MKT 829

PRICING POLICIES

Course Team COURSE REVIEWER

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INTRODUCTION

MKT 829– Pricing Policies will acquaint you with some issues and challenges in pricing as an important marketing decision variable.

WHAT YOU WILL LEARN IN THIS COURSE

You will learn of the policies and strategies of pricing in the marketing of products of modern organizations.

COURSE AIMS

The aim of this course is to acquaint you with some issues, procedures and strategies attendant on the pricing policies of modern organizations.

COURSE OBJECTIVES

By the end of this course, you should be able to:

- Discuss the meaning, significance and determinants of price;
- Explain pricing procedures and policies;
- Discuss demand and supply influences on pricing decisions;
- Describe price elasticity and its pricing implications;
- Explain pricing strategies and describe the situations that would recommend each;
- Identify key quality issues in pricing;
- Discuss the legal and regulation issues in Pricing;
- Describe resale pricing maintenance; and
- Discuss the features and managerial decisions incumbent on product, price, place and promotion variables.

WORKING THROUGH THE COURSE

To complete this course, you are expected to read the study units, and other relevant books and materials provided by the National Open University of Nigeria at the end of each unit of work.

Each unit contains self-assessment exercises and at certain points in the course, you are required to submit assignments for assessment purpose. At the end of the course, there is a final examination. This course is expected to last for a period of one semester. Below, you will find listed, all the components of the course, what you have to do, and how you should allocate your time to each unit in order that you may complete the course successfully and on time.

ASSIGNMENT FILE

This gives you the details of the work you must submit to your tutor for marking. The marks you obtain from these assignments will count towards the final marks you obtain for the course. Further information on assignments will be found in the course of your study.

The Course Materials

National Open University of Nigeria will provide you with the following:
The Course Guide: This consists of five Modules, each having a minimum of 3 units, for a total of 21 units of work as listed hereunder. Also, at the end of each unit are lists of books – References and Further Reading. While you may not procure or read all of them; they are essential supplements to the course materials.

Study Units

The study units are as follows:

MODULE 1 OVERVIEW OF PRICING

Unit 1 Meaning and Significance of Price

Unit 2 Determinants of Price

Unit 3 Pricing Procedures and Policies

MODULE 2 FACTORS INFLUENCING PRICING POLICIES

Unit 1 Demand Influences on Pricing Decisions

Unit 2 Supply Influences on Pricing Decisions

Unit 3 Environmental Influences on Pricing Decisions

Unit 4 Price Elasticity

MODULE 3 PRICING STRATEGIES

Unit 1 Price Skimming

Unit 2 Penetration Pricing

Unit 3 Product Line Pricing

Unit 4 Psychological Pricing

Unit 5 Competition- Oriented Approaches

Unit 6 Distribution-Based Pricing

MODULE 4 QUALITY, DEALING, LEGAL AND REGULATIONS ISSUES OF PRICING

Unit 1 Quality Issues in Pricing

Unit 2 Legal and Regulation Issues in Pricing

Unit 3 Resale

Pricing

Maintenance

Unit 4

Franchising

MODULE 5 MARKETING MIX

Unit 1 Product Variable

Unit 2 Distribution Variable

Unit 3 Price Variable

Unit 4 Promotional Variable

ASSESSMENTS

There are three aspects of the assessments. First are Self-Assessment Exercises (SAEs), second is the Tutor – Marked Assignments (TMAs) and the third is the Final Examination. You are advised to be sincere in attending to Self-assessment exercises. You are expected to apply knowledge, information and skills that you have acquired during the course. At the end of the units you will be provided with probable answers to the SAEs.

TUTOR-MARKED ASSIGNMENTS

There are Tutor-Marked Assignments in this course, and you are advised to attempt all. Aside from your course material provided, you are advised to read and research widely using other references which will give you a broader viewpoint and may provide a deeper understanding of the subject.

Ensure all completed assignments are submitted on schedule before set deadlines. If for any reasons, you cannot complete your work on time, contact your tutor before the assignment is due to discuss the possibility of an extension. Except in exceptional circumstances, extensions may not be granted after the due date.

FINAL EXAMINATION

The final examination for this course will be of three hours duration with a marked value of 70% of the total course grade. All areas of the course will be assessed and the examination will consist of questions which reflect the type of self-testing, practice exercise and tutor assignments you have previously encountered. Utilize the time between the conclusion of the last study unit and the examination to revise the entire course. You may find it useful to review your self-assessment exercises, tutor-marked assignments and comments on them before the examination.

COURSE MARKING SCHEME

The work you submit will count for 30% of your total course mark. At the end of the course however, you will be required to sit for a final examination, which will also count for 70% of your total marks.

HOW TO GET THE MOST FROM THIS COURSE

In distance learning, the study materials are specially developed and designed to replace the lecturer. Hence, you can work through these materials at your pace, and at a time and place that suit you best. Visualize it as reading the lecture instead of listening to a lecturer.

Each of the study unit follows a common format. The first item is an introduction to the subject matter of the unit and how a particular unit is integrated with the other units and the course as a whole. Next is a set of learning objectives. These objectives unfold what you should be able to do by the time you have completed the unit. Use these objectives to guide your study.

On finishing a unit, go back and check whether you have achieved the objectives. If made a habit, this will further enhance your chances of completing the course successfully.

The following is a practical strategy for working through the course:

- Read the Course Guide thoroughly.
- Organize a study schedule, which you must adhere to religiously. The major reason students fail is that they get behind in their course work. If you encounter difficulties with your schedule, please let your tutor know promptly.
- Turn to each unit and read the introduction and the objectives for the unit.
- Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow.
- Review the objectives of each study unit to confirm that you have achieved them. If you feel unsure about any of the objectives, review the study material or consult with your tutor.
- When you are confident that you have achieved a unit's objectives, you can then start on the next unit. Proceed unit by unit through the course and try to pace your study so that you keep yourself on schedule.
- After submitting an assignment to your tutor for grading, do not wait for its return before starting on the next unit. Keep to your schedule. When the assignment is returned, pay particular attention to your tutor's comments.
- After completing the last unit, review the course and prepare yourself for final examination. Check that you have achieved the units objectives (listed at the beginning of each unit) and the course objectives listed in this course guide.

FACILITATORS/TUTOR AND TUTORIALS

There will be specific time for tutorial sessions, in support of this course. You will be notified of the dates, time and location of these tutorials, together with the name and phone number of your tutor, as soon as you are allocated a tutorial group.

Your Tutor will mark and comment on your assignments; he/she will keep a close watch on your progress and on any difficulties you might encounter and provide assistance to you during the course. You must mail your tutor - marked assignments to your Tutor earlier before the due date. They will be marked by your Tutor and returned to you as soon as possible.

Do not hesitate to contact your Tutor by telephone, e-mail or your discussion group (board) if you need help. The following might be circumstances in which you would find help necessary. Contact your Tutor if:

You do not understand any part of the study unit or the assigned readings.

You have difficulty with the self – tests or exercises.

You have a question or problem with an assignment, with your tutor's comments on an assignment or with the grading of an assignment.

You should try your best to attend tutorials. This is the only chance to have face-to-face contact with your tutor and to ask questions which are answered instantly. You can raise any problem encountered in the course of your study. To gain the maximum benefit from the course tutorials, prepare a question list before attending them. You will learn a lot from participating in discussions actively.

SUMMARY

This course is designed to give to you the knowledge that will aid your practice of setting and reviewing prices of products in modern organizations.

We, therefore, sincerely wish you the best and that you enjoy the course.

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MODULE 1 OVERVIEW OF PRICING

Unit 1	**Meaning and Significance of Price**
Unit 2	**Determinants of Price**
Unit 3	**Pricing Procedures and Policies**

UNIT 1 MEANING AND SIGNIFICANCE OF PRICE

Unit Structure

1.1 Introduction

1.2 Learning Outcomes

1.3 Meaning and Significance of price

1.3.1 Meaning of Price

1.3.2 Significance of Price to the Buyer, Seller and Society

1.4 Summary

1.5 References/ Further Reading/Web Resources

1.6 Possible Answers to Self-Assessment Exercise

1.1 Introduction

Simply put, Price is the amount of money that you charge for your products. It is the value that you are placing on your product. The price at which you are willing to sell your product is one of the first things that can push a customer towards, or away from, buying your product. As such, the decisions we make on price should be well thought-out and anchored on marketing research findings and insights. Effective pricing decisions also require good pricing policies and strategies. What do we want to gain or benefit in fixing prices on our products, what considerations should guide our expectations on prices we fix, and how and when should the prices of our products be reviewed? What processes and methodologies should we use to set prices for our products? How do we determine what the absolute amount to be fixed should be?

The place of price in marketing is best appreciated when its role in demand, business profitability, consumer standard of living (level of consumption), resource allocation and utilization is properly analyzed and understood. Price is the only marketing decision variable that has an inverse relationship with demand. Recall the law of demand. It says that an increase in the asking price of a product, all things being equal, will lead to a fall in demand. All other marketing decision variables: product, place and promotion have direct relationship with demand.

This unit introduces price by discussing its meaning, many names and explaining its significance to buyers, sellers, the economy and the larger society.

1.2 Intended Learning Outcomes

By the end of this unit, you should be able to:

- Discuss the meaning of price
- List the many names by which price is known and addressed
- Describe the significance of price to sellers, buyers, the economy and the larger society

1.3 Meaning and Significance of Price

1.3.1 Meaning of Price

Put simply, price is the value placed on a product. To the seller, it is the amount of money at which he will be willing to exchange his products with buyers. It represents an income to him. To the buyer, the price is the cost of acquiring a product. It stands for the value a buyer has placed on a product and which he will pay to the seller in exchange for the product. A price can generally be said to be the rate of exchange. It is at this rate that buyers and sellers agree to do business that is mutually beneficial to the two parties.

Price in marketing practice goes by many names depending on the type of product involved and the exchange situation. Generally, goods have prices either fixed or negotiated between buyers and sellers. For services, price goes by many names. For their services, lawyers and doctors charge fees. The transporter charges fares for his services to passengers. The landlord charges his tenants rent for living in his house. The insurance company will ask the assured to pay premium for its services while banks ask borrowers to pay interest on loans granted to them. Schools charge students' fees. Courts charge offenders' fines. Agents collect commissions from the clients that they serve. Kidnappers collect ransom from the families of the kidnapped. Citizens pay taxes to government for public goods/services rendered to them. Husbands pay dowry to the parents of brides. All the terms mentioned above refer to prices fixed for the exchange relationship between providers/sellers and users/buyers.

Self-Assessment Exercise1

List the marketing decision variables that have a direct relationship with demand.

1.3.2 Significance of Price to the buyers, seller and society

If the asking prices of goods and services in the society increase, aggregate level of demand will fall. This fall in aggregate demand will be as a result of income and substitution effects. The income effect is explained by rising prices causing real income to of buyers to fall. Falling real income means that only lesser quantities of goods and services will be demanded unless money income is increased by the same or greater proportion of the increase in prices. Substitution effect is crucial where substitute goods and services are readily available and their prices are not increasing. Availability of substitutes in the absence of strong brand loyalty will work to ensure that demand for goods and services whose prices have increased falls.

One of the fallouts of rising prices of goods and services and fall in aggregate demand is a fall in demand for the factors of production utilized in producing the affected goods and services. This follows from the derived nature of demand for factors of production. Falling demand for outputs being produced by factors of production is a sure vindication that these factors are no longer needed. Reduced demands for factors of production (including labour) in given sectors of the economy except they can be easily relocated to other sectors will lead to unemployment. This will accentuate productivity problem in the society, leading to further price increase as demand-supply gap widens. Even when factors of production are, on account of their versatility mobile, cost of retraining and relocation can be very high.

Even for the firm, increase in price (apart from maybe products whose demand is relatively or infinitely inelastic) are likely to lead to reduced total revenue and profit. Except in exceptional cases, even then only in the short run, price increases are bound to lead to market resistance , attract government attention and possible intervention, and provide incentive s for more investors to come into the product' market, with the promise of increased supply. Increasing supply and falling demand ultimately will push prices down, lowering the revenue and profit accruing to individual firms.

Another way of appraising the impact of price on firms' profitability is to look at the firms profit function. Profit function is critically dependent on price and quantity demanded. Symbolically, profit can be represented as:

II = TR-TC

Where II is profit, TR is total revenue and TC is total cost.

TR =PQ, where P is price and Q is Quantity. Optimization of TR calls for a proper blend of P and Q.

THE BEST price is that P that will allow for the achievement of Q value that will not only maximize TR but will also maximize profit. Economists have designed an elegant model for the determination of profit maximizing price. Mathematically, the P is established at the output level where marginal revenue (that is, the first derivative of TR with respect to P) is equal to marginal cost (if total cost is expressed in terms of price, this is possible as TC =total fixed cost plus total variable cost (TVC =unit variable cost times Q) and Q is a function of P, then the first derivative of TC with respect to P will give the marginal cost). A price fixed at a level above the profit maximizing one will undermine revenue and lead to total profit reduction even when unit profit is increasing.

The rational consumer who prefers high to low quantities of goods and services will be forced by rising price levels to accept low quantities of these items, reducing his level of consumption and possibly changing his pattern of consumption in the face of falling real income. On the other hand, a good price will increase the level of consumption of consumers, return reasonable profit to firms and ensure adequate utilization of the factors of production.

Self-Assessment Exercise 2 What will a good price do to consumers, firms and the economy?

Self-Assessment Exercises

- List the many names by which price is known and addressed
- **Discuss the significance of price to sellers, buyers, the economy and the larger society**
- Discuss the importance of price as a marketing decision variable

1.4 Summary

This unit presented and discussed the meaning of price and its significance to buyers, sellers, government and society. Price is the amount of money or value at which sellers and buyers are willing to engage in exchange of a product. The decisions we make on price should be well thought-out and anchored on marketing research findings and insights. Effective pricing decisions also require good pricing policies and strategies.

If the asking prices of goods and services in the society increase, aggregate level of demand will fall. This fall in aggregate demand will be as a result of income and substitution effects. Generally, rise or fall in prices of products has implications for firm's revenue, market share and profit. There are also implications for level of employment, standard of living of consumers etc.

1.5 References/ Further Reading/Web Resources

Berkowitz, E. N., Crane, F. G., Kerin, R. A., Hartley, S. W., & Rudelius, W. (2000), Marketing, Toronto, McGraw-Hill

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1.6 Possible Answers to Self-Assessment Exercises

1. The marketing decision variables having a direct relationship with demand are Product, Place and Promotion.

2. A good price will increase the level of consumption of consumers, return reasonable profit to firms and ensure adequate utilization of the factors of production.

UNIT 2 DETERMINANTS OF PRICE

UNIT STRUCTURE

2.1 Introduction

One of the challenging decisions, and the most consequential, that marketers' take is putting a value on a product, fixing the price of a product. Related to that, is reviewing the price of a product when there is need for that. The wrong price on a good product will not yield the desired market response. The wrong price for a product will not only affect market response for the product, it will affect customers/consumers, competitors, and indeed the society (inflation, standard of living, employment level etc.). Wrong pricing can also attract government intervention in an industry. It is vitally important that organizations avoid making wrong pricing decisions.

The starting point in consistently making right pricing decisions, is keen appreciation of the marketing and business environment of the organization. The dynamic factors and forces of the environment will almost always work together to outline and guide organizations in the part of right pricing decisions. The interplay of customers/consumers, competition, government and macro environmental elements will throw up pricing policies and procedures that will enable organizations to make the right pricing decisions anytime there is need to do so.

This unit discusses the determinants of price. It is divided into two broad classes, internal and external determinants of price.

2.2 Intended Learning Outcomes

By the end of this unit, you should be able to:

- List the forces and factors determining price setting in organizations;
- Identify and explain the external determinants of price; and
- Discuss the internal determinants of price.

2.3 **Determinants of Price**

What factors determine price?

There are a number of factors that work together to determine the price that comes to be fixed on a product. These factors will include:

1. Cost of production
2. The demand for the product
3. Its elasticity of demand
4. The objective or the goal of the producer
5. The nature of competition in market (market structure) and
6. Government policy pertaining to the product.

Pricing under different objectives

Pursuit of different objectives will lead to different pricing decisions. Traditional Economic Theory assumes that a firm sets the price and quantity of its product so as to maximize its current profit. The objective of the firm can be to maximize sales in money terms subject to a profit constraint. The objective of some other firms can also be to provide useful service to the customers by charging reasonable price. Some firms would like to take care of the goodwill of the company and hence will charge fair price etc.

A firm operates in a market and not in isolation. Under Perfect Competition price is determined by the forces of demand and supply. Marketers have limited room for maneuvering in this market situation. Each firm under perfect competition is a price taker and not a price maker. There is always a tendency towards the prevalence of only one price under Perfect Competition; the respective changes in the forces of demand and supply alone influence the price.

In case of Monopoly, the situation is slightly different. A monopolist can be a price maker. He can fix the price of his product, initially through a process of trial and error, by balancing losses and gains. As there are barriers to entry and no close substitutes, the monopolist will charge a high price and subsequently enjoy monopoly profits.

The monopolist may also practice price-discrimination i.e. he may charge different prices to different buyers and in different regions for the same product depending upon the elasticity of demand for the product. In case of dumping also different prices will be charged for the same product. In fact selling his product in foreign market at a price lower than his own market is itself referred to as Dumping.

In case of, Monopolistic Competition, each producer is a monopolist of his product and a group of producers producing same, though not identical product compete with each other in the market. They differentiate their product and instead of having a price war with each other they practice product-differentiation. However, the prices charged are quite competitive in nature.

Under Oligopoly there are few sellers competing in the market. They may be rivals or may form collusion. The price policy of one producer is affected by the price policy of the others. Each producer before he fixes the prices of his product tries to understand the price behavior of other producer in the market. For instance producer A thinks that if he lowers the price of his product and others don't then, he will be able to capture wider market, But it may so happen that if he lowers the price of his product and others also lower their prices then he will not be able to get more buyers and therefore all the producers may subsequently suffer. On the other hand, he may feel that if he raises the price of his product and others also raise their prices he may not lose out on many customers but it may so happen that when he raises his price and others don't raise their prices, then demand for his product will go down. Therefore under Oligopoly there prevails the phenomenon of price rigidity. They may prefer to resort to non-price competition leaving each other to follow their own policies.

Self-Assessment Exercise 1

List the factors that work together to determine the price that comes to be fixed on a product.

2.3.1 External Determinants of Price

Marketers do not fix prices arbitrarily. Actual prices are often based on some considerations. Some of these considerations that work to influence price may be outside the control of marketers while others will be within their control. The variables in the marketing system that influence prices but cannot be controlled by marketers are referred to as external determinants of price.

It is the interplay of external and internal determinants of price that works to establish product prices. The elements of external determinants of price are discussed below:

Structure of the market

Any given product market will fall into one of the categorizations of market structure. Market structure is defined as the characteristics of market organization that are likely to affect a firm's behavior and performance. The character of the market will depend on such variables as the number of sellers in the industry and the degree of product differentiation in the industry. Economists have identified many models of market structures ranging from perfect competition to pure monopoly.

Firms in perfect completion have no pricing decisions to take. Such firms are price takers. Once a market price has been established by forces of demand and supply, firms simply take the price as given. There will be no incentive for price reduction as the firms can sell all their outputs (supplies) at the prevailing price. The elasticity of demand for their products being infinitely elastic (demand curve is normally horizontal), firms cannot fix above the market prices (rate).

In differentiated oligopoly and monopolistic competition market structures, the firm's ability to manipulate prices is only checked by the price elasticity of demand for the product. The absence of direct competition ensures that their prices cannot be challenged. In undifferentiated oligopoly, the threat of retaliatory measures from competing firms is the major check on firm's pricing ambition. In monopolistic markets, the absence of competition and substitutes ensures considerable control over prices.

Price Elasticity of Demand

This factor plays crucial role in actual price setting. Price elasticity of demand depicts the functional relationship between quantity demanded and price fixed on a product in a dynamic setting. It shows explicitly how quantity demanded responds to movement in prices. As the price of a product increases or decreases by a given proportion, quantity demanded of the product will increase or decrease by the same proportion, greater than the proportion or less than the proportion. If a 20% increase in the price of the product will lead to ales than 20% reduction in quantity demanded, we say that the demand for the product is relatively inelastic. The demand for the product will be relatively elastic if a 20%increase in price will lead to a more than 20% reduction in quantity demanded. Demand will be infinitely elastic, infinitely inelastic and unitary if the ratio of percentage change in quantity and percentage change in price is infinite, zero or one respectively. The general theorem of price elasticity of demand suggests that:

1) Price increase will have a positive influence on a firm's total revenue if and only if the demand for the product is inelastic, and
2) Price reduction will only be beneficial to the firm if and only if the

demand for the product is elastic.

Government Policy

Government policy is another external factor that determines price. In a deregulated market, government exercises little control over prices. Here firms are allowed to freely determine their prices. In a regulated market, government may exercise control over market prices through price control commissions or boards. Price control boards often set price ceilings and price floors. The marketer in this set-up cannot fix his price above the ceiling or below the floor established by the board. An extreme form of price control is where the price control board will stipulate the particular price that all producers/ sellers will charge.

