NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCES

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COURSE TITLE- PRICING POLICIES

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UNIT 1 DEMAND INLUENCES ON PRICING POLICY

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

OBJECTIVES

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

* The meaning of pricing policy
* Demographic influences on pricing policy
* Psychological Factors on pricing policy
* Price elasticity

3.0 MAIN CONTENT

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

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.

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 favourably 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?

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

4.0 CONCLUSION

Price is a key element in the marketing mix because it relates directly to the generation of total revenue. In formulating pricing policies an organization must consider a number of factors relating to demand which affect them in making decision relating to pricing. These factors are essential for accurate pricing decision.

5.0 SUMMARY

Pricing policy refers to the method of decision making that is used to set prices for a company's goods or services. There are three primary considerations of demand influences on pricing policy. These were considered under demographic factors, psychological factors, and price elasticity.

6.0 TUTOR MARKED ASSIGNMENT

Discuss demand factors that affect pricing policy of an organization.

7.0 REFERENCES/FURTHER READING

Peter, P. J. and Donnelly, J. H. (2011). Marketing Management, Knowledge and Skills. New York. McGraw Hill Companies.

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UNIT 2 SUPPLY INFLUENCES ON PRICING POLICY

CONTENT

1.0 Introduction
2.0 Objectives
3.0 Main Content
- **3.1** Pricing Objectives
- **3.2** Cost consideration
- **3.3** Product consideration
- **3.4** Life cycle consideration

4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assignment
7.0 References/ further reading

1.0 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.

2.0 OBJECTIVES

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

- Pricing objectives
- Cost consideration in pricing
- Product consideration in pricing

- Product life cycle consideration in pricing

3.0 MAIN CONTENT

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, and (4) pricing to meet or prevent competition.

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.

3.3 Product Considerations in Pricing

Although numerous product characteristics can affect pricing, three of the most important are (1) perish ability

ability, (2) distinctiveness, and (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.

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.

Students Assessment Exercise:

Discuss three important product characteristics that can affect pricing.

4.0 CONCLUSION

A number of factors relating to product supply are necessary factors influencing pricing policy in any organization. These factors covered the objectives, costs, and nature of the product. Marketers must consider these factors in the process of determining the right price for any product.

5.0 SUMMARY

1) Pricing objectives should be derived from overall marketing objectives, which in turn should be derived from corporate objectives. The basic pricing objective is solely concerned with long-run profits. The price of a product usually must cover costs of production, promotion, and distribution, plus a profit margin. There are numerous product characteristics that can affect pricing, however three of the most important factors considered here were perishability, distinctiveness, and stage in the product life cycle. We noted that the stage of the life cycle that a product is, can have important pricing implications.

6.0 TUTOR MARKED ASSIGNMENT

DIscuss three Supply factors that can be consIdered In determInng the prIce of a product.

7.0 REFERENCES/FURTHER READING

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UNIT 3 ENVEROMENTAL INFLUENCES ON PRICING PolIcy

CONTENT

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Competition

3.2 Government Regulations

3. 2 Legal Issues

1.0 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.

2.0 OBJECTIVES

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

- Competition as a factor influencing pricing policy
- Government regulations as a factor influencing pricing policy
- Legal Issues as a factor influencing pricing policy

3.0 MAIN CONTENT

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.

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.

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 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.

Student

Student Assessment Exercise:

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; list these factors.

4.0 CONCLUSION

Environmental factors which influence pricing policies include such factors as competition, government regulations and laws. These variables are beyond the control of the marketing manager.

5.0 SUMMARY

The most important of these are competition and government regulation and laws. In setting or changing prices, the firm must consider its competition and how competition will react to the price of the product. Prices of certain goods and services are regulated by state and federal governments. Marketers may not temper on such prices.

6.0 TUTOR MARKED ASSIGHNMENT

Environmental factors which affect pricing decisions are beyond the control of the marketing manager. Discuss.

7.0 REFERENCES/FURTHER READING

Peter, P. J. and Donnelly, J. H. (2011). Marketing Management, Knowledge and Skills. New York. McGraw Hill Companies.

