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Review of the effect of pricing methods on the purchase of consumer goods

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Abstract
In the face of rapid economic and technological changes, today's consumer is more curious, more educated and conversant with what he\she exactly wants. These changes also affect the needs of firms. This study examined the effect of pricing strategies and methods on the purchase of consumer goods. This research intended to answer the various questions to what extent competitor's price affects the purchase of product and how the customers perceive the value-based pricing concept of the firms. This study reflects that competitor's price affect the purchase of firm products. This study contributes to the knowledge associated with pricing methods and purchase decision process. This research recommends that as much as the firms should focus on communicating value to the customers through prices, firms must also vigilant regarding the competitor's prices and should examine how much it affect the purchase of their products

Keywords: Pricing behavior, Competition, perceived value

Introduction
Right price is one of the important determinants of business success. Price is the amount one pays for a good or a service or an idea. A price policy is a guide –line set by the top management to bring about optimum product market integration. It is the sharp weapon by which the marketer can encourage competition, satisfy or dissatisfy the consumer. Price policy and strategies are of grassroots important to all those who are in the rungs of distribution namely, producer, middleman and even the consumer. The role of price is pivotal in the four branches of economics namely exchange, production, consumption and distribution. Pricing a product /service is one of the most important decisions that need by management.
It is easy to define the term "PRICE". A price is the amount one pays for a good or a service or an idea. Price is the amount for which a product, a service or an idea is exchange, or offered for sale regardless of its worth or value, to the potential purchaser. Example: When a customer asks the dealer "What is the price of this product"? The ready answer is "Rs 120/- all inclusive. Price is the amount for which a product, a service or an idea is exchange, or offered for sale regarding of its worth or value, to the potential purchaser.
"Price Is Equal To The Total Product Offering."
(Mr. J. Walker)

Pricing
The term price is need not be confused with the term 'pricing'. Pricing is the art of translating into quantitative term (rupees and paisa) the value of the product of a unit or a unit of a service to customer at a point in term. Pricing is the function to determine the product or service or idea value in monetary term by the marketing manager before it is offered to the target consumer for sale. Precisely, pricing is the process of setting objectives, determining the availability flexibility, developing strategies, setting price and engaging in implementing and control.
"Pricing is a managerial task that involves establishing pricing objectives, identifying the factor governing the price, ascertaining their relevance and significance, determining the product value in term and formulation of price policies and the strategies, and controlling them for the best result.''

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(Prof. K.C. Kite) Price plays an important role in the market of a product. After development a product, the next step of the company is the price of the product so as to product effective earn some money from selling the product, if the price is not determine currently, it could affect the sale of the product as well as the profit of the company. A buyer decision is largely influenced the price of the product. A company can increase and reduce the demand of a product through pricing. Pricing can also regulate the competition in the market. Wrong pricing policies can also lead to lead to legal complication apart from general ill-will and resentment among the buyer.

Fixing reasonable price for the product is a touch job for the marketing manager. Some people feel that the price should be as high as the customer can play, but other feel that is should be low enough to enable the maximum number of person to buy the product. Pricing is an important task not only for the manufacturing concerns. But also to other organization which provides various type of service such as advertise banking, transport, insurance, electricity etc. A doctor who is providing consultation service is very keen to fix a price for his service. Non- profit organization like education institution in fixing a fair and proper tuition fee, to be charged from the student. Pricing is an important matter not only for the organization which it produces, but also for the buyer and the society

Objectives of pricing

1. Survival

Survival is the most fundamental objective. Therefore, at least in the short run, some organization price product with objectives of obtaining capital for uninterrupted operation.

2. Target return on investment

Pricing for profit is the most logical price objective. Pricing to attain predetermined profit involves the establishment of specific profit goal either as a percentage of sale or a R.O.A.M. (Return of Asset Managed). Price decision based on investment return is becoming very common both in private and public sector undertakings.

3. Market Share

Market share is really a meaningful measure of the success of a firms marketing strategy. A market share price objective can be either to maintain the market share, to increase it or some time to decrease it. The company uses the price as an input to enjoy a target market share.

