Types of Pricing Strategies: Top 10 Strategies

Everything you need to know about the types of pricing strategies. After selecting a pricing objective, you will need to determine a pricing strategy.
This will assist you when it comes time to actually price your products. As with the pricing objectives, numerous pricing strategies are available from which to choose. Certain strategies work well with certain objectives, so make sure you have taken your time selecting an objective.
Careful selection of a pricing objective should lead you to the appropriate strategies. If the pricing strategy you choose seems to contradict your chosen pricing objective, then you should revisit the questions posed in the introduction and your marketing plan.
In this article we will discuss about the types of pricing strategies adopted by firms and companies.

Learn about:- 1. Competitive Pricing 2. Good, Better, Best Pricing 3. Loss Leader 4. Multiple Pricing 5. Optional Product Pricing 6. Penetration Pricing 7. Premium Pricing 8. Product Bundle Pricing 9. Product Line Pricing 10. Skim Pricing 11. Odd Pricing 12. Psychological Pricing 13. Prestige Pricing 14. Geographic Pricing and a Few Others.

Different pricing strategies can be used at different times to fit with changes in marketing strategies, market conditions, and product life-cycles.

Types of Pricing Strategies: Adopted by Firms and Companies

Types of Pricing Strategies – Top 10 Strategies: Competitive, Best, Multiple, Optional Product Pricing, Penetration Pricing and Premium Pricing

After selecting a pricing objective, you will need to determine a pricing strategy. This will assist you when it comes time to actually price your products. As with the pricing objectives, numerous pricing strategies are available from which to choose. Certain strategies work well with certain objectives, so make sure you have taken your time selecting an objective.
Careful selection of a pricing objective should lead you to the appropriate strategies. If the pricing strategy you choose seems to contradict your chosen pricing objective, then you should revisit the questions posed in the introduction and your marketing plan.

Additionally, different pricing strategies can be used at different times to fit with changes in marketing strategies, market conditions, and product life-cycles. For example, if you're working under a status quo pricing objective with competitive pricing as your strategy due to poor market conditions, and a year later, you feel that the market has improved, you may wish to change to a profit margin maximisation objective using a premium pricing strategy.

Brief definitions of some pricing strategies follow:

(i) Competitive Pricing:

Pricing your product(s) based on the prices your competitors have on the same product(s). This pricing strategy can be useful when differentiating your product from other products is difficult. So, let's say you produce fruit jams such as blueberry, strawberry, blackberry, and raspberry.

You may consider using competitive pricing since there are many other jams in the market and you are unable to differentiate your jams to an extent that customers may be willing to pay more for yours. Thus, if the price range for jams currently on the market is $1.45 to $1.85 per jar, you may price your jams at $1.65 per jar to fall in line with the competition.

The strategy of competitive pricing can be used when the pricing objective is either survival or status quo. When the objective for pricing products is to allow the business to either maintain status quo or simply survive a difficult period, competitive pricing will allow the business to maintain profit by avoiding price wars (from pricing below the competition) or falling sales (from pricing above the competition).

(ii) Good, Better, Best Pricing:

Charges more for products that have received more attention (for example – in packaging or sorting). The same product is offered in three different formats, with the price for each level rising above that of the previous level. For example, the manager of a farm market that sells fresh apples may place some portion of apples available for sale in a large container through which the customers have to sort to choose the apples they wish to purchase.

These apples would be priced at the "good" price. Another portion of apples could also be placed in a container from which customers can gather, but these apples would have been presorted to remove less desirable apples, such as those with soft spots. These would be priced at the "better" price.

The “best” apples—those priced higher than the rest—may have been presorted, just as the “better” apples, but have also been prepackaged for customer convenience. As demonstrated in this example, the “better” and “best” levels require more attention by management or labour but, if priced appropriately, may be worth the extra effort.
This pricing strategy should be used when pursuing revenue maximisation and quantity maximisation objectives. Revenue maximisation should occur as a result of quantity maximisation. Quantity maximisation should occur from the use of this pricing strategy because product is available to customers in three prices ranges.

(iii) Loss Leader:
Refers to products having low prices placed on them in an attempt to lure customers to the business and to make further purchases. For example, grocery stores might use bread as a loss leader product. It you come to their store to purchase bread, you are very likely to purchase other grocery items at their store rather than going to another store. The goal of using a loss leader pricing strategy is to lure customers to your business with a low price on one product with the expectation that the customer will purchase other products with larger profit margins.
The loss leader pricing strategy should be paired with either the quantity maximisation or partial cost recovery pricing objectives. The low price placed on the product should result in greater quantities of the product being sold while still recovering a portion of the production cost.

