

PRICE MANAGEMENT OF PRODUCT IN INDIA

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***Abstract:** The goods and manufacturing of goods requires sufficient fund. This fund is called as the capital in enterprises. The nature of an enterprise is depend on the capital investment. Money which is called as capital is the base of opening any business. Management of capital, creation of capital and planning to use the required capital etc. are the skills which are basic features of financial management in an organization. Defining the price of any finished good is hard in the current competitive age. Customers want is to get good qualitative product with minimum cost and proper service. Here customers are the target group and their satisfaction is main goal of manufacturing agencies. Current work aims to study about the price management of finished goods with manufacturing cost and profit motif as well as customer's satisfaction. The method of defining the price of the cost is studied and presented with a proper example in the current paper.*

***Key Words:** finished goods, fixed capital, working capital, hired services, raw material, inventory management etc.*

Introduction: Raising capital is the major challenge to become an entrepreneurs, especially in the developing country like India. Other sources are easily available in India as Land and building, raw material, manpower etc. but raising capital is challenge to many individuals who want to become an entrepreneurs. There are two types of capital that an entrepreneur has to raise i.e. fixed capital and working capital. According to the nature of its use, it is categorized. The concept of fixed capital and working capital with their component is given below:

Capital: Capital is the wealth or money used and owned by any organization. This capital is available for organizational purpose in the running business. Capital is divided into two part as said above i.e. fixed and working.

Fixed Capital: Generally one time capital investment which is invested for land, building, machine for manufacturing, furniture establishment used in an organization is called as fixed capital. It is also called as periodic cost.

Component of Fixed Cost:

- a. Land and building
- b. Plant and machineries
- c. Fixtures
- d. Pre-operation expenses
- e. Contingency

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Working Capital: The capital used for the day-to-day activities of an organization is called as working capital. It is invested for the purchasing raw material, salaries and wages to employees, transportation, water and electricity etc. it is also known as variable cost.

Formula of Working Capital: Current Assets- Current Liabilities

Component of Working Capital:

- a. Salary and wages
- b. Raw material
- c. Transportation
- d. Electricity and water
- e. Transportation
- f. Other Cognitive expenses

Fixed capital is used for long term and it is long time, one time investment. While working capital is regular and continues investment. The cost of product is defined on the basis of fixed and working capital. The formula of Cost is as:

Cost of the Product = Total Manufacturing Cost/ Total manufactured Unit

Price is defined after the calculating manufacturing the cost of the Product. Total manufacturing cost of the product is the combination of fixed capital and working capital used for the manufacturing the product. Following are the component which come under the head of fixed cost and manufacturing cost.

Component of Fixed Cost

Fixed cost is after the calculation of fixed capital and working capital which is called as Detail Project Report. Before opening the business, detailed project report should be prepared for proper financial management. The detail project report with an example is given below:

Detail Project Report

Detail Project Report is the plan which will help for the calculation of product require for defining the cost of product. The planning of fixed cost should be at least for five years and for working capital of one year or six month as it changes as per the need of market. First it needs to calculate the fixed cost requires for business planning with using the formula:

Average Fixed Cost= Total Fixed Cost/Total number of Unit Manufactured

Let's take an example of manufacturing process of cooler and its DPR

I. Fixed Capital (Per Annum):

Sr no.	Particulars	Amount in Rupees
01	Land and Building	Rs. 3000000/-
02	Rent on Building Annual	Rs. 144000/-
03	Plant and Machineries	Rs. 1000000/-
04	Fixtures and tools	Rs. 500000/-
05	Bank Interest	Rs. 30000/-
	Total	Rs. 46,44,000/-

II. Working Capital (per month) : (unit number 100)

Sr no.	Particulars	Amount in Rs.
01	Salary and wages	Rs. 90000/-
02	Raw Material	Rs. 25000/-
03	Water and Electricity	Rs. 5000/-
04	Transportation	Rs. 5000/-
05	Other cognitive Expenses	Rs. 7000/-
	Total	127000/-

Working capital for one month is Rs. 127000/- to manufacturing process of the cooler.