4. Cash Flow Market

Product pricing decisions are extremely important to the financial manager. Today the marketing world has changed drastically. The rapid expansion of new product research and decentralized distribution network and the distribution network and the explosion of aggressive selling have made it necessary to commit sums of money to marketing.

5. Price and Profit Stabilization

Stabilization price and profit can be a long term objective of a firm. The role of a price leader is generally that of maintaining stable price in an industry in which erratic and irresponsible pricing moves would result in undesirable change in market share and profits.

6. Meeting killer Competition: Price can be used as a weapon to meet competition it. Meeting the competition is the simplest strategy in case of those companies that are more interested in non-price strategies.

7. Profit Maximization: Profit maximization is the age old objective of pricing. Here, price policy followed by the management help the firm to maximize its earning under given market condition.

Method of Pricing

The companies resolve pricing issue by selecting a Pricing Method. The choice of a particular method is depend upon pricing need and the decision input barrier encountered by the management. The most important pricing method are as follows:

Cost based

Competition based

Demand based

Market based

1. Cost based pricing method

Because cost provides the base for a possible price range, some firms may consider cost- oriented method to fix price.

Cost –oriented method or pricing are as follows

***a)* Cost plus pricing method**

Cost plus pricing involve adding a certain percentage to cost in order to fix price. For instance, if the cost of a product is Rs.200 per unit and the marketer expects 10 per cent profit on cost, then the selling price will be Rs.220.The different between the selling price and the cost is the profit. The method is simpler as marketers can easily determine the costs and add a certain percentage to arrive at the selling price.

b) Mark-up pricing

Mark up pricing is variation of cost pricing. In this case, mark ups are calculated as a percentage of the selling price and not as percentages of the cost price. Firms that use cost oriented method use markup pricing.

c) Break even pricing

In these cases, the firm determines the level of sale needed to cover all the relevant fixed and variable costs. The breakeven price is the price at which the sales revenue is equal to the cost of goods sold. In other words, there is neither profit nor loss.

For instance, if the fixed cost is Rs.2, 00,000 the variable cost per unit is Rs.10 and the selling price is Rs. 15, then the firm needs to sell 40,000 units to break even. Therefore, the firm is not in a position to sell 40,000 units to make a profit. If the firm is not in a position to sell 40,000 units, and then it has to increase the selling price.

Formula is used to calculate the break-even point: Contribution=Selling –variable cost per unit

2. Competition based methods

Many firms set price largely in relation to the pricing of their competitions. It gives major attention to positioning its price just relation to the price of its competitors. There are two such commonly used competition based pricing. These are as follows:

1) Going Rate Pricing

Going rate is the method of setting the prices in relation to the price of competitors. The firms based its price largely on the competitors 'price with less attention paid to its own cost or demand. Generally, in industries oligopoly prevails such as steel, paper, aluminum and the like, the firm charges the same price as their competitors. It is natural that the firm changes the price when the competitors change not bothering about costs and demand changes, some firms may charge not higher or lower price than their competitors.

2) Sealed Bid Pricing

In all those business line where the firms bid jobs, competition based pricing is following rather than its costs and demand. The firm fixes its price on how the competitors price their products. It means that if the firm is to win a contract or a job, it should quote less than the competitors. With all this, the firm cannot set the price below a certain level. Thus, it cannot price below of the cost. One the other hand, higher price above its costs reduce the chance of winning the job

Demand Based Pricing Method

There two demand based methods which are as

(1) Demand modify break even analysis pricing
(2) Perceived value pricing.

Demand modified break even analysis: Demand modified break even pricing is that method which sets then price to achieve highest profit in consideration of the amount demanded at alternative price.

Perceived value pricing:

Many firms are setting their product price on the basis of perceived value of a product. For instance, people have their own perception value for say Zodiac ties, Double bull shirt, and Bata shoes and so on. The people are readily willing to pay a premium price.

4) Market-oriented methods

1) Perceived value pricing:

A number of firms set the price of their goods and services on the basis of customer's perceived value. They consider customers perceived value as the primary factor for fixing price, and the firm's costs as the secondary. But, the customer's perception can be influenced by several factors, such as advertising, sales on techniques, effective sales force and after-sale-service staff. If customer perceives a higher value, then the price fixed will be high and vice versa. Market research is needed to establish the customer perceived value as a guide to effective pricing.

