Strategic Product Pricing-Pricing Strategies for Products

For:
M.Com. (4th Semester)

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Introduction:

Strategy turns pricing into a deliberate process in which the company strategy dictates both the set of product features, the value customers associate with them and the brand. In this scenario, pricing is a natural outcome of the discussion, not a starting point. For example, does your company create luxury products with a high-end brand? If so, product pricing strategy almost dictates that you set your price very high to convey the fact that your brand is very exclusive and that not everyone can afford it. For low cost brands, like Walmart, the product pricing strategy indicates that you keep your price low and sell on volume.


PRICING STRATEGY
Price says a lot more about your brand than just the cost. Price is how you position yourself in the marketplace. Price is the value of the product to the consumer.
01
Determine minimum price you're willing to sell your product for.
02
Determine the maximum price.
03
Determine 5 exact prices within the minimum and maximum price range.
04
Use Google Consumer Surveys to test 5 prices for your product.
05
Input results from Google Consumer Surverys into Pricing Spreadsheet.
06
Arrive at the optimized price for value.

Some of the strategies are:

1. Cost Plus Pricing
2. Below Cost Pricing
3. Competition-Oriented Pricing
4. Follow the Leader Pricing
5. Penetration Pricing
6. Skimming the Cream Pricing
7. Discriminating Pricing
8. Loss-Leader Pricing
9. Keep Out Pricing
10. Psychological Pricing
11. Differential Pricing for Product-Life-Cycle Stages
12. Resale Price Maintenance (RPM)

1. Cost Plus Pricing:

It is the most common method of pricing followed by manufacturers, wholesalers and retailers.

Under it, management works out the cost of goods manufactured or purchased for resale and adds a percentage of profits to it – to determine the selling price.

This method is considered desirable in that there is no point in manufacturing and selling a product; if it does not cover its cost and does not yield a reasonable profit.

2. Below Cost Pricing:

It is sometimes desirable to sell the goods at a price less than the cost. This method is used to sell perishable goods to save the firm from excessive losses due to deterioration in quality with the passage of time. This method is also used to sell goods which may become obsolete due to changes in fashion. The philosophy behind this method of pricing is that sale at any price is better than no sale at all.

3. Competition-Oriented Pricing:

Competition-oriented pricing strategy is followed by manufacturers when:

1. The market is highly competitive, and
2. The product of one manufacturer is not significantly differentiated from those of others.

As such, under competition-oriented pricing strategy, same price is fixed by all competitive producers. For example, Coca-Cola and Pepsi, manufacturers fight each other everywhere in India or abroad, charging the same price for their product.

4. Follow the Leader Pricing:

Under this policy, one firm i.e. the price leader with dominant market share sets the price; and other firms in the industry follow that price. Followers match price cuts or price rises, as initiated by the leader. Some firms, however, may match price cuts but not price rises initiated by the leader; when recessionary conditions prevail in the market.

Or some firms may match price rise but not price-cuts initiated by the leader; when boom conditions prevail in the market.

5. Penetration Pricing:

his is a typical pricing strategy followed by many manufacturers for introducing a new product by them. As per this strategy, a manufacturer sets a low price for his product; so as to penetrate into a new market for popularizing his product; and capture a large market share over a period of time, by establishing goodwill as ‘low-price seller’.

Penetration pricing strategy is suitable when:

1. There is high competition in the market, and

2. Demand is highly elastic and very sensitive to price changes.

Under penetration pricing strategy, the manufacturer may increase the price subsequently; once brand popularity is established by the manufacturer, in the market.

6. Skimming the Cream Pricing:

This pricing strategy in just opposite to penetration pricing. Under this strategy, a manufacturer sets a very high initial price for his product; as so to make maximum profits.

This pricing strategy is suitable under conditions of rapidly advancing competition; so that by the time, competitors gain ground, the particular manufacturer in question can withdraw from the market or reduce price suitably- having already made much profits.

This pricing strategy is useful in case of specialty products; i.e. luxurious items in which case rich consumers may not mind paying high prices due to their ego, status, or prestige. High initial price can be projected as a symbol of quality; and can be used as a technique of market segmentation, with the objective of selling to ‘classes’.

This pricing policy helps to recover high promotional expenses incurred during the introductory stage of the product; and also to finance the cost of product planning and development of luxurious products.

However, this policy may induce strong competition on the part of rivals who might be tempted by excessive profits of the manufacturer, in question.

7. Discriminating Pricing:

According to Mrs. Joan Robinson, "**The act of selling the same article produced under a single control, at different prices to different buyers, is known as price-discrimination".**

Price-discrimination is common in case of professional services e.g. those of doctor's or lawyer's; who may charge different fee from different customers, on the basis of their ability to pay.

Price discrimination is possible when customers are separated from each other, on the basis of their (market) location. For example, such kind of price discrimination is found in case of seating in cinema halls, in airline services etc.

Price discriminating may occur, on the basis of the use to which the product is put by different customers. For example, electricity boards charge different price per unit when electricity is used for domestic or commercial purposes.

8. Loss-Leader Pricing:

This pricing strategy is favorite among retailers. They sharply cut prices on one or few popular items (even below its cost) to attract customers. The items on which prices are cut are called loss leaders.

Having attracted in this way; they may charge very high prices for some of their other products; which consumers may pay thinking that the price is just reasonable.

In fact under this pricing strategy, loss suffered in case of 'loss-leader-product'; is compensated through higher prices charged for other products.

9. Keep Out Pricing:

It is a pre-emotive pricing policy involving fixation of low prices to discourage or prevent the entry of new firms into the industry. This policy can be adopted only by big firms who have large resources at their command.

However, it is a very risky policy and may lead to severe losses to the firms. Moreover, it may not be possible for the firm to raise prices subsequently; once people get used to buying at lower rates.

10. Psychological Pricing:

Under psychological pricing strategy, price is so fixed that it appears to be somewhat lesser; and influences the mind of the buyer to buy the product. For example, a price fixed at Rs. 299 instead of straightway Rs. 300 is an instance of psychological pricing strategy.

11. Differential Pricing for Product-Life-Cycle Stages:

Under this pricing strategy, the manufacturer has different price policies in view of the product- life cycle stage a product is passing though. For example, a manufacturer may fix a low price when the product is in the introduction stage; may slightly raise the price during the growth stage; may stabilize the price at the saturation stage and may finally reduce the price when the product is passing through the declining stage.

12. Resale Price Maintenance (RPM) Strategy:

RPM is a strategy, under which the manufacturer of a branded product, in open competition, establishes the price at which distributors will sell the product to consumers. For RPM strategy, it is necessary that the product must be branded

RPM strategy offers the following advantages:

1. It builds the image of the manufacturer.
2. It provides protection to buyers against discriminating prices which may be charged by different dealers.


Thank you