

## Summer-20 final Term Assignment

### Subject: Marketing

Name Muhammad Asif

ID 13161

Department BSSE

Q.1

### SEVEN APPROACHES TO PRICING

The right pricing strategy can help you attract more customers, encourage larger orders on average, and create repeat purchases. Use this guide to determine which of these 7 common approaches to pricing is best for your business.

1. KEYSTONE PRICING
2. MULTIPLE UNIT PRICING
3. DISCOUNT PRICING
4. LOSS LEADER
5. PSYCHOLOGICAL PRICING
6. BELOW COMPETITION
7. ABOVE COMPETITION

#### 1. KEYSTONE PRICING

Keystone pricing is a simple and straightforward approach to pricing. However, it doesn't account for supply and demand, a critical component of maximizing revenue

#### 2. MULTIPLE UNIT PRICING

The ideal time to use multiple pricing is at the end of a season for products that have not sold well or when you need to introduce new products that customers may be hesitant to try.

TIP: Read up on your state's regulations when considering these strategies. For example, some states will not allow you to sell products below cost or giving products away for free.

#### 3. DISCOUNT PRICING

Discount pricing is an easy way to attract new customers and works best when timed for special events or holidays.

TIP: Provide a reason for every discount. Otherwise, customers will think less of your brand and product value

#### **4. LOSS LEADER**

The loss leader strategy is great for marketing efforts and acquiring new customers. However, carefully consider your loss leader product and how you intend to promote other offerings in parallel so that your loss is actually a gain. Most importantly, be aware of your state's laws on loss leaders.

#### **5. PSYCHOLOGICAL PRICING**

Psychological pricing allows business owners to influence how consumers perceive a product's value without actually changing the product. This makes it a cost effective way to influence consumer purchase decisions.

#### **6. BELOW COMPETITION**

Pricing below the competition is a common pricing strategy because it's easy, but it's also dangerous if you don't have a clear understanding of your business's financials.

#### **7. ABOVE COMPETITION**

Retailers price above the competition when they have a clear advantage on non-priced elements of their products, services, and reputation.

In order to charge an amount above the competition, you must differentiate your brand and products. For example, Apple can consistently charge consumers more because they've established a reputation as makers of high-quality products, ensuring the market sees its offerings as unique or innovative.

#### **Price of each of these items For each item:**

Partial cost recovery—a company that has sources of income other than from the sale of products may decide to implement this pricing objective, which has the benefit of providing customers with a quality product at a cost lower than expected. Competitors without other revenue streams to offset lower prices will likely not appreciate using this objective for products in direct competition with one another. Therefore, this pricing objective is best reserved for special situations or products.

Profit margin maximization—seeks to maximize the per-unit profit margin of a product. This objective is typically applied when the total number of units sold is expected to be low. Profit maximization—seeks to garner the greatest dollar amount in profits. This objective is not necessarily tied to the objective of profit margin maximization.

**Revenue maximization**—seeks to maximize revenue from the sale of products without regard to profit. This objective can be useful when introducing a new product into the market with the goals of growing market share and establishing long-term customer base.

**Quality leadership**—used to signal product quality to the consumer by placing prices on products that convey their quality.

**Quantity maximization**—seeks to maximize the number of items sold. This objective may be chosen if you have an underlying goal of taking advantage of economies of scale that may be realized in the production or sales arenas.

**Status quo**—seeks to keep your product prices in line with the same or similar products offered by your competitors to avoid starting a price war or to maintain a stable level of profit generated from a particular product.

**Survival**—put into place in situations where a business needs to price at a level that will just allow it to stay in business and cover essential costs. For a short time, the goal of making a profit is set aside for the goal of survival. Survival pricing is meant only to be used on a short-term or temporary basis. Once the situation that initiated the survival pricing has passed, product prices are returned to previous or more appropriate levels.

### **Benefit:**

Benefits are the outcomes or results that users will (hopefully) experience by using your product or service – the very reason why a prospective customer becomes an actual customer.

Although it might seem counterintuitive, consumers rarely want to buy things for the sake of buying them – they want to solve their problems.

To borrow from the example above, a feature of this particular umbrella might be its unbreakable spokes or wind-resistant construction – the benefit of which is staying dry even in strong winds that might break lesser umbrellas.