(iv) Multiple Pricing:
Seeks to get customers to purchase a product in greater quantities by offering a slight discount on the greater quantity. In the display of prices, a price for the purchase of just one item is displayed along with the price for a larger quantity. For example, a farm market may price one melon at $1.69 and two at $3.00. Pricing in this way offers the customer an apparent discount (in this example $0.38) for purchasing the greater quantity.
Customers feel like they’re getting a discount since $1.50 ($3.00 + 2) is less than the $1.69 price for one melon. However, $1.50 is the price you would typically charge if you were not employing a multiple pricing strategy. If you think the majority of your customers will purchase the greater quantity, you will want to price the quantity so that your costs are covered and your profit margin is maintained.
A customer purchasing just one item will pay more for the item than what you would typically charge if you were not using a multiple pricing strategy. The multiple pricing

strategies works well with the profit maximisation and quantity maximisation objectives. By enticing your customer to purchase more than one item, you are generating more profit since you have set the price for just one item so that you receive a greater profit margin than for which you would typically price.

Essentially, the customer is being penalized for purchasing just one item. In addition, multiple pricing should increase the quantity of items being sold, hopefully resulting in less product loss or fewer unsold items.

(v) Optional Product Pricing:

Used to attempt to get customers to spend a little extra on the product by purchasing options or extra features. For example – some customers may be willing to spend a little extra to be assured that they receive product as soon as it becomes available.

This can be an excellent strategy for custom operators. Let's say you are a custom operator providing forage harvesting services. Your base service option provides producers with basic harvesting. Available options that the producer could purchase in addition to the harvesting service could, include trucking to the storage site, packing, preservative application, and serving as a member of the producer's advisory committee.

The purchase of each of these options adds value to the service that the producer is receiving. With this strategy, it is important that the extra fee for the option(s) is reasonable; otherwise, you may lose business to a competitor with a more appropriate pricing structure for the extra services offered.

Optional product pricing is best used when the pricing objective is revenue maximisation or quality leadership. By enticing customers to purchase one or more of the options offered, to them, you will be increasing your revenue since the customers may not have purchased the option if it were not offered or may have gone elsewhere to purchase it. By offering optional products to complement your base product or service, you are projecting an image of quality to your customers. They will likely recognize your offer of additional products or services as awareness of and sensitivity to their needs.

(vi) Penetration Pricing:

Used to gain entry into a new market, the objective for employing penetration pricing is to attract and grow market share. Once desired levels for these objectives are reached, product prices are typically increased. Penetration prices will not store up the profit that you may want; therefore, this pricing strategy must be used strategically. Let's say you

have created a new hot and spicy mustard product. Your market research indicates that the price range for competitors' mustards is $1.89 to $2.99.
Since numerous mustards are already available and you are new to the mustard market, you decide to use penetration pricing to entice customers to purchase your mustard. Therefore, you price your mustard at $1.85 for the first six months because it covers your cost of production yet is lower than what you believe is a good price for your product and is below the lower end of the market range, which should entice people to purchase your mustard over the other higher-priced mustards.
The strategy of penetration pricing can be used when your pricing objective is either revenue or quantity maximisation. The lower price set on products by using penetration pricing is done to entice the maximum number of customers possible to purchase your product. Large numbers of customers purchasing your product should maximize your revenue and the quantity of product sold. If the price were higher, you would expect fewer purchases, thus leading to lower revenues.

(vii) Premium Pricing:

Employed when the product you are selling is unique and of very high quality, but you only expect to sell a small amount. These attributes demand that a high, or premium, price be attached to the product. Buyers of such products typically view them as luxuries and have little or no price sensitivity. The advantage of this pricing strategy is that you can price high to recoup a large profit to make up for the small number of items being sold. To demonstrate, let's say that you have a flock of sheep and you shear, dye, and spin your own yarn.
Your yarn is known in the industry as being of extremely high quality. Some of that yarn you use to knit sweaters, blankets, and scarves. Since your yarn and knitting are very high quality and you know that you probably won't be making and selling a large quantity of your knitted items, you decide to employ premium pricing. Your customers already know of the fine quality of your yarns or they are in higher income brackets, so they will most likely pay a premium price for your premium knitted products.
Premium pricing can be employed with the profit margin maximisation or quality leadership pricing objectives. The premium price charged for the uniqueness and quality of your product allows you to generate large profit margins on each item sold. Your product will also demonstrate your commitment to quality, and customers will think of you when they desire such quality.

