INFO.464 Chap.3 Product and Services Strategy

- **Product is** the most important element in the marketing mix.
- Product provides the **functional requirements** sought by consumers.
- Customers primarily get interested in dealing **with company** because they feel that **its products** are capable of serving their needs.

- Business product and consumer product - **Unsought products** are unknown to the potential customers or they are known products that customers do not actively seek.
- New products come under this category till customers come to know about them through **advertising** or **personal selling**.

- **Technology Products** : Products are embedded with increasing amount of **technology**. Products like personal computers and mobile phones are supposed to make customers more efficient, entertain them, and connect them with others.
- But customers accuse the very same products of wasting their time, confusing them, and isolating them.
- Customers have an **uneasy relati**onship with technology and this **uneasiness affects** the way they shop for, buy, and use technology products.

- **Commodity Products**: Commodity products are **hard to differentiate**. Reducing risks in such products car suppliers in differentiating their products and charging a premium from the customers.
- Customers frequently pay a premium to the supplier that understands and reduces their risk.
- A *commodities seller will have to educate its customers about the real risks involved.*

- Customized products: **Companies should understand that customers do not want more choices.** They are more bothered about obtaining exactly what they want, which they often do not get even when they have many choices.
- **Database Management** (tools)technology permits companies to accumulate data about **individual tastes and preferences of customers**.

- In **mass marketing** or **segmented marketing**, the company designs an **average product** that a large number of customers would like to some extent.
- A company will need to have a **learning relationship** with the customer**.**
- **Another method of customization is through modular design.** In modular design **many varieties** of each component of the product are made. All these varieties are mutually compatible with each other and **customers can choose any variety of each component** and get the product assembled.

- **Customization is, easier and less costly in case of digital products.** It is easy to slice and coalesce digital and information products to make it suitable for one customer without much additional cost.
- For example, in the music industry the customer can select songs that he prefers, and download them in a CD.

Product and Brand:

- A product is anything which is capable of satisfying customer need. When a company looks at what the customer is buying, it is **essentially a service** whether the means is tangible or intangible.
- Marketers develop their products into **brands** which help to create a unique position in the minds of customers. Brands help customers distinguish between **products from different companies.** Brand superiority leads to **high sales**, **the ability to charge price premiums**, and the power **to resist distribution powe**r.

3.1 New product development and product Life-Cycle strategies

- The **product** is introduced in the market. Product's sales growth is low because customers are not aware of the product and even when they become aware of the availability of the product, they are not sure if the product will be useful to them. Then **loss** will come.

- Growth is **the period of faster sales** and profit growth due to rapid market acceptance and repeat purchase.
- Customers become aware of the product and are convinced that the product is **useful to them.**
- Companies will have to spend substantially in **production and marketing** as they reach out to a larger number of customers and **expand their manufacturing facilities** to meet the rapidly growing demand.

- At different stages of the **product's life cycle,** there are changes in a **company's strategies** due to **change in the number of competitors**, intensity of competition and level of consumer sophistication.
- A company should also keep track of the **development of substitute products.**
- The company builds **sales** by **expanding market** for the product. It creates **product awareness** so that customers become aware of the generic product benefits.

- The company can afford to charge **high prices** as there is **no or very less competition**. But low prices are helpful at this stage as customers consider a buying a low priced product less risky when they are not sure of its benefits.

- Customers are **aware of the product** at this stage and are convinced that it serves their needs. Customers understand the **generic benefits** of the product and the company now builds sales and market share by building brand preference.
- The product is **redesigned** to create differentiation, and promotion lays stress on the benefits of the differentiated product.
- Focus is on **ensuring repeat pur**chases. The company tries to achieve this purpose by focusing its efforts on building a strong brand.

- A company should anticipate the impending **decline in sale**s. The biggest hurdle in adoption of **suitable strateg**ies for the decline stage is marketers' **false belief that it is not coming or at least will not come so soon’.**
- **The company** should **analyze** changing **customer requirements or/and effectiveness** and acceptability of emerging substitute solutions to gauge the speed at which

Product life-cycle (PLC)

- PLC emphasizes the need for product planning. There is need to replace old products with **OF PLC** new ones.
- Companies have to **face the fact that** products **need to be terminated** and new products developed to replace them. Without this sequence a company may find itself with a group of products all in **decline stage** of the PLC.

- PLC is the result of marketing activities, and is not the cause of variability in sales. It is simply a pattern of sales that reflects marketing activity.
- The duration of PLC stages is **unpredictable**. It is not possible to predict when maturity or decline will begin.
- **Strict adherence to PLC** can lead a company to misleading objectives and strategy prescriptions.

3.2 Pricing products

- Before pricing your products and services, you need to understand how customers perceive value.
- We can find business owners price their products or services based on what they cost, versus what their customers are willing to pay.

- what **smart pric**ing is all about: Know who your competitors are and what they charge, measure what makes your products or services better or worse, and then add and subtract accordingly from your competitors' prices to figure out your own.

- Here are **some things** to keep in mind:

1. Listen to your customers
2. Know your competition
3. Be honest and fair in your self-evaluation.
4. Recognize that customers are different from others
5. Five Signs It's Time to Change Your Prices

3.3 Pricing strategies

- **Pricing strategies** for products or services

  encompass three main ways to improve profits.

These are that the business owner can cut costs or sell more, or find more profit with a better pricing strategy.

When costs are already at their lowest and sales are hard to find, adopting a **better pricing strategy** is a key option to stay viable.