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UNIT4 PRICE ELASTICITY

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1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Meaning of price elasticity

3.2 How to Determine price elasticity

3.3 Importance of price elasticity

3.0 MAIN CONTENT

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.

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.

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.

Students Assessment Exercise:

Discuss the importance of price elasticity to a marketer.

4.0 CONCLUSION

Price elasticity is an important determinant of pricing decisions. For goods that are inelastic, an increase in price may not change the quantity demand much. For a product that is elastic, a change in price may result to a great change in the quantity demanded. Knowledge of price elasticity is therefore very useful to a marketer in formulating pricing policies.

5.0 SUMMARY

Price elasticity provides a measure of the sensibility of demand to changes in price. When a marketer is able to determine the price elasticity of demand, then setting a price is much easier. Marketers cannot base prices solely on elasticity of demand considerations. They must examine the costs associated with different sales volumes and evaluate what happens to profits.

6.0 TUTOR BASED ASSIGNMENT

What do you understand by the term price elasticity of demand and how can this help a marketer in making pricing decision?

7.0 REFERENCES/FURTHER READING

Peter, P. J. and Donnelly, J. H. (2011). Marketing Management, Knowledge and Skills. New York. McGraw Hill Companies.

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MODULE 2 PRICING STRATEGIES

Unit 5 Price Skimming

Unit 6 Penetration pricing

Unit 7 Product line Pricing

Unit 8 Psychological Pricing

Unit 9 Competition- Oriented Approaches

Unit 10 Distribution-based pricing

Unit 5 PRICING SKIMMING (NEW PRODUCT PRICING)

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1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Meaning of price skimming

3.2 Benefits of price skimming

4.0 Conclusion

5.0 Summary

6.0 Tutor marked Assignment

7.0 References

1.0 Introduction

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.

2.0 Objectives

After reading this unit, you should be able to understand

- *The meaning of price skimming*

- *The benefits of price skimming*

3.0 MAIN CONTENT

3.1The meaning of Skimming

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. According to Pride and Ferrell (2011) 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 reducing 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.

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 an industry because the high price makes that type of business appear to be quite lucrative.

4.0 CONCLUSION

Price skimming is an important strategy that marketers adopt in pricing new products. Marketers adopt this product as a way of generating much needed initial cash flows to help in offsetting the cost incurred in developing the new product. This strategy if well timed can pay off very well.

5.0 SUMMARY

Price skimming is a price strategy adopted by marketers by charging the highest possible price that buyers who cherish the product will pay. This strategy is advantageous to marketers in that it protects marketers from problems that arise when the price is set too low to cover costs. It can attract new entrants into an industry because it is attractive to them and this will help the industry to grow.

6.0 TUTOR MARKED ASSIGNMENT

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

7.0 REFERENCES/FURTHER READING

Peter, P. J. and Donnelly, J. H. (2011). Marketing Management, Knowledge and Skills. New York. McGraw Hill Companies.

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UNIT 6 PENETRATION PRICING (NEW PRODUCT PRICING)

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1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Meaning of penetration price

3.2 *Conditions necessary for penetration price*

3.3 *Benefits of penetration price*

4.0Conclusion

5.0 Summary

6.0 Tutor marked Assignment

7.0 References

1.0 INTRODUCTION

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. 0 OBJECTIVES

After reading this unit, you should be able to understand

- The meaning of penetration strategy
- When to apply penetration strategy
- Advantages of penetration strategy.

3.0 MAIN CONTENT

3. I 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.

3.2 When to apply penetration 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.

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.

Students Assessment Exercise

Penetration pricing is likely to be the most effective and desirable approach under which conditions?

4.0 CONCLUSION

Penetration pricing is an important strategy for marketers to penetrate into a market and achieve a large market share as quickly as possible. This approach is very good for new products in order to discourage new entrants who may not be attracted with the low penetration price. This strategy allows the marketer to gain ground before others can come in.

