Commercial Studies
Class - X (Chap. 2)

2.5. MEANING OF PRODUCT

In the narrow sense, a product means a set of tangible and physical attributes (such as materials, colour, design, size, weight, etc.) assembled in an identifiable form that a seller offers to the customers for sale. For example, a ball pen is a product consisting of plastic, metal, ink and other components.

In the broad sense, a product is much more than a set of physical attributes. It consists of a bundle of benefits which will provide satisfaction to the consumer. In addition to physical attributes it comprises added values such as package, brand name, label and goodwill of the producer. A customer who purchases a car buys not merely the physical object but also acquires brand name, warranty and prestige. Thus, a product may be defined as a set of tangible and intangible attributes offered by the seller to the customers. The psychological aspects of a product (the way consumers perceive a product) is more important than the physical characteristics. For example, when a consumer buys a bathing soap he is buying good complexion rather than some chemicals.

The features of a product are given below :

1. **Tangibility :** A product is tangible. It is made of certain physical attributes such as shape, size, etc. It can be seen, touched and felt.
2. **Associated Attributes :** In addition to physical features, a product has certain attributes which help customers to distinguish it from other products. Package, brand name, warranty, etc., are such associated attributes.
3. **Life Cycle :** Every product has its life cycle which consists of introduction, growth, maturity and decline stages.
4. **Exchange Value :** A product has some value which can be measured in terms of money.
5. **Need Satisfaction :** Every product is meant to satisfy some human need.

2.6. DIFFERENCE BETWEEN PRODUCTS AND SERVICES

Services refer to those intangible benefits, utilities and satisfactions which are offered for sale. Transportation, communication, banking, insurance, warehousing and advertising are, for example, considered services. Activities of professionals such as doctors, lawyers, chartered accountants, engineers, architects and consultants are also services.

Services being intangible, they cannot be seen, touched and stored for use in future. Services cannot be separated from the service provider. The quality of service cannot be standardised or made uniform all the time.

Services may be broadly classified as follows :

Just

1. **Commercial Services :** These include services provided by traders (wholesalers, retailers, brokers, etc.), transporters (roadways, railways, airways and shipping), communications, banks and financial institutions, insurance companies, repairs and maintenance firms, warehouses, advertising agencies, hotels, etc.
2. **Professional Services :** These services are provided by doctors, lawyers, engineers, auditors, consultants and other professional experts.
3. **Personal Services :** These services include tailoring shop, beauty parlour, laundry, amusement parks, cinema house, theatre, shoe repairing, guest house, etc.
4. **Public Utility Services :** These refer to services rendered by post and telegraph department, police, fire brigade, military, schools and colleges, water and electric supply undertakings, sanitary service, courts, hospitals, etc.

There are several differences between products and services. A product is identifiable and one can feel its presence in many ways. But a service cannot be identified. For example, a cab is a product but hiring it is a service. A cab can be identified but not its service. Secondly, in buying a product the buyer obtains an asset whereas in buying a service the buyer incurs an expense. For example, when you stay in a hotel, you take away nothing but the experience of a night's stay.

5. Homogeneity : In case of a standardised product, each unit of the product is a perfect substitute for another. It is impossible to differentiate one unit from other units. For example, when you buy a Maruti car you will get the same quality irrespective of the place of purchase. But services are not homogeneous. For example, you may not get the same service quality each time you hire a taxi. Services are highly variable. A patient may not get the same treatment in a village hospital which he can get in a metro hospital.

6. Technology : A product is technology based whereas a service is person based. For example, the quality of a car is dependent largely on production technology but the quality of its repair is dependent largely on the skill of the mechanic.

7. After-Sale Service : Consumer durable products such as cars, scooters, air conditioners, TV sets, refrigerators, etc., require repair and maintenance facilities after their sale. But no such facilities are required in case of services.

8. Participation : Customers do not participate in the process of manufacturing products. But customers participate in the production of services. For example, when a car is manufactured the customer need not be present in the factory. But when he hires a taxi he has to be present in the taxi.

9. Marketing Mix : In case of products, marketing mix consists of four elements – product, price, place (distribution) and promotion. But in case of services, marketing mix consists of three additional elements – people (who provide service), physical evidence (the tangible aspects of the environment in which a service is provided, *i.e.*, furniture, interior decoration, and crockery used in a restaurant) and process (a series of steps involved in providing a service).

