PRICING: A KEY INGREDIENT OF MARKETING STRATEGY

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ABSTRACT

Pricing decision is one of the major decisions for any marketer. It decides how to charge for a product or a service. The external considerations such as potential customers and competition makes it difficult to decide the pricing strategy. There are several pricing strategies, the marketer can choose from. The pricing strategies are - Skimming, Penetration, Competitive, Premium, Loss leader pricing, Psychological pricing and Value pricing. The marketer can choose any of them or a combination depending upon the customer feedback and considering competitor's moves. An effective pricing strategy can help the business cater to its target customer segment and defend its products from the competition.

Keywords: *Pricing, competition, value, skimming, penetration*

Introduction

Pricing Strategy

The expression "pricing strategy" encompasses all the methods that an entrepreneur uses to decide the amount to charge for a product or service. To set a great strategy in motion, the business will do some math, perform market research, or collectconsumer insights first.

A few organizations like to keep it basic by using set markups (some of the time known as cost plus pricing) or manufacturer suggested retail prices (MSRPs). In any case, when the firm forms a strategy that better accounts for market conditions and other factors that impact consumer behavior, it will actually want to take the competitive advantage.

Benefits of pricing strategy

For consumers, having the ability to compare various prices is the second most important benefit of purchasing online. As online business continues to develop, price comparison is getting easier continuously, which means consumers will increasingly look for the best value they can discover.

Having a strong pricing strategy in place can help better meet customer expectations by putting reason behind the prices. The strategy will create a repeatable interaction that encourages how the target audience and perhaps even competitors will react to pricing decisions.

Literature Review

The topic of pricing strategies is well researched. Below are a few abstracts form the recent literature:

According to Kienzler and Kowalkowski (2017), this article investigates the development and current state of pricing strategy research by embraced a content analysis of 515 articles distributed in leading academic journals somewhere in the range of 1995 and 2016. The outcomes propose a few developments in research focus and methodology; ongoing research has focused all the more firmly on services and applies more rigorous research designs. The outcomes additionally show a persistent focus on consumer markets and economic theories, just as an expanding consideration of demand side respondents, to the detriment of supply side respondents. A significant component of this survey is a bunch of noteworthy takeaways, with both theoretical and methodological implications for pricing strategy research.

Ali and Anwar (2021), have posited that, the current examination intended to analyze pricing strategies as a deciding element in influencing consumer behavior. The current research applied quantitative research method through adjusting questionnaire from academic sources. The sample size for the current examination is 162 which assembled through random sampling method. The outcomes show that Penetration Pricing has significant positive influence on consumer behavior at 5% level. The outcomes show that Price Skimming has significant positive influence on consumer behavior at 5% level. The outcomes show that marketing sharing sites has significant positive influence on consumer behavior at 5% level. The outcomes show that blog has significant positive influence on consumer behavior at 5% level. The outcomes show that Competitive Pricing has significant positive influence on consumer behavior at 5% level.

Morim et al. (2017), have argued that, the principal motivation behind this article is to introduce and investigate potential applications in marketing administration identified with pricing strategy using fuzzy logic. Considering the recent trends in consumer behavior in Brazil's economy and the steady development of C and D social classes an application was created by the creators to all the more likely understand and change pricing strategies. The Think Fuzzy System that consolidates fuzzy logic and some other related strategic concepts, upheld by mathematical microeconomic modeling, utility factor, indifference curves and an experiential hierarchic clustering model.

Toni et al. (2017), have opined that, the price policy definition is one of the main decisions in administration as it influences corporate profitability and market competitiveness. In spite of the significance that prices take in organizations, apparently this component has not gotten appropriate attention by numerous academics and marketers since it addresses, as indicated by gauges, under 2% of the papers on leading journals in the field. Subsequently, the point of this investigation was to propose and test a theoretical model showing the effects of pricing policy on corporate profitability. To this end, 150 organizations in the metal-mechanic area situated in the Northeast of Rio Grande do Sul State, Brazil were examined, coordinating customer value based pricing strategies, competition based pricing strategies and cost based pricing strategies with price levels (high and low) and execution as for profitability. The outcomes demonstrate that the profitability of the reviewed organizations is positively influenced by value-based pricing strategy and high price levels while it is contrarily influenced by low price levels.

