Information Booklet

Sales and Marketing

3

PRICING STRATEGIES

for SMEs

SMEDA

NBDP

National Business Development Program for SMEs

Introduction

Small and Medium Enterprises Development Authority (SMEDA) works under the Ministry of Industries and Production, Government of Pakistan and was established in 1998 with the objective to propel economic growth through development of SMEs. SMEDA serves as an SME strategy-advisory body for the Government of Pakistan and facilitates partners in meeting their SME development agendas.

SMEDA envisions growth of a globally competitive SME sector (in Pakistan), through creating an enabling environment and support services for increase in the national economy. SMEDA strives to achieve this vision by providing assistance in employment generation and value addition to the national income, through development of the SME Sector, by helping increase the number, scale and competitiveness of SMEs.

National Business Development Program for SMEs (NBDP) is a project of SMEDA which intends to provide hands-on support services to SMEs. The aim of this business development support provided by NBDP is to advance new businesses and improve efficiencies in existing SME value chains to empower them to contend in global market. NBDP expects to facilitate around 314,000 SME beneficiaries over the period of five years.

Disclaimer

Objective

- To provide the basic information about pricing, types of pricing strategies and key considerations while deciding upon a particular pricing strategy for a business.

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a Concept and Importance of Pricing and Pricing Strategy

The price of a product or service is the value that a buyer gives to the seller in exchange for the product or service.

Generally, price of a product and service is fixed by the seller to generate profit from the exchange, which means getting more than what was paid for acquiring it and making it available for sale. How much more, is based upon perceived acceptance of value by the market.

However, there are a number of ways being used in the market, to determine the price of a product or service which are known as pricing.

Pricing is a way of finding a competitive price of a product or a service. This strategy is combined with the other elements of marketing strategy including the 4Ps of marketing mix (products, price, place and promotion) along with economic patterns, competition, market demand and finally product characteristic to establish a comprehensive marketing plan.

Flexible Element of Marketing Mix 01

Price is the most adjustable aspect of the marketing mix. Prices can be changed rapidly, as compared to other elements like product, place or promotion. Changes in product design, distribution system or the promotional activities would take a long time to be implemented.

Right Level Pricing 02

The wrong price decision can bring about the downfall of a company. It is extremely significant to fix prices at the right level after sufficient market research and evaluation of factors like competitors' strategies, market conditions, cost of production, etc.

b Possible Pricing Strategies for SMEs, Implementation and Feedback

With a number of price strategies to choose from, the SMEs are well advised to consider their marketing objectives before selecting any particular line of action.

With exception of some service companies in the information technology sector, almost all companies, large or small, base the price of their products and services on Cost Plus Price method. This method includes development costs during design, development and testing, operational and fixed expenses incurred to produce and deliver it along with appropriate profit margins for the entrepreneur. In this method, it is important to track all costs, particularly the overhead costs, otherwise one runs the danger of under-pricing.

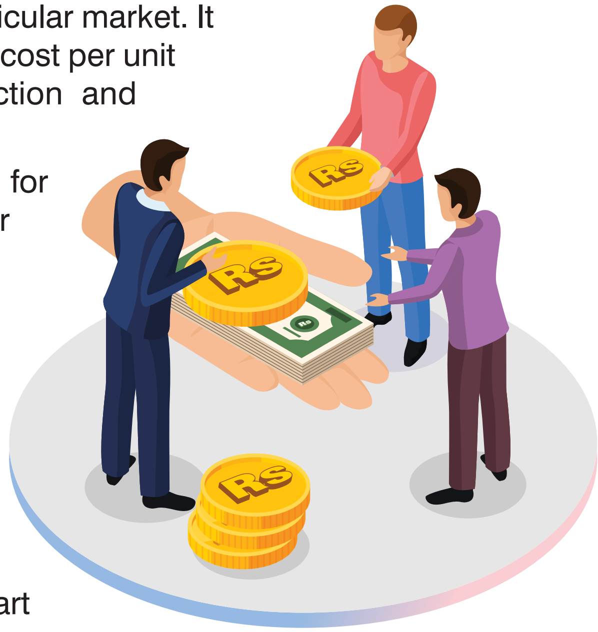
It is also advised to discuss the matter with some existing entrepreneurs and technical experts before finalising the price strategy.

Pricing Strategies

There are several pricing strategies discussed below:

1. Penetration Pricing or Pricing to Gain Market Share

This strategy of pricing lower than the competition is generally used by the companies in order to set up their customer base in a particular market. It works best for goods that can be mass-produced at a low cost per unit and is best suited for companies with strong production and distribution setups already in place.



