Prices Marketing Strategies

Adrian GHERASIM
George Bacovia University in Bacău, ROMANIA
adrian.gherasim@ugb.ro

Abstract: There are several categories of price strategies. Thus, depending on the phase of the product life cycle, there are: strategies for launching and maintaining the product on the market. Related to competition, pricing strategies that a firm can adopt are: defense strategies and attack ones. Given what competitors have already done (or intend to do), the firm can adopt three types of strategies: defense, imitation and counterattack. Attack through price means to prepare conditions (by cost cutting measures) and operating, on its own initiative, price reductions below their bearable level. The attack can target the leader, competitors of the same class or weaker competitors, presenting in the following variants: a) frontal attack, flank attack by the attack in the neutral zone, guerrilla attack.

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Introduction

Given the correlation price - demand, a company which is ready to launch a new product launch on the market may underlie three distinct types of pricing strategies: of penetration, of „d’écrémage” and layered price.

1. Launch Strategies

1. Penetration strategy is based on low prices, being recommended when company aims to encourage demand (to attract customers) and expand its market, while growing profits based on sales volume growth alone. Lowered price which it assumes is the cause to a high future demand.

This strategy is recommended especially when:
• demand is very elastic compared to the price;
• company production costs are lower than of the competitors;
• competitors have to face too many barriers to entry the product on the market;
• the superiority of the new product can not be maintained too long on the market.

2. Écrémage strategy (taking the cream), also called pricing strategy for capitalizing market advantage, is the setting of high prices when market demand is high, visible beyond the supply (which happens during peak season, and when competition is weak). Based on it the company can substantially increase profits due to the difference between price and unitary cost and also based on sales volume. The high price possible to be practised by the person who offers is the effect of high demand.

High price strategy (d’écrémage) is based on the finding that in the early life of a product, consumer demand is less elastic with respect to prices and on the ignorance of some consumers who do not have the possibility of making comparisons with other products (competition is often nonexistent or very less aggressive). In addition, it relies on snobbery attitude a great deal of potential customers, on the possibility of market segmentation based on customer purchasing power and on its descendant exploitation (from the richest clients segments towards the others), on the idea that a price is easier to be reduced than increased, on the fact that it is easier to justify a high price in the early life of a product than later on etc [1, 230-231].

3. Price stratification strategy can be considered a variant of écrémage strategy, because it involves launching new product at high prices. Its specificity is that it involves the layering of the customers (hence extracting its name) according to the price that customers accept. Thus, the first price level (the
highest) will meet the customer who wants the “hottest” new product (also having higher incomes). Once the high price is likely to become a factor in the cancellation of the demand, the company can descend it to the second level (the next lowest), drawing on its side the next segment (layer) of customers (a result of the market segmentation on the account of the incomes).

Then it moves to the third level of price (and the third segment of buyers) and so on. This strategy allows:

a) **limiting demand** during the period when the company's offer can not yet be sufficiently large; 
b) achieving the maximum of profit from each layer of buyers (on the account of which there are recovered the costs involved by the launching of the new product on the market), with minimum risk of losing customers.

This strategy is recommended in the case of products incorporating advanced technology (like computer equipment), respectively when:

- the products are of a great innovation and offer customers clear advantages;
  - patents or brevets on which they are based are strongly protected by law;
- there are sufficient barriers for the newly entered competitors;
- investments in new products are great, etc..

### 2. The Strategy of Maintaining Products on the Market

In this category there are situated: survival strategy, two prices level strategy, the strategy of the price of the production line, etc.

1) **The survival strategy** is required when, for various reasons (aged product, increased competition, declined purchasing power of the population income), the market position of the product is threatened, it being based on prices increasingly lower (still situated above costs).

2) **The two prices level strategy** (also called the strategy of peak season price or high season) is recommended for products whose demand is fluctuating in time (telephone services, urban transport services for people, accommodation - meals services etc.) offered by companies that have limited production capacity. It is based on higher prices in peak periods (when phone lines, vehicles, restaurants, hotels and so on are overcrowded) and lowered prices during periods of minimum demand - by both categories of prices being stimulated the uniformity (as it is possible) of the demand.

3) **The strategy of the product line price** can be considered by companies, manufacturing more products on the same line, and which by the prices they apply aim to maximize profit not on each product, but on the whole line. It consists in the setting of different profit margins for products with different unit costs (low margins for high costs - even zero or negative margins - and higher margins for low costs), so that all the line products to be sold at about the same price (which is neither too small - to cancel the demand of those who have money and high expectations - nor too high - for those with little money).

Depending on the way **distribution** was decided, there can be used three specific price strategies: the price of global products, price of optional product and the captive products price.

1) **The strategy of global product price** is specific for the companies offering products (especially services) to the package. It is about packages containing:

- **more products of the same type** (shirts, socks);
- **different products** (shirt and tie, shoes and purse);
- **goods and services** (accommodation and meals, transportation and meals), etc. Package price, in order to be stimulating, must be lower than the sum of prices of the products of which it was constituted.

