# Product and pricing strategies

## What is a product?

According to Philip Kotler, who is an economist and a marketing guru, a product is more than a tangible *'thing'*. A product meets the needs of a consumer and in addition to a tangible value this product also has an abstract value.

For this reason Philip Kotler states that there are five product levels that can be identified and developed. In order to shape this abstract value, Philip Kotler uses five product levels in which a product is located or seen from the perception of the consumer.

These 5 Product Levels indicate the value that consumers attach to a product. The customer will only be satisfied when the specified value is identical or higher than the expected value.

### 1. Core Product

This is the basic product and the focus is on the purpose for which the product is intended. For example, a warm coat will protect you from the cold and the rain.

The more important benefits the product provides, the more that customers need the product. A key element is the uniqueness of the core product. This will benefit the product positioning within a market and effect the possible competition.

### 2. Generic Product

This represents all the qualities of the product. For a warm coat this is about fit, material, rain repellent ability, high-quality fasteners, etc.

### 3. Expected Product

This is about all aspects the consumer expects to get when they purchase a product. That coat should be really warm and protect from the weather and the wind and be comfortable when riding a bicycle.

### 4. Augmented Product

The Augmented Product refers to all additional factors which sets the product apart from that of the competition. And this particularly involves brand identity and image.

Is that warm coat in style, its colour trendy and made by a well-known fashion brand? But also factors like service, warranty and good value for money play a major role in this.

The goal is to deliver something that is beyond an expected product. It's the translation of the desire that is converted into reality.

### 5. Potential Product

This is about augmentations and transformations that the product may undergo in the future. For example, a warm coat that is made of a fabric that is as thin as paper and therefore light as a feather that allows rain to automatically slide down.

## Competition

The competition between businesses focuses mainly on the distinctiveness of the Augmented Product according to Philip Kotler.

It is about the perception a consumer experiences when purchasing a product and it is not so much about value. He states: *"Competition is determined not so much by what companies produce, but by what they add to their product in the form of packaging, services, advertising, advice, delivery (financing) arrangements and other things that can be of value to consumers"*.

## Five Product Levels : marketing strategy

For production companies it is important to deliver products in an upward trend from *'Core Product'* to *'Augmented Product'* and to have the potential to grow into the *'Potential Product'*.

Under the guise of *stagnation means decline*, innovative companies such as Philips and Volkswagen focus on the latter category.

## Added value of the Five Product Levels

Each level of the five product levels adds value for the customer. The more efforts production companies make at all levels, the more likely they are to stand a chance to be distinctive. At the *Augmented Product* level, the competition is observed in order to copy certain techniques, tricks and appearance of each other's products.

This makes it increasingly difficult for a consumer to define the distinctiveness of a product. To be able to tower over the competition, production companies focus on factors which consumers attach extra value to such as extreme packaging, surprising advertisements, customer-oriented service and affordable payment terms.

## Product Classification in Marketing

Knowing the classification of a product is vital when devising a marketing strategy. Why? Well, it lets you know the mindset most consumers have and the behavior they exhibit when interacting with your product.

This knowledge arms you to devise an effective marketing strategy that will meet your consumers where they are. It also helps you decide on a realistic marketing budget.

For instance, say your products fall under the "unsought goods" classification (more on that in this section). This means that you'll likely need to take a more aggressive marketing approach to reach consumers that may not have considered your product or brand.

Think of charity organizations, life insurance companies, and funeral homes. These are usually not top of mind for consumers. As such, these brands must work a little harder to be visible to consumers and highlight the benefits of their goods or services.

Shopping goods, on the other hand, are highly visible and very competitive. Consumers typically spend time comparing quality, cost, and value before making a purchase. That's why building brand loyalty is vital for this product classification.

As you can see, there are factors to consider for every classification of product. The more familiar you are with consumer habits and beliefs for that category, the more equipped you will be to market your product.

There are four types of products and each is classified based on consumer habits, price, and product characteristics: convenience goods, shopping goods, specialty products, and unsought goods.

Let's dive into each one in more detail.

**1. Convenience Goods**

Like the Crest toothpaste example, convenience goods are products that consumers purchase repeatedly and without much thought.

Once consumers choose their brand of choice, they typically stick to it unless they see a reason to switch, such as an interesting advertisement that compels them to try it or convenient placement at the checkout aisle.

These products include gum, toilet paper, soap, toothpaste, shampoo, milk, and other necessities that people buy regularly.

To market a convenience good, you want to consider that most people will impulse buy these products. Placing your products near the checkout line at a store could be a good idea for these products — which is why you'll often find candy and gum at the front of a store.

Since most convenience products are priced low, cost and discounting isn't a major deciding factor when considering a purchase. I won't switch my toilet paper brand just to save a few cents.

For convenience goods, brand recognition is key. With this in mind, you'll want to implement widespread campaigns to spread awareness of your company if possible.
For instance, Charmin, the toilet paper brand, is a widely recognized brand in the United States — likely in part due to the company's consistent and long-term advertising strategy, dating back to the 1960's with the invention of the character "Mr. Whipple" who appeared on TV, print, and radio ads.