Software companies commonly introduce their products for free or at extremely discounted rates, the prices are either adjusted over time or customers are asked to purchase better, enhanced versions of their products. For example, most antivirus software is free to download and users only need to pay if they opt for enhanced versions with additional features. For example, Warid telecom gave away free telephone connections to consumers in order to grab or acquire maximum consumers in a given market. Similarly, the Naya Tel gave away their additional telephone connection for free in order to set up a market for them. This gives the companies a start and a customer base.

2. Economy Pricing or No Frill Low Price

This is a very effective strategy for introducing quantity discounts and to enhance market share in the short run. Economy pricing is usually set for a certain time where the company does not spend more on promoting the product and service through bulk purchasing. This strategy is meant to attract the most price conscious customers. Economy pricing is widely used by businesses like food retailers, grocery stores, large discount stores.

While this strategy is commonly used by large retailers like Hyperstar, Metro etc. Small and medium business should be cautious before considering economy pricing, as one needs strong sales volumes, and a well-organized supply chain system, to be able to generate sufficient profits. For example, the first few seats of the airlines are sold very cheap in budget airlines, the seats sold in the middle are the economy seats whereas the seats sold at the end are priced very high as that comes under the premium price strategy.

3. Psychological Pricing Strategies

Psychological pricing Strategies are designed to evoke specific psychological responses in the minds of potential customers instead of the rational response. Some of the commonly used pricing methods referred to as psychological pricing are explained as follows:

i. Playing with Numbers

The actual numeric value of the price one sets has a significant psychological effect on customer. To appeal to value conscious customers, make the price tag look like a bargain. For example, something priced at Rs.199/- is viewed as better value than if it is priced at Rs.200, even though there is only a 1-Rupee difference.

ii. Offer Free Products

A study published in the Journal of Marketing showed that people appreciate receiving something for free much more than receiving a discounted price on larger number of products. For example, if one is selling tee shirts, "offering buy one get one free" may help to sell more than if offered 50% discount on each shirt. Similarly, fast food restaurants often offer combo deals or straight out free food offer.

iii. Influence Undecided Buyers

Most customers have a tendency to look for bargains, especially if they have to decide between two or more options with different prices offered for similar services or products. It has been observed that in such a situation if one or more unattractive options is intentionally given to customers, they will be more likely to go for the upper/high-end option. The poor option will offer visibly low value for money, as a result the other options will seem smart choices to potential buyers.

iv. Attract Class-Conscious Consumers

When selling a unique product or service, sometimes setting a high price can help increase sales or give desirable profits. Class conscious buyers find expensive products/services more appealing. It gives them assurance that they are getting quality and exclusivity; hence they may actively seek high priced products/services. For Example, Paintings and works of art, saloon and spa services, exclusive dresses and jewellery etc.

4. Pricing Strategies of Product Line

Products line pricing is defined as pricing a range of products rather than a single product or service. For example, when going for a car wash, one has an option of choosing a car wash for Rs. 200 or a car wash and a car wax for Rs. 400 or the entire package including a service at Rs. 600. This strategy reflects a strategic cost of making a product popular and consumed by the consumer with a fair increment over the range of the product or the service.

5. Pricing Optional Products

It is a general approach, if the companies decrease the price of a product or a service, they also increase their price for their other available optional services. A common example is a budget airline. The prices of their airfare are low, however, they will charge extra if someone wants to book a window seat, or if wants to travel with family and want to book an entire row, one might have to end up paying extra charges as per their guidelines, in case of having excess luggage to carry, they will end up paying extra on the same, in fact one will end up paying extra charges even if an extra leg space is needed in budget airlines. It can be said that even if the price of the air fare is low, one will end up paying more for the extra yet mandatory services that are required while traveling.

6. Pricing for Promotions

Pricing for promoting a product is another very useful and helpful strategy. These promotion offers can include discount offers, gift or money coupons or vouchers, buy one and get one free, etc.To promote new and even existing products companies do adopt such strategies where they roll out these offers to promote their products.

