PRICE AND PRICING STRATEGIES

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Abstract

In individual companies, price is one significant factor in achieving marketing success. In many purchase situations, price can be of great importance to customers. Marketers must establish pricing strategies that are compatible with the rest of the marketing mix. Management should decide whether to charge the same price to all similar buyers of identical quantities of a product (a one-price strategy) or to set different prices (a flexible price strategy). Many organizations, especially retailers, use at least some of the following special strategies: price lining, odd pricing and leader pricing. A company must also choose between everyday low pricing and high-low pricing, which puts noticeably low prices on selected products while having higher prices on all others.

Keywords: *price, consumers, pricing strategies, value*

1. Introduction

Price is the amount of money and other items with utility needed to acquire a product (Etzel, 1997). Recall that utility is an attribute with potential to satisfy wants. A seller usually is pricing a combination of the specific good or service that is the object of the transaction, several supplementary services and the want-satisfying benefits provided by the product.

A product's price influences wages, rent, interest and profits. Price is a basic regulator of the economic system because it influences the allocation of the factors of production: labor, land, capital and entrepreneurship. High wages attract labor, high interest rates attract capital. As an allocator of resources, price determines what will be produced (supply) and who will get the goods and services produced (demand).

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2. Importance of price

At the retail level, a small segment of shoppers is interested primarily in low prices and another segment of about the size is indifferent regarding price in making purchases (Bates, 1990). The majority of consumers are somewhat sensitive to price but are also concerned with other factors, such as brand image, store location, service, quality and value. Consumers with one or more of the following attributes are likely to be price sensitive: low income level, small house, large family and member of a minority group (Hoch, 1995).

Another consideration is that some consumers' perceptions of product quality vary directly with price. Typically, the higher the price, the better the quality is perceived to be. Consumers' perceptions of quality may be influenced not just by price but also by such factors as store reputation and advertising.

Price is also important as a component of value. Value is the ratio of perceived benefits to price and any other incurred costs (Etzel, 1997). Examples of other incurred costs include time associated with shopping for the product, time and gasoline used traveling to the place of purchase. Good value indicates that a particular product has the kids and amounts of potential benefits – such as quality, image and purchase convenience- consumers expect at a particular price level. Value also can be improved by introducing a much better product with a somewhat higher price than competing entries. Goodyear's Aquared radial tire, Gillette's Senyor razor and Intel's Pentium microprocessor chip all illustrate this approach.

A product's price is a major determinant of the market demand for it. Price affects a firm's competitive position and its market share. As a result, price has a considerable bearing on a company's revenues and net profits. Through prices, money comes into an organization.

3. Pricing strategies

A strategy is broad plan of action by which an organization intends to reach its goal (Etzel, 1997). A company engages in *price competition* by regularly offering products priced as low as possible and accompanied by a minimum of services. Consumer electronics, computers and air travel are just several of the myriad industries characterized by rigorous price competition at the present time. Price competition has been spreading to other parts of the world as well. For example, price reductions are becoming more commun throughout Europe.

During the 1990s, value pricing has become a pivotal marketig trend in fields as diverse as air travel, groceries, personal computers and fast food. Value pricing certainly emphasizes the price element of the marketing mix. Value pricing depends on creatively combining all elements of the marketing mix in order to maximize benefits in relation to price and other costs. With a value pricing strategy, products often have to redesigned to expand benefits and shave costs. Relationship among channel members and customers have to be strengthened to generate repeat sales.

Steps toward this end include frequent-buyer programs, toll-free costumer service lines and hassle-free warranties.

In *nonprice competition*, sellers maintain stable prices and attempt to improve their market positions by emphasing other aspects of their marketing programs (Etzel, 1997). Of course, competitors' prices still must be taken into consideration and price changes will occur over time.

The best approach in nonprice competition is to build strong brand equity for the firm's products. Two methods of accomplishing this are to develop distinctive, hopefully unique, products and to create a novel, appealing promotional program. In addition, some firms emphasize the variety and quality of the supplementary services they offer to customers (Bates, 1990).

4. Special pricing strategies and situations

To be effective in setting initial prices, evaluating existing prices and adjusting them as necessary, a firm needs to be aware of a variety of special pricing strategies and situations.