- Merely **raising prices** is not always the answer, especially in a poor economy. Many businesses have been **lost** because they priced themselves out of the marketplace.
- One strategy does not fit all, so adopting a pricing strategy is a learning curve when studying the needs and behaviors of customers and clients.

Models of pricing

1. Cost-plus pricing:

- Cost-plus pricing is the simplest pricing method. The firm calculates the cost of producing the product and adds on a percentage (profit) to that price to give the selling price.
- This method although simple has two flaws: it takes no account of demand and there is no way of determining if potential customers will purchase the product at the calculated price.

2. **Creaming or skimming**

In most **skimming**, goods are sold at higher prices so that fewer sales are needed to break even. Selling a product at a high price, sacrificing high sales to gain a high profit is therefore "skimming" the market.

commonly used in electronic markets when a new range, such as DVD players, are firstly dispatched into the market at a high price.

3. **Limit pricing**

A limit price is the price set by a monopolist to discourage economic entry into a market, and is illegal in many countries.

The limit price is the price that the entrant would face upon entering as long as the incumbent firm did not decrease output.

The limit price is often lower than the average cost of production or just low enough to make entering not profitable.

4. **Loss leader**

A loss leader or leader is a product sold at a low price (i.e. at cost or below cost) to stimulate other profitable sales. This would help the companies to expand its market share as a whole.

5. **Market-oriented pricing**

Setting a price based upon analysis and research compiled from the **target market**. This means that marketers will **set pric**es depending on the results from the research.

6. **Penetration pricing**

Penetration pricing includes setting the price low with the goals of attracting customers and gaining market share. The price will be raised later once this market share is gained.

7. **Price discrimination**

Price discrimination is the practice of setting a different price for the same product in different segments to the market. For example, this can be for different classes, such as ages, or for different opening times.

8. **Premium pricing**

Premium pricing is the practice of keeping the price of a product or service artificially **high** in order to encourage favorable perceptions among buyers, based solely on the price.

The practice is intended to exploit the (not necessarily justifiable) tendency for buyers to assume that expensive items enjoy an exceptional reputation, are more reliable or desirable, or represent **exceptional quality and distinction.**

9. **Predatory pricing**

Predatory pricing, also known as aggressive pricing (also known as "undercutting"), intended to drive out competitors from a market. It is illegal in some countries.

10. **Contribution margin-based pricing**

Contribution margin-based pricing maximizes the profit derived from an individual product, based on the difference between the product's price and variable costs (the product's contribution margin per unit), and on one’s assumptions regarding the relationship between the product’s price and the number of units that can be sold at that price.

11. **Psychological pricin**g

Pricing designed to have a positive psychological impact. For example, selling a product at $3.95 or $3.99, rather than $4.00.

12. **Dynamic pricing**

A flexible pricing mechanism made possible by advances in information technology, and employed mostly by Internet based companies.

By responding to market fluctuations or large amounts of data gathered from customers - ranging from where they live to what they buy to how much they have spent on past purchases - **dynamic pricing allows online companies to adjust the prices of identical goods to correspond to a customer's willingness to pay.**

13. **Price leadership**

An observation made of **oligopolistic** business behavior in which one company, usually the dominant competitor among several, leads the way in determining prices, the others soon following.

The context is a state of **limited competition**, in which a market is shared by a small number of producers or sellers

14. **Target pricing**

Pricing method whereby the selling price of a product is calculated to produce a particular rate of return on investment for a specific volume of production.

The target pricing method is used most often by public utilities, like electric and gas companies, and companies whose capital investment is high, like automobile manufacturers.

15. Absorption pricing

- Method of pricing in which all costs are recovered. The price of the product includes the variable cost of each item plus a proportionate amount of the fixed costs and is a form of cost-plus pricing

16. High-low pricing

- Method of pricing for an organization where the goods or services offered by the organization are regularly **priced higher than competitors**, but through promotions, advertisements, and or coupons, lower prices are offered on key items.

17. Premium decoy pricing

- Method of pricing where an organization artificially sets one product price high, in order to boost sales of a lower priced product.

18. Marginal-cost pricing

- In business, the practice of setting the price of a product to equal the extra cost of producing an extra unit of output. By this policy, a producer charges, **for each product unit sold**, only the addition to total cost resulting from materials and direct labor. Businesses often set prices close to marginal cost during periods of poor sales.

19. **Value-based pricing**

Pricing a product based on the value the product has for the customer and not on its costs of production or any other factor.

This pricing strategy is frequently used where the value to the customer is many times the cost of producing the item or service.

For instance, the cost of producing a software CD is about the same independent of the software on it, but the prices vary with the perceived value the customers are expected to have.

20. **Pay what you want**

Pay what you want is a pricing system where buyers pay any desired amount for a given commodity, sometimes including zero.

In some cases, a minimum (floor) price may be set, and/or a suggested price may be indicated as guidance for the buyer.

The buyer can also select an amount higher than the standard price for the commodity.

21. **Freemium**

Freemium is a business model that works by offering a product or service free of charge (typically digital offerings such as software, content, games, web services or other) while charging a premium for advanced features, functionality, or related products and services

The word "freemium" is combining the two aspects of the business model: "free" and "premium". It has become a highly popular model, with notable success.

22. **Odd pricing**

In this type of pricing, the seller tends to fix a price whose last digits are odd numbers.

This is done so as to give the buyers/consumers no gap for bargaining as the prices seem to be less and yet in an actual sense are too high, and takes advantage of human psychology.

A good example of this can be noticed in most supermarkets where instead of pricing at $10, it would be written as $9.99. This pricing policy is common in economies using the free market policy.

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