Prices Marketing Strategies: An Overview

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Abstract – Pricing is one of the major elements of the marketing plan. It enables to differentiate a product or service from another one of similar characteristics. Pricing decisions derive from the underlying objectives and best-suited strategies. The elements of pricing objective include profit maximization, revenue maximization, quality leadership, quantity maximization and survival Pricing objective is focused on three factors, i.e. nature, the desired level of attainment and the associated time horizon. Pricing objectives of service organizations are profit maximization, sales maximization, market share maximization, market share increase, return on investment (ROI), price differentiation, price stability in the market.

Key Words: Pricing Strategies, Marketing Mix, Cost Plus Pricing, Demand Oriented Pricing.

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INTRODUCTION

The second element of the marketing mix is pricing strategy Price is the exchange value of a good or service. An item is worth only what someone else is willing to pay for it. In a primitive society, the exchange value may be determined by trading a good for some other commodity. A horse may be worth ten coins; twelve apples may be worth two loaves of bread. More advanced societies use money for exchange. But in either case, the price of a good or service is its exchange value. Pricing strategy deals with the multitude of factors that influence the setting of a price. This chapter begins by discussing the classification of goods and services, the product mix, and the product life cycle. We then explain how products are developed, identified, and packaged and the service attributes of products. The second part of the chapter focuses on the pricing of goods and services, including pricing objectives, how prices are set, and different types of pricing strategies.

RESEARCH METHODOLOGY:

Our study on the topic prices and marketing strategies towards various investment avenues in market is based exclusively on secondary data taken from various articles, news papers and bulletins and reports. Cost-based pricing derives from data from cost accounting. Competition-based pricing uses anticipated or observed price levels of competitors as primary source for setting prices and customer value-based pricing uses the value that a product or service delivers to a segment of customers as the main factor for setting prices.

LITERATURE REVIEW:

Marketing researchers recognized the inherent problems of cost-based pricing approaches as long ago as the 1950 s. For example, Beckman (1953, p. 148) notes that ‘‘. . .the graveyard of business is filled with the skeletons of companies that attempted to base their prices solely on costs’’. More recently, Myers et al. (2002) assert that cost-based pricing produces sub-standard profitability; similarly, Simon et al. (2003) contend that cost-based pricing leads to lower-than-average profitability.Ingenbleek et al. (2003) demonstrate the advantages of valued-based pricing. In an empirical survey of 77 marketing managers in two business-to-business industries(electronics and engineering) in Belgium, they find that customer value-based pricing approaches are positively correlated with new product success, whereas no such correlation is identified between new product success and the adoption of cost-based and competition-based pricing. The authors conclude that customer value-based pricing approaches are, overall, the best strategies to adopt in making decisions about new product pricing.

IMPLEMENTING DIFFERENT STRATEGIES:

Despite the fact that empirical research shows that value-based approaches are superior to other pricing approaches, it has not been widely adopted in practice.

Porter's five in Pricing Strategy

Breakeven Analysis: A Tool in Cost-Based Pricing

Marketers often use **breakeven analysis** as a method of determining the minimum sales volume needed at a certain price level to cover all costs. It involves a consideration of various costs and total revenue. *Total cost (TC)* is composed of *total variable costs (TVC)* and *total fixed costs (TFC)*. **Variable costs** are those that change with the level of production (such as labor and raw materials costs), while **fixed costs** are those that remain stable regardless of the production level achieved (such as the firm's insurance costs). Total revenue is determined by multiplying price by the number of units sold. Marketers can use breakeven analysis to determine the profits or losses that would result from several different proposed prices. Since different prices will produce different breakeven points, the calculations of sales necessary to break even could be compared with estimated sales obtained from marketing research studies. This comparison can then be used to identify the most appropriate price, one that would attract sufficient customers to exceed the breakeven point and earn profits for the firm.

