Pricing is the method of determining the value a producer will get in the exchange of goods and services. Simply, pricing method is used to set the price of producer's offerings relevant to both the producer and the customer.

Every business operates with the primary objective of earning profits, and the same can be realized through the Pricing methods adopted by the firms.

While setting the price of a product or service the following points have to be kept in mind:

- Nature of the product/service.
- The price of similar product/service in the market.
- Target audience i.e. for whom the product is manufactured (high, medium or lower class)
- The cost of production viz. Labor cost, raw material cost, machinery cost, inventory cost, transit cost, etc.
- External factors such as Economy, Government policies, Legal issues, etc.

IMPORTANCE OF PRICING

Everything you need to know about the importance of pricing. Pricing decisions can have very significant consequences for the organization

  - *It is one of the first considerations for many customers and it determines the profit margin on products.*

Pricing is one of the significant elements of the marketing mix, if late, it has come to occupy the centre stage in marketing wars. Pricing is one of the significant elements of the marketing mix, if late, it has come to occupy the centre stage in marketing wars.

Pricing is one of the significant elements of the marketing mix, if late, it has come to occupy the centre stage in marketing wars.

The reasons for this are as follows:

1. Firm Now Finds Itself in a Dilemma:

In case it passes the increase in input costs to the customer in the form of a price increase, and there are equally attractive alternatives at lower prices available to him, the firm may lose the customer. And if it doesn't increase the price, it incurs a loss. The challenge of price management is also higher when the firm realises that there are other firms in the industry that operate at a more efficient level in an inflationary economy.

2. Inflation in the Economy:

It turns in the cast of inflationary economy. Inflation affects pricing in two ways:

(i) It lowers the purchasing power of the customer and hence a search for low priced substitutes.

(ii) It increases a firm's cost because of the inputs costing more, thus forcing the price of the product upwards.

3. Mature Products and Markets:

At the time of entering the maturity stage the products, and the markets are mature, the only way to differentiate the various offers is on the basis of augmented service or price cuts.

4. Customer's Value Perception:

The customer's perception of the product's current and potential value is another factor contributing to the importance of pricing decisions. To a customer, price always represents the product's value. Many time, the customer's perception of the product value may not necessarily be in line with its price.

There are instances in which the product is overpriced when its value perception is lower than the price tag on it, and vice-versa. For a marketer, it is important that products are priced at the right level.

5. Inter-Firm Rivalry:

As the entry and exit barriers in the industry are lowered the intensity in inter-firm rivalry increases. With an increase in this rivalry, marketers find that a firm's cost of operation also increases, as it now has to spend more money to lure customers and middlemen. It has also invest money in new product development.

6. Product Differentiation Getting Blunted:

The differentiation among firms on the basis of the product is going to get blunted when technologies get standardised. More products and brands will transcend to a commodity situation. This is an unhealthy sign as commodities are always subject to price fluctuations and price wars. For, at this stage, the only way to differentiate between brands is the price.

IMPORTANCE OF PRICING

We, the consumers take price for granted. It is something, the seller tells us, we pay that and forget it, but price is a very important factor.

The following points highlight the importance of pricing:

i. The economy – The entire economy depends on the price. It is the price which decides trade and the economy depends on the trading activity in the country. Price of a product influences profit, rent, interest, wages which are the prices paid to the factors of production-entrepreneurship, land, capital and labour respectively. Thus price acts as a regulator of economy, because it influences the allocation of the factors of production.

ii. Determinant of profit – Profit is the basic objective of any commercial undertaking and the profit directly depends on the price.

iii. Beating competition – Price is a very important weapon which a seller can use to overcome competition. A seller, by fixing a reasonable price and by offering value for money can overcome competition.

iv. Demand regulator – It is a simple law in Economics that price and demand are inversely proportional. Thereby a seller can either increase the demand or decrease the demand for his products by setting a low or a high price.