5.0 SUMMARY

Penetration pricing is pricing strategy adopted by marketers to position there new product in a market. In adopting penetration strategy, a marketer sets the product price low in order to penetrate the market and gain a large market share quickly before other competitors will come in. penetration pricing can be beneficial to a marketer in number of ways. It may discourage other competitors from coming in.

6,0 TUTOR MARKED ASSIGNMENT

1.0 What is penetration pricing?

2.0 Discuss the advantages that a marketer may have for adopting a penetration pricing strategy.

7.0 REFERENCES/FURTHER READING

Peter, P. J. and Donnelly, J. H. (2011). Marketing Management, Knowledge and Skills. New York. McGraw Hill Companies.

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Unit 7 PRODUCT LINE PRICING STRATEGIES

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1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Meaning of product line pricing

3.2 Captive pricing

3.3 Premium pricing

3.4 Bait pricing

4.0 Conclusion

5.0 Summary

6.0 Tutor marked Assignment

7.0 References

1.0 INTRODUCTION

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.*

2.0 OBJECTIVES

After reading this unit, you should be able to explain

- *The meaning of product line pricing*
- *Captive pricing*
- *Premium pricing*
- *Bait pricing*
- *Price lining*

3.0 MAIN CONTENT

3.1 The meaning of product line pricing

Product line pricing means establishing and adjusting the prices of multiple products within a product line, (Pride and Ferrell 2011). 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.

3.2 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.

3.3 Premium Pricing

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 small kitchen appliances, beer, ice cream, and cable television service.

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.

3.5 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.

Student Assessment Exercise

What is product line pricing and why do marketers adopt it?

4.0 CONCLUSION

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*

5.0 SUMMARY

Product line entails establishing and adjusting the prices of multiple products within a product line. Strategies that marketers may adopt in product line pricing include; captive pricing which is pricing the basic product in a product line low while pricing related items at a higher level. Premium pricing is pricing the highest quality or most versatile products higher than other models in the product line. Bait pricing entails pricing an item in the product line low with the intention of selling a higher priced item in the line. Price lining is setting a limited number of prices for selected groups or lines of merchandise.

6.0 TUTOR MARKED ASSIGNMENT

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

7.0 REFERENCES/FURTHER READING

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UNIT 8 PSYCHOLOGICAL PRICING

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3.2 Bundle pricing

3.3 Reference pricing

3.4 Every Day low prices (EDLP)

3.5 Odd –even pricing

4.0Conclusion

5.0 Summary

6.0 Tutor marked Assignment

7.0 References

1.0 INTRODUCTION

Psychological is a way of influencing a customer's perception of a product's price to be more attractive. In this unit, we shall consider some of these psychological pricing to be discussed are multiple-unit pricing, bundle pricing, reference pricing, and odd-even pricing.

2.0 OBJECTIVES

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

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

3.0 MAIN CONTENT

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. Example 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 tale salt is not likely to increase usage.

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.

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.

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.

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.

3.6 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.

Students Assessment Exercise

4.O CONCLUSION

Psychological pricing is a very useful pricing strategy to marketers. Psychological pricing attempts to influence customers perception of price to make a product's price more attractive. In this way customers are drawn to the product.

5.0 SUMMARY

Like any other stimulus, a price may be selectively perceived by consumers. Consumers may infer something about a brand's value or image from its price. When customers choose brands because their prices send a message, they are responding to a psychological or image pricing strategy. There are various aspects of psychological pricing, among them are reference pricing, which is pricing a product at a moderate level and displaying it next to more expensive or brand. Bundle pricing entails packaging two or more complementary products and selling them for a single price. Multiple unit pricing is packaging together two or more identical products and selling them for a single price. Everyday low prices entail setting lower prices for products on a consistent basis. Odd-even pricing results by ending the price with certain numbers to influence buyers' perception of the price or product. Prestige pricing is setting prices at an artificially high level to convey prestige or a quality image.

6.0 TUTOR MARKED ASSIGNMENT

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

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UNIT 9 COMPETITION-BASED PRICING

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3.1 Customary pricing

3.2 Below-market pricing

3.3 Loss-leader Pricing

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1.0 INTRODUCTION

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.

