WWW.IJRPR.COM

International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

Pricing Methods and Strategies for Products in Service and Trade Businesses.

Vu Thi Ngoc Huyen

University of Labour and Social Affairs, Vietnam
vanhk2121984@gmail.com

ABSTRACT:

Setting the right price for a product is crucial for business success and is a key issue in corporate management. When making pricing decisions, managers rely on various sources of information and different pricing strategies, yet the importance of cost information cannot be denied. From an economic standpoint, the product's price must cover costs and generate profit for the company. Depending on the business owner's goals, such as market penetration, outperforming competitors, increasing market share, or boosting profits, different pricing strategies and methods are needed. The following article will summarize common pricing strategies and methods widely used today.

Keywords: pricing method, pricing strategy, service trade enterprise

1. Pricing strategy

A pricing strategy is a company's directional plan for setting prices over a specific period (usually mid- to long-term) to achieve goals such as optimizing marketing effectiveness, capturing market share, or increasing profits. To meet these pricing objectives, businesses need appropriate strategies tailored to each goal. Therefore, the price objective is a key factor influencing the pricing strategy. Product pricing strategies:

1.1 New product pricing strategy

When a business plans to launch a new product or service and is required to implement a pricing strategy for the product, you can consider the following two methods:

Penetration pricing

Many pricing models aim to maximize profits. However, gaining a larger market share is equally, if not more, crucial. If you're holding a small slice of a rapidly growing industry, your goal should be to expand that share or penetrate the market further. Consider setting your prices lower than competitors to encourage customers to try your products or services. Penetration pricing only works in price-sensitive markets where low prices can make a splash, and the company must have the resources to sustain these prices long enough to gain a competitive edge. The big catch with this approach is that some customers might equate low prices with poor quality. The business will also have to work much harder to cover its costs. But if this strategy pays off, the company could capture a significant market share and knock out many competitors. Then, with customer loyalty secured, a slight price adjustment can lead to profits based on the volume of products sold.

Skimming the surface in valuation

With a skimming pricing strategy, businesses set a high initial price and lower it over time. Skimming pricing only works if the product's quality and image are strong enough to support its high price, the target market segment is sufficiently large, production costs aren't too high at small scales, and competitors can't easily enter the market with lower prices. The advantage of this method is that if customers accept the price, you'll maximize upfront profits and build a more sustainable business. However, the major challenge is convincing customers that the price matches what they're getting. If customers don't feel the product's value justifies the expense, they won't be willing to pay for it, and you won't make any sales.

1.2 Product bundle pricing strategy

Product line pricing

Product line pricing is a method where sellers organize similar products into different price groups to cater to various market segments, creating a diversity of products and features for customers to choose from. This allows businesses to meet the needs of different customer segments. The company's task is then to establish a perceived value difference that justifies the price variations among the product lines.

Optional product pricing

Many businesses employ optional product pricing strategies with the aim of upselling additional options or accessories that go with the main product.

Mandatory product pricing.

For some products, customers are required to purchase additional parts or accessories to make them work. Manufacturers of these essential add-ons adopt a captive product pricing strategy. With this pricing approach, the main product is often priced low, and profits are made from the mandatory accompanying items. However, businesses need to be careful and balance the cost of the main product with that of the add-ons, as customers who feel duped into buying overpriced accessories can develop a negative impression of the brand.

By-product pricing

Products and services often generate by-products, and if companies don't find value and set a price for these, they'll end up spending a significant amount to dispose of them. Therefore, businesses need to find a market and price their by-products to cut down on disposal costs and boost their brand presence.

Pricing the product bundle.

Most product prices refer to individual items, but bundle pricing is all about the allure of multiple products combined. To deploy a bundle pricing strategy, sellers often group several items together and offer them as a combo at a discounted rate. This approach not only boosts sales for products that consumers might not typically be keen on but also allows businesses to introduce new products while generating additional demand. For bundle pricing to truly work its magic, the combo deal must be enticingly low to attract customers.

1.3 Price Adjustment Strategies

Companies and businesses need to tweak their base prices to hit the right marketing targets tailored to each customer segment and various situations. Currently, there are 5 product pricing strategies you can check out and apply sensibly:

Segmented Pricing

In segment pricing, a company sells a product or service at different price points across various segments, even though the price differences aren't based on cost variations. For segment pricing strategies to work, the market needs to be easily segmented, and those segments should show different levels of demand. Plus, the costs of segmenting and reaching out to individual market parts shouldn't exceed the additional revenue gained from the price differences.