Admittedly, the waters can get a little muddy when it comes to aspirational or lifestyle-based products or services, as the “problems” that drive motivation to purchase such products are often less tangible (think “being perceived more favorably” by purchasing clothing or accessories by a certain designer, for example), but generally this concept holds water.

### **How to communicate value to customers**

The perception of value is one of the most important elements of pricing. If customers don't think they are getting value for money, you have no pricing power – you can't lift prices to maintain profitability without losing many customers. However, if customers believe they are getting value for money, they will remain loyal despite price increases.

Value is not just a single element (price); it encompasses a range of attributes of your goods and services for which customers are willing to pay. Value is provided by the low cost of goods or services, by their highly differentiated features or by a combination of low cost and high differentiation, compared with competitors' goods or services.

## **Value components**

Value can be separated into 7 components:

- 1. service**
- 2. response**
- 3. variety**
- 4. knowledge**
- 5. quality**
- 6. guarantee**
- 7. price.**

Since price is only one component of value, experienced marketers seek to maintain perceived value by ensuring the attributes of the other variables are emphasized to offset price rises – mainly using marketing communication, advertising and promotion.

### **Iv part:**

When embarking on a new business venture, there is no shortage of items on the strategizing agenda that need attending to. One crucial step to constituting a successful business plan, and ultimately a successful business, is determining pricing for your products and services. While there are myriad pricing strategies to choose from, certain options are more effective for one type of business than for another. In this post, we will provide pricing strategy examples and help you identify which choice is best for your business.

### **Pricing Strategy Examples**

- 1. Price Maximization**
- 2. Market Penetration**
- 3. Price Skimming**
- 4. Economy Pricing**
- 5. Psychological Pricing**

### **V Part:**

How many times have we heard someone say that he was overcharged for something? The answer to the question of whether a business can overcharge its customers seems, on the surface, to be quite obvious. Yet, it is a question that has more than one answer.

At the end of last year, Whole Foods Market, a supermarket chain specializing in organic food, agreed to pay half a million dollars to New York City to settle allegations that it had overcharged its customers for prepackaged foods.

### **Fraudulent overcharging**

Back in June of last year, the New York Department of Consumer Affairs (DCA) accused Whole Foods Market of overcharging New York City customers for some prepackaged foods by overstating the weight of the products being sold. According to the DCA, “Tests of 80 different prepackaged products bought in the company’s nine New York stores showed that all were labeled with erroneous weights.” Products mislabeled included vegetable platters, chicken tenders, and coconut shrimp.

### **False overcharging**

Former hedge-fund manager Martin Shkreli founded the biotechnology company Retrophin Inc. in 2011. The company’s board replaced him in 2014 and filed a \$65 million lawsuit against him in 2015 over his use of company funds and “stock-trading irregularities and other violations of securities rules.” Shkreli founded Turing Pharmaceuticals in February of 2015 with three drugs in development acquired from Retrophin. On August 10, Turing acquired the exclusive U.S. rights to Daraprim, the trade name of the drug pyrimethamine, from Impax Laboratories for \$55 million. Pyrimethamine is used both as an anti-malarial drug and as a treatment for the parasitic disease toxoplasmosis. According to the Centers for Disease Control, toxoplasmosis is considered to be a leading cause of death attributed to foodborne illness in the United States. Pyrimethamine is often used in combination with two other drugs to treat HIV-positive patients with compromised immune systems.

### **Fair and just prices**

In the absence of fraud, deception, and coercion (but not necessarily in the absence of ignorance, laziness, or greed), and in the presence of a willing buyer and a willing seller, any price of a good or service is a fair and just price. A fair and just price is the market price. A fair and just price is any price voluntarily agreed to by a buyer and a seller that a buyer is willing to pay and a seller is willing to receive. It does not exist independently of a transaction between a buyer and a seller. As economists of the Austrian school maintain, value is subjective and subject to change. No good or service has intrinsic value. A fair and just price is not related to what a good or service is “worth.” Because value is subjective, voluntary exchanges always result in win-win situations for both buyers and sellers.

