Product-

Product is one of the important elements of marketing mix. A marketer can satisfy consumer needs and wants through product. A product consists of both good and services. Decisions on all other elements of marketing mix depend on product.

According to Philip Kotler-"It is anything that can be offered to someone to satisfy a need or want."

According to William Stanton- "Product is complex of tangible and intangible attributes, including packaging, colour, price, prestige and services that satisfy needs and wants of people."

Product Decision

Decisions regarding the product, price, promotion and distribution channels are decisions on the elements of the "marketing mix". It can be argued that product decisions are probably the most crucial as the product is the very epitome of marketing planning. Errors in product decisions are legion.

These can include the imposition of a global standardized product where it is inapplicable, for example large horsepower tractors may be totally unsuitable for areas where small scale farming exists and where incomes are low; devolving decisions to affiliated countries which may let quality slip; and the attempt to sell products into a country without cognizance of cultural adaptation needs.

Product Hierarchy

A product hierarchy is a modeling of the hierarchical relationships between products in a tree structure. A product hierarchy enables the grouping of products and defines the relationship between products and groups at different hierarchy levels (for example, food – frozen food – pizza).The product hierarchy master data is used to support planning, logistics, modeling, forecasting, and reporting.

Levels of Product Hierarchy: There are 7 levels of the product hierarchy:

1. Need family: The core need that underlines the existence of a product family. Let us consider computation as one of needs.

2. Product family: All the product classes that can satisfy a core need with reasonable effectiveness. For example, all of the products like computer, calculator or abacus can do computation.

3. Product class: A group of products within the product family recognized as having a certain functional coherence. For instance, personal computer (PC) is one product class.

4. Product line: A group of products within a product class that are closely related because they perform a similar function, are sold to the same customer groups, are marketed through the same channels or fall within given price range. For instance, portable wire-less PC is one product line.

5. Product type: A group of items within a product line that share one of several possible forms of the product. For instance, palm top is one product type.

6. Brand: The name associated with one or more items in the product line that is used to identify the source or character of the items. For example, Palm Pilot is one brand of palmtop.

7. Item/stock-keeping unit/product variant: A distinct unit within a brand or product line distinguishable by size, price, appearance or some other attributes. For instance, LCD, CD- ROM drive and joystick are various items under palm top product type.

New Product Development Process

In order to stay successful in the face of maturing products, companies have to obtain new ones by a carefully executed new product development process. Therefore, it is of crucial importance to understand consumers, markets, and competitors in order to develop products that deliver superior value to customers. In other words, there is no way around a systematic, customer-driven new product development process for finding and growing new products.

1. Idea generation- The new product development process starts with idea generation. Idea generation refers to the systematic search for new-product ideas. Typically, a company generates hundreds of ideas, maybe even thousands, to find a handful of good ones in the end. Two sources of new ideas can be identified:

a. Internal idea sources: the company finds new ideas internally. That means R&D, but also contributions from employees.

b. External idea sources: the company finds new ideas externally. This refers to all kinds of external sources, e.g. distributors and suppliers, but also competitors. The most important external source are customers, because the new product development process should focus on creating customer value.

2. Idea screening - Idea screening means nothing else than filtering the ideas to pick out good ones. In other words, all ideas generated are screened to spot good ones and drop poor ones as soon as possible.

3. Concept development and Testing- The marketer's task is to develop new product into alternative product concepts. Then, the company can find out how attractive each concept is to customers and choose the best one. After exposing the concept to the group of target consumers, they will be asked to answer questions in order to find out the consumer appeal and customer value of each concept.

4. Marketing strategy development- The marketing strategy statement consists a description of the target market, the planned value proposition, and the sales, market share and profit goals for the first few years, an outline of the product's planned price, distribution and marketing budget for the first year, the planned long-term sales, profit goals and the marketing mix strategy.

5. Business analysis- The fifth step in the new product development process involves a review of the sales, costs and profit projections for the new product to find out whether these factors satisfy the company's objectives. All the sales and costs figures together can eventually be used to analyze the new product's financial attractiveness.

6. Product development- The new product development process goes on with the actual product development. Up to this point, for many new product concepts, there may exist only a word description, a drawing or perhaps a rough prototype.