2.7 MEANING OF PRICING

The term 'price' denotes the money value of a product or service. It is the amount of money a seller is asking for the product or service he offers for sale or the amount which buyers are to pay for it. According to **Clark**, "The price of an article of service is its market value expressed in terms of money." It reflects the worth of a product or service and the amount of money for which it can be exchanged. In practice, a person buys certain services or facilities along with the product and the price which he pays represents the amount of money paid for a product and the services accompanying it. Therefore, price may be defined as the amount of money which is required to acquire in exchange a specific assortment of product and its accompanying services. Pricing is the process of translating the value of a product or service in terms of money. It involves not simply the determination of a base price but the terms and conditions of sale, e.g., transportation costs, mode of payment, discounts and allowances, etc.

Price is an important element in the marketing mix of a firm and affects other components of the marketing mix. The quality of a product, the services supplied alongwith it, the channel of distribution and the promotional effort depend greatly upon the price. Price is fundamental to all marketing efforts. It is the regulatory mechanism by means of which the seller and the buyer come to a mutually satisfactory understanding. Price determines largely the sales volume and profit margins. Price structure affects the competitive position and market share of the firm. A firm cannot succeed if its prices are too low or too high. Prices are important from the point of view of consumers and sellers. To the consumer, price determines his purchasing power and standard of living. Consumers take their buying decisions and allocate their income with the help of the prices of alternative goods and services. Without pricing, there can be no marketing as a sale takes place only when the buyer and the seller agree on price. Price determines the revenue which the seller generates from the market.

In a free enterprise economy, prices determine the volume of economic activity. Price regulates

Many services are the outgrowth of the sales of certain products. For example, when a cab is sold, the buyer needs financial assistance, insurance and repair services.

In the marketing of services, certain marketing functions such as transportation, warehousing and inventory control are not needed, but these functions are essential in the marketing of products.

Distinction Between Products and Services

Basis of Distinction	*Products*	*Services*
1. Tangibility	Fully tangible (a) Can be felt and touched (b) Can be fully standardised	Intangible, may have physical evidence. (a) Cannot be touched (b) Cannot be standardised
2. Inseparability of buyer and seller	Fully separable, remote transactions are possible	Not separable, remote transactions not possible
3. Quality	Can be measured and controlled	Difficult to control and measure
4. Inventory	Can be stored	Cannot be stored
5. Sensitivity to time	Low sensitivity, e.g., a soap can be bought in advance of need.	Highly sensitive, e.g., doctor's services are needed when there is a patient
6. Risk	Product can be replaced.	Service delivered cannot be replaced.
7. Customisation	Increases costs and restricts sales	Increases customer delight
8. Market relationship	Product and brand are the focus of transaction	A very important link
9. Brand	Main strategy in product marketing	People are equally important
10. Perishability	Usually durable	Usually perishable
11. Ownership	Transferable	Not transferable

A product can be differentiated from a service on the following grounds.

1. Tangibility : A product is tangible as it can be seen, tasted, and touched. On the other hand, a service is intangible because it cannot be seen, tasted or touched. Therefore, a product can be checked before purchase while a service cannot be checked before purchase.

2. Perishability : A product is durable and it can be stored. For example, a showroom can store twenty cars which could not be sold this year. But a service is peri...

3. Ownership : When one buys a product one becomes its owner. For example, when you buy a car the ownership of the car is transferred from the seller to you. But when one buys a service one does not become its owner. For instance, if you hire a taxi there is no transfer of ownership from the seller to you.

4. Inseparability : A product can be separated from its producer. For example, the producer of a car need not be present when the...

2. Price Stability

In this objective, a firm seeks to cut or eliminate cyclical price fluctuations and to avoid price wars. The aim is to live and let live. This goal is used in an industry having a few firms. In an oligopolistic situation where one firm is very big and all others are small, the big firm acts as the price leader and other firms follow it. All the firms try to avoid price wars. No firm is willing to cut its prices for fear of retaliation by other firms. In order to avoid fluctuations in prices, they may even forgo maximising profits during the period of scarce supply or prosperity. This objective is followed in case of products which are vulnerable to price wars are advertised at the national level. Price stability helps in planned and regular production in the long run. However, it may create rigidity in pricing.

3. Market Share

Market share (sales of a firm in relation to those of competitors) is a very meaningful mark for measuring the market position or success. This pricing objective is followed by operating in an expanding market. When the market has a potential for growth over earning a reasonable return on investment may be declining if its market share maintained. Therefore, maintaining or improving the market share is a more worthwhile objective in growing markets. For example, firms manufacturing refrigerators, washing machines, etc. reduce prices to capture a larger share of the growing demand in India.