2.0 OBJECTIVES

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

- Meeting the completion
- Undercutting the Competition
- Price leaders and followers

3,0 MAIN CONTENT

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.

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.

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.

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.

Students Assessment Exercise

What is competitive pricing?

4.0 CONCLUSION

Competitive pricing is a type of pricing strategy in which the marketer based the product price on competitive bidding rather than on any other factor. Marketers adopt this strategy in order to compete effectively in the industry and attract market share.

5.0 SUMMARY

In competition based pricing, a marketer think about cost as a secondary factor and rather based his price on what is going on in the industry. Rather than emphasizing demand, costs, or profit factor, the marketer looks at what method increases when competing products are relatively homogeneous, and the organization is serving markets in which price is a key purchase consideration. Some of these competitive based pricing were covered under this method are meeting the completion, undercutting the competition, price leadership and followers and customary pricing.

6.0 TUTOR BASED ASSIGNMENT

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

7.0 REFERENCES/FURTHER READING

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UNIT 10 DISTRIBUTION-BASED PRICING STRATEGIES

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3.1 Delivered pricing
3.2 Base-point pricing

4.0 Conclusion
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6.0 Tutor marked Assignment
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1.0 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.

2.0 OBJECTIVES

After reading this section, you should be able to explain

- Delivery price
- Basing point pricing

3.0 MAIN CONTENT

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.

3.3 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.

Students Assessment Exercise

What is delivering pricing and why is it important to both marketers and customers?

4.0 CONCLUSION

Organizations in their pricing strategies need to consider costs associated with the delivering or transporting the products between sellers and buyers. Setting prices based on such considerations is what is considered as delivering pricing.

5.0 SUMMARY

Delivering pricing policies reflect management's attempt to recover some or all of the costs involved in shipping products to long distances. We highlighted two types pricing policies adopted in distribution based strategy as follows; delivered pricing and based point pricing.

6.0 TUTOR MARKED ASSIGNMENT

Discuss the various distribution based pricing strategies.

7.0 REFERENCES/FURTHER READING

Peter, P. J. and Donnelly, J. H. (2011). Marketing Management, Knowledge and Skills. New York. McGraw Hill Companies.

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MODULE 3

QUALITY ISSUES, DEALING POLICIES, LEGAL AND REGULATIONS OF PRICING

Unit 1 Quality issues in pricing

Unit 2 Legal and regulation issues in pricing

Unit 3 Resale pricing maintenance

Unit4 Franchising

UNIT 11 QUALITY ISSUES IN PRICING

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3.1 Price and quality issues

3.2 Total quality management and pricing

3.3 Price as a strategic issue

4.0 Conclusion
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7.0 References/ further reading

1.0 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.

2.0 OBJECTIVE

After reading this unit, you should be able to explain

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

3.0 MAIN CONTENT

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.

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 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).

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.

Student Assessment Exercise

What is total quality management (TQM) and why is it related to price?

4.0 CONCLUSION

The importance of product quality in determining the appropriate price cannot be over emphasized. Some marketers based their product price on the quality of their products. Customers need value in what they pay for, this value can be derived on the perceived quality of the product or service they purchase.

5.0 SUMMARY

Customers expect value in what they pay for. 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. 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.

6.0 TUTOR BASED ASSIGNMENT

Discuss the role of quality in pricing decisions.

7.0 REFERENCES/FUTHER READING

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UNIT 12 LEGAL AND REGULATORY ISSUES IN PRICE DEALING POLICIES

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1.0 Introduction
2.0 Objectives
3.0 Main Content

3.1 Price fixing

3.2 Resale price maintenance

3.3 Price Discrimination

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3.0 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.

4.0 OBJECTIVE

After reading this unit, you should be able to explain

- Price fixing
- Price maintenance
- Price discrimination

3.0 MAIN CONTENT

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 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.

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 (Berkowitz et al, 1999).

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.

3.4 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. We shall discuss more of deceptive pricing later in this course.

3.5 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.

Student Assessment Exercise

Discuss the two types of price fixing.