Psychological pricing

Another pricing strategy is psychological pricing, which plays on the emotions of the customer. In purchasing transactions, consumers often lack the necessary information to determine whether they're getting a good deal or not. For items that are hard to compare prices for, customers typically assume that a higher price equates to better quality.

Promotional pricing

Promotional pricing is a strategy where businesses temporarily set product prices below the list price, sometimes even below cost, to boost sales and draw in consumers for a short period of time. When rolling out promotions, companies should strive to generate excitement and stimulate purchasing interest among consumers. Promotional pricing can take the form of discounts off the list price or buy-one-get-one-free offers during holidays, festivals, or seasonally to increase revenue and reduce inventory. Additionally, special events during certain seasons can be leveraged to attract more customers. Promotional campaigns might include options like low-interest installment plans, discounts on purchases, extended warranties, free maintenance,... However, promotional pricing can have adverse effects on a business. If used too frequently, it may create a waiting mentality among some customers or diminish the brand's value and reputation. Particularly when promotions are used as a quick fix to overcome difficulties at a given time instead of "sweating it out" during that period to develop effective long-term strategies for brand building. Therefore, pricing strategies like promotional pricing must be handled with care and precision.

Geographic pricing

In geographic pricing, a company sets different prices for customers in various regions or locations across the country or the world. The question is whether the company should risk charging more to distant customers by factoring in higher costs to cover additional shipping or regional taxes. Or should prices be uniform regardless of location? These are issues that businesses will need to crunch the numbers on to arrive at fair pricing that benefits both parties.

Dynamic pricing

If you look back at the history of commerce, prices used to be set through negotiation between buyers and sellers, making them fixed. However, in today's 4.0 era, some companies are adopting dynamic pricing strategies, where prices are continuously adjusted to match the demands of each customer in different situations. Dynamic pricing involves changing prices daily or even hourly (in real time) based on market demand. When implementing dynamic pricing, businesses must consider various factors, such as current demand, inventory levels, and costs. This is most evident on e-commerce sites where prices can be updated constantly; even with today's user tracking technology, prices can be tailored to each individual, resulting in different prices for every shopper. Another example is ride-hailing services like Grab, where fares increase during bad weather or peak hours due to higher demand.

International pricing

Companies taking their products global need to figure out the right price tags for different countries where they operate. The price a company should charge can hinge on a bunch of factors, like the economic conditions, competitive landscape, laws and regulations, as well as the development of wholesale and retail systems in that country. Plus, consumer perceptions and preferences might vary from one country to another, leading to differences in pricing. At the same time, a company might have different marketing goals in different markets, which calls for tweaks in pricing strategies to match.

2. Service product pricing method

Pricing methods are ways to calculate the cost of a specific product or service for a business based on expenses, expected profits, and more to achieve goals aligned with the chosen business strategy.

2.1. Cost-based pricing

This could be said to be the simplest pricing method; just tally up all the costs, tack on your desired profit margin, and voila—you've got your product's price.

Price of 1 product = cost to produce and sell 1 product + expected profit when selling 1 product

In some cases, like when a business wants to pull a product from the market during its final life cycle stage, clear out inventory, or boost its competitive edge, expected profits may be nonexistent or even negative. While this method is quite popular and has the advantage of being easy to calculate and determine profits, it comes with several drawbacks. It doesn't take into account factors such as customer preferences, brand image, and competition. It also largely ignores the laws of supply and demand. Moreover, if you're using this method, you'll want to make sure to include all your costs in these calculations. If you overlook hidden expenses like discounting inventory or paying for vacation time, you might undercharge your customers and miss out on the profits you need to keep your business running.

2.2. Pricing based on the breakeven point.

Break-even pricing is setting a price point where, at a certain sales volume, revenue and costs are equal. Beyond that volume, a business starts to turn a profit, so it must pull out all the stops to hit the targeted revenue. The aim of this pricing strategy is to use low prices as a tool to capture market share and knock competitors out of the game. To succeed, a company needs to figure out the sales volume required to drive costs down to the break-even point. Once rivals are out of the picture, the company can raise prices just enough to make a profit without being so high as to entice new market entrants.