C Key Aspects to be Considered

Following key aspects need to be considered while setting prices of products and services:

Pricing Objectives

1. Profits-related Objectives

a) Maximize Profit

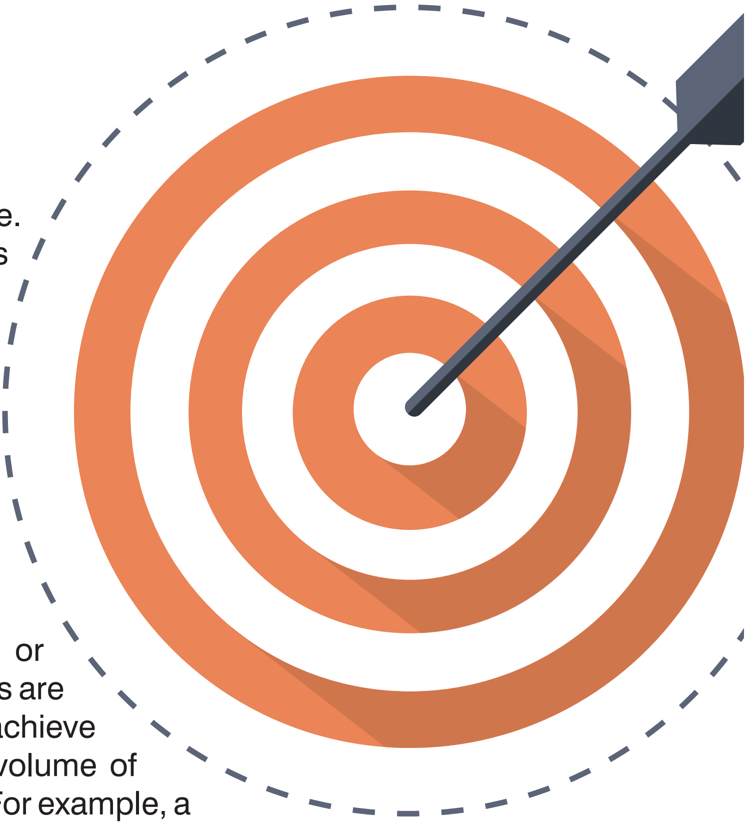
One of the objectives of pricing is to maximize current profits. Businesses try to set the prices price in a way that more current profits can be earned. However, price cannot be set beyond a certain limit as it could reduce the sales and overall profits. It concentrates on maximum profits.

b) Target Return on Investment

Target return may be:

Businesses set the pricing policies and strategies in a way that sales revenue ultimately yields average return on total investment. For example, a business decides to earn 20% return on total investment of 3 crore rupees. It must set price of product in a way that it can earn 60 lac rupees.