v. Crucial decision input – Price as a factor constitutes a very important decision. A company has to price appropriately because several factors depend on the price such as the demand, the profit, the market share, the competition etc. Factors such as product place and promotion are causes of expenditure but price is the only factor that brings in revenue to the seller.

vi. Important Part of Sales Promotion – Many times price adjustments form a part of sales promotion that a lower price in the short term stimulates interest in the product.

vii. Trigger of First Impressions – Often, customers' first perception of a product is formed as soon as they learn the price

viii. Most Flexible Marketing Mix Variable – For marketers price is the most adjustable of all marketing decisions. Unlike product and distribution decisions, which can take months or years to change, or some forms of promotion which can be time consuming to alter (e.g., television advertisement), price can be changed very rapidly. The flexibility of pricing decisions is particularly important in times when the marketer seeks to quickly stimulate demand or respond to competitor price actions.

ix. Perception of quality – Several customers develop a perception about the quality of the product based on its price. To such customers, high price is better quality and vice-versa. Therefore the right price must be fixed for the product depending on the customer perception desired.

x. Legal aspects – A wrong price may attract legal complications. Therefore a seller has to consider these factors also while fixing price.

Factors Affecting Pricing Product: Internal Factors and External Factors

The pricing decisions for a product are affected by internal and external factors.

A. Internal Factors:

1. Cost:

While fixing the prices of a product, the firm should consider the cost involved in producing the product. This cost includes both the variable and fixed costs. Thus, while fixing the prices, the firm must be able to recover both the variable and fixed costs.

2. The predetermined objectives:

While fixing the prices of the product, the marketer should consider the objectives of the firm. For instance, if the objective of a firm is to increase return on investment, then it may charge a higher price, and if the objective is to capture a large market share, then it may charge a lower price.

3. Image of the firm:

The price of the product may also be determined on the basis of the image of the firm in the market. For instance, HUL and Procter & Gamble can demand a higher price for their brands, as they enjoy goodwill in the market.

4. Product life cycle:

The stage at which the product is in its product life cycle also affects its price. For instance, during the introductory stage the firm may charge lower price to attract the custom-ers, and during the growth stage, a firm may increase the price.

5. Credit period offered:

The pricing of the product is also affected by the credit period offered by the company. Longer the credit period, higher may be the price, and shorter the credit period, lower may be the price of the product.

6. Promotional activity:

The promotional activity undertaken by the firm also determines the price. If the firm incurs heavy advertising and sales promotion costs, then the pricing of the product shall be kept high in order to recover the cost.

B. External Factors:

1. Competition:

While fixing the price of the product, the firm needs to study the degree of competi-tion in the market. If there is high competition, the prices may be kept low to effectively face the competition, and if competition is low, the prices may be kept high.

2. Consumers:

The marketer should consider various consumer factors while fixing the prices. The consumer factors that must be considered includes the price sensitivity of the buyer, purchasing power, and so on.

3. Government control:

Government rules and regulation must be considered while fixing the prices. In certain products, government may announce administered prices, and therefore the mar-keter has to consider such regulation while fixing the prices.

4. Economic conditions:

The marketer may also have to consider the economic condition prevail-ing in the market while fixing the prices. At the time of recession, the consumer may have less money to spend, so the marketer may reduce the prices in order to influence the buying decision of the consumers.

5. Channel intermediaries:

The marketer must consider a number of channel intermediaries and their expectations. The longer the chain of intermediaries, the higher would be the prices of the goods.

PRICING POLICIES AND STRATEGIES (7 FORMS)

It is essential to establish policies for pricing of its products or services or ideas just as it is for all the aspects of business decision-making. Without definite price policies, each price decision is a time-consuming, tedious and a pell-mell affair.
A policy frame-work should lead to pricing that is consistent with the company objectives, costs, competition and demand for the product. A set of price policies and strategies will not only make price setting easier but also make possible as series of prices at various levels of distribution that are rational and justifiable.

