

# Chapter 11

## Challenges Ahead

### ABSTRACT

*This chapter discusses the future challenges that firms might face in determining and managing pricing strategies in the global markets. It has been argued that international firms are developing new hybrid marketing systems that entail architecture of marketing channels with a focus on optimizing consumer response. Such systems offer larger market coverage and reduced costs, through hybrid grid, a map that illustrates the combination of channels and tasks that will optimize cost and coverage. The author critically examines the current practices in pricing followed by the firms and states that pricing is emerging as a challenge for firms amidst the growing competition in the global marketplace. Companies differ substantially in their approach to price setting, but most of them follow the cost-based pricing, competition-based pricing, or customer value-based pricing. Customer value-based pricing uses information on the perceived customer value of the product as the main factor for determining the final selling price.*

### INTRODUCTION

In view of globalization many international companies are experimenting innovative strategies to make their marketing channels more flexible and responsive to avoid rush hour stock-outs and customer dissatisfaction. However, the dynamics of marketing channels, and appropriate point of purchase convergence strategies of marketing channels and the firm, could help in developing positive consumer response towards products and services of the firm. International companies are developing new hybrid marketing systems that entail architecture of marketing channels with

a focus on optimizing consumer response. Such system offers larger market coverage and reduced costs, through *hybrid grid*, a map that illustrates the combination of channels and tasks that will optimize cost and coverage (e.g. Rowland and Ursula, 1990). In this process, it is necessary that companies should select market channels that serve the market segment and not just represent a geographic area, and are catalytic in driving consumer response at various stages of product life cycle.

Pricing is emerging as a challenge for firms amidst the growing competition in the global marketplace. Companies differ substantially in their

approach to price setting, but most of them follow the cost-based pricing, competition-based pricing or customer value-based pricing. Customer value-based pricing uses information on the perceived customer value of the product as the main factor for determining the final selling price. The customer value-based pricing is often considered by the firms as a preferable approach to price setting for the existing products in order to gain customer loyalty and sustainable competitive advantage. However, developing and implementing a sophisticated, customer value-based pricing program is a long-term exercise that demands a high degree of managerial involvement and substantial changes in processes and thinking within the company (Hinterhuber and Liozu, 2012). The value of any pricing strategy raises critical debate if it is not congruent with the overall strategy of the firm. Pricing strategies that do not reflect organizational goals can detrimentally affect performance outcomes. One of the major challenges to the firms is to determine the benefit of differential pricing strategies and effectively measure the congruence between pricing strategies and corporate objectives, and the influence of that congruence on the price performance (Myers, 2004).

Companies seek to sustain its competitive advantage through a long-term sustainable pricing strategy that also helps in optimizing their profit goals. A sustainability patterns in a number of industries demonstrated how the competitive pressures associated with product imitation can be predicted by identifying the core capabilities, or isolating mechanisms, that lie at the heart of a company's advantage. A number of dynamic core capabilities are classified in the sustainable pricing process according to how fast they are imitated by the competitors. The imitation of capabilities of pricing strategies poses many threats on strategic decisions for global markets in companies (Williams, 1992). Lessons may be learnt from the Japanese Corporation on developing the competitive strategies and methods to be employed on pricing and marketing processes.

They compete with each other through relentless pursuit of rapid growth and increased market share, and demonstrate that for a company to establish long-term winning strategy the firms should aim at enhancing their market share keeping price as a control measure so that its volume of business overtakes its competitors. Companies may have increased investments in price cutting, expansion in volume of business, advertising, and/or product improvements. Most Japanese companies operate on economies of scale with decreased costs resulting into lower prices as compared to the close rivals and increased profitability (Abegglen and Stalk, 1986)

The principle pricing issues include the firm's business model (cost structure, experience curve), stakeholders (customers and channel partners), competition (market structure and intensity), and macroeconomic issues (interest rates, economic growth). An important dimension of organizational price setting that many companies ignore is the impact that the firm's internal political system, reflected in interdepartmental coordination and rivalry, has upon price setting (Lancioni et al, 2005). Consumer perceptions play a key role in the life cycle of a brand. The role varies according to the stage in the life cycle, market situation, and competitive scenario. It may be required for a company to invest on appealing communication strategies for creating awareness on the unfamiliar brands to influence the decision of consumers towards buying these brands they have not tested before. Systematically explored concepts in the field of customer value and market driven approach towards new products would be beneficial for a company to derive long term profit optimization strategy over the period. On a tactical level, managers need to consider the optimum spread of customers on a matrix of product attractiveness and market coverage. This needs careful attention and application of managerial judgment and experience to measure the customer-value driven performance of the retail stores considering the innovative sales approaches for organic products,

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