A STUDY ON E-PRICING STRATEGIES OF ONLINE BUSINESS

U.Ponmani[1], Dr.V.T.Dhanaraj[2],
[1]M.Phil Scholar,Rathinam College of Arts and Science,
[2]Head Department of Commerce, Rathinam College of Arts and Science,Coimbatore, India

Abstract : Pricing products and services online is one of the most exciting and complex exercises you will take as a business general manager. Utilizing an effective online pricing strategy requires both a test-and-learn mentality paired with an intuitive feel for how you would like your brand and products to be perceived. An online pricing strategy can pave the way to omni-channel selling success. In an online marketplace, the price of a product can captivate the interest of a customer or make them exit to another website. Whether you are a B2B e-commerce site or a B2C online store, a pricing strategy is an effective driver of growing profits and influencing inventory turnover. In any business, one of the most crucial decisions that you have to make is choosing the right pricing strategy. If you get the pricing strategies wrong, then it could result in a loss for your company. This paper is made an attempt to analyse the pricing strategy which more suitable to the on line business activities. It also highlights the pros and cons of each strategy.

Key words: (brand, B2C online store, pricing strategy)

Introduction

E-Pricing is the process of determining what a company will receive in exchange for its products. Pricing factors are manufacturing cost, market place, competition, market condition, and quality of product. Pricing is also a key variable in microeconomic price allocation theory. Pricing is a fundamental aspect of financial modeling and is one of the four Ps of the marketing mix.

Different Pricing Strategies

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.

This appears in two forms, full cost pricing which takes into consideration both variable and fixed costs and adds a percentage as markup. The other is direct cost pricing which is variable costs plus a percentage as markup. The latter is only used in periods of high competition as this method usually leads to a loss in the long run.

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. Skimming is usually employed to reimburse the cost of investment of the original research into the product: commonly used in electronic markets when a new range, such as DVD players, are firstly dispatched into the market at a high price. This strategy is often used to target "early adopters" of a product or service. Early adopters generally have a relatively lower price-sensitivity - this can be attributed to: their need for the product outweighing their need to economize; a greater understanding of the product's value; or simply having a higher disposable income.

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. The quantity produced by the incumbent firm to act as a deterrent to entry is usually larger than would be optimal for a monopolist, but might still produce higher economic profits than would be earned under perfect competition.

The problem with limit pricing as a strategy is that once the entrant has entered the market, the quantity used as a threat to deter entry is no longer the incumbent firm's best response. This means that for limit pricing to be an effective deterrent to entry, the threat must in some way be made credible. A way to achieve this is for the incumbent firm to constrain itself to produce a certain quantity whether entry occurs or not. An example of this would be if the firm signed a union contract to employ a certain (high) level of labor for a long period of time. In this strategy price of the product becomes the limit according to budget.

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.

Market-oriented pricing

Setting a price based upon analysis and research compiled from the target market. This means that marketers will set prices depending on the results from the research. For instance if the competitors are pricing their products at a lower price, then it's up to them to either price their goods at an above price or below, depending on what the company wants to achieve .

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.[3]

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.

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.

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.

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. The product's contribution to total firm profit (i.e. to operating income) is maximized when a price is chosen that maximizes the following: (contribution margin per unit) X (number of units sold)..

Psychological pricing

Pricing designed to have a positive psychological impact. For example, selling a product at $3.95 or $3.99, rather than $4.00. There are certain price points where people are willing to buy a product. If the price of a product is $100 and the company prices it as $99, then it is called psychological pricing. In most of the consumers mind $99 is psychologically ‘less’ than $100. A minor distinction in pricing can make a big difference is sales. The company that succeeds in finding psychological price points can improve sales and maximize revenue

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. The airline industry is often cited as a dynamic pricing success story. In fact, it employs the technique so artfully that most of the passengers on any given airplane have paid different ticket prices for the same flight.

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.

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.

Target pricing is not useful for companies whose capital investment is low because, according to this formula, the selling price will be understated. Also the target pricing method is not keyed to the demand for the product, and if the entire volume is not sold, a company might sustain an overall budgetary loss on the product.

