Q. No.1
Identify the difference between the marketing concept, the production concept, and the selling concept. Discuss which concept is easier to apply in the short run. Predict which concept you believe can offer the best long-term success and why?

Ans (Reference Pl see Q. No.1 Autumn 2005)

Q. No.2
List and discuss major levels of market segmentation and bases for segmenting consumer and business markets.

Ans (Reference Pl see Q. No. 4 part. b Spring 2006)

Q. No.3
In a series of job interviews, you ask three recruiters to describe the mission of their companies. One says 'to make profit' Another says, 'to create consumers' the third says.' to fight hunger.' Analyze and discuss what these mission statements tell you about each of the companies.

Ans (Reference Pl see Q. No. 6 Autumn 2005)

Q. No.4
a) Define product and major classification of products and services.

b) Describe the decisions companies make regarding their individuals products and services, product lines, and product mixes.

(Reference Pl see Q. No. 5 Spring 2006)
Q. No. 5
Describe in detail the stages of the product life cycle. Also describe how marketing strategies change during the product life cycle.
Ans
(Reference pl see Q.No. 6 Spring 2006)

Q. No. 6
Contrast three general approaches to setting prices.

Ans
General pricing approaches

The price the company charges will be somewhere between one that is too low to produce a profit and one that is too high to produce any demand. The company must consider competitor’s prices and other external and internal factors to find the vest price between these two extremes.

1-Cast based pricing

Adding a standard markup to the cost of the product the simple pricing method is cost plus pricing adding a standard markup to the cost of the product. Construction companies for example sub mitt job bids by estimating the total project cost and adding a standard markup for profit. Lawyer’s accountants and other professionals typically price by adding a standard markup to their costs.

\[
\text{Unit cost} = \text{variable cost} + \text{fixed costs} = \$10 + \$300000 = \$16
\]

\[
\begin{array}{c}
\text{Unit sales} \\
50000
\end{array}
\]

Breakeven analysis and target profit pricing

Another cost oriented pricing approach is breakeven pricing or a variation called target profit pricing. The firm tries to
determine the price at which it will break even or make the target profit it is seeking such pricing is used by general motors.

The total revenue and total cost curves cross at 300000 unties. This is the breakeven volume. At $ 20 the company must sell at lest 30000 units to break even that is for total revenue to cover total costs. Breakeven volume can be calculated using the following formula.

\[
\text{Breakeven volume} = \frac{\text{fixed cost}}{\text{Price} - \text{variable cost}} = \frac{300000}{20 - 10} = 30000
\]

2-Value based pricing

Setting price based on buyers perceptions of value rather than on the sellers cost.

An increasing number of companies are basing their prices on the products perceived value. Value based pricing uses buyer’s perceptions of value not the sellers cost as they key to pricing. Value based pricing means that the marketer cannot design a product and marketing program and then set the price. Price is considered along with the other marketing mix variable before eth-marketing program is set.

A company using value based pricing must find out what value buyers assign to different competitive offers. However measuring perceived value could be difficult. Sometimes consumers are asked how much they would pay for a basic product and for reach benefit added to the offer. Or a company might conduct experiments to test the perceived value of different product offers. If the seller charges more than the buyer’s perceived value the company’s sales will suffer. Many companies overprice their products
and their products sell poorly. Other companies underwrite underrated products sell very well but they produce less revenue than they would if price were raised to the perceived value level.

3-Competition based pricing

Consumer will base their judgments of a product's value on the prices that competitors charge for similar products. Here we discuss two forms of competition based pricing: going rate pricing and sealed bid pricing.

Setting price based largely on following competitor’s prices rather than on company costs or demand. In going rate pricing, the firm bases its price largely on competitor’s prices with less attention paid to its own costs or to demand. The firm might charge the same more or less than its major competitions. In oil geopolitics, industries that sell a commodity such as steel, paper, or fertilizer firms normally charge the same price. The smaller firms follow the leader. They change their prices when the market leader’s prices change rather than when their own demand or costs change. Some firms may charge a bit more or less but they hold the amount of difference constant.

Thus minor gasoline retailers usually charge a few cents less than the major oil companies without letting the difference increase or decrease. Going rate pricing is quite popular. When demand elasticity is hard to measure firms feel that the going price represents the collective wisdom of the industry concerning the price that will yield a fair return. They also feel that holding to the going price will prevent harmful price wars.

Setting price based on how the firm thinks competitors will price rather than on its own costs or demand used when a company bids for jobs. Competition based pricing is also used when firms bid for jobs. Using
sealed bid pricing a firm bases its price on how it thinks competitors will price rather than on its own costs or on the demand. The firms want to win a contract and winning the contract requires pricing lower than other firms.

Q. No.7

Describe the major strategies for pricing initiative and new products.

Ans

**Major strategies for pricing initiative**

**Initiating price.**

In some cases, the company may find it desirable to imitate either a price cut or a price increase. In both cases, it must anticipate possible buyer and competitor reactions.