Following are the reasons for the Government interference in price regulation:

1. To prevent exploitation of consumers by certain producers who charge high prices just to maximize their profits.
2. Administered prices aim at providing stable and assured income to the farmers especially under the unfavorable climatic conditions. Administered prices also aim at protecting the interest of weaker sections of society.
3. The Government resorts to administered pricing for discouraging or encouraging the consumption of certain commodities. By raising the prices of certain commodities the purpose of the Government may be to put a check on their consumption. Similarly to encourage consumption of certain commodities their prices may be lowered for certain section of the people.
4. Administered prices are introduced for encountering inflationary pressures. The administered prices ensure that the free play of market forces does not lead to misallocation of resources.

2.3.2 Internal Determinants of Price

The elements of internal determinants of price are cost, corporate resources and objective of the firm.

Cost

Price basically is a marketing decision variable employed by organizations to realize their objectives. In a business organization, the ultimate organization is profit. For a price to produce profit it must cover the cost of production and allow for a provision for profit. Any producer therefore wishing to make profit, must consider cost. If selling price is less than unit cost, then profit will be negative. Profit will be zero when selling price is equal to unit cost and positive when selling price is greater than unit cost.

Even a non-profit making organization must be cost conscious in price setting if it must survive and grow. Survival and growth imperatives will require the organization to try to recover its cost of operation from present sales. Any organization that sells its goods and services below the cost of operation will require subvention from government or its owners to continue to operate. Basically if unit cost is low, price can be low, if unit cost is however high, price must necessarily be high. Price takes its bearing from cost.

Corporate Resources

The strength of an organization's resources will affect its price. A company with a solid asset base has a good chance of manipulating its price. Such a company can cut its price, and even sell at below unit cost at least in the short run and still survive. Its enormous resources can sustain it.

A financially weak enterprise, on the other hand, can ill afford selling at below unit cost even in the short run.

Objectives of the Firm

The objective a marketing organization sets for itself will determine its pricing style and procedure. Corporate objectives in this regard can be stated in three ways:

1. **Profit Maximization:** A firm wishing to maximize profit will determine its price at the point where its revenue is equal to its marginal cost. Determination of this price level requires the equation from which its marginal revenue and marginal cost functions can be derived. This price may be very high or very low.
2. **Maximization of Sales Revenue:** Sales revenue maximization pricing strategy will be guided by the nature of demand for the product. If the demand for the product is elastic, then the price must be very low. The price will need to be very high if the demand for the product is inelastic.
3. **Market Share Maximization**: A firm can only increase its market share at the expense of other firms. Realizing this often requires the firm to charge prices significantly less than what its competitors are

charging.

Self-Assessment Exercise 2 State the three ways in which Corporate objectives in regard to price setting be stated.

SELF-ASSESSMENT EXERCISES

- List and explain the elements of external determinants of price
- Discuss the elements of internal determinants of price
- Discuss why and how government policy affects prices of products

2.4 Summary

. This unit presented and discussed the determinants of price, including internal and external factors. The variables in the marketing system that influence prices but cannot be controlled by marketers are referred to as external determinants of price and include structure of the market, price elasticity of demand and government policy. The elements of internal determinants of price are cost, corporate resources and objective of the firm

2.5 References/Further Reading/Web Resources

Berkowitz, E. N., Crane, F. G., Kerin, R. A., Hartley, S. W., & Rudelius, W. (2000), Marketing, Toronto, McGraw-Hill

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2.6 Possible answers Self-Assessment Exercises

1. The factors that work together to determine the price that comes to be fixed on a product will include:

   a. Cost of production;
   b. The demand for the product;
   c. Its elasticity of demand;
   d. The objective or the goal of the producer;
   e. The nature of competition in market (market structure); and
   f. Government policy pertaining to the product.

2. Corporate objectives in regard to price setting can be stated in the following three ways:

   a. Profit maximization;
   b. Maximization of sales revenue; and
   c. Market share maximization.

UNIT 3 PRICING PROCEDURES AND POLICIES

Unit Structure

3.1 Introduction

There are many procedures that an organization can follow in fixing prices on its products. The procedures have core requirements for successful usage. Each has advantages and disadvantages and situations that recommend it. Similarly, there are varied pricing policies that will serve as a signpost and guide for pricing decisions in organizations. These pricing policies have critical considerations informing their formulation and implementation.

3.2 Learning Outcomes

By the end of this unit, you should be able to:

Discuss the major procedures involved in pricing;

Explain the policies guiding pricing decisions in organizations; and

Describe the many issues involved in fixing prices on products of organizations.

3.3 Pricing Procedures and Polices

3.3.1 Pricing Procedures

The pricing procedures that firms adopt depend on cost, demand and competition. Based on these factors, three broad pricing procedures are commonly analyzed:

Cost-Oriented Pricing

There are many forms of cost-oriented pricing. The commonest form is known as Full Cost Pricing. In this method, the producer calculates per unit cost of production and adds a margin of profit to it, which he considers fair and thereby arrives at a price which is acceptable to the consumer. In fixing the price, the firm calculates the average variable cost, adds to it the average fixed cost and to that adds the amount of fair profit. Fair profit is normally taken as 10% to 15% of the cost.

Price = Average Variable Cost + Net Profit Margin + Average Fixed Cost

The rationale of Full Cost Pricing lies in its simplicity and apparent fairness. It appears reasonable that price based on cost is a just price.

Limitations of the Full Cost Pricing

The main criticism against Full Cost Pricing is that it disregards demand, as also the purchasing power of the buyers.

One of the weaknesses of the full cost pricing is that it tends to diminish the interest of the sellers in cost control i.e. the seller will not make any effort to minimize cost because the price fixed will automatically cover the cost.

In such pricing, historical cost is considered. This leads to over-pricing under decreasing cost and underpricing under increasing cost conditions.

Such type of pricing is difficult in case of wide fluctuations in variable cost.

It does not take account of the forces of competition.

In a dynamic market situation characterized by change and uncertainty, full cost pricing is not a sound policy. It may be a useful starting point provided the sellers are willing to deviate over a period of time.

Another variant of cost based pricing is Marginal Cost Pricing

In case of Marginal Cost Pricing, we have to consider the incremental cost of production. Fixed cost is not taken into consideration. Marginal cost is the additional cost for producing additional unit of output. In this method the price is related to marginal cost. The main difference between Full Cost Pricing and Marginal Cost Pricing is that in Marginal Cost Pricing, the fixed cost component is not included. The Marginal Cost Pricing is useful in the short period whereas Full Cost Pricing is mainly for the long period. As long as the marginal cost is covered there is a sort of guarantee that the firm will not shut down.

Advantages of Marginal Cost Pricing

It encourages aggressive price policy.

To keep the prices low the firm is encouraged to keep down the marginal cost.

Under Marginal Cost Pricing, the competitive price is maintained.

It is useful for multi-product, multi-process and multi-market firm.

This method of pricing is useful for pricing over the lifecycle of the product.

The firm generally follows Marginal Cost Pricing when it enters into a new market, when the firm is having unutilized capacity and when there is high degree of competition in the market.

Limitations

This policy is useful only in the short-period and does not provide a long- run stable price policy.

Under increasing cost conditions it may lead to higher price and under decreasing cost conditions it will lead to lower price.

It may lead to frequent price changes which are not liked by the consumers.

The buyers prefer stable prices and not erratic price fluctuations.

It needs to be noted that the Marginal Cost Pricing provides the upper and lower limits of prices whereas Full Cost Pricing clings to the middle points. In fact while fixing the price, both the theories should be taken into account as both the systems of pricing reinforce each other.

Another framework for Cost – Oriented Pricing considers mark-up pricing and target pricing. In this procedure, prices are set with an eye only on cost. Cost is the only consideration of price.

Mark-up Pricing: In this, price is determined simply as P= C + S, where P is selling price, C=cost of the product and is margin for profit. Mark up therefore is the addition to the cost of a product (margin for profit). This margin is normally stated as a percentage on cost.

There are two general formulae that can be used in determining the value of the percentage on cost. Assuming the cost of a product is N100 and the expected margin for profit is 20% of the cost, determines what the price of the product should be?

One way of solving this problem is to use this formula:

$$P = \frac{Cost}{1-X}$$ where X is the percentage on cost.

$$P = \frac{100}{0.80} = N125.00$$

The commonest way of determining price in Mark-up pricing is with the use of the formula:

$$P = C(1+X)$$

Using this formula

$$P = 100(1+0.2) \quad N120.00$$

Target Pricing: In this the firm will determine the price of its product taking into account the rate of return on investment or profit level it wishes to achieve. Let us consider a firm that produces 1,000 units of product X. The unit cost of the product is N10. The total product cost is therefore N10, 000. If the company decides to price its product so that it will make a profit, of 1000, what price will it charge? The price will vary depending on the number of units that can be sold.

If all the 1000units can be sold, then price = $\frac{TC + P}{Q}$

Where TC is total product cost, P is Profit to be realized, and Q is quantity to be sold.

$$\text{Price} = \frac{10{,}000 + 1000}{1000}$$

Price = N11

Where only 800 units can be sold, then price will be N13.75

2) **Competition-Oriented Pricing**

The primary consideration in setting prices under this procedure is the price competitors are charging. On this basis, the firm will set its prices:

(a) At the going rate (that is, the same prices other competitors are charging

(b) At the above the price competitors are charging,

(c) At below the prices being charged by competitors. If the product is undifferentiated and completion is keen, it will be reasonable to fix prices at the level competitors are charging. For a product that is some-what differentiated and perhaps of superior quality, a price above the level being charged by competitors is recommendable.

Another form of competition oriented pricing is sealed-bid pricing. This is common in contract works and supply exchanges. In contract works, interested competing contractors will independently submit their bids. The bid "is the firm's offer price, and it is a prime example of pricing based on expectations of how competitors will price rather than on a rigid relation based on the firm's own costs or demand".

All things being equal, the firm that will get the contract will be the one that offered to do the job at the lowest price. In sealed bid pricing, each firm must try to imagine what others are likely to bid. It is the firm's calculations regarding what prices others are likely to bid that will form the basis of its own price.

3) **Demand- Oriented Pricing**

In this pricing procedure, prices are set not primarily on the basis of cost or competition but on the basis of the value placed on the product by buyers or the strength of demand for the product in the market. Most sellers in the open market adopt this pricing procedure. They often do not have fixed ideas regarding the prices they will charge on their products. As they negotiate prices with buyers, they indirectly try to ascertain what value the buyers place on the product. The price buyers will offer is an indication of their perceived value of the product.

Following from this procedure, sellers will increase asking prices of their products at the instant prices, demand is strong. They will also reduce prices if demand at present prices happens to be weak. Prices here vary depending on the strength of demand. Strong demand is taken as an indication that the price is at least equal to the buyers' perceived value of the product or less. Weak demand suggests that asking prices of products exceed the perceived value of the products.

In adopting this procedure, it is needless to say that the seller must have an eye on cost. Price must necessarily cover marginal cost though cost is not the primary determinant of price.

3.3.2 Pricing Policies

Organizations usually have policies that guide price fixers. The policies are general statements indicating the framework guiding all the firm's pricing decisions. The policies will point to the plan of action to be adopted by the organization in setting prices. The major considerations involved in formulating pricing policy will include the following:

- Competitive situation
- Goal of profit and sales
- Long range welfare of the organization
- Flexibility
- Government policy
- Overall goals of the organization
- Price sensitivity
- Routinization of pricing

The policy options open to organizations, price wise are:

1) **Uniform Pricing**: The organization here adopts the policy of selling its products at the same price in all markets. This will obtain irrespective of variation in marginal costs of the product occasioned by difference perhaps in distribution costs. NNPC is a typical organization that has this policy. Most petroleum products are sold at the same price all over the country though the cost of the product in all markets is not the same.

2) **Discriminatory Pricing:** Discriminatory pricing policy entails the organization charging different prices on the same products in the same market or different markets, to different customers, at different times. This policy has a chance of being successfully implemented where the organizations are more or less monopolies. Some of the conditions that commend this policy include:
   a) The market must be large and definably heterogeneous. This will make it possible for the block market to be capable of being split into smaller and discernable segments. The splitting must be based on objective criteria, with the emerging segments being homogenous to a reasonable extent.
   b) The success of the policy will also require that the product be not transferable. Otherwise it can be bought at the lower priced market segment and resold at the higher priced market by others.
3) **Psychological Pricing:** Some organizations intentionally set prices with a view to creating the impression that their prices are low. So instead of fixing the price at N20, the price can be set at N19.99k.The difference is not significant. But this can create an impression in the minds of buyers that the price is low.
4) **Odd Pricing:** This is yet another pricing policy. Here organizations intentionally set prices at odd numbers. This tends to create the impression that the price of the organization’s product is somewhat different from prices being charged by others. If other

organizations are asking for N100, this organization can ask for N99 or N101.

Self-Assessment Exercise 1 Identify the policy options open to organizations, price wise.

3.3.3 Sundry Pricing Issues

1 Pricing of Exports

Pricing of export-oriented product is perhaps more complicated than pricing of the product which remains in the domestic market. When it comes to export, many more considerations are involved besides merely the cost of transporting of the product. The producer has to consider the following aspects:

i) The nature of demand for his product in the foreign market.

ii) The degree of competition depending on the quality of the product.

iii) The differences in the technology employed by producers in other countries thereby affecting costs.

iv) The availability of substitutes.

v) Governments' policy for promoting exports through providing subsidies, duties imposed by the foreign Government on inflow of our product, the commission by the middlemen and the brokers.

vi) The regularity or irregularity regarding the demand.

vii) The conditions for delivering of the goods in the foreign markets.

On the basis of these consideration, export pricing strategies can be developed.

i) Penetration pricing to capture the foreign market.

ii) Skimming price for maximizing profit.

iii) Dumping i.e. the price charged in foreign market is lower than the price at which product is sold in domestic market.

iv) Competitive pricing.

v) Standard world wide price for all the buyers in all the markets based on average cost of production.

vi) Dual pricing based on cost plus or marginal cost method.

vii) Escalation pricing i.e. export price is higher than the domestic price.

viii) Follow the leader pricing i.e. the price fixed is the same as the price charged by the leading competitor in the foreign market.

ix) Probe pricing is a policy of trial and error, balancing losses and gains in fixing the price. Initially some price is charged and then on getting the feedback the price gets adjusted

Self-Assessment Exercise 2 List the major export pricing strategies

2 Variety of Approaches in Setting Prices

These approaches are not mutually exclusive but sometimes they complement or supplement one another.

1. Intuitive Pricing: It is a psychological method of pricing in which prices are based on the 'feel of the market'. The system is more subjective rather than objective in nature. Essentially the price is estimated on the basis of cost plus method with flexible mark-up pricing. This method is fairly common.

2. Experimental Pricing: It is a trial and error method of pricing. This method is widely used in pricing of new products especially at retail level.

3. Initiative Pricing: In this method a firm decides to follow a price fixing policy of a price leader.

4. Backward Cost Pricing: Certain industries target price as the starting point for strategic calculations. The selling price is determined first and by working backwards the firm arrives at a product design.

5. Odd Number and Critical Number Pricing: Many firms believe that consumers have strong price sensitivity at certain critical points. This is particularly noticeable in the retail trade. It is very commonly believed that odd numbers are more attractive to the buyers than the even numbers. The problem of the management is to determine that number which has the greatest appeal.

6. Double Pricing: Double pricing is a technique in which two prices are shown on the price tag or on the pack of the article. The original price is usually crossed out and substituted by a new price at a lower level.

7. Prestige Pricing: Buyers are often price-conscious. There is some sort of price illusion. The buyers often feel that higher the price, the more prestigious is the product and therefore greater the demand for it. Some type of social scaling exerts a powerful influence on the pricing behavior.

8. Multiple Pricing/ Collective Pricing: Retail prices are usually expressed in terms of one unit. Experience often reveals that sales can be increased if more units are offered for a price. This technique of pricing is known as Multiple Pricing. The Multiple Pricing must offer small saving to the consumer.
9. Peak-Load Pricing: Pricing done on the basis of the peak period demand and off peak period demand is called Peak-Load Pricing. Higher prices are charged in the peak period and lower prices are charged in the off-peak period.
From the above discussion we observe that various pricing methods and pricing approaches prevail in domestic and export market. The choice of pricing method eventually depends on the objectives of the firm.

SELF ASSESSMENT EXERCISES

Discuss the advantages and limitations of marginal cost pricing

List and explain the major considerations in formulating pricing policies

Describe the variety of approaches in setting prices

3.4 Summary

This unit discussed the various pricing procedures and policies that organizations can leverage on in fixing and reviewing prices of their products. Other sundry issues impacting on pricing decisions like pricing policies, variety of approaches in setting prices and pricing of exports are also presented and discussed.

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3.6 Possible Answers to Self-Assessment Exercise

1. The policy options open to organizations, price wise are:
   a. Uniform Pricing;
   b. Discriminatory Pricing;
   c. Psychological Pricing; and
   d. Odd Pricing.

2. The major export pricing strategies will include the following:
   a. Penetration pricing to capture the foreign market.
   b. Skimming price for maximizing profit.

c. Dumping i.e. the price charged in foreign market is lower than the price at which product is sold in domestic market.
d. Competitive pricing.
e. Standard world wide price for all the buyers in all the markets based on average cost of production.
f. Dual pricing based on cost plus or marginal cost method.
g. Escalation pricing i.e. export price is higher than the domestic price.
h. Follow the leader pricing i.e. the price fixed is the same as the price charged by the leading competitor in the foreign market.
i. Probe pricing is a policy of trial and error, balancing losses and gains in fixing the price. Initially some price is charged and then on getting the feedback the price gets adjusted

MODULE 2 FACTORS INFLUENCING PRICING POLICIES

Unit 1	Demand Influences on Pricing Decisions
Unit 2	Supply Influences on Pricing Decisions
Unit 3	Environmental Influences on Pricing Decisions
Unit 4	Price Elasticity

UNIT 1 DEMAND INFLUENCES ON PRICING DECISIONS

Unit Structure

1.1 Introduction

One of the most important and complex decisions a firm has to make relates to pricing its products or services. If consumers perceive a price to be too high, they may not buy the company's products, instead they may buy other company's products or close substitute products, thereby leading to loss of sales and profits for the firm. On the other hand, if prices are too low, sales might increase, but profitability may suffer. It therefore follows that pricing decisions must be given careful consideration.

This unit discusses Demand influences on pricing decisions

1.2 Learning Outcomes

By the end of this unit, you should be able to:

- Discuss pricing policy;
- Describe demographic influences on pricing policy;
- Explain psychological factors influences on pricing policy; and
- Discuss price elasticity.

1.3 DEMAND INFLUENCES ON PRICING DECISION

1.3.1 The Meaning of Pricing Policies and Practices

Pricing policies and practices may be defined as the set of standard procedures used by a firm to set its wholesale or retail prices for its products or services. It refers to the method of decision making that is used to set prices for a company's goods or services. The policy assists in determining prices based on various social and economic factors such as cost of production. It also relies on provision with a margin.

Demand Influences on pricing policy concerns primary the nature of target market and expected reactions of consumers to a given price or change in price. There are three primary considerations here, demographic factors, psychological factors and price elasticity.

1.3.2 Demographic Factors

In the initial selection of the target market that a firm intends to serve, a number of demographic factors are usually considered. Demographic factors that are particularly important for pricing decisions include the following:

1. Number of potential buyers
2. Location of potential buyers
3. Position of potential buyers (organizational buyers or final

consumers)

4. Expected consumption rates of potential buyers
5. Economic strength of potential buyers.

These factors help determine market potential and are useful for estimating expected sales at various price levels.

Self-Assessment Exercises 1 List the demographic factors that are particularly important for pricing decisions.

1.3.3 Psychological Factors

Psychological factors related to pricing, concern primarily how consumers will perceive various prices or price changes. For example, marketing managers should be concerned with such questions as these:

1. Will potential buyers use price as an indicator of product quality?
2. Will potential buyers be favorably attracted by odd pricing (e.g. 99k, N2,999)
3. Will potential buyers perceive the price as too high relative to the service the product gives?
4. Are potential buyers' prestige oriented and therefore willing to pay higher prices?
5. How much will potential buyers be willing to pay for the product?

Self-Assessment Exercise 2: What are the psychological questions that marketing managers should be concerned with while making pricing decisions?

SELF ASSESSMENT EXERCISES

Describe demographic influences on pricing policy

Explain psychological factors that influence pricing policy

Discuss price elasticity factors influencing pricing policy

1.4 Summary

This unit presented and discussed the demand influences on pricing decisions. The major influences on demand discussed are demographic and psychological factors. The price elasticity factors were also discussed as an influence on the pricing policies of organizations.

The demographic factors that are particularly important for pricing decisions include the following:

1. Number of potential buyers
2. Location of potential buyers
3. Position of potential buyers (organizational buyers or final consumers)
4. Expected consumption rates of potential buyers
5. Economic strength of potential buyers.

1.5 References/Further Reading/Web Resources

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1.6 Possible Answer to Self-Assessment Exercise

1. The demographic factors that are particularly important for pricing decisions include the following:

a. Number of potential buyers;
b. Location of potential buyers;
c. Position of potential buyers (organizational buyers or final consumers);
d. Expected consumption rates of potential buyers; and
e. Economic strength of potential buyers.

2. The psychological questions that marketing managers should be concerned with are:

a. Will potential buyers use price as an indicator of product quality?
b. Will potential buyers be favorably attracted by odd pricing (e.g. 99k, N2,999)
c. Will potential buyers perceive the price as too high relative to the

service the product gives?

d. Are potential buyers' prestige oriented and therefore willing to pay higher prices?

e. How much will potential buyers be willing to pay for the product?

UNIT 2 SUPPLY INFLUENCES ON PRICING DECISIONS

Unit Structure

2.1 Introduction

Supply influences on pricing decisions will be discussed in terms of three basic factors. These factors relate to the objectives, costs and nature of the product.