It means working capital for one year is- Rs.127000*12=Rs.15, 24,000/-

Total annual cost of Product is calculated with the fixed and working capital as:

Total Annual Cost of the Product = Total production Cost/Total Manufactured Unit
 $4674000+1524000/1200= \text{Rs. } 5165/-$

It means the production cost of one cooler for the said plan is Rs. 5165/-

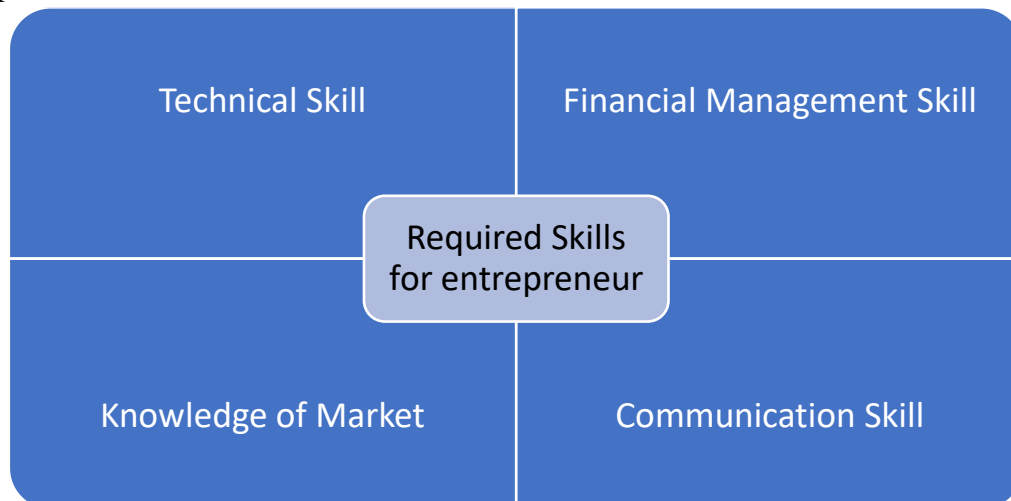
Defining the final price of this product it needs to add the percentage of whole seller, retail as a part of selling profit. As well as there needs to have advertisement of the product, concession schemes (1+1/ 5+1-Bumper pack etc.) as per the company policy. For above said product if we define the price of Rs. 6000.

(One cooler Price Rs.) -(Production cost of the Cooler i.e.)
Rs. 6000- Rs. 5165= Rs. 835

This is normal, common and easy method of defining the price of Product in India. There may be changes in it as per the policy and norms of the company. It is always better that owner must have basic skill which he/she needs to open the business i.e.

The Skill Required for Business and Business Plan:

There are many skills that should have in the owners of an industrialist, business man or entrepreneur.

**1.1 Required Skills for Entrepreneur**

As given in the table 1.1, there are major skills that needs to have acquired by the owner or managing body as:

a. Technical Skill

- b. Financial Skill
- c. Knowledge of Market
- d. Communication Skill
- a. **Technical Skill**

If the owner himself/herself is having technical skill, the technical problems which arose during the direct manufacturing process can be solved easily and in time. The time also matters in the manufacturing process. If the product is not launched in time, then there may be chances of loss to an organization.

b. Financial Skill

Capital investment is the soul of industry. Without capital business could not be opened or run. To raise the capital and to utilize the capital. One needs to appoint an accountant for required task but if owner has this skill, there are less chances of fraud or wrong account management in an organization. To generate the fund for business is not easy task. Hence owner should have this knowledge.

c. Knowledge of market

The knowledge of market is important. The knowledge of includes survey, name of competitors, the quality of product of competitors, the cost of product of competitors, demand of customers, services provided by other manufacturer for the product which you want to launch, etc. before you want to open your new business or launch your product, you must first collect the information of market about customers and competitors.

d. Communication Skill

Communication is the backbone of life not only of human but animals too. But that is part of informal communication. In professional life, it needs formal communication. The entrepreneurs must acquire all kinds of communication skills, principles of formal communication. With considering human psychology, he/she should deal with human resource management of both side i.e. Internal and external. Conveying the customers for the use of your product is the major challenge today. Hence good communication skill is essential for an entrepreneur.

