A Research on "Effective Pricing Strategies of New Product

Sandhya Sharma[1], Saloni Manglik[2], Vivek Kumar Singh[3], Aman Tripathi[4], Sumit Verma[5], Prateek Sharma[6]

1,2 Assistant Professor, Innovative College of Pharmacy, Greater Noida 3,4,5,6, Research Scholar, Innovative College of Pharmacy, Greater Noida

Abstract: In order to maximize profits and maintain a new product's competitiveness in the market, a viable pricing strategy must be developed. There are various pricing structures to choose from. including package price for eachstrategy, cost-plus pricing, value-based pricing, skimming pricing, and penetration pricing. The data collecting results indicate that the prices of the things that businesses sell reflect the value assessments of their clients. Additionally, it illustrates how competition prices affect the acquisition of company things and how Internet pricing impacts and informs purchasing decisions. Our knowledge of several areas pertaining to pricing strategies and the decision-making process is improved by this study.

Prescription and over-the-counter (OTC) drugs are the two primary categories into which pharmaceutical items fall. Whether a product is sold directly to consumers or to the medical community is the dividing factor. One of the most fascinating and contentious subjects in pharmaceutical marketing is price, Given the unique characteristics of the pharmaceutical sector, many approaches such as Cost-Plus Pricing, Break-Even Pricing, Value Based Pricing, Competition Based Pricing, and Economy Pricing are genuinely applicable and applied in the industry.

Keywords: Price skimming, Cost plus pricing, Break Even pricing, OTC.

INTRODUCTION

Given the rapid improvements in both technology and the economy, modern consumers are becoming more cautious, intelligent, and curious about their needs. These adjustments also have an effect on the needs of businesses. Ehmke et al. (2005) state that marketing is establishing a business to successfully meet customer needs.

Borden (1984) emphasized that marketing managers must evaluate behavioural dynamics and manage the elements of the marketing mix based on the firm's resources in order to create an effective marketing campaign. To drive change or revitalize an existing product, all four components of the marketing mix-product, pricing, promotion, and place-need to be present in equal proportion. This essay's primary focus will be cost.

The importance of it for both businesses and customers. For various people, price can mean different things. It could be used to describe interest paid to lenders, bankers' fees or charges for services, insurance premiums, transporter fares, honoraria for guest speakers, etc. According to Rosa et al. (2011), price is a key factor in price acting as a purchasing incentive.[1]

It influences how individuals perceive and evaluate prices, which has a significant effect on the purchases that people make. Research has indicated that cost is a major factor when making judgments about what to purchase, especially for recurrent purchases. Pricing affects choices of product, brand, and retailer. The more extensive the information search and rival brand comparisons are, the more important price is when makinga buy.

Traditional pricing methods should evolve towards more collaborative and socially aware approaches due to theirlack of consistency. It is imperative for businesses to acknowledge that aligning revenue generation strategies can provide added benefits and transcend mere reliance on costs and profits in setting prices, as emphasized by Bertini and Gouville (2012). This study aims to explore the impact of pricing strategies and onlinepricing on consumer purchasing behaviour for products.[2]

PRICING OBJECTIVES

Pricing objectives provide as guidelines and standards for evaluating effectiveness. Prior to setting prices, companies should develop pricing objectives, according to Weber (2000).

FIGURE 1: Pricing objectives

Attain target return on investment or net sales: Determining pricing for certain products in order to cover operating costs and desired profits, and to guarantee a predefined return on investment.

Maintain or improve target share of the market: Most organizations have their pricing purpose to be to increase or preserve market share. Long- term pricing strategies that are successful lead to an increase in market share.

Meet or prevent competition: Numerous businesses employ this price goal. The issue with this purpose is that,despite its inherent merits, it is frequently associated in the public's view with monopolies, high prices, and propaganda.

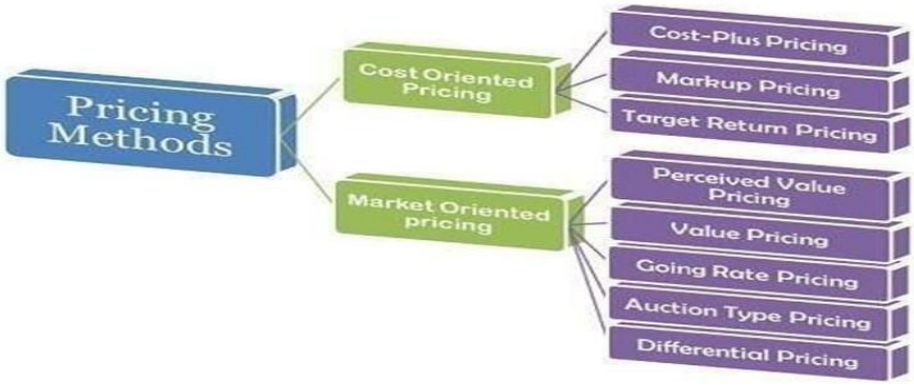

FIGURE 2: Pricing Methods

Cost-Based Pricing: It refers to a pricing method in which some percentage of desired profit margins isadded to the cost of the product to obtain the final price of the product.