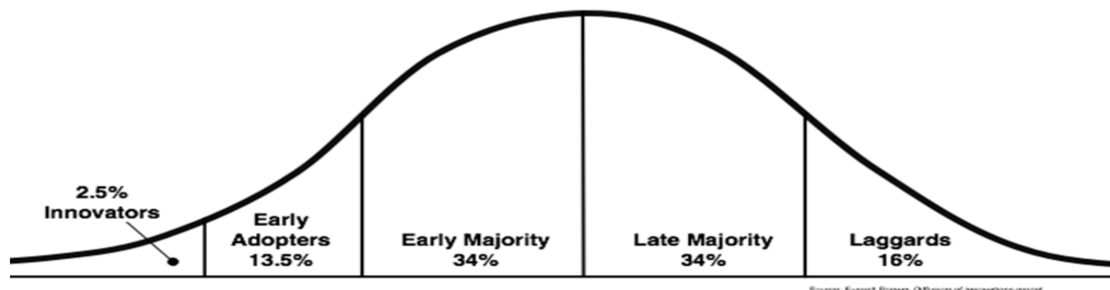
7. Test marketing- Test marketing gives the marketer experience with marketing the product before going to the great expense of full introduction. In fact, it allows the company to test the product and its entire marketing programme, including targeting and positioning strategy, advertising, distributions, packaging etc. before the full investment is made.

8. Commercialization- Commercialization means nothing else than introducing a new product into the market. At this point, the highest costs are incurred: the company may need to build or rent a manufacturing facility. Large amounts may be spent on advertising, sales promotion and other marketing efforts in the first year.

Some factors should be considered before the product is commercialized: **Introduction timing**- For instance, if the economy is down, it might be wise to wait until the following year to launch the product. **Introduction place**- Where to launch the new product? Should it be launched in a single location, a region, the national market, or the international market?

Diffusion of Innovation

Diffusion of Innovation (DOI) Theory, developed by E.M. Rogers in 1962, is one of the oldest social science theories. It originated in communication to explain how, over time, an idea or product gains momentum and diffuses (or spreads) through a specific population or social system. The end result of this diffusion is that people, as part of a social system, adopt a new idea, behavior, or product.



1. Innovators - These are people who want to be the first to try the innovation. They are venturesome and interested in new ideas. These people are very willing to take risks, and are often the first to develop new ideas. Very little, if anything, needs to be done to appeal to this population.

2. Early Adopters - These are people who represent opinion leaders. They enjoy leadership roles, and embrace change opportunities. They are already aware of the need to change and so are very comfortable adopting new ideas. Strategies to appeal to this population include how-to manuals and information sheets on implementation. They do not need information to convince them to change.

3. Early Majority - These people are rarely leaders, but they do adopt new ideas before the average person. That said, they typically need to see evidence that the innovation works before they are willing to adopt it. Strategies to appeal to this population include success stories and evidence of the innovation's effectiveness.

4. Late Majority - These people are skeptical of change, and will only adopt an innovation after it has been tried by the majority. Strategies to appeal to this population include information on how many other people have tried the innovation and have adopted it successfully.

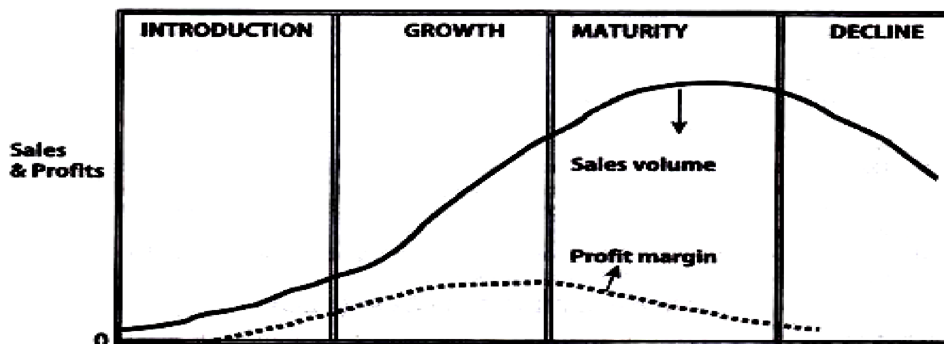
5. Laggards - These people are bound by tradition and very conservative. They are very skeptical of change and are the hardest group to bring on board. Strategies to appeal to this population include statistics, fear appeals, and pressure from people in the other adopter groups.