According to Wu et al. (2018), consumers are often questionable about how products fit their individual preferences. In the present situation, free samples can be offered to permit consumers to determine such uncertainty before buy. Product samples in this way can develop customer goodwill for the products by diminishing consumers risk of product fit uncertainty. In any case, product samples may likewise have adverse consequences, since consumers who acknowledge poor fits subsequent to sampling preliminaries may switch with a specific likelihood to competing products. With consideration of these tradeoffs, we study the sampling and pricing strategies for merchants of competing products in an oligopoly market. We figure this issue as a Hotelling game and characterize the equilibrium solution. We initially examine the situation while competing retailers at the same time settle on the decisions. We show that the intensity of product competition and consumer switching behavior assume significant parts in deciding equilibrium sampling strategy. At the point when product competition is strong and no consumer switching behavior happens, competing retailers consistently receive symmetric sampling strategies.

Moreover, there is research on the specific types of pricing strategies e.g.: skimming – Nyaga and Muema (2017); penetration – Roma et al. (2019); competitive pricing - Xing et al. (2018); premium pricing – Feng et al. (2019).

Pricing Strategies

1) Price Skimming

At the point when price skimming strategy is utilized the business is launching a new product or service at a high price point, before gradually bringing down the prices over the long haul. This is a great way to attract consumers—especially high-income shoppers—who consider themselves early adopters or trendsetters. From an entrepreneur's point of view, price skimming can be amazingly useful in assisting faster break even. This strategy gives an ample amount of safety before making the product or service more accessible to the greater market (Fuessel, 2021).

2) Penetration Pricing

A penetration pricing strategy is something contrary to price skimming. Instead of starting with high prices, business starts with low prices and gradually increase them as they gain traction. While this puts the firm at risk for restricted or zero profit before all else, it can bounce back in short time. Similarly, that a free sample can encourage a customer to make a purchase, this strategy is giving a discounted experience to create customer loyalty. Penetration pricing is intended to put the focus on the brand. Because of this, the prices will always start lower than the competitors are charging. Once the product has effectively achieved market penetration, the pricing can be increased.

3) Competitive Pricing

Competitive pricing is incredibly similar to penetration pricing in that the goal is to drive the target audience away from the competitors and towards the brand. Be that as it may, instead of making price increases later on, the business continues to track what the competitors are charging and beat them out. Although this strategy can be hard to sustain, thus why many entrepreneurs stay with a penetration pricing strategy.

4) Premium Pricing

Low prices aren't always the most attractive offer. At the point when the target audience looks for quality over a decent deal, the business needs to demonstrate the advantages that the brand can give. A top-notch pricing strategy can help assemble the perceived value of your product or service, straight from the initial launch. The prices may drop somewhat over the long haul, however they should in any case give the purchasers a sensation of exclusivity and, by and large, luxury.

5) Loss leader Pricing

Many retailers, both online and offline, attract customers by offering one major discounted product or product line while encouraging them to purchase more. The outcome is greater profit for the business per transaction. In spite of the fact that this pricing strategy is often associated with promotional pricing, which uses short term sales, it very well may be long term. Long term loss leader pricing is often found as group pricing, in which you offer greater savings when consumers purchase more.

6) Psychological Pricing

The numbers consumers see can influence them. Instead of changing consumer perceptions about a product, psychological pricing interestingly aims to change perceptions about what the price even is in the first place. A couple of common examples of this strategy that are demonstrated to work include: Ending a price with an odd number to make a customer feel like they're spending significantly less ($5.99 instead of $6, or 97 cents instead of $1). This is often known as charm pricing.

7) Value Pricing

Value pricing is perhaps the most important pricing strategy of all. This takes into account how beneficial, high-quality, and important customers accept the products or services to be. Value pricing is what makes a wedding dress worth thousands more than a prom dress. To set value-based prices, the business should have a profound understanding of the target audience's needs, pain points, and motivations, as well as the brand's own reputation.

Conclusion

Pricing is to decide how much to charge for a product or a service. Even though it might look like an easy task, it is a difficult job considering various complexities such as customer considerations and competition in the market. There are various pricing strategies which help decide how to price the product or service. Skimming is the strategy to launch the product at a high level in the beginning which targets early customers and then lower the price to capture wider market. Penetration strategy is just the opposite of skimming. The products can be launched at near breakeven level to garner the market share and then the pricing might be increased. Competitive pricing strategy keeps a close eye on what the competition is doing and offers products at a discount to attract the customers. It is a difficult call to decide if this strategy can be followed for a longer term. Prices can be increased after some time just like the penetration strategy. Premium pricing is the strategy to charge a premium to the price if the product is considered as a luxury product by the consumers. Loss leader pricing strategy offer one product at a discount considering the customer has to buy other products with it. The bundled purchase will take care of the discount. Psychological pricing offers comfort to the customer that the product is cheaper than it is actually (offering a product for 99 cents rather than a dollar). Value pricing strategy offers price considering the perceived value of the product by the customer. Summarily, the marketer has to choose the appropriate pricing strategy by anticipating consumer behavior and competition.

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