2) Going-rate pricing

In this case, the bench mark for setting prices is the price set by major competitors. If major competitors change its price, then the smaller firms may also change their price, irrespective of their costs or demand.

The going-rate pricing can be further divided into three sub methods:

a) Competitors parity method

A firm may set the same price as of the major competitors.

B) Premium Pricing

A firm may change a little higher if its products have some additional special features compared to major competitors.

c) Discount pricing

A firm may change a little lower price if its product lacks certain features as compared to major competitors.

Objective of Research:

1. To understand consumer reaction to the price cut in the detergent powder segment.
2. To find out if there as a major change in the buying behavior of the consumer after the price cut.
3. To see if brand loyalty has a major effect on the consumer after the price cut.
4. To find out the perception of the consumers regarding the quality of the products after the price cut.

Secondary data: Data is collected from various sources which include magazines, management journals and internet. In this study, data has been collected through convenient sampling in Bangalore.

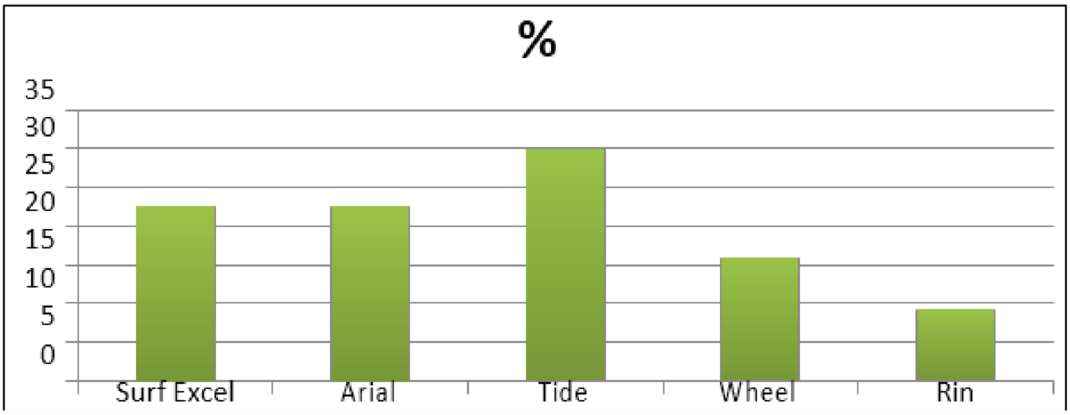
Literature Review:

Baker (1996) noted that price is the mechanism which ensures that the two forces (demand and supply) in equilibrium. According to Santon (1981) Price is simply an offer or an experiment to task the pulse of the market. It is the monetary value for which the seller is willing to exchange for an item. Borden (1984) [3] stated that marketing manager msut weigh the behavioral forces and then handle marketing elements in his mix with focus on the resources with which he has to work when building a marketing program to fit the needs of a firm. For marketing to effect a change either in a new product or reinvigorate a new brand there are elements that remains constant which must be incorporated in the marketing mix and this is called the "Four P's". these four P's are product, price, place and promotion. (EHmke *et al* 2005). In the context of this paper, the emphasis will be on price, hence the need to elucidate more on meaning of price to both customers and firms. Price is the amount a customer pays for a product or the sum of the values that a consumer exchange for the benefits of having oir using a product or service (Bearden *et al* 2004). Price means different things to people, it is interest to lenders, COT or service charged by the banker (lenders), premiuim to the insurer, fare to the transporter, honorarium to the guest lecturer etc. (Kotler *et al* 2008) [7]. According to Rosa *et al* (2011) the importance of pricing as a purchase stimulus has a key role in price management since not only does it determine the way prices are perceived and valued, but it also influences the consumer purchase decisions. According to Hinterhuber (2008), Pricing strtagies vary considerably across industries, countries and customers and can be categorized into three groups: cost based pricing, competition-based pricing, and customer value based picing. Choosing a pricing obhjectiev and associated strategy is an important function of the business owner and an integral part of the business plan or planning process.

