

TOPIC : Initiating and Responding to Price change

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Initiating Price changes involves 02 possibilities

- (a) Price cut (b) Price increase

Initiating Price cut :-

Circumstances when firm decides price cut →

- * Existence of Excess Capacity :- Here firm is badly in need of additional business and cannot generate it through price rise

Secondly initiating price cut is a drive to dominate market through lower the price

Initiating Price increase :-

factors leading to price increase →

- * Over demand by customers & less supply
- * Cost inflation
- * Less competition
- * Good position in market

Reaction to Price change :-

"Customer Reaction"

Price cut can be interpreted as →

- * The product is about to be replaced by new
- * The product is of not good quality now
- * The firm's financial position is not good
- * The product is faulty and is not selling well.

Price Hike can be interpreted as →

- # Item is of good quality
- # Item is too good or Hot and is preferred by maximum customers
- # It can satisfy need maximally

Competitor's Reaction.

In case of Price Cut →

- # Company is trying to steal market
- # Company is doing poorly and is trying to boost its sale
- # Company wants the whole industry to reduce price to stimulate total demand

In case of Price Hike →

- # Product is Heterogeneous and customers are highly informed
- # Company wants to charge Premium by adding extra quality feature in Product
- # Company wants to acquire special position in market.