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MARKETING

PRICING

Some of the important factors in this regard are discussed as below:

3. Extent of Competition in the Market: Between the lower limit and the upper limit where would the price settle down? This is affected by the nature and the degree of competition. The price will tend to reach the upper limit in case there is lesser degree of competition while under conditions of free competition, the price will tend to be set at the lowest level. Competitors' prices and their anticipated reactions must be considered before fixing the price of a product. Not only the price but the quality and the features of the competitive products must be examined carefully, before fixing the price.

4. Government and Legal Regulations: In order to protect the interest of public against unfair practices in the field of price fixing, Government can intervene and regulate the price of commodities. Government can declare a product as essential product and regulate its price. For example, the cost of a drug manufactured by a company having monopoly in the production of the same come to Rs 20 per strip of ten and the buyer is prepared to pay any amount for it, say Rs 200. In the absence of any competitor, the seller may be tempted to extort the maximum amount of Rs 200 for the drug and intervene to regulate the price. Usually in such a case, the Government does not allow the firms to charge such a high price and intervene to regulate the price of the drug. This can be done by the Government by declaring the drug as essential commodity and regulating its price. (see box)

5. Pricing Objectives: Pricing objectives are another important factor affecting the fixation of the price of a product or a service. Generally the objective is stated to be maximise the profits. But there is a difference in maximising profit in the short run and in the long run. If the firm decides to maximise profits in the short run, it would tend to charge maximum price for its products. But if it is to maximise its

total profit in the long run, it would opt for a lower per unit price so that it can capture larger share of the market and earn greater profits through increased sales. Apart from profit maximisation, the pricing objectives of a firm may include:

(a) Obtaining Market Share Leadership: If a firms objective is to obtain larger share of the market; it will keep the price of its products at lower levels so that greater number of people are attracted to purchase the products;

(b) Surviving in a Competitive Market: If a firm is facing difficulties in surviving in the market because of intense competition or introduction of a more efficient substitute by a competitor, it may resort to discounting its products or running a promotion campaign to liquidate its stock; and

(c) Attaining Product Quality Leadership: In this case, normally higher prices are charged to cover high quality and high cost of Research and Development. Thus, the price of a firm's products and services is affected by the pricing objective of the firm.

6. Marketing Methods Used: Price fixation process is also affected by other elements of marketing such as distribution system, quality of salesmen employed, quality and amount of advertising, sales promotion efforts, the type of packaging, product differentiation, credit facility and customer services provided. For example, if a company provides free home delivery, it has some of flexibility in fixing prices. Similarly, uniqueness of any of the elements mentioned above gives the company a competitive freedom in fixing prices of its products.