(viii) Product Bundle Pricing:

Used to group several items together for sale – This is a useful pricing strategy for complementary, overstock, or older products. Customers purchase the product they really want, but for a little extra they also receive one or more additional items. The advantage of this pricing strategy is the ability to get rid of overstock items. On the other hand, customers not wanting the extra items may decide not to purchase the bundle. This strategy is similar to product line pricing, except that the items being grouped together do not need to be complementary. For example, you have remaining stock of Christmas-related items after the holidays. If you prefer not to store these items until next year, you could put a variety of items in a small bag and sell the bag at a discounted price. Product bundle pricing can be employed with revenue maximisation or quantity maximisation objectives since bundling products may result in the sale of products that may have gone unsold.
Quality leadership can be achieved since some customers will appreciate having the opportunity to purchase a group of items at a discount. The partial cost recovery or survival objectives can be fulfilled from a product bundling pricing strategy when products likely would have gone unsold otherwise and selling the products at a discount allows you to recover some portion of the production cost or generates enough of a profit to stay in business or keep from having to remove the product from market.

(ix) Product Line Pricing:

Used when a range of products or services complement each other and can be packaged together to reflect increasing value. This pricing strategy is similar to the multiple pricing strategies. However, rather than purchasing a greater quantity of one item, the customer is purchasing a different item or service at a higher price that is still perceived as a value when compared to the price for the individual product or service. Let's say that in your farm market you sell jams, syrups, and pancake mixes, among other items.
These items can be considered complementary since people usually put jam and syrup on pancakes. In addition to selling each of these items individually, you could create a gift box that packages one of each item together. The price for this gift box would be slightly less than what a customer would pay in total when purchasing each of the same items individually.
The product line pricing works well with the profit maximization and quality leadership pricing objectives since you are increasing profit by encouraging the purchase of a greater number of products that may not have been purchased individually. Additionally, some customers will value the ability to purchase a group of complementary product.

(x) Skim Pricing:

Similar to premium pricing, calling for a high price to be placed on the product you are selling. However, with this strategy the price eventually will be lowered as competitors enter the market. This strategy is mostly used on products that are new and have few, if any, direct competitors when first entering the market. Let's say you develop a carbonated, flavoured, milk-based beverage packaged in 10- ounce plastic bottles. Since there are few drinks of this sort on the market, you could use skim pricing until more products come to market.

Knowing that other similar beverage products will be likely to enter the market within a year or two, you may decide to price at $1.95 per bottle when your product debuts. Assuming that other similar beverages have come to market after a year, you then lower the price of your drink to $1.55 to remain competitive. The skim pricing strategy should be reserved for when your pricing objective is profit maximization, revenue maximization, or profit margin maximization.

Employing this strategy when your product is new on the market and there is no competition generates greater revenue, profit, and profit margins since you are the only one selling the product—customers must buy from you if they want what you are selling. You must use caution, though, so as to not price so high though that customers aren't willing to buy your product even though there are no competitors.

Types of Pricing Strategies – 16 Important Strategies Adopted by a Firm

A firm may choose various kinds of pricing for their products.

A few, important ones are explained below:

(1) Odd Pricing:

Odd price may be a price ending in an odd number or a price just under a round number. Such a pricing is adopted generally by the sellers of speciality or convenience goods. For example, Bata shoes are priced at say Rs.699.95. Odd prices may bring more sales. An article priced at Rs.99.95 will have more sales than when it is priced at Rs.100. Under odd pricing, buyers may feel that it is a 'Mark down Price.'

(2) Psychological Pricing:

The price under this method is fixed at a full number. The price-setters simply feel that certain prices for certain products are psychologically appealing.

Example- Products like shampoo, ball pen, biscuit and soft drink are sold at prices such as Rs.2, 3, 5 and Rs.10.

(3) Prestige Pricing:

Prestige price is one that is fixed at a higher price than the producer's near-perfect substitute. Prestige pricing is adopted because many customers feel that high price means high quality. They feel that at the low price the product cannot be of good quality. Moreover, the customers feel a high status at high price.

