Pricing

Discriminatory pricing is a method in which the marketer discriminates his pricing on a certain basis like the type of customer, location and so on.