Direct Demand - This refers to demand of products which are directly consumed by people. For example, all consumer electronics. The demand of these products does not depend on the demand of any other product. These products are directly consumed by people. For example, the demand of a washing machine does not depend on the demand of any other product. The washing machine is consumed (used) directly by the people.

Derived Demand or Indirect Demand - When the demand of a product is derived from the demand of any other product, such a demand is called derived demand. For example, cement. Cement is demanded not for direct consumption but is demanded as there is demand for housing. Thus cement derives its demand from demand of housing.

8. DIRECT DEMAND	DERIVED DEMAND
1. Meaning **When** the goods and services are demanded by consumers to satisfy their wants directly, such demand is called direct demand.	When a commodity is demanded to produce another product, such demand is called derived demand or indirect demand.
2. <u>Origin of Demand</u> Direct demand comes from the consumers for direct consumption.	Derived demand comes from producers to carry out production.
3. <u>Dependence</u> **It** depends on utility, price, income, taste, preference, and habits etc. Of the consumers.	It depends on the demand for other goods and services.
4. <u>Examples</u> **All**consumer goods such as furniture, garments, TV set, soaps, tea, etc, have direct demand.	Factor services such land, labour, raw materials, machinery, etc. Have derived or indirect demand.

PRICING

Objectives of Pricing Policy:

The pricing policy of the firm may vary from firm to firm depending on its objective. In practice, we find many prices for a product of a firm such as wholesale price, retail price, published price, quoted price, actual price and so on. Special discounts, special offers, methods of payment, amounts bought and transportation charges, trade-in values, etc., are some sources of variations in the price of the product. For pricing decision, one has to define the price of the product very carefully.

Pricing decision of a firm in general will have considerable repercussions on its marketing strategies. This implies that when the firm makes a decision about the price, it has to consider its entire marketing efforts. Pricing decisions are usually considered a part of the general strategy for achieving a broadly defined goal.

While setting the price, the firm may aim at the following objectives:

(i) Price-Profit Satisfaction:

The firms are interested in keeping their prices stable within certain period of time irrespective of changes in demand and costs, so that they may get the expected profit.

(ii) Sales Maximisation and Growth:

A firm has to set a price which assures maximum sales of the product. Firms set a price which would enhance the sale of the entire product line. It is only then, it can achieve growth.

(iii) Making Money:

Some firms want to use their special position in the industry by selling product at a premium and make quick profit as much as possible.

(iv) Preventing Competition:

Unrestricted competition and lack of planning can result in wasteful duplication of resources. The price system in a competitive economy might not reflect society's real needs. By adopting a suitable price policy the firm can restrict the entry of rivals.

(v) Market Share:

The firm wants to secure a large share in the market by following a suitable price policy. It wants to acquire a dominating leadership position in the market. Many managers believe that revenue maximisation will lead to long run profit maximisation and market share growth.

(vi) Survival:

In these days of severe competition and business uncertainties, the firm must set a price which would safeguard the welfare of the firm. A firm is always in its survival stage. For the sake of its continued existence, it must tolerate all kinds of obstacles and challenges from the rivals.

(vii) Market Penetration:

Some companies want to maximise unit sales. They believe that a higher sales volume will lead to lower unit costs and higher long run profit. They set the lowest price, assuming the market is price sensitive. This is called market penetration pricing.

(viii) Marketing Skimming:

Many companies favour setting high prices to 'skim' the market. With each innovation, it estimates the highest price it can charge given the comparative benefits of its new product versus the available substitutes.

(ix) Early Cash Recovery:

Some firms set a price which will create a mad rush for the product and recover cash early. They may also set a low price as a caution against uncertainty of the future.

(x) Satisfactory Rate of Return:

Many companies try to set the price that will maximise current profits. To estimate the demand and costs associated with alternative prices, they choose the price that produces maximum current profit, cash flow or rate of return on investment.

