

## **MBA- III semester, Specialisation- Marketing Management, Paper - Service Marketing, Paper code- MC 02, TOPIC- Pricing and Service Characteristics.**

### **Pricing and Service Characteristics**

In determining the prices of services, the one characteristic which has great impact is their perishability and the fact that fluctuations in demand cannot be met through inventory. Hotels and airlines offering low rates in off-season are examples of how pricing strategy can be used to offset the perishable characteristics of services.

Another characteristic of services that creates a problem in price determination is the high content of the intangible component. The higher the intangibility, the more difficult it is to calculate cost and greater the tendency towards non uniform services, such as fees of doctors, management consultants, lawyers. In such cases, the price may sometimes be settled through negotiation between the buyer and seller. On the other hand, in services such as dry cleaning, the tangible component is higher, and the service provided is homogeneous. It is easier to calculate the cost on a unit basis and have a uniform pricing policy.

In general, the more unique a service the greater the freedom to fix the price at any level. Often the price may be fixed according to the customer's ability to pay. In such cases price may be used as an indicator of quality. The third characteristic to be kept in mind while determining prices is that in many services, the prices are subject to regulations, either by the government or by trade associations. Bank charges, electricity and water rates, fare for rail and air transport in India are controlled by the government. In many other cases, the trade or industry association may regulate prices in order to avoid undercutting and to maintain quality standards. International air fares are regulated by international agreement of airlines, sea freight fares may be regulated by shipping conferences. In all such cases, the producer has no freedom to determine his own price.

The two methods which a service organisation may use to determine prices are cost-based pricing and market-oriented pricing. In the former, the price may be regulated by the government or industry association on the basis of the cost incurred by the most efficient unit. Such a pricing strategy is effective in restricting entry and aiming at minimum profit targets. The market-oriented pricing may either be a result of the competition or customer-oriented. In case of competition-oriented pricing, the price may be fixed at the level which the competitor is charging, or fixed lower to increase market share. Customer oriented pricing varies according to the customer's ability to pay.

### **B) Role of Non-monetary Costs**

Non-monetary costs refer to the sacrifices perceived by the consumers, other than monetary costs, when buying and using a service. Many a times the non-monetary costs may become

even more important than monetary costs. The nonmonetary costs can be broadly divided into the following categories.

- i) **Time Costs:** Because services are inseparable, most of them would require direct participation of the consumer i.e. they involve time. The time required by a consumer would include actual time of interaction with the service provider as well as the waiting time. Therefore, the consumer is not only spending his money but also sacrificing his time. At times the consumer may be required to travel to a service which may involve time as well as additional monetary cost.
- ii) **Search Costs:** These involve the efforts put in by the consumer in searching information, finding out alternatives and evaluating them. Typically search costs are far greater in case of services as compared to goods. There are a number of reasons for this. Services being rich in experience and credence qualities are rarely displayed on shelves in service outlets for customers to evaluate them. Also, in many services it is difficult to know the price in advance.
- ii) **Psychic Costs:** These include fear of not understanding or fear of rejection or fear of uncertainty. For example, while applying for a bank loan the customer has a fear of the loan application being rejected. At times, customer may find the service product difficult to understand like various options in life insurance or difficult to use like ATMs, on line trading etc.

As marketers you should not concentrate just on monetary costs alone as consumer make decisions based on monetary as well as non-monetary costs. In fact, by reducing non-monetary costs, it may be possible for you to increase monetary price.