# MARKETING MANAGEMENT
# Unit 4 – Price Decisions and Distribution Channels

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# INTRODUCTION

- Pricing is simply the **“money charged for a product or service”.**
- It is everything that a **“ customer has to give up”** in order to acquire a product or service.
- The **“price is not the same thing as cost”.**
- Pricing is **“one of the most important business decisions”**
  management take.
- Unlike other elements of marketing mix, **“pricing decisions directly affect revenues rather than costs”.**
- It contributes to the **“perception”** of a product or service by customers.
- There are so many factors to consider, and much uncertainty about whether a price change will have the desired effect.

# PRICE

- **Price** is the value that is put to a product or service and is the result of a complex set of calculations, research and understanding and risk taking ability.
- Philip Kotler define ***" Price is the amount of money charged for a product or service."***
- Stanton define ***" Price is the amount of money or goods needed to acquire some combination of another goods and its companying services."***

# PRICING DECISIONS

- **Pricing** is the process whereby a business sets the price at which it will sell its products and services, and may be part of the business's marketing plan. In setting prices, the business will take into account the price at which it could acquire the goods, the manufacturing cost, the market place, competition, market condition, brand, and quality of product.

# FACTORS INFLUENCING PRICING DECISIONS

***INTERNAL FACTORS***

1. **Cost**
2. **Company Objectives**
3. **Organisational Factors**
4. **Marketing Mix**
5. **Product Differentiation**

***EXTERNAL FACTORS***

1. **Competition**
2. **Demand**
3. **Suppliers**
4. **Economic conditions**
5. **Consumers**
6. **Government**

# INTERNAL FACTORS

- The internal factors are factors that can be control, determine and process by the organisation.

- This factors are mostly in relation with the organisation business level strategy and greatly influenced by the nature of business.

# 1. Cost

- Major factor that determine price.
- This is the cost (TC= FC+VC) incurred by the organisation in the production of goods or service.
- The cost of production is largely influence by the supplier cost, macroeconomic trends and the nature of business.
- In an economy with high inflation rate, the cost of production will rise except where the organisation has monopoly of its supply.

# 2. Company Objective

- Some organisation set a cost plus pricing. In such case, a percentage is added to the cost of production in order to arrive at the price.
- The argue here is that, the company's objective is profit maximization and therefore a pricing decision must be that will consider that profit maximization objective.
- When pricing decisions are made, they must be in line with the overall company objectives, as this is what will inform what the pricing objective really is, so that the pricing decisions made will not be against the company objective.

# 3. Organisational Factors

- Pricing decisions occur on two levels in the organisation. Over- all price strategy is dealt with by top executives. They determine the basic ranges that the product falls into in terms of market segments.
- The actual mechanics of pricing are dealt with at lower levels in the firm and focus on individual product strategies. Usually, some combination of production and marketing specialists are involved in choosing the price.

# 4. Marketing Mix

- Price is the important element in marketing mix.
- A shift in any one of the elements has an immediate effect on the other three - *Production, Promotion and Distribution*.
- The effort for implementing strategies will not succeed unless the price change is combined with a total marketing strategy that supports it.

# 5. Product Differentiation

- The price of the product also depends upon the characteristics of the product.
- In order to attract the customers, different characteristics are added to the product, such as *quality, size, colour, attractive package, alternative uses etc*.
- Generally, customers pay more prices for the product which is of the *new style, fashion, better package etc*.

# EXTERNAL FACTORS

- The external factors are those factors that are not within reach of the organisation. They are external because there are many parties that determine and control these factors.
- The business organisation is a party to the external factor and cannot control or determine the aggregate indicators of these factor.

# 1. Competition

- Competition is a crucial factor in price determination.
- A firm can fix the price equal to or lower than that of the competitors, provided the quality of product, in no case, be lower than that of the competitors.

# 2. Demand

- For a new product, there is need to price such product strategically in such a way that it penetrates the market, even if it will be at par with the total cost, while for a highly demanded product, an increase in price may not really have a high effect on the demand for such products, so is the need for management when making pricing decisions to consider the demand for the product.
- Some companies who receive order from customers may decide to reduce their price per unit or increase their discount, when it is noted that demand from a customer is high, and this may be on the other way round, depending on other factors considered by the management.