**Initiating price cuts.**

Several situations may lead a firm to consider cutting its price. One such circumstances in excess capacity. In this case, the firm needs more business and cannot get it through increased sales effort, product improvements, or other measures. It may drop its “follow the leader pricing” changing about the same price as their leading competitor and aggressively cut prices to boost sales. But as the airline construction equipment fast food and other industries have learned in recent years, cutting prices in an industry leaded with excess capacity may lead to price wars as competitors try to hold on to market share.

**Initiating price increases**

In contrast many companies that had to raise prices in recent years. They do this knowing that customer sealers and even their own sales force may resent the price increases.

For example if the company’s profit margin is three percent of sales a one percent price increase will increase profits by thirty three percent if sales volume is unaffected. A major factor in
price increase is cost inflation. Rising cost squeeze profit margins and lead companies to regular rounds of price increase. Companies often raise their prices by more than the cost increase in anticipation of further inflation. Another factor leading to price increases is over demand. When a company cannot supply all its customers needs it can raise its prices ration products to customer or both.

**Buyer reactions to price changes**

Whether the price is raised or lowered the action will affect buyer competitor's distributors and suppliers and may interest government as well. Customers do not always interpret prices in a straightforward way. They may view a price cut in several ways. For example what would you think if sonny were suddenly to cut its real ways? For example what would you think if sonny were suddenly to cut its VCR prices in half?

You might think that these VCRS are about to be replaced by newer models or that they have some fault and are not selling well. You might think that Sony is abandoning the VCR business and may not stay in this business gong enough to supply future parts. You might believe that quality has been reduced. Or you might think that the price welcomes down even further and that it will pay to wait and see.

**Competitor reactions to price changes**

A firm considering a price change has to worry about the reactions of its competitors as well as its customer's competitors are most likely to react when the number of firms involved is small when the product is uniform and when the buyers are well informed.
Responding to price changes

Here we reverse the question and ask how a firm should respond to a price change by a competitor. The firm needs to consider several issues. Why did the competitor change the price? Was it to take more market share to use excess capacity to meet changing cost conditions or to lead an industry wide price change is the price change temporary or permanent. What will happen to the company’s market share and profits and does not respond are other companies going to respond and what are the competitors and other firm’s responses to each possible reaction likely to be.

Besides these issues the company must make a broader analysis it has to consider its own producers stage in the life cycle the reproducers’ importance in the company’s product mix the intentions and resources of the competitors and the possible consumer reactions to price changes the company cannot always make an extended analysis of its alternatives at the time of a price change however the competitor may have spend much time preparing this decision but the company may have to react within hours or days. About the only way to cut down reactions time to plan ahead for both possible competitors price changes and possible responses.

The ways a company might assess and respond to a competitor’s price cut. Once the company has determined that the competitor has cut as price and that this price reduction is likely to harm company sales and profits a might simply decide to hold its current price and profit margin. The company might believe that it will not lose too much market share or that it would lose too much profit if it reduced its own price.
It might decide that it should wait and respond when it has more information on the effects of the competitors price change. For now it might be willing to hold on to good customers while giving jump the poorer a new to the competitor. The argument against this holding strategy, however is that the competitor may get stronger and more confident as its sales increase and that the company might wait too long to act.

If the company decides that effective action can and should be taken it might make any of four responses first it could reduce its price too much the competitors price. It may decide that the market is price sensitive. And hat it would lose too much market shares to the lower priced competitor. Or it might worry that recapturing lost market share later would be too hard. Cutting price will reduce the company’s profits in the short run. Some companies might also reduce their product quality services and marketing communications to retain profit margin but this will ultimately hurt long run market share. The company should try to maintain its quality as it s cuts prices.

**International pricing.**

Companies that market their products internationally must decide what prices to charge in the different countries in which they operate. In some cases, a company can set a uniform world wide price. For example, Boeing sells its jetliners at about the same price everywhere, whether in the United States, Europe or a third world country. However, most companies adjust their prices to reflect local market conditions and cost considerations.

The price that companies should charge in specific country depends on many factors, including economic conditions, competitive conditions, laws and regulations and development of the of the
wholesaling and retailing system. Consumer perceptions and preferences also vary from country to country, calling for different prices or the company may have different marketing objectives in various world markets, which require changes in pricing strategy. For example, Sony might introduce a product in to mature markets in highly developed countries with the goal of quickly gaining mass-market share this would call for a penetrations pricing strategy. In contrast, it might enter a less developed market by targeting smaller, less price sensitive segments. In this case, market-skimming pricing makes sense.

Costs play an important role in setting international prices. Travelers abroad are often surprised to find that goods that are relatively inexpensive at home may carry outrageously higher price tags in other countries

New product pricing.

Pricing strategies usually change as the product passes through its life cycle. The introductive stage is specially challenging. We can distinguish
between pricing a product that intimates existing products and pricing in innovative product that is patent protected.

**Market skimming price**

A skimming price tries to get the cream of a market at a high price before aiming at the more price sensitive segments of that market. Skimming is useful for feeling out demand for getting a better understanding of the shape of the demand curve. It is easier to start with a high price and lower it than to start with a low price and then try to raise it.