It is all possible because, pricing policies are the guidelines providing a focus within which the company management administers the policies to match to the market needs.A. Price Variation Policies:

Price variation policies are those where in the firm attempts to vary the prices of its products with a view to match them with the differing market needs. There can be three variations of such price variation policies.

These options open to the firm are:

(1) Variable price policy.

(2) Non-variable price policy and

(3) Single price policy.

1. Variable Price Policy:

It is that policy in which the company charges different prices for sale of its like goods at a given time to similar buyers purchasing in comparable quantities under similar conditions of sale. This is, prices charged differ from buyer to buyer.

This variable price policy is more apt in small business and where products are not standardized. It works well where the individual sale transactions of large sums and the bargaining power of individual purchasers is differing with the size of the transaction.

The greatest advantage of this variable price policy is that it has the highest degree of flexibility as a promotional tool. But it creates friction and dissatisfaction among the consumers who feel that they are discriminated. Further, it is a time consuming affair.

2. Non-Variable Price Policy:

It is also called as 'one price' policy because, the company charges similar price for sale of like goods at a given time to a class of buyers purchasing in comparable quantities under similar conditions of sale. Here, the price charged varies from class to class say, wholesalers, sub-wholesalers, retailers and distributors.

This non-variable price policy is less discriminatory as prices differ from class to class than customer to customer. It is a popular price policy followed by all those firms which have indirect marketing arrangements.

There will be no question of price bargaining as the rates are applicable to the class of buyers as a whole. The greatest satisfaction is that there is no cause for friction and heart-burning among the buyers.

3. Single Price Policy:

It is that price policy wherein all the buyers irrespective of their class, size, or the conditions of purchases are charged similar purchase price under similar conditions of sale. This is the price policy that has no touch of discrimination and it is constructive in the sense that it helps in building goodwill.

It is equally easy to administer as there is no scope for bargaining. Instead of speaking on price of the product, the sales army can utilize its time on product quality, service and outstand ability.

However, this price policy does not find favour with quantity buyers who feel that they should have been charged much lower prices than the small-lot purchasers. As a result, such buyers may be lost to competitors unless the product is really known by its brand. This feeling is easily accommodated by product differentiation and market segmentation.

B. Geographic Price Policies:

Geographical price policies are fully reflective of the practical problems of consumers and producers or the sellers locating geographically and the emergent transportation costs of linking them. Take our own country where production centres are highly concentrated while the consumption centres are widely dispersed.

Thus, the cities like Mumbai, Chennai, Calcutta, Delhi, Ahmadabad, Bangalore, Hyderabad where we have industrial conglomeration while the demand for the products produced in these comes from far off places. Taking transport costs as major thrust, pricing policies are designed.

The major geographical pricing policies are:

(1) Point of origin price policy.

(2) Freight absorption price policy.

1. Point of Origin Price Policy:

It is that type of geographic pricing policy in which a firm quotes ex- factory price and makes no allowance for the transportation costs necessary to move the goods to the point of destination. There can be two variations in this policy namely, ‘ex-factory’ and ‘free on rail’ (F.O.R).

Price under ex- factory pricing holds buyer responsible for all the transportation costs both freight and cartage from the factory point. On the other hand, F.O.R. price is the one in which the company bears cartage or carriage till the transport agency or the railway station. That is, the buyers are to meet freight from the transport agency or the railway station to the point of destination.

Point of origin price policy leads to the establishment of the geographical monopoly for the firm because, the transportation costs separate those firms located in distant areas from competing with the local producers. It guarantees better price realization in local markets wherever the products enjoy relatively inelastic demand.

Further, price quotations and price administration are simplified. However, a firm cannot enter national market unless its products are distinctive enjoying inelastic demand and strong brand loyalty and where competitors find it difficult to enter.