# 3. Suppliers

- Suppliers of raw materials and other goods can have a significant effect on the price of a product.
- The price of a finished product is intimately linked up with the price of the raw materials.
- Scarcity or abundance of the raw materials also determines pricing.

# 4. Economic Conditions

- The inflationary or deflationary tendency affects pricing.
- The prices are increased in boom period to cover the increasing cost of production and distribution. To meet the changes in *demand, price etc.*

# 5. Consumers/ Customers

- The various consumers and businesses that buy a company's products or services may have an influence in the pricing decision.
- Their nature and behaviour for the purchase of a particular *product, brand or service etc.* affect pricing when their number is large.

# 6. Government

- Price discretion is also affected by the price-control by the government through enactment of legislation, when it is thought proper to arrest the inflationary trend in prices of certain products.
- The prices cannot be fixed higher, as government keeps a close watch on pricing in the private sector. The marketers obviously can exercise substantial control over the internal factors, while they have little, if any, control over the external ones.

# What is Pricing?

1. Pricing is one of the 4P's of Marketing Mix which plays a very Important role .All other P's are cost for the company whereas pricing is revenue for the company
2. Pricing means determining the price of the product a firm is selling or going to sell
3. While determining a price it involves various pricing decisions which are to be taken while deciding a price of a product
4. The price structure of a firm is a major determinant

# What is Pricing Strategy ?

- It is the activity under which the activities are aimed at finding the optimum  price of a product
- It typically includes the marketing objectives,Consumer demand,product attributes,competitors price and market and economic trends
- Finding the right pricing strategy is an important element in running a successful business.

# Objectives of Pricing Strategy

- To earn profits
- To increase sales volume
- Company Growth
- To maintain competitive edge

# Objectives of Pricing Strategy ( Contd…)

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- Survival
- To create a good image of the product as well as about the company
- To discourage the competitors to cut the prices

# Types of Pricing Strategies

## Penetration Pricing

1. It is a pricing strategy used by business to attract customers to new product or service
2. The price charged for products and services is set artificially low in order to gain market share. Once this is achieved, the price is increased.
3. It is to lure the customers away from competitors

# Price Skimming

1. Price skimming sees a company charge a higher price because it has a substantial competitive advantage.
2. The skimming strategy gets its name from skimming successive layers of cream, or customer segments, as prices are lowered over time.
3. As it starts with high pricing therefore it attracts new competitors to enter the market as due to which the price eventually fall

# Competitive Pricing

1. It is the pricing strategy under which the companies use the prices of their competitors
2. As the company thought that the competitor has set this price by assuming that the competitors have thoroughly worked on the price
3. Therefore, by setting the same price as its competitors, a newly-launched firm can avoid the trial and error costs of the price-setting process.

# Product Line Pricing

1. Where there is a range of products or services the pricing reflects the benefits of parts of the range
2. It refers to the practice of reviewing and setting prices for multiple products that a company offers in coordination with one another.
3. Effective product line pricing by a business will usually involve putting sufficient price gaps between categories to inform


# Psychological Pricing

1. It is a pricing as well as marketing strategy which means that certain prices have a psychological impact on the customers
2. Retail prices are often expressed as "odd prices": a little less than a round number eg Rs. 199 ,99 etc
3. The theory that drives this is that lower pricing such as this institutes greater demand than if consumers were perfectly rational.