At high prices, the customers buy more. If prices are dropped a little bit, then customers may bargain a little. But if the prices begin to appear cheap, they start worrying about the quality and may stop buying.

(4) Consumer Expectations:

Such prices are fixed by consumers. Consumers are familiar with the rates and market condition and expect a particular price to be charged for certain products. Mostly such products are standardised ones, e.g., soft drinks and shampoo packets.

(5) Geographic Pricing:

The distance between the seller and the buyer is considered in geographical pricing. When there is a lot of distance between the production centre and consumption centre, the producer or marketer can adopt different prices in each area without creating any ill-will among customers.

For example, petrol is priced in this way, depending upon the distance from the storage area to the retail outlet. In other words due to geographical distance, the prices will differ.

There are three ways of charging transit costs viz.:

(a) F.O.B Pricing:

FOB (Free On Board) may be of two types: FOB origin and FOB destination. In the first case, the buyers will have to incur the cost of transit apart from the price quoted and in the latter, the price quoted is inclusive of transit charges.

(b) Zone Pricing:

In zone pricing, price is equal in the same zone. Market for a product is divided into various zones say south zone, north zone etc. and the price quoted will be the same in a particular zone irrespective of the differences in the distances in the same zone. In other words, prices are uniform within a zone.

(c) Basic/Base Point Pricing:

Under base point pricing, one or more cities are selected as base points and transport cost is collected from the base point to the buyer's location.

(6) Price Lining:

Price lining is found more commonly among retailers than among wholesalers or producers. This system consists of selecting a limited number of prices at which the store will sell its goods. It is the policy of setting a few price levels for a given class or line of goods. The main benefit of price lining is that it simplifies the buying decision of the consumer. For example, a buyer of a shirt can go into a shop where shirts are retailed between Rs.300 to Rs.600. It also helps the shopkeeper to plan his purchases.

(7) Dual Pricing:

When a manufacturer sells the same product at two different prices, it is dual pricing. Under dual pricing system, a producer is required compulsorily to sell a part of his production to the Government or its authorised agency at a substantially low price. The rest of the product may be sold in the open market at a price fixed by the producer e.g., sugar.

(8) Company Policy:

The price is fixed not on the basis of cost or competitive pressures or the laws of demand and supply, but fixed purely on the basis of the policy decisions of the company. In theory, this would mean that the company disregards all other considerations except his own desire for maximising profits.

(9) Monopoly Pricing:

Monopolistic conditions exist where a product is sold exclusively by one producer or a seller. When a brand new product moves to the market, its price will be a monopoly price. Under monopoly, competition is absent and there is no substitute. Hence, a seller has a free hand in fixing the price. Monopoly price will normally maximise the profits.

(10) Penetration Pricing:

Penetration pricing is intended to help the product penetrate into markets to hold a position. In other words, penetration pricing is intended to capture the market. This can be done only by adopting a low price in the initial period or till such time as the product is finally accepted by customers.

Penetration pricing is adopted when substitute product is marketed. Low starting prices sacrifice short-run profits for long-run profits, and therefore, discourage potential competitors.

(11) Negotiated Pricing:

It is also known as variable pricing. This method is invariably adopted by industrial suppliers. In certain cases, the product may be prepared on the basis of specification or design by the buyer. In such cases, the price has to be negotiated and then fixed.

(12) Mark-Up Pricing:

This method is adopted by wholesalers and retailers in establishing a sale price. When the retailers or wholesalers fix the selling price, they add a certain percentage to their cost price. For example, an item that costs Rs.20 may be sold for Rs.25. Here the "mark-up price" is Rs.5 or 25 per cent.

(13) Sealed Bid Pricing/Competitive Bidding:

This method is followed in the case of specific job works. Big firms or Governments normally get the work done through contractors. The contractors work out the probable expenditure and give their price offers in a sealed cover. The lowest bidder gets the work.

(14) Skimming Pricing/Skim-the-Cream Pricing:

This method is followed while launching a totally new product into the market. Under this policy, a high price is initially fixed to skim the cream of the market and the price moves downwards step by step until the right price is reached. The idea is that when the marketer is not sure about what price he has to charge, it is advantageous to begin with high initial price and move systematically downwards.