2. Freight Absorption Price Policy:

Freight absorption price policy is one that absorbs the transportation costs fully or partly. That is, the price quoted is inclusive of transportation costs. In other words, the buyers do not bear directly freight and other transportation charges though the price includes such charges.

There can be three variations of this freight absorption price policy namely:

(1) Uniform delivered price policy.

(2) Zonal price policy and

(3) Base point price policy.

'Uniform Delivered Price Policy' is popularly known as 'postage stamp' price or 'F.O.R. Destination' price. It is one in which the firm absorbs full transportation costs and delivers the goods to all the buyers at their ends at a uniform price irrespective of location and distance.

Thus, buyers from Goa, Mumbai, Kolkata, Chennai, and Delhi and so on all are to pay a uniform price that includes full freight absorption by the firm. Under actual business conditions, the firm averages the total freight charges for all customers and ads in full or part to the basic price so as to arrive at the final price to be quoted.

It implies that the firm's net return differs from location to location of the buyers. This policy is fully used to expand market as a non- price competitive measure. This is of special significance in catching distant markets.

'Zonal Price Policy' is one under which the firm divides its markets into zones and quotes uniform prices to all the buyers located in the identified zone. That is, the prices quoted will differ from zone to zone rather than a single price all over the country. The price arrived at is the addition of average transportation costs to the basic price.

As a result, buyers located in close zones are penalized and those located at distances are subsidized. Thus, there is a partial absorption of the transport costs in real sense. This, policy, therefore, stabilises the prices within a zone and simplifies calculation of transport charges.

'Base Point Price Policy' like zonal pricing policy it implies partial absorption of the transport costs by the firm. However, the price is quoted by adding transport costs computed up to the buyers' location by reference to one geographic location, not necessarily the factory and that location is called as 'base-point'.

In other words, the buyers pay ex-factory price plus freight computed from the nearest base point irrespective of the actual freight incurred by the firm. In such a deal, it is quite possible that the actual freight paid by the company may be less than what is charged to the buyer. This difference enjoyed by the pricing firm is known as 'phantom freight'. Depending on the number of base points, such policy can be single base-point price policy or multiple-base point price policy.

This price policy is normally the collective decision of all the firms that believe in base-point pricing. However, this price policy encourages price rigidities and discriminates against local buyers who are forced to pay 'phantom freight' for no fault of theirs. That is why; it is controversial price policy with collusive overtones.

C. Price Differential Price Policies:

The price policies that involve price differentials are those the pricing firm accepts the gap between the price 'quoted to the consumers or dealers and the actual price charged. Thus, price differential represents the differences between the price quoted and the price charged to the buyer.

Such price differentials have been accepted as part of pricing strategies to encourage buyers, to meet competitive pressure, to attain financial objective and finally to compensate the buyers for the loss of value satisfaction.

By 'price differential' we mean that the final price will be less than the quoted price. It is not always true because, it may mean price hike too. Thus, discounts and rebates reduce the basic price quoted while warranty charges might increase it that is they are the subtractions and additions to the price quoted. Therefore, the forms of price differentials are discount rebates and premiums.

Discounts:

Discount is the price differential that reduces the quoted price so that the buyer pays much less than the quoted price. Discount is an allowance made to the buyers in consideration on marketing services rendered. Discount can be of three types namely, trade quantity and cash.

'Trade discount' or functional discount is the deduction allowed of the quoted price with reference to specific position enjoyed by the buyers in the channel of distribution. The aim is to compensate the intermediaries of the distribution channel for their valuable service rendered. It is a percentage deduction of the quoted price.

Say, it the firm quotes a price of Rs. 3,000 per ton and allows a trade discount of 10 per cent to the wholesalers and retailers, and then the actual price payable by the wholesalers and retailers will be Rs. 2,700. If the retailers are given 20 per cent off, then the price to the retailers will be Rs. 2,400 per tonne.