Product Life Cycle

Product life cycle is the historical study of (sales of) the product. It includes when it was introduced; when it was getting rapid acceptance; when it was on the peak of its position; when it started falling from the peak; and when it disappeared. Product passes through certain stages during its life span.

Definitions: Philip Kotler:"The product life cycle is an attempt to recognize distinct stages in sales history of the product."

We can define PLC as: PLC concerns with the study of the degree of product acceptance by the market over time. It includes major rises and falls of sales during its life.



Stages of Product Life Cycle and Time
Figure 2: Product Life Cycle

Stages of Product Life Cycle:

1. Introduction Stage: Introduction stage starts when a new product is, for the very first time, made available for purchase. Consumers are not aware of product, or they may not have general opinion and experience regarding product. Moreover, a new product has to face the existing products. So, the sales remain limited.

Characteristics of introduction stage include:

(i) Huge selling and promotional costs are required to increase awareness of customers. (ii) Price is kept high to recover high development, production, and marketing costs. (iii) Marketer has to tackle technical and production problems. (iv) Sale is low and increasing at a lower rate. (v) There is loss or negligible profit. (vi) There is no competition

2. Growth Stage: This is the stage of a rapid market acceptance. Due to increased awareness, the product gets positive repose from market. This stage is marked by a rapid climb in sales. Sales rise at the increasing rate. Profits follow the sales. Seller shifts his promotional attempts from "try-my-brand" to "buy-my-brand."Company tries to develop effective distribution network.

Characteristics of growth stage include:

(i) Sales increase rapidly (or at increasing rate) as a result of consumer acceptance of the products.

(ii) Company can earn maximum profits. (iii) Competitors enter the market due to attractive profits.

(iv) Price is reduced to attract more consumers. (v) Distribution network is widened and improved.

(vi) Necessary primary changes are made in product to remove defects. (vii) Company enters the new segments and new channels are selected

3. Maturity Stage: This stage is marked with slow down of sales growth. Sales continue to rise but at decreasing rate. Competitors have entered the market and existing products face severe competition. Sales curve is pushed downward. It is just like an inverse "U." During this stage, for certain period of time, sales remain stable. This level is called the Saturation. Profits also decline. Normally, this stage lasts longer and marketers face formidable challenges.

The stages may be divided into three phases:

i. Growth Maturity:-Sales-growth rate starts to decline. ii. Stable Maturity:- Sales remain stable (i.e., saturation stage). iii. Decline Maturity:- Sales now start to decline.

Characteristics of maturity stage include:

(i). Sales increase at decreasing rate. (ii). Profits start to decline. (iii). Marginal competitors leave the market. (iv). Customer retention is given more emphasis. (v). Product, market, and marketing mix modifications are undertaken.

4. Decline Stage: This is the last stage of product life cycle. Here, sales stat declining rapidly. Profits also start erasing. There is a minimum profit or even a little loss. Advertising and selling expenses are reduced to realize some profits. This stage is faced by only those who survived in maturity stage. All products have to face the stage earlier or later. New products start their own life cycle and replace old ones. A number of competitors withdraw from the market. Those who remain in the market prefer to drop smaller segments, make minor changes in products, and continue selling the products in profitable segments and channels.

Characteristics of decline stage include:

(i). Sales fall rapidly. (ii). Profits fall more rapidly than sales. (iii). Product modification is adopted.
(iv). Gradually, the company prefers to shift resources to new products. (v). Most of sellers withdraw from the market. (vi) Promotional expenses are reduced to realize a little profit.

Product Mix-

Product mix of a company is made of all product lines and items. It includes the total number of varieties or models offered by the company.

Philip Kotler: "A product mix is the set of all product lines and items that a particular seller offers for the sale to buyers."

Product Mix Strategies

The major alternative product mix strategies (given by William Stanton and others) have been discussed briefly as under:

1. Expansion of Product Mix: Expansion of product mix implies increasing the number of product lines. New lines may be related or unrelated to the present products. For example, Bajaj Company adds car (unrelated expansion) in its product mix or may add new varieties in two wheelers and three wheelers.