# Premium Pricing

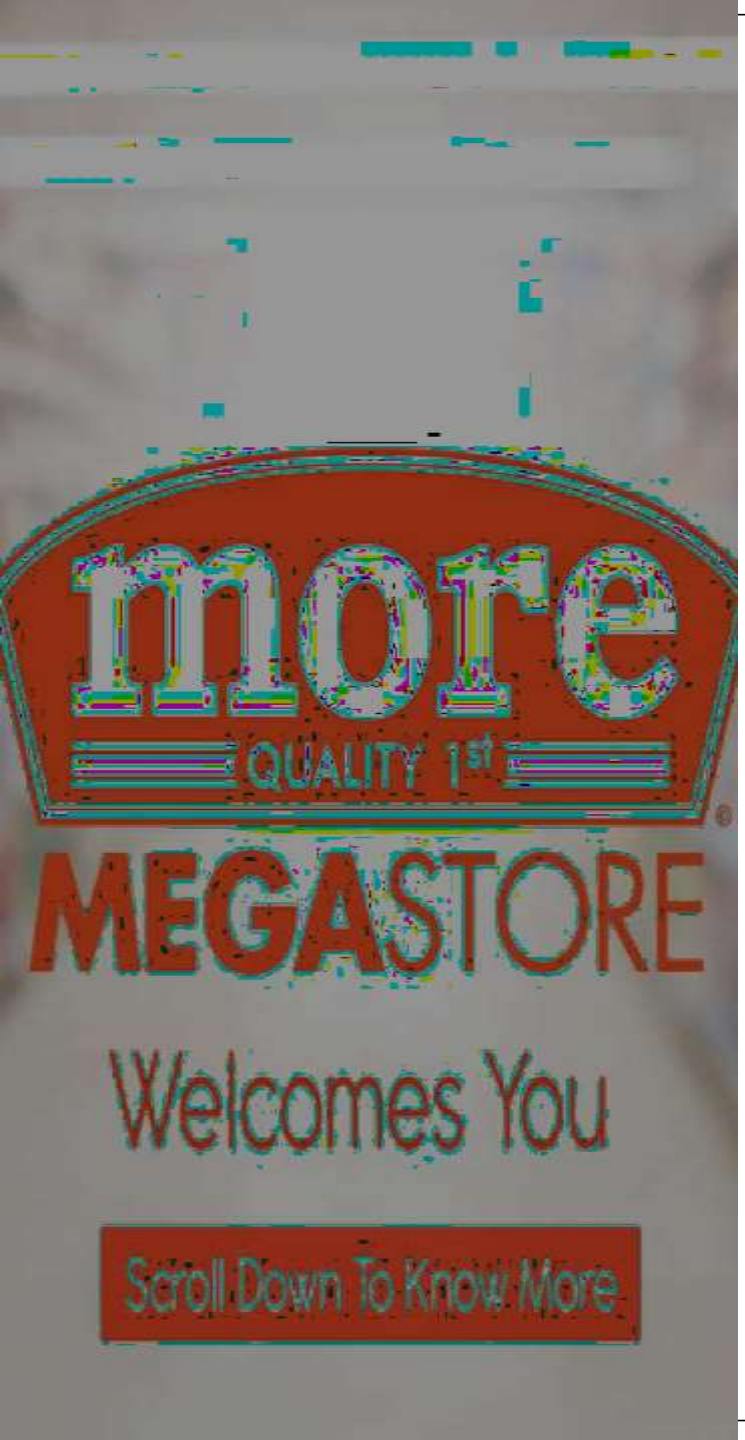
1. It is also known as image pricing or prestige pricing. It is used when there is a unique brand
2. It is a practice of keeping price of a product artificially high to attract the favourable perceptions among buyers
3. This approach is used where a substantial competitive advantage exists and the marketer is safe in the knowledge that they can charge a relatively higher price.

# Optional Pricing

1. It is strategy when a company sells a base product at a relatively low price, but sells complementary accessories at a higher price.
2. Companies will attempt to increase the amount customers spend once they start to buy.
3. Optional ‘extras’ increase the overall
   price of the product or service.

# Bundle Pricing

1. It is a process where companies sell a package or set of goods or services for a lower price than they would charge if they bought them separately.
2. It is a strategy where it allows the company to increase its profits by giving customers a discount.
3. It is an attempt to capture more of the consumer's consumer surplus.




# Cost Based Pricing

1. It is the pricing method in which the company add a certain percentage in the cost of making product to get some profit.
2. It uses manufacturing cost as the basis for coming to the final price setting of the product.
3. It is a straightforward and simple strategy.

# CHANNELS OF DISTRIBUTION

## Meaning and Definition of Channels of Distribution

- The main problems of a manufacturer can broadly be divided in two parts- 1)Production & 2)Distribution.
- Every manufacturer attempts at producing the goods and services of best possible quality at minimum possible cost.
- This is only a half-success of a manufacturer.
- The success is completed when he makes these goods and services available at time and place.

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- It is not enough to produce the goods and service the best quality at a minimum cost, it is equally important, more important that these goods and services must be made avail to the consumers at proper time and place because the ultimate of every manufacturer is to earn maximum profits through maximize sales and this object can be achieved, only if the goods and service rightly distributed to their consumers.

- Goods and services may distributed to the consumers through different ways.