Analysis

(a) Usage of detergent powder brands:

Brands	Students	House Wifes	Working Women	Total	Percentage
SURF EXCEL	11	11	05	27	22.5
ARIAL	09	05	13	27	22.5
TIDE	13	12	11	36	30.00
WHEEL	07	06	06	19	15.83
RIN	0	06	05	11	09.16
TOTAL	40	40	40	120	100



Graphical Representation of Data.

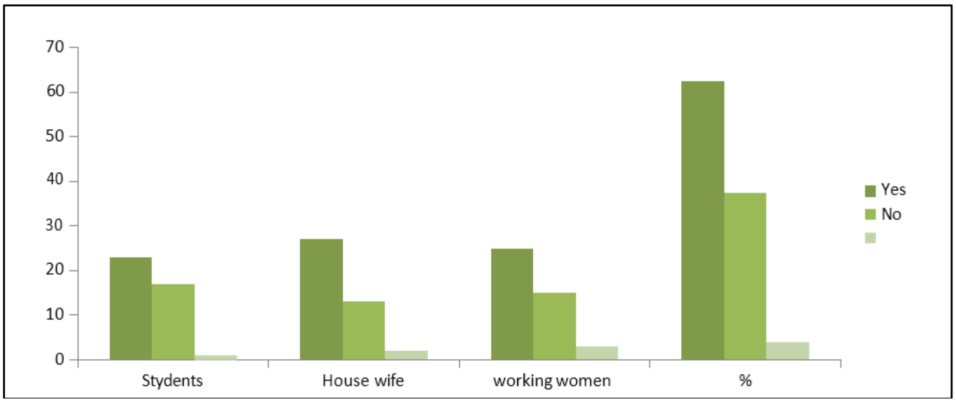
Analysis

The premium detergents in the market like TIDE is used most. Surf Excel and Ariel are used by all three segments such as housewives, students and working women but the detergent Tide is used most among other brands. Some other detergents like Wheel and Rin are also used, but the percentage in less.

2. Consumer brand loyalty:

A. Based on type of respondents.

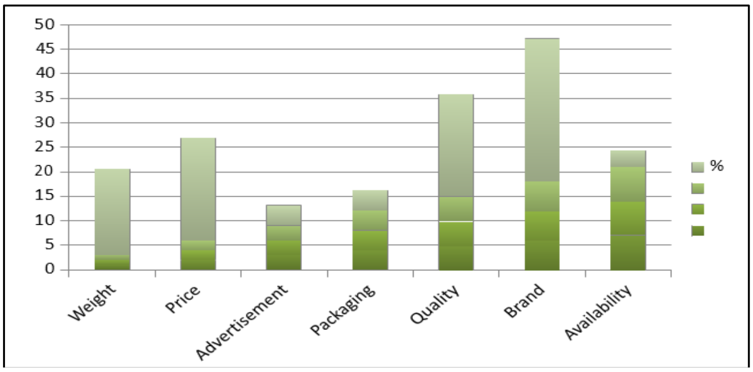
	Students	House Wifes	Working Women	Total	Percentage
YES	23	27	25	75	62.5
NO	17	13	15	45	37.5
TOTAL	40	40	40	120	100



When analyzing the brand loyalty of respondents towards various brands, it was found that 37.5% respondents change brands, while 62.5% respondents say they don't change brands. Hence majority of respondents show brand loyalty. From the response it can be inferred that student category prefer experiencing new products.

Table 3: depicting the usage of detergent powder brands Based on Type of Respondents-

	Student S	House Wifes	Working Women	Total	Percentage
Weight	10	06	05	21	17.5
Price	09	07	09	25	20.83
Advertising	02	02	01	05	4.16
Packaging	03	02	00	05	4.16
Quality	07	09	09	25	20.83
Brand	09	13	13	35	29.16
Availability	00	01	03	04	3.33
Total	40	40	40	120	100