2. Contraction of Product Mix: Contraction consists of dropping or eliminating one or more product lines or product items. Here, fat product lines are made thin. Some models or varieties, which are not profitable, are eliminated.

3. Deepening Product Mix Depth: Here, a company will not add new product lines, but expands one or more excising product lines. Here, some product lines become fat from thin. For example, Hindustan Unilever Limited offering ten varieties in its editable items decides to add four more varieties.

4. Alteration or Changes in Existing Products: Instead of developing completely a new product, marketer may improve one or more established products. Improvement or alteration can be more profitable and less risky compared to completely a new product.

5. Developing New Uses of Existing Products: This product mix strategy concerns with finding and communicating new uses of products. No attempts are made to disturb product lines and product items.

6. Trading Up: Trading up consists of adding the high-price-prestige products in its existing product line. The new product is intended to strengthen the prestige and goodwill of the company. New prestigious product increases popularity of company and improves image in the mind of customers.

7. Trading Down: The trading down product mix strategy is quite opposite to trading up strategy. A company producing and selling costly, prestigious, and premium quality products decides to add lower-priced items in its costly and prestigious product lines.

8. Product Differentiation: This is a unique product mix strategy. This strategy involves no change in price, qualities, features, or varieties. In short, products are not undergone any change.

Product Packaging:

Traditionally, the function of packaging was to protect goods. However, it is a promotional tool and the major image builder contributing to the product success. It is a point of sale display that develops a favorable consumer appeal. 'Packing' is a process that speaks of company's ability to contain economically man made or natural products for shipment, storage, sale or final use. It comprises the activities of wrapping or creating the product for performing the marketing functions more easily and economically.

Definitions: Professor William Stanton-"Packaging is the general group of activities in designing the containers or wrappers for the products".

John Bull- "Package design is the unique combination of colours, graphics and symbols to distinguishing the products."

Packaging as a Marketing tool

Packaging's primary purpose is to protect your product during transportation, from the time it leaves manufacturing facilities until it is delivered to the end user. Yet, every set of eyes that sees the package in its journey from factory to end user is a marketing opportunity. Packaging is your moment of truth: It is your customer's experience when they receive, open and use your product.

- **Packaging as brand differentiation**

Consumers have changed from shoppers to specialists, as innovative marketing consultant Frank Rehme explained. Think of unpacking as a ceremony, he said, and offer packaging:

1. That can be opened without tools
2. That makes the consumer fall in love with the product
3. That considers sustainability from end to end

- **Packaging can create an experience**

No industry understands "packaging as a consumer experience" more than consumer electronics. Apple's boxes are as much a product as their iPhones, Macbooks and smart watches are. Their packaging creates an unboxing experience, and it conveys the reputed durability and longevity that Apple's customers seek.

- **Packaging as a channel for communication**

Do not miss this opportunity to communicate your brand's benefits and value to your audience.

Packaging can communicate your products' values and benefits, as well as your company's mission. The outdoor equipment company Primus, which manufactures goods used in camping and outdoor adventures, uses a material in its packaging that communicates their products' quality and performance.

- **Packaging Displays Value**

Value is not only the price you pay for something, but it is what you get for the money. Packaging plays a role in this value proposition not only through the words that are printed on the boxes and packing materials, but also in the materials themselves.

The Future of Packaging and Marketing

As generations of consumers age and their preferences and behaviors change, brands will need to maintain packaging as a channel for marketing communications, through both direct (logos, slogans, messages, calls to action) and indirect (recyclable materials, materials' quality) methods. Generations of younger consumers are more focused on sustainability, and they are well-informed. The want to spend their dollars thoughtfully, on brands that care about them and the environment.

Requirement of Good Packaging:

1. Product protection, **2.** Product identification,

3. Product convenience, **4.** Product promotion

5. Product profit generation: (No need for warehouse)

Packaging Strategies:

A company has alternative packaging policies or strategies, once it develops an agreeable packaging concept and packaging proper is going to take these alternative shapes as discussed below:

1. Family packaging strategy: It is a packaging option in which packages of the entire product-line closely resemble one another. To put in other words, it is a kind of strategy where the major features of the packages in respect of the entire product-line look alike.