In other words, the manufacturer may allow 30 per cent to the wholesaler and wholesalers may allow back 20 per cent to the retailers so that they retain 10 per cent. Trade discount varies from industry to industry, company to company and product to product in a company. It depends on the length of the channel and the nature of functions performed by intermediaries.

The merits of granting trade discount to the company are:

1. An attractive discount lures the intermediaries to operate in the channel.

2. Price can be differentiated without varying it so as to match it with customer demand elasticity.

3. Large discounts help in increasing the sales as the benefit of discount may be passed on to them also. The only difficult aspect is how to assess the functions and the performance of intermediaries for fixing a standard rate of discount.

'Quantity discount' is the deduction allowed off the quoted price to the buyers on the basis of quantities bought. It is generally allowed on the aggregate of all or specific classes of product purchases measured in rupee value or physical units or in terms of purchases at time or purchases over a period of time or beyond a specific floor volume.

For instance, the following schedule may operate in case of a firm:

Schedule of Quantity Discount:

Schedule of Quantity Discount

Thus, if a buyer purchases 1,001 units, the rate actually applicable will be 47.5 per cent (effective) and the rate per unit will be Rs. 44.65. Hence the total amount of discount enjoyed by him on 1,001 units will be of the order of Rs. 2,352.35.

Now this discount may be on a single purchase or the cumulative purchases made over a period. Again, the slab rates make it clear that prices quoted are reduced with the increase in the quantity purchased and increase in the rate of discount.

The merits of granting quantity discount are:

1. They encourage bulk purchase or orders that will be economical to handle.

2. Slow moving items or ‘self-warmers’ can be moved faster with this bait of quantity discount.

3. They stabilise orders booked irrespective of changes in seasons and thus production can be kept in balance. As against these merits, there are some problems too. Those buyers who do not qualify marginally are likely to oppose this idea as they are disappointed and demoralised.

Again, it is difficult to design anti-discriminatory, anti-competitive discount schedule. Violation of these conditions is a legal offence under the MRTP Act.

‘Cash discount’ is the deduction from the invoice price granted to all those who clear their bills within the desired dead-line. It is a reward to the buyer for timely or prompt payment of the amount due. The cash discount rates are based on the prevailing rates in the market at a given point of time.

For instance, if a buyer has bought goods worth Rs. 1,000 and is eligible for 20 per cent trade discount and 5 per cent cash discount for clearing the bill within a fortnight, he enjoys the discounts on quoted price of Rs. 1,000 as under:

Merits of granting quantity discount

The advantages of granting cash discount are:

1. It encourages prompt or timely payment.

2. Liquidity of the company can be improved, particularly when the money market is tight. However, this cash discount should be used carefully because; indiscriminate use at all the times only increases the costs.

Rebates:

‘Rebate’ is a deduction of the quoted price. Many a times, the buyers suffer loss of value satisfaction caused by certain factors. The causes of such dissatisfaction may be defective goods

delivered, delays caused in delivery, goods damaged in transit, possible deterioration in quality on the shelves.

In order to accommodate these genuine claims, concessions are given in the form of rebate. One cannot think of standard rates of rebate. Only the merit of the individual case in respect of which rate can be decided.

For instance, in case of 'second hands' may be in case of cloth, suit-cases, ready garments, soap cakes, and the like anything between 25 per cent to 45 per cent of the 'firsts' quoted prices. It is worth remembering that the rebates are calculated before calculating the discounts.

For instance, if VIP Luggage Company quotes a price of Rs. 550 for the 'first' quality 20″ suitcases, and the buyer is allowed 30 per cent rebate, 20 per cent trade discount and 5 per cent cash discount, the actual amount payable will be:

Rebates

The Merits of Granting Rebate to Buyers are:

1. It acts as an instrument of wiping off the tears by compensating the value dissatisfaction suffered.

2. It has psychological elevation of granting at times too many concessions thus boosting the sales of the defective. However, as there cannot be one standard rate of rebate, buyers have the feeling of partial satisfaction and resentment which affect the firm's goodwill.