Skimming approach pricing is a policy that sets a very high price for a new product. Such a policy designed to capitalize on the high demand for a product during its introductory period. At this time the high price is geared toward trendsetters. These are people who are generally willing to pay higher prices in order to be the first to won or a avail themselves of a new product.

Business that use this method recognize that once the market for the product changes to more price conscious customers. this margin will help cover the research and development costs incurred in designing the product and create prestige image for it.

One disadvantage of skimming pricing is that the high initial price generally attracts competition. Once other firms begin to compete successfully the price will have to be lowered. Another disadvantage becomes apparent if the initial price is far above what consumer are willing to pay. In that case sales will be lost and profits diminished because the market will not take the item seriously.

**Market penetration pricing**

A penetration policy tries to sell the whole market at one low price. this policy might be used where there is no elite market where the
whole demand curve is fairly elastic even in the early stages of the produced life cycle.

A penetration policy will be even more attractive if as volume expands economies of scale reduce costs. A low penetration price is a stay out price. It is need to discourage competitors from entering the market.

Penetration policy pricing is the opposite of skimming pricing in that the initial price for a new product is set very low. This type of pricing is most effective in the sale of price sensitive product. With this pricing policy mass production distribution and promotion must be incorporated into the marketing strategy in order to penetrate the market quickly, the product should take hold in a short period of time. This allows the marketer to save on fix expenses.

The biggest advantage of penetration pricing is its ability to capture a large number of customers of a company in a relatively short period of time thus blocking competition. Another advantage is this ability to move into a market in which the leaders are offering higher prices and lure away large numbers of customers. A major disadvantage of penetration pricing becomes apparent if the product snoot in high demands by customers. In that case the lower price will cause the marketer to suffer a bigger loss than it would have if a higher initial price had been set.

Q.No. 8

Explain how companies adapt their marketing mixes for internal markets.

Ans   **Marketing Mix for internal markets**

**Product line pricing.**
Companies usually develop product lines rather than single products. For example, Snapper makes many different lawn mowers ranging from simple walk behind versions priced at $1000 or more. Each successive lawn mower in the line offers more features. Kodak offers an assortment of film products including regular Kodak films, higher priced Kodak Royal Gold film for special occasions, and a lower priced seasonal film called Fun Time that competes with store brands. Ti offers each of these brands in a variety of sizes and film speeds. Reebok's line of Shaq Attack basketball loaded top-of-the-line shoes selling for $135. In product line pricing management must decide on the price sets to set between the various products in a line.

**Optional product pricing**

“The pricing of optional or accessory products along with a main product.”

Many companies use optional product pricing offering to sell optional or accessory products along with their main product. For example, a car buyer may choose to order power windows, cruise control, and a radio with a CD player. Pricing these options is a sticky problem. Automobile companies have to decide which items to include in the base price and which to offer as options. Until recent years, General Motors' normal pricing strategy was to advertise a stripped-down model for say $12000 to pull people into showrooms and then devote most of the showroom space to showing option-loaded cars at $14000 or $15000. The economy model was stripped of so many comforts and conveniences that most buyers rejected it.

**Captive product pricing**

In producing processed petrochemicals and other products there are often by-products. If the by-products have no value and if getting rid of the miss costly this will affect the pricing of the main product.
product. Using by product pricing the manufacturer will seek a market for these by products and should be accept any price that covers more than the cost of storing and delivering them this practice allows the seller to reduce the main products price to make it more competitive. By products can even turn out to beg profitable. For example many lumber mills have begun to sell bark chips and saw dust profitably as decorative mulch for home and commercial landscaping.

**Product brand pricing**

Using product bundle pricing, sellers often combine several of their products and offer the bundle at a reduced price. Thus theaters and sports teams sell season tickets at less then the cost of sine tickets hotels sell specially priced packages that include room meals and entertainment computer makers include attractive software packages with their personal computers. Price bundling can promote the sales of products consumers might not otherwise buy but the combined price must be low enough to get them to buy the bundle.

The group of customer for whom the sellers design a particular marketing mix is a target market.

- Ultimate Consumer
- Business User

Segmenting the Customer Marketing

- Geographic
- Demographic
- Psychographics
- Behavioral
Marketing mix is also known as “4 P’s” i.e. Product, Price, Place & Promotion.

The number of buyers in a business market may relatively few compared to a consumer market, segmentation remain important:

**Customer Location**

Business markets are frequently segmented on geographic basis. Some industries are geographically concentrated.

**Positioning:**

A position is the way a firm’s products, brand or organization is viewed relative to the competition by current and perspective customers. If a position is how a product is viewed, then positioning is a firm use of all the elements at its disposal to create and maintain in the mind of a target market a particular image relative to competing products.

There are three steps in positioning strategy:

i. **Selecting the positioning concept:** Position a product or an organization. A market needs to first determine what is important to target market.

ii. **Design the Dimension or Feature That most Effectively conveys the position:** A position can be communicated with a brand name, slogan, the appearance or other feature of the product, the place where it is sold, the appearance of the employees, and in many other ways.

iii. **Coordinate the Marketing Mix Components to Convey a Consistence Position:** Even though, one or two dimensions may be the primary position communicators, all the elements of the marketing mix, should complement the intended position.