2. Multiple packaging Strategy: It is a kind of strategy wherein number of closely related but heterogeneous products used by one consumer is placed in a single package. Such a package conveys the idea of an ideal matching set that one should possess. Thus, in case of men, shirt, pant, necktie, kerchief, Cuff-links, tie-pins, may be packed together.

3. Reuse packaging strategy: Reuse packaging strategy is one wherein the manufacturers offer their products in such packages which can be reused after the consumption of the contents of it.

4. Ecological packing policy: The purposes of such a strategy may be returnable' bottles and containers, use of containers that decompose over a reasonable period of time, use of light weight packaging material and arranging of packaging material and recycling it.

Product Labeling:

Labeling is another significant means of product identification like branding and packaging. Labeling the act of attaching or tagging labels. A label is anything may be a piece of paper, printed statement, imprinted metal, leather which is either a part of a package or attached to it, indicating value of contents of price of product name and place of producers.

Purposes/Role of Labeling:

1. To bring home the product features: A label goes on describing the product specialties which makes the product a quick-mover. It gives its correct use. Thus, bottle containing poison, if not labeled, it fails to tell about its contents.

2. To facilitate the exchange process: As good many competitive products are available in a given product range, label helps in avoiding the unwanted confusion. This is of special importance in case of drugs and chemicals where even spelling mistakes prove fatal to the users.

3. To encourage self-service: A lable is a strong sales tool that encourages self-service operations. If the customers are supplied with necessary information of the contents of the package or the container, as its contents, weight, use, price, taxes, and instructions and so on, consumers can pick the package of their choice from shop shelves.

4. Product related services:

(a) Product support services: These include installation services and demonstrations in case of items like heaters, air-conditioners or other mechanical devices.

(b) Product credit service: Credit is the breath of modern marketing and it occurs at all levels. Thus, manufacturers grant credit to distributors and dealers and directly to buyers; wholesalers to retailers and retailers to consumers.

(c) Product guarantees and warrantees:. A guarantee is a general policy of a manufacturer in respect of defective products. A warranty is the assumption of responsibility by the manufacturer and his distributor for the clear title, quality, character and suitability for intended use of products sold.

Price- Price is the economic value of the product (Goods and Service) normally expressed in term of money. Price is an agreement between seller and buyer at which goods and services are exchanged for money.

Pricing: Price is the economic value of the product, while pricing describes process or procedures to set that value. Pricing is a process of setting the price for the product. Pricing is the method of determining the value a producer will get in the exchange of goods and services. Simply, pricing method is used to set the price of producer's offerings relevant to both the producer and the customer.

Every business operates with the primary objective of earning profits, and the same can be realized through the Pricing methods adopted by the firms.

Different names or words used for the price-

1. Price of house/flat is rent, 2. Price of education is tuition, 3. Price of worker is wages, 4. Price of employees is salary, 5. Price for salesman is commission, 6. Price for doctor and C.A. and other professionals is fees, 7. Price for travel is fare etc.

While setting the price of a product or service the following points have to be kept in mind:

- Nature of the product/service.
- The price of similar product/service in the market.
- Target audience i.e. for whom the product is manufactured (high, medium or lower class)
- The cost of production viz. Labor cost, raw material cost, machinery cost, inventory cost, transit cost, etc.
- External factors such as Economy, Government policies, Legal issues, etc.

Pricing Objectives-

The objective once set gives the path to the business i.e. in which direction to go. The following are the pricing objectives that clear the purpose for which the business exists:

1. Survival: The foremost Pricing Objective of any firm is to set the price that is optimum and help the product or service to survive in the market. A firm must set the price covering the fixed and variable cost incurred without adding any profit margin to it.

2. Maximizing the current profits: Many firms try to maximize their current profits by estimating the Demand and Supply of goods and services in the market. Higher the demand higher will be the price charged. Seasonal supply and demand of goods and services are the best examples.

3. Capturing huge market share: Many firms charge low prices for their offerings to capture greater market share. The reason for keeping the price low is to have an increased sales resulting from the Economies of Scale. Higher sales volume leads to lower production cost and increased profits in the long run.

