

Q6. How do consumers process and evaluate prices? What is the 5-step process of setting the initial price of products or services? When and how should a company initiate a price change, i.e. introduce a price cut or price increase?

A6. Introduction

Prices refer to the amount of money a consumer of a product or service is charged with upon owning or receiving the product or service. Prices take many factors into consideration, and are susceptible to change for various reasons. A well-thought-out strategy is implemented when determining the price while keeping the objectives of the organization or producer in mind such as profit maximization, promoting welfare or even gaining considerable market share. In this answer, the consumer evaluation of price will be discussed along with the method of setting prices. Finally, the ideology and factors behind price change and how to go about this will be elaborated on.

What goes on in the minds of consumers when evaluating and processing prices?

Income as a determinant of evaluation

In order for a consumer to spend money on a product or service, he must have it. Affordability is a major factor that needs to be considered and an individual's income is what will allow him/her to purchase the product/service to begin with. Alternatively, if an individual has a low income he/she will find it impossible to buy a product or service. For example, when considering **the BingO!**

purchase of a luxury brand bag such as Hermes, the individual must have a high income and money in hand to purchase it. On the lower end of the spectrum, someone with a low income may find a cheaper bag with the income he or she has.

Quality as a determinant

A consumer will most likely spend a ~~larger~~ larger sum of money on a product or service that has a better quality ~~to~~ compared to others. For example when choosing between airline services, an individual may consider Emirates airlines to travel over Pegasus budget airlines, solely based on the luxury quality of the Emirates airlines service. Thus, consumers will evaluate prices based on quality.

Competitors and alternatives of product/service as a determinant

If a consumer finds no alternatives to a product or service then he/she will be forced to pay whatever the producer demands. If he/she considers that the product is necessary for him/her to have and he cannot find substitutes that satisfy their utility or demand, then a high price may seem justified for them.

Need versus want in prices

A consumer may need a product or service for survival and thus will pay any amount for it.

For instance, in the case of life saving drugs, consumers may find any price to be suitable and pay the amount.

The 5-step process of setting the price of products and services

Diagram

1. Price objective



2. Demand of product/service



3. Estimation of costs



4. Evaluation of competitors



5. Price method



Determine the price

Price objective

When determining the price the objective needs to kept in mind. This could include the survival of the organisation; whether it is a start-up and needs to charge a low price to stay in the market to survive. The objective could also include attaining a larger market share. Moreover, the objective could also be attaining profits or sustaining loss.

Demand of product or service

The elasticity of demand can play a huge role in the price. This could include factors

Such as if the product/service is price inelastic which would translate in higher price setting to achieve a profit. Alternatively, the demand could be price elastic which would mean that a change in price would create a larger proportional change in demand. For example a product could have many alternatives which would allow the consumers to switch or the product could just be a want ~~it~~ and not a need.

Estimation of costs

The price of a product could be determined using the costs that went into production. The production could have required a unique and costly set of which would translate in higher prices. For example, ~~handmade~~ handmade textiles are more costly than machine made ones due to the hours of labour and unique skills in craftsmanship, this could translate in higher wages and thus, higher prices.

Evaluation of competitors

Competitors may force each other to change their prices. In the case of a competitive market structure with many available alternatives, prices may be lower. This is because the consumer can switch to the competitors.

Thus, a strategy of price emerges that doesn't allow producers to charge higher prices.

Alternatively, the price of a product may be high if there are less or no competitors. **Pragmatically! 0!**

For example, if a producer is a monopoly and produces unique products then he may charge any price he/she deems fit.

Price method

This could involve a variety of pricing techniques. A producer may be stringent in pricing or offer price discrimination methods. Producers may charge less for students or elderly or may hold seasonal sales to get rid of stock. The price method varies according to the objectives of the producer and organisation.

What is the best time to introduce price change and how should one do it?

Decrease price in economic recession

When the budgets of most households is tied up and people/consumers are unable to spend money as before, the price of products/services should be reduced in order to encourage purchase. This will ensure that stock is not left lying around for too long and goes waste.

Promotional prices and discounts

The products/services can be discounted to encourage people to buy in times of economic recession. For example: Buy one get one free or ~~two~~ discounts on bulk purchases could facilitate sale of products.

Increase price in periods of inflation

Inflation is a phenomenon where general prices of goods/services in an economy increase. This leads to the factors of production and price of raw materials to increase. This should translate into the price of the product or service. For example, if labour demands higher wages or the price of cotton which is the raw material for textile increases, then the final product i.e. textile/cotton shirt should increase.

Cost-Make up price

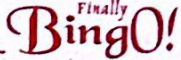
The producers could derive the cost of the product and add a percentage above the cost to arrive at the price of the product. This would justify the cost and lead to attainment of profit.

