A Quick Guide on Pricing Methods and How It Influences A Market

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***Abstract*: Price is a major factor which plays a vital role in the company's revenue. This paper focuses pricing via three steps. First step is about the basics of pricing concept and the factors affecting the pricing. Second is about the various types of pricing in brief and also its importance. Third, about the suggestions to the marketing companies or a person who is above to involve in research regarding pricing. Reader could understand the importance of pricing concepts easily from this paper and could use it for the future benefits. The author has gathered information from various reliable sources to make this paper and presented in a simple manner.**

***Keywords*: Pricing, Factors influencing the market, methods of pricing and suggestions**

I. INTRODUCTION

Pricing

It is a process of setting a value to the product i.e., price to a product. The strategy of pricing depends on the business and owners mindset because they are the real players who decides how much and when to. This process involves complex calculations sometimes, not easy to fix a value of a product. It requires a lot of research work and calculations. Risk involved is more that the department managers will understand. Pricing without calculating risk is merely falling into hell. Below are the factors affecting pricing and methods to price product.

Factors affecting Pricing

There are two factors which can affect the pricing. They are listed below.

Internal factors:

1. Objectives set by the own company
2. Marketing mix of the company – Price, product, place and promotion
3. Limitations of the company – Finance, Cost, quality, differentiation, life cycle of a product

External factors:

1. Demand
2. Competitors
3. Government rules
4. PESTLE – Political, economical, social and technological, legal and environmental
5. Raw material cost

Review both internal and external factors to calculate the price change that would affect the new situation. The basics of pricing involve price, customers and competitors. Blend pricing methods such that they are kept in balance. Be flexible at times.

II. METHODS TO PRICE YOUR PRODUCT

Understanding the pricing method will make you select and guides you on how to set the product price. Setting the prices in business gets changed over time, for many reasons. Once after learning more about the customers and competition, you may decide to change your pricing method. Annotate some changes in the development stage of the product and review your pricing strategy accordingly. Methods to price your product includes:

Cost based pricing

This pricing adds a profit percentage with the product cost. It is an accurate method when compared to other since it includes product cost subtotal. All the cash costs and non-cash costs are included in the product cost subtotal. Before taxes, up to discount everything will be covered hence it is accurate. It is of three types namely, mark-up, cost-plus and planned profit percentage.

Advantage: Profit – Reduce the cost of making a product whenever required. Many competitors enter with low price. So the buyers have the options to choose from any of those.

Disadvantage: Doesn't look into how customer demand affects price. High demand presence may stimulate the seller to set high price for the product and vice versa.

Mark-up pricing

It is a process of adding a percentage over the cost of the product to determine the selling price. For example, a soap company sells a soap to retailer for rupees 10. The retailer charges rupees 2 over 10 to the end user. i.e., the soap price is 12 to the consumer. Now the markup on MRP is 20%. It is simple to calculate. The profit level for the business is expressed in terms of percentage. Advantage: It gets suits to the retailers well.

Cost-plus pricing

It looks very similar to markup method. The main difference between mark-up pricing and cost-plus pricing is that the buyer and seller both gets into profit percentage, accepting that the production cost is unknown. For Example: XY agreed to act as a packer helper for a start-up company, which does packaging and distributing energy drinks. As a packer helper, XY will purchase ingredients through their suppliers, but not sure of input costs. The start-up business signs a contract with you to pay for materials costs + processing cost of rupees 50 per case.

Advantage: If you produce custom order products for other firms or individuals, a cost-plus pricing method could reduce your risk.

Planned profit pricing

Price is the blend of total profit and product cost. This method ensures a total profit is earned. It gets differentiated from the other types of pricing as they are keen on per unit price. This pricing combines per unit costs with output projections to calculate product price. Break-even analysis is used to calculate this pricing. Advantage: It is suited to manufacturing businesses. The Manufacturer can increase or lower the production based upon the demand created or profit available. For Example: A cake business could set prices according to the size of the orders they receive from various customers. A price break is given to a customer who orders more than 10 cakes at a time.

Customer based pricing

Set price to i) support product image, ii) increase product sales, iii) attract many consumers

Advantage: Looks for customer bearable amount and then sets the price accordingly

Competition based pricing

Here the price remains the same as of the competitor price. This is done to increase the customer base. Seek larger market share through price. Focus on your business as well as always have an eye on competitor move.

Look out the below details from the competitors

Competitors	New or Old? Big or small?
	What kind of business?
	Products sold in the past? New products? Homogeneous or Heterogeneous products?
	Old pricing strategy? New pricing?

Advantages: You will attract more customers. Sometimes you might attract the customers of your opponent (competitor). For this to happen, make your product features unique.

Disadvantages: Wrong decision making in pricing for both wholesale and retail products. Staying focused on customers and forgets competition. There by a chance of losing to competitors.

Demand based pricing

This method analyses the consumer demand for the particular product and sets the price.

The below subtopics are involved under demand based pricing

Price Skimming **-**The price of the product will be set high initially. By this strategy, you can reach a profit stage quickly. The beauty is you can earn as much as needed before a tuff competitor enters into the picture. Price will be lowered after a certain period of time.

Price discrimination **-**It is a process of price differentiation. When the same provider sells the same identical products for different prices is called price discrimination.

Yield management – the process of anticipating consumer behavior to yield more profit

Price points – prices at which demand is supposed to be stay high

Psychological pricing – This theory tells you that price has some psychological impact. For example, shoe price is shown as rupees 499.99 and not rounded off to 500 rupees

Bundle pricing – Several products are sold under one category for one price. For example, Ms Office contains word, excel, power point, etc.

Penetration Pricing – This technique enters the market with a very low pricing and attracts more new customers. Increases sales volume and thereby profit in short time.

Value based pricing – Setting the price primarily based on the understood value of the customer

Geo and premium pricing – Prices get differentiated in different areas or regions. Premium customers love to get products at premium cost because they believe products are of high quality. Hence pricing is set high always.

Past Pricing

This method is not known to many of the researchers since this part is not discussed often in many of the projects. Past pricing involves the steps carried out in the past. This process is a mere checking of how previously a price is set to our product. Based on which criteria or assumption is set is then known to the researcher for setting the price in the upcoming future.

III. SUGGESTIONS

1. Remember while setting a price, it is not for yourself but for the targeted customer or the prospects. This was well said by the author Dolan sky.

2. Before you review each pricing method, think about the type of business operations and customers. Get feedback from the customers, maintain a record. Review everything accordingly. See the possibilities of implementing it in the future.
3. Ensure that you understand the range of options available, their disadvantages and advantages before getting fixed to a pricing method.
4. You may blend different pricing that suits your business and product type.
5. Customer is a big sword hanging above your head. If he is not happy or price is not satisfactory, then the scenario turns into different colors. But we can't satisfy all the type of customers though. Our product can't do everything for all the types of customers. The path seems a snake and ladder game. Fix your mind to reach your target customers through a good pricing. Even if you don't attract this time, try harder the next time. You will definitely get there.

IV. CONCLUSION

This paper gives an overall idea to understand on what is pricing and its methods and how it influences the market. Those who enters a market or whose product enters a market should understand pricing before fixing price to their products and also should have a keen eye on pricing every time. Customers are important for any kind of market but at the same time competitors are also. So see to their behavior and pricing tactics to update you and be proactive.

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