4. Market Skimming: Market skimming means charging a high price for the product and services offered by the firms which are innovative, and uses modern technology. Mobile phones, Electronic Gadgets are the best examples of skimming pricing that are launched at a very high cost.

5. Product –Quality Leadership: Many firms keep the price of their goods and services in accordance with the Quality Perceived by the customers. Generally, the luxury goods create their high quality, taste, and status image in the minds of customers for which they are willing to pay high prices. Luxury cars such as BMW, Mercedes, Jaguar, etc. create the high quality with high-status image among the customers.

Pricing Concept for establishing Value

Pricing contributes to the success or failure of the organization's marketing strategy. Price is also called a demand regulator. Setting the prices involves a deep understanding of factors that affect the marketing environment. Every organization sets the prices of its products for fulfilling various objectives.

(i) Profit-oriented Objectives:

a. Maximizing Profit: Implies that prices are set in such a way that they help in achieving maximum profit. Profit maximization is more beneficial in the long run as compared to short run. For instance, an organization selling a new product tries to build a customer base by selling the product at low prices in the short run. This helps the organization to gain profit in the long run by winning loyal customers.

b. Achieving a Target Return: Refers to earn an adequate rate of return on the investment done by an organization in manufacturing a product. The main focus of marketers is on maintaining a specific return on sales or investment. This is done by adding extra cost to the product for earning a desired profit.

(ii) Sales-oriented Objectives:

a. Increasing the sales volume: In the short run, an organization might be ready to bear losses by reducing the prices to increase the sales volume. For instance the hotel industry faces low demand during off–season; therefore, it prefers to decrease its prices and offers discounts to increase sales.

b. Increasing or maintaining market share:

Plays a crucial role in the success of an organization. The organization tries to gain market share by lowering down the prices as compared to its competitors.

(iii) Status quo-oriented Objectives:

a. Stabilizing the Prices: Prevents price wars between competitors. The prices are stabilized in those industries where product is standardized in nature. The stabilization of the prices helps in maintaining the demand and reducing competitive threats.

b. Meeting the Competition: Implies that the changes made in the price of a product help an organization to gain competitive advantage. Sometimes, the organization also tries to neutralize competitive pressures by price movement.

c. Determining prices according to consumer's paying capacity: Implies that the purchasing power of the consumers should be taken into consideration while setting prices. The sales of an organization depend entirely upon the purchasing power of consumers.

An organization also adopts pricing objectives to promote developmental activities in the society. For instance, an organization may reduce the prices of a product for the low-income sections of the society. Thus, the pricing objectives play a significant role in the overall growth of the organization.

Pricing Strategy

Some important pricing strategies are as below.

1. Value-based pricing

Value-based pricing is also known as value-added pricing or perceived value pricing. Utpal Dholakia, a marketing professor at Rice University, defines value-based pricing as, "the method of setting a price by which a company calculates and tries to earn the differentiated worth of its product for a particular customer segment when compared to its competitor." Value-based pricing is somewhat of an umbrella term for any pricing strategy that considers the *value* of a product in the eyes of the consumer and market. By using a value-based pricing approach, companies can build a framework that leverages their brand, product features, audience demographics, and market position.

Advantages of value-based pricing

- Considers internal and external variables: Value-based pricing looks at several different factors to make sure you consider all relevant factors when creating a price. In many ways, it is more *strategic* than cost-based pricing because it lets you differentiate yourself from the market.

- Better understanding of the playing field: Value-based pricing requires a lot of research. This research gives you a better understanding of your audience, competitors, and market.

- More insights: The research you do on the competition and needs of your target audience can spark ideas for product development.
- Higher profits: In a value-based pricing method, you “maximize” your price by asking the highest possible price you can based on perceived value. This maximizes profits; you, as a producer, capture as much “consumer surplus” — the difference between value perceived by a consumer and the price of a good — as possible.

Disadvantages of value-based pricing

- Complex: A value-based pricing can be difficult to implement because it is a complex process that involves lots of research and analysis.
- Time consuming: Because there is so much research and analysis involved, creating a value-based pricing strategy takes time to set up.

2. Cost based Pricing

Cost based pricing is one of the pricing methods of determining the selling price of a product by the company, wherein the price of a product is determined by adding a profit element (percentage) in addition to the cost of making the product. It uses manufacturing costs of the product as its basis for coming to the final selling price of the product. In Cost Based Pricing, either a fixed amount or a percentage of the total product manufacturing cost is added as profit to the cost of the product to arrive at its selling price.