**2. Shopping Goods**

Shopping goods are commodities consumers typically spend more time researching and comparing before purchase.

They can range from affordable items, like clothes and home decor, to higher-end goods like cars and houses.

These are more one-off purchases with a higher economic impact.

For instance, while you will buy toilet paper over and over again for the rest of your life, you'll likely only purchase a house a few times at most. And, since it's an expensive and important purchase, you'll spend a good amount of time deliberating on it, attending different open houses, and comparing the pros and cons of your final selection.

The same can be said for smaller products. If you have an event coming up and you want to purchase a nice pair of shoes, this doesn’t fall under impulse purchases.

Instead, you'll want to try it on, consider whether the price is worth it, and even get input from your loved ones.

To market a shopping good, invest in content that persuades your buyer of your product's value. It's important your marketing materials demonstrate how your product differs from the competition, and the unique value it provides consumers.

Price also plays a role in this product type, so the promotion of discounts and sales can attract consumers toward your brand.

**3. Specialty Goods**

A specialty good is the *only* product of its kind on the market, which means consumers typically don't feel the need to compare and deliberate as much as they would with shopping products.

A good example of this? iPhones.

I've been purchasing new iPhones for years, and I haven't paused to consider other smartphone models — because of Apple's strong brand identity and the perception I have of its product quality.

When marketing a specialty good, you don't necessarily need to spend too much time convincing consumers that your product is different from competitors. They already know already.

Instead, focus on how your products are constantly innovating and improving. This will ensure your customers will remain loyal to your brand.

For instance, if Apple stopped making impressive improvements on their iPhones and promoting new features, I might consider switching brands. But since they've continued to impress me over the years, I've continued to purchase from them.

**4. Unsought Goods**

Finally, unsought products — goods that people aren't typically *excited* to buy. Good examples of unsought goods include fire extinguishers, batteries, and life insurance.

People will typically buy an unsought good out of a sense of fear or danger. For instance, you wouldn't go on the market looking for the "new and best" fire extinguisher. You'd only purchase one due to the fear of a potential fire. Alternatively, some unsought goods, like batteries, are bought simply because the old ones expired or ran out.

When marketing an unsought good, focus on reminding consumers of the existence of your product, and convincing consumers that purchasing your product will leave them with a better sense of security.

For instance, Duracell's Beach x Bear commercial encourages viewers to remember the importance of batteries in life-threatening situations, like impending bear attacks or when using a metal detector.

Product Hierarchy:

Product hierarchies help businesses organize products on a website, at a storefront or even in a warehouse. Companies use product hierarchies to categorize their inventory and make it

easier to access, track and sell. Understanding this concept and how to implement it can help you apply the hierarchy method more effectively in the workplace.
Product hierarchy is important because product organization can help businesses with inventory control and customer experience. A more organized purchasing experience can help customers quickly locate the products they need according to features and price while exploring competing products. A hierarchy can also help a company with internal audits, ensuring that each product exists within the proper parameters.

**product hierarchy levels**

There are typically six levels of product hierarchy. These include:

1. Need

The product need refers to its primary purpose for existing. Product need is the first organization category and typically encompasses several classes or types of products. For example, fashion, beauty and personal hygiene products might all be needed. While these kinds of products can comprise thousands of individual options, their purpose helps unify them under a single title for easier organization and customer recognition.

2. Family

A family of products typically refers to the core need each product satisfies for its customers. A family can comprise several variations of products or services that fulfill the core needs. For example, communication is a core need that computers and mobile devices can satisfy. The family category helps organize products within a broader market and helps differentiate separate methods for meeting the original core need of the customer.

3. Class

A product class is a category within a company's overarching services. For example, a vehicle manufacturer might produce personal vehicles to meet the core product need for travel but categorizes each vehicle by a different class. They might organize each vehicle by titles such as SUVs, sedans and luxury vehicles. Product class helps a customer choose between certain specifications. Any vehicle can help a customer travel, but they might need specific safety or mechanical features only present in a particular vehicle class.

4. Line

Products within a product line typically have similar features or prices. These products exist within a class of products and offer different options for customers. For example, a vehicle manufacturer might produce a line of sedans with similar features and pricing but different names. The product line gives customers additional options for similar features to fully customize their purchase and get the exact product they want.

5. Type

A product type is an individual product that exists within a product line. This helps to further differentiate similar products for more specific customer choices. For example, laptops are a product line of personal computers, but they might offer different types, such as two-in-one tablet/PC hybrids, compact notebooks and workbooks. Many product types have unique features that impact the price of the item. Personal computers might have extra memory or a better CPU within the same category.

6. Unit

A unit is a single product that has no other product types dependent on it. Companies refer to this as the stock-keeping unit (SKU). Individual units help companies track the stock of each product type under its class and is eventually what customers take with them after a purchase. Individual SKUs share the same features and prices as the other SKUs within their product type.

