Chapter 8
Price Performance

ABSTRACT

Strategic pricing is one of the most powerful sources of profits and growth. Yet, in recent years, it has been the least exploited driver of shareholder value. Few manufacturers review their pricing systematically, most set prices reactively. Some extrapolate from history, and for others it is just a hunch. This chapter examines the market structure of information goods and its implications for competitive pricing strategy. It focuses on several approaches to overcoming commoditization: personalizing products and prices and establishing group rates. This chapter argues that price performance is dependent on various interrelated factors in a firm. Most management tools and techniques that are applied in optimizing returns on price have long-term strategic orientation in a firm. Firms need to implement pricing strategies in association with many interrelated factors including the design of the price offerings, employee management, consumer management, and the channel management. The core discussion in the chapter provides an overview for developing pricing capabilities in the competitive marketplace. Major topics discussed in this chapter include enhancing price performance, price sensitivity and sales promotions, price impact on profits, and developing pricing decision under market uncertainties.

PRICE-MARKET RELATIONSHIP

The fair value may be close to where the market is trading but other pricing factors in the marketplace mean fair value is used mostly as an estimate of the option's value. Moreover, fair value will depend on the assumptions regarding volatility levels, dividend payments and so on that are made by the person using the pricing model. Different expectations of volatility or dividends will alter the fair value result. This means that at any one time there may be many views held simultaneously on what the fair value of a particular option is. In practice, supply and demand will often dictate at what level an option is priced in the marketplace. Marketers may have a fair value on an option to get an indication of whether the current market price is higher or lower than the fair value, as part of the process of making a judgment about the market value of the option. It has been observed that most organizations set ambitious high-price and high-profit goals but dedicate almost no time to

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ensuring that the resources they have allocated will enable them to achieve these goals. To formulate a sound pricing strategy, executives need a deep understanding of their organization's marketing strategy, profit goals, and targets that determines the level of financial performance required to meet stakeholders and consumer expectations. These targets are typically high-level financial outcomes such as improved revenue, high profit margin or market share (Nevius, 2012).

The volatility figure input into an option-pricing model reflects the assumptions of the person using the pricing model. Volatility is defined technically in various ways, depending on assumptions made about the underlying asset's price distribution. For the regular option trader it is sufficient to know that the volatility a trader assigns to a stock reflects expectations of how the stock price will fluctuate over a given period of time. Volatility is usually expressed in two ways: historical and implied. Historical volatility describes volatility observed in a stock over a given period of time. Price movements in the stock (or underlying asset) are recorded at fixed time intervals (for example every day, every week, or every month) over a given period. More data generally leads to more accuracy. Implied volatility relates to the current market for an option. Volatility is implied from the option's current price, using a standard option-pricing model. Keeping all other inputs constant, firms can put the current market price of an option into any theoretical option price calculator and it will calculate the volatility implied by that option price. However, in the post-globalization market environment competitive success has largely come from building and dominating fundamentally new markets in reference to various factors that offered value to customers including technology led product innovation, fair prices, and perceived value for money. Core competencies of firms turned out to be one of the prerequisites for creating these new markets and price performance. Corporate imagination, expeditionary marketing, and appropriate pricing strategies are the keys that unlock the markets and reveal performance of the firms. Corporate performance is unleashed when companies escape the tyranny of their served markets, think about needs and functionalities instead of marketing's more conventional customer-product grid, overturn tradition price-performance assumptions, and lead customers rather than follow them (Hamel and Prahalad, 1991).

Price satisfaction is an influential factor in competitive performance and business success. Strong price satisfaction enhances and sustains high quality business relationships, leading to improved profits for chain participants. It is observed that firms need to analyze the relative price, price-quality ratio, and price fairness, all of which influence consumers' loyalty and growth in business through price-sensitive market performance. In order to achieve long-term, sustainable price performance and business relationships with various market players including consumers, firms should thrive for high price quality and value for money results in the competitive markets by understanding various price satisfaction dimensions (Boniface et al, 2012).

PRICE-MARKET PERFORMANCE

Prices may also be increased in the selected segment in competitive marketplace. A high priced soft drink company may launch its product for executives. This brand may be differentiated as one that provides stamina and invigoration without adding calories. To substantiate the brand's worth and make it appear different, the price may be set at double the price of the existing soft drinks. Hewlett-Packard Company operates in the highly competitive pocket calculator industry, where the practice of price-cutting is quite common. Hewlett-Packard thrives by offering high-priced products to a select segment of the market. Stra-