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Marketing Management Pricing Strategy

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Abstract

This article discusses marketing strategies, which are closely related to market prices, where the price is the amount of money that must be spent by consumers to get the products or services, they buy to meet their needs or wants and are generally expressed in monetary units. Therefore, the purpose of this article is that it is hoped that later readers will be able to understand matters relating to market strategy, pricing objectives, pricing methods, pricing strategies.

Introduction

The marketing mix or marketing mix is a basic concept in marketing, which contains the stages of marketing a product or service. The stages in the marketing mix are generally known as the '4P', namely, Product, Price, Place and Promotion. (Išoraitė, 2016). One of the important decisions in the marketing mix is 'Price', namely Pricing, because in this price fixing the company must set goals, cost calculations, the level of demand, market prices and other achievements that the company wants to get for its products or services.

Although the method of pricing is the same for each company, namely based on cost, competition, demand and profit. But the optimal combination of these factors differs according to the nature of the product, its market, and the objectives of the company (Loureiro et al., 2018). One of the ways to attract consumer interest is by determining the right price for the product being sold (Kurnia et al., 2019). The right price is a price in accordance with the product quality of an item, and this price can provide satisfaction to consumers (Brown, 2010).

However, many companies pay less attention to pricing properly(Stern et al., 2021). The first most common mistake is pricing that is too cost-oriented (Zhang et al., 2021). Second, prices are less frequently revised to take advantage of market changes. Third, prices are set independently of the rest of the marketing mix and are not an intrinsic element of a market positioning strategy (Mandler et al., 2021). Fourth, prices are not sufficiently varied for various products, market segments, and at the time of purchase. Based on this, this paper aims to provide an understanding of pricing including pricing objectives, pricing strategy tools and various approaches to pricing (Handfield et al., 2020).

Price

Price implies, an exchange rate of a product or service which is generally expressed in monetary units Rupiah, Dollar, Yen etc (Brunnermeier et al., 2019). Or in the accounting services business, consultants are called fees, transportation costs, taxi, telephone are called tariffs, while in the world of insurance it is called premiums (Nguyen et al., 2019).

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According to (Tukker, 2017) price is the amount of money charged for a product or service, or the amount of the consumer's exchange rate for the benefits of owning or using the product or service. States that price is an economic sacrifice made by customers to obtain a product or service (Istanti et al., 2020). In addition, price is an important factor for consumers in making a decision to make a transaction or not (Rachmawati et al., 2019).

Based on the definition of price above, it can be concluded that the price is the amount of money that must be spent by consumers to get the products or services they buy in order to meet their needs and wants and is generally expressed in monetary units Rupiah, Dollar, Yen, etc (Meaning et al., 2018). Meanwhile, pricing is a process to determine how much revenue a company will earn or receive from the products or services it produces (O'Malley, 2018). Pricing already has a very broad function in the marketing program. Setting prices means how to link our products with the aspirations of the target market, which means learning the needs, wants and expectations of consumers (Kioupi & Voulvoulis, 2019). In pricing, producers must understand in depth the amount of consumer sensitivity to prices(Zhong & Moon, 2020). According to (Ungerman et al., 2018)in the book Applied Marketing Research, the research results mention the main issues related to price sensitivity, namely; price elasticity and price expectations.

Meanwhile, the definition of price elasticity is that consumers tend to give a greater response to any planned increase compared to the reality when the price rises (Taiebat et al., 2019). Consumers will be more sensitive to price decreases than to price increases (Campbell & Farrell, 2020). The elasticity of consumers will decrease when shopping with friends or being influenced by the sales person. In other words, price and pricing are a process that must be carried out by a company to provide value for a product or service by calculating in advance all kinds of costs incurred to gain profit and taking into account the factors that affect demand other than price (Min et al., 2019).

Purpose of Pricing

In classical economic theory, every company is always oriented to how much profit it will get from a product or service it has, so that the purpose of pricing is only based on the level of profit and income it will receive (Volkov et al., 2018). However, in its development, the objective of pricing is not only based on the level of profit and gain but based on other non-economic considerations.

Following are the objectives of price fixing which are economic and non-economic in nature; (1) Maximizing Profit at this price fixing usually takes into account the level of profit to be obtained. The greater the profit margin you want to get, the higher the price set for consumers. In setting prices, it is better to take into account the purchasing power and other variables that are influenced by the price so that the profits can be maximized; (2) Achieving Market Share, in order to attract the attention of consumers who are the target market or target market, a company should set the lowest possible price. By decreasing the price, it will trigger an increase in demand which also comes from the competitor's or competitors' market share, so that when the market share is obtained, the price will be adjusted according to the desired profit level; (3) Return On Investment (ROI), every business wants a high rate of return on capital. High ROI can be achieved by increasing profit margins and increasing sales figures; (4) Maintaining Market Share, when a company has its own market, it is necessary to set the right price in order to maintain existing market share.

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Price Stabilization Objectives

In a market where consumers are very price sensitive, if a firm lowers its price, its competitors must lower their prices as well. Conditions like this underlie the formation of the goal of price stabilization in certain industries for example petroleum(Dikau & Volz, 2018). The goal of stabilization is done by setting prices to maintain a stable relationship between a firm's price and the price of an industry leader (Hannah, 2018).