4.1. One-Price and Flexible-Price Strategies.

Early in its pricing deliberations, management should decide whether to adopt a one-price and flexible-price strategies. Under a one-price strategy, a seller charges the same price to all similar customers who buy identical quantities of a product. Under a flexible-price strategy, similar customers may pay different prices when buying identical quantities of a product (Etzel, 1997).

In the US, the one-price strategy is more common than the variable-price strategy. Most retailers follow a one-price strategy. This strategy shifts the focus from price to other factors, such as product quality. A one-price strategy can build customer confidence in a seller – whether at the manufactoring, wholesaling or retailing level- because the buyer does not have to worry that the customers paid lower prices.

A flexible-price strategy abounds in buying situations involving trade-ins. With flexible pricing, buyer-seller bargaining often determines the final price. Both factors, trade-ins and bargaining, are common in automobile retailing. Thus, even though window-sticker prices may suggest a one-price policy, variable pricing has been the norm in selling cars.

A single-price strategy is a extreme variation of the one-price strategy. Not only are all customers charged the same price, but all items sold by the firm carry a single price! In the early 1990s, chains such as Everything's $1.00 and Dollar Bill$ grew rapidly by offering frugal shoppers a variety of merchandise ranging from grocery items to cosmetics at a single price of $1.

4.2. Price lining

Price lining involves selecting a limited number of prices at which a business will sell related products. For the customer, the main benefit of price lining is that it simplifies buying decisions.

Rising costs can put a real squeeze on price lines. That's because a company hesitates to change its price line every time its costs go up.

4.3. Odd pricing

Earlier, we briefly discussed pricing strategies that might be called plychological prices: pricing above competitive levels, raising an unsuitably low price to increase sales and price lining. All these strategies are intended to convey derirable images about products.

Odd pricing, another plychological strategy, is commonly used in retailing. Odd pricing sets prices at uneven amounts, such as 49 cents or $19.95, rather than at even amounts. Autos are priced at $13,995 rather than $14,000.

The rationale for odd pricing is that it suggests lower price and, as a result, yields greater sales than even pricing. According to this reasoning, a price of 98 cents will bring in greater revenue than a $1 price for the same product. Research has indicated that odd pricing can be an effective strategy for a firm that emphasizes low prices (Schindler, 1989).

4.4. Leader pricing

Many firms, primarily retailers, temporarity cut prices on a few items to attract customers. This strategy is called leader pricing. The items on which prices are cut are termed leaders; if the leader is priced below the store's cost, it's a loss leader.

Leaders should be well-known, heavily advertised products that are purchased frequently. The idea is that customers will come to the store to buy the advertised leaders and while there will buy other, regularly priced merchandise. The net result, the firm hopes, will be increased total sales volume and net profit.

4.5. Everyday low pricing and high-low pricing

Everyday low pricing (EDLP) is the hottest retailing pricing trend. It may be hot, but it's not really new. Basically, everyday low pricing involves consistently low prices and few of any temporary price reductions. This strategy is featured by some large discounters such as Wal-Mart. Most supermarkets using EDLP are not pure in that they actually offer temporary price reductions on a rather frequent basis (Hoch, 1994). In these situations, it could be said that EDLP is a much a promotional theme as it is a pricing strategy.

For a company that intends to engage in price competition, the alternative to EDLP is high-low pricing, which entails offering relatively low prices on some products and higher prices on others. This strategy combines frequent price reductions and aggessive promotion to convey an image of very low prices. Many supermarkets rely on this approach. Some customer advocates have criticized the use of high-low pricing, asserting that it misleads shoppers. The concern is that most transactions are made at reduced prices, which means that the so-called low prices are normal rather than real bargain (Kaufmann, 1994).

4.6. Resale price maintenance

Some manufacturers want to control the prices at which middlemen resell their products- this is termed resale price maintenance. Manufacturers seek to do this to protect the brand's image. Publicly, they state that their control of prices provides middlemen with ample profit margins. In turn, middlemen should be able to give consumers expect sales help and other services when they buy the manufacturers' products from middlemen. Critics, however, claim that control over prices leads to inflated prices and excessive profits.

One way in which producers can gain a bit of control, and perhaps provide guidance to relailers, is with a suggested list price. This price is set by a manufacturer at a level that provides retailers with their normal markups.

To illustrate, a producer sells to, say, a hardware store a certain product for $6 a unit. It recommends a retail price of $10, which would furnish the store with its normal markup of 40 percent of selling price. This is only a suggested retail price. Retailers have the right to sell the product for less or more than the suggested price.