2.2 Intended Learning Outcomes

At the end of this unit, you should be able to:

- Discuss pricing objectives;
- Explain cost considerations in pricing;
- Identify product considerations in pricing; and
- Describe product life cycle considerations in pricing.

2.3 Supply Influences on Pricing Decision

2.3.1 Pricing Objectives

Pricing objectives should be derived from overall marketing objectives, which in turn should be derived from corporate objectives. Since it is traditionally assumed that business firms operate to maximize profits in the long run, it is often thought that the basic pricing objective is solely concerned with long-run profits. However, the profit maximization norm does not provide the operating marketing manager with a single, unequivocal guideline for selecting prices. In addition, the marketing manager does not have perfect cost, revenue, and market information to be able to evaluate whether or not this objective is being reached. In practice, then, many other objectives are employed as guidelines for pricing decisions. In some cases, these objectives may be considered as operational approaches to achieving long-run profit maximization.

Research has found that the most common pricing objectives are:

(1) Pricing to achieve a target return on investment

(2) Stabilization of price and margin

(3) Pricing to achieve a target market share

(4) Pricing to meet or prevent competition

(5) Price-profit satisfaction

(6) Sales maximization and growth

(7) Making money

(8) Early cash recovery

2.3.2 Cost Considerations in Pricing

The price of a product usually must cover costs of production, promotion, and distribution, plus a profit, for the offering to be of value to the firm. In addition, when products are priced on the basis of costs plus a fair profit, there is an implicit assumption that this sum represents the economic value of the product in the marketplace.

Cost-oriented pricing is the most common approach in practice. There are at least three basic variations: markup pricing, cost-plus pricing, and rate-of-return pricing. Markup pricing is commonly used in retailing: A percentage is added to the retailer's invoice price to determine the final selling price. Closely related to markup pricing is *cost-plus pricing,* in which the costs of producing a product or completing a project are totaled and a profit amount or percentage is added on. Cost-plus pricing is most often used to describe the pricing of jobs that are non-routine and difficult to "cost" in advance, such as construction and military weapon development.

Rate-of-return or *target pricing* is commonly used by manufacturers. The price is determined by adding a desired rate of return on investment to total ally, a break-even analysis is performed for expected production and sales level of return is added on. For example, suppose a firm estimated production and sales to be 75,000 units at a total cost of N300, 000. If the firm desired a before-tax return of 20 percent, the selling price would be (300,000 + 0.20) < 300,000) + 75,000 = N4.80 per unit. Cost-oriented approaches to pricing have the advantage of simplicity, and many practitioners believe that they generally yield a good price decision. However, such approaches have been criticized for two basic reasons. First, cost approaches give little or no consideration to demand factors. For example, the price determined by markup or cost-plus methods has no necessary relationship to what people will be willing to pay for the product. In the case of rate-of-return pricing, little emphasis is placed on estimating sales volume. Even if it were, rate-of-return pricing involves circular reasoning, since unit cost depends on sales volume but sales volume depends on selling price. Second, cost approaches fail to reflect competition adequately. Only in industries where all firms use this approach and have similar costs and markups can this approach yield similar prices and minimize price competition. Thus, in many industries, cost-oriented pricing could lead to severe price competition, which could eliminate smaller firms. Therefore, although costs are a highly important consideration in price decisions, numerous other factors need to be examined.

Self-Assessment Exercises 1 What are the most common pricing objectives?

2.3.3 Product Considerations in Pricing

Although numerous product characteristics can affect pricing, three of the most important are:

(1) Perishability

(2) Distinctiveness

(3) Stage in the product life cycle.

Perishability: Some products, such as fresh meat, bakery goods, and some raw materials are physically perishable and must be priced to sell before they spoil. Typically, this involves discounting the products as they approach being no longer fit for sale. Products can also be perishable in the sense that demand for them is confined to a specific time period. For example, high fashion and fad products lose most of their value when they go out of style and marketers have the difficult task of forecasting demand at specific prices and judging the time period of customer interest. While the time period of interest for other seasonal products, such as rain coats or Christmas trees, is easier to estimate, marketers must still determine the appropriate price and discount structure to maximize profits and avoid inventory losses.

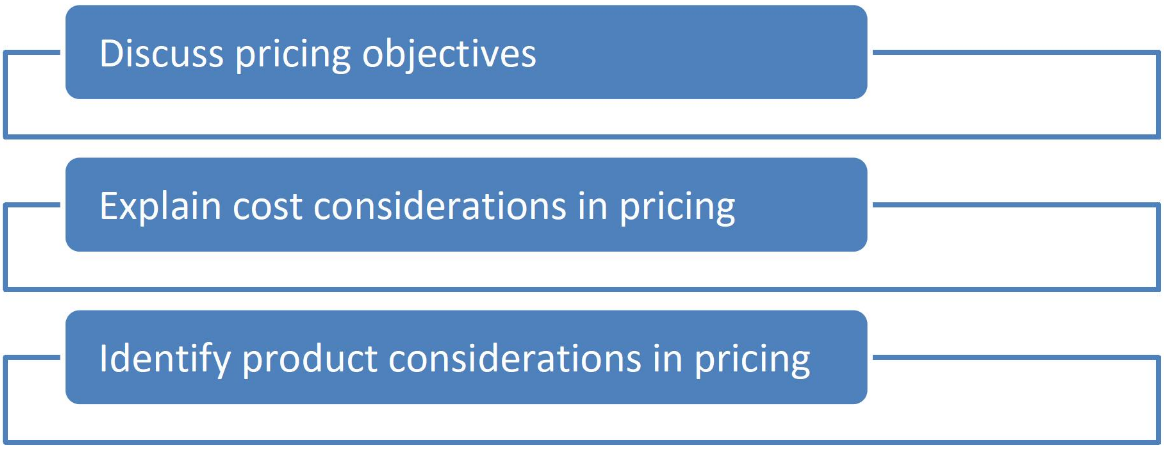
Marketers try to distinguish their products from those of competitors and if successful, can often charge higher prices for them. While such things as styling, features, ingredients, and service can be used to try to make a product distinctive, competitors can copy such physical changes. Thus, it is through branding and brand equity that products are commonly made distinctive in customers' minds. For example, prestigious brands like Rolex, Tiffany's, and Lexus can be priced higher in large measure because of brand equity. Of course, higher prices also help create and reinforce the brand equity of prestigious products.

2.3.4 Product Life Cycle consideration in pricing

The stage of the life cycle that a product is, can have important pricing implications. With regard to the life cycle, two approaches to pricing are skimming and penetration price policies. A *skimming* policy is one in which is used when the firm has a temporary monopoly and when demand for the product is price inelastic. In later stages of the life cycle, as competition moves in and other market factors change, the price may then be lowered. Flat screen TV's and cell phones are examples of this. A *penetration* policy is one in which the seller charges a relatively low price on a new product. Generally, this policy is used when the firm expects competition to move in rapidly and when demand for the product is, at least in the short run, price elastic. This policy is also used to obtain large economies of scale and as a major instrument for rapid creation of a mass market. A low price and profit margin may also discourage competition. In later stages of the life cycle, the price may have to be altered to meet changes in the market. We shall discuss more about these later in this course.

Self-Assessment Exercise 2 Discuss three important product characteristics that can affect pricing.

SELF ASSESSMNT EXERCISES



2.4 Summary

This unit presented and discussed the supply influences on pricing decisions. These supply influences are explained by the three basic factors of objectives, costs and nature of the product. The important pricing implications of the stage of the life cycle that a product is, were also discussed.

2.5 References/Further Reading/Web Resources

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2.6 Possible Answers to Self-Assessment Exercise

1. The most common pricing objectives are:

a. Pricing to achieve a target return on investment
b. Stabilization of price and margin
c. Pricing to achieve a target market share
d. Pricing to meet or prevent competition
e. Price-profit satisfaction
f. Sales maximization and growth
g. Making money
h. Early cash recovery

2. The most important product characteristics that can affect pricing are:

a. Perishability
b. Distinctiveness
c. Stage in the product life cycle.

UNIT 3 ENVEROMENTAL INFLUENCES ON PRICING DECISIONS

Unit Structure

3.1 Introduction

Environmental influences on pricing include variables that the marketing manager cannot control. Two of the most important of these are competition and government regulation.

3.2 Learning Outcomes

At the end of this unit, you should be able to:

- Explain competition as a factor influencing pricing decisions;
- Discuss government regulations as a factor influencing pricing decisions; and
- Describe legal Issues as a factor influencing pricing decisions.

3.3 Environmental Influences on Pricing Decision

3.3.1 Competition as a factor influencing pricing policy

In setting or changing prices, the firm must consider its competition and how competition will react to the price of the product. Initially, consideration must be given to such factors as number of competitors. List the factors which marketers will consider in price setting and review in relation to the number of competitors. The factors to be considered are:

1. Market shares, growth, and profitability of Competitors.
2. Strengths and weaknesses of competitors.
3. Likely entry of new firms into the industry.
4. Degree of vertical integration of competitors.
5. Number of products sold by competitors.
6. Cost structure of competitors.
7. Historical reaction of competitors to price changes.

These factors help determine whether the firm's selling price should be at, below, or above competition. Pricing a product at competition (i.e., the average price charged by the industry) is called *going-rate pricing* and is popular for homogeneous products, since this approach represents the collective wisdom of the industry and is not disruptive of industry harmony. An example of pricing below competition can be found in *sealed-bid pricing,* in which the firm is bidding directly against competition for project contracts. Although cost and profits are initially calculated, the firm attempts to bid below competitors to obtain the job contract. A firm may price above competition because it has a superior product or because the firm is the price leader in the industry.

Self-Assessment Exercise 1 When can a marketer use price differential?

3.3.2 Government Regulations

Prices of certain goods and services are regulated by state and federal governments. For example, to curb inflation, the federal government can invoke price controls, freeze prices at certain levels, or determine the rates at which prices may be increased in Nigeria. The government always fixes the prices of petroleum products.

3.3.3 Legal issues

Many laws affect pricing decisions and activities. Where there are laws regulating prices, marketers must refrain from fixing prices that go against the law. However for various reasons, marketers may wish to sell the same type of product at different prices. The practice of providing price differentials that tend to injure competition by giving one or more buyers competitive advantages over other buyers is called price discrimination and this is prohibited by law. We shall discuss more about this later. However, not all price differentials are discriminatory. A marketer can use price differentials if they do not hinder competition, if they result from differences in the costs of selling or transportation to various customers, or if they arise because the firm has had to cut its price to a particular buyer to meet competitors' prices. Airlines, for example may charge different customers different prices for the same flights based on the availability of seats at the time of purchase. As a result, fliers sitting in adjacent seats may have paid vastly different fares because one passenger booked weeks ahead, whereas the other booked on the spur of the moment a few days before, when only a few seats remained on the flight.

SELF-ASSESSMENT EXERCISE 2 List the factors which marketers will consider in price setting and review in relation to the number of competitors.

SELF ASSESSMENT EXERCISES

- Explain competition as a factor influencing pricing decisions
- Discuss government regulations as a factor influencing pricing decision
- Describe legal Issues as a factor influencing pricing decisions

3.4 Summary

In this unit, the environmental influences on pricing including competition and government regulation and laws, variables that the marketing manager cannot control were presented and discussed. In as much as the prices of some products are regulated by government, consideration of the actions and reactions of competitors moderate the price setting and review decisions of marketers.

3.5 References/Further Reading/Web Resources

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3.6 Possible Answers to Self-Assessment Exercise

1. A marketer can use price differentials if:

They do not hinder competition;

They result from differences in the costs of selling or transportation to various customers, or

They arise because the firm has had to cut its price to a particular buyer to meet competitors' prices.

2. The factors which marketers will consider in price setting and review in relation to the number of competitors are:

a. Market shares, growth, and profitability of Competitors.
b. Strengths and weaknesses of competitors.
c. Likely entry of new firms into the industry.
d. Degree of vertical integration of competitors.
e. Number of products sold by competitors.
f. Cost structure of competitors.
g. Historical reaction of competitors to price changes.

UNIT 4 PRICE ELASTICITY

Unit Structure

4.1 **Introduction**

The law of demand that states that all things being equal an increase in price of a product will lead to a decrease in the quantity demanded of it is based on two effects, income and substitution. Given the efficacy of the law of demand, organizations appreciate that increase or decrease in price of products will have a predictable effect on its demand. The question that arises is this, how will increase or decrease in price of a given product impact on the total revenue or profit (unit or total) of an organization. What should an organization that desires to maximize total revenue, market share or profit do with respect to price? Increase or decrease it? Leave it permanently at the level it is presently?

Elasticity of demand is one construct that enables organizations to make informed pricing decisions and not give up in manipulating price variable strategically. When the nature of demand for a product is known and its demand elasticity determined to be either elastic or inelastic, then objective decisions can be taken on either increasing, decreasing or leaving price at its extant level, when an organization wants to achieve its marketing objectives.

This unit discusses the effect and importance of price elasticity on pricing decisions.

4.2 **Learning Outcomes**

At the end of this unit, you should be able to:

- Discuss price elasticity and explain its effect on pricing decisions;
- Determine the various price elasticity of demand outputs; and
- Explain the importance of price elasticity in pricing decisions.

4.3 Price Elasticity

4.3.1 The Meaning of Price Elasticity

Price elasticity of demand provides a measure of the sensitivity of demand to changes in price. It can be defined as the percentage change in quantity demanded relative to a given percentage in price. The percentage change in quantity demanded caused by a percentage in price is much greater for elastic demand than for inelastic demand. For example in a product such as electricity, demand is relatively inelastic in that when its price increases , quantity demanded goes down only a little. However for products such as sports cars, demand is relatively elastic, when price goes up sharply, quantity demanded will go down greatly.

Self-Assessment Exercise 1. On what is the law of demand based?

4.3.2 How to Determine Price Elasticity of Demand

Both demographical and psychological factors affect price elasticity. Price elasticity is a measure of consumers' price sensitivity, which is estimated by dividing relative changes in quantity sold by the relative changes in price:

e=Percent change in quantity / Percent change in price

Although price elasticity is difficult to measure, two basic methods are commonly used to estimate it. First, price elasticity can be estimated from historical data or from price/ quantity data across different sales districts. Second, price elasticity can be estimated by sampling a group of consumers from the target market and polling them concerning various price/quality relationships.

4.3.3 Importance of Price Elasticity

If marketers can determine the price elasticity of demand, setting a price is much easier. By analyzing total revenues as prices change, marketers can determine whether a product is price elastic. Total revenue is Price Times Quantity; thus 10,000 toilet rolls sold in one year at a price of N10.00 per roll equals N100, 000.00 of Total Revenue. If demand is elastic, a change in price causes an opposite change in total revenue; an increase in price will decrease total revenue, and a decrease in price will increase total revenue. Inelastic demand results in a change in the same direction in total revenue. An increase in price will increase total revenue, and a decrease in price will decrease total revenue. Demand for fuel for example is relatively inelastic in that even when there is an increase in fuel, people must still buy because they need to fuel their cars to drive to work and other activities. Thus with this knowledge a marketer will know when it is appropriate to change prices of its goods.

Self-Assessment Exercise 2 Discuss the importance of price elasticity of demand to a marketer.

SELF ASSESSMENT EXERCISES

- Explain the importance of price elasticity in pricing decisions
- Discuss price elasticity and explain its effect on pricing decisions
- Determine the various price elasticity of demand outputs

4.4 Summary

This unit presented and discussed the meaning and importance of price elasticity of demand and the important role this plays in shaping firms pricing decisions as they seek to achieve their sales and marketing objectives.

4.5 References/Further Reading/Web Resources

Berkowitz, E. N., Crane, F. G., Kerin, R. A., Hartley, S. W., & Rudelius, W. (2000), Marketing, Toronto, McGraw-Hill

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4.6 Possible Answers to Self-Assessment Exercise

1. The law of demand which states that increase in price of a product will lead to a fall in its demand is based on two effects, income and substitution.

2. The importance of price elasticity of demand lies in the fact that such knowledge enables the marketer to know when it is appropriate to change prices of products and the direction of such changes.

MODULE 3 PRICING STRATEGIES

Unit 6	Distribution-based pricing

UNIT 1 PRICE SKIMMING (NEW PRODUCT PRICING)

Unit Structure

1.1 Introduction

A good product that is made readily available and accessible and effectively communicated but poorly priced will never be able to attract the desired patronage and meet the objectives of the marketer. Lowly priced products may enjoy high customer patronage but will not guarantee the survival and profitability of the marketing organization. Conversely, a highly priced product will promise high unit profit to the marketing organization but may not guarantee customer patronage level that will keep the organization in business. Organizations will do well to avoid prices that are too high and too low. Charging too much can increase profit but limit sales, while charging too little can boost your sales volume but limit profit. The challenge to marketers is to figure out how to walk the fine line between too high and too low prices and create a win-win situation for the marketer and customer. This is where pricing strategies come in.

A pricing strategy is the approach used to set the price of a product or service. It includes all the methods you use to calculate the right price—with the goal of keeping both demand and profits as high as can be.

Using a pricing strategy encourages you to look at the internal and external factors that can affect your profit margin—often focusing on one or two—so your final decision is always based on logic. It eliminates the bias you may have as you're pricing your product, and leads you to take marketing research into account. Great pricing strategies are essential for generating strong profit from the get-go, and sustaining growth over time. Many of the available pricing strategies that can be adopted by organizations and that can assist them in achieving their marketing and organizational objectives will be discussed in the units that follow.

Price skimming is one of the strategies that marketers adopt for a new product pricing. Setting the base price for a new product is not an easy task for a marketer and is a necessary part of formulating a marketing strategy. When a marketer decides to set a base price, he needs to consider how quickly competitors will come into the market, the strategies they will adopt, and how the marketer stands to benefit from the new product at least before other competitors will come.

In this unit, we shall consider price skimming as one of the strategies that marketers adopt in pricing new products.

1.2 Learning Outcomes

After reading this unit, you should be able to:

Describe price skimming; and

Explain the benefits of price skimming

1.3 Price Skimming (New Product Pricing)

1.3.1 The Meaning of Price Skimming

There are two broad pricing strategies an organization introducing a new product into the market can adopt. One option will be to introduce the new product with a low price and hope that this will help the product to attract many users quickly. This low price can conceivably be below cost of product. The expectation is that this strategy will attract many buyers initially and when the new product has been accepted in the market the organization will over time increase the price of the product and be able to make profit.

The other option open to the organization is to introduce the new product with a high price especially when the new product does not have immediate substitutes. This initial high price can be reviewed downwards with time. An organization adopting this pricing strategy is said to be implementing a price skimming strategy (launch with high prices and then lower prices over time).

A Skimming price is a high price intended to "skim the cream off the market". It is best employed at the start of a product's life, when the product is novel and consumers are uncertain about its value. Price skimming is charging the highest possible price that buyers who most desire the product will pay.

In skimming, the practice is to price high and systematically reduce price over time. This method enables companies to establish a flow of revenue that covers research and development expenses, as well as the high initial costs of bringing the product to market. A skimming strategy assumes the existence of a relatively strong inelastic demand for the product, often because the product has status value or because it represents a true breakthrough. Price is used as a means to segment the market on the basis of discretionary income or degree of need for the product. As the product life cycle progresses, prices are reduced in response to competitive pressures, and new market segments become the key targets.

Marketing managers are most likely to embrace a skimming strategy when production capacity limits output or when competitors face some barrier to market entry.

Self-Assessment Exercise 1 There are two broad pricing strategies an organization introducing a new product into the market can adopt. State the two broad pricing strategies for introducing a new product into the market.

1.3.2 Benefits of Price skimming

Price skimming can provide several advantages, benefits, especially when a product is in the introductory stage of its life cycle. A skimming policy can generate much-needed initial cash flows to help offset sizable developmental costs. When introducing a new pharmaceutical, most drug makers often use a skimming price to defray large research and developmental costs and to help fund further research and development into other drugs. Price skimming protects the marketer from problems that arise when the price is set too low to cover costs.

When a firm introduces a product, its production capacity may be limited. A skimming price can help to keep demand consistent with the firm's production capabilities. The use of skimming price may attract competition into the industry because the high price makes that type of business appear to be quite lucrative.

Price skimming is an effective way to attract trendsetters and influencers who want to be the first to try new products and services. Doing so can get consumers excited for products, while making high-income users loyal members of your customer base.

This happens regularly in the world of smartphones. When new iPhone models first launch, they can cost nearly $1,000 because they are extremely trendy. Over time, they become more affordable for the masses, reaching people of various income levels. Another benefit of price skimming is that you'll more quickly earn back your production costs instead of taking an initial loss.

Price skimming doesn't work as well for companies offering professional services, such as accounting firms and business consultancies, since they're not as heavily demand-driven. The major drawback of price skimming strategy is that high starting prices don't encourage users to make long-term recurring payments.

However, price skimming can work well in industries that rely on trends, like technology and fashion, or those with particularly high production costs, such as pharmaceuticals.

Self-Assessment Exercise 2 Another benefit of price skimming is that you'll more quickly earn back your production costs instead of taking an initial --------.

SELF ASSESSMENT EXERCISES

What is price skimming and why is it useful to a marketer?

Explain the benefits of price skimming

1.4 Summary

This unit presented and discussed the meaning, features and benefits of price skimming as a pricing strategy for introducing a new product into the market. The benefits of price skimming are listed and discussed

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1.6 Possible Answers to Self-Assessment Exercise

1. There are two broad pricing strategies an organization introducing a new product into the market can adopt. One option will be to introduce the new product with a low price and hope that this will help the product to attract many users quickly, penetration pricing. The other option open to the organization is to introduce the new product with a high price especially when the new product does not have immediate substitutes, price skimming.