**Benefits of creating a hierarchy**

Using a hierarchy offers many benefits to multiple stakeholders, including:

- **A better user experience for customers:** Product hierarchies help organize items and services so customers can easily access the items they're looking for according to feature, cost, department or unit.
- **Scalable organization for the company:** Product hierarchies can provide more scalable organization for the company's products and services, meaning that as the company grows and adds more products or services, the organizational system can grow, too.
- **Improved search engine optimization for e-commerce platforms:** Organizing products with a hierarchy helps e-commerce sites better optimize pages for search engines. Better optimization can improve site traffic and sales by enabling pages to appear in the top results for specific keywords.
- **Greater internal organization for the company and its products:** A hierarchy helps a company organize its products into different sections and identify key features that help distinguish products and services from each other. Effective organization can reduce the need for audits or reorganizing, saving the organization time and money.
- **Improved website architecture, organization and traffic:** A well-organized hierarchy can help a website appear more professional and makes it easier for customers and leads to locate the products they seek. With more web traffic, the chances of sales increase, and in doing so increase the company's revenue.
- **Enhanced marketing campaigns and customer recognition:** Product hierarchies can also help make products more recognizable and improve the company's product marketing efforts. Customers learn to recognize company products by class and type, which can help them remember the product when needed.
- **Increased competitive advantage in individual markets:** Product hierarchies can help establish a significant advantage against competitors by focusing on key features, pricing or the benefits of choosing the company's products. This can help influence customers to make certain purchasing decisions.

## What is Product Mix?

Product mix, also known as product assortment or product portfolio, refers to the complete set of products and/or services offered by a firm. A product mix consists of product lines, which are associated items that consumers tend to use together or think of as similar products or services.


### Dimensions of a Product Mix

*#1 Width*

Width, also known as breadth, refers to the number of product lines offered by a company. For example, Kellogg's product lines consist of: (1) Ready-to-eat cereal, (2) Pastries and breakfast snacks, (3) Crackers and cookies, and (4) Frozen/Organic/Natural goods.

*#2 Length*

Length refers to the total number of products in a firm's product mix. For example, consider a car company with two car product lines (3-series and 5-series). Within each product line series are three types of cars. In this example, the product length of the company would be six.