Increase price with the addition of new features or premium quality

If the producer improves the quality of a product or service by investing in R&D and spending resources in improvement, he can charge a higher price. Products could be made with premium quality raw materials that cost a lot of money. He can justify an increase in price.

Moreover, a service can add premium features and charge extra for those features.

Premium and luxury pricing strategy

Service applications such as Amazon prime 

offer premium services such as access to more movies and shows ~~or~~ by charging an additional price. Another example is Spotify, that allows users to join for free but allows a premium feature in which users can listen to ad-free music by paying a standard amount each month. Moreover, luxury brands charge a higher price and justify it with premium quality raw materials that are used to produce it.

Branding

Producers or organizations can brand their products a certain way or create an identity to justify their prices. For example, Balenciaga and Prada have established themselves as high-street luxury brands and charge high prices for their products. Some organizations brand their products as sustainably sourced or animal cruelty-free and charge higher prices such as Beyond Meat. Thus, branding can lead to price demand differences.

Conclusion

In conclusion, this answer discusses the ways consumers process and evaluate prices. ~~After~~ After this discussion, a diagram illustrates the 5-step process of price determination of products and services followed by a detailed discussion of each step. Lastly, the contributing factors to price change and how they can be initiated are evaluated with relevant examples. Finally Binao!

Q7. Organisational structures are designed in two major forms; traditional and ^{hierarchical} boundaryless organisations. Discuss these different types, characteristics as well as their relative advantages and disadvantages, in comparison to each other.

A. Introduction

Organisational structures are the layout around which the framing and division of the organization takes place. The internal, formal framework of a business that shows the way in which management is organised and linked together and how authority is passed through the organisation. There are two main types of organisational structures namely traditional and boundaryless. Each type contains different forms of setups within the two broad structures and has distinguishing characteristics. Furthermore, both types contain their own set of advantages and disadvantages. In this answer, types of organisations, their characteristics and their comparative ~~to~~ benefits and drawbacks will be discussed.

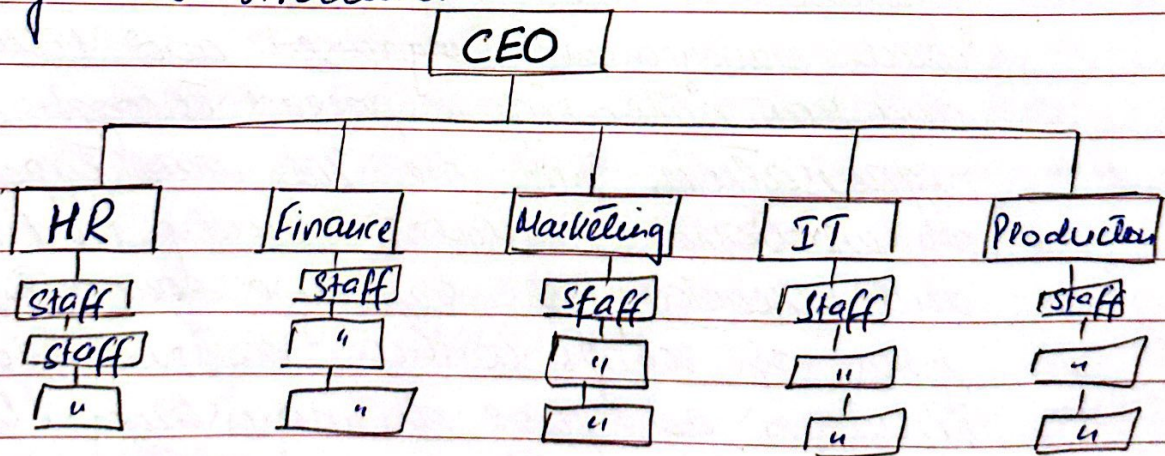
The different types of organisations

Traditional organisational set up

Traditional organisations contain a fairly straightforward and simple structure. The hierarchy of command follows a top-down approach, and moreover, tasks are divided efficiently and clearly as the structure is simple. Some set-ups within the traditional organisational structure are discussed below.

Functional structure

Functional structure is based on job functions often labelled as departments. These could include the finance department or human resource department or marketing department among others. A diagram shows a clear image of this structure.