## **Q.2**

### **Riskiest Stage:**

This is the stage in which the product is initially promoted. Public awareness is very important to the success of a product. If people don’t know about the product they won’t go out and buy it. There are two different strategies you can use to introduce your product to consumers. You can use either a penetration strategy or a skimming strategy. If a skimming strategy is used then prices are set very high initially and then gradually lowered over time. This is a good strategy to use if

there are few competitors for your product. Profits are high with this strategy but there is also a great deal of risk. If people don't want to pay high prices you may lose out.

The second pricing strategy is a penetration strategy. In this case you set your prices very low at launch and gradually increase them. This is a good strategy to use if there are many of competitors who control a large portion of the market. Profits are not a concern under this strategy. The most important thing is to get your product known and worry about making money at a later time.

## **Growth:**

The Growth stage is where the market share of product starts to grow. Often at this stage a large amount of money is spent on advertising. You want to focus your advertising campaigns at your target audience and existing customers, and sell the benefits of your products to them. There are several channels to advertise your product. The advertising channels you choose to take will depend on your product, industry and advertising budget you have. You could look at social media advertising channels, such as Facebook and Twitter targeted adverts, or promoted videos on YouTube. Other digital media channels include using blogs, online newspapers to promote your product. You can also use more traditional advertising methods such as TV and radio commercials, magazine and newspaper ads. The more traditional channels are likely to cost more than the digital advertising options. The best and cheapest possible way for your product to be advertised is through word-of-mouth promoted from your customers, this can only be done when your customers trust and enjoy your product. If you are successful with your advertising strategy then you will see an increase in sales. After a period of an ongoing increase in sales, eventually your share of the market will stabilize. Once you get to this point you will reach the Maturity stage of the product.

## **Maturity Stage**

The third stage in the Product Life Cycle is the maturity stage. If your product completes the Introduction and Growth stages then it is likely to spend a great deal of time in the Maturity stage. During this stage sales grow at a very fast rate, then gradually your market share will begin to stabilize. The key to surviving this stage is differentiating your product from the similar products offered by your competitors. When sales start to stabilize you will need to go back to the development stage, analyse your product and sales performance, to be able to innovate new features and services to help your company stay competitive in the market. If you do not restart the product life cycle here, you are more than likely to reach the decline stage.

## **Q.3 (a):**

### **Advantages:**

**Easy access to market** - in many ways the access to market for entrepreneurs has never been easier. Online marketplaces such as eBay and Amazon allow anyone to set up a simple online shop and sell products within minutes. See selling through online marketplaces.

**Reduced overheads** - selling online can remove the need for expensive retail premises and customer-facing staff, allowing you to invest in better marketing and customer experience on your e-commerce site.

**Potential for rapid growth** - selling on the internet means traditional constraints to retail growth - eg finding and paying for larger - are not major factors. With a good digital marketing strategy and a plan a scale up order fulfilment systems, you can respond and boost growing sales.

See planning for e-commerce.

Widen your market / export - one major advantage over premises-based retailers is the ability expand your market beyond local customers very quickly. You may discover a strong demand for your products in other countries which you can respond to by targeted marketing, offering your website in a different language, or perhaps partnering with an overseas company. See basics of exporting.

**Customer intelligence** - ability to use online marketing tools to target new customers and website analysis tools to gain insight into your customers' needs. For advice on improving your customer's on-site experience, read how to measure your online marketing.

### **Disadvantages:**

**Website costs** - planning, designing, creating, hosting, securing and maintaining a professional e-commerce website isn't cheap, especially if you expect large and growing sales volumes.

See common e-commerce pitfalls.

**Infrastructure costs** - even if you aren't paying the cost of customer-facing premises, you'll need to think about the costs of physical space for order fulfilment, warehousing goods, dealing with returns and staffing for these tasks. See fulfilling online orders.

Security and fraud - the growth of online retail market has attracted the attention of sophisticated criminal elements. The reputation of your business could be fatally damaged if you don't invest in the latest security systems to protect your website and transaction processes. See e-commerce pitfalls - security weaknesses.

**Legal issues** - getting to grips with e-commerce and the law can be a challenge and you'll need to be aware of, and plan to cope with, the additional customer rights which are attached to online sales. See the law and selling online.

Advertising costs - while online marketing can be a very efficient way of getting the right customers to your products, it demands a generous budget. This is especially true if you are competing in a crowded sector or for popular keywords. See pay-per-click and paid search advertising.

