Unit-3

Product and Price

Meaning of Product

Product refers to an item, good or service that is capable of satisfying the needs or wants of customers. It is one of the crucial elements of the marketing mix and is offered for sale in the market.

Product is simply a means or medium of providing service to the customers. It comprises both tangible and intangible items that can be made available in the market for attention, acquisition, and use by people for fulfilling their needs. A product is created as a result of different production processes and efforts of human labor.

Features of Products

1.**Customer Satisfaction:** Products are the means through which customers fulfill their needs and wants. It serves as a medium through which business offers service to customers for satisfying their requirements.

2.**Exchange value:** The product should have an exchange value in monetary terms for which it is exchanged with people. This enables the exchange of products between the buyer and seller possible.

3.**Tangibility:** It is one of the important features of the product. The product should have tangible attributes like it should be seen, touched or should have a physical presence.

4.**Intangible attributes:** Product may be intangible which means that it does not have any physical presence. In the case of availing services like banking, repairing, and transportation, a product is intangible.

5.**Associated attributes:** The product should have differential and unique features that make its identification and acceptance by buyers quite easy. It helps in product differentiation and creating a better image.

Importance of Product

1.**Element of marketing mix:** Product is the key element of the whole marketing mix. All other elements that are price, promotion, and place mix are all dependent and decided in accordance with the product.

2.**Initiates market planning:** Product is termed as the starting point and center of all marketing programs. All marketing activities like sales promotion, advertising and distribution are decided according to the nature of the product.

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3.**Competitive weapon:** Product is a powerful weapon of business to face strict market competition. Businesses by efficiently producing products are able to provide better quality at a lower cost which attracts more and more customers.

4.**Means of consumption and satisfaction:** Product is the center of consumption and satisfaction of customers. People buy and consume different products for satisfying their numerous needs.

5.**Key to market success:** Product is an important element for attaining success in the market. If business is able to deliver products in accordance with customer requirements, their product will widely be accepted. It will attract more customers and will provide growth opportunities for the business.

6.**Essential from social viewpoint:** It is important from the viewpoint of society as it provides numerous benefits to them. The product satisfies the wants of society, improves their standard of living and also serves as a means of providing employment opportunities to a large number of peoples .

Classification of product

1. **Consumer Goods:** Consumer goods of different classes are discussed below.

a) **Convenience Goods:**
Convenience Goods, usually of semi-durable nature, refer to those comparatively high value items which the customers buy after paying consideration as to quality, price, design, etc. The buying motives of the customers
exhibit a high degree of differentiation in the purchase of these i
Examples are; shoes, ready-made garments, cosmetics, etc.

b) **Specialty Goods**:
Specialty Goods refer to those items which possess unique characteristics and/or brand identification and for which a significant group of buyers are habitually willing to make a special purchasing effort. These are usually of durable nature and high unit value, and the customers' brand preferences dictate their buying motives. Examples are; T.V., radio, refrigerators, steel furniture, etc.

2. **Industrial Goods:** Industrial Goods refer to those goods which are destined to be sold primarily for use in producing other goods or rendering services as contrasted with the goods destined to be sold primarily to the ultimate consumers.

   Industrial goods of different classes are discussed below:
   a) **Raw Materials:**
   Raw materials may be agricultural items (e.g. cotton) or items of semi-finished

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nature (e.g. steel) or parts for the finished product to be assembled (e.g. parts of a motor vehicle).

b) **Equipments:**

Equipment's may be basic installations (e.g. boiler, turbines) or accessory products (e.g. calculator, time clocks). These items move directly from the producers to the industrial users.

c) **Fabricated Items:**

Fabricated items consist of those parts that are used in the assembly of finished goods like automobiles, etc.

d) **Operating Supplies:**

Operating supplies such as fuel, coal, etc. neither form a part of nor enter into the product but are necessary for the running of industries

Concept of product mix

Product mix, also known as product assortment or product portfolio, refers to the complete set of products and/or services offered by a firm. A product mix consists of product lines, which are associated items that consumers tend to use together or think of as similar products or services.