It is easier to start with a high price and then reduce it, than to start with a low price and then try to raise it. The skimming price policy will produce more income in the early stages of a product life cycle [PLC] only when the top of the market is insensitive to price and willing to pay what is asked. Example: In the case of books, this method is followed by having a high price for the first/deluxe edition and lesser prices for subsequent editions.

(15) Premium Pricing:

Premium pricing is a mix of 'What the traffic will bear' idea and the 'value for money'. Marketer has a premium product, i.e., superior quality/good variety. He uses best technology. He employs premium promotion programme. He has at his disposal premium distribution process. Hence, he opts out for non-price competition. Thus, he is ready to adopt premium pricing strategy.

Of course, under this pricing approach, we need aggressive and proactive (not reactive) pricing. Again, premium pricing can give rich dividend when buyers are not price conscious and they are willing to pay higher price if they get a better product and wider choice.

Reliance adopted this pricing strategy for Vimal Fabrics. Price is nothing but perceived value — what the customer perceives as value. Reliance assured that its buyers perceived the prices of Vimal textiles as really good value for money. Upper middle-class buyers constitute the target market for premium pricing. In India, this approach is

now adopted by renowned marketers. It assures growth and higher profits through higher customer satisfaction and service.

The Indian cosmetics and toiletries market is now adopting premium pricing. Indian marketers are hurrying into the premium segment in order to pre-empt foreign competition. Exposure to western lifestyles on television and an increasing trend towards perfect grooming has opened up ample scope for selling beauty at a premium price.

Similar trend in favour of premium pricing is noticeable in the sale of fashion clothing, wrist watches (Titan), Ray Ban goggles and colour TV sets.

(16) Charging What the Traffic will bear:

There are two principles in pricing. One is called 'cost of service principle' and another is called 'value of service principle'. The second one is also termed as charging what the traffic will bear. It is usually adopted by Railways in our country. Professionals like doctors, lawyers, chartered accountants, consultants, etc., adopt this principle of charging what the customer will bear.

They charge their fees on the basis of ability to pay and the cost factor is secondary in their charges. In business, particularly in commodity markets, we do not have such a price discrimination based on the customer's ability to pay. A monopolist, of course, can afford to adopt this principle to maximise his profits.

In a sense, such pricing renders justice to customers. Dual pricing of sugar in India is based on this principle of ability to pay. Electricity Company also has different rates for domestic and industrial customers.

Types of Pricing Strategies – Skimming, Market Penetration Pricing, Follow the Leader Pricing, Cost-Plus Pricing, Target Pricing and Break-Even Pricing

Type # 1. Skimming:

This strategy uses a very high introductory price to skim the cream of market at the very outset. Prices continue to be high till the competitors begin to enter the field. As soon as competitors enter the market, the producer reduces the prices of his product. This method helps in recovering the product development cost very soon.

A short-range pricing objective is followed when the producer feels that there will be rapid competitive in-roads. By this strategy the marketer takes the cream before keen competition starts.

Reasons for Popularity of Price Skimming:

(i) In the beginning, there is lack of competition and, therefore, innovative company can fix the monopolistic price of its product.

(ii) This policy is suitable for pricing of luxury products because it is an index of social status with lesser price sensitivity.

(iii) It attracts the prompt returns on investment.

(iv) Useful for tapping less price-sensitive markets.

(v) If an introductory price is too high, it is easy to reduce it but if it is too low it is difficult to raise it in future.

(vi) A high introductory price often generates greater rupee sales and profits than a low introductory price.

Type # 2. Market Penetration Pricing:

This is just opposite of skimming strategy. It offers a low introductory price to speed up its sales and widen the market base. The low price is used as a major tool for rapid penetration of a mass market. This strategy is based on a long-term viewpoint to capture larger market shares. If there is already a competing product, the strategy may aim to capture a share of the market from a company product which the new product is hoped to replace. It will also discourage competitors from entering the market.

Conditions Making Penetration Pricing Appropriate:

(i) When the new product’s demand is highly price elastic even early in the pioneering stage.

(ii) When the marketer can realize substantial manufacturing and marketing economies if he obtains a large sales volume. Such economies bring down average total costs.

(iii) When the marketer expects strong competition soon after introducing the product, i.e., when he does not expect the product’s market pioneering stage to last long.

(iv) When there is no elite market for the product and the product is meant for the price-sensitive masses.