2) **The optional products price strategy** is specific for the situations in which the company structures offer them in two parts: one containing the standard product (package offer), and another, products of choice (either to the package or separately, at the customer’s option). On one hand, this strategy leverages the advantages of the previous one, and on the other hand provides (according to customer’s
desire) the relieving of the global price of some components, thus making it smaller and more attractive.

3) The captive products price strategy is widely used especially in services. It consists in determining, by the distributor, of the overall product price based on two components: one in the form of attractive price (which is alluring for the buyer) for a product component (for a printer, for example), and another, as a clearing price for the other components (consumables). To make the main products more attractive, their price is recommended to be set at the very lowest levels (sometimes even below costs), making it the largest and greatest publicity, the profit being later provided at the expense of the second component category.

Counting (somewhat) on naive customers, this last strategy can result in very negative reaction from their part.

3. Competition Strategies

Compared to competition, price strategies which can be adopted by a company can be:

3.1. Defense Strategies

Due to the fact of what competitor companies have already taken (or intend to take), a firm can adopt three types of strategies: defense, imitation and counterattack.

a) The proper defense strategy (defensive) can be adopted by all types of businesses, regardless of the positions which they occupy on the market (leader, co-leader, challenger), presenting itself under one of the following forms:

a1) defense position, which requires timely preparation of company (by all measures of technical, organizational, etc.) so as to produce at much lower costs than competitors (without affecting the quality), with the possibility to reduce real prices being always ready to any attack from competitors;

a2) defense outpost, which is possible by timely preparation of other products, more efficient and attractive or as exciting as the others, but at lower prices (playing the role of pawns placed in front of the defense), through which they can successfully meet the various attempts of competitors to reduce prices;

a3) preventive defense, which consists of the development of some substantial price reduction programs, leaving, voluntarily, the competitors reach information about their intention to operate them, for their intimidation (which sometimes can generate very negative effects difficult to be counteracted);

a4) strategic retreat, which is a recommended to firms, which the moment they face discounts from the part of competitors, can not cope with them but retreating themselves from some markets (renouncing primarily to customers poorer or harder to be satisfied) and strengthening its position on other markets (focusing on possible measures to reduce prices of products distributed by them).

Obviously, companies can work with several variants of defense strategies simultaneously.

b) Imitation strategy requires a response in kind to attack competitors by price, consisting of rapidly readjust their prices to the level of such practices. It must be early substantiated by very serious technical and managerial measures, able to decrease the price whenever possible.

The method of determining the price used in this case is the market price.

In most cases, imitation is a defensive reaction of annihilation of competitors, so that it could be treated as a variant, besides others, of the defensive strategy.

c) The counter – attack strategy (counter-offensive) is considered to be the most effective one, and it is adopted only by strong companies in response to the offensive strategies of competitors, this strategy assuming measures of price reduction more pronounced than those initiated by attackers.

Effects of attack and counterattack strategies are unpredictable and can cause real price wars, with devastating consequences for all combatants.
Being a reaction to the price reduction measures taken by competitors, as imitation strategy, counter – attack strategy can be considered as a variant of defense (knowing that the best defense is the attack). Perhaps this is why many marketing experts consider it a defensive strategy.

3.2. Attack Strategies

Price attack consists in preparing the conditions (through cost cutting measures) and operating, on its own initiative, price reductions below the bearable one. The attack can target the leader, competitors of the same class or weaker competitors, presenting its as follows:

a) the frontal attack, recommended when one company who initiates it disposes of certain comparative advantages considering the costs and quality line, enabling it to reduce prices to levels impossible to be practiced by other companies (primarily by strongest competitors);

b) the flanks attack, encountered when competitors are very strong, which may be geographic isolation of the market share on which they are weaker (where the product will be placed at lower prices) or in case of the isolation of the weakest market share (corresponding to a neglected need) and more disposed to practice lower prices;

c) the neutral zone attack, which is led not on the markets where the strongest competitors, place their products but on the others (on which discounts will not be noticed – or will not interest them);

d) the guerrilla attack, recommended for small companies, consisting in the operation of short-term price reductions in dispersed points, accompanied by rapid changes in position (taking place before competitors can be able to react).

When none of pricing strategies listed in this paragraph proves not to be useful, the only solution for the company is the abandon (of the product or of the market).

4. Adjusting Price Strategies

Depending on the specific features of consumer and market particularities, prices are required to be adjusted according to the following strategies:

1) The rebates and bonuses strategy aims to stimulate and reward customers who are buying large quantities of product, or express their demand in extra- season. It is based on:

a) rebates or bonus for the advance payment of invoices, consisting in discounts to customers who pay prices in a given pre-established time interval (shorter than the one in which the payment if obligatory, annuling thus the selling-buying contracts);

b) discounts for groups of customers, which are designed to stimulate mass consumption, groups ensuring a greater and more uniform demand, i.e. a better use of available production capacity and higher incomes of the owners;

c) quantitative prizes, granted by some firms to the clients requesting large quantities of products, unit prices being declining in relation to the size of demand and the price is totally regressive;

d) trade allowances, also called functional discounts, granted to distributors for the services they make available to manufacturing companies;

e) extra-season reductions, which are offered to customers to encourage demand during the period, are not assuring the use of the available capacities;

f) promotional bonuses granted to intermediaries involved in promoting products etc.