1. **Branding:**

   Branding is the process of creating strong awareness of a product or service in the market through the use of a logo, design, symbol, or slogan and using them for advertisement. It helps in effective communication and creates a substantial and positive impact on the customer's mind.
   The company uses logos or symbols to create a unique identity, which helps distinguish it from its competitors. Branding also gives a sneak peek into the product's vision and mission. For example, a catchy slogan or design makes the product appealing and memorable to customers. The process significantly evolved over the years, making branding an essential part of business strategy.

2. **Packaging:**

   Packaging is the act of enclosing or protecting the product using a container to aid its distribution, identification, storage, promotion, and usage.
   According to Kotler –
   Packing constitutes all the activities of designing and producing the container for a product.
   In simple terms, packaging refers to designing and developing the wrapping material or container around a product that helps to
   1. Identify and differentiate the product in the market,
   2. Transport and distribute the product,
   3.Store the product,

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4.Promote the product,
5.Use the product properly.

Functions Of Packaging

Packaging plays a crucial role from the time a product is developed to the time a product is fully consumed. These functions of packaging include:

1. **Contains the product:** Most products need to be contained either during transportation, storage, or consumption. Packaging makes sure the product is contained as and when required.

2.Protects the product: Packaging protects the product and its quality, features, utility, etc. from being damaged or contaminated during transportation, storage, and consumption.

3. Aids product handling and usage: Proper packaging aids product handling and makes it easy to transport, ship, and even use the product.

4.Differentiates the product and makes it stand out: Packaging makes it easier for the customer to identify and differentiate it from other products. Moreover, attractive packages have a property to stand out and attract customers towards it.

5.Forms a part of product marketing strategy: An attractive and/or informative package makes the product stand out and have a promotional appeal. Packaging also acts as the final touch point that helps in product promotion and sale.

6.Provides customer convenience: Packaging is also a convenience tool that makes it convenient for the customer to carry, transport, and use the product.

7.Acts as a communication medium: Packaging along with labeling helps communicate the brand identity, brand message, and product and company information to the customer.

8.Adds to the aesthetic value: Packaging can make a simple product look attractive or a unique product look ordinary. It’s an important aesthetic touch point that can make or break a sale.

3. Labeling:

Labeling is a component of the product mix in marketing that involves designing and preparing labels for the outermost part of the product package which displays information and/or essential characteristics about the product. Three functions of

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labeling are as follows :

(i) **Labeling identifies the product :** A label helps in popularizing the product and its brand name by specifying it in a unique design and style.

(ii) **Labeling grades the product :** Labeling suggests the quality of the product and grades, in terms of the performance and utility.

(iii) **Labeling describes the product :** A label introduces the product by describing its name/brand, composition/ingredients, features, usage, approaches, expiry date, warnings, manufactured/registered date, instructions on how product should be used etc.

4. **Product support services**

Product support refers to the infrastructure—including content, tools, and self-help experiences—that is designed to teach and support your users on how your product works, resolve their issues when they arise, and turn their feedback into new features or product improvements.

Product Life Cycle.

The term product life cycle refers to the length of time from when a product is introduced to consumers into the market until it's removed from the shelves. This concept is used by management and by marketing professionals as a factor in deciding when it is appropriate to increase advertising, reduce prices, expand to new markets, or redesign packaging. The process of strategizing ways to continuously support and maintain a product is called product life cycle management.
There are four stages in a product's life cycle—introduction, growth, maturity, and decline.

1. **Introduction Stage:**

   The introduction phase is the first time customers are introduced to the new product. A company must generally includes a substantial investment in advertising and a marketing campaign focused on making consumers aware of the product and its benefits, especially if it is broadly unknown what the item will do.
   During the introduction stage, there is often little-to-no competition for a product, as competitors may just be getting a first look at the new offering. However, companies still often experience negative financial results at this stage as sales tend to be lower, promotional pricing may be low to drive customer engagement, and the sales strategy is still being evaluated.

