

# McDonald's: pricing strategy for a new product essay sample

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The pricing strategy for a new product should be developed so that the desired impact on the market is achieved while the emergence of competition is discouraged. Two basic strategies that may be used in pricing a new product are skimming pricing and penetration pricing. Skimming pricing is the strategy of charging a high price because you have a substantial competitive advantage. However, the advantage is not sustainable. The high price tends to attract new competitors into the market, and the price eventually falls due to increased supply. A skimming strategy may be recommended when the nature of demand is uncertain, when a company has spent large sums of money on research and development for a new product, when the competition is expected to develop and market a similar product in the near future, or when the product is so innovative that the market is expected to mature very slowly (Unknown, 2011, para 2). A penetration pricing strategy is one in which a low initial price is set. Often, many competitive products are already in the market. The goal is to get as much of the market as possible to try the product. Penetration pricing is used on many new food products (Unknown, 2011, para 4).

When McDonald's first began to break into the coffee market, they ran a large marketing campaign in order to gain some market share in the industry. For a limited time frame, you could get a free small coffee every morning from 4-7 a. m. This was to promote their new coffee and help spread the word that McDoanld's was now offering coffee. The Carrot-Orange Shake will continue with McDonald's penetration pricing strategy, allowing consumers the opportunity to try the product and recognize its nutritional value. In addition to understanding the market, the potential buyer and cost,

it is also important to understand competitors pricing strategies. Value pricing is when businesses offer a fairly high quality product at a relatively low price. The value has to be believable and accepted by the customer. Value pricing is used when re-evaluating the company's pricing brands. This approach is used when external factors such as recession or increased competition force companies to provide value products and services to retain sales.

McDonald's Dollar Menu was created because McDonald's recognized that the economy was in a decline and their competition was getting fierce. The Dollar Menu satisfies the current decreasing economy and has increased the pressure towards competitors. The introduction to the Dollar Menu is by far the most economic product line at McDonald's. The menu offers consumers a number of products off the menu for only a dollar. It has become efficient and practical for the fast food chain (Unknown, Marketing research, 2011, para 9-12). Product line pricing refers to a select range of products or services where the pricing reflects the benefits of the entire line of service. When using product line pricing, the entire line must be considered. To use a product line pricing strategy, the company must keep track of each product's life cycle stage, how inter-dependent the products are, when the estimated product will leave the line, when a new product is scheduled to enter the line, and how the products in the line complement each other.

All of these product line elements will affect the product line pricing strategy. The Carrot-Orange Shake will use the product line pricing tactic. Currently, McDonald's offers 13 specialty drinks: coffees, frappes, lattes, fruit

smoothies and the newest Frozen Strawberry Lemonade. Specialty drinks are primarily sold in three sizes, ranging in cost from \$2. 29 to \$3. 49, depending on location (Mills, 2010, para 1-2). A business operating in today's competitive environment might be tempted to try a variety of unethical pricing strategies to increase market share and profits. But operating to pursue the company's self interest can result in decreased trust by customers and lawsuits. Pricing ethics involves examining what constraints are needed on the pursuit of market share and profits when the action of a company affects others adversely. Price gouging is an example of an unethical pricing strategy.

A company may raise prices of items that are temporarily in high demand. This is sometimes seen in the wake of emergency situations when the price of plywood jumps after a flood, even though there is enough plywood to repair houses. Predatory pricing involves pricing a product low enough to dampen demand. This type of pricing is typically used to end a competitive threat. The company lowering the price is operating to protect market share from moving to the competition. Another unethical pricing strategy is high pressure pricing. This is when vulnerable consumer groups sometimes take the brunt of unethical pricing strategies. " Bait and switch" selling attracts consumers to a low-priced item. Selling counterfeit good, such as watches, handbags and designer athletic shoes at the same high price as the " real" goods, is another example of an unethical strategy (Nielsen, 2011, para 3-5).

The distribution channel consists of the set of people and firms involved in the transfer of title to a product as the product moves from producer to

ultimate consumer or business user. McDonald's is the leading global foodservice retailer, with more than 30,000 local restaurants serving nearly 46 million people each day in 121 different countries. Approximately 80 percent of all McDonald's restaurants company wants to be the first in the market and establish the brand as rapidly as possible by advertising very heavily. This effective distribution strategy has helped McDonald's develop a strong market share in the fast-food market around the world. The fast-food giant has changed the nature of not only the food service industry but also the food processing industry as well. McDonald's realized that the battle between fast food chains would increasingly be one of efficiency of supply, lower cost production and greater desire to innovate. It pioneered with innovative and sophisticated food distribution and packaging systems when the traditional food processors were unwilling or unable to supply food items that McDonald's demanded.

They achieved amazing consistency by devoting more attention than anyone else to field service and training at store level. Production was concentrated in huge plants devoted exclusively to McDonald's. McDonald's also started with tiny suppliers and grew with them displaying great loyalty (Upadhyay, 2011, para, 4-5). The Carrot-Orange Shake will continue the same relationship established by McDonald's for distribution. Because The Carrot-Orange Shake will be added to McDonald's McCafe specialty drink line, with all distribution, wholesaler and retailer relationships remaining unchanged. The distribution strategy McDonald's already has in place fits The Carrot-Orange Shake target audience and overall marketing objectives by an already established relationship with McDonald's. Therefore the strategy has

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proven to work and the relationship beneficial to the company's introduction of each new product.