# Case study on marketing mix price

Business, Marketing

Pricing is one of the most important decisions to be made by managers. Not all organizations are free to determine the selling price of their products and services. Pricing decisions are dependent upon various factors such as product features, substitutes, and stage of product life cycle, competitive position and new concepts. Some businesses are in a position to select their target price while others are obliged to follow the market pattern. Pricing decisions are also influenced by organizational objectives such as profit maximization, increasing market share, covering of fixed costs and revenue maximization. There are various approaches to pricing including total cost plus pricing, marginal cost plus pricing, premium pricing, penetration, skimming, differentiation, loss leader, bundling and controlled approaches to pricing. Let us take the example of Aspirin and Netflix Inc., the two are entirely different and may or may not require same pricing strategy. Aspirin is a product that has brand equity and customers regard it as a superior and different good. It has had an established market presence, for many decades which has consistently increased due to a rise in population. For these reasons it is in Aspirin's best interests to pursue a premium pricing strategy in the long run. As far as Aspirin is concerned, consumers will continue to purchase the as long as it satisfies their needs. However, products containing the same ingredients may create problems for the brand. Nonetheless, the market for pharmaceuticals products is dependent on quality rather than price (Avis, 2009). The traits of the product which justify premium pricing are quality, image, reliability, results and doctors preference (Lovelock and Wirtz, 2011).

On the contrary, Netflix has a diversified product range and it should employ a combination of Premium, penetration, skimming and differentiation approaches to pricing. Product bundling is selling goods and services in a package as a customer kit. The kit can be sold at a low price to create value and maximize the company's profits. This strategy is usually adopted in times of economic downturn where organization's sole objective is to maintain revenue turnover. Netflix can use premium pricing for products new to the market and for which there exist a high demand. The products and services offered by Netflix can also be made available using a differentiation pricing strategy by dividing the target market into different geographical segments, keeping in view the individual demand function. Different geographic markets have different competitive positions and different costs of input; therefore managers can manipulate prices to maximize revenue and profit. If Netflix has a high proportion of fixed costs then the adoption of a differentiation pricing strategy would be vital. Apart from geographical location, price differentiation can also be adopted using factors such as timing, content, features and types of customers (Ritson and Marsden, 2003).

Netflix can also employ penetration pricing to damage competition through product development and market development strategies. Penetration is method of pricing in which organization charge a price below total cost. This strategy intends to maximize market share and to encourage customer for a repeat purchase. A penetration pricing strategy is ideal in markets where there are low entry barriers and organizations have to counteract existing as well as potential competition. If this strategy is successful then rivals will hardly have a chance to compete while providing the same products and services. Netflix is operating in an industry where customers are desperate to acquire new products and services. This consumer behavior can be best exploited by managers while setting prices for a new product. The price is gradually reduced to make the product available to the next group of customers. This method of pricing is useful when the organization has to recover large research and development costs and other expenses. A price Skimming strategy can also be helpful in prolonging the life cycle of old products because when the new product is expensive and out of reach of large market segments; customers would probably wish to buy older products to satisfy their needs (Kotler, 2001).

## References

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