2. **Growth Stage:**

   If the product is successful, it then moves to the growth stage. This is characterized by growing demand, an increase in production, and expansion in its

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availability. The amount of time spent in the introduction phase before a company's product experiences strong growth will vary from between industries and products.

During the growth phase, the product becomes more popular and recognizable. A company may still choose to invest heavily in advertising if the product faces heavy competition. However, marketing campaigns will likely be geared towards differentiating its product from others as opposed to introducing the goods to the market. A company may also refine its product by improving functionality based on customer feedback.

Financially, the growth period of the product life cycle results in increased sales and higher revenue. As competition begins to offer rival products, competition increases, potentially forcing the company to decrease prices and experience lower margins.

3. **Maturity Stage:**

   The maturity stage of the product life cycle is the most profitable stage, the time when the costs of producing and marketing decline. With the market saturated with the product, competition now higher than at other stages, and profit margins starting to shrink, some analysts refer to the maturity stage as when sales volume is "maxed out".

   Depending on the good, a company may begin deciding how to innovate its product or introduce new ways to capture a larger market presence. This includes getting more feedback from customers, and researching their demographics and their needs.

   During the maturity stage, competition is at the highest level. Rival companies have had enough time to introduce competing and improved products, and competition for customers is usually highest. Sales levels stabilize, and a company strives to have its product exist in this maturity stage for as long as possible.
   A new product needs to be explained, while a mature product needs to be differentiated.

4. **Decline Stage:**

   As the product takes on increased competition as other companies emulate its success, the product may lose market share and begin its decline. Product sales begin to drop due to market saturation and alternative products, and the company may choose to not pursue additional marketing efforts as customers may already have determined whether they are loyal to the company's products or not.

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New product development process

When a company develops a new product, it cannot just hope that the product will be a success in the market. It is essential for the company to understand its customers, markets, and competitors before developing a product to deliver superior value to customers. For this, the company must carry out a strong new product development process. The eight major steps of the new product development process are as follows:

1. **Idea Generation:** Idea generation refers to brainstorming new product ideas or strategies to innovate an existing product. The different internal and external sources through which a company generates ideas for a new product are customers, distributors, suppliers, competitors, etc. Before creating any product, companies evaluate market conditions, perform studies, understand the users' wants and needs, and then suggest possible solutions. SWOT analysis is a very effective technique to discover the weak aspects of the product as well as to explore where significant opportunities exist. A SWOT Analysis is a framework to evaluate the organization's Strengths, Weaknesses, Opportunities, and Threats. At last, this stage aims to generate as many ideas as possible which are feasible and deliver value to consumers. The need for high-quality photography among consumers, for instance, can inspire a mobile phone maker to develop the idea of a Smartphone with a novel camera system.

2. **Idea Screening:** The second stage is called Idea Screening. This stage involves screening and reviewing all of the ideas generated in the first step and selecting only those with the best probability of success. Many factors are kept in mind while deciding which ideas to accept and which to reject. These factors include projected advantages to consumers, necessary product innovations, technical viability, and feasibility for marketing. The stage of idea screening is best performed within the company. Experts from several teams also assist the company in assessing the requirement of resources, the need for technology, and the marketability of the proposal. For instance, an automobile manufacturer may evaluate potential concepts for electric vehicles before manufacturing electric cars while considering factors, like the availability of batteries, their affordability, and how well they would appeal to consumers.

3. **Concept Development and Testing:** After all the ideas pass through the stage of idea screening, these ideas are evolved into concepts. A product concept is a detailed version of the product idea and contains a precise explanation of the idea. It should highlight the target audience, the pricing for the product, and the characteristics and advantages of the product that could be valuable for the customers. Generating various product concepts assist the companies in determining how attractive each concept is to buyers and selecting the one that