4.0 CONCLUSION

A marketer cannot ignore the importance of law and regulations guiding pricing policies. Gaining such knowledge is crucial to a marketing manager as this will guide him when formulating pricing policies.

5.0 SUMMARY

There are several laws and regulations guiding pricing policies. It is illegal to apply some certain pricing strategies. Such of these pricing strategies were discussed under price fixing which is conspiracy among firms to set prices for a product. Price discrimination is the practice of charging different prices to different buyers that are of the same grade and quality. Deceptive pricing, is a price deal that mislead consumers. Predatory pricing is a system in which prices are set below the cost of production.

6.0TUTOR BASED ASSIGNMENT

What is price discrimination, and why is it illegal?

7.0 REFERENCE/FURTHER READING

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UNIT13 RESALE PRICE MAINTENANCE

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3.1 Price discounting
3.2 Transfer pricing
3.3 Geographic pricing
4.0 Conclusion
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1.0 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 pricing resale of goods or services.

2.0 OBJECTIVE

After reading this unit, you should be able to understand

- Price discounting
- Transfer pricing
- Geographic pricing

3.0 MAIN CONTENT

3.1 Price discounts

3.2 Transfer pricing

3.3 Geographic pricing

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

3.1.1 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.

3.1.2 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.

3.1.3 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.

3.1.4 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.

3.1.5 Allowances

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

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 involve in the purchases (Pride & Ferrell 20011)

3.4 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; all other transportation costs are extra.

Student Assessment Exercise

What is transfer pricing?

4.0 CONCLUSION

Resale price maintenance is used when organizations purchase products for resale, or for other uses within the organization.

5.0 SUMMARY

Some of the issues unique to the pricing of products for resale were discussed under price discounts which are reductions from list prices, transfer pricing which occurs when one unit within an organization sells a product to another unit, and finally geographic pricing involves reductions for transportation costs.

6.0TUTOR MARKED ASSIGNMENT

Discuss the various price discounts you know.

Blythe J. (2003), Marketing Strategy, London, McGraw-Hill.

Pride W. M & Ferrell O.C (2011), Marketing Foundations, South Western, Cengage Learning.

UNIT 14 FRANCHISING

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Meaning of franchising

3.2 Types of franchising

3.3 Advantages and Disadvantages

4.0 Conclusion

5.0 Summary

6.0 Tutor Marked Assignment

7.0 References/ further reading

1.0 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.

2.0 OBJECTIVE

After reading this unit, you should be able to understand

- The meaning of franchising
- The operations of franchising
- The advantages and disadvantages of franchising

3.0 MAIN CONTENT

3.1The Meaning of franchising

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.

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 the opened. Moreover if there is problem, the franchisee can obtain guidance and advice from the franchiser at little or no cost. Franchised out lets 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.

3.2 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 as 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.

4.0 CONCLUSION

Franchising is a good business. It offers lots of opportunities to both the franchiser and the franchisee. However it has its problems as well.

5,0 SUMMARY

Franchising is one of the fastest growing businesses in the world today. Under a franchising arrangement the franchiser sometimes called the franchisor offers the right to a trademark, patent, trade secret, or other similar valued items to a franchisee in return for a fee or royalty. There are a lot of advantages that both parties may benefit. However there are some drawbacks as well.

6.0 TUTOR MARKED ASSIGNMENT

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

7.0 REFERENCE/FURTHER READING

Blythe J. (2003), Marketing Strategy, London, McGraw-Hill.

Pride W. M & Ferrell O.C (2011), Marketing Foundations, South Western, Cengage Learning.

MODULE 4, THE MARKETING MIX

Unit 1 Product Variable

Unit 3 Distribution Variable

Unit 2 Price Variable

Unit 4 Promotional Variable

UNIT 15 PRODUCT VARIABLE

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- 3.6 Product Standardization versus Product Adaptation
- 3.6.1 Arguments for Standardization
- 3.6.2 Arguments for Adaptation
- 3.7 Theory of Product Life Cycle.

4.0 Conclusion
5.0 Summary
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1.0 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.

