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PRICING STRATEGIES IN BUSINESS

Alibabu[11] Omprasad Reddy[12]

ABSTRACT

This paper discusses about various Models of pricing and pricing strategies used by the businesses. These models and strategies are explained with examples. Pricing strategies aims to gain more profits and boost companies implement their own pricing strategies depends upon the place, climate conditions, demand of the product, and customer's income levels. Pricing strategies is used to earn more incomes in business and to increase their sales in the market. Price is the one element of the marketing mix that produces revenue. Pricing strategies are most important factors in business firms. The choice of pricing strategies implemented by the firm will depend on the whole corporate strategy, buyer expectations and behaviour, competitor strategy, industry changes, and regulatory boundaries. Other factors affecting the nature of pricing strategies are corporate image, geography, price discrimination, and price sensitivity.

KEYWORDS

Pricing, Strategy, Marketing, Profits etc.

INTRODUCTION

A business can use number of **pricing strategies** when selling a product or service. The price can be set to maximize profitability for each unit sold or from the market overall. It can be used to protect an existing market from new entrants, to rise market share within a market or to enter a new market.

Pricing is one of the most vital and highly demanded components within the theory of marketing mix. It helps consumers to have an image of the values the firm has to offer through their products, creating firms to have an outstanding reputation in the market. The firm's assessment on the price of the product and the pricing strategy influences the consumer's decision on whether or not to purchase the product. The competition within the market today is extremely high, for this reason, businesses must be focused on their opponent's actions in order to have the comparative advantage in the market. The technology of internet usage has enlarged and advanced dramatically therefore, price comparisons can be done by customers through online access. Consumers are very selective regarding the purchases they make due to their knowledge of the monetary value. Firms must be aware of these factors and price their products accordingly.

MODELS OF PRICING

Absorption Pricing

In absorption pricing, all costs are recovered. The price of the product comprises the variable cost of each item plus a proportionate sum of the fixed costs.

EX: The total cost assigned to each unit produced, using full absorption costing, is therefore the direct costs of ₹40000 plus overhead costs of ₹10000, giving a total cost of ₹50000 per product. As each product sells for ₹600000 the absorption costing method calculates a profit of ₹10000 on each unit sold.

Skimming Pricing

In most skimming, goods are high priced so that fewer sales are needed to break even. Selling a product or service at a high price, sacrificing high sales to increase profit is therefore "skimming" the market. Skimming is usually employed to pay back the cost of investment of the original research into the product: commonly used in electronic markets when a new range, such as DVD players, apple iphone are firstly marketed at a high price. This strategy is often used to target "early adopters" of a product or service. Early adopters generally have a relatively lower price-sensitivity this can be endorsed to their need for the product outweighing their need to economize; a greater understanding of the product's value; or simply having a higher disposable income.

[11] Student, Department of Management Studies, Gates Institute of Technology, Andhra Pradesh, India, www.alibabu1990@gmail.com
[12] Student, Department of Management Studies, Gates Institute of Technology, Andhra Pradesh, India, omprasadreddy.devarapalli1996@gmail.com

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This pricing strategy method is employed only for a restricted duration to recover most of the investment made to build the product. To gain further market share, a seller must use other pricing tactics such as economy or penetration. This method can have some obstacles as it could leave the product at a high price against the competition.

Ex: Samsung mobiles, apple iphone mobiles and electronic goods are best examples for skimming price. These companies when they launch their new product, the pricing will be very high. As the time passes on gradually due to competition and consumer interests, the prices of the same products will be decreased.

Decoy Pricing

In this method of pricing where the seller offers at minimum three products, and where two of them have a parallel or equal price. The two products with the alike prices should be the more expensive ones, and one of the two should be less attractive than the other. This strategy will make people compare the options with similar prices, and as a result, sales of the more attractive high-priced item will rise.

Ex: The retailer gives the combo offer that includes 2 mobiles plus memory card, plus Bluetooth device. Consumer purchases all the products at one occasion.

