"बेटी बचाओ, बेटी पढ़ाओ"

JAYOTI VIDYAPEETH WOMEN'S UNIVERSITY, JAIPUR

Faculty of Law & Management

Faculty Name	:	**JV'n Divya Nagar**
Department	:	**Management & Commerce**
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Topic Name	:	**Pricing Decisions and Methods of Price Determination.**

Pricing Decision

Pricing decisions have strategic importance in any enterprise. Pricing governs the very feasibility of any marketing program because it is the only element in a marketing mix accounting for demand and sales revenue. Other elements are cost factors. Price is the only variable factor determining the revenues or income. A variety of economic and social objectives came in to prominence in many pricing decision.

WHAT IS PRICE?

The term "price" refers to the numerical value or monetary amount assigned to a product, service, or commodity in a transaction or exchange. It represents the cost that a buyer is expected to pay to acquire the item or service from a seller.

Prices are determined by various economic factors, including supply and demand, production costs, market competition, and consumer preferences.

In short, Price is the monetary value of a product or service in a market transaction.

PRICING OBECTIVES:

Pricing objectives are the specific goals or targets that a business or organization aims to achieve through its pricing strategy. These objectives guide the pricing decisions and help align pricing with overall business goals. Some common pricing objectives include:

1. **Survival-** The objective of pricing for any company is to fix a price that is reasonable for the consumers and also for the producer to survive in the market. Every company is in danger of getting ruled out from the market because of rigorous competition, change in customer's preferences and taste. Therefore, while determining the cost of a product all the variables and fixed cost should be taken into consideration. Once the survival phase is over the company can strive for extra profits.
2. **Expansion of current profits-**Most of the company tries to enlarge their profit margin by evaluating the demand and supply of services and goods in the market. So the pricing is fixed according to the product's demand and the substitute for that product. If the demand is high, the price will also be high.
3. **Ruling the market-** Firm's impose low figure for the goods and services to get hold of large market size. The technique helps to increase the sale by increasing the demand and leading to low production cost.
4. **A market for an innovative idea-** Here, the company charge a high price for their product and services that are highly innovative and use cutting-edge technology. The price is high because of high production cost. Mobile phone, electronic gadgets are a few examples.

WHAT IS PRICING DECISION?

Pricing decision refers to the process of determining the optimal selling price for a product or service offered by a business. It is a critical aspect of marketing and business strategy as it directly impacts the revenue, profitability, and market position of a company. The pricing decision involves considering various internal and external factors to set a price that balances the need to cover costs, generate profit, and remain competitive in the market.

- Pricing decisions are critical for businesses as they directly impact revenue, profit, and customer perception.
- Price is the value exchanged between a seller and a buyer for a product or service.
- Businesses must consider various factors when setting prices, such as cost, competition, market demand, and customer preferences.

KEY FACTORS INFLUENCING PRICING DECISIONS INCLUDE:

1. **Costs :** Businesses must consider all the costs involved in producing, marketing, and distributing the product or service. The price should be set at a level that ensures the company can cover its costs and achieve a satisfactory profit margin.
2. **Competition :** Analyzing competitor pricing is essential to position the product effectively in the market. Businesses may choose to price their offerings higher, lower, or at a similar level compared to competitors based on their value proposition.
3. **Market Demand :** Understanding customer preferences and price sensitivity is crucial in determining the appropriate pricing strategy. Market research helps identify the price point at which customers are willing to purchase the product.

4. **Value Proposition :** The perceived value of the product to customers plays a significant role in pricing decisions. If a product is perceived as offering unique features or benefits, a higher price may be justified.
5. **Market Conditions :** Economic factors, such as inflation, currency fluctuations, and overall market conditions, can influence pricing decisions.
6. **Pricing Objectives :** Businesses may have different pricing objectives, such as maximizing profits, gaining market share, or achieving a certain sales volume. The chosen objective will impact the pricing strategy.
7. **Product Life Cycle :** Pricing decisions may vary at different stages of a product's life cycle. For instance, a new product may be initially priced higher to capitalize on early adopters, while a mature product may have more competitive pricing.
8. **Ethical Considerations :** Ethical practices in pricing are vital to maintain trust and credibility with customers. Businesses should avoid unfair pricing practices or misleading customers with deceptive pricing strategies.
9. **Psychological Pricing Techniques :** Using pricing strategies like odd-even pricing, prestige pricing, or price bundling can influence customer perceptions and purchase decisions.
10. **Competitive Positioning :** Pricing can also be used strategically to position a product as a premium offering, a budget option, or somewhere in between.

Pricing decisions are not fixed and may require adjustments over time due to changing market conditions, customer preferences, or internal factors. Regular monitoring and evaluation of pricing strategies are crucial to ensure they remain effective in achieving the company's goals.

Overall, pricing decisions require a careful balance between internal cost considerations, customer perceptions, and competitive positioning to achieve the most favorable outcomes for the business.

METHODS OF PRICE DETERMINATION:

After formulating the objective of pricing, the next step is to determine the base price of products or services.

Usually, the steps in setting price involve the following procedure:

1. Estimate the demand for the product.
2. Anticipate the competitive reaction.
3. Establish the expected share of the market.
4. Select the price strategy to be used to reach the market target.
5. Consider company policies regarding products, channels and promotion.
6. Select the specific price.

1) **Estimate the demand for the product:** Estimating the demand for a product involves assessing how much consumers are willing and able to purchase at different price levels. This helps businesses understand the potential market for their product and make informed decisions about pricing, production, and marketing strategies. Factors such as consumer preferences, price sensitivity, economic conditions, and competition are considered to predict how changes in price might impact the quantity of products sold. By accurately estimating demand, companies can optimize their pricing and supply strategies to meet customer needs and achieve their business goals.
2) **Anticipate the competitive reaction:** It refers to the process of predicting how other businesses in the market will respond to changes you make to your product, pricing, or marketing strategies. By analyzing your competitors' behavior, market dynamics, and their likely responses

to your actions, you can better plan your own moves to maintain a competitive edge. This helps you prepare for potential counter-strategies, adjust your approach if necessary, and strategically position your business in the marketplace.

3) **Establishing expected share of the market:** It involves estimating the portion or percentage of the total market that your product or service is likely to capture. This estimation is based on factors such as your product's value proposition, target audience, competition, and marketing efforts. By projecting your anticipated market share, you can set realistic goals, allocate resources effectively, and develop strategies to achieve your desired position in the market. This helps guide your business decisions and ensures that you're aligned with your market objectives.
4) **Select the price strategy to be used to reach the market target:** It involves choosing a pricing approach that aligns with your desired market position and customer perceptions. This decision considers factors like competition, customer value, and business objectives. The chosen strategy, whether it's value-based, cost-based, penetration pricing, or another approach, shapes how you price your product or service to attract and retain your intended customer base while achieving your business goals.
5) **Consider company policies regarding products, channels and promotion:** It means taking into account the guidelines and principles set by your company for the design, distribution, and marketing of your products or services. This ensures that your pricing strategy is in harmony with your company's overall vision and strategies. For instance, if your company values premium quality, your pricing should reflect this standard. If you prioritize online sales, your pricing should align with the digital market landscape. By aligning your pricing decisions with these

policies, you maintain brand consistency and effectively engage your target audience.

6) **Select the specific price :** It involves choosing the precise numerical value at which you will offer your product or service in the market. This decision takes into consideration factors such as production costs, competitor prices, customer perceptions, and desired profit margins. The specific price you choose directly influences consumer buying behavior and impacts your overall business success.