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- Goods and services may distributed to the consumers through different ways.
- The ways through which the goods and services are distributed from manufacturer, consumers are called channels of distribution.
- The term 'Channels of Distribution' has been defined by many eminent authors.

# Definitions

Some important definitions are as follows:

- **William J. Stanton :-** "A Channel of distribution (sometime a trade channel) for a product is the route taken by the title to the goods as they move from the producer to the ultimate consumer or industrial user."

- **Cundiff, Still & Govani :-** "Marketing Channels are distribution networks through which producer's products flow to the market."

- **Prof. McCarthy :-** "Any sequence of institutions from the producer or consumer including none or any number of middlemen is called channel of Distribution."

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- **Philip Kotler :-** “Every producer seeks to link together the marketing intermediaries that best fulfill the firm's objectives. Hence, marketing intermediaries is called the marketing channel (also trade channel or channel of distribution).”

- **Richard Buskirk :-** “Distribution Channels are the systematic economic institutions through which a producer of goods delivers them into the hands of their users.”

# CHANNELS OF DISTRIBUTION

- Channel of distribution is the path through which products move from the place of production to the place of ultimate consumption. It is the connecting link between the producer and the consumer to sell the products.
- It creates the utilities of time, place and possession by bridging the gap between the point of production and the point of consumption.

# Functions of Distribution channel

- 1. **Sorting:** The middlemen collect goods from various sources. These goods are different in
- quality, size, nature, colour etc.
- The intermediaries sort these goods into homogeneous groups on the basis of the size, quality, nature etc.
- 2. **Accumulation:** This function involves accumulation of goods into larger homogeneous stocks, which maintain continuous flow of supply.

# Functions of Distribution channel

3. **Allocation:** Allocation involves breaking homogeneous stock into smaller marketable lots.
4. **Assorting:** Middlemen procure variety of goods from different sources and deliver them in combinations desired by the customers.

- A retailer collects a variety of consumer goods and delivers them to households.

# Functions of Distribution channel

5. **Product promotion:** The middlemen advertise the product kept with them. They also do certain sales promotion activities like demonstrations; special displays etc. to increase the sale of products.
6. **Negotiation:** They negotiate and try to reach agreement on price and other terms of sale.
7. **Risk taking:** They bears the risk of changes in demand, damage in transit, theft, spoilage,destruction etc.

# TYPE OF CHANNELS/ CHANNEL LEVELS

- A distribution channel connects the producer and the consumer. Several intermediaries
- function in between them. The number of intermediaries determines the length of a channel. It is also called channel levels or type of channels.

# Direct Channel/ZERO level/Direct marketing

Direct channel of distribution means making goods available to consumers directly by the manufacturer, without involving any intermediary. Eg: Mail order selling, Internet selling, Selling through own sales force/ own retail outlets ( eg. Bata, McDonald, Eureka Forbes etc.)

# 1. Indirect Channel

Indirect channels of distribution mean making goods available to the consumers by employing one or more intermediaries. Following are the different types of channels under indirect channels

1. One level
2. Two level channels
3. Three level channels

# ONE LEVEL

In this type, the intermediary is the retailer firm directly supplies the product to retailer who sells the product directly to customers. Eg: Maruti Udyog sells its cars through company approved retailers

# TWO LEVEL CHANNELS

Under this channel, the manufacturer sells to one or more retailers who in turn sell to the ultimate consumers. This is the most commonly adopted distribution network for most consumer goods like soaps, oils, clothes,rice,sugar etc

# Three level Channels

- This is the longest Channel of distribution.

In this path, one more middlemen is added . So there are three intermediaries' involved-agents, wholesalers and retailers. Manufacturers use their own selling agents or brokers who connect them with wholesalers and then the retailers.

# Factors determining Choice of channels

It is essential to make right choice of channel of distribution. The choice of the appropriate channel depends on various factors

1. Product related factors
2. Market related Factors
3. Company Related factors
4. Competitive factors
5. Environmental Factors

# 1. Product Related Factors

**(a) Nature of Product**:

The Industrial products are usually technical, and expensive products purchased by few customers. It requires shortest channel (Direct Channel). Consumer product are standardized products which can be easily sold through intermediaries.

# b) Perishable Vs Non - perishable products

Perishable products like fruits, vegetables and dairy products are best sold through short channels. While non-perishable products like soaps, toothpaste etc. require longer channels to reach wide spread consumers.