2. Another benefit of price skimming is that you'll more quickly earn back your production costs instead of taking an initial loss.

UNIT 2 PENETRATION PRICING (NEW PRODUCT PRICING)

Unit Structure

2.1 Introduction

An organization that does not adopt skimming pricing for its new product will have to adopt penetration pricing. When using this strategy, the organization will initially charge low prices—usually lower than your competitors—then make gradual price increases as your market share grows. This helps you launch with a high volume of sales right away. It is important to know that penetration pricing differs from loss leader pricing. Whereas penetration pricing quickly increases your prices, a loss leader strategy continually uses low price points or sales to attract customers, sometimes in hopes of driving competitors out of business. This can lead to a monopoly, allowing the company using the strategy to set any prices they want.

Penetration pricing is another important pricing strategy that marketers adopt in pricing new products. In this unit we shall discuss the meaning and importance of penetration strategy.

2.2 Intended Learning Outcomes

After reading this unit, you should be able to:

- Explain the meaning of penetration price strategy;
- Determine when to apply penetration pricing strategy; and
- Discuss the advantages of penetration pricing strategy.

2.3 Penetration Pricing

2.3.1 The Meaning of Penetration Pricing

Penetration pricing is a new product pricing strategy used by marketers by charging prices below those of competing brands to penetrate a market and gain a significant market share quickly. This approach is flexible for a marketer than price skimming because it is more difficult to raise a penetration price after having skimmed the market with a higher price.

A penetration price is a low introductory price. In the short run, it may even result in a loss. A penetration pricing strategy is implemented when a competitive situation is well established (or soon will be) and a low *price* in the introductory stage of the product life cycle will be necessary to break into the market. Penetration pricing is an alternative to skimming. Its objective is to enable a new product to become established arid survive in the long run. A company achieves this objective by *pricing* so low that a profit is possible only if the company sells a relatively high volume and obtains a large market share.

Penetration pricing can be highly effective for startups and small businesses that are still working on growing their brand. Though it can certainly be risky, it's a great way for you to draw in shoppers who may otherwise disregard your product or service. As you gain brand recognition, trust, and a solid customer base, you can pivot to other pricing strategies that provide a higher profit.

Self-Assessment Exercise 1 The alternative pricing strategy to penetration for introducing new products into the market is ------.

2.3.2 When to Apply Penetration Pricing Strategy

Penetration pricing is likely to be the most effective and desirable approach under one or more of the following conditions:

- When demand for the product is very sensitive to price (elastic demand)
- When it is possible to achieve substantial economies in the unit cost of manufacturing and/or distributing the product by operating at high volume (economies of scale)
- When a brand faces threats of strong competitive imitation soon after introduction because there is no patent protection, no high capital requirement for production, and no other factors to keep competition out of the market (strong competitive threat)
- When market segments do not appear to be meaningful and there is mass market acceptance of the product (mass market acceptance)
- When acquiring a customer leads to a relationship and additional purchases (customer acquisition and retention

The logic of penetration pricing is that the strategy will reduce or slow the threat of competitive imitation because the small profit margin will discourage low-cost imitators from entering the market. Furthermore, by increasing the size of the total market or of its market share, the marketer starts a customer relationship, establishes strong brand loyalty, and increases the brand's dominance in consumers' minds.

2.3.3 Advantages of Penetration Pricing

Penetration pricing can be especially beneficially when a marketer suspects that competitors could enter the market easily. If penetration pricing allows the marketer to gain a large market share quickly, competitors may be discouraged from entering the market. In addition, because the lower per unit penetration price results in lower per-unit profit, the market may not appear to be especially lucrative to potential new entrants.

Self-Assessment Exercise 2 Penetration pricing is likely to be the most effective and desirable approach under which conditions?

SELF ASSESSMENT EXERCISES

- What is penetration pricing?
- Discuss the advantages that a marketer may have for adopting a penetration pricing strategy.
- Determine when to apply penetration pricing strategy

2.4 Summary

This unit presented and discussed the penetration pricing as an alternative to price skimming strategy for introducing new products into the market. The necessary conditions for the success of penetration pricing for introducing new products into the market were explained. Also explained were the benefits of penetration pricing strategy for pricing of new products.

2.5 References/Further Reading/Web Resources

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2.6 Possible Answers to Self-Assessment

1. The alternative pricing strategy to penetration for introducing new products into the market is price skimming
2. Penetration pricing is likely to be the most effective and desirable approach under one or more of the following conditions:

- When demand for the product is very sensitive to price (elastic demand)
- When it is possible to achieve substantial economies in the unit cost of manufacturing and/or distributing the product by operating at high volume (economies of scale)
- When a brand faces threats of strong competitive imitation soon after introduction because there is no patent protection, no high capital requirement for production, and no other factors to keep competition out of the market (strong competitive threat)

- When market segments do not appear to be meaningful and there is mass market acceptance of the product (mass market acceptance)
- When acquiring a customer leads to a relationship and additional purchases (customer acquisition and retention.

Unit 3 PRODUCT LINE PRICING STRATEGIES

Unit Structure

3.1 Introduction

Many organizations have a number of products that are related on account of production, distribution and consumption systems. These related products have the challenge of prices being fixed on each and every one of them. Should the same or different prices be fixed on all or some?

Many pricing strategists consider the product line, rather than individual product items to be the appropriate unit of analysis. The objective of product-line pricing is to maximize profits for the total product line rather than to obtain the greatest profits for any individual item in the line. Marketers who do this are said to focus on total-profit pricing rather than on item profit pricing. In this unit we shall discuss some of the strategies associated with product line strategy.

3.2 Intended Learning Outcomes

After reading this unit, you should be able to:

- Explain product line pricing; and
- Discuss the following: Captive pricing, Premium pricing, Bait pricing and Price lining

3.3 Product Line Pricing Strategies

3.3.1 The Meaning of Product-Line Pricing

Product line pricing means establishing and adjusting the prices of multiple products within a product line. Instead of considering products on a single item basis when determining pricing strategies, some firms adopt the product line pricing. When marketers use product line pricing, their objective is to maximize profits for an entire product line rather than focusing on the profitability of an individual product. Product line pricing can provide marketers with flexibility in price setting. For example, marketers can set prices so that one product is quite profitable, while another increases market share by virtue of having a lower price than competing products. When marketers employ product-line pricing, they have several strategies to choose from. In the following section, we shall discuss some of these strategies.

3.3.2 Captive pricing

In adopting captive pricing, the basic product in a product line is priced low, whereas the price on the items required to operate or enhance it may be higher.

Let us take some examples to simplify our explanation further. Printer companies such as Hewlett- Packard and Canon have used this pricing strategy, providing relatively low-cost, low-margin printers and selling ink cartridges that go with the printers to generate significant profits. A camera manufacturer may set low prices on cameras in the hope of making significant profits on film. Firms such as Schick and Gillette sell their razors at low prices to encourage long-term purchase of blades that fit the razors. In a captive pricing strategy, the basic product is priced low, often below cost, but the high markup on supplies required in operating the basic product makes up for that low price.

Self-Assessment Exercise 1 In a captive pricing strategy, how is the basic product priced?

3.3.3 Premium Pricing

When your target audience is predominantly affluent shoppers, charging higher prices—without a plan to lower them significantly—can make your brand more attractive. A premium pricing strategy is all about charging more than your competition as a way to stand out. Premium pricing can provide a sense of luxury, and it can enforce the idea that you're a brand name, while creating a perception that you have the best quality products to offer. For example, consumers will pay more for brands like SAMSUNG and MERCEDEZ Benz.

Premium pricing is often used when a product line contains several versions of the same product; the highest-quality products or those with the most versatility are given the highest prices.

Marketers who use a premium strategy often realize a significant portion of their profits from premium-priced products. Examples of product categories that commonly use premium pricing are cars, smart phones, small kitchen appliances, beer, ice cream, and cable television service.

This pricing model only works if you know your customers won't shy away from high prices, but it can quickly help your perceived value soar.

3.3.4 Bait Pricing

Bait pricing involves attracting customers by advertising low-priced models of, for example, televisions. Although the bait item is available for sale in sufficient quantity, the marketer's expectation is to trade the customer up to a higher margin model that is also available for sale. This strategy may be an effective means to sell higher-margin items.

To attract customers, marketers may put a low price on one item in a product line, with the intention of selling a higher priced item in the line. Let us take an example; a computer retailer might advertise its lowest priced computer model, hopping that when customers come to the store, they will see and purchase a higher-priced one. This strategy can facilitate sales of line’s higher-priced products. As long as a retailer has sufficient quantities of the low-priced model available for sale, this strategy is considered acceptable. The term *bait and switch,* however, is used when the merchant has no intention of selling the bait merchandise but only intends to convince the customer to buy more expensive goods. Bait and switch is considered unethical, and in some countries illegal as well.

Price lining

A marketer using a price-lining strategy prices the products in a product line according to a number of "price points." Price points are simply specific prices. A marketer selling a full product line establishes certain price points to differentiate the items in the line.

Many retailers, especially clothing retailers, practice price lining. A dress store ordinarily does not stock dresses priced at N299.99, N299.87, N299.76, and so on, down to N55. Instead, the prices offered are N299, N249, N199, and the like. These prices are believed by the store owner to be "strong price points," or prices that are greatly attractive to buyers. The assumption is that a good number of dresses will be sold at N249 but that many more will be sold at prices lower than N249 until the price reaches the next strong price point, N199. Similarly, if the price is raised from N249, there will be a rapid drop in sales until the next strong price point is reached.

Price lining simplifies consumers' buying decisions. Shoppers can first select a price point and then choose from the assortment in the price line based on color, style, or other product characteristics. It also simplifies the retailer's decisions about what specific prices should be selected.

SELF-ASSESSMENT EXERCISE 2 A marketer using a price-lining strategy prices the products in a product line according to a number of ---------.

SELF ASSESSMENT EXERCISES

. Discuss the various strategies that a marketer may adopt in product line pricing

Discuss the following: Captive pricing, Premium pricing, Bait pricing and Price lining

3.4 Summary

This unit presented and discussed the many product line pricing strategies open to organizations with many product lines and having to fix prices on each and every product item. The focus when marketers use product line pricing, their objective is to maximize profits for an entire product line rather than focusing on the profitability of an individual product. . Marketers who do this are said to focus on total-profit pricing rather than on item profit pricing. The specific pricing strategies for this pricing challenge are Captive pricing, Premium pricing, Bait pricing and Price lining.

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3.6 Possible Answers to Self-Assessment Exercise

1. In adopting captive pricing, the basic product in a product line is priced low, whereas the price on the items required to operate or enhance it may be higher.
2. A marketer using a price-lining strategy, prices the products in a product line according to a number of "price points." Price points are simply specific prices.

UNIT 4 PSYCHOLOGICAL PRICING

Unit Structure

4.1 Introduction

Psychological pricing is a way of influencing a customer's perception of a product's price to be more attractive. It uses the following tactics to make customers feel like they're saving more or paying less than they really are:

- Offering prices just below a whole number (N9.99 instead of N10)
- Placing an original price next to a sale price
- Launching a buy one get one (BOGO) sale that highlights a free item instead of a 50% off sale

The most significant benefit of this method is that you can successfully set the prices you want, while also keeping customers happy. You may be able to get a thrifty customer to spend more than usual since they'll feel like they're getting a good deal.

In this unit, we shall consider some of these psychological pricing: multiple-unit pricing, bundle pricing, reference pricing, and odd-even pricing.

4.2 Intended Learning Outcomes

At the end of this unit, you should be able to explain:

- Multiple-unit pricing;
- Bundle pricing;
- Reference pricing
- Odd-even pricing
- Every Day Low Pricing;
- Prestige pricing

4.3 Psychological Pricing

4.3.1 Multiple-Unit Pricing

Multiple unit pricing occurs when two or more identical products are packaged together and sold for a single price. This normally results in a lower per unit price than a single unit charged. Examples of Multiple unit pricing are commonly found in packs of soft drinks, packs of light bulbs. A company may use multiple unit pricing to attract new customers to its brand and, in some instances, to increase consumption of its brands. When customers buy in large quantities, their consumption of the product may increase. For example, multiple unit pricing may encourage a customer to buy larger quantities of snacks, which are likely to be consumed in higher volume at the point of consumption simply because they are available. However, this is not true for all products. For instance, greater availability at the point of consumption of light bulbs, bar soap, and table salt is not likely to increase usage.

4.3.2 Bundle Pricing

Bundle pricing is packaging together two or more products, usually complementary ones, to be sold for a single price. With a price-bundling strategy, a group of products is sold as a bundle at a price lower than the total of the individual prices. The bargain price for the "extras" provides an incentive for the consumer. Selling a car with an "options package" is an example of a price- bundling strategy.

The marketer using a price-bundling strategy benefits by increasing total revenues and, in many instances, reducing manufacturing costs. Inventory costs may also be reduced when marketers bundle slow-selling items with popular items to deplete inventory.

Price bundling differs from multiple-unit pricing (as in a two-for-one sale) and quantity discounts because "enhanced" products or multiple Multiple-unit pricing, in addition to attracting new customers through lower prices, may increase overall consumption of the product. Consumers who bring home two six-packs rather than a single six-pack may increase consumption, for example. The major disadvantage of multiple-unit pricing is that regular customers may stock up on the product and postpone future purchases until other "specials" appear.

Self-assessment exercise 1 What is Multiple unit pricing and what does it result to?

4.3.3 Reference Pricing

Reference pricing means pricing a product at a moderate level and displaying it next to a more expensive model or brand in the hope that the customer will use the higher price as an external reference price (comparison price). Because of the comparison, the customer is expected to view the moderated price favorably. Reference pricing is based on the "isolation effect" meaning an alternative is less attractive when viewed by itself than when compared with other alternatives.

4.3.4 Everyday Low Prices (EDLP)

To reduce or eliminate the use of frequent short-term price reduction, some organizations use an approach called everyday low prices (EDLP). With this approach, a marketer sets a low price for its products on a consistent basis rather than setting higher prices and frequently discounting them. Everyday low prices though not deeply discounted are set far enough below competitors' prices to make customers feel confident that they are receiving a fair price. A company that employed this method is Wal-Mart. Indeed, Wal-Mart which has already trademarked the phrase "Always low prices" sought to trademark the acronym EDLP because of its extensive use of the practice.

A major problem with the EDLP is that customers have mixed feeling to it. Over the last several years, many marketers have "trained" customers to seek and expect deeply discounted prices. In some product categories, such as clothing, finding the highest discount has become a reoccurring issue. Thus failing to provide deep discounts can be a problem for some marketers. In some instances, customers simply do not believe that everyday low prices are what marketers claim they are but are instead a marketing trick.

4.3.5 Odd versus Even Pricing

Through odd-even pricing –ending the price with certain numbers –marketers try to influence buyers' perceptions of the price or the product. Odd pricing assumes that more of a product will be sold at say N99.95 than at N100. One seldom sees consumer packaged goods priced at N2.00, N5.00, or N10.00. Instead, they are normally priced at odd amounts such as N1.87, N4.98, and N9.99. Odd prices have, in fact, become traditional.

The use of odd prices is based on the belief that, for example, a price of N1.95 is seen by consumers as only a kobo plus some small change. Advocates of odd pricing assume that more sales will be made at certain prices than at prices just one or two cents higher.

Even prices are often used to good effect by the marketers of services and high-quality merchandise. A physician charges N175 for your annual check-up. A sapphire ring costs N1, 000. Even prices are said to be most effective when the objective is to create an image of high quality or to appeal to upscale consumers.

Self-Assessment Exercise 2 What is prestige pricing and when should it be used?

Prestige pricing

In prestige pricing, prices are set at an artificially high level to convey prestige or quality image. Prestige pricing is used especially when buyers associate a higher price with higher quality.

For many products, consumers use price to infer quality, especially when it is difficult to determine quality by inspection. Certain products are demanded in part because of their high prices. Perfumes, furs, and gems are among them. These products are high-status goods, and marketers often charge a prestige price for them to portray an image of high quality.

SELF ASSESSMENT EXERCISES

Discuss the various psychological pricing methods you know. Why are they useful to marketers and customers as well?

When and how can the following pricing methods be adopted by marketers?

4.4 Summary

This unit presented and discussed psychological pricing. Psychological pricing is a way of influencing a customer's perception of a product's price to be more attractive. It uses its many pricing tactics to make customers feel like they're saving more or paying less than they really are. The specific psychological pricing strategies discussed in this unit include multiple unit pricing, bundle pricing, odd versus even pricing, prestige pricing and everyday low prices.

4.5 References/Further Reading/Web Resources

Berkowitz, E. N., Crane, F. G., Kerin, R. A., Hartley, S. W., & Rudelius, W. (2000). Marketing, Toronto, McGraw-Hill

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4.6 Possible Answers to Self-Assessment Exercise

1. Multiple unit pricing occurs when two or more identical products are packaged together and sold for a single price. This normally results in a lower per unit price than a single unit charged.

2. In prestige pricing, prices are set at an artificially high level to convey prestige or quality image. Prestige pricing is used especially when buyers associate a higher price with higher quality.

UNIT 5 COMPETITION-BASED PRICING

Unit Structure

5.1 Introduction

If you're mostly targeting price-sensitive customers, you may want to consider a competitive pricing strategy instead. With this strategy, you'll continue keeping prices lower than your competitors' prices. This strategy is often paired with economy pricing, in which companies focus on keeping production costs low to offer the best pricing possible. While it won't make your brand feel exclusive in any way, competitive pricing will help you win over the customers who are seeking a reliably affordable product.

Competitive pricing strategies are used by organizations that have competitive pricing objectives.

Dominant firms may use pricing to exploit their positions. Weak firms may opt for the role of follower. In competition based pricing, an organization considers costs as secondary to competitors' prices. Thus rather than emphasize demand, cost, or profit factors, a marketer stresses what competitors or "the market is doing. In this section, we consider some of these competitive pricing strategies that are available to marketers.

5.2 Intended Learning Outcomes

At the end of this unit, you should be able to:

- Discuss how to use price to meet completion;
- Describe how to use price to undercutting competition; and
- Explain price leaders and followers.

5.3 Competition-Based Pricing

5.3.1 Meeting the Competition

Organizations concerned with meeting competition quite naturally set prices at levels equal to those of competitors—the going rate. Many Nigeria firms choose a meeting-the-competition strategy to avoid price competition and price-cutting wars. This approach tends to shift competition to areas other than price. Setting prices for organizational products may be considerably different from setting prices for consumer products. An organizational buyer may solicit competitive bids, asking various suppliers to submit independent price quotations for a specific order. This permits the buyer to obtain the lowest possible price for products that meet certain predetermined specifications. When they must submit price quotes, many marketers adopt competitive pricing strategies.

For many custom-made products, the supplier may request a proposal from the buyer indicating the exact nature of the product or service that will be sold. Often, the buyer and the seller will then negotiate a price.

Self-Assessment Exercise 1 what is competition based pricing often paired with?

5.3.2 Undercutting the Competition

An undercutting-the-competition strategy emphasizes offering the lowest price among available choices. Marketers implementing this approach often use price as the focal point of the entire marketing strategy. For instance, most discount stores highlight undercutting the competition (traditional retailers). Their lower markup helps generate a higher volume of merchandise sales.

Many large organizations, especially those that compete in the global marketplace, also favor this strategy. Multinational organizations and others that price to undercut the competition often have certain advantages because of production costs. For example, many Asian electronics manufacturers pay relatively low wages, and their low labor costs allow them to undercut prices in many of their export markets. Organizations experienced in producing a product often find that their know-how and technical expertise provide economies of scale, which allow them to undercut competition with a discount strategy.

5.3.3 Price Leadership and Followers

Price leadership strategies are generally [i]mplemented by organizations that have *large* shares of the market and of the production capacity in their industries. Such organizations have enough market information and enough control over their distribution systems to determine a price level that others will follow. Price leaders typically are able to make price adjustments without starting price wars and can make their announced prices stick. Price leaders are often sensitive to the price and profit needs of the rest of the industry. Some organizations, especially those in weak competitive positions, adopt a follow-the--leader strategy by simply pricing as the market leader does.

5.3.4 Customary Pricing

For some products where tradition, a standardized channel of distribution, or other competitive factors dictate the pace, customary pricing is used. In this method, the price is relatively stable and unchanged for quite a long time.

SELF-ASSESSMENT EXERCISE 2 Identify the type of organizations that adopt a follow-the leader pricing strategy.

SELF ASSESSMENT EXERCISES

Discuss four approaches of competitive based pricing strategy. Why do think it is desirable to use these approaches?

Discuss how organizations can use price to meet completion

Write short notes on Price Leaders and Followers

5.4 Summary

In this unit, the competition based pricing was presented and discussed. With this strategy, you'll continue keeping prices lower than your competitors' prices. This strategy is often paired with economy pricing, in which companies focus on keeping production costs low to offer the best pricing possible. Competitive pricing will help you win over the customers who are seeking a reliably affordable product.

Competitive pricing strategies are used by organizations that have competitive pricing objectives. In competition based pricing, an organization considers costs as secondary to competitors' prices.

5.5 References/Further Reading/Web Resources

Berkowitz, E. N., Crane, F. G., Kerin, R. A., Hartley, S. W., & Rudelius, W. (2000). Marketing, Toronto, McGraw-Hill

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5.6 Possible Answers to Self-Assessment Exercise

1. Competition based pricing is often paired with economy pricing, in which companies focus on keeping production costs low to offer the best pricing possible.