Cost-Plus Pricing: In this method, a fixed percentage, also called as mark-up percentage, of the total cost(as a profit) is added to the total cost to set the price.

Markup Pricing: It refers to a pricing method in which the fixed amount or the percentage of cost of theproduct is added to product's price to get the selling price of the product.

Demand-Based Pricing: It is a pricing method in which the price of a product is finalized according to its demand. If the demand of a product is more, an organization prefers to set high prices for products to gain profit. Whereas, if the demand of a product is less, the low prices are charged to attract the customers.[3]

Competition-Based Pricing: It is a method in which an organization considers the prices of competitor's product to set the prices of its own products.

Value-Based Pricing: It is a pricing method in which an organization tries to win loyal customers by charging low prices for their high-quality products.

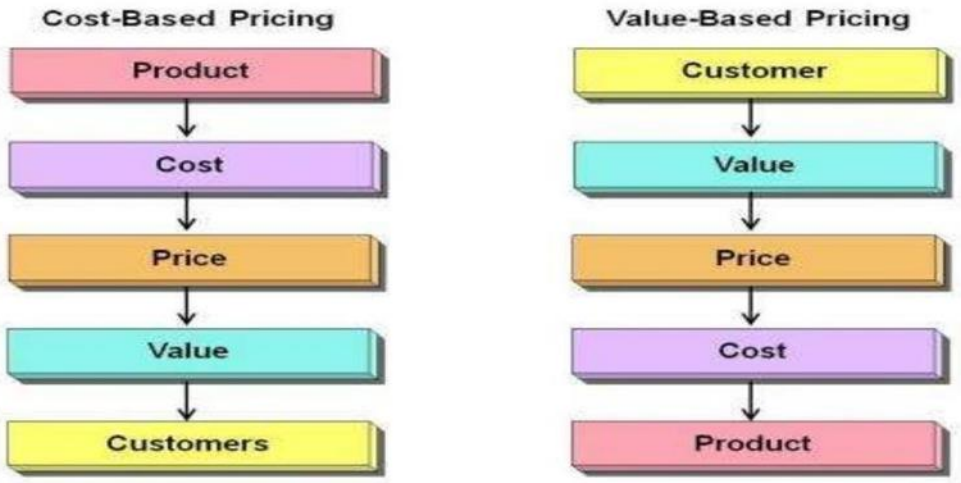

FIGURE 3: Cost Based Pricing Vs Value Based Pricing

Differential Pricing: This refers to charging various prices for the same product to different customers, i.e., different prices for different market segments. It is equivalent to a discriminatory pricing policy, particularly in cases where the product's production and selling costs are nearly equal.

Target Return Pricing: In this, the price of a product is fixed on the basis of expected profit.

Going Rate Pricing: Implies a method in which an organization sets the price of a product according to the prevailing price trends in the market.[4]

Skimming Prices: It's a pricing strategy where a business offers a product at a high initial cost, frequently with significant marketing. It speaks of establishing the highest starting price that buyers who are serious about the product are prepared to shell out. The clients in this situation are not price conscious. Rather, they are drawn to the product because of its quality and capacity to meet their demands. In order to gradually extract the highest possible revenues from the market segments that are prepared to pay the price, enabling the business to make.[5]

The Cost of Penetration: Setting a low initial price for a new product to appeal to the mass market right awayis referred to as doing so (Kerin Hartley and Rudelius 2004; Lamb, Hair, and McDaniel 2004). It is not the same as skimming. The business might enter the market by offering low prices and aggressive marketing. This tacticincreases or maintains a sizable market share and has the fastest rate of market awareness. A corporation needs to have manufacturing or a long-term competitive advantage that would lead to a company's unit in order to benefit from this strategy.

Online Costing: At the moment, pricing has gradually changed to reflect a more internet-driven business. Academics

and practitioners are becoming more interested in pricing as a result of the expansion of the online marketplace, online business models, and digitally consumed goods make it possible to develop new pricing strategies.