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will bring them the most value. Once the concepts are generated, they are tested within a select group of consumers. Concept testing is a great technique for validating product ideas with users before committing time and resources to develop them. For instance, any business producing sportswear products might create a concept for a light running shoe and seek opinions from athletes concerning the product's comfort, toughness, and design.
4. **Marketing Strategy Development:** Once a concept is selected and well-validated, it is essential to develop a preliminary marketing strategy to launch the product to the market based on the product concept and assess the worth of the product from a business point of view. The marketing strategy helps in deciding pricing, positioning, and promoting the product. A marketing strategy statement includes three parts:

a. The first part of the statement describes the target market, the firm's planned value proposition, and its sales, market share and profit goals for the first few years.

b. The second part of the statement includes the product's planned price, its distribution, and marketing budget for the first year.

c. The last part of the statement consists of the planned long-run sales, marketing mix strategy, and profit goals.

Once the marketing strategy has been developed, product management can assess the economic desirability of the product.

5. **Business Analysis:** Once the marketing strategy has been developed it is important to assess the worth of the product from a business point of view. An assessment of the sales projections, estimated expenses, and anticipated profits are included in the business analysis. And, If they meet the goals of the company, the product can proceed to the product development stage. For instance, a food company would assess the profitability of a new snack by looking at the expenses associated with ingredient sourcing, production, packaging, and distribution.

6. **Product Development:** The next stage is Product Development. In this stage, the R&D or engineering department converts a product concept into a physical product. This step involves a huge jump in investment as it shows whether or not the product idea can be turned into a workable product. The R&D Department tries to design a prototype to satisfy customer needs and excite them in buying the product, and can also be produced quickly and within budget. For this, the department runs tests on one or more physical versions of the product concept. Development of a successful prototype may take time (days, weeks, months, or even years). The companies can do product testing on their own or can

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outsource testing from a third party/firm which specialises in testing. For instance, a tech business might create test versions of a new smart watch, evaluate how well it works, and then make design changes that can satisfy the customer's needs.

7**. Test Marketing:** The next step is Test Marketing. Test Marketing refers to the process of testing the product and marketing program in realistic market settings. With this step, the marketer can have the experience of marketing the product in the market at a small scale before spending huge money on its full introduction. Simply put, test marketing lets the organization test its product and its marketing program including targeting, positioning strategy, distribution, advertising, branding, pricing, packaging, and budget levels.

8. **Product Launch:** At the final stage, companies are now prepared to launch the new product onto the market. For a successful launch, a company must ensure that the product, marketing, sales, and support teams are well-placed and should keep good track of its performance. Companies must frequently monitor and evaluate the success of the product launch and make modifications if it fails to accomplish the expected goals. For instance, a software provider might monitor sales, client feedback, and user satisfaction polls to assess the effectiveness of a recently introduced productivity tool.

Consumer adoption process

Philip Kotler considers five steps in consumer adoption process, such as awareness, interest, evaluation, trial, and adoption. On the other hand, William Stanton considers six steps, such as awareness stage, interest and information stage, evaluation stage, trial stage, adoption stage, and post-adoption stage. We will follow six steps.

1**. Awareness Stage:**

Individual consumer becomes aware of the innovation. He is exposed to innovation but knows very little regarding the innovation. He has only limited information about it. He is aware of either by discussion with friends, relatives, salesmen, or dealers. He gets idea about a new product from various means of advertising like newspapers, magazines, Internet, television, outdoor media, etc. At this stage, he doesn't give much attention to the new product.

2. **Interest and Information Stage:**

In this stage, the consumer becomes interested in innovation and tries to collect more information. He collects information from advertising media, salesmen, dealers, current users, or directly from company. He tries to know about qualities, features,

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functions, risk, producers, brand, color, shape, price, incentives, availability, services, and other relevant aspects. Simply, he collects as much information as he can.

3**. Evaluation Stage**

Now, accumulated information is used to evaluate the innovation. The consumer considers all the significant aspects to judge the worth of innovation. He compares different aspects of innovation like qualities, features, performance, price, after-sales services, etc., with the existing products to arrive at the decision whether the innovation should be tried out.

4. Trial Stage:

Consumer is ready to try or test the new product. He practically examines it. He tries out the innovation in a small scale to get self-experience. He can buy the product, or can use free samples. This is an important stage as it determines whether to buy it.