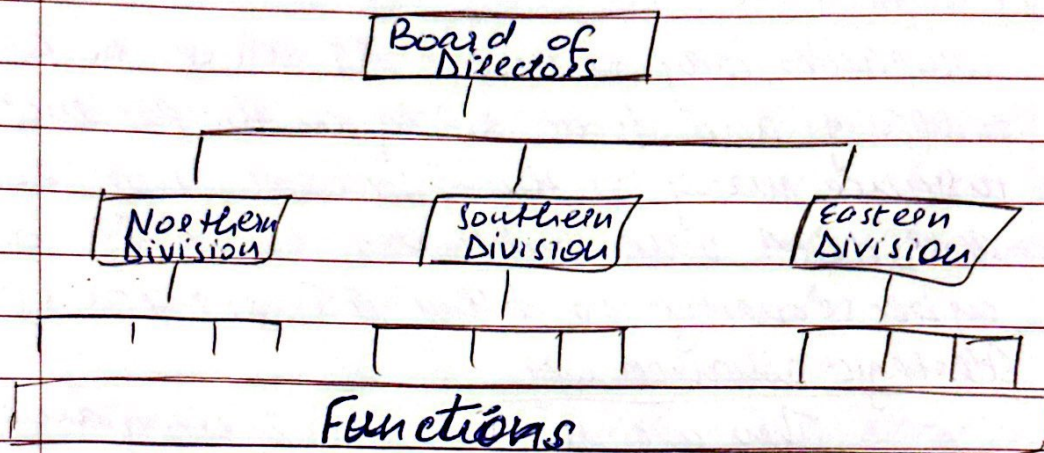
Example

A functional organisation could be a production company or a bank. For example Habib Bank Ltd. and United Bank Ltd could be classified as a functional structure organisation.

Divisional structure

A divisional structure is organised around divisions or business units that are self-contained entities with their own functional departments such as human resources and marketing.

A diagram below shows this traditional organisational structure



Example:

Many banks such as Habib Bank are located in different locations and have different divisions. ~~such as the~~

Boundaryless organisation

Boundaryless organisations or contemporary organisations are non-conforming to traditional set-ups. They are not defined by or limited to the horizontal, vertical or external boundaries imposed by a predefined structure. The structure is more flexible because there is no boundary to deal with such as chain of command, departmentalization and organisational hierarchy. Instead of having departments, companies have used **BingO!**

the team approach. In order to eliminate boundaries, managers may use modular, virtual or network organizational structures

Modular structure and virtual structure

Modular and virtual orgs outsource all functions that are not essential to ^{their} core purpose and only focus on essential matters.

Example

Companies may outsource IT services to another company and focus solely on the product. For instance many clothing brands like ZARA and H&M have outsource their IT and cyber security to other IT specialist agencies.

Strategic alliance org

They are formed when 2 companies are in the same or related industries form an alliance that will benefit both of them.

Example ~~For the UK,~~

In the UK, ~~a~~ online clothing distribution company, ASOS has collaborated with other clothing brands such as Miss Selfridges and River Island to form a mutually beneficial alliance. They distribute other retailers' clothes and market them as well.

Virtual ~~at~~

Network organizations

While modular and virtual will outsource non-essential functions, network organizations will outsource even the important functions such as HR and accounting.

Example

Most companies have outsourced their accounting needs to accounting agencies. Many big banks such as Goldman Sachs and J.P. Morgan have taken over the financial administration and accounting departments of many companies such as H&M.

Advantages of traditional structuresStrong control maintained

Companies are based on strong centralisation and control. This will ensure that organisation is always running smoothly as strict control is maintained.

Easy to identify problem and fix it

Problems can be quickly identified in a set structure and the source of the problem can be tackled and fixed without disrupting other sectors and divisions.

Smooth flow and division of labour

Traditional structures are divided in such a way that there is a strict division of labour. Each person knows what his target is and work towards it. This ensures smooth running. Comparatively, contemporary or boundaryless organisations do not have such clear cut boundaries or roles which may impact the smooth flow.

Below a comparative table is given of the advantages of ~~organ~~ traditional organisations which are the disadvantages of ^{Finally} BingO!

boundaryless organisations

<u>Traditional Organisation</u>	<u>Boundaryless</u>
<ul style="list-style-type: none"> • Strict control and centralization • Easy to identify the source of the problem • Smooth flow and division of labour • Satisfaction for labour that prefers being told exactly what to do 	<ul style="list-style-type: none"> • Control lies in the hands of many • Difficult to identify source in overlapping divisions • Arbitrary task assignments and possible inefficiency • Confusing and unsatisfactory for workers who have overlapping and unclear task assignments

The following table will highlight the advantages of boundaryless organisations that are lacking in traditional org structures

<u>Traditional</u>	<u>Boundaryless</u>
<ul style="list-style-type: none"> • Inefficiency if all jobs and tasks are in-house w/o specialisation • Workers become frustrated as always made to obey commands • Outdated and inefficient in a connected world 	<ul style="list-style-type: none"> • Efficient Outsourcing and smooth running • Gives all workers a voice and increases job satisfaction • More apt for globalised and technology-driven business world

Conclusion

In conclusion, the traditional and boundaryless organizational set ups were discussed with examples. Moreover, the advantages and disadvantages were highlighted in comparison to both organizational structures and a ~~course~~ table to sum up all points concisely was drawn.