Pricing Strategies– Pricing strategy is a way of finding a competitive price of a product or a service. This strategy is combined with the other marketing pricing strategies that are the 4P strategy (products, price, place and promotion) economic patterns, competition, market demand and finally product characteristic. This strategy comprises of one of the most significant ingredients of the mix of marketing as it is focused on generating and increasing the revenue for an organization, which ultimately becomes profit making for the company. Understanding the market conditions and the unmet desires of the consumers along with the price that the consumer is willing to pay to fulfill his unmet desires is the ultimate way of gaining success in the pricing strategy of a product or a service.

common pricing strategies

Pricing a product is one of the most important aspects of your marketing strategy. Generally, pricing strategies include the following five strategies.

1. Cost-plus pricing—simply calculating your costs and adding a mark-up
2. Competitive pricing—setting a price based on what the competition charges
3. Value-based pricing—setting a price based on how much the customer believes what you're selling is worth
4. Price skimming—setting a high price and lowering it as the market evolves
5. Penetration pricing—setting a low price to enter a competitive market and raising it later

There are several pricing strategies:

Premium pricing: high price is used as a defining criterion. Such pricing strategies work in segments and industries where a strong competitive advantage exists for the company. Example: Porche in cars and Gillette in blades.

Penetration pricing: price is set artificially low to gain market share quickly. This is done when a new product is being launched. It is understood that prices will be raised once the promotion period is over and market share objectives are achieved. Example: Mobile phone rates in India; housing loans etc.

Economy pricing: no-frills price. Margins are wafer thin; overheads like marketing and advertising costs are very low. Targets the mass market and high market share. Example: Friendly wash detergents; Nirma; local tea producers.

Skimming strategy: high price is charged for a product till such time as competitors allow after which prices can be dropped. The idea is to recover maximum money before the product or segment attracts more competitors who will lower profits for all concerned. Example: the earliest prices for mobile phones, VCRs and other electronic items where a few players ruled attracted lower cost Asian players.

MARKETING MIX

MARKETING THEORIES – THE MARKETING MIX – FROM 4 PS TO 7 PS

Marketing is a continually evolving discipline and as such can be one that companies find themselves left very much behind the competition if they stand still for too long. One example of this evolution has been the fundamental changes to the basic Marketing mix. Where once there were 4 Ps to explain the mix, nowadays it is more commonly accepted that a more developed 7 Ps.

THE MARKETING MIX

Simply put the Marketing Mix is a tool used by businesses and Marketers to help determine a product or brands offering. The 4 Ps have been associated with the Marketing Mix since their creation by ***E. Jerome McCarthy*** in 1960

The Marketing Mix 4 Ps:

- **Product** - The Product should fit the task consumers want it for, it should work and it should be what the consumers are expecting to get.
- **Place** – The product should be available from where your target consumer finds it easiest to shop. This may be High Street, Mail Order or the more current option via e-commerce or an online shop.
- **Price** – The Product should always be seen as representing good value for money. This does not necessarily mean it should be the cheapest available; one of the main tenets of the marketing concept is that customers are usually happy to pay a little more for something that works really well for them.
- **Promotion** – Advertising, PR, Sales Promotion, Personal Selling and, in more recent times, Social Media are all key communication tools for an organisation. These tools should be used to put across the organisation's message to the correct audiences in the manner they would most like to hear, whether it be informative or appealing to their emotions.

The extended 7 Ps:

- **People** – All companies are reliant on the people who run them from front line Sales staff to the Managing Director. Having the right people is essential because they are as much a part of your business offering as the products/services you are offering.
- **Processes** –The delivery of your service is usually done with the customer present so how the service is delivered is once again part of what the consumer is paying for.
- **Physical Evidence** – Almost all services include some physical elements even if the bulk of what the consumer is paying for is intangible. For example a hair salon would provide their client with a completed hairdo and an insurance company would give their customers

some form of printed material. Even if the material is not physically printed (in the case of PDFs) they are still receiving a “physical product” by this definition.

Though in place since the 1980’s the 7 Ps are still widely taught due to their fundamental logic being sound in the marketing environment and marketers abilities to adapt the Marketing Mix to include changes in communications such as social media, updates in the places which you can sell a product/service or customers expectations in a constantly changing commercial environment.