2. Some organizations, especially those in weak competitive positions, adopt a follow-the--leader strategy by simply pricing as the market leader does.

UNIT 6 DISTRIBUTION-BASED PRICING STRATEGIES

Unit Structure

6.1 Introduction

Many prices are based on the distance separating the buyer from the point of sale or the point of production. Prices are not always higher as the buyer gets farther from the seller. However, in most cases, delivering pricing policies reflect management's attempt to recover some or all of the costs involved in shipping products long distances. In this unit we shall discuss some of the pricing strategies associated with distribution pricing.

6.2 Intended Learning Outcomes

After reading this section, you should be able to explain:

Delivered price; and

Base point price.

6.3 Distribution-Based Pricing Strategies

6.3.1 Delivered Pricing

When a department store advertises that the price of a bed is "N15, 000 delivered in our area," that store is practicing delivered pricing, or *freight-allowed pricing.* The delivery charges are built into the price paid by the consumer. Occasionally, ill will may develop when customers located just beyond the delivery zone lines are charged a price higher than the advertised price.

A variation on delivered pricing is zone pricing, whereby geographic zones are delineated and prices increase as the zone lines crossed in completion of the transaction accumulate.

A company that views the entire country as its delivery zone and charges the same prices in every location is practicing a special form of delivered pricing called uniform delivered pricing.

Self-Assessment Exercise 1 What do delivering pricing policies attempt to achieve for the firm?

6.3.2 Base-Point Pricing

Another distribution-based pricing system involves the selection of one or more locations to serve as basing points. Customers are charged prices. Base-point pricing is a geographic pricing policy that includes the price at the factory plus freight charges from the base point nearest to the buyer. This approach to pricing has virtually been abandoned because of its questionable legal status. The policy resulted in all buyers paying freight charges from one location such as Lagos or Port Harcourt regardless of where the product was manufactured.

When the seller absorbs all or part of the actual freight costs, freight absorption pricing is being used. The seller might choose this method because he wishes to do business with a particular customer or to get more business; more business will cause the average cost to fall and counterbalance the extra freight cost. This strategy is used to improve market penetration and to retain a hold in an increasingly competitive market.

SELF-ASSESSMENT EXERCISE 2 What is base point pricing?

SELF ASSESSMENT EXERCISES

Discuss the various distribution based pricing strategies

Compare and contrast Delivered price and Base point price

6.4 Summary

In this unit, the distribution based pricing strategies open to marketers were identified and discussed. The two major pricing strategies arising from distances of consumer from point of production or sale are delivered pricing and base point pricing. The features and benefits of these pricing strategies are explained.

6.5 References/Further Reading/Web Resources

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6.6 Possible Answers to Self-Assessment Exercise

1. Delivering pricing policies reflect management's attempt to recover some or all of the costs involved in shipping products long distances.

2. Base-point pricing is a geographic pricing policy that includes the price at the factory plus freight charges from the base point nearest to the buyer.

MODULE 4 QUALITY, DEALING, LEGAL AND REGULATIONS ISSUES OF PRICING

Unit 1	Quality Issues in Pricing
Unit 2	Legal and Regulation Issues in Pricing
Unit 3	Resale Pricing Maintenance
Unit 4	Franchising

UNIT 1 QUALITY ISSUES IN PRICING

Unit Structure

1.1 Introduction

Quality is an important issue in relationship to pricing. Customers always seek for fair deal in the quality of the product or services they intend to buy. In this unit, we shall discuss quality issues as they relate to pricing.

1.2 Intended Learning Outcomes

After reading this unit, you should be able to explain:

- Quality and price expectations;
- Total quality management and price; and
- Price as a strategic issue.

1.3 Quality Issues in Pricing

1.3.1 Quality and Price Expectations

Quality is a function of what the customers expect and what they get. If a customer's expectations of a product are disappointed, his perception of the product will be poor quality. If however he is satisfied with the product and the product exceeds his expectations, he will be encouraged and he will perceive the product to be high quality.

Much of this is bound up in what customers perceive as value for money. The aim of the relationship marketer is not simply to satisfy or even to please the customer, but to delight the customer. It there follows that quality is not an absolute. It is only relevant to what the customer feels; what is good quality to one person may not be good to another, simply because both have different expectations. For this reason, service support is critical to relationship marketing because it is during pre-sale support that customers are approached as individuals. It is at this time that the customer's perception of quality can be addressed, either by ensuring that the expectations of the product are realistic (pre-sale) or by correcting any faults or errors after sale, (Blythe, 2003).

In former years, quality has been seen as very much the province of the production department. This led to the product concept, which holds that the company needs only to produce the best quality product on the market and the customers will flock in. in fact this is not true-even Rolls Royce has gone through bankruptcy by following this precept. Under a relationship marketing ethos, quality has become the integrating concept between production orientation and marketing orientation (Gummesson, 1988).

The relationship between quality and price is therefore a delicate one, because price is often used as a surrogate for judging expected quality. The price of a product should signal its quality. Equally, the quality of the product should match up to the price, or preferably exceed it, if customers are to become loyal.

1.3.2 Total Quality Management and Price

The basis of the total quality management approach is to ensure that the firm does the right things at every stage of the production process in the expectation that this will result in a high quality outcome at the end. The problem with this approach is that it does not take account of the customer's expectations and perceptions, but instead relies on the management's preconceptions of what constitutes good manufacturing practice. There are also some difficulties in judging the level of which the quality of the product should be pitched. Probably the main contributions that TQM has made is in reducing defects (the zero-defects target) which will, by reducing wastage, reduce costs and as well reduce the price of the product.

Quality is not an absolute: it is the relationship between expectation and outcome, and is therefore subjective. From a strategic perspective, marketers might well be advised to position products according to their quality: gaps in the market can be defined in quality terms as well as price terms. For most firms, this subtlety of positioning is unlikely to happen, rather price positioning is much more common, and indeed many firms fall into the fundamental error of trying to compete on price than on quality, (Blythe, 2003).

Self-Assessment Exercise 1 From a strategic perspective, how would you advise marketers to position products?

1.3.3 Price as a Strategic Issue

Price is one of the major components in customers' judgment of both product and company. As a guideline to the positioning of a product it serves two purposes: it acts as a guide to quality, and it acts as an absolute indicator against competing products. As a source of competitive advantage, prices can be set low by a company so as to offer better value to the customer than competitors do or it can be high to differentiate the product by signaling higher quality. A firm adopting a cost-leadership strategy will almost certainly need to price low, a firm adopting a differentiation policy is likely to price high, likewise, market leaders are likely to price high, whereas market followers will price low, but not so much lower otherwise they will provoke a competitive responses.

Indeed, as Blythe (2003) has observed, price has little or nothing to do with the cost of production, price is a strategic weapon, is occasionally a tactical a tactical tool (as in sales promotion), and is frequently a source of competitive advantage. As one of the factors in turnover, it is also the main driver of shareholder value and profitability.

SELF-ASSESSMENT EXERCISE 2 What two purposes does price serve as a guideline to the positioning of a product?

SELF ASSESSMENT EXERCISES

1. Discuss the role of quality in pricing decisions.
2. Discuss Quality and price expectations in pricing decisions
3. Explain total quality management and price as strategic issues in product marketing

1.4 Summary

6.0 This unit presented and discussed some of the price and quality issues in marketing and pricing. Specifically, the unit discussed total quality management and the issues arising from it with important implications for pricing of products and consumer behavior. The unit also discussed price is a strategic weapon, a tactical tool (as in sales promotion), source of competitive advantage and the main driver of shareholder value and profitability.

1.5 References/Further Reading/Web Resources

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1.6 Possible Answers to Self-Assessment Exercise

1. From a strategic perspective, marketers might well be advised to position products according to their quality: gaps in the market can be defined in quality terms as well as price terms.

2. As a guideline to the positioning of a product, price serves two purposes: it acts as a guide to quality, and it acts as an absolute indicator against competing products.

UNIT 2 LEGAL AND REGULATORY ISSUES IN PRICING

Unit Structure

2.1 Introduction

2.2 Learning Outcomes (LOs)

2.3 Legal and Regulatory Issues in pricing

2.3.1Price fixing

2.3.2 Resale price maintenance

2.3.3Price Discrimination

2.4 Summary

2.5 References/ Further Reading/web resources

2.6 Possible Answers to Self-Assessment Exercise

2.1 Introduction

Many regulations and laws affect pricing decisions and activities. An important legal issue relating to pricing is how firms deal with the issue of conspiracy to set prices for a product. Another important legal issue concerning price charges is price discrimination. This unit addresses these issues.

2.2 Intended Learning Outcomes

After reading this unit, you should be able to explain:

Price Fixing;

Price Maintenance; and

Price Discrimination.

2.4 Legal and Regulatory Issues In Pricing

2.3.1 The Meaning of Price Fixing

Simply put, when firms conspire among themselves to set prices for a product, the act is termed price fixing. It should be noted that price fixing is illegal. There are two types of price fixing as follows; horizontal price fixing and vertical price fixing. Horizontal price fixing occurs when two or more competitors explicitly or implicitly set prices.

2.3.2 Vertical Price Fixing

Vertical price fixing involves controlling agreements between independent buyers and sellers (a manufacturer and a retailer) whereby sellers are required not to sell products below a minimum retail price. This practice called resale price maintenance is also illegal. We shall discuss more about this later. However it should be noted that a manufacturer's "suggested retail price" is not illegal per se. the issue of legality only arises when manufacturers enforce such a practice by coercion. Furthermore, there appears to be a movement toward a "rule of reason" in pricing cases. This rule holds that circumstances surrounding a practice must be considered before making a judgment about its legality. The "rule of reason" perspective is the direct opposite of the per se rule, which holds that a practice is illegal in and of itself.

SELF-ASSESSMENT EXERCISE 1 List the two types of price fixing.

2.3.3 Price Discrimination

Price discrimination involves the practice of charging different prices to different buyers that are of the same grade and quality. According to Pride and Ferrell (2011), the practice of providing price differentials that tend to injure competition by giving one or more buyers a competitive advantage over other buyers is called price discrimination and is prohibited by law. However, not all price differentials are discriminatory. A marketer can use price differentials if they do not hinder competition, if they result from differences in the cost of selling or transportation to the various customers, or if they arise because the firm has to cut price to a particular buyer to meet competitors' prices.

1. **Deceptive Pricing**

Deceptive pricing, simply is price deal that mislead consumers. Deceptive pricing is illegal. Some deceptive pricing practice are bargains conditional on other purchases, this practice may exist when a buyer is offered "1-naira sales, Buy 1, get 1 free" and Get 2 for the price of 1.

SELF-ASSESSMENT EXERCISE 2 What is price discrimination?

2. **Predatory Pricing**

Predatory pricing is a pricing system in which prices are set below the cost of production. Predatory pricing (at least in international markets) is illegal. Predatory pricing was successfully used by Japanese car manufacturers when entering European markets in the 1970s, and is commonly used by large firms who are entering new markets. For the strategy to be successful, it is worth doing if the company has no other competitive edge, but does have sufficient financial reserves to hold out for a long time. Naturally, this method is customer-oriented since it can only work by providing customers with very much better value for their money. The company will eventually raise prices again in order to recover the lost profits once the market presence has been established (Blythe, 2003). In many cases the very low prices are designed to drive competitors out of business.

SELF ASSESSMENT EXERCISES

What is price discrimination, and why is it illegal?

When and why should organizations wish to engage in Price fixing?

Discuss the key issues involved in Price maintenance and Price discrimination.

2.4 Summary

The practice of marketing in general and pricing in particular is highly circumscribed and influenced by the marketing environment. An element of marketing environment that is outside the control of marketers but very impactful on it is the legal and regulatory environment. Most of what marketers can and cannot do in terms of product, promotion, place and pricing are affected by this element. This unit presented and discussed some of the legal and regulatory issues in pricing. The core areas of pricing discussed in this unit are price fixing, price discrimination, deceptive pricing and predatory pricing.

2.5 References/Further Reading/Web Resources

Berkowitz, E. N., Crane, F. G., Kerin, R. A., Hartley, S. W., & Rudelius, W. (2000), Marketing, Toronto, McGraw-Hill

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2.6 Possible Answers to Self-Assessment Exercise

1. There are two types of price fixing as follows; horizontal price fixing and vertical price fixing.
2. Price discrimination involves the practice of charging different prices to different buyers that are of the same grade and quality.

UNIT 3 PRICE DISCOUNTING, TRANSFER PRICING AND GEOGRAPHIC PRICING

Unit Structure

3.1 Introduction

Individuals and organizations purchase products for resale, for use in their operations or for producing other products. Establishing prices for this category of buyers sometimes differ from setting prices for consumers. Factors such as quantity purchased, distance and transportation may require sellers to adjust prices. In this unit, we shall consider issues that relate to price resale of goods or services.

3.2 Intended Learning Outcomes

After reading this unit, you should be able to:

Discuss price discounting;

Explain transfer pricing; and

Describe geographic pricing.

3.3 Transfer Pricing and Geographic Pricing

3.3.1 Price discounts

Discounts are price reductions which a seller grants to buyer as a reward for some actions of the buyer that is favourable to the seller. Although there are kinds of discounts, however here we shall only consider a few that are especially important to a marketer as follows, (1) quantity (2) cash (3) trade (4) allowances and (5) seasonal discounts

1) **Quantity discounts**

A quantity discount is offered by a seller to a buyer to encourage him buy large quantities of a product. According to Pride & Ferrell (2011), quantity discounts are deductions from list price that reflect the economies of purchasing in large quantities. They are usually offered to encourage customers buy some products in large quantities.

There are two types of quantity discounts which are cumulative discounts and non-cumulative discounts. Cumulative discounts are quantity discounts aggregated over a stated time period. They are quantity discounts that apply to the accumulation of purchases of a product over a given time period, usually some months or a year. For example purchases totaling N100, 000 in a six month period might entitle the buyer to 10 percent or N10, 000 refunds. Cumulative quantity discounts are important to marketer in that they encourage repeat buy by customers. Non-cumulative quantity discounts are based on the size of an individual purchase order. They are one-time reductions in prices based on the number of units purchased.

2) Cash discounts

A cash discount is given to retailers or other buyers for prompt payments or cash payment. Accounts receivable are an expense and collection problem for many organizations. A policy to encourage prompt payment is a popular practice and sometimes a major concern in setting prices. Discounts are based on cash payments or cash paid within a stated time.

3) Trade discounts

To reward wholesalers and retailers for marketing functions they will perform, a manufacturer often gives trade, or functional discounts. These reductions off the list or base price are offered to resellers in the channel of distribution on the basis of (1) Where they are in the channel and (2) the marketing activities they expected to perform in the future.

4) Seasonal discount

A price reduction to buyers who purchase goods or services out of season is a season discount. These discounts let the seller maintain steadier production during the year. For example, automobile rental agencies offer season discounts in winter and spring to encourage firms to use automobiles during the slow months of the automobile rental business.

SELF-ASSESSMENT EXERCISE 1 Explain cash discount and what it is based on.

5) Allowances

Allowances like discounts are reductions from list or quoted prices to buyers for performing some activities.

3.3.2 Transfer pricing

Transfer pricing occurs when one unit in an organization sells a product to another unit. The price is determined by one of several methods. Actual full cost is calculated by dividing all fixed and variable expenses for a period into number of units produced. Standard full cost is computed based on what it would cost to produce the goods at full plant capacity. Cost plus investment is full cost plus the cost of a portion of the selling unit's assets used for internal needs. Market based cost is the market price less a small discount to reflect the lack of sales effort and other expenses. The choice of transfer pricing method depends on the company's management strategy and the nature of units' interaction. An organization also must ensure that transfer pricing is fair to all units involved in the purchases (Pride & Ferrell, 20011)

3.3.3 Geographical pricing

Geographical pricing involves reductions for transportation costs or other costs associated with the physical distance between buyer and seller.
A common form of geographic pricing is F.O.B., which stands for either "freight on board" or "free on board." The letters never stand-alone but are always followed by the name of a specific place, as in "F.O.B, factory" or "F.O.B. Baltimore." This place name tells the buyer the point to which the seller will ship the goods. At that point, the buyer takes title to the goods and becomes responsible for shipping charges. A consumer in Kansas City might buy a Swedish auto "F.O.B. New York." This means that the price quoted includes shipment to New York; allother transportation costs are extra.

SELF-ASSESSMENT EXERCISE 2 What is transfer pricing?

SELF ASSESSMENT EXERCISES

Discuss the various price discounts you know

Explain transfer pricing and highlight the key challenges associated with it

Describe geographic pricing and explain how it will be made to work

3.4 Summary

This unit presented and discussed three critical issues especially important in organizations operating in multiple economies/nations. The issues are price discounting, transfer pricing and geographic pricing. Discounts are price reductions which a seller grants to buyer as a reward for some actions of the buyer that is favourable to the seller. Transfer pricing occurs when one unit in an organization sells a product to another unit at a price that is considered fair to all the units concerned. Geographical pricing involves reductions for transportation costs or other costs associated with the physical distance between buyer and seller.

3.5 References/Further Reading/Web Resources

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3.6 Possible Answers to Self-Assessment Exercise

1. A cash discount is given to retailers or other buyers for prompt payments or cash payment. Discounts are based on cash payments or cash paid within a stated time.

2. Transfer pricing occurs when one unit in an organization sells a product to another unit.

UNIT 4 FRANCHISE PRICING

Unit Structure

4.1 Introduction

4.2 Learning Outcomes (LOs)

4.3 Franchise Pricing

  4.3.1 Meaning of Franchising

  4.3.2 Types of Franchising

  4.3.3 Advantages and Disadvantages of Franchising

4.4 Summary

4.5 References/ Further Reading/web resources

4.6 Possible Answers to Self-Assessment Exercise

4.1 Introduction

Franchising is becoming very popular in the marketing of services all over the world. In this unit, we shall discuss the meaning of franchising, the operational aspect, how it is priced, the advantages and disadvantages.

4.2 Intended Learning Outcomes

After reading this unit, you should be able to:

- Discuss franchise pricing;
- Explain the operations of franchising; and
- Describe the advantages and disadvantages of franchise pricing.

4.3 Franchise Pricing

4.3.1 The Meaning of Franchise Pricing

Franchising is an arrangement in which a supplier, or franchiser, grants a dealer or franchisee, the right to sell products in exchange for some consideration (Pride & Ferrell, 2010). According to Williams (2003), franchise is a collection of networked firms in which the manufacturer or marketer of a product or service, the franchisor, licenses the entire business to another person or organization called the franchisee for the price of an initial franchise fee plus royalties. Franchisors provide franchisees with training; help with marketing and advertising, and exclusive right to conduct business in a particular location.

4.3.2 Advantages of franchising

There a lot of advantages of franchising to both the franchisee and the franchiser. One good advantage of franchising is that it enables a franchisee to start a business with limited capital and benefit from the business experience of others. Popular franchises in the fast food industry are often assured of customers as soon as they opened. Moreover if there is problem, the franchisee can obtain guidance and advice from the franchiser at little or no cost. Franchised outlets are generally more successful than independently owned businesses. Studies suggest that fewer than 10% percent of franchised retail businesses fail during the first two years of operation compared with approximately 50% of independent retail businesses. Also, the franchisee receives materials to use in local advertising and can benefit from national promotional campaigns sponsored by the franchiser.

Another important advantage is that franchising is a faster way to enter foreign markets. Franchising can be a good strategy when a company's domestic sales have slowed.

SELF-ASSESSMENT EXERCISE 1 What is franchising?

4.3.3 Disadvantages of franchising

Although franchising has many advantages as we have seen, however there are some disadvantages too. A major setback of franchising is lack of control by the franchisor (franchiser) when the franchisee is thousands of miles away. Moreover, the franchiser gives up a certain amount of control when entering into a franchise agreement; consequently, individual establishments may not be operated exactly according to the franchiser's standards.

On the other hand the franchiser can dictate many aspects of the business; décor, design of employees' uniforms, types of signs, and other numerous details of business operations. In addition, franchisees must pay to use the franchiser's name, products, and assistance. Usually there is a one-time franchise fee and continuing royalty and advertising fees, often collected a percentage of sales. All these and other operational costs might limit the efficiency of the business. Moreover, franchisees often must work very hard, putting in additional time daily which is very stressful to ensure success.

SELF-ASSESSMENT EXERCISE 2 What are some of the key advantages of franchising?

SELF ASSESSMENT EXERCISES

What is franchising and what are the advantages and disadvantages of this type of business?

Define franchise pricing and explain how it works

Describe the advantages and disadvantages of franchise pricing

4.4 Summary

6.0 This unit presented and discussed the meaning, types and advantages/disadvantages of franchising.

4.5 References/Further Reading/Web Resources

Berkowitz, E. N., Crane, F. G., Kerin, R. A., Hartley, S. W., & Rudelius, W. (2000), Marketing, Toronto, McGraw-Hill

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4.6 Possible Answers to Self-Assessment Exercise

1. Franchising is an arrangement in which a supplier, or franchiser, grants a dealer or franchisee, the right to sell products in exchange for some consideration (Pride & Ferrell, 2010). According to Williams (2003),

franchise is a collection of networked firms in which the manufacturer or marketer of a product or service, the franchisor, licenses the entire business to another person or organization called the franchisee for the price of an initial franchise fee plus royalties. Franchisors provide franchisees with training; help with marketing and advertising, and exclusive right to conduct business in a particular location.