Freemium Pricing

Freemium is a revenue model that works by offering a product or service free of charge, typically digital offerings such as software, content, games, web services or others. However, charging a premium for innovative features, functionality, or related products and services. The word "freemium" is a combination of two aspects of the business model: "free" and "premium". It has become a highly popular model, with eminent success.

Ex: Reliance Jio prime offer for first 3 months was free, later they are charging as per consumer's usage.

High-low Pricing

Means of services offered by the organization are frequently priced higher than competitors, but through promotions, advertisements, and or coupons, lower prices are offered on important items. The lower promotional prices are aimed to bring customers to the organization where the customer is offered the promotional product as well as the regular higher priced products.
EX: All the automobile companies are giving advertisements with the basic price of the cars to attract the customers.

Keystone Pricing

A retail pricing strategy where retail price is set at dual the wholesale price. For example, if a cost of a product for a retailer were ₹200, then the sale price would be ₹400. In a competitive industry, it is often not recommended to use Keystone Pricing as a pricing strategy due to its relatively high profit margin and the fact that other variables need to be taken into account.

EX: key stone pricing is used while the product is forbidden in the market. In addition, this pricing strategy was implemented in inflation time. Like floods, limited availability of the product, and wartime.

Function hall's is the best example for key stone pricing. If we assume the function hall rent is ₹40000 in normal days. The same function hall rent would be ₹80000 in at wedding days.

Loss Leader

A loss leader or leader is a product sold at a low price to stimulate other profitable sales. This would help the companies to enlarge its market share as a whole. Retailers usually use loss leader strategy method in order to lead the customers into buying products with higher marked-up prices to produce profits rather than purchasing the leader product, which is sold at a lower cost. When a "featured brand" is priced to be sold at a lower cost, retailers rise not to sell large quantities of the loss leader products and they tend to purchase fewer quantities from the supplier as well to prevent loss for the firm.

EX: Supermarkets and restaurants are excellent samples that apply the strategy of loss leader. In the restaurant, we assume the roti cost is ₹30 and the curry item cost is ₹100, here the roti cost is at low price and the curry cost is very high. This is the strategy of loss leader.

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Marginal-cost Pricing

In business, the exercise of setting the price of a product to equal the extra cost of producing an extra unit of output. Businesses often set prices close to marginal cost during periods of reduced sales.

EX: An item has a marginal cost of ₹100.00 and a normal selling price is ₹200.00, the firm selling the item might wish to lower the price to ₹110 if demand has waned. The business would choose this approach because the incremental profit of ₹10 from the transaction is better than no sale at all.

Cost Plus Pricing

It is a cost-based method for setting the prices of goods and services. Under this approach, the direct material cost, direct labor cost, and overhead costs for a product are combined up and added to a markup percentage (to create a profit margin) in order to derive the price of the product.

EX: All the consumer products like soaps, and cosmetics. If the soap material cost is ₹15, direct labor cost is ₹5, overhead costs are ₹6 and profit margin is ₹4, now the cost of the soap is ₹30.

Odd Pricing

In this type of pricing, also known as psychological pricing, the seller tends to fix a price whose last digits are just below a round number (also called just-below pricing). This is done to give the buyers/consumers no gap for bargaining as the prices seem to be less and yet in an actual sense are too high, and takes advantage of human psychology.

EX: A good example of this can be noticed in most supermarkets where instead of pricing at ₹1000, it would be written as ₹999.

Penetration Pricing

Penetration pricing includes setting the price low with the goals of attracting customers and gaining market share. The price will be raised later once this market share is gained.

Firms or businesses that are just entering the market generally use penetration pricing strategy method. In marketing, a theoretical method is used to lower the prices of the goods and services causing high demand for them in the future. Such as, when the production rate of the firm is lower when compared to other firms in the market and sometimes when firms face hardship into releasing their product in the market due to extremely large rate of competition. In these situations, it is appropriate for a firm to use the penetration strategy to gain consumer attention.