Friction over resale price maintenance has been common in the athletic shoes industry. For example, Reebok established a policy prohibiting retailers from pricing its premier shoes below suggested level and from discounting other lines by more than 10 percent. Stores not complying with the policy risked having their supply of Reebok products cut off (Etzel, 1997).

4.7. Reactive and proactive changes

After an initial price is set, a number of situations may prompt a firm to change its price. As costs increase, for instance, management may decide that raising price is preferable to maintaining price and either cutting quality or promoting the product aggessively. Small companies are more reluctant to raise prices than their large counterparts. Obviously, it's wise to raise prices gradually and with little fanfare.

Temporary price cuts may be used to sell excess inventory or to introduce a new product. Also, if a company's market share is declining because of strong competition, its executives may react initially by reducing price. Small firm' price cuts typically are not matched by large competitors, unless they significantly diminish the larger firm's sales. Decreasing price makes the most sense when enough new customers are attracted to offset the smaller profit margin per sale (Nagle, 1993). Nevertheless, for many products, a better long-term alternative to a price reduction is improving the overall marketing program.

Any firm can safely assume that its competitors will change their prices- soonner or later. A war price may begin when one firm decreases its price in an effort to increase its sales volume and market share. The battle is on if other firm retaliate, reducing price on their competing products. Additional price decreases by the original price cutter and its competitors are likely to follow until one of the firms decides it can endure no further damage to its profits. Most businesses would like to avoid price wars.

Always part of business, price wars seems to be epidemic in the 1990s, breaking out in numerous fields ranging from cigarettes to air travel. Back-and-forth price cuts along with improved features have characterized the personal computer (PC) field for a number of years. With Packard Bell using low prices to become the volume leader in PCs for the home market, other firms such as Compaq and even IBM had to cut prices.

After extended price wars, some companies in in industries as different as groceries and personal computers have gone out of business. In the short term, consumers benefit from price wars through sharply lower prices. But over the longer term, the net effects on consumers are not clear-cut. Ultimately, a smaller number of competing firms translate to fewer product choises and/or higher prices for consumers (Wilke, 1992).

5. Conclusions

Pricing is one of the most important element of tre marketing-mix. Companies design a pricing structure that covers all their producrs, change it over time and adjust it to account for different customers and situations.

Pricimg strategy usually change as a product passes through its life cycle. In pricing innovative products, the company can follow a skimming policy-initially setting high prices to skim the maximum amount of revenue from various segments of the market. Or it can use penetration pricing – setting a low initial price to win a large market share.

When the producr is part of a product mix, the firm searches a set of prices that will maximize profits from the total mix.

Companies apply a variety of price-adjustement strategies to account for differences in consumer segments and situations:

a) Geographical pricing, whereby the company decides how to price to distant customers, choosing from such alternatives as FOB pricing, uniform delivered pricing, zone pricing, basing-point pricing and freight-absorption pricing.

b) Discount pricing and allowances, whereby the company establishes cash discounts, quantity discounts, functional discounts, seasonal discounts and allowances.

c) Discriminatory pricing, whereby the company sets different prices for different customers, product forms, places or times.

d) Psychological pricing, whereby the company adjust a price to better communicate a product's intended position.

e) Promotional pricing, whereby the company decides on loss-leader pricing, special-event pricing and psychological discounting.

Many manufacturers are concerned about resale price maintenance, which means controlling the price which middlemen resell products. Market opportunities and/or competitive forces may motivate companies to initiate price changes or, in other situations, to react to other firms' price changes.

When a firm considers initiating a price change, it must consider costomers' and competitors' reactions. Costomers' reactions are influenced by the meaning customers see in the price change. Competitors' reactions flow from a set reaction policy or a fresh analysis of each situation. The firm initiating a price change must also anticipate the probable reactions of suppliers, middlemen and government.

There is no other weapon in the arsenal of a marketer able to lead to a more rapid increase of sales than price. The price cuts are usually a sure method to boost the profit. Nevertheless, the increase of sales trough price is profitable in the long run only when it is part of a controlled marketing strategy which aims to fructify a competitive long term advantage. No price cut should be initiated only in order to make the next sale or to reach a short term aim, without having into account the possible reactions of the competitors and clients. The key for a profitable pricing strategy is to create and maintain the competitive advantage.

6. References

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