2. There a lot of advantages of franchising to both the franchisee and the franchiser. One good advantage of franchising is that it enables a franchisee to start a business with limited capital and benefit from the business experience of others. Popular franchises in the fast food industry are often assured of customers as soon as they opened. Moreover if there is problem, the franchisee can obtain guidance and advice from the franchiser at little or no cost. Franchised outlets are generally more successful than independently owned businesses.

MODULE 4 THE MARKETING MIX

Unit 1	Product Variable
Unit 2	Distribution Variable
Unit 3	Price Variable
Unit 4	Promotional Variable

UNIT 1 PRODUCT VARIABLE

Unit Structure

1.1 Introduction

1.2 Learning Outcomes (LOs)

1.3 Product Variable

1.3.1The Meaning of a Product

1.3.2 New Product Development.

1.3.3 Product Segmentation

1.3.4 Product Positioning

1.3.5 Product Adaptation

1.3.6 Product Standardization versus Product Adaptation

1.3.7 Arguments for Standardization

1.3.8 Arguments for Adaptation

1.3.9 Theory of Product Life Cycle.

1.4 Summary

1.5 References/Further Reading/web resources

1.6 Possible Answers to Self-Assessment exercise

1.1 Introduction

Individual consumers vary in needs and taste. Different products appeals to individuals differently, because of their peculiar characteristics. A product that is successful in one market is not a guarantee that it would be successful in o other markets. A marketer must always determine local needs and tastes and take them into consideration. Some products have universal appeal, and little or no change is necessary when these products are placed in various markets. But for every so called universal product, there are many others that have a narrow appeal. For such products, modification is necessary in order to achieve acceptance in the marketplace. It is generally easier to modify a product than to modify consumer preference. That is, a marketer should change the product to fit the needs of the consumers rather than try to adjust consumers' needs to fit product characteristics. The purpose of this unit is to study a product in an international context. The emphasis of this unit is on the meaning of product and the necessities of market segmentation and product positioning.

1.2 INTNEDED LEARNING OUTCOMES

After studying this unit, you should be able to:

- Define a product;
- Explain the rationale behind market segmentation;
- Explain the term product positioning; and
- Explain issues in new product development.

1.3 PRODUCT VARIABLE

1.3.1 The meaning of a Product

A product can be a good, a service, or an idea. A good is a physical entity you see and touch. For example car, computer, phone. A service is the application of human and mechanical efforts to people or objects to provide intangible benefits to consumers. Examples are air travel, dry cleaning, haircutting, banking, medical care, and so on. Ideas include concepts, philosophies, images and issues. For instance, marriage counselor, for a fee, gives spouse ideas to help improve their relationship. Other marketers of ideas include political parties, churches, and schools.

The product variable also includes creating or modifying brand names and packaging and may include decisions regarding warranty and repair services. Product variable decisions and related activities are important because they are directly involved with creating products that address customers' needs and wants.

A product is often looked at in a narrow sense as something tangible that can be described in terms of physical attributes, such as shape, dimension, components, form, colour, and so forth. This is a misconception that extended to international marketing as well, because many people believe only in tangible products. For a student of marketing, however, this definition of product is misleading since many products are intangible (e.g., services). Actually, intangible products are a significant part of modern marketing activities. For example, Nigerian Movies are distributed worldwide, as are engineering services and business consulting services. In the financial market, Nigeria and European banks have been internationally active in providing financial assistance, often at handsome profits. Besides, even when tangible products are involved, insurance services and shipping are needed to move tangible products into their markets. In many situations, both tangible and intangible products must be combined to create a single, total product. Perhaps the best way to define a product is to describe it as a bundle of utilities or satisfaction. Warranty terms, for example, are a part of this bundle, and they can be adjusted as appropriate (i.e., superior versus inferior warranty terms). For example, a purchaser of Mercedes-Benz expects to acquire more than just the cars themselves. For instance, different parts of the world do not have the same weather system. In hot and humid countries, there is no reason for a heater to be part of the automobile product bundle, Nigeria for example. In USA, their equipment is heavier and automated transmission due to the weather system. Thus, a multinational marketer must look at a product as a total, complete offering. Consider the Mercedes-Benz car, in Nigeria it is considered as the rich men cars; while in Benin Republic it is used like any other cars in the street. This implies that a complete product should be viewed as a satisfaction derived from the four Ps of marketing (product, promotion and pricing) - and not simply from the physical product characteristics.

1.3.2 New Product Development

There are six distinct steps in new product development, these include:

1. Generation of new product ideas. Ideas can be generated from any of these sources- Salespersons, employees, competitors; Governments, marketing research firms, customers, and so forth.

2. Screening of ideas. Ideas must be acknowledged and reviewed to determine their feasibility. To determine suitability, a new product concept may simply be presented to potential users, or an advertisement based on the product can be drawn and shown to focus groups to elicit candid reactions. As a rule, corporations, usually have predetermined goals that a new product must meet. For example, Kao Corporation, a major Japanese manufacturer of consumer goods, is guided by the following five principles of product development;

1. A new product should be truly useful to society, not only now but also in the future,

2. It should make use of Kao's own creative technology or skills,

3. It should be superior to the new products of competitors, from the standpoint of both cost and performance,

4. It should be able to exhaustive product tests at all stages before it is commercialized, and

5. It should be capable of delivering its own message at every level of distribution.

3. **Business Analysis**-This is necessary to estimate product features, cost, demand, and profit. This is one area where new marketer needs to critically study. Some marketer jumped into conclusion by using one of the above variables without necessarily taking others into consideration. It is a combination of two or more variables.

4. **Product Development**: This involves lab and technical tests as well as manufacturing pilot models in small quantities. At this stage the product is likely to be handmade or produced by existing machinery rather than by new specialized equipment. Ideally, engineers should receive direct feedback from customers and dealers. For example billing-per-second from Tele-communication companies in Nigeria was as a result of analyses of Nigerian Market, satisfying yearnings of the target market.

5. **Test Marketing:** This is designed to determine potential marketing problems and the optimal marketing mix. This stage is critical because some prospective consumers may not display their preference for the products. This therefore calls for testing in more than one target markets. This sometimes, implies to correct one or two features the target markets might have included or redesign the product to capture consumer preferences.

6. **Commercialization:** Finally, assuming that things/products go well, the company is ready for full-scale commercialization by actually going through with full-scale production and marketing. It should be noted that not all of these six steps in new product development will be applicable to all products and countries. For example, test marketing may be irrelevant in countries where most major media are more national than local. If television medium has a nationwide coverage, it is not practical to limit a marketing campaign to one city or region for test marketing purpose. New products are evolving daily. However, it is easier for new product to fail than succeed. Naturally, so many things can go wrong. But, it is just as critical for a company to know when to retreat as when to launch a product. For example, Coke-Cola's Ambasa Whitewater, a lactic-based drink, was removed from the market after eighteen months when sales started to decline.

1.3.3 Market Segmentation

Market segmentation is a concept to which professional marketers like to pay a great deal of attention. All conceivable possibilities for segmenting the local markets had been thoroughly studied by some marketers. But on the international scale, some of them are prone to treat market segmentation as an unknown and unfamiliar concept and thus, they apparently leave their knowledge about market segmentation at home when they go abroad. For example, more often than not, there is hardly any serious or conscious attempt by American businesspeople to segment a foreign market. This phenomenon probably derives from an assumption that by going abroad, geographic segmentation has been implemented. But geographic segmentation, an obvious choice, is often overemphasized and usually inappropriate. Marketers fail to realize that the purpose of segmentation is to satisfy consumer needs. Another mistake international marketers often make in foreign countries is attempting to capture the local market at once. These results in disappointment in market performance, namely- Consumers in foreign country are likely to be homogeneous. It is important to distinguish consumers into urban and rural. In addition, a total market strategy places the company in head-to-head competition with strong, local competitors. The success of Japanese products for example in United States and Africa in particular can be attributed to explicit and conscious attempt by the Japanese to segment the market. Japanese firms usually pick their targets carefully, avoiding head-to-head with major U.S manufacturers in mature industries. Starting at the low end of the product spectrum, a Japanese firm establishes a reputation for product excellence, and eventually gets customers to trade up over time. This strategy has worked exceedingly well in the automobile and consumer-electronics industries. The most important reason behind the utilization of market segmentation is market homogeneity/heterogeneity. Base on the national boundary, homogeneity can be vertical (i.e., homogeneous within the same country) or horizontal (i.e., homogeneous across countries). This implies that two countries exhibiting the lack of vertical homogeneity within their borders may still be homogeneous horizontally when a particular segment of the country is similar to an equivalent segment of another country. This is what Hassan and Katsanis call global market segment, and they derive it through "the process of identifying specific segments, whether they may be country groups or individual consumer groups, of potential consumers with homogeneous attributes who are likely to exhibit similar buying behaviour." They feel that the global elite and global teenager segments are particularly amenable to global segmentation.

1.3.4 Product Positioning

Product positioning is a marketing strategy that attempts to occupy an appealing space in a consumer's mind in relation to the spaces occupied by other competitive products. The mind is like a computer in that it has slots or positions, and each bit of information is placed and retained in the proper slot. The mind screens and accepts information according to prior experience. Over the years, Coke-Cola has succeeded in taken over Nigeria market with its soft-drink coke. An average child in the country only knows one soft drink which is COKE. Any attempt to give him/her other brands of soft drinks will amount to explanation upon explanations. This is because Coke is believed to energetic and quality than any other soft drinks in the country. In the automobiles Mercedes-Benz is considered for the wealthy and luxury; while BMW tries to maintain a uniform international image by appealing to then. A marketer determines the perceived position of a product as well as the ideal position in a number of ways, namely:

1. To use focus groups to explore possible alternatives.
2. To rely on perceptual and preference mapping. Respondents compare brands on perceived similarity and in relation to their ideal brands.

The statistics techniques of multidimensional scaling (MDS} can then be used to determine the number and types of dimensions and to transform similarities into distances. Attributes can later be examined to see how each attribute is associated, more or less, with a particular brand. A product must be positioned carefully. A company may possibly use dual and even triple positioning. For example, Beecham has positioned Aqua Fresh as:

1. Toothpaste,

2. Breath fresher, and
3. Plaque remover.

When a product has been incorrectly positioned or the original position loses its appeal, a firm should reposition the product. Beecham has been successful in repositioning several of its mature brands. Its Ribena brand, a black-currant juice sold to children for a half-century, experienced an impressive increase in sales after single-portion packs and new flavours were added to attract adult drinkers and toddlers. In the early 1990s, Volvo wanted the American public to view its product as an import with the comfort of a U.S. car. More recently, Volvo has tried to add a fun- to-drive component to its messages that have reminded people so much of Volvo's boxy, boring, but safe reputation. The T-R5, a special edition of the 850, is used to create a sportier image. Some marketers view Volvo admiringly as a "strategic chameleon." In practice, segmentation and positioning should be used together to reinforce each other. A study of how American and Japanese firms compete in the British market found that the Japanese have clear market segmentation and positioning strategies. Regarding market segments, the Japanese first entered the low end of the market before moving on to the mass market and eventually the high value- added end. Regarding positioning, the Japanese have a clear focus on quality, service, and innovation. In comparison, British firms emphasize traditional brand names, while American firms emphasized product range and technology and are less likely to adapt to local market conditions. In conclusion, consumer needs must determine how products are to be positions.

1.3.5 Product Adoption

While entering international market, marketers should consider factors influencing product adoption. Factors to be considered include:

1. Relative Advantage: For product to gain acceptance, it must demonstrate its relative advantage over existing alternatives. For example, product emphasizing cleanliness and sanitation may be unimportant in places where people are poor and struggle to get by one day at a time. Wool coats are needed in a hot country, a product reducing static cling are useless in a humid country.

2. Compatible with local customs and habits: A must also be compatible with local customs and habits. A freezer would not find a ready market in Asia, where people prefer fresh food. In Asia and some part of European countries as France and Italy, people like to sweep and mop floors daily, and thus there is no market for carpet or vacuum cleaners.

3. Compatible: A new product should also be compatible with consumers' other belongings. I f a new product requires a replacement of those other items that are still usable, product adoption becomes a costly proportion.

4. Trial ability/divisibility: A new product has an advantage if it is capable of being divided and tested in small trial quantities to determine its suitability and benefits. On the contrary, when a product is large, bulky, and expensive, consumers are much more apprehensive about marketing a purchase. Thus, washers, dryers, refrigerators, and automobiles are products that do not lend themselves well to divisibility. This factor explains one reason why foreign consumers do not easily purchase American automobiles, knowing that a mistake could ruin them financially. Many foreign consumers therefore prefer to purchase more familiar products, such as Japanese automobiles, that less expensive and easier to service and whose parts are easier to repairs.

5. Observation: Observation of a product in public tends to encourage social acceptance and reinforcement, resulting in the product's being adopted more rapidly and with less resistance. If a product is used privately, other consumers cannot see it, and there is no prestige generated by its possession. For example, Blue jeans quartz watches, and automobiles are used publicly and are highly observable products. Japanese men flip their ties so that the label shows. Refrigerators, on the other hand are privately consumed products. In any case, a distinctive and easily recognized logo is very useful.

6. Complexity: Complexity of a product or difficulty in understanding a product's qualities tends to slow its market acceptance. For instance, computers are complex but have been gradually gaining more and more acceptance, perhaps in large part, because manufacturers have made the machines simpler to operate. The availability of ready-made soft wares also alleviates learning computers generally. The first four variables are positively

related to the adoption process. Like complexity, price is negatively related to product adoption. For example, before 1982, copiers were too big and expensive. Canon then introduced personal copiers' with cartridges that customers could change. It low price was so attractive to customers that Canon easily dominated the market.

Self-Assessment Exercise 1 Briefly explain factors influencing product adoption while entering foreign markets.

1.3.6 Product Standardization versus Product Adaptation

Product standardization means that a product originally designed for a local market is exported to other countries with virtually no change, except perhaps for the translation of words and other cosmetic changes. There are advantages and disadvantages to both standardization and individualization.

1.3.7 **Arguments for standardization**

The strength of standardization in the production and distribution of products and services is its simplicity and cost. It is an easy process for executives to understand and implement, and it is also cost-effective. If cost is the only factor being considered, then standardization is clearly a logical choice because economies of scale can be operate to reduce production cost. However, minimizing production costs does not necessarily mean that profit increases will follow. Simplicity is not always beneficial, and costs are often confused with profits. Cost reductions do not automatically lead to profit improvements, and in fact the reverse may apply. By trying to control production costs through standardization, the product involved may become unsuitable for alternative markets. The result may be that demand will decline, which leads to profit reduction. In some situations, cost control can be achieved but at the expense of overall profit. It is therefore, prudent to remember that cost should not be over emphasized. The main marketing goal is to maximize profit, and production-cost reductions should be considered as a secondary objective. The two objectives are not always convergent. When appropriate, standardization is a good approach. For example, when a consistent company or product image is needed, product uniformity is required. The worldwide success of McDonald's is based on consistent product quality and services. Some products by their very nature are not or cannot be easily modified. Musical recordings and works of art are examples of products that are difficult to differentiate; the same thing applies to books and motion pictures. Whether such products will be successful in diverse markets is not easy to predict. For examples films that do well in Nigeria, may do poorly in Ghana. With regard to high-technology products, both users and manufacturers may find it desirable to reduce confusion and promote compatibility by introducing industry specifications that make standardization possible; electrical fittings, for example. A condition that may support the production and distribution of standardized products exists when certain products can be associated with particular cultural universals. That is, when consumers from different countries share similar need characteristics and therefore wants essentially identical products. Watches are used to keep time around the world and thus can be standardization. Bible and Quoran are another example. Onkvisit and Shaw (1997) reported that industrial managers of consumer goods regarded certain marketing related factors differently, thus implying that product standardization or customization depends in part on the type of product. In addition, respondents consistently regarded competitive environment as the most important variable affecting the marketing standardization.

1.3.8 Arguments for Adaptation

There is nothing wrong with standardization products if consumers prefer those products. In many situations, domestic consumers may desire a particular design of a product produced for a particular market. But when the product design is placed in foreign markets, foreign buyers are forced either to purchase that product from the manufacturer or not purchase anything at all. This manner of conducting business overseas is known as "big-car" and "left-hand-drive" syndromes. According to the big-car syndrome, U.S. marketers assume that products designed for Americans are superior and will be preferred by foreign consumers. U.S. automakers believe that the American desire for big cars means that only big cars should be exported to overseas markets. The left-hand drive syndrome is a corollary to the big-car syndrome. Americans drive on the right side of the road, with the steering wheel on the left side of the automobile. But many Asian and European countries have traffic laws requiring drivers to drive on the left side of the road, and cars with the steering wheel on the left present a serious safety problem. Yet exported U.S cars are the same left-hand drive models as are sold in the United States for the right-hand traffic patterns. According to the excuse used by U.S. automakers, a small sales volume abroad does not justify converting exported cars to right-hand steeling. Product adaptation is necessary under several conditions. Some are mandatory, whereas others are optional. Mandatory Product Modification: The mandatory factors affecting product modification are the following:

1. Government's mandatory standards (i.e., country's regulations)
2. Electrical current standards
3. Measurement standards
4. Product standards and systems.

Option for Product Modification: The examples of these options include:

1. Physical Distribution
2. Local use conditions (Climate conditions)
3. Space constraint
4. Consumer demographics as related to physical appearance.

. User's habits

6. Environment characteristics; and so forth.

SELF-ASSESSMENT EXERCISE 2 What is product standardization?

1.3.9 Theory of Product Life Cycle

Just as biological cycles progress from growth and decline, so do product life cycles. A product life cycle has four major stages starting from the introduction, growth, maturity, and decline. As a product moves through the cycle, the strategies relating to competition, pricing, distribution, promotion, and market information must be evaluated periodically and possibly change. Astute marketing managers use the life cycle concept to make sure that the introduction, alteration, and deletion of a product are timed and executed properly. By understanding the typical life cycle pattern, marketers can maintain profitable product mix.

Let us brief discuss each of these stages of the product life cycle. The introduction makes the initial stage of a product's life cycle, starting from its appearance in the market place, when sales start at zero and profits are negative. The growth is the stage of a product's life cycle when sales rise rapidly and profits reach a peak and then start to decline. The maturity is the stage of a product life cycle when the sales curve peaks and starts to decline as profits continue to fall. Lastly, the decline stage of a product life cycle is when sales fall rapidly.

SELF-ASSESSMENT EXERCISE 3 List the four major stages of product lifecycle

SELF-ASSESSMENT EXERCISES

- Discuss briefly product life cycle and explain its important pricing implications
- Explain the rationale behind market segmentation and describe the role of price in the choice of market segment to serve
- Explain the term product positioning and discuss the central place of price in sustaining it
- Explain the issues in new product development and discuss the role of price in increasing the chances of a new product either failing or succeeding

1.4 Summary

This unit presented and discussed the key decision areas of product variable in marketing management. The strategic decision areas of product discussed are meaning and importance of product, total product concept and classification of product, rationale and process for new product development, product positioning, product adaptation, product lifecycle, and product standardization. The core arguments for product standardization and adaptation were appraised.

1.4 References/Further Reading/Web Resources

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1.6 Possible Answers to Self-Assessment Exercise

1. While entering international market, marketers should consider factors influencing product adoption. Factors to be considered include:
    i. Relative Advantage;

ii. Compatible with local customs and habits;
iii. Compatible;
iv. Trial ability/divisibility;
v. Observation; and
vi. Complexity.

2. A product life cycle has four major stages starting from the introduction, growth, maturity, and decline**.**

UNIT 2 DISTRIBUTION STRATEGY

Unit Structure

2.1 Introduction

A manufacturer can sell directly to end users abroad, but this type of channel is generally not suitable or desirable for most consumer goods. In foreign markets it is far more common for a product to go through several parties before reaching the final consumer. The purpose of this unit is to discuss the various channels of distribution that are responsible for moving products from manufacturers to consumers. The unit also describes the varieties of intermediaries involved in moving products between countries as well as within countries. It should be noted that certain types of intermediaries do not exist in some countries and that the pattern of use as well as the importance of each type of intermediary varies widely from country to country. A manufacturer is expected to make several decisions that will affect its channel strategy, including the length, width, and number of distribution channels to be used.

2.2 Intended Learning Outcomes

After studying of this unit, you should be able to:

- Define a channel of distribution for goods or services;
- Explain channel members involved in moving goods from manufacturers to the consumers; and
- Explain the determinants of channel types.

2.3 Distribution Strategy

2.3.1 Channels of Distribution

A channel of distribution for a product is the route taken by the title to the product as it moves from the producer to the ultimate consumer or industrial user. It can also be describe as a set of institutions which performs all the activities or functions utilized to move a product and its title from production to consumption. A channel always includes both the producer and the final customer for the product, as well as all middlemen involved in the title transfer. Even though, agent middlemen do not take actual title to the goods, they are included as part of the distribution channel. This is because, they play such an active role in the transfer of ownership. A trade channel does not include facilitating agencies in marketing. This is because they only assist in the performance of distribution but neither takes title to goods nor negotiates purchases or sales.