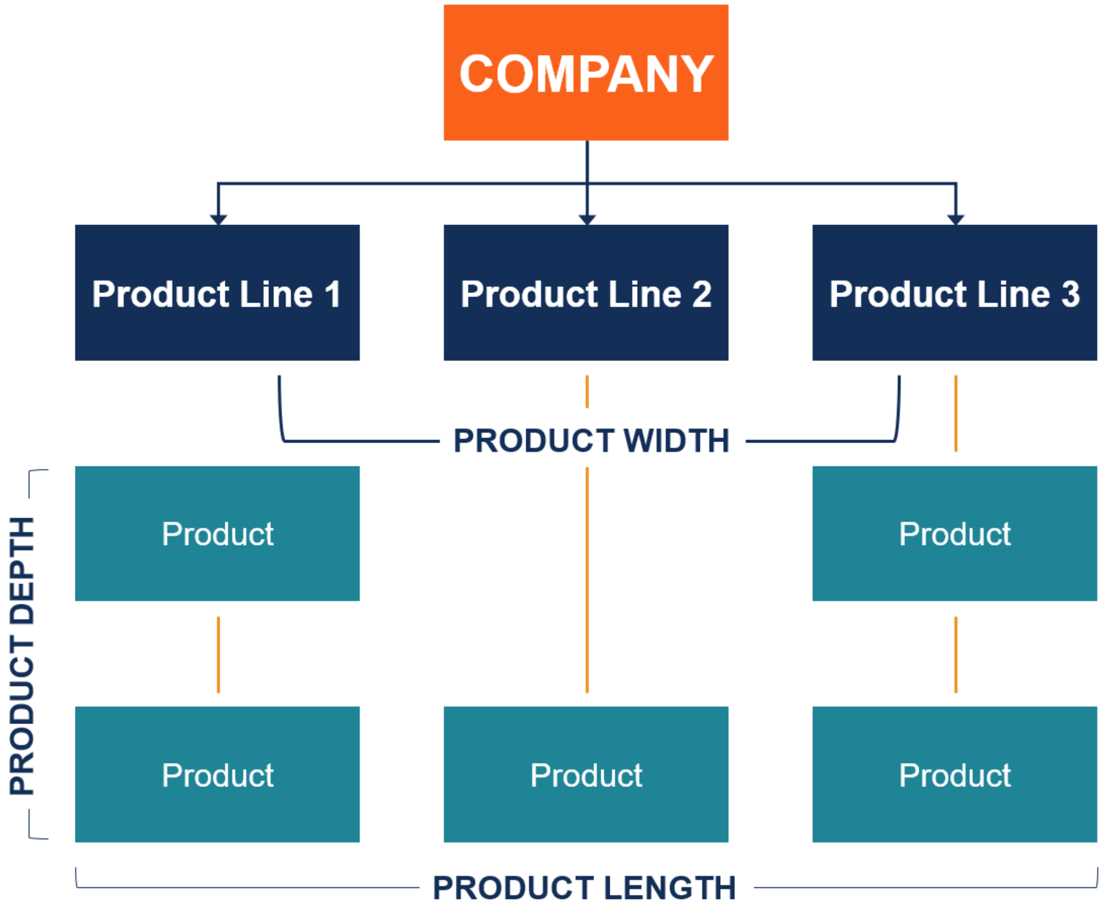
*#3 Depth*

Depth refers to the number of variations within a product line. For example, continuing with the car company example above, a 3-series product line may offer several variations such as coupe, sedan, truck, and convertible. In such a case, the depth of the 3-series product line would be four.

*#4 Consistency*

Consistency refers to how closely related product lines are to each other. It is in reference to their use, production, and distribution channels. The consistency of a product mix is advantageous for firms attempting to position themselves as a niche producer or distributor. In addition, consistency aids with ensuring a firm's brand image is synonymous with the product or service itself.

Illustration of a Product Mix




In the illustration above, the product mix shows a:

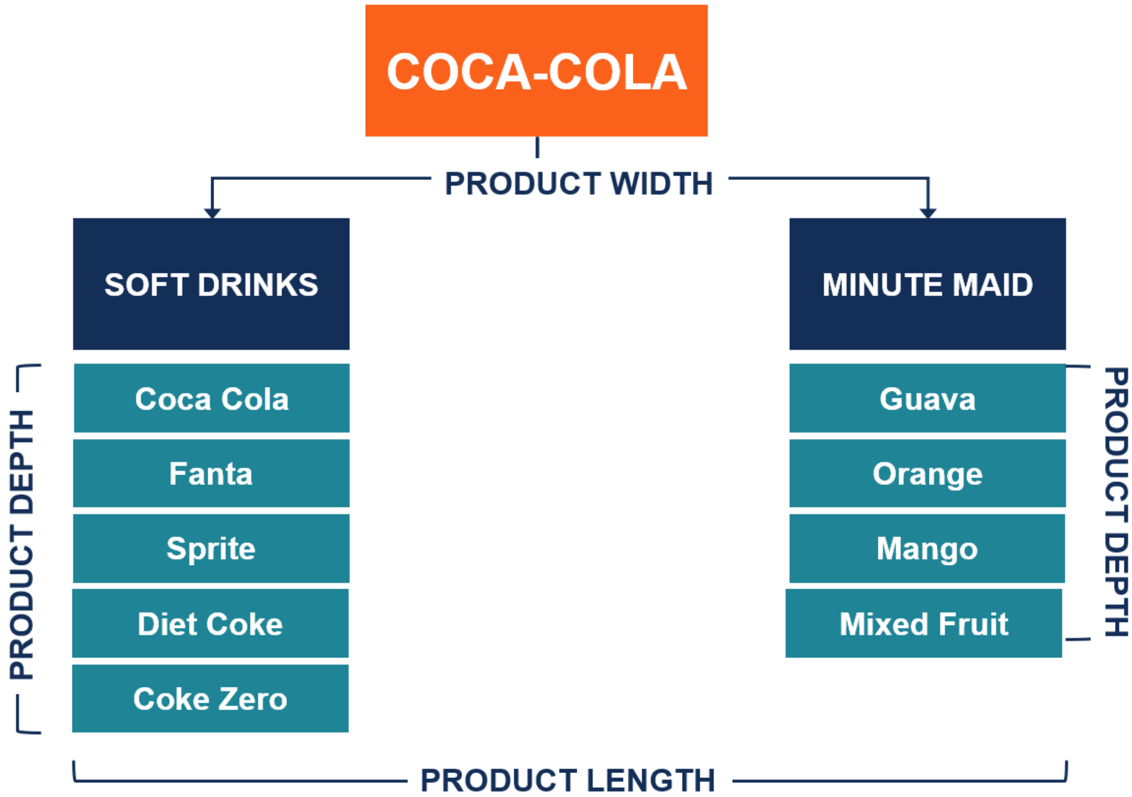
- Width of 3
- Length of 5
- Product Line 1 Depth of 2
- Product Line 2 Depth of 1
- Product Line 3 Depth of 2

The mix is considered consistent if the products in all the product lines are similar.

Example of a Product Mix

Let us take a look at a simple product mix example of Coca-Cola. For simplicity, assume that Coca-Cola oversees two product lines – soft drinks and juice (Minute Maid). Products classified as soft drinks are Coca-Cola, Fanta, Sprite, Diet Coke, Coke Zero, and products classified as Minute Maid juice are Guava, Orange, Mango, and Mixed Fruit.