2. Sales-related Objectives



a) Sales Growth

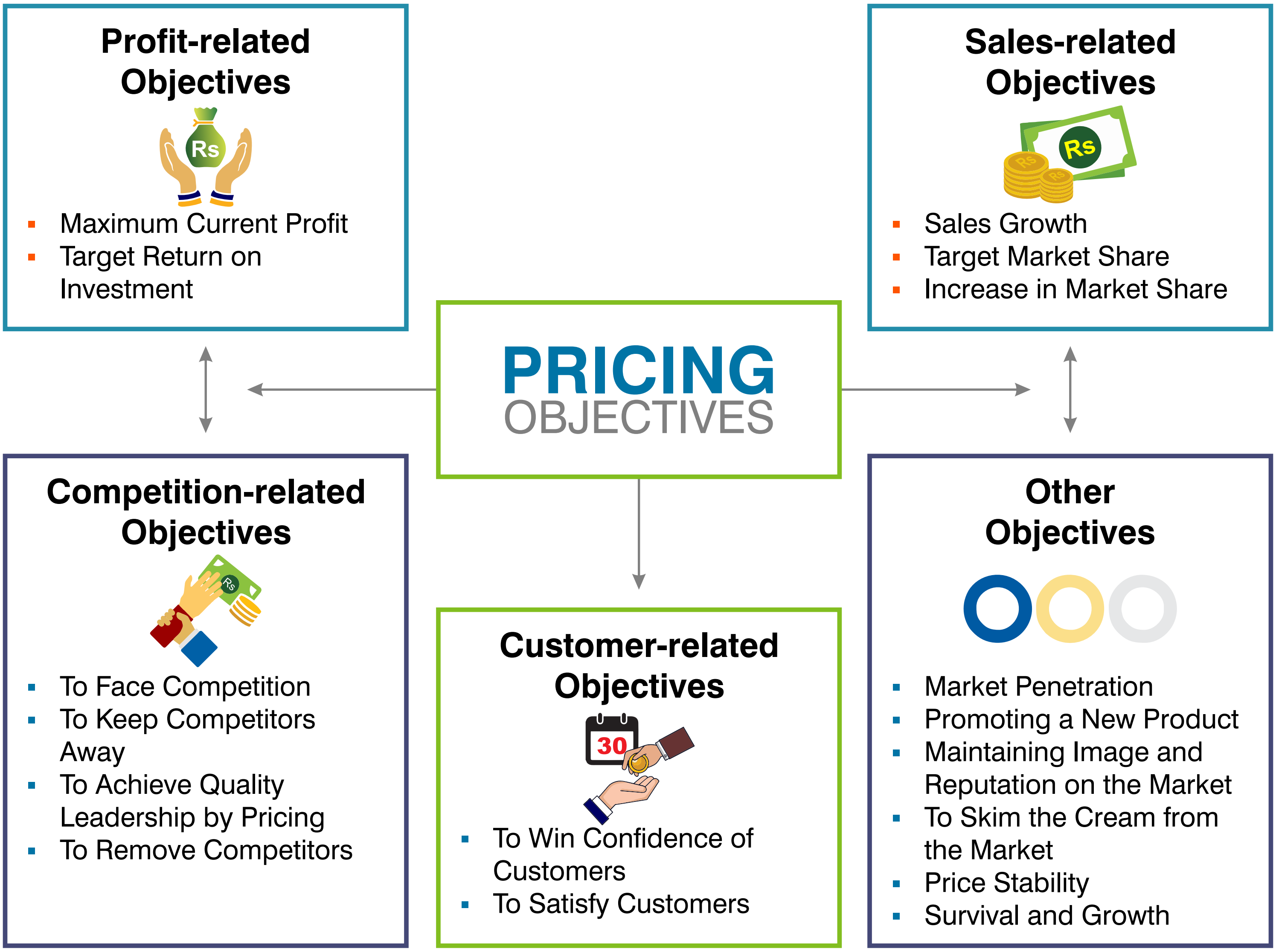
Objective of any business is to increase sales volume. It sets it price in such a way that more and more sales can be achieved. It is assumed that sales growth has direct positive impact on the profits. So, pricing decisions are taken in a way that sales volume can be raised. Setting price, altering in price, and modifying pricing policies are targeted to improve sales.

b) Target Market Share

A business aims its pricing policies at achieving or maintaining the target market share. Pricing decisions are taken in such a manner that enables the company to achieve targeted market share. Market share is a specific volume of sales determined in light of total sales in an industry. For example, a business may try to achieve 25% market shares in the relevant industry, where there is may be six to seven competitors.

c) Increase in Market Share

Sometimes, price and pricing are taken as the tool to increase market share. When company assumes that its market share is below than expected, it can raise it by appropriate pricing;