# (c) Unit value

When unit value of a product is high direct channel is effective.

Eg: Gold, jewelry, Car etc..

On the other hand less costly product like cosmetics, detergents, soaps are sold through longer channels.

# 2.MARKET RELATED FACTORS

The following factors relating to the market are particularly significant in the choice of a channel of distribution.

a. **Nature of Market:** In a consumer market longer channels are used whereas in industrial

market shorter channels are preferred.

# MARKET RELATED FACTORS

b. **Size of the market:** In case the number of buyers is small , shorter channels are used.

But indirect channels are required when the market consists of large number of customers.

c. **Geographical situation:** If the buyers are concentrated in a limited area, direct selling

can be used. But widely scattered customers require the use of middlemen.

# MARKET RELATED FACTORS

d. **Size of order**: If the size of order is small, as in the case of most consumers products, large number of intermediaries may be used. But if size of order is large, direct channels may be used.

# 3. Company related factors

The characteristics of the company influences the choice of distribution channels. They are

(a) **Financial strength:** A company having large amount of funds can create its own channel of distribution. But financially weak companies will have to depend upon middlemen.

# 4. Competitive factors

The choice of channel is also affected by the channel selected by competitors in the same industry. If the competitors have selected a particular channel, the other firm may also like to select the similar channel. Sometimes, we may avoid the channels used by the competitors

# 5. Environment factors

- **Environmental factors include factors such as economic condition and legal constraints.**
- **eg: In a depressed economy, marketers use shorter channels to distribute their goods.**

# Characteristics or Elements of Channel of Distribution

1. **Route or Pathway** : Channel of distribution is a route or pathway through which goods and services flow from the manufacturers to consumers.

2. **Flow** : The flow of goods and services is smooth and sequential and usually unidirectional.

3. **Composition** : It is composed of intermediaries, such as wholesalers, retailers, agents, distributors etc, also called middlemen who participate in the flow voluntarily.

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4. **Functions** : The intermediaries perform such functions which facilitate transfer of ownership title and possession of good and services from manufacturers to consumers.

5. **Remuneration** : The intermediaries are paid in the form of commission for the services rendered by them. The same is compensated by the manufacturer in the form of commission allowed by the manufacturer or added in the price of the goods sold.

# Function of Channels of Distribution

1. **Helpful in Price Determination :** Channels of distribution are very helpful in determining the price of products because they are in direct touch with consumers. They can estimate paying capacity of consumer for product. Therefore, the manufacturer must invite the suggestion of middleman while determining the price of his products.

2. **To Manage Finance** : All the manufacturers have limited financial resources. Middlemen help manufacturers in making adequate financial resources available. They purchase the goods produced by manufacturers and make the payment for that. This way, they help in solving the financial problems of manufacturers.

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3. **To Make the Process of Distribution Easy** : It is not possible for a producer, particularly a producer of consumer goods to be in direct touch with all the consumers. Therefore it is not very practical for a producer to distribute his goods to his consumers directly. Channel of distribution help producers in this regard. They distribute the goods produced by producers at right time and right place to the right consumers.

4. **Promotional Activities** : Channels of distribution help producers not only in the distribution of goods and services but also in promoting the sales of these producers. Wholesalers advertise for the goods dealt with by them and retailers help in increasing the sales by adopting the measures of sales promotion. Retailers display the goods in their showrooms so that more and more consumers may be attracted.

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5. **Helpful in Communication:** It is the time of Change. Habits, tastes, nature and attitudes of consumers keep on changing frequently. In the light of these changes, it becomes imperative for every producer to make necessary changes in his products.

Channels of distribution helps producers in communicating the changes in products to the consumers and in communicating the changes in habits, tastes, likings and preferences of consumers to the manufacturers.

Thus, channel of distribution play an important role in communicating the needs of consumers to the manufacturers and policies of manufacturers to the consumers. It increases the sales of manufacturers.

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6. **Matching of Demand and Supply :** The most important function of middlemen is to collect goods and services from many producers so that consumers may select from among a large number of alternatives.

   In the words of **Wroe Alderson** , "The goal of marketing is the matching of segments of demand and supply." Thus, the middleman play the game of matching demand and supply of goods and services in a market.