The product (mix) consistency of Coca-Cola would be high, as all products within the product line fall under beverage. In addition, production and distribution channels remain similar for each product. The product mix of Coca-Cola in the simplified example would be illustrated as follows:




Importance of a Product Mix

The product mix of a firm is crucial to understand as it exerts a profound impact on a firm's brand image. Maintaining high product width and depth diversifies a firm's product risk and reduces dependence on one product or product line. With that being said, unnecessary or non-value-adding product width diversification can hurt a brand's image. For example, if Apple were to expand its product line to include refrigerators, it would likely have a negative impact on its brand image with consumers.

In regard to a firm expanding its product mix:

- Expanding the width can provide a company with the ability to satisfy the needs or demands of different consumers and diversify risk.
- Expanding the depth can provide the ability to readdress and better fulfill current consumers.

**Product Line vs. Product Mix**
A product line refers to a particular good or service that a company makes and markets to customers. A food company may extend a product line by adding various similar or related products (e.g., adding mesquite BBQ flavor to its existing potato chips line), and create a more diversified product family. The product family supplies various products under the

same brand name that are similar but meet slightly different needs or tastes, potentially attracting more and different customers.

If the company branches out and starts producing pretzels, this would be a different product line altogether, involving different ingredients, processes, and knowledge to make. It would also attract many of the same, but also different customers as its potato chips line. Pretzels, however, would not be in the same product line or family. Thus, adding pretzels expands the firm's product portfolio, also known as its product mix.

The product mix is important to analyze since it can identify which market segments are experiencing what trends. Companies may thus re-brand or restructure underperforming and unprofitable products, while profitable lines may be tagged to include innovative or riskier new additions to that product family.

Mature companies often have diversified product mixes. Internal product development and acquisitions contribute to its product portfolio size over time, and larger enterprises have the infrastructure to support the marketing of a broader offering. Geographic expansion can also augment a product portfolio, with products varying in popularity among cities or countries. Apple, Inc., for example, now has a product mix that includes its wildly popular iPhone devices (within which are various generations, versions, sizes, all at different price points), the iOS app store, its line of laptop & desktop computers, software development, music streaming service, Apple TV, and so on.

**Product Life Cycle:**

The term product life cycle refers to the length of time a product is introduced to consumers into the market until it's removed from the shelves. This concept is used by management and by marketing professionals as a factor in deciding when it is appropriate to increase advertising, reduce prices, expand to new markets, or redesign packaging. The process of strategizing ways to continuously support and maintain a product is called product life cycle management.

As mentioned above, there are four generally accepted stages in the life cycle of a product—introduction, growth, maturity, and decline.

**Introduction Stage**

The introduction phase is the first time customers are introduced to the new product. A company must generally includes a substantial investment in advertising and a marketing campaign focused on making consumers aware of the product and its benefits, especially if it broadly unknown what the good will do.

During the introduction stage, there is often little to no competition for a product as other competitors may be getting a first look at rival products. However, companies still often experience negative financial results at this stage as sales tend to be lower, promotional pricing may be low to drive customer engagement, and the sales strategy is still being evaluated.

**Growth Stage**

If the product is successful, it then moves to the growth stage. This is characterized by growing demand, an increase in production, and expansion in its availability. The amount of

time spent in the introduction phase before a company's product experiences strong growth will vary from between industries and products.
During the growth phase, the product becomes more popular and recognizable. A company may still choose to invest heavily in advertising if the product faces heavy competition. However, marketing campaigns will likely be geared towards differentiating their product from others as opposed to introducing their goods to the market. A company may also refine their product by improving functionality based on customer feedback.
Financially, the growth period of the product life cycle results in increased sales and higher revenue. As competition begins to offer rival products, competition increases, potentially forcing the company to decrease prices and experience lower margins.

**Maturity Stage**

The maturity stage of the product life cycle is the most profitable stage, while the costs of producing and marketing decline. With the market saturated with the product, competition now higher than at other stages, and profit margins starting to shrink, some analysts refer to the maturity stage as when sales volume is "maxed out".
Depending on the good, a company may begin deciding how to innovate their product or introduce new ways to capture a larger market presence. This includes getting more feedback from customers, their demographics, and their needs.
During the maturity stage, competition is now the highest. Rival companies have had enough time to introduce competing and improved products, and competition for customers is usually highest. Sales levels stabilize, and a company strives to have their product exist in this maturity stage for as long as possible.

**Decline Stage**

As the product takes on increased competition as other companies emulate its success, the product may lose market share and begin its decline. Product sales begin to decline due to market saturation and alternative products, and the company may choose to not pursue additional marketing efforts as customers may already have determined themselves loyal to the company's products or not.
Should a product be entirely retired, the company will stop generating support for the good and entirely phase out marketing endeavors. Alternatively, the company may decide to revamp the product or introduce it with a next generation, completely overhauled item. If the upgrade is substantial enough, the company may choose to re-enter the product life cycle by introducing the new version to the market.
The stage of a product's life cycle impacts the way in which it is marketed to consumers. A new product needs to be explained, while a mature product needs to be differentiated from its competitors.