Type # 3. Follow the Leader Pricing:

Some big firms assume the role of a leader in pricing in a competitive market. When another company starts production of such a competitive product, it follows the pricing policy of the leader firm. It fixes the prices generally lower than those of the leader. This policy provides no scientific and rational basis for fixing the prices.

Suitability of follow the leader pricing:

(i) This policy is suitable when competitive situation exists in the market.
(ii) Small firms which cannot afford various market survey techniques generally follow the big firms, on the assumption that big firms in the field have broad marketing research base.
(iii) Such pricing is successful when buyers are price- conscious and compare prices of products before purchase.

Type # 4. Cost-Plus Pricing:

This method assumes that no product is sold at a loss since the price covers the full cost incurred. Costs furnish a good point from which the computation of price could begin. Under this method, fixing a tentative price is easier. But this policy ignores the influences of competition and market demand.

Cost-plus pricing is often used by retail traders and in manufacturing industries where the production is not standardised. This method of pricing is based on simple arithmetic and price is fixed by adding a fixed percentage to the unit cost.

Suitability of Cost-Plus Pricing:

(i) This method is appropriate circumstances where it is difficult to forecast the future demand.
(ii) This is suitable for small manufacturers who cannot conduct large-scale market research and analysis.
(iii) If there are few buyers of the products, this pricing can be justified.
(iv) Public utility services like railway, post offices, electricity, etc. are priced through this method.
(v) It is a long-term policy.

Type # 5. Target Pricing:

Target pricing is another common method used under cost-oriented pricing. The selling price is calculated to produce a fixed rate of return on total investments. Companies use break-even analysis to decide the price. This method helps to calculate in advance the likely relationship between the cost, volume and profit over various time periods.

Target pricing has also proved to be a highly useful technique for the broad planning of manufacturing facilities. This method is suitable for companies having huge investments, like ship building, automobile industries, etc.

Type # 6. Break-Even Pricing:

This type of pricing yields zero profits on a transaction. Break-even analysis helps a firm to determine at what level of output the revenues will equal the costs assuming a certain selling price. For this purpose the cost of manufacturing is divided into fixed and variable costs.

Fixed costs such as rent, rates, insurance, etc. theoretically remain constant overall levels of output while variable costs such as labour and material vary with changes in output level. When production increases fixed costs per unit naturally decrease.
On the other hand, variable costs change as production varies. The break-even point is a point where there is neither loss nor gain, it occurs when total costs equal total revenue. This type of pricing can be used as an aggressive strategy for market expansion.

Type # 7. Marginal Cost or Incremental Cost Pricing:

In this method, the price is fixed on the basis of additional variable cost associated with an additional unit of output. The cost of producing and selling one more unit, i.e. the last unit is taken as the base for the pricing.
This method is useful in introductory campaigns for introducing a new product where this new product does not bear its share in fixed cost, while other products bear the full fixed cost.
Marginal cost pricing can also be adopted to keep the labour force busy in slack seasons and to push away weak competitors. A company which has achieved break-even point may use this approach in a competitive market.

Type # 8. Demand-Oriented Pricing Policy:

Under this method of pricing, as the name indicates, the demand is the pivotal factor. Price is fixed by adjusting it to the market condition. A high price is charged when or where the demand is intense. A low price is charged when the demand is low.

Type # 9. Competition-Oriented Pricing Policy:

Most companies set prices after a careful consideration of the competitive price structure. Deliberate policies may be formulated to sell above, below, or generally in line with competition.
In this method there cannot be any rigid relation between the price of a product and the firm's own cost or demand. In spite of change in cost or demand the firm maintains its prices. It changes its prices when the competitors change theirs even if its own cost or demand has not altered.

Type # 10. Psychological Pricing:

Sometimes companies fix an odd price to gain a psychological advantage over the customer. Products are priced at Rs.99, Rs.249, etc. to make it seem to the customer that they are cheaper than they really are. People are more likely to purchase something that costs Rs.599 rather than Rs.600, even though the actual price difference is only Rs.1.

Types of Pricing Strategies – Adopted by the Firm for Maximizing Profit on the Total Product Mix

Product-mix pricing strategy when the product is part of a product mix. Price-setting logic must be modified.

In this case, the firm searches for a set of prices that maximises profits on the total mix:

1. By-Product Pricing:

There are certain product, the production of which often involves generation of by-products. In such a case, if the by-products are of utility to the consumers, the firm may price them for the same and thus, can charge a lower price on its main product, depending upon the market conditions and competition.