Customer Perceived Value: Perceived value is based on equity theory, which considers the ratio of the client's outcome/input to that of the service provider. The equity notion refers to customers' judgments of what is fair, proper, or deserved in relation to the perceived cost of the service. The customer's perceived value is determined byweighing the offering's respective advantages and disadvantages.

Dynamic Pricing: Dynamic pricing is a tactic/strategy where prices change according to the market, customers, and/or situations. It is also known as continuously modifying prices to suit the unique demandsand circumstances of each consumer.

Variable costing: Customers may benefit from dynamic pricing, but they frequently dislike this strategy. When purchasers discover they were sold a service or item at a higher price than someone else, it has been known to provoke backlash**.**[6]

PRICING POLICIES OF NEW PRODUCT

This article first published in HBR in November 1950 and served as a useful guide for overcoming the difficulties involved in creating new product prices.

Projecting demand, taking into account the effects of various cost combinations, and choosing the most effective promotion plan are crucial, particularly in the early stages of competition.

Then, as the product's place on the market evolves, the policy must be adjusted. Joel Dean outlines the many decision-making factors and possible pricing schemes at every phase of a product's market development. To update his first statement, Mr. Dean has provided a retroactive note at the end of this piece. By accountingfor variables like inflation and observations from later years, he builds on his earlier work.

Appropriate pricing depends on three separate maturity characteristics growing during the cycle; these characteristics usually follow almost parallel time periods. Technical maturity is indicated by a slowdown in therate of new product creation, an increase in brand homogeneity, and a rise in the stability and expertise of manufacturing processes. Support for the core service concept from customers, as evidenced by a general beliefthat most manufacturers' products will work well and be familiar enough and sophisticated enough for consumersto make informed brand comparisons. The degree of competitive maturity can be gauged by the increasing stability of market shares and price structures.[7]

STEPS IN POINEER POLICIES

Pricing issues arise when a business discovers a product that represents a significant divergence from the methods currently used to provide a service and is momentarily shielded from competition by production secrets patents, control over a limited resource, or other impediments. As a result of the substantial product differentiation, the seller here has a great deal of pricing discretion. I'll outline the essential elements of the process here to give you an idea of how a manufacturer should approach price fixing in the pioneer stage(the steps are interrelated and the classification is arbitrary, of course): Demand estimation, market target selection, promotional strategy creation, and distribution channel selection are the first four steps in the process.

Estimate of Demand: In contrast to a somewhat stable monopoly, the situation at the pioneer stage is different since the product is outside the purchasers' experience and must be taken into consideration becauseto its perishable uniqueness. How might the market for new items be investigated? How can we determine the price that consumers are willing to pay for a product that they have never seen or used before? This analysis has multiple levels of refinement**.**

Decision on Market Targets: Once the business has established a general understanding of the demand and pricing ranges that are practical for the new product, it can decide on a number of fundamental strategic choices regarding target markets and marketing strategies.

Creation of a Marketing Plan: Until a market of some type has been developed, the first costs associated with promotion are an investment in the product that cannot be recouped. It is the innovator's responsibilityto establish a market by informing consumers about the product's existence and applications.

Selection of Channels for Distribution: Since these costs determine the factory price that will result in a specific consumer price and since the consumer price is what matters for volume, an estimation of the costs associated with

bringing the new product via the channels of distribution to the ultimate customer must be included in the pricing procedure. Distributive margins include of physical distribution costs as well as pure promotional charges.

Skimming Price: A program of related land, combined with significant promotional expenditures in the early phases of market development and lower pricing at later stages) has been successful for many products, particularly those that constitute a major departure from conventional ways of doing services. This political system is successful for a number of reasons.

Penetration Price: Using low resources as the primary strategy for early mass market penetration is an alternate course of action. The skimming strategy, which only cuts prices when it's necessary because of enjoyable competition, is the opposite of this policy. The passive skimming policy protects some profits at every stage of market penetration, but it also slows down sales to the large number of customers who fit into lower income or preference groups and can't afford to pay a significant premium for high-quality brands or products. Forecasts, investigation, and bravery are required for the proactive approach of looking at possible market expansion through early entry pricing.[8]

THE PRINCIPLE PRICING STRATEGIES

FIGURE 5: Popular Pricing Strategies

Value-Based Pricing: Value-based pricing lives up to its label. When a business uses this tactic, its pricing strategy is primarily based on the product or service's perceived or actual value. Custom goods, specialized or bespoke services, and handcrafted goods like jwellery price apparel, or premium alcohol usually workbest with it. Additionally, it may work well for items with "extras" or those that have become well-known because of their associations with notable people or events.

