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Class 12 commerce Sub. BST. Date 16.11.2020

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MARKETING

PRICING

When a product is bought, some money is paid for it. This money represents the sum of values that consumers exchange for the benefit of having or using the product and is referred to as the price of the product. Similarly, money paid for the services such as fare for the transport service, premium for an insurance policy, and fee to a doctor for his medical advice represent the price of these services. Price may therefore be defined as the amount of money paid by a buyer (or received by a seller) in consideration of the purchase of a product or a service. Pricing occupies an important place in the marketing of goods and services by a firm. No product can be launched without a price tag or at least some guidelines for pricing. Pricing is often used as a regulator of the demand of a product. Generally, if the price of a product is increased, its demand comes down, and vice-versa. Pricing is considered to be an effective competitive weapon. In the conditions of perfect competition, most of the firms compete with each other on the basis of this factor. It is also the single most important factor affecting the revenue and profits of a firm. Thus, most marketing firms give high importance to the fixation of price for their products and services. Factors Affecting Price Determination There are number of factors which affect the fixation of the price of a product. Some of the important factors in this regard are discussed as below:

1. Product Cost: One of the most important factor affecting price of a product or service is its cost. This includes the cost of producing, distributing and selling the product. The cost sets the minimum level or the floor price at which the product may be sold. Generally all marketing firms strive to cover all their costs, at least in the long run. In addition, they aim at earning a margin of profit over and above the costs. In certain circumstance, for example, at the time of introducing a new product or while entering a new market, the products may be sold at a price, which does not cover all the costs. But in the long run, a firm cannot survive unless at least all its costs are covered. There are broadly three types of costs: viz., Fixed Costs, Variable Costs and Semi Variable Costs. Fixed costs are those costs, which do not vary with the level of activity of a firm say with the volume of production or sale. For example, rent of a building or salary of a sales manager remains the same whether 1000 units or 10 units are produced in a week. Those costs which vary in direct proportion with the level of activity are called variable costs. For example, the costs of raw material, labour and power are directly related with the quantity of goods produced. Let us say, if the cost of wood for manufacturing one chair comes to Rs.100

the cost of wood for 10 chairs would be Rs. 1000. Obviously, there will be no cost of wood if no chair is produced. Semi variable costs are those costs which vary with the level of activity but not in direct proportion with it. For example, compensation of a sales person may include a fixed salary of say Rs. 10,000 plus a commission of 5 per cent on sales. With an increase in the volume of sales, the total compensation will increase but not in direct proportion with the change in the volume of sale. Total Costs are the sum total of the fixed, variable and semi-variable costs for the specific level of activity, say volume of sales or quantity produced.

2. The Utility and Demand: While the product costs set the lower limits of the price, the utility provided by the product and the intensity of demand of the buyer sets the upper limit of price, which a buyer would be prepared to pay. In fact the price must reflect the interest of both the parties to the transaction—the buyer and the seller. The buyer may be ready to pay up to the point where the utility from the product is at least equal to the sacrifice made in terms of the price paid. The seller would, however, try to at least cover the costs. According to the law of demand, consumers usually purchase more units at a low price than at a high price. The price of a product is affected by the elasticity of demand of the product. The demand is said to be elastic if a relatively small change in price results in large change in the quantity demanded. Here numerically, the price elasticity is greater than one. In the case of inelastic demand, the total revenue increases when the price is increased and goes down when the price is reduced. If the demand of a product is inelastic, the firm is in a better position to fix higher prices.