2. Product Line Pricing:

Normally product lines are developed by the companies rather than single products and introduce price steps. In many lines of trade, sellers use well-established price points for the products in their line.

A men's clothing store might carry men's suits at three price levels- Rs.900, Rs.1600 and Rs.4600. Customers will associate low-, average-, and high-quality suits with the three price points. The seller's task is to establish perceived-quality differences that justify the price differences.

3. Captive-Product Pricing:

Certain products needs the use of ancillary, or captive, products. Manufacturers of razors and cameras often price them low and set high mark-ups on razor blades and film, respectively. A cellular service operator may give a cellular phone free if the person commits to buying two years of phone service.

4. Optional-Feature Pricing:

Certain companies offer optional products, features, and services along with their main product. The automobile buyer can order electric window controls, defoggers, light dimmers, and an extended warranty. Pricing is a

sticky problem; automobiles companies must decide which items to include in the price and which to offer as options.

5. Premium Pricing:
A firm having heterogeneity of demand for substitute products with joint economies of scale used this strategy. Consider the example of a colour television set. There are different models available with different features, like the one with a remote control and another without it. Both are substitutable and satisfy the customer needs.

But the firm may opt to premium price, the first model and position it as the top of the product line for high income or upper income group of customers or for whom communicating that "they have arrived" is important.

6. Bundle Pricing:
Pure bundling occurs when a firm only offers its products as a bundle. In mixed bundling, the seller offers goods both individually and in bundles. When offering a mixed bundle, the seller normally charges less for the bundle than if the items were purchased separately. An auto manufacturer might offer an option package at less than the cost of buying all the options separately.

Types of Pricing Strategy – Market Penetration and Market Skimming

In pricing a new product generally two kinds of strategies are suggested:

(i) Market Penetration:
This strategy involves setting a relatively low price for the product in the initial stage of PLC. The aim of adopting such strategy is to gain a large share of the market, especially when the producer is interested in growth rather than making huge profits.

If the market is highly price sensitive, the producer may continue to sell its product at a low price even without marking profits. In brief, market penetration objective is an attempt to secure a large share of the market by deliberately setting the low prices.

(ii) Market Skimming:

Market skimming is said to be utilising the opportunities in the market to reap the benefits of high sales, increased profits, and low unit costs. Some of the entrepreneur's study the buyer's needs and try to provide the suitable goods but charge them high prices. This objective is realised in those markets where the magnitude of competition is very low. This pricing objective would be suitable in the markets where the consumers feel that costly goods are of the superior quality.

Types of Pricing Strategies – Adopted by Companies: Loss Leader Strategy, Complementary Pricing, Psychological Discounting and Psychological Pricing

Companies can use several pricing techniques to stimulate early purchase as discussed below:

(i) Loss Leader Strategy:

This strategy involves dropping the price on a well-known brand to generate demand or traffic at the retail outlet. Supermarkets and department stores often drop the price on well- known brands to stimulate additional store traffic. This is another instance of complementary pricing strategy.

This pays if the revenue on the additional sales compensates for the lower margins on the boss-leader items. Manufacturers of loss-leader brands typically object because this practice can dilute the brand image and bring complaints from retailers who charge the list price.

(ii) Complementary Pricing:

Generally a firm having customers with high transaction costs for one or more of its products uses this pricing technique. They are all those costs that a customer has to incur to buy the product, for example the registration fees that a flat buyer has to pay in order to be a legal owner or the processing fees that the bank may charge to give a credit card to the customer.

(iii) Psychological Discounting:
It includes setting an artificially high price and then offering the product at substantial savings promotional-pricing strategies are often a zero-sum game. If they work, competitors copy them and they lose their effectiveness.

In case they do not work, they waste money that could have been put into other marketing tools, such as building up product quality and service or strengthening product image through advertising.

(iv) Psychological Pricing:
It implies setting prices that intends to have special appeal to consumers. Prestige pricing, reference pricing, odd-even pricing, and traditional pricing are all different types of psychological pricing.

(a) Odd / Even Pricing – It ends either in odd or an even number.

(b) Reference Pricing – Here, under this concept of what the price of a product should be based on the consumer's frame of reference.

(c) Prestige Pricing – Here, products are sold at high prices to build a reputation for quality.

