Report on pricing strategies and marketing channels

Business, Company

PRICING STRATEGIES AND MARKETING CHANNELS

Explain at least four of the seven steps for setting an initial price for a product or service

Every time an organization introduces a new product or service into the market it is required to set a price for it. This new price is one of the factors influencing whether or not the product or service will be bought by the target market. This therefore means that the process of setting up a price for a new product should be thorough and effective in considering all available factors to increase the sales for the new item. There are several recommendable pricing processes that an organization can use to set its prices for new products and services. One of these processes is a seven-step process that increases the likelihood of the new product being priced correctly (Kotler, Shalowitza & Stevens, 2008, p. 323).

The first step in the seven-step process involves the objective behind setting the price for the product or service. In general there are five objectives that may influence how a company sets its new prices: increasing market share, skimming the market, survival, increasing profit or leading other competitors in terms of product quality. It is important to note that these five objectives do not only determine the pricing strategy of an organization but also its branding, mission, and vision. Also worth pointing out is the fact that in most scenarios most of these objectives cannot function simultaneously- an organization cannot have two or more of the five objectives at the same time when setting prices. Organizations that target to increase their market share

set low prices for their products and services. This is based on the belief that low prices lead to more sales, which in turn means more long-term profits for the organization. Market skimming on the other hand is meant to maximize profits within the shortest period. Contrary to organizations seeking to increase their market share, those seeking to skim the market set high prices as they want to recover their costs of producing the new item within the shortest time. Later after the costs are done, the prices can be lowered. This objective in pricing is common in technological companies and pharmaceuticals. Those companies that have survival as their main objective as they set initial prices are mainly keen on staying in business rather than on profit maximization. On the contrary companies focused on increasing profits set their prices with profit maximization in mind. While all the above objectives are focused with the financial part of the organization, there are other organizations that have quality as their first priority in pricing. These organizations set high prices for their products and services but mainly because they want to create the perception that they are offering value to their clients.

Step number two in the seven-step pricing process involves determining the demand for new product or service in the market. In most cases, especially in health care, pricing of a product may not always change demand. However due to rising interest rates and inflation the pricing of most health care services still determines the amount of demand on them. It is hence important that an organization identifies the demand people have for its

services and products and the possible effects of giving new products and services high or low prices.

The third step in the seven-step pricing process is concerned with estimating costs. This involves taking into account all the costs involved in producing, distributing and selling products and services. Establishing the total costs right from procurement of raw materials to the supply of the products to the point of sale including a fair return for the efforts put and risk taken determine the least price that a product and service can be offered to the buyers. Demand also is crucial as it helps to determine by how much the price of a product and service can be increased and to what level the price can remain steady and competitive in the market place. Thus the price range is determined.

Step four in the seven-step pricing process involves analyzing competitors' costs prices and offers. This is mostly done when the company is introducing a product or service that is not entirely new. This means that the product or service being introduced is a second-to-market product that is designed for a similar use as another company's product or service but has unique or additional features. When this happens, a company may decide to charge a premium price to their product and service because they have additional value than what the competitors are offering. If the company is providing similar products and services as its competitors it may decide to lower its prices so as to attract more customers. This is called shadow pricing where the prices are lowered just below what majority of the competitors are offering in order to get an advantage over them. It is advisable that a

company be large enough so as to cushion the reduction in prices and drastic increase in demand by gaining from a large economy of scale. Knowing competitors costs and offers plays a crucial part in coming up with strategies to making a company’s products and services more competitive in the market.

Explain at least four ways an organization can respond to a competitor's price change

When an organization’s competitors change price of their products and services the organization may respond to this through any of the following strategies. It can decide to maintain current price and profit margins. The most likely thing to do is that the company can research on the financial status of the competitor, their recent sales, market objectives and customer loyalty before taking any drastic actions. The organization may opt for this strategy with a view of not losing much market share to competitors or the view of regaining market share when necessary or even out of fear of making losses as a result of reducing prices.

The organization may respond by maintaining current prices and improving on their products and services through value addition. This comes up after much deliberations and consultations that it may be much cheaper to retain current prices and spend money on value addition in the long run than to cut prices altogether.

Another way to respond to price change by competitors is to increase price and introduce new brands to counter the attacking brand (Kotler, Shalowitza & Stevens, 2008, p. 341). This strategy is aimed at convincing the customers

that the organization is focused on coming up with a variety of products without compromising on their quality whatsoever. Customers are known to appreciate and value quality in a wide range of products being offered by a company more-so if they are much needed products such as pharmaceutical products where it is not wise to bargain on quality on any day.

An organization can also decide to reduce its price to the same level as the competitors. This may be the only logical thing to do if the company fears losing its market share which might affect both production and sales volumes which will consequently have a negative effect on profits. The firm might see it as prudent to reduce prices then focus on enlarging its market share to maintain and possibly increase its business.

Describe how effective health care delivery channels can be designed

Effective health care delivery channels can be designed in four stages. The first stage is about studying customer wants and needs. One has to also identify their target market and understand their desires. The second stage is concerned with highlighting goals and challenges. It involves measuring channel objectives in terms of the targeted service output levels at the lowest possible cost. The third stage is assessing major channel options at disposal. There are many alternatives to chose from but most organizations use a mix. A channel alternative is influenced by the number of intermediaries needed, types of intermediaries available and the terms and responsibilities of each intermediary. The final stage in designing an effective healthcare distribution channel is assessing the major options.

Companies that use a mix must evaluate the advantages and shortcomings of each alternative according to their expected outcomes and functionality.

Describe the four main decisions that companies face in managing their channels

The four channel management decisions that companies face in managing their channels are: selecting, training, motivating and evaluating channel members. The basis of selecting channel members includes business reputation, years of service, profit record, reliability and financial strength. There has to be regular training programs for intermediaries from time to time for them to be more competent and efficient in their work. Motivating intermediaries/channel members comes through adequate training, good working conditions and good working relationships with superiors as well as good remuneration so as to increase productivity. Intermediaries need to be evaluated periodically to check and monitor their performance. This helps identify areas that the intermediaries require fresh or refresher training, who to continue working together with and who to do away with.

References

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