

Chapter 5

Dynamics in Developing Pricing Strategies

ABSTRACT

The most responsive element in the marketing functions is considered to be the pricing, which drives consumer decision making. Prices respond to supply and demand pressures in real time or near-real time. In this chapter, how systems thinking can be applied to develop right pricing strategy is discussed. Product pricing and tactical moves that help stabilizing the business and build its performance in the future among competitors have also been emphasized in the chapter. Also examined in the chapter is how many companies serving business markets believe that practicing value-based pricing is changing. The benefits of value based pricing approach are revealed in improved relations with customers that often lead to longer-term, more profitable relationships. It is argued here that pricing is a creative exercise, and companies should stay focused on profits. Further discussion provides guidelines for creating effective base prices using systems thinking approaches and enhancing profitability of firms.

INTRODUCTION

...pricing with Confidence is a road map for senior leadership in sales, marketing, finance, and pricing to work together to outperform the competition. Pricing with Confidence is organized into ten simple and practical rules to help senior leaders tackle rampant price discounting, negotiate with poker-faced customers, and protect the value a company works so hard to create...

Holden, R. and Burton, M (2008)

DOI: 10.4018/978-1-4666-0969-3.ch005

Pricing is the most sensitive factor of the marketing-mix that drives the business growth in a competitive marketplace. Prices respond to supply and demand pressures in real time or near-real time. Such attributes of pricing is referred as dynamic pricing that has long been used by airlines and hotels. The dynamic pricing has become a point of pricing strategy for competitive marketing in different sectors, including apparel, automobiles, consumer electronics, personal services, telecommunications, and second-hand goods. The multi-domestic companies are making use of new

findings on dynamic pricing by analyzing more sensitive market information to raise their average realized prices, thereby increasing revenues and profits. There are two mechanisms for dynamic pricing that includes posted prices as seen by the consumers and price-discovery mechanisms, in which customers determine prices through their own actions. These two mechanisms are employed in yield management (commonly used by airlines), demand-based pricing, three types of auctions, group buying, and business to business negotiations. An important constraint in employing dynamic pricing is consumers' liberty of price acceptance, which varies for different products and situations and which can be discovered through observation, surveys, or analysis of demand elasticity. Customers also tend to embrace dynamic pricing in the following situations: where the price reflects intensity of demand for the product, there is communication between the seller and the consumer, and the price difference is explained by a difference in perceived value across channels through which the transaction occurred (Sahay, 2007). The more the managers understand the buying cycles and habits of the customer, the more they become able to manage price margins to suit the customer's shopping, to segment customers, and to develop price discrimination.

PRICING FUNDAMENTALS

The fundamentals of global pricing are derived through the conventional practices followed in home markets. The basic determinants for the pricing of products and services are production costs, competitive factors, and break-even analysis and demand considerations. Domestic price is affected by the considerations on pricing objectives, cost, competition, customer, and state regulations. These considerations apply at home and in the host country. In addition to the conventional considerations on pricing, multiple currencies, trade barriers, and longer distribution channels make

the pricing decision more difficult. The *pricing objectives* should be closely aligned to marketing objectives, which in turn need to be derived from overall corporate objectives. Essentially, the pricing objectives of a foreign firm intending to operate in the host country should be evolved in terms of profit or volume. The pricing process in a firm should include the following levels:

- Price setting- goals, competitive advantage, market share, revenue on sales
- Negotiation tactics and criteria for discounting-customer acquisition and retention
- Price and value communication, developing value selling tools
- Price structure- metrics, fences, controls
- Value Creation- economic value, offering design, segmentation

The cost factors play a significant role in determining the international prices of products and services. The mark-up on cost or price or a target returns on investment may constitute the profit objectives of pricing while anticipated volume of growth in sales may be considered towards the volume objectives of the international pricing. The standard pricing procedure for exporting consists of a *cost-plus formula*. The firm may revise export prices by adding up the various costs involved in producing and shipping the product (which refers to cost-based pricing) and then adding a mark-up (that refers to the concept of "plus") to this amount to achieve a reasonable rate of return. The cost drivers of pricing include production costs, administrative costs, allocated research and development expenditures, selling costs, transport and warehousing charges, custom duties, and requisite fees towards documentation etc. paid through various facilitating agencies. In practice most firms seem to use full cost approach that includes direct costs and managerial costs in determining the international prices. However, the emphasis varies with the company strategy

23 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage:
www.igi-global.com/chapter/dynamics-developing-pricing-strategies/65304

Related Content

An Integrated Decision Support System for Intercropping

A. S. Sodiya, A. T. Akinwale, K. A. Okeleyeand J. A. Emmanuel (2010). *International Journal of Decision Support System Technology* (pp. 51-66).

www.irma-international.org/article/integrated-decision-support-system-intercropping/46638

Feasibility Evaluation of Highwall Mining in Open-Pit Coal Mine Based on Variable Weight Fuzzy Theory

Dong Song, Ting Liand Yuanlong Zhao (2024). *Granular Computing and Big Data Advancements* (pp. 239-268).

www.irma-international.org/chapter/feasibility-evaluation-of-highwall-mining-in-open-pit-coal-mine-based-on-variable-weight-fuzzy-theory/353294

Context in Decision Support Systems Development

Alexandre Gachetand Ralph Sprague (2008). *Encyclopedia of Decision Making and Decision Support Technologies* (pp. 93-101).

www.irma-international.org/chapter/context-decision-support-systems-development/11244

Anti-Entropy Resolving of Uncertainty of Estimations Within Scope of Intelligent DMSS

Oleg Nikolaevich Dmitriev (2019). *International Journal of Decision Support System Technology* (pp. 48-71).

www.irma-international.org/article/anti-entropy-resolving-of-uncertainty-of-estimations-within-scope-of-intelligent-dmss/223427

From Human Decision Making to DMSS Architecture

Jean-Charles Pomeroland Frederic Adam (2003). *Decision-Making Support Systems: Achievements and Challenges for the New Decade* (pp. 40-70).

www.irma-international.org/chapter/human-decision-making-dmss-architecture/8061