**Advantages of the Product Life Cycle**

The product life cycle better allows marketers and business developers to better understand how each product or brand sits with a company's portfolio. This enables the company to internally shift resources to specific products based on those products positioning within the product life cycle.

For example, a company may decide to reallocate market staff time to products entering the introduction or growth stages. Alternative, it may need to invest more cost of labor in engineers or customer service technicians as the product matures.

The product life cycle naturally tends to have a positive impact on economic growth as it promotes innovation and discourages supporting outdated products. As products move through the life cycle stages, companies that use the product life cycle can realize the need to make their products more effective, safer, efficient, faster, cheaper, or conform better to client needs.

**Limitations of the Product Life Cycle**

Unfortunately, the product life cycle doesn't pertain to every industry, and it doesn't pertain consistently across all products. Consider popular beverage lines whose primary products have been in the maturity stage for decades, while spin-off or variations of these drinks from the same company fail.

The product life cycle may be artificial in industries with legal or trademark restrictions. Consider the new patent term of 20 years from which the application for the patent was filed in the United States.1 Though a drug may be just entering their growth stage, it may be adversely impacted by competition when its patent ends regardless of which stage it is in.

Another unfortunate side effect of the product life cycle is prospective planned obsolescence. When a product enters the maturity stage, a company may be tempted to begin planning its replacement. This may be the case even if the existing product still holds many benefits for customers and still has a long shelf life. For producers who tend to introduce new products every few years, this may lead to product waste and inefficient use of product development resources.

**What are pricing objectives?**

Pricing objectives refer to the goals that drive how your business sets prices for your product or service. These objectives can and *should* apply to pricing for both new and existing customers. The direction provided by pricing objectives is crucial to adjusting prices over time in order to meet your objectives.

Each pricing objective requires a different pricing strategy to meet business goals. Certain pricing methods work well for meeting a particular objective, while other combinations can contradict one another - it’s important to make sure your pricing objectives and strategies are closely matched.

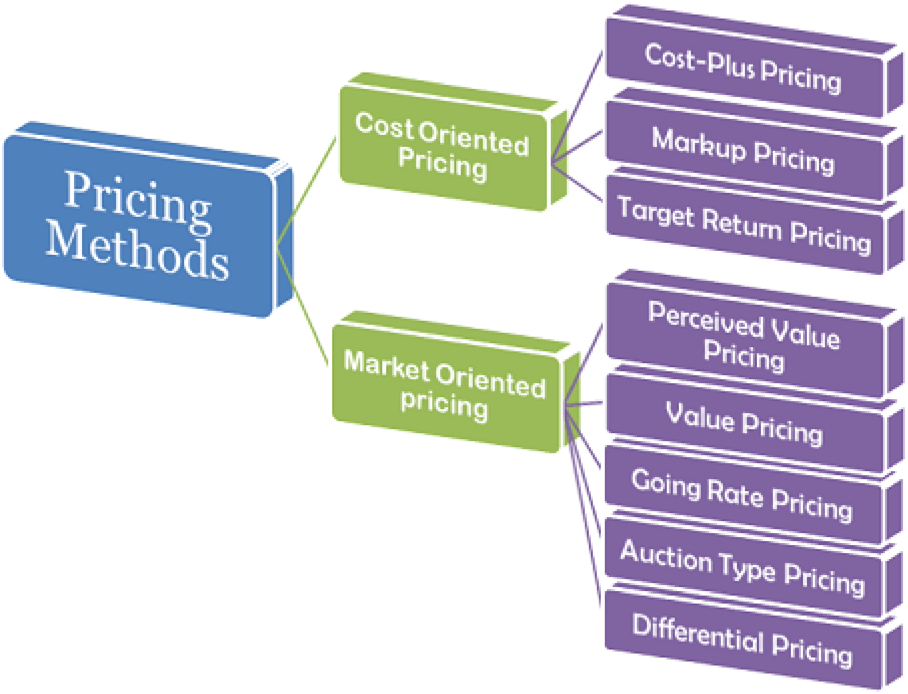
## Pricing Methods

**Definition**: The **Pricing Methods** are the ways in which the price of goods and services can be calculated by considering all the factors such as the product/service, competition, target audience, product’s life cycle, firm’s vision of expansion, etc. influencing the pricing strategy as a whole.

*The pricing methods can be broadly classified into two parts:*

1. *Cost Oriented Pricing Method*

2. *Market Oriented Pricing Method*




***Cost-Oriented Pricing Method**: Many firms consider the **Cost of Production** as a base for calculating the price of the finished goods. Cost-oriented pricing method covers the following ways of pricing:*

- ***Cost-Plus Pricing:** It is one of the simplest pricing method wherein the manufacturer calculates the cost of production incurred and add a certain percentage of markup to it to realize the selling price. The markup is the percentage of profit calculated on total cost i.e. fixed and variable cost.*

  ***E.g.** If the Cost of Production of product-A is Rs 500 with a markup of 25% on total cost, the selling price will be calculated as Selling Price= cost of production + Cost of Production x Markup Percentage/100*
  *Selling Price=500+500 x 0.25= 625*
  *Thus, a firm earns a profit of Rs 125 (Profit=Selling price- Cost price)*

