Pricing Strategies

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Price is an important element of marketing mix of a company because it is the only element that results in cash inflow for a company while all other parts of marketing mix result in cash outflows. Pricing strategy is important because purchasing behavior of customers differs from one another and company will earn more revenues if there is a higher demand of a certain product. A company can set prices at its will if its production process has been well established and there are least risks involved in it. Various pricing strategies can be considered effective and relevant according to outcomes desired by a company (Shodhganga).

Pricing allows a company to differentiate its product from the products of its competitors. Major factors that describe pricing are company objectives that are sought from pricing. Some outcomes of pricing strategy are profit maximization, revenue maximization, quality leadership, quantity maximization and survival. A pricing objective depends upon three basic factors: 1. nature of product, 2. desired level of attainment and 3. time horizon under consideration. Factors deciding pricing of a company may include internal and external factors. The most important internal factor is the cost that is borne for making a product. Other internal factors include marketing objectives of the company and marketing mix strategies. External factors include the market environment, demand and competition.

# **Pricing strategies**

## **Economy Pricing**

This strategy is used when a company is able to keep its overhead expenses at the lowest level. A small grocery store will have lower prices than a branded store because it will have no outdoor advertising expenses. In times of economic recession, this strategy works very effectively and is suited to companies aiming an increase in sales of its products. This pricing strategy is very similar to competitive pricing strategy.

## **Price Skimming**

This strategy calls for a higher price and is generally used by those companies which enter the market ahead of all other rivals. The basic aim of this strategy is to take benefit of increased demand at the start and skim the cream from top of any segment. When other competitors also enter the market, prices drop but the company entering the market ahead of all others has enjoyed increased revenues due to price skimming. For this strategy to be used, product should be unique so that choosing this strategy is justified. An example is a newly launched cell phone that will be sold at a considerably lower price after one year of launch (Prestholdt, 2017).

## **Penetration pricing**

This is almost opposite to skimming pricing and a company opts to keep prices lower than all other competitors. A company may have a large number of other products on offer which will compensate for lower price of this product. Another description of this strategy will be that a company has been able to lower its costs so that it can charge lower prices. Generally, this pricing strategy is used to push competitors out of market based on price competition. Once all competitors are driven out of the market, prices will gradually rise and company will start earning better revenues (Schindler, 2012).

## **Premium Pricing**

Premium pricing is used by companies who have a product with clear differentiation as compared to competitors. This is different to skimming pricing in that it is a long-term strategy as opposed to skimming. Some examples can be five-star hotels and other similar luxurious products (J.Smith, 2012).

# **The case of Carmex**

Carmex has been using economy pricing as a strategy and in order to apply this strategy, it is applying a cost-plus pricing method. Price is set by adding some decided percentage to the total cost of production. It is emphasized in video many a time that company keeps its cost of production in control which means that it has a strong base from where it can launch its pricing strategy. Considering the nature of its product, it can also change to penetration pricing because it has controlled its costs of production. For a short time, it will have to bear some losses but eventually profits will start coming as other products will be driven out of competition.

Company is also using psychological pricing as a tool which is evident by some products priced at $ 4.99 instead of $5.00. This has a psychological impact on the customers that they have bought a cheaper product. This strategy is justified because company is offering a generic product that has no particular differentiating characteristic as compared to its competitors. Pricing can only be used to attract some customers to buy company’s products.

If company finds a market where no similar product is available, it can choose skimming pricing strategy to earn higher revenues before any other competitor can enter market. However, in a market where competitors are already working, company can use penetration pricing strategy. This strategy is risky in a sense that it may not result in driving competitors out of market because some competitors will be able to match lower prices, this situation will start a price war in market.

Pricing strategy in a new market will also depend upon objectives of company. If revenue maximization is aimed, then prices will be lower and there will be very high volume of sales. On the other hand, profit maximization will mean that company will charge a higher price and try to maximize profits by selling fewer number of units. Demand based methods cannot be used by company because they require specific product differentiations which are not offered by the company.

# References

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