Types of Pricing Strategies – Competitive Pricing, Best Pricing, Loss Leader, Multiple Pricing and Optional Product Pricing

1. Competitive Pricing:
When a firm keeps the price of its product according to the price of the competitors in the market, the pricing strategy is termed as competitive pricing. According to this strategy, the firm has three options- either to keep the price lower, higher, or equal to the price of its competitors. In case of shampoo sachets, Pantene and Dove, both are providing shampoo sachets at the same price.

2. Good, Better, Best Pricing:
When the same product is offered in different formats at different times, it goes on to make a good, better, best pricing strategy for the company.

When a customer goes to buy apples, the vendor quotes three prices for three different baskets of apples of the same quantity. For example, Rs.10 for 1 kg apples from the first basket.

Similarly, Rs.20 for 1 kg from the second basket and Rs.30 for 1 kg apples from the third basket. Now what is the difference? The difference here is that the third basket contains best quality of apples and has already been sorted out by the vendor. The second basket contains mixed quality of apples while the first basket contains relatively inferior quality of apples.

3. Loss Leader:

Some companies keep lower prices for their products to attract customers. This kind of pricing strategy is termed as loss leader pricing. When the price of different mobile tariffs, top-ups and net packs are relatively less, it is likely that customers will be attracted towards that mobile network company.

Example – Reliance Jio provided free SIM cards with unlimited data usage and calls, a huge number of customers switched to Jio.

4. Multiple Pricing:

Companies might offer discounts on their products when it is bought by customers in greater quantity. This pricing is known as multiple pricing strategy. For example, Dove cream beauty bathing soap gives discount if the customer buys 3 soaps, 1 soap would be free. So, when the customer buys soap in greater quantity, a discount is provided. This strategy comes under multiple pricing.

5. Optional Product Pricing:

Optional product pricing strategy is a strategy adopted by a company when it is providing the same product but with slight difference in its features. Two of HP laptops, HP i3 6th Gen laptop with 4GB/1TB would cost the customer around Rs.26,000/-, while HP i3 6th Gen laptop with 8GB/1TB would cost the customer around Rs.30,000/- (price as of May 2017).

6. Penetration Pricing:

When the product is new to the market, its price is initially kept low so that it could penetrate through the market competition and earn a good market share. This strategy is known as penetration pricing. The price of Patanjali honey is less than the price of Dabur honey, since Patanjali is at its initial stage and new to the market, its price is set according to the penetration pricing strategy.

7. Skim Pricing:
Skim pricing strategy is adopted when the product is innovative and new. In this, initial price is kept high to attract the customers and to showcase it as a superior product.

This strategy is mostly evident in case of mobile companies. When Samsung comes with its new handset, its price is usually higher than its previous handsets. Gradually, with the sales, the price of the handset falls to a stabilized level in the market.

8. Premium Pricing:
There are some companies which only provide luxury products. The quality of their products is somewhat above imagination. Due to their quality and status symbol, they charge a premium price. This is evident mostly in automobile companies like BMW, Rolls Royce, etc. Though they are sold in small quantities, their price is always high.

9. Product Bundle Pricing:
When companies group several of their products together for sale, then we can say they have adopted product bundle pricing. Like in Cadbury's Celebrations, there are different chocolates of Cadbury's grouped together under one packet. This not only paves way to the sale of their Celebrations packet, it also leads to the sale of those chocolates individually.

10. Cost Plus Pricing:
The company might set the price of its product at its production cost, plus a marginal profit from the product. This is known as cost plus pricing method. This method does not take into account the competitive pricing or consumer demand.

Thus, sometimes, it turns out to be the company's competitive disadvantage. Suppose, a product has its production cost of Rs.100 and the company wants to keep 20% as its marginal profit, so the company would place the price of the product as Rs.120.

11. Value Pricing:

Value pricing is a pricing strategy that offers a low price for a product that has a good name in the market or commands good quality. Value pricing is done so that the customer satisfaction levels are raised and the customer becomes a loyal customer. Value pricing is undertaken by minimising costs and passing on the cost advantage to the customers.

12. Psychological Pricing:

Companies take consumer's perception towards price of the product as an essential element while framing the pricing strategy. The company would consider all of the influencing elements such as its promotional tools, advertising, extra features, product quality, and all such factors while setting up the price. For example, Sony would promote its speakers in such a way that customers would pay a little extra to buy it.

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