- ***Markup pricing-** This pricing method is the variation of cost plus pricing wherein the percentage of markup is calculated on the selling price. **E.g.** If the unit cost of a chocolate is Rs 16 and producer wants to earn the markup of 20% on sales then mark up price will be:*

  *Markup Price= Unit Cost/ 1-desired return on sales*
  *Markup Price= 16/1-0.20 = 20*
  *Thus, the producer will charge Rs 20 for one chocolate and will earn a profit of Rs 4 per unit.*

- ***Target-Return pricing**– In this kind of pricing method the firm set the price to yield a required Rate of Return on Investment (ROI) from the sale of goods and services.**E.g.** If soap manufacturer invested Rs 1,00,000 in the business and expects 20% ROI i.e. Rs 20,000, the target return price is given by:*

  *Target return price= Unit Cost + (Desired Return x capital invested)/ unit salesTarget Return Price=16 + (0.20 x 100000)/5000Target Return Price= Rs 20*

**Market-Oriented Pricing Method:** Under this method price is calculated on the basis of market conditions. Following are the methods under this group:

- **Perceived-Value Pricing:** In this pricing method, the manufacturer decides the price on the basis of customer's perception of the goods and services taking into consideration all the elements such as advertising, promotional tools, additional benefits, product quality, the channel of distribution, etc. that influence the customer's perception.

  **E.g.** Customer buy Sony products despite less price products available in the market, this is because Sony company follows the perceived pricing policy wherein the customer is willing to pay extra for better quality and durability of the product.

- **Value Pricing**: Under this pricing method companies design the low priced products and maintain the high-quality offering. Here the prices are not kept low, but the product is re-engineered to reduce the cost of production and maintain the quality simultaneously.

  **E.g.** Tata Nano is the best example of value pricing, despite several Tata cars, the company designed a car with necessary features at a low price and lived up to its quality.

- **Going-Rate Pricing-** In this pricing method, the firms consider the competitor's price as a base in determining the price of its own offerings. Generally, the prices are more or less same as that of the competitor and the price war gets over among the firms.

  **E.g**. In Oligopolistic Industry such as steel, paper, fertilizer, etc. the price charged is same.

- **Auction Type pricing**: This type of pricing method is growing popular with the more usage of internet. Several online sites such as eBay, Quikr, OLX, etc. provides a platform to customers where they buy or sell the commodities. *There are three types of auctions:*

  ***1. English Auctions**-*There is one seller and many buyers. The seller puts the item on sites such as Yahoo and bidders raise the price until the top best price is reached.

  **2. *Dutch Auctions***– There may be one seller and many buyers or one buyer and many sellers. In the first case, the top best price is announced and then slowly it comes down that suit the bidder whereas in the second kind buyer announces the product he wants to buy then potential sellers competes by offering the lowest price.

**3.** ***Sealed-Bid Auctions***: This kind of method is very common in the case of Government or industrial purchases, wherein tenders are floated in the market, and potential suppliers submit their bids in a closed envelope, not disclosing the bid to anyone.

- **Differential Pricing**: This pricing method is adopted when different prices have to be charged from the different group of customers. The prices can also vary with respect to time, area, and product form.

  **E.g**. The best example of differential pricing is Mineral Water.The price of Mineral Water varies in hotels, railway stations, retail stores.

Thus, the companies can adopt either of these pricing methods depending on the type of a product it is offering and the ultimate objective for which the pricing is being done.

**Price Adaptation Strategies and Marketing Management**

Marketing plays a significant role in price adaptation because pricing strategy is one of the four main components in determining product positioning, which is is how a company chooses to present products to consumers and generate interest. The more adaptability a business has, the better chance it has of appealing to more consumers.

**Geographic Pricing and Marketing**

Geographic pricing relates to how a business chooses to price its products within different regions. This can mean different parts of a particular state, country or even around the globe. In selecting its product prices for different regions, a business also adapts its marketing strategies to fit those pricing models.

**Offering Product Discounts**

Adapting pricing models to include product discounts is a marketing strategy used to attract bargain hunting consumers and to fend off new competitors attempting to enter target market areas. Product discounts allow marketing management to create short advertising campaigns to stimulate excitement over a company's brands and individual product offerings. Business marketers can also use discounts to create consumer interest in market areas with traditionally lower median incomes. This allows those consumers to try products they might not otherwise be able to afford on a regular basis.

**Managing Cost and Demand**

The cost to create a company's products plays an integral part in how much adaptability the business has with its product pricing, suggests NetMBA. Usually, goods with low production costs have the largest price flexibility because the organization can accept discounted retail prices and still turn a profit. Higher production costs leave less room for a business to adjust its retail price and still recoup costs. To help with price flexibility, marketing managers create advertising campaigns designed to stimulate demand for a company's products. These campaigns emphasize a variety of product aspects to stimulate consumer interest, including pricing points and attractive features.