7. **Other Functions** : Other functions of channels of distribution may be –
   a) To stabilize the prices;
   b) To help in forecasting the demand for a product;
   c) To help in marketing research;
   d) To help in production activities.

# Types of Distribution Channel

- **William J. Stanton** has suggested the following five types of channels of distribution for consumer goods :

1. Producer ->Ultimate Consumer
2. Producer -> Retailer -> Ultimate Consumer
3. Producer -> Wholesaler -> Retailer -> Ultimate Consumer
4. Producer -> Agent -> Retailer -> Ultimate Consumer
5. Producer -> Agent -> Wholesaler -> Retailer -> Ultimate Consumer

- From the above, it is clear that opinions differ as to types of channels of distribution. However, the most popular and common channels of distribution used for bringing the products in the market from the producer to the ultimate consumer are as follows:

# 1) Producer —> Ultimate Consumer

1. This is the oldest, simplest and shortest type of channel of distribution.
2. Under this method, the producer or the manufacturer directly sells goods to the ultimate consumer without any middlemen.
3. There are **3** alternatives in making direct sales to ultimate consumer -

- Sale through advertising and direct methods, such as mail order selling,
- Sale through traveling sales force, such as house to house canvassing,
- Sale through retail or multiple shops of producer or manufacturer, such as Delhi Cloth Mill shops, Bata Shoe shops, Bombay Dyeing shops etc.

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❖ This method is suitable in the following situations :

1. When there are few potential buyers such as industrial buyers.

2. When market for the product is concentrated in a particular geographical area only.

3. When goods produced are in small quantity.

4. When the product requires demonstration, tests, lengthy negotiations before sale and there is need to provide after sale service, such as machinery, automobiles etc.

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5. When the channel costs are higher than that of direct selling system.

6. When the middlemen are not prepared to undertake the sale of a new market and introduce the new product in the market.

7. When the producer or the manufacturer decides to eliminate middlemen.

8. When the product is of perishable nature, such as vegetables, eggs, etc.

## 2) Producer -> Retailer ->Ultimate Consumers

- This is also a simple, easy, old and most popular type of channel of distribution.
- Under this method, producers sell their goods to retailers and retailers sell them in turn to ultimate consumers.
- Here the producer allows the retailer to have direct access to him.
- The wholesalers or agents are totally eliminated.
- This channel option is preferable when buyers are large retailers, such as departmental stores, chain stores, super bazaars, discount houses, big mail order houses or cooperative stores.

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- It is also suitable when the products are of perishable nature, such as vegetables, fruits, eggs, and thus speed in distribution is essential.
- Home appliances, ready-made garments, automobiles, shoes etc. are directly sold by the manufacturers to the retailers.
- This type of channel of distribution maybe suitable in the following situations :

1. When the product is perishable either physically or due to changes in fashion and thus requiring speedy distribution.
2. When the wholesalers are unwilling to undertake promotional efforts needed by the producer.

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3. When the retailers are financially sound to finance the producer towards the supplies made to them.

4. When the retailers are large enough to carry on the distribution work independently and efficiently.

5. When the producers may desire to have closer contacts so as to understand buyers' preferences and for product planning.

6. When the demand for the product is constant.

# 3) Producer -> Wholesaler -> Retailer -> Ultimate Consumer

- It is a normal, regular, traditional and also popular channel of distribution.
- Under this method, the producer sells goods in large quantities to wholesalers.
- The wholesaler distributes the goods to retailers as per their requirements in small quantities.
- The retailer finally sells the same to the ultimate consumers.
- In this way the distribution channel is quite long.
- This channel of distribution is desirable for groceries, drugs and other types of medicines, hardware, food-items etc.

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This type of channel of distribution is suitable in the following situations :

1. When the producer has a narrow product range.
2. When the wholesalers are specialized and can provide strong promotional support.
3. When the products are durable and are not subject to physical deterioration or quick fashion changes.
4. When the retail outlets are more and widely spread.
5. The financial resources of producers are limited.

# 4) Producer –> Agent ->Wholesaler -> Retailer -> Ultimate Consumer

- This is the longest channel of distribution.
- In this channel the producer uses the services of an agent who has greater outlets and contacts.
- The agent in turn may distribute the goods to wholesalers, who in turn sell to retailers.
- The retailer sells the goods to the ultimate consumers.
- The agents have a wide distribution system on national level.

# Thank You