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

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. The lower promotional prices are designed to bring customers to the organization where the customer is offered the promotional product as well as the regular higher priced products.

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.

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. If, for example, an item has a marginal cost of $1.00 and a normal selling price is $2.00, the firm selling the item might wish to lower the price to $1.10 if demand has waned. The business would choose this approach because the incremental profit of 10 cents from the transaction is better than no sale at all.

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. The perceived value will depend on the alternatives open to the customer. In business these alternatives are using competitors software, using a manual work around, or not doing an activity. In order to employ value-based pricing you have to know your customer's business, his business costs, and his perceived alternatives.

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.

Giving buyers the freedom to pay what they want may seem to not make much sense for a seller, but in some situations it can be very successful. While most uses of pay what you want have been at the margins of the economy, or for special promotions, there are emerging efforts to expand its utility to broader and more regular use.

Premium

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

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.

Line pricing

Line pricing is the use of a limited number of prices for all product offerings of a vendor. This is a tradition started in the old five and dime stores in which everything cost either 5 or 10 cents. Its underlying rationale is that these amounts are seen as suitable price points for a whole range of products by prospective customers. It has the advantage of ease of administering, but the disadvantage of inflexibility, particularly in times of inflation or unstable prices.

Loss leader

A loss leader is a product that has a price set below the operating margin. This results in a loss to the enterprise on that particular item in the hope that it will draw customers into the store and that some of those customers will buy other, higher margin items.

Price/quality relationship

The price/quality relationship refers to the perception by most consumers that a relatively high price is a sign of good quality. The belief in this relationship is most important with complex products that are hard to test, and experiential products that cannot be tested until used (such as most services). The greater the uncertainty surrounding a product, the more consumers depend on the price/quality hypothesis and the greater premium they are prepared to pay. The classic example is the pricing of Twinkies, a snack cake which was viewed as low quality after the price was lowered. Excessive reliance on the price/quality relationship by consumers may lead to an increase in prices on all products and services, even those of low quality, which causes the price/quality relationship to no longer apply.

Demand-based pricing

Demand-based pricing is any pricing method that uses consumer demand - based on perceived value - as the central element. These include price skimming, price discrimination and yield management, price points, psychological pricing, bundle pricing, penetration pricing, price lining, value-based pricing, geo and premium pricing.

Pricing factors are manufacturing cost, market place, competition, market condition, quality of product.

Multidimensional pricing

Multidimensional pricing is the pricing of a product or service using multiple numbers. In this practice, price no longer consists of a single monetary amount (e.g., sticker price of a car), but rather consists of various dimensions (e.g., monthly payments, number of payments, and a downpayment). Research has shown that this practice can significantly influence consumers' ability to understand and process price information.

Approaches

Pricing is the most effective profit level. Pricing can be approached at three levels. The industry, market, and transaction level. Pricing at the industry level focuses on the overall economics of the industry, including supplier price changes and customer demand changes. Pricing at the market level focuses on the competitive position of the price in comparison to the value differential of the product to that of comparative competing products. Pricing at the transaction level focuses on managing the implementation of discounts away from the reference, or list price, which occur both on and off the invoice or receipt.

Pricing tactics

Micromarketing is the practice of tailoring products, brands (microbrands), and promotions to meet the needs and wants of microsegments within a market. It is a type of market customization that deals with pricing of customer/product combinations at the store or individual level.

Pricing mistakes

Many companies make common pricing mistakes. Bernstein's article "Use Suppliers Pricing Mistakes" outlines several which include:

- Weak controls on discounting
- Inadequate systems for tracking competitor selling prices and market share
- Cost-plus pricing
- Price increases poorly executed
- Worldwide price inconsistencies
- Paying sales representatives on dollar volume vs. addition of profitability measures
- Pay what you want

- Price elasticity of demand
- Price system
- Price umbrella
- Product life cycle management
- Product sabotage
- Psychological pricing
- Purchasing power

Decoy pricing

Method of pricing where the seller offers at least three products, and where two of them have a similar or equal price. The two products with the similar prices should be the most expensive ones, and one of the two should be less attractive than the other. This strategy will make people compare the options with similar prices, and as a result sales of the most attractive choice will increase.