Break-even point = fixed costs / (product price minus variable costs)

- Break-even point: The sales volume needed to generate revenue is equal to expenses.
- Fixed costs are the constant expenses of production.
- Variable costs: Are there variable costs to sell a product?

2.3. Value-based pricing.

Value-based pricing is entirely dependent on the benefits and value that consumers perceive from using the company's services. Therefore, businesses will set prices based on the following factors: the product's popularity, the brand's value, technological innovations that differentiate it from the market, user experience, product features, and the quality and design compared to competitors' offerings.

Businesses offering products with unique features or high value that are well-positioned in the market should leverage value-based pricing to boost company profits. Value pricing is effective if your target customers aren't overly price-sensitive and are willing to pay more for superior-value products or services. The key is to make customers feel like they're getting more benefits, justifying the higher price tag. Here are some tactics to enhance the effectiveness of this pricing strategy:

- Convenience is key. Some consumers are willing to pay a premium to avoid the hassle of traveling far to purchase an item or waiting a long time to receive it. Therefore, a nearby store might charge more for the same item compared to a supermarket, or an e-commerce retailer might add a surcharge for expedited shipping.
- Brand building: Businesses need to focus on brand building to become well-known, establish quality, and gain widespread trust. Many individuals are ready to pay extra for a brand they recognize and feel they can rely on.
- Riding the wave: Some customers are willing to pay a premium to be among the first to get their hands on the latest tech or the hottest fashion trends. If your product falls into this category, market it through key opinion leaders and influencers in your target market.
- Creating scarcity: Just like at the concerts of highly anticipated singers, many people buy up a large number of seats to create scarcity and resell them at higher prices. However, this approach can backfire if consumers become frustrated with sky-high price hikes. You might want to try a different tactic that's more fitting, like advertising with enticing phrases such as "Hurry, only 10 spots left!"
- Find your niche market: If you become the sole provider of a product or service in a market segment, you stand a chance to command better prices.
- Optimize customer care services: Many customers love having an amazing shopping experience and appreciate quick, hassle-free warranty services for defective products.

2.4. Competitive Pricing

This means that when setting product prices, businesses consider the prices of their direct competitors and then decide on their pricing strategy based on their company goals and market conditions. The price a business sets for its products or services could be lower to gain a price advantage, higher to leverage brand prestige, or equal to competitors', aiming to win over customers with superior customer service and after-sales support.

3. Conclusion

The reality is that no single pricing strategy is perfect enough to fit every business or all their products and services. Each company faces unique circumstances. First, there are internal factors like varying fixed and variable costs, different target profit margins, diverse strategic plans and business objectives, and distinct capital resources. Second, the market that the company targets includes elements like the quantity of rival sellers, the accessibility of alternatives, rivals' pricing, and market demand. Therefore, you may need to blend several pricing strategies to determine your product's price point while also adapting them flexibly to meet your specific business goals. The application of methods and pricing strategies depends on the particular situation of the company. However, any pricing method or strategy can backfire if it is implemented incorrectly. Thus, thorough preparation, analysis, and careful execution are absolutely essential prerequisites. Only then can pricing approaches succeed in boosting sales volume, increasing profits, enhancing competitiveness, and establishing value that propels the company towards greater growth.

References

1. Avlonitis, G. J., and Indounas, K. A. (2005), "Pricing objectives and pricing methods in the service sector," Journal of Services Marketing, Vol. 19, No. 1, pp. 47–57.
2. Diamantopoulos, A., and Mathews, B. P. (1994), "The specification of pricing objectives: empirical evidence from an oligopoly firm," Managerial and Decision Economics, Vol. 15, No. 1, pp. 73–85.
3. Keil S.K., David Reibstein, and Dick R. Wittink (2001), The impact of business objectives and the time horizon of performance evaluation on pricing behavior, International Journal of Research in Marketing, Vol. 18, Issues 1-2, June 2001, pp. 67–81.
4. A (2008), Customer value-based pricing strategies: why companies resist, Journal of Business Strategy, Vol. 29, Issue 4, pp. 41–55.
5. Hanna, N., and Dodge, H. (1995), "Pricing: Policies and Procedures" (Macmillan Business, Basingstoke).
6. P (2000), Marketing Management, Prentice Hall