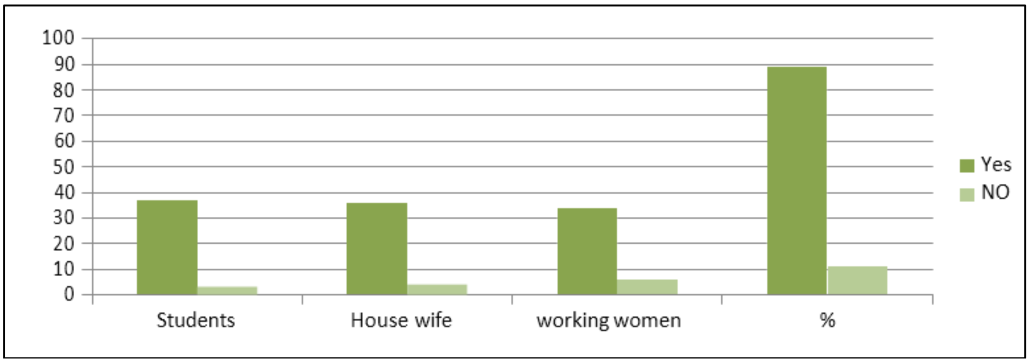
Analysis

The premium detergents in the market like Ariel, Surf Excel and Tide are used most. Surf Excel and Ariel are used by all three segments, but Tide is most popular among all three segments. It is found that respondents, while purchasing detergents go for more than one detergent. It is also found that most respondents are brand loyal but some other factors such as

quality, weight and price also plays significant role in their choice. On the other hand advertisement and packaging does not make any significant difference.

Table 4: depicting awareness level among the respondents regarding the price cut in detergent powder segment.

	Students	House Wifes	Working Women	Total	Percentage
YES	37	36	34	107	89.16
NO	03	04	06	13	10.83
TOTAL	40	40	40	100	100

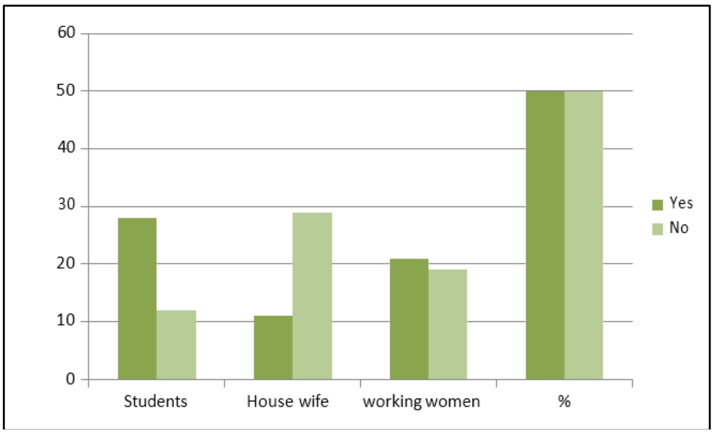


Analysis

In the analysis of awareness level among respondents regarding the price war (cut) in premium detergent powder segment, it is seen that 89.5% of the respondents are aware. Respondents are mostly aware of price cuts and also aware that this is due to price war between the major players. Price sensitive Indian consumers are consciously aware of the price fluctuations happening in the market. Companies that price the consumer with unduly high margins are eventually forced to compete with one another in taking price cuts.

Table 5: depicting responses of respondents whether they have changed detergent powder brand after the price war.

	Students	House Wifes	Working Women	Total	Percentage
Yes	28	11	21	60	50.00
No	12	29	19	60	50.00
Total	40	40	40	120	100



Analysis
In the analysis, it is found that 50% respondents say that they changed, while 50% said they did not change. Here we can see that students were the majority. Second in the line were working women. Analysis based on income show that even the higher income group respondents are price consciousness.

Conclusion
In items of everyday use, price is the determining factor, which is why people rush to hypermarkets, such as big bazaar, where items of everyday use are available at discounted price. Brand loyalty of customer is intentionally attacked by competition through lower prices. Responses from the student's indicate that they felt that premium brands were of high quality, but due to high prices they did not try them. They shift to other less expensive brands. Now when the same was available at a lower price they wanted to try. Hence, in such a price sensitive market price cuts will lead to customers to shifts brands, which is a threat to the marketers. Consumers are becoming more price sensitive, especially in everyday categories of products. Brands are supposed to prevent customers from making a product choice based on low prices, but that is not the reality here.

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