Advantages of Cost Based Pricing

- A straight-forward and simple strategy
- Ensures that all production and overhead costs are covered before profits are calculated
- Ensures a steady and consistent rate of profit generation
- To find the maximum possible cost of product manufacturing allowable if the final selling price is fixed
- To find the price of the customized product which has been produced as per the specifications of a single buyer
- In cases where the customers have enough knowledge about product costs and thus have an upper hand

Disadvantages of Cost Based Pricing

- May lead to under priced products
- May sometimes ignore consumer's role in the overall market
- May ignore the opportunity cost of the investment

3. Market-Based Pricing

Market-based pricing is the act of setting prices that are closely aligned with the current market prices of similar products. If a business creates products that are differentiated from those of the competition, then there may be room to set prices somewhat higher than market rates, depending on how customers perceive the value of the incremental differences offered by the company. Conversely, if a company's products have a low-quality or commoditized reputation with customers, then it may be necessary to set price points somewhat lower than the market rate in order to sell a reasonable quantity of goods. A smart product design will specifically include high-value features, in order to maximize the price that can be charged.

Types of market-based pricing methods

Compared to competitors' price, a market-based pricing approach will produce three possible pricing, namely:

a. Above market pricing, where the firm's price sets a price above the market's average price. Because it is more expensive, this option is suitable for products that are prestigious or have a strong brand image.

b. At market pricing, the company sets a price equal to or close to the market price. This option is common for commodity companies. Products are relatively uniform among companies.

c. Below market pricing, where companies set prices below market prices. Companies typically target budget-conscious consumers.

Market-based pricing advantages

This method is ideal for supporting both competitiveness and revenue. The company uses competitors as benchmarks, enabling it to choose the most competitive price. At a lower price than competitors, the company should be able to attract more sales. At a higher price, the company can add features that competitors' products don't have.

Considering the demand, the company should be able to determine a selling price that maximizes sales. For example, when launching a new product, the company charges a low price to gain market position.

This may not be achieved if the company uses a cost-based pricing approach. Under this last strategy, the company will set a high selling price because it usually bears the high initial costs (development costs and marketing costs). That may lead to product failure because consumers are not willing to buy (because it is more expensive).

4. Competitor Based Pricing

Competitor based pricing is a strategy that looks at your competitors' pricing structure as the core benchmark for building your own strategy. You anchor your pricing with general trends in the market and align it with customers' expectations of what they'll pay for your product or service.

Advantages of competitor based pricing

Competitor based pricing is a great first step in finding the best possible price for your product or service. Market research gives you a solid base on which to make your pricing decisions. One that's easy to calculate, quick to implement, and relatively low risk.

a. Easy: Competitor based pricing is easy to calculate and understand. All you have to do is look at the competitors in your market and find the average price they use for their services. From there, you can choose whether to go higher or lower or align with customers' expectations.

b. Low risk: When you set pricing close to competitors' rates, you don't have to worry about surprising customers with your price. You'll already know that it's close to what they expect to pay to your competitors. By staying within the standard range of prices, there's a good chance customers will be happy to pay your prices.

c. Evolves with the market: With competitor based pricing, adjusting your pricing doesn't involve guesswork—you just have to align t with the market. If you see a number of competitors raising or lowering their prices, do the same to your own rates.

New Product Pricing

Pricing strategies tend to change as a product goes through its product life cycle. One stage is particularly challenging: the introductory stage. This is called New Product Pricing. When companies bring out a new product, they face the challenge of setting prices for the very first time. Two new product pricing strategies are available: **Price-Skimming** and **Market-Penetration Pricing**. Let's learn more about these two new product pricing strategies.

Price-Skimming – New Product Pricing

The first new product pricing strategies is called price-skimming. It is also referred to as market-skimming pricing. Price-skimming (or market-skimming) calls for setting a high price for a new product to skim maximum revenues layer by layer from those segments willing to pay the high price. This means that the company lowers the price stepwise to skim maximum profit from each segment. As a result of this new product pricing strategy, the company makes fewer but more profitable sales.