Price Management and Customers

Market Oriented approach is one of the important factors of businessman. Customers' satisfaction is basic need of business. Customers' satisfaction first comes on price of the product. Customers are divided into different categories in respect to price and selection of product. Product choice of customers' can be motivated with following some principles of market management.

a. Advertisement

Minimum Input maximum output is the aim of every business. Advertisement will help to increase the customers with paid advertise will also increase the cost of product. Therefore, always try free space of advertisement to minimize the price of product because if production cost is increased, the price also increases.

b. Exhibition Space

This means to put eye-catching advertisement for example- advertisement on vehicle.

c. Encouragement for Mouth Publicity

Mouth publicity is very effective method of advertisement. When customers are satisfied with the product, they talk about it to many close relatives. They motives others to purchase

it. Therefore, the principle of cost defining is-‘to save money of advertisement and to minimize the cost-price of the product, encouragement for mouth publicity.’

d. Free Sample Offer/ Trail Free Offer

‘First use than purchase’- is another principle of business which gives surety of the quality of product. While defining such policies, you need to think about the cost of the product. Then can define the price of the product.

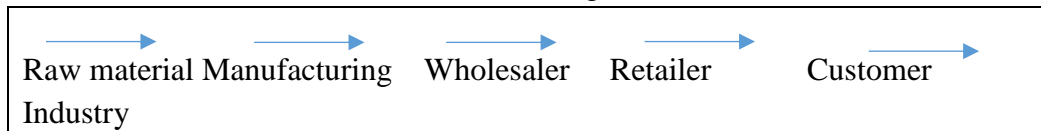
e. Demand Supply Ratio

Demand Ratio for product also matter when you want to launch your product in the market. The priority of using things or assets are depend on demand supply ratio.

For example: if, you have manufacturing industry of electronic equipment. There are product that you are launching from your industry i.e. Television, Cooler and Freeze. Planning of price, cost needs to manage. Where to invest and how to invest the capital –is the matter of planning and principle of pricing.

1. **Television:** This is used by most of the families including all economic level. So demand of Television is more and in continuity.
2. **Freeze:** Second priority will be manufacturing of Freeze. It also used overall all seasons.
3. **Cooler:** Third one is Cooler. If summer is coming close, planning of manufacturing the cooler should be on priority. But when annual planning is there sequence should be as- Television, Freeze and Cooler. Hence, as per demand supply ratio, the rate of raw material will also affects. Therefore, to decrease the cost of product manufacturing should be minimized where ever possible with considering the price of competitors’ product price.

f. Network Chain: In business, network channel is high as:



The network chain of finished goods starts from raw material seller to the customer. The expenses increase from raw material selling processes to customers’ product selling. Selection network chain includes:

1. Distance of Raw Material seller from your organization. If it more long but they are providing good quality raw material with less cost than the close one, (including Transportation), then the pricing principles guides to go for long distance raw-material seller.
2. Manufacturing industries role is main. It is the main section where the process of finished goods is done. Inventory management, waste management, salary management, quality management, financial management, human resource management, planning, organization, staffing etc. are the task related to the network chain of manufacturing industries.
3. Wholesaler is the first part who has the purpose of profit by finished goods. Before defining the price of the product, the percentage of profit of wholesaler should counted.
4. Retailer is the next and final seller who sales the product direct to the customers. Retailer declares the schemes which are available for the customers. If they will not informed to the customers, they will get more benefits rather than the customers. Customers should

get benefits of these schemes not the retailers. Network chain must be aware about their aims and objectives of the business.

- 5. Promotion for Online Selling:** Today, online shopping is preferred. Therefore, industries should promote for online shopping. But again the matter is of expenses. Expenses increases, price increases, if price increases, customers have lots of option for the goods in the market.

Conclusion: Thus, the price management is the part of customers' satisfaction. Customers have numerous options in the market. They have various sources to get information. Price with good quality they want. Other-wise they will go for another option. Physical look also matters. Online purchasing shows lots of designs, looks and price concession also. Assembled products are also available for short term use. If your price is high, Indian people will give priority to less cost product. Cost matters a lot in Indian scenario. Therefore, while defining the price of the cost, it is essential to minimize the cost of production. Defining the price of cost is depend of the fixed capital and variable capital. Other components may be varies from organization to organization.

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