Maintaining the Sustainability of the Company

A good company sets the price by taking into account all possibilities in order to still have sufficient funds to continue running the business activities that are being carried out(Bressanelli et al., 2019). The objectives in this pricing indicate that it is important for the company to select, determine and plan the value of the product or service and the goals the company wants to achieve for the product or service.

Pricing Methods

After the company determines and sets goals to be achieved, the next step or stage is to determine the pricing method(Bocken et al., 2019). In general, the pricing method consists of 3 different approaches, namely cost-based pricing; (1) Cost Plus Pricing, in this method, the selling price per unit is determined by calculating the total cost per unit plus a certain amount to cover the desired profit on that unit (margin) Total Cost Formula + Margin = Sold Price; (2) Pricing Mark-Up. For this Mark-up method, the selling price per unit is determined by calculating the cost of goods purchased per unit plus (mark-up) a certain amount. Buy Price + Mark-Up = Selling Price; (3) BEP Price Determination (Break Even Point) pricing method based on a balance between the total total cost and the total total revenue. The formula for BEP => Total Cost = Total Revenue.

Pricing is based on Competitor / Competitor Prices

Pricing is carried out using competitors' prices as a reference, which in practice is more suitable for standard products with oligopoly market conditions (McManus, 2007). To attract and reach consumers and customers, companies usually use a pricing strategy. The application of the selling price strategy can also be used to anticipate its competitors, for example by setting prices below market prices in order to gain market share.

Pricing on Demand

The price setting process is based on consumer perceptions of the value received (price value), price sensitivity and perceived quality (Morehead, 2016). To find out the value of price on quality, the Price Sensitivity Meter (PSM) analysis is one form that can be used(Arru et al., 2022). In this analysis, consumers are asked to provide a statement where consumers feel that the price is cheap, too cheap, feels expensive and too expensive and is associated with the quality received(Prasetyo et al., 2021).

Pricing Strategy

The pricing strategy is the stage where the company classifies and classifies the products or services it produces as “new products” that do not have loyal / permanent customers or “products that have been in circulation” that already have their own market share. This pricing strategy is also related to the product life cycle (Product Life Cycle) where a product has four main stages namely, Introduction, Growth, Maturity and Decrease. Specifically, this pricing strategy consists of; (1) New Products, in determining an effective pricing strategy for new products or this introductory stage there are 2 (two) alternative pricing strategies, namely Skimming Price, which is to provide a high price to cover costs and generate maximum profit

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The company can convince consumers that their products are different from other similar products(Ma et al., 2020). The skimming approach is very effective when there is price differentiation in certain segments and relatively few competitors.Skimming can also be used to limit demand until the company feels ready to mass produce (Wing, 2018).. Moreover, skimming can increase the value of the product to be very prestigious. Penetration price is to provide a low price to create market share and demand, this strategy can be applied to the market situation is not fragmented into different segments, and the product does not have high symbolic value (Nkam et al., 2020). This approach is also effective against price sensitive target markets.

Products that have been in circulation

The pricing strategy for products that have been circulating is of course inseparable from the position of the product or service from the product life cycle, in this case the cycle stages are at the next 3 (three) levels after the introduction, namely; (1) Growth Stage, at this stage of growth is marked by increasing sales accompanied by the emergence of competitors(Afrin, 2021). Initially there was rapid growth, the strategy adopted was to maintain product / market prices(Ferina et al., 2019). When growth slows down, adopt an aggressive pricing strategy; lowering prices to encourage sales while at the same time facing increasingly fierce competition; (2) Maturity Stage, in the maturity stage, price flexibility is the key to the effectiveness of the pricing strategy (Gottschalk, 2006). At this stage the company must be truly responsive to the situation of the market, consumers and competitors(Li et al., 2020). The pricing strategy can use both 'consumer psychology' and 'price cuts' (discounts), so that companies can maintain consumer loyalty (market share) and increase the number of requests and profits obtained; (3) The decline stage in the product or service decline stage is marked the number of requests decreases continuously, as the last stage of the product life cycle there are two main alternative steps that can be selected. First, the strategy of discounting (cutting prices) Second, maintaining prices but cutting costs associated with the product, especially expenditure for promotion.

Conclusion

Price is an amount of money that must be spent by consumers to get a product or service purchased in order to meet their needs and wants and is generally expressed in monetary units (Rupiah, Dollar, Yen, etc.). Meanwhile, pricing is a process to determine how much revenue a company will earn or receive from the products or services it produces. Pricing purposes include; (1) Maximizing Profits; (2) Achieving Market Share; (3) Return On Investment (ROI) / Return on Business Capital; (4) Maintaining Market Share; (5) Price Stabilization Objective; (6) Maintaining the Sustainability of the Company.

New Products, in determining an effective pricing strategy for new products or this introductory stage there are 2 (two) alternative pricing strategies, namely the Skimming Price and the Penetration price. In products that have been circulating, namely the Growth stage, Maturity stage and Decrease stage.

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