Example: Suzuki Company's Nexa segment has implemented penetration pricing when they introduced Nexa Baleno car models in the market.

Price Leadership

An opinion made of oligopolistic business behavior in which one company, usually the leading competitor among several, leads the way in defining prices, the others soon following. The environment is a state of limited competition, in which a lesser number of producers or sellers shares a market.

EX: Gold & Silver is the best example for price leadership. The Indian Bullion Jewelers Association or the IBJA as it plays a key role in defining day-to-day gold rates in the country and rest of the gold retailers in India will simply follow the IBJA rates.

Target Pricing Business

Pricing method whereby the selling price of a product is calculated to produce a particular rate of return on investment for a specific volume of production. The target pricing method is generally used by public utilities, like electric and gas companies, and companies whose capital investment is high, like automobile manufacturing companies.

EX: gender based, caste based, age, level of income, etc.

Time-based Pricing

A flexible pricing mechanism made possible by advances in information technology, and employed mostly by Internet-based companies. By replying to market fluctuations or large amounts of data gathered from customers ranging from where they live to, what they buy to, how much they have spent on past purchases. Dynamic pricing allows online companies to regulate the prices of similar goods to correspond to a customer's willingness to pay. The airline industry sector is often cited as a dynamic pricing success story. In fact, it employs the technique so deceitfully that most of the passengers on any given airplane have paid different ticket prices for the same flight.

EX: On line shopping is the best example for time-based pricing, they gives bumper offers in a stipulated time.

Value-based Pricing

Value-based pricing is important business activity and is the process of developing product strategies and pricing them properly to establish the product within the market. This is a main concept for a comparatively new product within the market, because without the correct price there would be no sales. Having an excessively high price for an average product would have negative effects on the business, as the consumer would not buy the product. Fixing a low price on a luxury product would also have a damaging impact on the business as in the end the business would not be gainful. This can be seen as a positive for the consumer as they do not need to pay extreme prices for the luxury product.

EX: Branded companies are the best example for the value based pricing, like woodland, apple, fast track, Samsung.

Variable Pricing Strategies

Variable pricing strategy determines the price by adding the sum of total cost of the variable characteristics associated in the production of the product. Examples of variable characteristics are interest rates, location, date, and region of production. The sum of total of the variable characteristics is then included within the original price of the product during marketing. Variable pricing allows product prices to have an equilibrium "between sales volume and income per unit sold". Variable pricing strategy has the advantage of safeguarding the sum of total cost businesses would face in order to develop a new product. However, variable pricing strategy eliminates the cost of fixed pricing. Fixed pricing comprises the price of commitment received from manufactures in the production of developing the product and other involvement of factors.

EX: variable pricing strategy is depends upon the original price, place, transportation, expenses of the product.

Special Event Pricing

Sellers will launch special prices in certain seasons to drawn in more customers. Structured retailers offer huge discounts during festivals such as Deepavali and ugadi.

Low-Interest Financing

Instead of cutting its price, the company can offer customers low-interest financing. Automakers have used no-interest financing to try to draw more customers.

EX: Now-a-days all the automobile companies giving the low interest financing of their vehicles to customers.

Longer Payment Terms

Sellers, specifically mortgage banks and auto companies, stretch loans over longer periods and thus lower the monthly payments. Consumers often worry less about the cost or the interest rate of a loan, and more about whether they can afford the monthly payment.

EX: Longer payment terms is nearly 48 months or four years or above. Banks and finance companies are giving mortgage housing loans and car loans by giving long period.

CONCLUSION

Every business firm and companies implement their own pricing strategies depends upon the place, climate conditions, demand of the product, and customer's income levels. The main objective of pricing strategies is to earn more profits and to increase their sales in the market. Pricing strategy is one of the key elements in the business firms to develop their organization. Sometimes pricing strategies will retain the more customers in the market. Pricing strategies is used to attract the customers and willing to buy the products in the market.

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