Of such rebates and allowances can benefit both the clients who are consumers and those intermediaries.

2) Differentiated pricing strategy assumes that products sell at different prices, even if the cost is the same, this being materialized as hereinafter:

a) different prices according to the category of customers (loyal and casual, ordinary and disadvantaged - such as pupils, students or retired persons), some of them paying lower prices than others;

b) differentiated prices per product type, without their cost levels or conditions be slightly different - thus leaving the impression (most often false) that price difference would be justified;

c) different price depending on the time period (of the year or of the week) in which the demand is satisfied ( the tariff of the accommodation during a day of stay being one at the weekend or in August and a totally different one during the week or in November), etc.
Differentiated pricing strategy can be effective only when certain conditions are met (the market be clearly segmented according to the same criteria of differentiation; the buyers of products at low prices can not have the possibility to resale them at normal prices and so on).

3) Geographic criteria pricing strategy offers companies a choice between prices proportionally to the distance at which products are distributed or the single price. Again there is the possibility of using several price categories, such as:

   a) Franco conditions price differentiation (Franco the warehouse provider, Franco shipping station etc.), which are prices without shipping charges or parts of them;
   b) uniform prices, in their structure being included the average costs (not the effective ones) transport, they presenting the advantage that they are attractive to customers within the distance (including other countries) and are easy to manage (but being unfair to customers from neighboring areas);
   c) zonal prices, which is a solution located between the two ones, the customers in different areas being applied different prices for the same product.

From case to case, other methods can be designed to adjust prices according to geographical criteria.

Price differentiation strategies based on clients and on the quantities of goods required are also known as the strategies of discriminating price.

**Price discrimination** can be:

1) Of the first rank (also called perfect), which consists in pretending some different prices for according to customers and quantities of goods purchased (the prices resulting as a result of a negotiation with every customer), being rarely encountered;

2) Of the second rank, when prices are differentiated only by quantities purchased (regardless of customers);

3) Of the third rank, which involves different prices for different customers (regardless of quantities purchased) - which are favored to a certain category of customers (retired persons, children and so on). In a certain sense, all methods of price differentiation can be considered discrimination methods.

5. Prices Modification

Under the influence of several factors, prices of firms are, sometimes, necessary to be changed. If such decisions are made, it is very necessary to consider all possible reactions (favorable or hostile ones) of the customers and competitors.

Price changes take the form of reductions or increases.

1. **Price reductions** are caused by factors such as: overcapacity (by them aiming at expanding sales); price changes initiated by the competition (by them the firm defending or counter-attacking); a diminishing of the market shares (by them trying to encourage demand); achieving significant cost reductions, etc.

As far as price decreases are not associated with a low of the products quality, it is likely that they involve positive feedback from customers as well as negative reactions from the competition.

Price reductions can be:

- **temporary**, being recommended in extra- season when the supply-demand ratio is sub-unitary (when demand is lower than supply), companies remaining with a good part of the available capacities unused (these prices are followed by a return to previous levels or at levels even higher - which may upset customers);

- **definitive**, being supported by complex measures to reduce costs, by the continuously sub-unitary ratio between supply and demand, by a falling of real incomes of the population, by strong competition of the tourism market and other factors.

2. **Price increases** are caused by factors such as:

- **excess demand**, thereby departing only poorer customers from the company;

- **weakening competition**, when it relies on increasing profits at the expense of the difference between prices and costs;
inflation, manifested most obviously by a burst in prices;
continued growth in costs (without obvious effects on quality);
improve product quality, etc.

To prevent the negative effects of price increases on demand, companies can take a series of measures: giving up some quality features (if they are very expensive), excluding some items (too expensive) of product structure, separate pricing of the too expensive components (thus becoming unattractive, not the whole product, but only the part in question) etc.

As reductions, price increases can be:
• temporary recommended for peak season, being recommended by purely economic reasons (aimed at increasing profit), supported however and marketing reasons (unable to meet full demand - lack of capacity - causing companies to abandon the less risk, primarily to poorer clients, which is very sensitive to price changes, keeping it the most important to them - the high income and more indifferent to price increases);
• final (definitive), imposed by the continuous increase in production costs, by the sub-unitary ongoing reports between supply and demand, by the weak competition, by the visible growth of the real incomes of the population etc.

Conclusion
The law of supply and demand, which should be taken into account in developing marketing strategies on prices, is quite often violated on the market by certain products. For example, the penetration strategy (on which it is based) can be compromised in case of luxury products amateur customers, which are demanded at high prices. If low prices will be associated with poor quality of products, their practice will be grounds for rejection, and not for an attraction, of a large part of the clients.

References

Supplementary recommended reading