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Pricing Strategy Management

The policy that the company uses is penetration pricing. Rather than starting with high pricing for their new energy drink, they began with reduced prices and progressively raised them as the industry grows. This policy places the company at risk of making no or less money initially; it rapidly converts liable on how low the company goes. The company is offering less experience to develop consumer loyalty, similarly that a free sample may stimulate clients to make a purchase. The company intended to draw attention to its brand by using the penetration pricing strategy. As a result, their pricing always begins cheaper than those of their competitors. Kienzler and Kowalkowski (2017) argue that once the firm reaches market penetration, it may raise its pricing to a comparable or even more significant level, depending on how favorable its client feedback is.

Moreover, many variables decided on this method, such as the firm's capacity to potentially incur losses upfront to gain solid traction in a marketplace. It is also precarious for the firm to cultivate a trustworthy client pool, necessitating further marketing and branding initiatives. However, suppose the cheap price is part of an introductory promotion. In that case, buyers may first pick the brand out of curiosity, but as the price rises to or near the price levels of the rival brand, they may switch back; thus, the prices are neither profitable nor sustainable.

The overall cost incurred because of producing an additional unit of product known as incremental cost. It is estimated by examining extra costs associated with manufacturing process for every new output unit, like raw materials. On the other hand, avoidable costs will not be realized if a specific activity is not undertaken. They are primarily variable expenses that may be

eliminated from corporate operations, as opposed to most operating expenses, that must be settled regardless of a company's activity level. However, the contribution margin for the company's three top-selling products. The company's contribution margin for the three top-selling products would be 60% after selling the bulk of 40,000 units of five products at \$100 while incurring the variable industrial expense of \$30 as well as the variable retailing expense of \$10. The contribution margin has been arrived at by subtracting the variable costs from the net sales revenue (Kienzler & Kowalkowski, 2017).

The company should invest in breakeven analysis because breakeven thresholds serve as essential long-term planning milestones. Therefore by understanding their breakeven point for areas like sales, manufacturing, operations, and investment payback will assist them with pricing, debt payment, and other aspects of running the firm.

Pricing Decisions

The impact pricing choices have on the company's overall marketing strategy is that a lousy pricing selection might lead to a company's demise. It is critical to set prices at the appropriate level after thorough market research and considering rivals' tactics, market circumstances, and manufacturing costs. Likewise, low pricing may initially attract clients, but raising prices later would be extremely difficult for the firm. Consequently, a high price will result in higher profit margins but lower sales. Therefore, to maintain equilibrium amongst profitability and number of sales, the correct pricing must be set.

On the contrary, the company's challenges are branding protection, whereby customers may be unwilling to convert to a low-cost option if rivals have such robust product or service labeling. The second challenge that the company might face is client loss; primarily, if the firm

uses penetration pricing without increasing the quality of the product or client service, it may discover that consumers leave when it raises its price. Lastly, the company's competitors might introduce a product with even lower pricing, denying the firm any market share.

The strategies used by the company's competitors are cost leadership strategies to be the most lucrative manufacturer. This strategy is attained through extensive production, whereby firms might benefit from economies of scale (Ebbing & Lüthje, 2021). Consequently, if our clients can employ economies of scale to manufacture their energy drinks at lower costs than their opponents, the organization might develop a retailing price that the other establishments will not match. Similarly, competitors use a differentiation strategy to gain the upper hand over the company. Therefore, if our client can differentiate itself from competitors, it will charge a premium for its goods or services.

The company can best manage competitive information and current pricing trends by conducting a strategic cost study to determine the magnitude of the risk of inflation on their firms' competitive positions and rival organizations' positioning. Similarly, the company should conduct a comprehensive competitive analysis to achieve and attain a competitive advantage. An in-depth competitor study will give insight into how the company's current and future consumers see the competition, an upbeat assessment of the competitor's strengths and shortcomings, and a technique for developing compelling marketing advantages in the market segment.

The importance of accurate measurement of customers' price sensitivity is that the price sensitivity of the product will assist the company in determining the amount of value they are producing in their energy drink by exposing their customer's willingness to pay.

Ethics and the Law

The first ethical issue of pricing strategy is liquidation price cutting (Seele et al., 2021). Firms may reduce prices to clear away obsolete inventory or to make room for a new product line. Some sellers offer relatively cheap pricing for new items to expose them to the market and encourage buyers to try them. Similarly, some firms provide enormous discounts on existing inventory to utilize the funds to create a new product, pay off debt, or fulfill other financial commitments. These are not unlawful price examples; they occur daily.

The second ethical concern is a market monopoly. When there is just one source of a specific commodity, there is a monopoly. Monopolies are prohibited under federal antitrust laws, which ensures market competition. Moreover, Hemphill and Weiser (2017) suggest that the legal regulations that affect pricing strategy are pricing limitations and consumer protection laws implemented by the government.

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