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AD Campaign

The last thing that a company would want is to increase the price of their product which could result in a decrease in the number of their customers. When a company raises its price for a product, they should be able to justify it to their clients. This is not an easy task and would require a good amount of perfect strategizing. In a sluggish economy, customers are usually price sensitive and increasing the prices of goods may be a turn-off to them. Customers may look for substitutes that are far cheaper than the other product.

But all is not lost for companies who wish to increase the price of their product. There are ways of doing so without necessarily hurting the sales of the product. One approach is to explain to the customers why the price is being increased. Most consumers are reasonable and would accept the price increase if there was an increase in the costs of the resources that went into the product; but if the increase is unexplained, then the customers begin to think that the increase is simply for profit-taking and unfair. Ailawadi and Farris goes on further to say that another important consideration in raising prices is the timing of the move (2013). Increasing the price of new products is a sensible strategy because consumers think that the price increase means a better and improved product. The perception that the product offers new features is usually attached to a price increase. Timing would also mean that the company should increase prices after considering its competitors.

A complimentary move with raising prices is the offering of discounts and coupons to address the price sensitive consumers of the product. The marketer can also start segmenting their market in order to retrofit their promotions to each target market. Differentiating the product by creating new designs for different segments may call for price differences between products. As an example, Lenovo may come up with various types of laptops with diverse memory capacities which will command different prices. They can design a laptop which is cheaper and more affordable to the price-sensitive market but with less product features.

Lastly, the price of a product can be increased if it is perceived to be more valuable compared to other products in the market. Some companies now are designing products which are highly customized. These are called " next best offers" (NBOs) and these products can command a higher price. NBOs however will only be successful if marketers study the demographics, psychographics and customer purchase histories. Products with NBOs can definitely command a higher price, rather than products with no additional features.

There are several approaches in setting the price of a product. Depending on a specific pricing strategy, the price of a product may be increased. One pricing strategy is the cost-based pricing which could either be based on a fixed percentage mark-up or cost-plus pricing. In cost-based pricing, the price of a product can be raised if the cost of manufacturing the product also increased. The increase in the price can only be successful if the company is able to explain clearly to its customers that there is a need for such an increase. If a company can justify that the costs increase is essential to improve the product or add new features, then they will not lose their customers and maybe even gain more. What is important to consumers is the value for money. If they stand to gain more even if the price was raised, the customers will not mind the change.

The strategy for increasing the price in the customer-based pricing would be acceptable if the consumer perceives the product with a high economic value. If consumers believe that a particular product has a higher quality than those offered in the market, then they will be willing to pay a high price for it. An example of this is the iPhone. It is common knowledge that the iPhone or any Apple product for that matter, can position itself in the high quality, high price quadrant. Even if there are other products in the market which have the same or even more advanced features than the iPhone and have lower prices, the demand for iPhones are still high. Samsung phones or other android phones, which are comparable in quality as the iPhone are priced cheaper, yet some people still prefer the iPhone. In this example, it is clearly illustrated that price increase is often related to a product’s value perception.

In competition-based pricing, price increases are sometimes difficult to implement because other brands from competitors may be priced lower. One particular way to execute a price increase under this strategy is to give discounts and coupons so they can still remain competitive despite the higher price. If a company is a market leader, an increase in their price may be followed by the smaller market players. In this case, the increase in price made by the market leader is beneficial to them because the consumers may still buy their product since all other offerings in the market have the same price. Another effective strategy in increasing the price based on competition is when a company introduces a new product at a high price. This is known as price skimming wherein the management assumes that eventually the competition will enter the market so they would rather maximize profits at the shortest possible time.

Pricing decisions are critical decisions which every company faces. Decisions to increase the price is an even more difficult move. It is important that companies weigh the pros and cons of raising prices so as not to hurt their bottom figures.

References

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