Chapter 6
Market Pricing

ABSTRACT

While addressing the price games, this chapter argues that in the price sensitive consumer segment firms drive their profit by applying psychological pricing and zero effects on competitive prices. The zero price effect in reference to the price of a competitor is a phenomenon whereby the demand for a product or service is significantly greater at a price congruent to that of a competitor. The author also addresses an interesting and significant factor affecting the pricing strategies of the firms concerning reactive pricing and price wars. The discussion on the above perspectives in the chapter reveal that historically firms struggling in market competition have taken price for granted, assuming that their main objectives were to cover costs and achieve a target rate of return. Now, companies are adopting more sophisticated approaches. A strategic perspective on pricing includes price objectives, price strategy, price structure, price levels, and price promotions.

PRICE GAMES

Amidst globalization some companies are successful not because they operate on economies of scale but because they outmaneuver their competitors on price. These companies analyze the way pricing needs to be set and make it workable in the market to outperform the competitors. Companies design pricing policies that result in extra earnings of millions of dollars, keeping in view staying ahead of competitors and gaining higher customer loyalty through effective price-value chain (Ross, 1984). Firms play many price games, implement competitive pricing strategies, and influence consumer values on price operations. In the price sensitive consumer segment firms drive their profit by applying psychological pricing and zero effects on competitive prices. The zero price effect in reference to the price of a competitor is a phenomenon whereby the demand for a product or service is significantly greater at a price congruent to that of a competitor. However, the assumptions of consumers are that higher prices connote higher quality. Luxury brands fall in the category of prestige pricing. Most firms develop prestige pricing strategy by making cosmetic improvements in the product packaging and delivery services. Another common competi-

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tive pricing strategy used by the firms is anchor pricing. When consumers are unfamiliar with a product, they use the highest priced model within a category as an anchor. Private label brands in the supermarket are a good example of this strategy. They are placed close to the branded product and the price is typically 15 percent lower.

In the retail market firms sustain in complex environment due to high competition and fluctuations in prices. Some firms, therefore, follow quantity suggestive pricing to attract price sensitive consumers. Consumers are generally receptive towards purchasing items in suggested quantities by the retailers. This pricing strategy is promoted as buy three units of product and pay for just two. Consumers perceive more value in buying when there is more stuff included in the bundle price. Such pricing strategy may be determined also as value-building. Television commercials often introduce a main product and keep adding more and more items to the mix to build value, while simultaneously discounting the retail price. Using banners announcing large discounts increases purchases for the retailers and strengthens their market position against competitors. There are two kinds of discount store shoppers: (1) those who are price sensitive because they can't afford to spend more, and (2) those who are price sensitive because they are bargain seekers. Big "Sale" and "Discount" signs make both sets of shoppers feel good about their purchase.

Large and growing companies operating in the consumer products segment have shown the trend of moving into the less explored consumer segment identified as bottom of the pyramid segment in the post-recession period (2007-11). This segment is highly price sensitive and there are many competitors and substitute products. Hence, operating on low prices has become one of the principal but fatal strategies for the competing firms. However, such price games offer myopic solutions to penetrate the market and gain short-run competitive advantage, there are many flaws in the low-price, low-margin, and high-volume strategy. Large companies have been pursuing in the bottom of the pyramid market segment for the past decade (2001-2010) in order to cover the built-in costs of doing business among low-income customers scattered in rural and semi-urban areas. It may be argued that companies seeking to improve profitability need to elevate gross margins by pushing down variable costs and defining the price that consumers are willing to pay for a unit of product. They also need to raise the price point for a single transaction in all market segments including the existing and the potential segments. This combination of higher margins and higher price points increases the profit contribution of the per unit price as it covers the fixed and operating costs generated from every transaction. Achieving sustainable margins in low-income markets requires a price-boosting platform that integrates three common approaches including bundling products, offering value for money, and cultivating social media and word of mouth effect into a coherent pricing strategy (Simanis, 2012).

Multinational companies in emerging markets have long experience with value-conscious customers and have already built cost-innovation capabilities. Some, like Bajaj Automobiles Ltd. from India, have learnt to sell high-tech products profitably at mass-market prices through a combination of lower labor costs and manufacturing innovations. Others, like drinks purveyor United Spirits of USA, have dominated industries by blanketing sizable niches in their home markets with a full range of products or customized options. And still others, like appliance manufacturer Haier, have used low-price offerings to turn small, unguarded niches into mass markets in developed countries (Williamson and Zeng, 2009). A critical new competitive struggle is emerging in China as most companies are entering the price war to capture higher market share. It is the mass-market segment with acceptable quality at low-enough prices to attract the fast-growing cohort of mid-level consumers in all international destinations. Companies take various approaches to competing

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