**Marketing Product Lines**

Creating product lines composed of items with different features and target audiences provides a business with a wide range of price adaptability. The business can create an item to fit each target market area and assign a price to match the median incomes in those areas. Marketing managers within the business can develop promotional campaigns to emphasize the different strengths of these products to various target consumer groups. For example, emphasizing the durability of items within a product line can appeal to consumers who search for bargains, while pushing the high end features of products can attract consumers who always purchase products from industry leaders.

**Management & Market Oriented Pricing Strategy**

Market-oriented strategies build product features, price, advertising and other elements of marking around the product's set of consumers who are known as the target market. Marketing managers using market-oriented pricing to price the product at an ideal cost for the consumer and the business. Business managers must balance the consumers' desired price of the product with the companies financial needs. Research into needs of both the company and the target market can help create profitable price strategy.

**Targeting Strategies**

Research into a product's target market is the first step to managing a market-oriented pricing strategy. First, managers identify a product's consumer segment (or segments) of the population. Then, the segments are narrowed down into ideal target markets containing the most desired consumers. Finally, the elements of a product's marketing, including price, is positioned to appeal to the target members. Sometimes, marking managers choose to target more than one market segment or market to more general, less defined segments.

**Matching Price to Market Environment**

The environment surrounding the product, company and target market members play a role in pricing strategy. Factors of influence include the product's lifestyle stage (if the product is new, growing or mature), the diversity of target market preferences, industry standards, the company's available resources and capabilities, and the competitive atmosphere. For example, new products might have higher prices because the product was previously unavailable.

**Emerging Markets**

Creating a pricing strategy for a new product with an emerging market can be a challenge for managers because of undocumented market preferences. Some of the products segments may be willing to buy at a higher price, while others are not. Managers often use existing demographic data to forecast which market segments would be the most profitable, and then orient the price to that market.

**Growing Markets**

Growing markets are markets for existing products, with room to expand to a higher number of target market members or reach underserved market segments. Sometimes products enter into an already existing market with prices already set by competing companies. If economically feasible, marketing managers might choose to enter growing markets with a lower price, to undercut competitors and gain target market members as customers.

**Evaluating Finances**

While marketers are often attempting to find the best way to orient the pricing strategy, business managers must also focus on the most cost-effective prices. Managers have a number of mathematical analysis tools to help with determining cost-effectiveness. Return on sales, assets, investment and equity ratios are often used to help management forecast the profitability of a price strategy.

**Initiating to Price Change**

After goods have been produce, price is determined on the basis of its cost and taking reasonable profit. The price so determined may also need changes. Due to external and internal environmental effects, prices may need changes. Two main strategies can be adopted in leadership pricing as follows:

1. Initiating price cut

Every business firm wishes to increase its sale quantity. Changes in price may be needed to achieve such objective. So, the producer should cut down necessary amount of leadership price of the products. Sometimes companies' products can enter in more markets segments only after cutting down prices. This strategy should be adopted in order to face strong competition. Otherwise, there may appear a situation either to quit the market segment or abandon the production. On the other side, there may be a compulsion to cut down prices of products to control the target market segments.

2. Initiating price increase

Sometimes a strategy to increase in price may be adopted not affecting sale quantity. Price may need some changes due to cost inflation. Price may need changes due to government's policy to control price or to increase revenue. On the other hand, demand for products may grow suddenly. In such situation, one needs price change. In the situation when all continuations are suitable, price may be increased according to the time. However, such increase should be very low in percent. Price should not be increased at the rate which may spoil the image and competition of the company.

## Responding to Price Change

While changing price of any products, many reactions may come from concerned sides. At first reaction may come from consumers. Such reactions may be positive when price is cut down and negative when it is increased. The company should carefully as well as logically answer both reactions. In the same way, competitors' reactions may also come. The company should give satisfactory answer to them with all reasons such as cost, market study, transport expenses, administrative expenses, etc. The following strategies should be adopted to face reactions of competitors and distributors.

1. Maintaining Price

The producers should try their best to maintain price at the same rate. Producers may cut down some percent of profit. The existing market segments can be maintained with such strategy. Along with this, opportunity can be found to enter new market segments. In this way, sale quantity may increase.

2. Increasing price and quality

Producer may increase in existing quality and price. Production companies may bring in markets the new products or adding new features to the products challenging their competitors. Little more prices of such products do affect competitors so much. However, such analysis cannot last long. Other competitors also may adopt such strategy. This may be only a periodical means to stop competitors' reactions. After sometime, the company should seek other alternatives.

3. Reducing price

Most of the customers become conscious about price. So, the producer should cut down the price of the products after certain time. Competitors of similar products also may adopt this strategy. The producers who cannot adopt such policy may get compelled to quit main market segments among many segments. Such markets once quitted need very hard labor to supply products to there again. Policy of taking low percent of profit should be adopted. Even decreasing price, quality, features and services should be maintained same. Only then, products can control markets.