5**. Adoption Stage:**

If trial produces satisfactory results, finally the consumer decides to adopt/buy the innovation. He decides on quantity, type, model, dealer, payment, and other issues. He purchases the product and consumes individually or jointly with other members.

Pricing

Pricing is one of the most important aspects of launching a new product. If you price too high, you may not get the sales you need to make your product profitable. On the other hand, if you price too low, you may sell many units but not make enough profit to sustain your business. Market maturity is one key factor.

Price is the amount of money charged for a product or service.

Pricing is the level at which prices are set by a company.

Significance of pricing/ Importance of Pricing

1. Flexible Element of Marketing Mix:

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 or distribution system would take a long time to be implemented.

Bringing about changes in advertisements or promotional activities is also a time consuming task. But price is very flexible and can be changed according to the needs of the situation. Therefore it is a very important component of marketing mix.

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2. Right level pricing:

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.

Low prices may attract customers in the initial stages, but it would be very hard for the company to raise prices on a future date. Similarly, a very high price will ensure more profit margins, but lesser sales. So in order to maintain balance between profitability and volume of sales, it is important to fix the right price.

3. Price Creates First Impression:

Often price is the first factor a customer notices about a product. While the customer may base his final buying decision on the overall benefits offered by the product, he is likely to compare the price with the perceived value of the product to evaluate it. After learning about the price, the customers try to learn more about the product qualities.

If a product is priced too high, then the customer may lose interest in knowing more. But if he thinks that a product is affordable, then he would try to get more information about it. Therefore price is a critical factor that influences a buyer's decision.

4. Vital Element of Sales Promotion:

Being the most flexible component of marketing mix, price is the most important part of the sales promotion. In order to encourage more sales, the marketing manager may reduce the price. In case of goods whose demand is price sensitive, even a small reduction in price will lead to higher sales volume. However prices should not be fluctuated too frequently to stimulate sales.

Factors affecting the price of a product

The following are the factors that affect the determination of the price of a product or a service.

1. **Cost of Product:** Cost of the product plays an important role in determining the price. It comprises of cost involved in production, distribution and sale of the product. Cost of product can be classified into three broad categories, namely, fixed cost, variable cost and semi variable cost. Fixed cost refers to those cost that do not vary with the level of output produced. For example, for the production of a good, a firm incurs cost on the purchase of machinery, land, etc. Such costs are fixed cost. On the other hand, variable cost refers to those costs that vary in direct proportion with the volume of production. That is, as the level of output increases, the variable cost also increase. For example,

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the cost incurred on labor, raw material, etc. are variable cost. Semi variable cost refers to those costs that vary with the level of output but not in direct proportion. For example, commission paid to intermediaries for the sale of good is a semi-variable cost.

2. **Demand for the Product:** While determining the price, a firm must also consider the demand for its product. Herein, the elasticity of demand plays an important role. Elasticity of demand refers to the proportionate change in demand due to a given proportionate change in price. If due to small proportionate a change in price, the demand changes by a larger proportion, the demand is said to be elastic. That is, demand is said to be elastic, if a small rise (or, fall) in price leads to a relatively large fall (or, rise) in price. In this case, the firm cannot charge a higher price as it would lead to a large fall in the demand. On the other hand, demand is said to be inelastic, if a change in price does not affect the demand much. In this case, the firm has the privilege of charging a higher price, as even at a higher price, the demand would not fall much. Thus, price for goods having elastic demand is generally lower than price for goods having inelastic demand.

3. **Degree of Competition in the Market**: Generally, higher the competition in the market, the lower is the price that a firm can charge for its product. This is because in case of high competition, if a firm attempts to charge a high price, it would lose its customers to the competitors. On the other hand, if a firm faces very little competition for its product then it has the freedom of charging a higher price.

4. **Government Regulations:** At times to protect the interest of public at large, the government intervenes in the determination of price. For example, in case of essential commodities, the government can declare a maximum price that can be charged.