Skimming Pricing

Involves setting the price of the product relatively high compared to similar goods and then gradually lowering it. This strategy is used when the market is segmented on a price basis, that is, where some people may buy the product if it is priced at $10, a larger group may buy it at $7.50, and a still larger group may buy it at $6. It is effective in situations where a firm has a substantial lead on competition with a new product. The skimming strategy has been used effectively on such products as color televisions, pocket calculators, personal computers, and VCRs. A skimming strategy allows the firm to recover its cost rapidly by maximizing the revenue it receives. But the disadvantage is that early profits tend to attract competition, thus putting eventual pressure on prices. For example, most ball-point pens now sell for less than $1, but when the product was first introduced after World War II, it sold for about $20. Some firms continue to use skimming pricing throughout the product's life cycle. For example, Bausch & Lomb's Ray-Ban sunglasses range in price from $50 to $140. The company plans to continue the high-price strategy, even though ***"knock-off"*** imitations of Ray-Ban products sell for as low as $12. Lower-priced products do not pose a threat to Ray-Ban because Ray-Ban customers are brand loyal. The firm's marketing research indicates 90 percent of Ray-Ban customers would buy the brand again.

Penetration Pricing:

The second strategy, **penetration pricing**, involves pricing the product relatively low compared to similar goods in the hope that it will secure wide market acceptance that will allow the company to raise its price. Soaps and toothpastes are often introduced this way. Penetration pricing discourages competition because of its low profits. It is often used when the firm expects competition with similar products within a short time and when large-scale production and marketing will produce substantial reductions in overall costs.

Product Line Pricing –

Under **product line pricing**, a seller offers merchandise at a limited number of prices rather than having individual prices for each item. For instance, a boutique might offer lines of women's sportswear priced at $120, $150, and $200. Product line pricing is a common marketing practice among retailers. The original five-and ten-cent stores are an example of its early use. Today's *99¢ Stores* are an recent example. As a pricing strategy, product line pricing prevents the confusion common in situations where all items are priced individually. It makes the pricing function easier. But marketers must clearly identify the market segments to which they are appealing. Three high-priced lines might not be appropriate for a store located in a low-to-middle-income area. A disadvantage of product line pricing is that it is sometimes difficult to alter the price ranges once they have been set. If costs go up, the firm must either raise the price of the line or reduce its quality. Consumers may resist these alternatives. While product line pricing can be useful, its implementation must be considered carefully.

Consumer Perception of Prices –

Marketers must be concerned with the way consumers perceive prices. If a buyer views a price as too high or too low, the marketer must correct

the situation. Price quality relationships and psychological pricing are important in this regard.

The Price-Quality Relationship –

Research shows that the consumer's perception of product quality is related closely to the item's price. The higher the price of the product, he better its perceived quality. Most marketers believe the perceived price-quality relationship exists over a relatively wide range of prices, although extreme prices may be viewed as either too expensive or too cheap. Marketing managers need to study and experiment with prices because the price-quality relationship can be of key importance to a firm's pricing strategy. Jerome Rowitch, a California restaurateur, conducted an interesting experiment that substantiates the price-quality relationship. When Rowitch opened his Sculpture Gardens restaurant in an unfashionable section of Venice, he devised a promotion designed to attract the affluent residents of nearby suburbs. He mailed a promotional flier to households with incomes of $50,000 or more, a segment that would appreciate the restaurant's fare, which includes black spaghetti in roasted red pepper and New Zealand cockles in white wine. The flier made this offer: Patrons could pay whatever price they thought their meal was worth. On average, those who took advantage of the promotion paid about $7.50 more for their meal than the price listed on the standard menu.

Psychological Pricing –

Psychological pricing is used throughout the world. Many marketers believe certain prices are more appealing than others to buyers. The image pricing goals mentioned earlier are an example of psychological pricing. Have you ever wondered why retailers use prices like $39.95, $19.98, or $9.99 instead of $40, $20, or $10? Before the age of cash registers and sales taxes, this practice of **odd pricing** was employed to force clerks to make the correct change, thereby serving as a cash-control technique for retailers. It is now a common practice in retail pricing because many retailers believe that consumers are more attracted to odd prices than to ordinary ones. In fact, some stores use prices ending in 1, 2, 3, 4, 6, or 7 to avoid the look of ordinary prices like $5.95, $10.98, and $19.99. Their prices are more likely to be $1.11, $3.22, $4.53, $5.74, $3.86, or $9.97.

CONCLUSION:

As seen in the above discussion, every pricing strategy has certain advantages and disadvantages. Before selecting the pricing strategy, the businesses should look into both, the pros as well as cons of each price strategy. The determination of pricing strategy should be in accordance to the objectives of the business. A careful cost-benefit analysis should help the company determine the best pricing strategy for itself. Once the pricing strategy has been implemented, it should be allowed to continue for a while so that it can deliver the desired results.

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