**Customer trust** - it can be difficult to establish a trusted brand name, especially without a physical business with a track record and face-to-face interaction between customers and sales staff. You need to consider the costs of setting up a good customer service system as part of your online offering. See manage your customer service.

## **Q.3 (b)**

### **Going Global**

It goes without saying that brick-and-mortar setups are bound by location, and depending on your product or service, this could be key to your revenue. But even if you think that your business 'needs' to stay local, expanding globally could allow you to expand into new facets of your business.

For instance, if your business is primarily service-based, you may want to complement your local offerings with products that people can purchase online from you, such as a hairdresser offering

specialty accessories. It may also be that you are able to tap into the travel and tourism market more easily if you move towards online selling.

## **Lowering Costs**

Because e-commerce tends to carry far lower costs than brick-and-mortar setups, adding an online component to your existing business doesn't need to be a high-risk investment and in fact, in most cases would be a far better choice than opening another storefront if that's something that you feel you could easily lose money on.

## **Sales on Advertising**

Digital advertising is inexpensive compared to traditional channels and can be more easily adjusted to fit varying budgets. You can use a blend of traditional and digital to market your entire operation, or even switch to primarily digital and save a lot of money.

Email is just one example of a simple digital tool that remains a cost-effective and simple way to send information to segmented markets (check out a simple tool like MailChimp if you're looking to get started on email marketing).

## **Save on Staff**

You won't have to pay in-person staff and in fact could consider integrating something like a chat-bot into your social media and customer service activities instead of live help. You may also want to hire an overseas virtual assistant or marketing specialist if you are looking for people to handle customer service or other activities on a 24-hour basis.

## **Save on Rent**

There will be some initial costs to do with web setup and maintenance – for instance, integrating a Shopify account into your current website, or even doing an overhaul. Shopify costs only a few thousand per year, and for this fee, you also get to use other built-in features that will help you run our business more smoothly. This is especially the case if you are already paying for space to store inventory and are willing to ship from your location.

## **Better Targeting & More Personalization**

Digital marketing and selling models such as those that use e-commerce may allow you to gather, synthesize and use customer information and data more easily than traditional channels. This is especially the case when you consider retention activities like customer loyalty programs – essentially you can track their buying habits more carefully which offers the opportunity to target marketing and promotional efforts in a more accurate way.

To this end, you'll also find that there are greater opportunities to personalize your promotions and other offerings as you have data about your customers integrated automatically into the system. If you know how Amazon "recommends" items that it thinks you like, you can easily do that as well. You can also segment and personalize based on specific location, spending habits, or cart abandonment rates.



Upselling and cross-selling may also become easier as you are not stuck with an uncomfortable face-to-face situation where the customer may be turned off if they feel pressured. You can simply provide suggestions for add-ons as a part of the shopping cart process and let the buyer go from there.

### **Different Traffic Streams**

You probably already have a website set up to support your business, but is it getting much traffic? Developing an online presence can help you understand your market better so that you can offer them new and innovative products as well as promote your on-the-ground store.

How do you do this? Search Engine Optimization on your site is key and digital marketing strategies can be huge when it comes to customer research and targeting your marketing both online and offline.

### **Easily Scale and Grow**

One key benefit of running a business online is that you can easily optimize and scale your budget in accordance with all other aspects of the business, and it's not too difficult to scale your business should you see your customer base expand and grow.

For instance, if you are running Facebook ads, you can easily adjust these in accordance with purchasing behavior. And even if you find some dips or shrinkage – say, if your offerings tend to be seasonal, you can adjust your marketing and inventory in accordance with these changes as well.

### **Possible Drawbacks**

Though in most cases it's going to be fairly smooth and low-risk to open an e-commerce component of your business, you'll want to bear in mind a few things. For one thing, you'll want to ensure that you invest in a highly professional web developer/designer (or agency) to help you set up a solid system for your website that will be sustainable and secure over a long period of time.

Another possible disadvantage has to do with your products. For instance, if you have something that's wearable and fit-focused, it can be hard to have people know what they're getting. To this end, you'll need to ensure that you offer a well-developed return or exchange policy in place for customers to know that it will be worth it because they can't actually try items on.