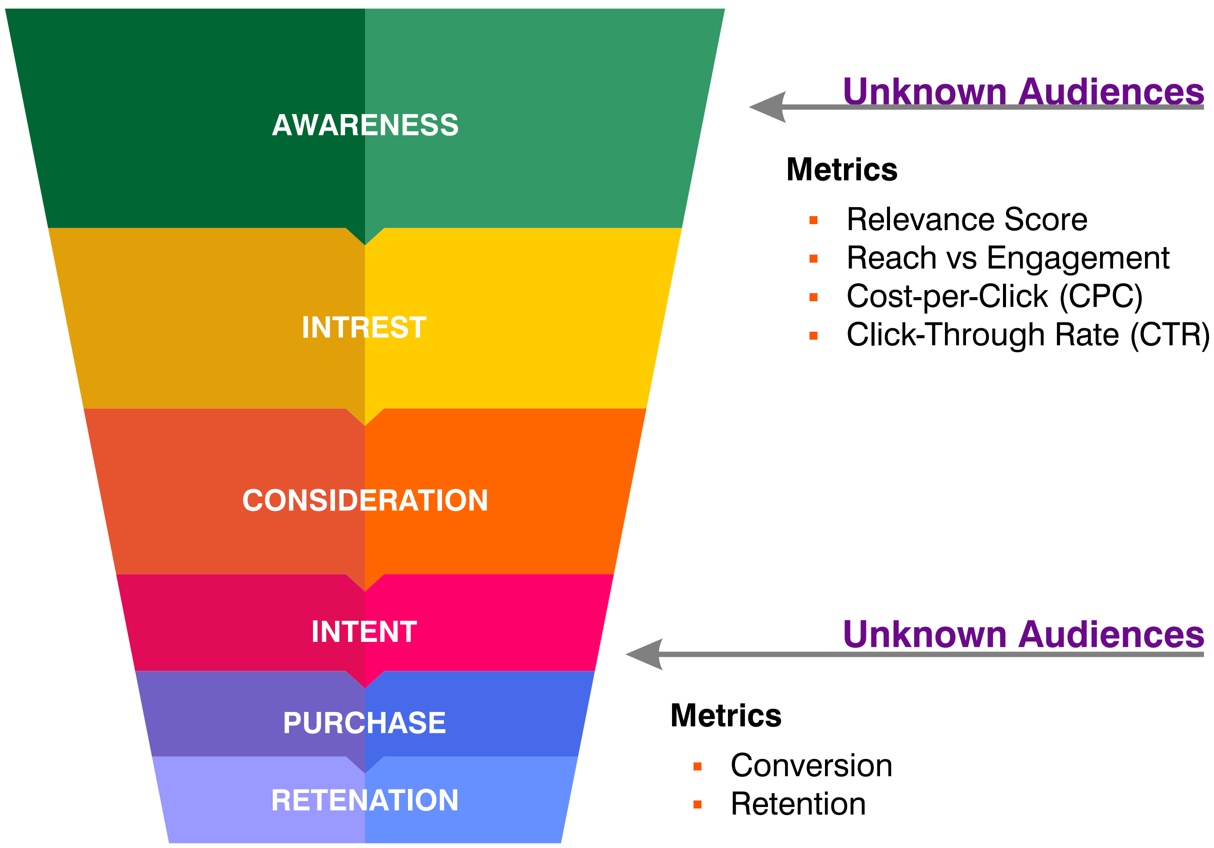


Analysis of Market Pricing

Marketing should include pricing analysis to decide how much to charge customers for a product or service and how that charge should be done, for example, as a fixed fee, sliding-fee scale or quantity discounts.

Several major factors influence the pricing for a product or service. Strategic goals greatly influence pricing. For example, if the business really wants to get into a new market, then it might charge lower than usual prices in order to generate more customers who buy the service. The business might consider changing pricing if the demand for its products are very high or low. Competitor pricing also has a great effect. If competitors are charging much less, then the business might do well to lower prices. Similarly, if the competitor is charging much more, then the business might consider increasing its own prices.

Types of Audiences



Profile of Competitive Landscape

Competitive landscape is a business analysis which identifies direct or indirect competitors and at the same time, it permits the comprehension of their mission, vision, core values, niche market, strengths and weaknesses. Based on the volatile nature of the business world, where businesses represent a competition to others, this analysis helps to establish a new mind-set which facilitates the creation of strategic competitiveness.

Due to the hyper competition of the environment, the traditional sources of getting competitive advantage does not represent any more an effective strategy, as a result of the emergence of a global economy and technology. Consequently, this emergence should be analysed in order to achieve competitive intelligence for developing a competitive analysis. The investment in the strategic management process is the foundation for the business stability because it helps to develop the fundamental basis of the business in order to be totally competitive inside the market.

Competitive Landscape with Company Profile

Competitive Land Scape					
		Competitor 1	Competitor 2	Competitor 3	Competitor 4
		Direct Competitors		Indirect Competitors	
Company Profile	Company Highlights				
Key Competitive Advantage					
Target Market	Market Information				
Products & Services	Product Information				
Strengths & Weaknesses	Swot Information				

Understanding of Cost Structure, Including GST

Cost Structure

Cost structure refers to the types and relative proportions of fixed and variable costs that a business incurs. The concept can be defined in smaller units, such as by product, service, product line, customer, division, or geographic region. Cost structure is used as a tool to determine prices, if one is using a cost-based pricing strategy, as well as to highlight areas in which costs might potentially be reduced or at least subjected to better control. Thus, the cost structure concept is a management accounting concept; it has no applicability to financial accounting.

Profile of Competitive Landscape

Factors	My Business	Strengths	Weaknesses	Competitor 1	Competitor 2	Competitor 3	Importance to Customers
Products							
Price							
Quality							
Selection							
Service							
Reliability							
Expertise							
Stability							
Reputation							
Location							
Appearance							
Employee							
Company Culture							

Conclusion

The price of a product or service is the value that buyer gives to the seller in exchange for the product or service. Generally, price of a product and service is fixed by the seller to profit from the exchange. There are many options for setting price and some commonly used pricing strategies and techniques with advantages and drawbacks of pricing are as follows are premium pricing, penetration pricing, psychological pricing, product line pricing strategy and pricing of optional products.

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