2.3.2 Forms of Channel of Distribution

Companies use two principal channels of distribution when marketing abroad. These are indirect selling and direct selling. Indirect selling, also known as the local or domestic channel, is employed when a manufacturer in Nigeria, for example, markets its product through another Nigeria's firm that acts as the manufacturer's sales intermediary. By exporting through an independent local middleman, the manufacturer has no need to set up an international department. The middlemen's, acting as the manufacturer's external export organization, usually assumes the responsibility for moving the product overseas. The intermediary may be a domestic agent if it does not take title to the goods, or it may be a domestic merchant if it does take title to the goods. Some of the advantages to be gained by employing an indirect domestic channel include:

1. The channel is simple and inexpensive- the manufacturer incurs no start-up cost for the channel and is relieved of the responsibility of physically moving the goods overseas.
2. The intermediary very likely represents several clients who can help share distribution costs, the costs for moving the goods are further reduced.

An indirect channel does have some limitations, which include:

1. The manufacturer has been relieved of any immediate marketing costs, but in effect, has given up control over the marketing of its products to another firm. This situation may adversely affect the product's success in the future.
2. The indirect channel may not necessarily be permanent. Being in the business of handling products for profit, the intermediary can easily discontinue handling a manufacturer's product if there is no profit or if a competitive product offers a better profit potential. Direct selling is employed when a manufacturer develops an overseas channel. This channel requires that the manufacturer deal directly with a foreign party without going through an intermediary in the home country. The manufacturer must set up the overseas channel to take care of the business activities between the countries. Being responsible for shipping the product to foreign markets itself, the manufacturer exports through its own internal export department or organization. Some of its advantages are:

1. There is active market exploitation

2. There is a greater control. However, it suffers from difficulty in management of the channel, especially if the manufacturer is unfamiliar with the foreign market. Also, the channel is time consuming and expensive.

2.3.3 Types of Intermediaries

Direct Channel- There are several types of intermediaries associated with direct channel of distribution. Some of these include:

a) Foreign Distributor. A foreign distributor is a foreign firm that has exclusive rights to carry out distribution for a manufacturer in a foreign country or specific area. Orders must be channeled through the distributor, even when the distributor chooses to appoint a subagent or sub distributor. The distributor purchases merchandise from the manufacturer at a discount and then resells or redistributes the merchandise to retailers and sometimes final consumers. Hence, the distributor's function in many countries may be a combination of wholesaler and retailer. But in most cases, the distributor is usually considered as an importer or foreign wholesaler. In some situations, the foreign distributor is merely a subsidiary of the manufacturer.

b) Foreign Retailer Foreign retailers are employed for consumers' products rather than industrial products.

c) State-Controlled Trading Company. Some products are sold to state-controlled trading company, before they are further resell to individuals and institutions. These entail heavy equipment and machineries.

d) End user. Sometimes, a manufacturer is able to sell directly to foreign end user with no intermediary involved in the process. The direct channel is a logical and natural choice for costly industrial products. However, it is challenging, for example, a consumer may place an order without understanding his or her country's import regulations. When the merchandize arrives, the consumer may not be able to claim it. As a result, the product may be seized or returned on a freight-collect basis. Continued occurrence of this problem could become expensive for the manufacturer.

Indirect Channel - for a majority of products, a manufacturer may find it impractical to sell directly to the various foreign parities. Other intermediaries more often than not, have to come between these foreign buyers and manufacturer's country. With an indirect channel, a manufacturer does not have to correspond with foreign parties in foreign countries. Agents can be further classified according to the principal whom they represent:

a) Export Broker

The function of an export broker is to bring a buyer and a seller together for a fee. The broker may be assigned some or all foreign markets in seeking potential buyers. It negotiates the best terms for the seller, but cannot conclude the transaction without the principal's approval of the agreement. As a representative of the manufacturer, the export broker may operate under its own name or that of the manufacturer.

b) Manufacturer's Export Agent or Sale Representative

This is an independent business person who usually retains his or her own identity by not using the manufacturer's name. A sales representative can select when, where and how to work within the assigned territory. Working methods include presenting product literature and samples to potential buyers. The manufacturer's export agent works for commission. The manufacturer's export agent may present some problems to the manufacturer because an agent does not offer all services. An export agent may take possession but not title to the goods and thus assumes no risk- the risk of loss remains with the manufacturer.

c) **Export Management Company (EMC)**

An export management company (EMC) manages, under contract, the entire export program of a manufacturer. An EMC is also known as a combination export manager (CEM) because it may function as an export department for several allied but non-competing manufacturers. The EMC has greater freedom and consideration authority. The EMC provides extensive services, ranging from promotion to shipping arrangement and documentation. The EMC is responsible for all of the manufacturer's international activities.

d) **Cooperative Exporter**

A cooperative exporter is a manufacturer with its own export organization that is retained by other manufacturers to sell in some or all foreign markets. Except for the fact that this intermediary is also a manufacturer, the cooperative exporter functions like any other export agents. It operates as an export distributor for other suppliers. It takes possession of goods but not title.

E) Others Forms of Agents Include:

1. Purchasing/Buying Agent
2. Country-Controlled Buying agent
3. Resident buyer
4. Export merchant
5. Export drop shipper
6. Export distributor
7. Trading company; etc.

2.3.4 Channel Adaptation

Because the standardization/globalized approach to international marketing strategy may not apply to distribution strategy in foreign markets, it is imperative that international marketers understand the distribution structures and patterns in those markets/countries. Hence, comparative analysis should be conducted. Some channel adaptation is frequently a necessity. For example, Avon has had to develop other distribution methods in Japan and Thailand. A traditional distribution channel may seem inefficient, inefficient, but it may maximize the utilization of inexpensive labour, leaving no idle resources. A manufacturer must keep in mind that, because of adaptation, a particular type of retailer may not operate in exactly the same manner in all countries. A particular distribution concept proven useful in one country may have to be further refined in another.

SELF-ASSESSMENT EXERCISE 1: What are the factors that should be taken into consideration in determining type of marketing channel for a manufacturer?

2.3.5 Determinants of Channel Types

There is no single across-the-board solution for all manufacturers' channel decisions. However, there are certain guidelines that can assist a manufacturer in making a good decision. Factors that must be taking into consideration include:

1. **Objectives of the firm:** The objectives of the firm are the corner-stone that determines the kind of channel to be used in any given market. This is because it is the objective that will determine whether the channel to be selected should be long or short.

2. **Legal Considerations:** A country may have specific laws that rule out the use of particular channels or middlemen. France, for example, prohibits the use of door-to-door selling. Although private importers in Iraq may choose to deal through commission agents, Iraqi legislation prohibits state enterprises from dealing with third-party intermediaries in obtaining foreign supplies. Also, Saudi Arabia requires every foreign company which operating there to have a local sponsor who receives about 5 percent of any contract The overseas distribution channel often has to be longer than desired. This is because of government regulations, a foreign company may find it necessary to go through a local agent/distributor. Channel width may be affected by the laws as well.

3. **Managerial Resources**: The management of distribution channels depends on to a great extent on the experiences that vest in the firm's mangers. A firm that is entering an international market for the first time, might lack the expertise that is required to be able to choose and control short channels or the firm's own local subsidiary. Such firms would prefer to give the job to middlemen. Sometime, even well-established firms often seek the assistance of middlemen in cases of involving new products or new \segments that calls for the acquisition of a new type of experience.

4. **Product Image:** The product mage desired by a manufacturer can dictate the manner in which the product is distributed. A product with a low-price image requires intensive distribution. On the other hand, it is not necessary or even desirable for a prestigious product to have wide distribution. For example, Waterford Glass has always carefully nurtured its posh image by limiting its distribution to top-flight department and specialty stores. Although intensive distribution may increase sale in the short run, it is potential harmful to the product's image in the long run.

5. **Channel Availability**: This is of course a major consideration as one will not expect to select a specific type of channel in a given country if:

a. Such a channel does not exist

b. It belongs to a competitor

c. It does not wish to distribute your product.

6. Product Characteristics: The type of product determines how that product should be distributed. For low priced, high- turnover convenience products, the requirement are for an intensive distribution network. The intensive distribution of ice cream is an example. For high-unit-value, low-turnover specialty goods, a manufacturer can shorten and narrow its distribution channel. Consumers are likely to do some comparison shopping and will more or less actively seek information about all brands under consideration. In such cases, limited product exposure is not an impediment to market success. One should always remember that products are dynamic, and the specialty goods of today may be nothing more than the shopping or even convenience goods of tomorrow. For example, Computers which were once an expensive specialty product that required a direct and exclusive channel, today they have become shopping goods, necessitating a long and more intensive channel.

7. **Middlemen's Loyalty and Conflict:** One ingredient for an effective channel is satisfied channel members. As the channel widens and as the number of channels increases, more direct competition among channels members is evitable.

8. **Local Customs:** Local business practices, whether outmoded or not, can interfere with efficiency and productivity and may force a manufacturer to employ a channel of distribution that is longer and wider than desired. For example, Because of Japan's multiple distribution system, which relies on numerous layers of middlemen; companies often find it necessary to form a joint venture with Japanese firms. Domestic customs can explain why a particular channel is in existence. Yet customs may change or may overcome it, especially if consumer tastes change. For example Onkvisit and Shaw (1997: 486) reported that there are some 82,000 British pubs, 50,000 of which are owned by brewing companies; the problem they face was the trend toward

beer consumption at home. The pubs have had to adjust by emulating trendy American bars, selling more win and such food as hamburgers.

9. **Control:** If it has a choice, a manufacturer that wants to have better control over its product distribution may want to both shorten and narrow its distribution channel. However, control to be administered depends on the nature of the products and laws of such countries, the products being marketed to. In conclusion, there other factors that affect channel decisions. However, most of these factors are inter-related.

2.5.2 Channel Management Decision

Whether then intermediaries are the employees of the firm's subsidiary or whether they are totally independent, there is a mutuality of interest between the supplying company and its channels' personnel and it is important that the best principles of management is employed. After a company has determined its basic channel design, individual middlemen have to be managed in such a way as to:

1. Create distributor loyalty
2. Ensure that distributors are adequately remunerated
3. Train and develop distributors
4. Determine standards of performance
5. Evaluate performance against standard.

Self-Assessment Exercise 2: Discuss types of intermediaries associated with direct channel of distribution.

SELF ASSESSMENT EXERCISES

[Type here]

- What are the factors that affect the length, width and number of marketing channels?
- Define channel of distribution for goods or services
- Explain the channel members involved in moving goods from manufacturers to the consumers
- Explain the determinants of channel types

2.4 Summary

Agents can be classified according to the principal whom they represent into the following: Export Broker; Manufacturer's Export Agent or Sale Representative; Export Management Company (EMC) ; Cooperative Exporter; and Others Forms of Agents **(**Purchasing/Buying Agent, Country-Controlled Buying agent, Resident buyer, Export merchant, Export drop shipper, Export distributor and Trading company.

The determinants of Channel Types are: Objectives of the firm; Legal Considerations; Managerial Resources; Product Image; Channel Availability; Product Characteristics; Middlemen's Loyalty and Conflict; Local Customs; and Control.

After a company has determined its basic channel design, individual middlemen have to be managed in such a way as to: Create distributor loyalty; Ensure that distributors are adequately remunerated; Train and develop distributors; Determine standards of performance; and Evaluate performance against standard.

2.6 References/Further Readings/Web Resources

Berkowitz, E. N., Crane, F. G., Kerin, R. A., Hartley, S. W., & Rudelius, W. (2000), Marketing, Toronto, McGraw-Hill

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2.6 Possible Answers to Self-Assessment Exercise

1. Factors that must be taking into consideration include:

   i. Objectives of the firm;
   ii. Legal Considerations;
   iii. Managerial Resources;
   iv. Product Image;
   v. Channel Availability;
   vi. Product Characteristics;
   vii. Middlemen's Loyalty and Conflict;
   viii. Local Customs; and
   ix. Control.

2. There are several types of intermediaries associated with direct channel of distribution. Some of these include:

a) Foreign Distributor;

b) Foreign Retailer Foreign retailers;

c) State-Controlled Trading Company; and

d) End user.

UNIT 3: PRICING STRATEGIES

Unit Structure

3.1 Introduction

Price is an integral part of a product. A product cannot exist without a price. It is difficulty to think or talk about a product without considering its price. Price is important because it affects demand, and an inverse relationship between the two usually prevails. Price also affects the larger economy becaue inflation is caused by rapid price increases. However, price is not any more important than the other three Ps. Thus, price should never be treated as an isolated factor. This unit examines the importance of pricing on marketing activities.

3.2 Intended Learning OutcomesOn completion of this unit, you should be able to:

- Explain the term 'price';
- State the importance of prices;
- Discuss pricing strategies; and
- Explain factors that affect pricing strategies in a given market

3.3 Pricing Strategies

3.3.1 The Meaning of Price

Price is an important element in marketing and the decision to establish the price of a product is crucial to a marketer. The Price variable is concerned with the decision and actions associated with establishing pricing objectives and policies and the determination of product price. A sound marketing strategy demands that a framework for decision making in the pricing area is evolved. In the absence of such a framework, the firm runs the risk of allowing its pricing to run out of control. The problem becomes even more acute in an area of exchange anarchy and floating currencies. Price is often misunderstood, especially by many executives. Consumers do not object price. What they object to is the lack of relationship between the perceived value of the product and the price being charged. They want a fair price, and a fair price can be either high or low as long as it reflects the perceived value of the product in question. Price can be absolutely high from a cost standpoint yet relatively low from a demand standpoint, in relation to its value and other features. Pricing the product is not an easy task. Marketers are usually careful as any mismanagement of a firm's pricing policy can easily lead to substantial variations in the price of the same product in different countries and pressures for price reductions or bigger discounts resulting from variations. Price is described by many people as: fares, fees, charges, tuitions, rents, and assessment. In economic theory, we learnt that price, value, and utility are related. Price in marketing is defined as a value expressed in monetary medium of exchange. For example, a consumer who exchanged N7000 for pair of shoe, the N7000 is the price being charged.

3.3.2 Importance of Price

Having an idea about the importance of price is considered utmost imperative to marketers. This is because it provides guides on how price functions, operates in different types of economy and in the industry. While discussing the importance of pricing, we shall limit our discussion to two areas: Importance to the economy and importance to the firm 1. Importance in the economy: In capitalist economy, pricing is considered to be the key factor that regulates the economy. This is because the market price of products influences wages, rent, interest, and profit. That is, it influences the price paid for factors of production. It regulates the economic system, because it influences the allocation of these factors of production. It determined what to be produced (supply) and how much of these goods and/ or services (demand). 2. Importance in the Firm: The price of a product is a major determinant of the market demand for the item. Price affects a firm's competitive position and its share of the market. Hence, price has a considerably bearing on a company's revenue and profit. The price of a product also affects the firm's marketing programs. In product planning, for example, management may decide to improve the quality of its product or add differentiating features. This decision can only be implemented if the market will accept a price high enough to cover the cost of these changes. However, there are certain features that limit the importance of pricing functions in a company's marketing program and even in the economy. For example, differentiated product features or a favourable brand at times may be more important to consumers than the price. This is true, because it is known fact that one of the objectives of branding is to decrease the effect of price on the demand for a product. These forces tend to make price less responsive to changes in demand and supply. In addition, the current state of the economy has a considerable influence on the importance that business executives attach to pricing in relation to other marketing activities. For example, when economic conditions are good and consumers feel relatively affluent, price would not be rated as important as product planning or promotional activity, but during the period of recession and inflation, marketing executives consider price and pricing strategies extremely important and major contributors to marketing success.

3.3.3 Pricing Objectives

No marketing activities can be carried out without a well-defined objectives and pricing is not an exception. It is imperative for management to decide on its pricing objectives, before determining the price itself. In this section, we are going to discuss some of the factors that marketers consider while setting price on their products or services.

1. **Return on Investment:** Achieving target return on investment is mostly employed by manufacturers that are leaders in their industry, for example Coca-Kola. The reason behind their use of the method is that being a dominant firm in the industry, they set pricing goals more independently of competition than other smaller firms in the industry. The concern of marketing executives here is to determine a price which will satisfy the needs of the consumers on one hand and which will at the same time enable the firm to attain a preset return on the capital or investment involved.
2. **Market Stabilization:** Here the intention of the marketing executives is to operate in a market in such a way that little or no disturbance of competitors take place. Adhering to a pricing objective where by one follows the recognized leader of the market (such as Toyota, Honda, Mercedes; Vital foam, Mouka foam, etc.) is a sound way for maintaining stability. The marketing implication is that one has to identify the leader in each country and aim to operate a pricing policy which upsets its cost.
3. **Maintain or Improve Market Position:** Here, firms can decide to reduce the price of its products with the hope of attracting its competitor's customers, thereby increasing its own market share. Another firm may have the objective of maintaining its present market position. For example, it assumed that MTN is a leader in telecommunication with 90% share; it may

decide to maintain this position in Nigeria markets and even surrounding countries. This firm instead of reducing or increasing its price will use other marketing mix combinations to stabilize and maintain the existing price, which it feels will guarantee its position in the market. Such ways include promotion; MTN sponsored 'Who want be a millionaire' and FIFA world Cup in order to maintain her position in African markets.

4. **Meet or Follow Competition;** This is a perfectly legitimate objective in situations where one enters markets for the first time or where one is operating in markets in which one or more competitors enjoy a dominant position. For in Nigeria, Coca-Kola soft drink Company has dominated the market, thus other soft drinks such as Limca, Pepsi, Mirinda, etc. follow price fixed by this company. The assumption is that such competitors have been in the markets for some time, and therefore they have had an opportunity of testing the validity and acceptability of their existing prices.

5. **Preventing New Entry:** A firm may wish, as part of its pricing objectives, to take all the tactical steps within its power to stop a competitor from entering the market or part thereof. Such pricing objective must be handled with care, because it may be based on the fallacy that competitors are fully aware of the cost of production and distribution, and will be deterred from entering a market which is unlikely to offer fair rewards. This is of course a dangerous assumption, in as much as not every competitor is efficient and painstaking in the way he assembles data about markets and costs. Many competitors simply follow others blindly, and in such an event, a marketer who seeks to prevent new entry through low prices may find himself faced with price war in which nobody is likely to earn a living. This risk is particularly high in international marketing where one is likely to encounter competitors who are particularly ill-informed about the cost realities of marketing in foreign countries.

6. **To Maximize Profits:** This is one of the objectives that most firms both local and international considered important while taking decisions on pricing objectives. Profit is the corner- stone for establishing a business. Without profit, a firm cannot acquire its resources and cannot produce goods and services. In addition, it will be difficult for a firm that does not make

profit to survive neither can it grow and expand. Although, the term ‘profit maximization’ is not bad in Economic Theory. However, modern marketers frown at it. They prefer to use the term ‘profit optimization’ which signifies a profit level where sellers and buyers are both better-off and happy. They condemn profit maximization, because in the mind of the consumers, it is associated with charging high prices, and monopoly, which satisfy only the sellers and does not take into consideration what consumers or buyers will benefit.

Self-Assessment Exercise 1. List 6 pricing objectives

3.3.4 Pricing Strategies

Although, we have discussed in detail pricing strategies previously, but we still consider it necessary here to discuss some of the strategies briefly as part of the pricing variable. A pricing strategy consists of all the principles and tactics associated with putting a price on a product or service with the hope of achieving a defined objective in competitive markets. For any pricing strategy to be effective and achieve its stated objective, it must be planned with careful consideration of the following factors: The company’s competitive size and position in the market, the company’s resources, objectives and policies, the competitors pricing strategies, the buying behaviour of the target market, the stage of the product life-cycle, and the character of the economy. Presented below are some pricing strategies that marketers can adopt.

1. **Cream Skimming Pricing**: It aimed to set a price which is at top end of the range of possible prices. The seller will continue with this price, until he feels that he wishes to penetrate the market more deeply. At that point, he would lower the price, especially where he has evidence that demand elasticity exists. Skimming strategy is particularly useful where the product is new and the firm has production limitations and it is not fully aware of the market situation. Market skimming can also act as a hedge against possible mistakes in setting the price. It is always easier to correct a price downwards than upwards. Market skimming is quite popular in international marketing.

The size of the potential market is such that a small penetration of the global market can be sufficient to meet the immediate marketing objectives. The high initial prices can generate the level of revenue and profits which could justify a major market development.

2. **Penetration Pricing**: Companies that use this strategy set a low initial price in order to reach mass market immediately. It is a more aggressive pricing strategy than the scream skimming pricing. The strategy can be more satisfactory when the following conditions exist:

a. Evidence to show that demand is sensitive to price.

b. The production process is such that substantial reductions in cost will occur when a large-scale operation is established

c. There is an inadequate innovators in the market to sustain a market skimming strategy, and

d. Competition can be forestalled through an aggressive low price. A full understanding of the relationship between the price and the product life cycle is an essential element in a successful penetration strategy. While it works with a product with lasting life cycle, it can be disastrous if it is based on a product with a very short life cycle.

Notwithstanding, a firm that has a good international distribution network is probably well positioned to exploit the life cycle on penetration basis. However, the fact that life cycle may be short can be offset by the rapidity at which international markets can be covered.

3. **Pricing to Reflect Product Differentiation.** A company that has a wide range of products, serving the same market can choose to highlight the differentiation among these products through variation in prices, examples, UAC and PZ. Such prices do not aim to reflect the actual difference in cost of production of the products in the range. They seek to attach a subjective price tag to each product, thus appealing to a range of segments. For example, Zico and Sony wrist watch companies, can offer two different models for different segments of the market; one at a very high price, and the other at a low price. The same apply to electronic market and refrigerators market. Some features are more in one than the other to

differentiate class product and price as well. As long as the products are seen as different and the more expensive product offers a sufficient number of unique selling points to reflect the differentiation, every one that purchases them would be happy. Such strategy can have important marketing implications. For instance, the firm must ensure that the game is played consistently throughout the world. The strategy is sure to fail. If in one country, the price differentiation is adhered to and in another market it is ignored and the products sold at more or less the same price. The strategy works better where the price is determined at one centre than where it is determined at local levels as a result of decentralization.