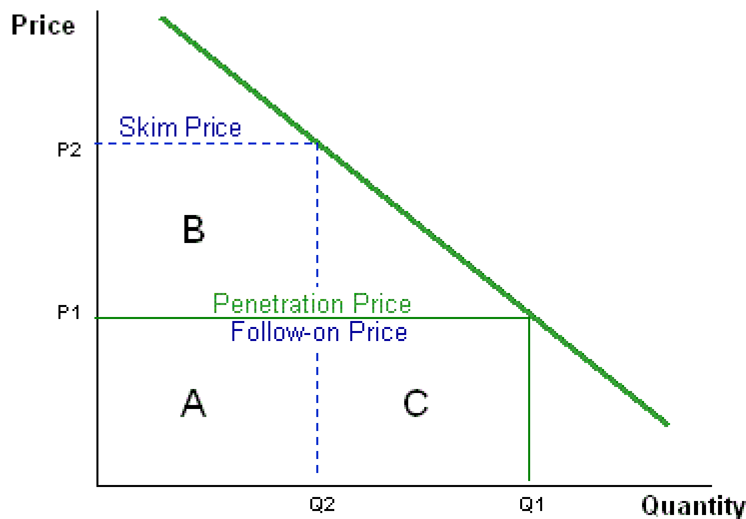
Many companies inventing new products set high initial prices in order to skim revenues layer by layer from the market. An example for a company using this new product pricing strategy is Apple. When it

introduced the first iPhone, its initial price was rather high for a phone. The phones were, consequently, only purchased by customers who really wanted the new gadget and could afford to pay a high price for it. After this segment had been skimmed for six months, Apple dropped the price considerably to attract new buyers. Within a year, prices were dropped again. This way, the company skimmed off the maximum amount of revenue from the various segments of the market.

However, this new product pricing strategy does not work in all cases. Price-skimming makes sense only under certain conditions. The product's quality and image must support the high initial price, and enough buyers must want the product at that price. Also, the costs of producing smaller must not be so high that they overshadow the advantage of charging more. And finally, competitors should not be in sight – if they are able to enter the market easily and undercut the high price, price-skimming does not work.

Advantages

- Price skimming covers the costs of innovation and provides money for product development.
- Early-adopters naturally become the word of mouth marketing channels.
- It allows you to segment the market and target all at different p



Market-Penetration Pricing – New Product Pricing

The opposite new product pricing strategy of price skimming is market-penetration pricing. Instead of setting a high initial price to skim off each segment, market-penetration pricing refers to setting a low price for a new product to penetrate the market quickly and deeply. Thereby, a large number of buyers and a large market share are won, but at the expense of profitability. The high sales volume leads to falling costs, which allows companies to cut their prices even further.

Market-penetration pricing is also applied by many companies. An example is the giant Swedish furniture retailer Ikea. By introducing products at very low prices, a large number of buyers is attracted, making Ikea the biggest furniture retailer worldwide. Although the low prices make each sale less profitable, the high volume results in lower costs and allows Ikea to maintain a healthy profit margin.

In order for this new product pricing strategy to work, several conditions must be met. The market must be highly price sensitive so that a low price generates more market growth and attracts a large number of buyers. Also, production and distribution costs must decrease as sales volume increases. In other words, economies of scale must be possible. And finally, the low price must ensure that competition is kept out of the market, and the company using penetration pricing must maintain its low-price position. Otherwise, the price advantage will only be of a temporary nature.

Advantages of Penetration Pricing

- **High adoption and diffusion**: Penetration pricing enables a company to get its product or service quickly accepted and adopted by customers.
- **Marketplace dominance**: Competitors are typically caught off guard by a penetration pricing strategy and are afforded little time to react. The company is able to utilize the opportunity to switch over as many customers as possible.
- **Economies of scale**: The pricing strategy generates a high sales quantity that enables a firm to realize economies of scale and lower its marginal cost.
- **Increased goodwill**: Customers that are able to find a bargain in a product or service are likely to return to the firm in the future. In addition, this increased goodwill creates positive word of mouth.
- **High inventory turnover**: Penetration pricing results in an increased inventory turnover rate, making vertical supply chain partners, such as retailers and distributors, happy.