Premiums:

All the earlier four points were those that reduced the net price payable by the buyer. However, at times, opposite is also true. There are occasions where the actual price paid will be higher than the quoted price. Thus, consumer durable manufacturing units can add premium to the price quoted for one reason or the other.

It does not mean that discounts are not given. Even after enjoying discounts, the prices paid might be higher.

It is not that all companies resort to this premium adding. Thus, a tractor or fridge, oil engine, or generator units are likely to add extras for say warrantees, special after-sale services, and extra durability and so on. Let us take the case of television manufacturing company.

Specification for Colour Television 66 Cm:

Premiums

D. Leader Price Policy:

Leader pricing is one where the firm in the industry initiates the price changes and these price changes are so effective that other firms follow suit. It is the one of price approximation by followers to that of initiator in the industry.

In marketing jargon the former is called as "price follower" and the latter as "price leader". This pricing policy works on the principle that there is some truth and wisdom in following the established and giant units.

This normally occurs in all those industries where the products are highly standardised and produced on mass scale. It may be a cigarette, sugar, cement, fertiliser, steel, tea, soaps, paints, type-writers and so on.

A company can afford to a price leader only when it enjoys lion's share of market; is well informed about its demand, supply and cost conditions; has the reputation for sound pricing policies over the years, and above all the management has all the drive and initiative. Many times, it pays to be the price follower than the price leader.

The price leader has several options of effecting changes such as maintaining the price, raising relative perceived quality, reduce price, increase and price improve quality or launch low price fighter line.

E. Psychological Pricing:

Psychological pricing is to do with creating a typical consumer perception so that the consumer is made to buy the product. That is, the prices fixed influence the psyche of customer and spur him to action. It is mostly the price policy followed by consumer durables.

Thus, shoes companies in India have played with the consumer psychology by pricing say, Mocasin pair at Rs. 399.95 instead of pricing at Rs. 400.00 straight. It means two things; for the customer one that things are cheaper and that the manufacturers are not exploiting the consumers because, they are true to the last paisa. It is an advantage to the seller as it multiplies the sales.

F. New Product Pricing Policies:

Basically, price determination process involved in case of new products need not be very much different from those of existing products. However, there are distinct price objectives involved in case of new products. Larger latitude of pricing objectives is possible in case of new products; pricing flexibility is also greater.

There is growing competition and limited accepted prices when the new product is in the growth, maturity and decline stage. Further, as product is yet to see light of the day, much depends on external factors.

In case of new products, there can be two possible price policies namely:

1. Skimming price policy and

2. Penetration price policy.

1. Skimming Price Policy:

Skimming price policy sets high initial price to first profit from price inelastic customers, and then successively lowering the prices, often under increasing competitive conditions, to the levels that more price sensitive customers are willing to pay. It sets introductory prices at high levels relative to costs to “skim the cream” off the market.

As there is no immediate competition and there are price inelastic customers, the firm finds it easier and safer to set initial new product prices as high as possible relative to costs and to lower the prices gradually as the market conditions dictate.

It is essentially a slow risk strategy and allows the sellers to recover their investment rapidly though the higher returns that tempts the competitors to enter the arena.

This skimming pricing policy is going to be very successful under the following conditions:

1. Where the demand is relatively inelastic because, the customers know little about the product and close rivals are few.

2. Where the market can be broken down into segments with different price elasticities of demand.

3. Where little is known about the cost or price elasticity of the product.

4. Where it is essential to minimise the risk as one can move down then move up in the prices. The companies with high price tags ride the storms of depression easier than the cut-price merchants as their high margins support them.

5. Where the firm is efforting to 'up-market' its product so as to improve further on quality, service and expenditure on marketing costs and so capitalise on its efforts.