4. Meet or Prevent Competition

In a market characterised by cut-throat competition, firms often take pricing decision to meet or present competition. An established firm may cut prices drastically to prevent competitors from entering a market. Some firms match competitors' prices to maintain the status quo within an industry. This objective may also be adopted while introducing a new product. Sometimes a company adopts below cost pricing to fight competition. But in the long run firm cannot survive by charging less than the total cost of product.

5. Profit Maximisation

Firms pursuing this objective try to earn as much money as possible. Small and little known firms may try to charge as much price as the customer can bear. Due to high profits, new entrepreneurs will be attracted into the industry and prices will come down in the long run.

Traditionally, profit maximisation is considered to be the objective of pricing. But maximisation of profit may not be a pragmatic objective due to cut throat competition and growing focus on social obligations of business.

SUMMARY

1. Marketing is the process of satisfying the wants of customers through appropriate products and services. It is a customer oriented, integrated and goal-oriented philosophy.
2. Marketing seeks to create demand, to satisfy customers, to increase market shares, to achieve profitable growth, to build goodwill and to raise standard of living of people.
3. Marketing is a wider term than selling.
4. As compared to a product, a service is intangible, perishable and inseparable.
5. Pricing is the process of deciding the price customers will pay for a product or service. Target return, price stability, market share meeting competition and profit maximisation are its objectives.

production, distribution and consumption in the economy. Prices of goods and services determine largely the prices paid to various factors of production in the form of wages, interest, rent and profit. Price mechanism also influences the allocation of resources and the level of employment in the country. Competition on price weeds out the inefficient firms and compels the remaining ones to maximise efficiency. Pricing is also a difficult function of marketing as it involves the consideration of several intangible and interrelated factors. Prices depend not only upon the market forces of demand and supply but are also regulated by management and the government. Sound pricing requires intelligent judgement on market conditions and customer relations. Pragmatic pricing decisions require upto date knowledge of trends in sales and demand.

2.8 OBJECTIVES OF PRICING

Pricing is not an end in itself but a means to achieve marketing objectives of the firm. Therefore, the pricing strategy of a firm should be designed to achieve specific objectives. Like other operating objectives, the objectives of pricing are derived from the overall objectives of the firm. The basic objectives of a firm are survival and growth. The objectives of pricing should be clearly defined because without clear-cut objectives, a sound price structure cannot be developed. In practice, very few firms define their pricing objectives in unambiguous terms. The specific objectives of pricing may vary from firm to firm and even for the same firm at different points of time. Most firms have multiple pricing objectives. The main objectives of pricing followed by different firms are as follows:

1. Target Rate of Return

An adequate return on investment or net sales is an important pricing objective. The idea is to secure a sufficient return on capital employed after covering costs of production and distribution. An estimate is made of the price required to yield the expected rate to return in the long run. Prices are so set that the total revenue exceeds the total costs by the estimated profit amount. In other words, this objective leads to cost plus pricing.

Let us take an illustration. Suppose a company has total investment of ₹ 50 lakh and seeks to earn 30% (before tax) return on investment. It expects to sell 20,000 units and the total cost per unit is ₹ 50. The price per unit can be calculated as under:

Total cost of a 20,000 units @ ₹ 50 per unit	= 10,00,000
30% (before tax) return on ₹ 50 lakh	= 15,00,000
Target sales revenue	= 25,00,000
Price per unit	$= \frac{25,00,000}{20,000}$
	= ₹ 125

Target return on investment is a long term objective. It ensures a reasonable return to investors. Secondly, it does not lead to public criticism. Thirdly, the rate of return can be used to evaluate and compare the performance of different products of the firm. Fourthly, it provides a measure of restraint and a guideline for judging improvement in a new product line.

However, target return pricing may not be feasible in all conditions. This goal can be achieved by firms which are industry leaders and which sell in protected markets. Some firms attempt to achieve target return on sales during the short run. They set a percentage mark-up on sales which is sufficient to cover operating costs and the desired profit. In such cases, the rate of profit would remain the same, but the amount of profits would vary with the number of units sold. The target rate of return differs from firm to firm depending upon the cost of capital and the actual market conditions in the industry.

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10/6/2020

Questions:

Q.1. What is Product?
Q.2. Discuss the features of a Product
Q.3. Distinguish between Product and Service.
Q.4. What is Pricing?
Q.5. Discuss the objectives of pricing.