2.0 OBJECTIVES

After studying this unit, you should be able to:

1. Define a product
2. Explain rational behind market segmentation
3. Explain the term product positioning and
4. Explain issues in new product development.

3.0 MAINCONTENT

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.

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.

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.

3.3 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.

3.4 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, and

products 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 clearers.

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. Trialability/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

Briefly explain factors influencing product adoption while entering foreign markets.

3.5 Product Standardization Versus Product Adaptation

Product standardization means that a product originally designed for a local market is expected 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. 3.6.1 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 Quara 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.

3.6:2 **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 steeling 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. 5. User's habits 6. Environment characteristics; and so forth.

3.6 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.

Student Assessment Exercise

What is product standardization?

3.0 CONCLUSION

A product provides a bundle of satisfaction that the consumer derives from the product itself, along with its promotion, distribution, and price. For a product or service to be successful in any market, whether at home or abroad, it must therefore primarily satisfy consumer needs. In order to satisfy these needs, more precisely marketers must employ market segmentation, product positioning and other marketing techniques. 5.0 Summary In this unit, you learnt about product strategies as a consideration for satisfying consumer needs. Arguments for adaptation and standardization were expressly discussed. Conditions for adaptation and standardization of

products and the product life cycle were examined.

6.0 TUTOR MARKED ASSIGNMENT

Discuss briefly the product life cycle and its importance in pricing strategies

7.0 REFERENCES/FURTHER READING:

Kotler, P: Marketing (1997) Management-Analysis, Planning, Implementation and Control, 9th Edition, New Jersey, Prentice-Hall, 1997.

Onhvisit, S and Shaw, J.J: (1997) International Marketing-Analysis and Strategy, New Jersey, Prentice-Hall, 1997.

UNIT 16 DISTRIBUTION STRATEGY

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1.0 Introduction
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1.0 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.

2.0 Objectives

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

1. Define a channel of distribution for goods or services
2. Explain channel members involved in moving goods from manufacturers to the consumers, and
3. Explain the determinants of channel types

3.0 MAIN TEXT

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.

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.

3.3 Types of Intermediaries

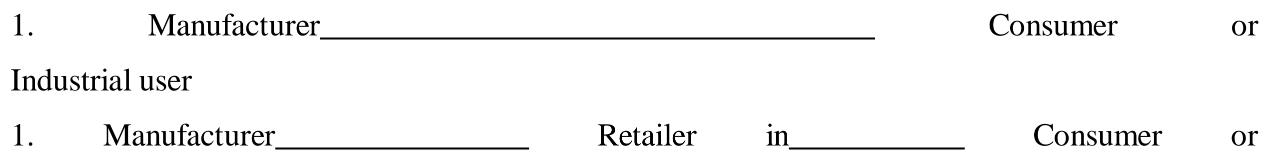
Direct Channel- There are several types of intermediaries associated with direct channel of distribution. Some of these include: a) Foreign Distributor A foreign distributor is a foreign firm that has exclusive rights to carry out distribution for a manufacturer in a foreign country or specific area. 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 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.

This can be summarized using the following figure 3.1

Figure 3.1 Types of Marketing Channels



Foreign country industrial user.

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3. Manufacturer_______ Wholesaler_____retailer_______ Consumer or in foreign in foreign industrial user Country country 4. Manufacturer_ Importing___Do_________ Do______________Do_____ Middlemen In foreign Country. 5. Manufacturer__ exporting___ Do________ Do_______________ Do___ Middlemen

6. Manufacturer__ exporting__ Importing__ wholesaler___ retailer_ con. or Middlemen middlemen in foreign in foreign indust. Foreign country country user. country

Self Assessment Exercise Briefly differentiate between direct channel and indirect channel

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. 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, mighty lacks 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. 3. 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. 4. 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. 5. 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. 6. 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. 7. 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. 8. 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.

3.6 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 employed. After a company has determined its basic channel deign, 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, and 5. Evaluate performance against standard. Self Assessment Exercise What are the factors that affect the length, width and number of marketing channels?

Student self Assessment Exercise

Discuss types of intermediaries associated with direct channel of distribution.