2. Penetration Price Policy:

As opposed to the concept of skimming price strategy, it is an attempt to set new product prices low relative to the costs. It involves setting low initial price to establish market share, pre-empt the competitors and/or to capitalise production economies. By setting low initial prices, the competitors are kept away and this makes possible for the firm to enlarge its share by generating larger sales volume.

The conditions which favour penetration pricing policy are:

1. Where there is high price elasticity of demand. That is, the firm is depending on low prices to attract more customers to new product.

2. Where large scale economies are possible, it is because, large sales volume means lower unit cost.

3. Where there is a strong threat of competition; here only a low price can ward off potential entrants to the market.

4. Where there is unutilised capacity; it is because, the price policy that increases the demand has no meaning unless the firm is in a position to meet the demand created.

5. Where market segments are not there so that high price may be accepted.

G. Promotional Pricing:

The intention of promotional pricing is to stimulate early purchase on the part of consumers. Companies follow good many strategies to achieve this goal.

These are:

1. Loss Leader Pricing:

Most of the supermarkets and departmental stores reduce the prices of products on well known brands to attract more and more customers to increase sales. This pays if the additional revenue.

Sales compensates for the lower margins on the loss-leader-items. Manufacturers of loss-leader brands generally object to this practice because it can dilute the brand image and bring more complaints from retailers who charge the list-price.

Manufacturers have tried to restrain the intermediaries from loss- leader pricing through lobbying for retail-price maintenance laws but these laws have been revoked.

2. Special Event Pricing:

Sellers fix special prices in certain seasons and events to draw more customers. Mostly seasonal products make it possible to make good margin. The event of reopening of schools and colleges in June, there good demand for student’s needs. Even in case of eventful festivals, sellers make good

margin and money by charging uniquely higher and bargain prices. In India marriage season attracts people to buy gold and jewelleries and clothes between Octobers to May.

3. Cash Rebates:

In case of consumer durable goods-especially white goods like two- wheelers, autos, cars, fans, fridges, washing machines and home appliances including electronic goods, cash rebate is given.

Thus, MUL in case of each model it makes a cash rebate ranging between Rs. 10,000 to 35,000, depending on the model. This is for a specific period. Rebates can help in clearing inventories without cutting the list price.

4. Low or Zero Interest Financing:

Instead of cutting the product's prices; the companies can offer goods at zero or low rate of interest the finance. This is a credit transaction but there is a guarantee of recovery and hard sell goods are pushed off. This is very much common in case of consumer durables. This helps the consumers too. Further, the investment inventories are cut on the part of the manufacturers and distributors.

5. Longer Period Payments:

Consumers hesitate to buy products like cars, two wheelers, ready flats, and travelling. In such cases, they do not mind paying comparatively higher rates of interest, but the period of payment is extended to make monthly instalment quite handy. This is good proposal for both dealers and customers.

6. Warranties and Service Contracts:

We see that companies have been tempted to extend warranty period which never heard earlier. Thus, LG Washing Machine has 7 year warranty. Asian paints have 8 year warranty. Similarly in case of TV sets and other electronic goods warranty period is extended because of which consumers come forward to buy these products without any hesitation. Added to this, they extend service contracts at reasonable costs.

7. Psychological Discounting:

One is aware of discounts from normal prices are legitimate form of promotional pricing. Now more and more companies are adopting what is known as psychological discounting. It means that the price is originally at a high level much more than that of normal. Later, high rate of discount is given, where the seller is at gain always.

Such tactics are highly objectionable as it is not ethical and legitimate. It is a day-light robbery. Thus, a woollen sweater is originally priced at say Rs. 1100, but is sold at say Rs. 880, only with attractive presentation of price tag.

Promotional pricing strategies are very often a zero-sum game. If they work competitors imitate them and they lose their effectiveness. If they do not work, they waste money that could have been put into other marketing tools, such as building up product quality and service or strengthening product image through advertising.

One is to think twice; to what extent these tactics can be applied and used for mutual gain of the dealers and the consumers. There is great risk of consumer loyalty