Chapter 2
Price Structure and Levels

ABSTRACT

It is argued in this chapter that pricing structure is largely affected by the strategies of profit and cost centers that are immensely pushed by the firms to gain advantage over the competitors tactically. One of the pertinent problems in the profit-center structure is it makes it impossible for the firm to consider a product's revenues and costs separately. Another is the cost accounting system, which is not good for identifying the actual expense of generating additional offerings. Quality of price is referred as value for money from the perspective of consumers. Unwarranted increase in the prices often lowers the value for money perceptions of buyers and chances of quitting the price for the brand increases. The interrelations of price with the advanced marketing-mix of 11 Ps also help in developing the pricing structure as well as setting-up price levels. This chapter examines the strategies to consider pricing structure and levels while preparing a pricing plan. Internal and external factors affecting pricing decisions are discussed, including buyer's perceptions of price and value, competition, and demand and price elasticity. The chapter also discusses five critical perspectives on pricing comprising price offer configuration, price metrics, price setting process, price value-chain management, and systems thinking in pricing strategy.

INTRODUCTION

It has been observed that consumers may not have an accurate sense of what the price should be for most of the items they buy. Research shows that consumers' knowledge of the market is often discrete and they rely on retailers to tell them whether a good price is being offered to them. In subtle ways, retailers send signals to customers, conveying that a given price relatively offers a competitive advantage. Pricing cues are powerful tools for guiding customers' purchasing decisions, but they must be applied judiciously. Used inappropriately, the cues may breach customers' trust, reduce brand equity, and give rise to lawsuits. Technology led management has set apart the conventional pricing methods in the firm. However, deciding what prices to be charged to the end users represents one of the critical decision variables confronting managers. Though prices indicate clear messages about customer value, purchase intentions, and objectives of the firm, pricing has

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been one of the least emphasized strategic issues in the management today. A strategic perspective on pricing includes price objectives, price strategy, price structure, price levels, and price promotions. Globalization and growing competition has driven e-commerce with new opportunities and encouraged application of differentiated pricing. Firms engaged in e-commerce today determine pricing by creating customer switching barriers and differentiating by consumer segment in order to optimize profits. The competitive pricing strategies throw challenge to managers for integrating the customer price search technologies with marketing strategies of the firm. Such integration sometimes may be affected by the market rumors on pricing provoked by social media. Firms may combine an integrated framework for analysis of strategic pricing analyzing various strategic frameworks such as market-based versus cost-based, proactive versus reactive, risk-assumptive versus risk-aversive, and flexible versus standardized dimensions of pricing (Schindehutte and Morris, 2001).

Pricing structure is largely affected by the strategies of profit and cost centers that are immensely pushed by the firms to gain advantage over the competitors tactically. One of the pertinent problems in the profit-center structure is it makes it impossible for the firm to consider a product's revenues and costs separately. Another is the cost accounting system, which is not good for identifying the actual expense of generating additional offerings. Managers can push profit responsibility up, push revenue and cost responsibilities down to separate groups, and step back from the cost accounting system in order to overcome these challenges. They may find pricing flexibility they didn't realize they had (Bryce et al, 2011). There are many price equilibrium states that firms may achieve over the time in the market competition. Different price structures may be constructed based on various states of price equilibrium. Firms may engage in Stackelberg competition if a firm has some sort of advantage enabling it to move first. More generally, the leader must have commitment power. Moving observably first is the most obvious means of commitment as once the leader has made its move; it is committed to that action. Moving first may be possible if the leader has been the incumbent monopoly of the industry and the follower is a new entrant.

In order to develop a right pricing structure firms need to look into existing market competition and observe whether the competitor's prices are affecting the target market. Also, it is essential to understand what type of value the competitors are providing for the prices offered. Next, firms should strategically harness the local resources in collecting the prince information pertaining to the market and competitors. If a particular consumer segment has been offered a pricing standard for the specific products and services, these resources need to be critically appraised and analyzed by the firms. Further, firms should obtain feedback from the customers. One of the ways to find out about pricing structure is to conduct a survey to the consumers to know their perceptions and values associated with the prices offered by the firms. In addition, firms should evaluate the supply and demand of products or services. If firms are selling a low-supply, high-demand product, probably the price structure would touch the higher end compared to when the operational situations are in reverse. Firms may decide to conduct market research in order to broaden the pricing focus. However, firms should decide on price offerings on fixed and variable costs to determine the profitable price structure. In the current market competition firms seem to follow a hierarchy of pricing objectives where their main focus is on the maintenance of the existing customers and the attraction of new ones, in order to ensure their long-term position in the market (Avlonitis and Indounas, 2004).

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