Nine laws of price sensitivity and consumer psychology

In their book, *The Strategy and Tactics of Pricing*, Thomas Nagle and Reed Holden outline nine "laws" or factor that influence how a consumer perceives a given price and how price-sensitive they are likely to be with respect to different purchase decisions.

They are:

1. **Reference Price Effect** – buyer's price sensitivity for a given product increases the higher the product's price relative to perceived alternatives. Perceived alternatives can vary by buyer segment, by occasion, and other factors.
2. **Difficult Comparison Effect** – buyers are less sensitive to the price of a known or more reputable product when they have difficulty comparing it to potential alternatives.
3. **Switching Costs Effect** – the higher the product-specific investment a buyer must make to switch suppliers, the less price sensitive that buyer is when choosing between alternatives.
4. **Price-Quality Effect** – buyers are less sensitive to price the more that higher prices signal higher quality. Products for which this effect is particularly relevant include: image products, exclusive products, and products with minimal cues for quality.
5. **Expenditure Effect** – buyers are more price sensitive when the expense, accounts for a large percentage of buyers' available income or budget.
6. **End-Benefit Effect** – the effect refers to the relationship a given purchase has to a larger overall benefit, and is divided into two parts: *Derived demand*: The more sensitive buyers are to the price of the end benefit, the more sensitive they will be to the prices of those products that contribute to that benefit. *Price proportion cost*: The price proportion cost refers to the percent of the total cost of the end benefit accounted for by a given component that helps to produce the end benefit (e.g., think CPU and PCs). The smaller the given components share of the total cost of the end benefit, the less sensitive buyers will be to the component's price.
7. **Shared-cost Effect** – the smaller the portion of the purchase price buyers must pay for themselves, the less price sensitive they will be.
8. **Fairness Effect** – buyers are more sensitive to the price of a product when the price is outside the range they perceive as "fair" or "reasonable" given the purchase context.
9. **The Framing Effect** – buyers are more price sensitive when they perceive the price as a loss rather than a forgone gain, and they have greater price sensitivity when the price is paid separately rather than as part of a bundle.

Conclusion

A successful online pricing strategy can be a strategic advantage for e-commerce store. There are a variety of pricing strategies for our business to choose from, so select the method that fits your business use case the best. There are a few pros and cons for each pricing strategy depending on our business. E-commerce companies have recognized pricing strategy as one of the key value levers and, consequently, companies have started working on their pricing strategy, tactics, and tools in the past few years in hopes of improving their approach. With the increasing use of the internet today and smart phones, customers can differentiate prices with just a click of a button. So, the e-commerce pricing strategy that organizations choose must be one that not only gives them a good ROI but also gives a sense.

References :

- ✓ Bolton, R.N., Shankar, V., and Montoya, D.Y. (2010) Recent Trends and Emerging Practices in Retailer Pricing. Retailing in the 21st Century, 245 –259.
- ✓ Kotler, P. and Armstrong, G. (2013) Principles of Marketing, Pearson Prentice-Hall.
- ✓ Kotler, P. and Keller, K. (2013) Marketing Management,
- ✓ Pearson Prentice-Hall. Nagle, T.T. and Hogan, J.E. (2010) The Strategy and
  - Tactics of Pricing,
- ✓ Zettelmeyer, F. "Expanding to the Internet: pricing and communications strategies when firms compete on multiple channels," Journal of Marketing Research, 37, 2000, 292-308.
- ✓ Kortge, G. D. and Okonkwo, P.A., "Perceived value approach to pricing," Industrial Marketing Management, 22, 1993, 133-140.
- ✓ Monroe, K. B., "Buyers' subjective perceptions of price," Journal of Marketing Research, 10, 1973, 70-80.