5. **Objectives of Pricing:** Every firm has various pricing objectives which it considers while deciding a price. The following are some of the objectives of pricing.

i. **Profit Maximization:** Every firm aims at profit maximization. However, if the firm aims at maximizing profits only in the short run, then it may decide to charge a higher price and increase its revenue. On the other hand, if the firm aims to maximize profit in the long run, it would charge a lower price so as to acquire a greater share of the market and benefit from larger sales.

ii. **Acquiring Market Share:** If a firm desires to capture a greater market share, it would charge a lower price so as to attract a greater number of customers towards its product.

iii. **Surviving Competition:** In face of high competition, a firm would keep the price for its product lower. This is because if it charges a higher price, it would lose its customers to

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the competitors.

iv. **Focus on Quality:** If the firm emphasis on enhancing the quality of the product, it charges a higher price to cover the additional cost incurred.

6. **Method of Marketing:** Methods of marketing used by the firm such as distribution, advertisement, customer services, branding, etc. also affect the determination of prices. For example, if the firm uses intense advertising for the promotion of the product, then it would charge a higher price.

Pricing Policies and strategies

The policy of a company or business that guides the price setting of its goods and services that are offered for sale.

Pricing strategy refers to method companies use to price their products or services.

• The price of the products and services are set on the basis their expenses

• They add on a certain percentage so they can make a profit.

• There are several different pricing strategies to fulfill their objectives.

Types of pricing strategy

1. Penetration Pricing

2. Skimming Pricing

3. Competition Pricing

4. Economy Pricing

5. Bundle Pricing(Combo)

6. Psychological Pricing

7. Premium Pricing

8. One price policy

9. Discounting Pricing

10. Discriminatory Pricing

1. PENETRATION PRICING

Penetration pricing is a pricing strategy where the price of a product is initially set low to rapidly reach a wide fraction of the market and initiate word of mouth. The strategy works on the

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expectation that customers will switch to the new brand because of the lower price.

1. **SKIMMING PRICING**

   Price skimming is a pricing strategy in which a marketer sets a relatively high initial price for a product or service at first, then lowers the price over time. It is a temporal version of price discrimination/yield management. It allows the firm to recover its sunk costs quickly before competition steps in and lowers the market price.

2. **COMPETITION PRICING**

This pricing method is used more often by businesses selling similar products, since services can vary from business to business, while the attributes of a product remain similar.

3. **ECONOMY PRICING**

   A valuation technique which assigns a low price to selected products. Economy pricing is widely used in the retail food business for groceries such as canned and frozen goods sold under generic food brands where marketing and production costs have been kept to a minimum.

4. **BUNDLE PRICING**

   In a bundle pricing, companies sell a package or set of goods or services for a lower price than they would charge if the customer bought all of them separately. Common examples include option packages on new cars, value meals at restaurants and cable TV channel plans.

5. **PSYCHOLOGICALPRICING**

   Psychological pricing (also price ending, charm pricing) is a pricing and marketing strategy based on the theory that certain prices have a psychological impact. Retail prices are often expressed as "odd prices": a little less than a round number.

6. **PREMIUM PRICING**

   Practice in which a product, such as high-end perfumes, jewelry, clothing, or cars, is sold at a price higher that of competing brands to give it snob appeal through an aura of 'exclusivity.' Also called image pricing or prestige pricing.

7. **ONE PRICEPOLICY**

   A pricing strategy in which the same price is offered to every customer who purchases the product under the same conditions. A one price policy may also mean that prices are set and cannot be negotiated by customers.

8. **DISCOUNTING PRICING**

   A valuation approach where items are sometimes initially marked up artificially but

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are then offered for sale at what seems to be a reduced cost to the consumer. For example, a retail store business might offer discount pricing on all of its apparel items for a limited time period in order to attract new customers and boost sales.

9. DISCRIMINATORY PRICING

Price discrimination is a pricing strategy that charges customers different prices for identical goods or services according to certain criteria. In pure price discrimination, the seller/provider will charge each customer the maximum price they are willing to pay.

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