4. **Loss Leader Strategy** The underlying reason for this strategy is that by pricing one product at a very low price, the consumer will be attracted to the supplier's market place and at the point he may purchase other commodities which are priced in the normal way. That is, the low price of the loss leader product acts as promotional bait to the consumers. The strategy is particularly adopted by superstores, super-markets, retail stores, etc. They advertise a product and indicate a very low price for it. The consumer will probably buy other items in that store once he has taken the trouble to visit the super-market. It is also useful in situations where derived demand exists. Derived demand occurs where the demand for one product stems from the existence or availability of another product. For example, the demand for razor blade occurs only when the consumer possesses razor. Here, a marketer would try to achieve his profit objectives through the sale of the blades. As international marketers, there is need to consider the following factors while adopting this strategy:

a. Loss leadership may contravene the law of certain countries where selling a product on this basis is considered an offence.

b. In some markets, it would become difficult to raise the price once a decision has been taken to sell the product very cheap.

5. **Following competitors and their price practices:** Here, marketers' works with the notion that the competitor (s) are more experienced or knowledgeable than he is, and that the best strategy will be to take notice of what they are doing. This approach is recommended only where direct

competitors exist or where one has sufficient confidence in their commercial and marketing activities. It may be a bad practice to follow competitors who are known for their poor judgment and performance. However, one may follow competitors in one of these ways:

a. Price one's product at the same level

b. Price the product below competitors' levels

c. Where one has distinct unique selling points, the product can be priced above competitors levels to reflect such differentiation.

At times, problems use to arise when one tries to follow the practice of competitors, who have no pricing policies of substance or where one misinterprets the underlying motives of such practices, For example, if the competitor that one is trying to emulate reduce his price, in an attempt to reduce slow-moving stocks at the end of the financial year, it will not be wise to adopt such a strategy. For the international marketers, the big problem is how to identify a competitor who is suitable in a large number of markets. In the absence of such a competitor, one is compelled to follow the practices of different competitors in different markets.

6. **What the traffic will bear:** The basis here is that is marketers seek to price their products at a high a level as they can without jeopardizing sales. This strategy is consistent with a market skimming strategy and its advantage is that it allows ample latitude for future reductions. For this strategy to work well, it needs a fair bit of research. This because, one cannot sensibly establish what the traffic will bear, unless one conducts some investigations. This approach to pricing can be very suitable in situations where the product is expected to have a relatively short life span and marketer's wishes to maximize the returns as quickly as possible with the view of obtaining a rapid investment recovering. It needs to be dynamic in order to continually to satisfy the bulk of the international consumers.

7. **Resale price maintenance:** This strategy is mostly used by manufacturers. Those that adopted this strategy set the price of their products to the international distributors and equally set the price that the distributors will sell the products. At times, the set list price will just be a price to the distributors. Under this arrangement, the manufacturers only use the list

price as a base on which to compute the discounts to be given to the distributors. Whiles for some manufacturers, the list price is so rigidly enforced that the distributors franchise may be cancelled if they do not adhere strictly to the list price.

8. **Psychological pricing**: This strategy is also known as 'odd pricing.' Firms that adopt this strategy usually set the price of their product at such odd amounts that psychologically it will appear in the mind of the consumers that the price has been reduced while significantly the reduction is nothing. For example, a marketer may decide to fix the prices of his product at N95.00, instead of N100 or N99.9 instead of N100. This is commonly practice by super-stores and super-markets, most especially at the festivity periods, such as Christmas and Sallah. This type pricing strategy appears in the minds of the consumers that the price has been reduced, while the reduction is nothing significantly.

9. **Dumping**: Dumping is a form of price discrimination, is the practice of charging different prices for the same product in similar markets. As a result, imported goods are sold at price so low as to be detrimental to local producers of the same kind of merchandise. For example, Japanese banks in California were accused of dumping money in U.S market by pricing their loans at an interest rate lower than what U.S banks charged.

3.3.5 Crucial Factors for Pricing Strategies in a Given Market

The determination of the appropriate pricing strategy for a product or services to adopt in a defined competitive environment is not an easy task for management. This is because of uncertainties that surround the decision makers due to incomplete information/data coupled with other several factors that influence final decision of a management. Notwithstanding, some of the crucial factors that considered are briefly discussed below:

1. Corporate objectives of the firm

This is the cap-stone to start with. Until one knows what the firm wishes to achieve, one cannot determines a sound price strategy for the firms products. For example, a firm may achieve a volume of profit by catering for a small number of consumers with a high quality product and at a high price. Whiles, a competitor may pot for a different approach. He may wish to attain a substantial penetration of the market with a low quality product at a lower price and yet achieve virtually the same amount of profit. The underlying consideration in each situation will be different. It is therefore important for a person responsible for determining the pricing strategy to understand these considerations, and the goals of the firm.

2. **Competitors reactions.** Assuming that the firm's corporate objectives are clear and that they have been communicated to all managers, one must gauge the impact that competitors may have on one's freedom to manipulate one's price. In doing so, the firm has to consider the reactions of other competitors in the market and in the industry. A pricing strategy set without the consideration of competitors' reactions in mind would be detrimental to the firm growth and realization of her objectives.

3. **The Firm's internal structure:** A firm that has structured its international operation on a centralized pattern is more likely to develop strong pricing guidelines emanating from the central authority. It is much difficult to exercise control procedures of guidelines on a decentralized enterprise. It is common to find price variations among markets organized on the decentralized principles than on the centralized structure. As international marketers, you consider the structure of firm before taking final decision in this regards.

4**. Legal constraints:** Each country has its own laws and regulations that guide the activities of business, both in pricing, transfer pricing, and other related issues.

Knowledge of these laws and regulations provides impetus for consumers' freedom and economy at large. For example 'corruption' is now a global issue, even though, individual's countries frown at it, it thus exists.

5. **Target share of the market:** The market share targeted by a firm is a major factor to consider when a decision is to be made on the type of pricing strategy to be adopted. For instance, a firm that aims at increasing its market share will usually adopt penetration pricing strategy by lowering the prices of its products, with the hope of attracting more customers. Whiles, company that is satisfied with its current share of the market, will only maintain and

guard its prices for his products.

Self-Assessment exercise 2: List nine pricing strategies that marketers can adopt

SELF ASSESSMENT EXERCISES

- Discuss the factors that affect pricing strategies in a given market
- Discuss the importance of price
- Discuss pricing strategies
- Explain factors that affect pricing strategies in a given market

3.4 Summary

It is imperative for management to decide on its pricing objectives, before determining the price of its product. Some of the factors that marketers consider while setting price on their products or services are return on investment, market stabilization; maintain or improve market position; meet or follow competition; preventing new entry; and maximize profits.

For any pricing strategy to be effective and achieve its stated objective, it must be planned with careful consideration of the following factors: the company's competitive size and position in the market, the company's resources, objectives and policies, the competitors pricing strategies, the buying behaviour of the target market, the stage of the product life-cycle, and the character of the economy.

Some of the crucial factors to be considered in deciding strategies for pricing in a given market are corporate objectives of the firm, competitor's reactions, firm's internal structure, legal constraints and target share of the market.

3.5 References/Further Reading/Web Resources

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3.6 Possible Answers to Self-Assessment Exercise

1. The six pricing objectives are:

   a. Return on Investment;
   b. Market Stabilization;
   c. Maintain or Improve Market Position;
   d. Meet or Follow Competition;
   e. Preventing New Entry; and

f. To Maximize Profits.

2. The nine pricing strategies that marketers can adopt are:

   i. Cream Skimming Pricing;
   ii. Penetration Pricing;
   iii. Pricing to Reflect Product Differentiation;
   iv. Loss Leader Strategy;
   v. Following competitors and their price practices;
   vi. What the traffic will bear;
   vii. Resale price maintenance;
   viii. Psychological pricing; and
   ix. Dumping.

UNIT 4 PROMOTIONAL VARIABLE

Unit Structure

4.1 Introduction

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Modern marketing calls for more than developing a good product, pricing it effectively, and making it accessible to target customers. Companies must also communicate with their present and potential customers, retailers, suppliers, other stakeholders, and general public. Every company is inevitably cast into the role of communication and promoter. For most companies, the question is not whether to communicate but rather what to say, to whom and how often. This unit examines the influence of promotion in marketing. Note that in this section, we shall use promotion and communication interchangeably.

4.2 Learning Outcomes

After studying of this unit, you should be able to:

- Discuss marketing promotion;
- Explain communication processes;
- Explain communication mix; and
- Describe factors that affect communication decisions.

4.3 Promotional Variable

4.3.1 The Meaning of Promotion Variable

The promotion (communication) variable relates to activities used to inform individuals or groups about the organization and its products. Promotion can aim to increase public awareness of the organization and of new or existing products. Promotional activities can also educate customers about product features or urge people to take a particular stance on political or social issue, such as smoking or drug abuse. Promotion can help to sustain interest in established products.

4.3.2 The Communication Process

Too often, marketing communications focus on overcoming awareness, an image, or a preference gap in the target market. But this approach to communication has several limitations. It is too short-term and too costly, and most messages of this type fall on deaf ears. But this day, communication is being viewed as the management of customer buying process over time, during the pre-selling, selling consuming and post-consuming stages. This is because, customers differ, and communications programs need to be developed for specific segments, niches, and even individuals. Given the new electronic technologies, companies must ask not only "How can we reach our customers?" but also "How can we find ways to let our customers reach us?" Therefore, the starting point in the communication process is thus an audit of all the potential interactions target customers may have with the product and company. For example, someone who wishes to purchase a car would talk to others who have used such cars, see ads, read articles in newspapers and magazines, and observe cars in the show rooms. Hence, marketers need to assess which of these experiences and impressions will have the most influence at the different stages of the buying process. This understanding will help marketers allocate their communication naira more efficiently. To communicate effectively, marketers need to understand the fundamental elements underlying effective communication. Figure 1 below shows a communication model with nine elements. Two elements represent the major parties in a communication-sender, and receiver. Two represent the major communication tools-message and media. Four represent major communication functions-encoding, decoding, response, and feedback. The last element in the system is noise (i.e., random and competing messages that may interfere with the intended communications. Model explains the key factors in effective communication. Senders must know what audiences they want to reach and what responses they want. They must encode their messages in a way that takes into account how the target audience usually decodes messages. They must also transmit the message through efficient media that reach the target audience and develop feedback channels to monitor the receiver's response to the message.

For a message to be effective, the sender's encoding process must mesh with the receiver's decoding process. Thus, the best messages are essentially signs that are familiar to the receiver. The more the sender's field of experience overlaps with that of the receiver, the more effective the message is likely to be. This requirement puts a burden on communicators from one social stratum who wants to communicate effectively with another stratum. The sender's task is to get his or her message through to the receiver. The target audience may not receive the intended message for any of three reasons:

a. Selective attention;
b. Selective distortion; and
c. Selective recall.

Communicators also need to think about their audience awareness that the communicator is attempting to persuade them. People who have been exposed to previous persuasion attempts have a different response to persuasion than those who have not been exposed to such attempts. Fiske and Hartley as reported by Kotler (1997) have outlined some general factors that influence the effectiveness of a communication:

1. The greater the monopoly of the communication source over the receipt, the greater the recipient's change or effect in favour of the source.
2. Communication effects are greater where the message is in line with the receiver's existing opinions, beliefs, and dispositions.
3. Communication can produce the most effective shifts on unfamiliar, lightly felt, peripheral issues, which do not lie at the center of the recipient's value system
4. Communication is more likely to be effective where the source is believed to have expertise, high status, objectivity, or likeability, but particularly where the source has power and can be identified with, and
5. The social context, group or reference group will mediate the communication and influence whether or not the communication is accepted.

SELF-ASSESSMENT EXERCISE 1 Explain the factors that influence the effectiveness of a communication

4.4 Marketing Communication Mix

The marketing communication mix consists of the combination of all the communication variables or tools in a given target market by an organization with the hope of satisfying the market and to achieve a defined objective. There are two ways to look at the component of the marketing communication mix. The first view that can be described as the broad view states that each of the 4ps should be included in the marketing communication mix. According to this view, the product's styling, the colour and shape of the packaging, price and place all communicate something. The second view which can be termed the narrow view states that the marketing communications mix consist of the subset of marketing tools that are primarily communicational in nature. They are the tools normally classified under promotion, one of the 4ps. They are called promo-tools and include various forms of advertising, personal selling sales promotion, and publicity.

I. Developing Effective Communication

II. Here we would examine briefly ways of achieving effective communication system.

III. 3.3.1 Identifying the Target Audience

A marketing communicator must start with a clear target audience in mind. The audience could be potential buyers of the company's products, current users, deciders or influencers. The audience could be individuals, groups, particular publics, or the general public. The target audience will critically influence the communicator's decisions on what to say, how to say it, when to say it, where to say it, and whom to say it. A major part of audience analysis entails assessing the audience's current image of the company, its products and its competitors. An organization seeking to improve its image must have great patience. Images are sticky; they persist long after the organization has changed. For example, a famous university might have got down in her educational standard, yet it continues to be highly regarded in the public mind.

Self-Assessment Exercise 2 What are the elements of marketing communication mix?

4.4.1 Determining the Communication Objectives

Once the target market and its characteristics are identified, the marketing communicator must decide on the desired audience response. The desire ultimate responses are purchase, high satisfaction, and favorable word-of-mouth. Purchase behaviour is the end result of a long process of consumer decision making. The task of marketing communicator here knows how to move the target audience to higher states of readiness to buy. There are various ways of achieving this; however this depend on the nature of the products and characteristics of the markets available.

4.4.2 Designing the Message

Having defined the desired audience response, the communicator moves to developing an effective message. Ideally, the message should gain attention, hold interest, arouse desire, and elicit action (AIDA). Formulating the message will require solving four issues: what to say (message content), how to say it logically (message structure), how to say symbolically (message format), and who should say it (message source).

4.4.3 Selecting the Communication Channels

The communicator must select efficient channels of communication to carry the message. The channel chosen depends on the nature of the products and availability of experts who will carry the message to the target markets. Communication channels are of two broad types, personal and non-personal. Personal communication channels involve two or more persons communicating and directing with each other. They might communicate face to face, person to audience, over the telephone, or through the mails. Personal communication channels derive their effectiveness through the opportunities for individualizing the presentation and feedback.

The non-personal communication channels are without personal contact or interaction. They include media, atmospheres, and events. Media consist of print, broadcast media, etc. Atmospheres are 'Packaged Environments' that create or reinforce the buyer's leanings toward product purchase.

Establishing the Total Promotion Budget: One of the most difficult marketing decisions facing companies is how much to spend on promotion. John Wanamaker observed, as reported by Kotler (1997) said "l know that half of my advertising is wasted, but I don't know which half." This is the dilemma of most management executives. However, there some methods through which companies would be able to determine the amount to be spend on promotional activities. These include: a. Affordable method b. Percentage- of-sales method c. Competitive-parity method d. Objective and task method, and so forth.

4.4.4 Deciding on the Promotion Mix

Companies face the task of distributing the total promotion budget over the five promotional tools- advertising, sales promotion, public relations and publicity, sales force, and direct marketing. Company executives are always searching for ways to gain efficiency by substituting one promotional tool for another. All the five promotional tools are good, but their selection depends on the availability of funds, nature of the products, stages of product life cycle, accessibility of the target markets and objectives the company want to achieve.

4.5 Factors that Affect Communication Decision in Marketing

Many factors are taken into consideration by international marketers while deciding on communication issues, some of these are:

4.5.1 The Firm's Objectives

The objectives of a firm spell out the direction of the firm's activities, of which communication is inclusive. For example, companies that pursue short term objectives, its communicative strategies will be quite different from that one that pursuit long term objectives.

4.5.2 The Nature of the Product

The nature of the product strongly determines the kind of communication policy that a firm should adopt. This because certain types of goods lend themselves to a highly standardized style of promotion, whiles others by their very nature call for a high degree of differentiation.

For example, technical goods calls for a higher level of standardized of communication policy as compared to fashion-based products.

4.5.3 Legal Considerations

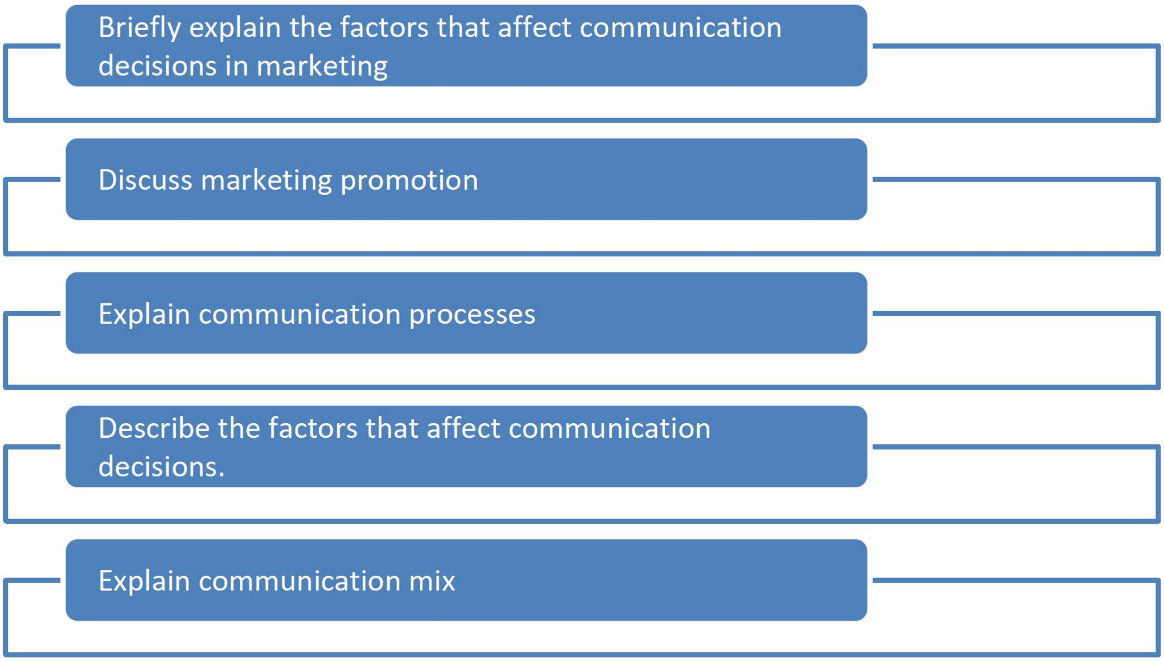
The legal system of a country often has an important impact on what can and what cannot be done in the field of marketing communications. What may be acceptable in one country may be against the law in another country. For examples: a. In Norway and Sweden, television advertisement is not permitted b. In Belgium and France, cigarettes and alcoholic are permitted on television. c. Austria and Italy regulate television advertisement using children. Therefore to ensure that one does not encounter any problem, it is important that an international marketer gains a broad understanding of the legislation of each target market.

4.5.4 Media Availability

An international marketer must never assume that the type of media he had been accustomed to at home be likely to be found in foreign markets. For example, in some countries, the media that one wants may not be in existence. Even if they exist, the number may be too few to meet the demand for it. Cinema advertising for instance, may be popular in one country, whiles in another; it may be totally nonexistent. An international marketer that wants to know about the media availability in the foreign markets can seek for assistance from some reputable advertising agents. These agents possess useful information on media availability and they provide necessary documents.

Self-Assessment Exercise 3: List factors that affect communication decisions in marketing.

SELF ASSESSMENT EXERCISES



4.6 Summary

The promotion variable relates to activities used to inform individuals or groups about the organization and its products. ITS aim is to increase public awareness of the organization and of new or existing products and to educate customers about product features or urge people to take a particular stance on political or social issue, such as smoking or drug abuse.

Communication process explains the key factors in effective communication. The process demands that senders must: know what audiences they want to reach and what responses they want; encode their messages in a way that takes into account how the target audience usually decodes messages; also transmit the message through efficient media that reach the target audience; and, develop feedback channels to monitor the receiver's response to the message.

Marketing communications mix consist of the subset of marketing tools that are primarily communicational in nature. They are called promo-tools and include various forms of advertising, personal selling sales promotion, and publicity.

The key factors that are normally taken into consideration marketers while deciding on communication issues, are the firm's objectives, nature of the product, legal considerations and media availability.

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4.8 Possible Answers to Self-Assessment Exercises

1. The general factors that influence the effectiveness of a communication are:

   i. The greater the monopoly of the communication source over the receipt, the greater the recipient's change or effect in favour of the source;

   ii. Communication effects are greater where the message is in line with the receiver's existing opinions, beliefs, and dispositions;

iii. Communication can produce the most effective shifts on unfamiliar, lightly felt, peripheral issues, which do not lie at the center of the recipient's value system;
iv. Communication is more likely to be effective where the source is believed to have expertise, high status, objectivity, or likeability, but particularly where the source has power and can be identified with; and
v. The social context, group or reference group will mediate the communication and influence whether or not the communication is accepted.

2. The marketing communications mix consist of the subset of marketing tools that are primarily communicational in nature. They are called promo-tools and include various forms of advertising, personal selling sales promotion, and publicity.

3. Many factors are taken into consideration by marketers while deciding on communication issues: some of these are:

a. The Firm's Objectives
b. The Nature of the Product
c. Legal Considerations
d. Media Availability.