# Chapter 5
# Pricing Policy


## ABSTRACT

*Globalization has prompted trumping rivals that are tougher than ever in the global marketplace. Incumbency does not help a firm to maintain its market share in the constant turbulence. Firms reinvent strategic directions to predict a distinctive future in the competitive marketplace and determine what strategies, capabilities, and organizational structures are required to lead competition. Many firms serving business markets believe that practicing value-based pricing justifies the value of product offerings and offers a relative advantage to their customers. Price is one of the critical factors to negotiate in the entire process of marketing management. Most firms develop pricing strategies in close association with their customers to convey higher value for money on the prices offered in every transaction. Pricing is used as a critical strategic tool by the firms and drive consumers to fight back against the competing or substitute products by comparing the pricing policies of the firms. Besides the above issues, this chapter addresses developing various pricing strategies including premium pricing, penetration pricing, economy pricing, price skimming, psychological pricing, and niche pricing strategies.*


## POLICY DEVELOPMENT

Market complexities are caused by various factors including consumer behavior, competition, pricing intricacies, and distribution and retailing management. Many consumer markets exhibit traditional forecasting models perform at a level that excludes practical use, for instance while predicting the market shares of new products or the effects of marketing strategies. Interaction among consumers, comprising normative influences and word-of-mouth, is one of the key processes behind this complex market behavior (Gilbert et al 2007). Markets often fluctuate and take long time to reach a sustainable stage. Examples may be referred to the increasing sales of low polyunsaturated oil in North European countries, the shift from conventional cameras to digital cameras as the dominant image digitizer, and the trend toward the digital recording and distribution of music. These examples are markets behaving in a stable way for prolonged periods of time, and then finding a new equilibrium after a short period of volatile behavior. New producers are more volatile and display

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continuous fluctuations in market share. These fluctuations are often small and incremental, but may sometimes be surprisingly large (Edmonds and Hails, 2005).

In the growing competitive markets the large and reputed firms are developing strategies to move into the provision of innovative combinations of products and services as 'high-value integrated solutions' tailored to each customer's needs than simply 'moving downstream' into services. Such firms are developing innovative combinations of service capabilities such as operations, business consultancy and finance required to provide complete solutions to each customer's needs in order to augment the customer value towards the innovative or new products. It has been argued that the provision of integrated solutions is attracting firms traditionally based in manufacturing and services to occupy a new base in the value stream centered on *systems integration* using internal or external sources of product designing, supply and customer focused promotion (Davies, 2004). Besides the organizational perspectives of enhancing the customer value, the functional variables like pricing play a significant role in developing the customer perceptions towards the new products.

The Asian product and services industry has posed a major competitive threat to the western countries. The principal concern for many firms is the impact of low-cost Chinese manufacturing and Indian services on global pricing. Focusing on this concern alone represents a profound misunderstanding of the nature of the competitive threat. Emerging markets might seem to be an implausible source of innovation. Certainly, most of the companies functioning in the emerging markets must overcome significant obstacles to threaten those in markets of developed countries. Yet the challenge remains of serving the harder-to-reach and more cost-conscious consumers of developing countries who are also typically less loyal to established brands. Such challenge may force companies to design and deliver products comparable to the offerings of developed nations for as little as one-fifth the price in order to stand competitive in the price sensitive markets. Doing so requires big changes to the design of products and processes, and these changes may soon affect developed markets dramatically to reconcile their competitive strategies. The spread of Chinese products as low priced mass market drivers may be described as the case of extreme competition wherein, an oversupply of labor, infrastructure, production, and capital has weakened the performance of whole industry while helping upstarts to challenge their established positions in global markets.

Even in a mature and complex market, that is resistant to across-the-board price increases, there are still many ways to deftly raise effective prices and increase market share. Pricing policy, if wielded wisely, can still be a powerful tool. The path to these pricing opportunities lies in three actions management can take: change the structure of the price (bundle benefits, unbundle benefits, offer alternative service levels and price points, link future purchases to current transactions, change the price effectiveness period, substitute components of the price, shift some of the price to suppliers); build more subtlety into the pricing process (set prices selectively rather than across the board, move prices in smaller increments, raise invisible prices, match price moves to the market, use discounts strategically to build relationships with desirable clients); and exploit patterns common in other difficult markets (price against the leader, follow the leader, seek out segments that will tolerate higher prices). With the hidden power of pricing, a company facing a highly price-competitive market can use knowledge and subtlety to improve its returns and share (Potter, 2000).

## Premium Pricing

Firms that have flagship brands use a high price for them in a consumer segment that can afford such price. This approach is used where a substantial

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