DIFFERENT PRICING TACTICS

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***Abstract*: Price is a major parameter that affects company revenue and Position of the product in the market significantly, so this why this paper presenting basic pricing tactic or methods. We can use pricing as a tool for profit determinants, Competitive weapon, Demand control, modification of sales volume, market share, market status etc.. Pricing decisions and methods directly influence the sales volume and profits of the firm. Pricing methods are the methods that firms use to calculate the price of their products. A pricing method is solely concerned with what type of data is used to decide prices for products. It is the approach followed by the firms to fix price for goods and service. An effective pricing method is necessary for setting the best suited price for a product. This study is purely based on theoretical aspects available from different scholarly articles and textbook.**

***Keywords*: Pricing Tactics, Pricing mix, Market share, Product positioning.**

I . INTRODUCTION

Charging a fair price for products it is the main problem faced by every business man. As Morris (1987, p.79) notes, "one of the more basic , yet critical decision facing a business is what price to charge customers for products and services ".Pricing is the major parameter that affects company revenue significantly.so we must provide proper caring and planning while fixing an price for products and price was also using as an adjustment parameter for profit. It is the easiest and fastest way to increase competitiveness and demand. There are many methods available for fixing a fair price for the products. These methods are known as pricing tactics.

2. COMMON PRICING TACTICS

I. Cost oriented pricing policy
II. Demand oriented pricing policy
III. Competition oriented pricing policy
IV. Other pricing policies

2.1 COST ORIENTED PRICING POLICY:

In cost oriented pricing policy, the price of a product is based on the total cost of a product. This is traditional way of fixing pricing. The selling price is computed as selling price = Total cost (fixed and variable) +Fixed percentage of profit. The goal of cost oriented pricing policy is to cover all cost incurred in producing and delivering products or service and to achieve a desired rate of profit.

Types of cost oriented pricing policy

2.1.1. Cost Plus Pricing/Mark-up Pricing/Full Cost Pricing:

This is the simple method for calculating price. In this method, price is calculated by adding all the cost incurred by the firm plus standard mark up to the cost to cover overhead cost and profits. Price is determined by using following formula:

$$\text{Price} = \frac{\text{Total production cost + Selling administration cost + Mark up}}{\text{Number of units expected to sell}}$$

2.1.2. Target Pricing:

In this case a particular rate of return (Target return) on investment was fixed for specific volume of production. Generally, It is used by public utilities like electric and Gas companies and companies whose capital investment is high, Like automobile manufactures. In target pricing, the selling price for a product determined after conducting market research.

2.1.3. Break –even pricing:

Break –even pricing is the method of estimating a price at which the firm earn neither profit of loss on sale . The purpose of this method is to fix low price as a tool to capture the market and push out competitors. As a result of this method company only earning revenue not be profit. It focus on increasing market share rather than earning profit. This method of pricing helps companies to increase sales which ultimately lead to increase d volume of production.

2.1.4**. Marginal Cost Pricing:**

Marginal cost is the addition to the total cost for producing one more unit of an output. The marginal cost pricing policy is a method f setting the price of a product equal to the extra cost of producing an extra unit of an output. It focuses on variable or marginal cost (rather than indirect / fixed cost), such as wages and raw materials cost etc.

Merits of Cost Oriented Pricing Policy

1. It is the simplest method of fixing price. Just add the desired profit to the cost.

2. Through this method firm can earn reasonable rate of profit.

3. This method is very flexible because we can adjust with cost of production.

4 .It is highly useful when a firm is unable to forecast the demand for its product.

5. Cost-plus pricing is suitable in situations where the nature and extent of competition is not clear.

6. When cost are steady for a long period of time, it is possible to ensure price stability which is useful to the consumers.

Demerits of Cost Oriented Pricing Policy

1. It gives no consideration to marketability of the product. The entire concern is on the recovery of cost and earning profit.

2. It is purely an internal process. Doesn't consider competitors brands and prices and totally ignore Demand, customer perception etc.

3. Fluctuation in cost leads to fluctuation in prices which leads to confusion in the mind of customers about the price of product.

4. Ascertainment of cost may result in over pricing or under-pricing of product.

2.3 **DEMAND ORIENTED PRICING POLICY**

Demand-based pricing refers to a pricing method in which the price of a product is finalized according to its demand. If the demand of a product is more, an organization prefers to set high prices for products to gain profit; whereas, if the demand of a product is less, the low prices are charged to attract the customers. The success of demand-based pricing depends on the ability of marketers to analyse the demand. This type of pricing can be seen in the hospitality and travel industries. For instance, airlines during the period of low demand charge less rates as compared to the period of high demand. Demand-based pricing helps the organization to earn more profit if the customers accept the product at the price more than its cost.

2.4 COMPETITION-BASED PRICING:

Competition-based pricing refers to a method in which an organization considers the prices of competitors' products to set the prices of its own products. The organization may charge higher, lower, or equal prices as compared to the prices of its competitors.

The aviation industry is the best example of competition-based pricing where airlines charge the same or fewer prices for same routes as charged by their competitors. In addition, the introductory prices charged by publishing organizations for textbooks are determined according to the competitors' prices.

2.3 OTHER PRICING METHODS

2.3.1. Value based pricing policy:

Value based pricing is a price setting method where price are based mostly on a consumers perceived value of the product or service rather than cost. Implies a method in which an organization tries to win loyal customers by charging low prices for their high-quality products. The organization aims to become a low cost producer without sacrificing the quality. It can deliver high- quality products at low prices by improving its research and development process. Value pricing is also called value-optimized pricing**.**

2.3.2. Going rate pricing:

Implies a method in which an organization sets the price of a product according to the prevailing price trends in the market. Thus, the pricing strategy adopted by the organization can be same or similar to other organizations. However, in this type of pricing, the prices set by the market leaders are followed by all the organizations in the industry.

2.3.3. Transfer pricing:

Involves selling of goods and services within the departments of the organisation. It is done to manage the profit and loss ratios of different departments within the organization. One department of an organization can sell its products to other departments at low prices. Sometimes, transfer pricing is used to show higher profits in the organization by showing fake sales of products within departments.

CONCLUSION

Pricing is used as a strong weapon for beating competition in the market. Fixing a fair price for the product this is the critical issue faced by every manufactures as the prices should not only match the prevalent market situation, but should also recover the expenses of the firm and help to attain adequate profit. A firm as to make sure that it offer a rational price to the customer. We can done this only with the help of different pricing methods. Different factors are to be considered while determining the price of the product. Pricing mix is an umbrella term which is used to cover all the factors associated with pricing a such as Demand, cost, competitors etc.

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