Competitive Rates: Setting a price that will offer you a competitive advantage over similar products provided by other businesses is the essence of competitive pricing.

Skimming Prices: Price Skimming is the practice of initially setting a new product's price high to capitalize on consumer demand then progressively lowering it over time. It works well with highly anticipated,innovative, or already-available products that have few real competitors. Gaming and electronics are twoareas where price-skimming is common.[9]

Cost-Plus Arrangements: Cost-plus pricing is one of the most widely used pricing strategies. It is commonly used by smaller businesses that cannot afford to large sums of money in market research, aswell as department and grocery stores that carry a wide variety of common products. The idea is to, as the name implies, ascertain the cost of producing a good or rendering a service, then mark that cost up in accordance with the anticipated profit.

Pricing for Penetration: Price Skimming is used in the opposite way by penetration pricing. It happens when a business trying to break into a market offers a low initial price to attract clients and lure them away from competitors.

Low-Cost Pricing: Economy prices apply to budget products. Low production costs make it possible to keep prices low. Big companies, like pharmaceutical companies or airlines, can easily use this to boost sales and avoid rivals. It functions best with large-scale products. Dynamic pricing is a flexible pricing strategy that helps to maximize profitability. This is how a business modifies the price of its products based on the customer, the selling location, and the time of day.

Variable Costing: Although dynamic pricing may be advantageous to customers, this strategy is usually disliked by them. Purchasers have been known to react negatively if they find out they were charged more fora good or service than someone else.[10]

CONCLUSION

Effective pricing of a new product requires careful consideration of the market, costs, value proposition, goals, and customer perception. By adopting a rigorous approach and giving serious thought to these variables, businesses can develop effective pricing strategies. The following are some key takeaways: market research is crucial to understanding customer preferences, competitors, and market demand. This makes it easier to find potential prices. Do a cost study to determine the lowest price that will guarantee profitability while covering manufacturing and distribution costs. Clearly define your price objectives, which should include increasing your market share, making a profit, and developing a premium brand. Choose a pricing strategy that best suits your objectives, such as value-based pricing, penetration pricing, skimming pricing, or competitive pricing. Analyzing competitors' pricing strategies to learn about the market. landscape and implement the necessary adjustments to remain competitive. Plans for pricing must be reviewed and adjusted over time in response to feedback from customers, the performance of the product, and market dynamics.To optimize pricing for new items, efficient pricing strategies require iterative approaches, ongoing outcome monitoring, and well-informed decision-making. By implementing these discoveries, businesses may develop and enhance profitable pricing plans that boost revenue, please clients, and give them a competitive advantage in the market.

REFERENCES

1. Aaker, David A. (1995), Strategic Market Management (4th ed.). New York: John Wiley Adefila, J.J.(2008). Research Methodology in Behavioural Sciences; 1st Edition, Akpani Publications, Nigeria.
2. Akindele, R. I., Nassr, M. L. And Owolabi, A. A. (2008). Essentials of Research Methodology; 2nd Edition, Obafemi Awolowo University Press, Nigeria.
3. Ahmed RR, Sattar I, Khoso I, Parmar V. New Product development: Strategy and implementation mechanism based on primary and secondary data Research in Pharmaceutical Industry. International Journal of Management, IT and Engineering 2014; 4(5):152-176.
4. Gilbert J, Hanske P, Singh A. Rebuilding Big Pharma's Business Model. In Vivo 2003; 21:73-82. Asika, N. (1991). Research Methodology in the Behavioral Sciences. Ibadan: Longman Nig Plc.
5. Balachandran, B. V. And Gensch, H. D. (1974). Sowing The-Marketing Mix|| Problem Using Geometric Programming. Management Science, Vol. 21 (2).
6. Avlonitis, G. J. And Indounas, K. A. (2006). Pricing Practices of Service Organizations; Journal of Services Marketing, 346-356.
7. Baumol, William J. and J. Gregory Sidak (1994), "The Pricing of Inputs Sold to".
8. Areeda, Phillip and Donald Turner (1996), "Does predatory pricing exist? Economic theory and thecourts after Brooke Group," The Antitrust Bulletin, 41 (4), 949-86.
9. Balachandran, B. V. And Gensch, H. D. (1974). Sowing The-Marketing Strategies|| Problem Using Geometric Programming.
10. Weber TA. Price theory in Marketing. Oxford Handb Pricing Manag. 2012:281-339.