4.0 CONCLUSION

A product, no matter how desirable, must be accessible to buyers. A manufacturer my attempt to use a direct distribution channel by selling directly to end users. The feasibility of this channel depends on the type of product involved. Generally, the sales opportunity created by direct selling is quite limited. Intermediaries are usually needed to move the product efficiently from the manufacturer to the foreign users.

5.0 SUMMARY

This unit examined various channel members involved in moving goods/services to the end users. These channels are classified into six. The channel chosen by marketing executives depends of the nature of the products and the expertise of the channel members. It also considered factors to be look into before selecting a channel. 6.0 Tutor Marked Assignment

6.0 TUTOR MARKED ASSIGNMENT

What are the factors that affect the length, width and number of marketing channels?

7.0 REFERENCES/FURTHER READING

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UNIT 17: PRICING STRATEGIES

1.0 Introduction
2.0 Objectives
3.0 Main Content
3.1 Pricing
3.2 Importance of Price
3.3 Pricing Objectives
3.4 Pricing Strategies
3.5 Consideration factors for Pricing Strategies in a Given Market
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assignment
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1.0 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 because 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.

2. 0 OBJECTIVES

On completion of this unit, you should be able to:

1. Explain the term 'price'
2. State the importance of prices
3. Discuss pricing strategies, and
4. Explain factors that affect pricing strategies in a given market

3.0 MAIN CONTENT

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.

3.2 Importance of Price

Having an idea about the importance of price is considered utmost imperative to marketers. This

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.

3.4 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 form, Mouka form, 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 deicide 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, Mineda, 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.

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. Marketing Strategies discuss below are some of the strategies available to marketers. 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.

3.6 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 it 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.

Student self assessment exercise

List ten pricing strategies that marketers can adopt

4.0 Conclusion

To set price, the concerns of all affected parties must be addressed. A manufacturer needs to make a profit. So do retailers, who demand adequate margin for their services. Moreover, competitors' reactions in terms of their price responses must be anticipated. Finally, it is necessary to take into account both consumers and the value they place on the product.

5.0 SUMMARY

Skimming pricing, price to reflect product differention, and penetration pricing were discussed. Crucial factors in determining pricing strategies in international marketing were examined.

6.0 TUTOR MARKED ASSIGNMENT

Discuss factors that affect pricing strategies in a given market.

7.0 References/Further Reading

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UNIT18: PROMOTIONAL VARIABLE

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1.0 INTRODUCTION

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.

1.0 OBJECTIVES

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

1. The meaning of promotion in marketing
2. Explain communication processes
3. Explain communication mix and
4. Explain factors that affect communication decisions.

2.0 MAIN CONTENT

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.

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 factors that influence the effectiveness of a communication

3.3 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

3.3.1 Developing Effective Communication Here we would examine briefly ways of achieving effective communication system. 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. For instance examples, Harvard, Oxford, Cambridge, ABU, UI, etc universities are examples of image being discussed.

3.3.2 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 favourable 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 thee nature of the products and characteristics of the markets available. 3.3.3 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).

3.3.4 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.

3.3.5 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.

3.4 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:

3.4.1 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.

3.4.2 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.

3.4.3 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.

3.4 .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: List factors that affect communication decisions in marketing.

4.0 CONCLUSION

The marketer's communications responsibilities go beyond disseminating information to target customers. The company must communicate effectively with other parties in its task environment, external publics and internal publics. Communication is so essential in marketing that the question companies ask is not whether to promote but how to spend and in what ways.

5.0 SUMMARY

This unit looked into communication as panacea for achieving international marketing objectives. Communication mix and factor s considered for total promotion budget were discussed. Also discussed in this unit were factor considered for selecting communication channels.

6.0 TUTOR MARKED ASSIGNMENT

Briefly explain the factors that affect communication decisions in marketing.

7.0 REFERENCE/FURTHER READING

Pride W. M & Ferrell O.C (2011), Marketing Foundations, South Western, Cengage Learning.

Ketler, P: (1997) Marketing Management-Analysis, Planning, Implementation and Control, New Jersey, Pretence-Hall