

PRICING OBJECTIVES - Contd...

- Survival
- Avoid government investigation or intervention
- Obtain or maintain the loyalty and enthusiasm of distributors and other sales personnel
- Enhance the image of the firm, brand, or product
- Be perceived as —fair|| by customers and potential customers
- Create interest and excitement about a product
- Discourage competitors from cutting prices
- Use price to make the product —visible"
- Build store traffic
- Help prepare for the sale of the business (harvesting)
- Social, ethical, or ideological objectives
- Get competitive advantage

Discounts and Allowances

“Discounts and allowances are reductions to a basic price”.

They could modify either the manufacturer's list price (determined by the manufacturer and often printed on the package), the retail price (set by the retailer and often attached to the product with a sticker), or the list price (which is quoted to a potential buyer, usually in written form).

The market price (also called effective price) is the amount actually paid.

The Purpose of Discounts is to

- Increase short-term sales,
- Move out-of-date stock,
- Reward valuable customers,
- Encourage distribution channel members to perform a function.

Some discounts and allowances are forms of Sales Promotion.

Types of discounts and allowances

The most common types of discounts and allowances are:

1) Cash discounts for prompt payment - These are intended to speed payment and thereby provide liquidity to the firm. They are sometimes used as a promotional device.

•2/10 net 30 - this means the buyer must pay within 30 days, but will receive a 2% discount if they pay within 10 days.

•3/7 EOM - this means the buyer must pay by the end of the month, but will receive a 3% discount if they pay within 7 days.

•2/15 net 40 ROG - this means the buyer must pay within 40 days of receipt of goods, but will

receive a 2% discount if paid in 15 days.

2) Quantity discounts - These are price reductions given for large purchases. The rationale behind them is to obtain economies of scale and pass some (or all) of these savings on to the customer. In some industries, buyer groups and co-ops have formed to take advantage of these discounts. Generally there are two types:

- Cumulative quantity discounts (also called accumulation discounts). These are price reductions based on the quantity purchased over a set period of time. The expectation is that they will impose an implied switching cost and thereby bond the purchaser to the seller.

- Non-cumulative quantity discounts. These are price reductions based on the quantity of a single order. The expectation is that they will encourage larger orders, thus reducing billing, order filling, shipping, and sales personal expenses.

3) Trade discounts (also called functional discounts) -

These are payments to distribution channel members for performing some function . Examples of these functions are warehousing and shelf stocking. Trade discounts are often combined to include a series of functions, for example 20/12/5 could indicate a 20% discount for warehousing the product, an additional 12% discount for shipping the product, and an additional 5% discount for keeping the shelves stocked.

Trade discounts are most frequent in industries where retailers hold the majority of the power in the distribution channel (referred to as channel captains).

4) Seasonal discounts - These are price reductions given when an order is placed in a slack period (example: purchasing skis in April in the northern hemisphere or in September in the southern hemisphere). On a shorter time scale, a happy hour may fall in this category.

5) Promotional allowances - These are price reductions given to the buyer for performing some promotional activity. These include an allowance for creating and maintaining an in-store display or a co-op advertising allowance.

6) Brokerage allowance - From the point of view of the manufacturer, any brokerage fee paid is similar to a promotional allowance. It is usually based on a percentage of the sales generated by the broker.