

Pricing strategies analysis essay



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Pricing Strategy- tactic used by business establishment to gain higher profit out of their products, to influence their competitor or to attain the goals of the business enterprise. Basically, this is one of the major elements of marketing matrix that we can control. By having an effective pricing plan will make your company very competitive. In the article ??? Saudi Officials Seek to Temper the Price of Oil??? of (MOUAWAD, 2007), he discussed the reasons and effects of the price fluctuation in the recent weeks of oil coming from Saudi Arabia.

According to the Saudi Arabian government, the reason of Saudi Arabia for setting their oil price down, from \$77 to \$50, last year and increased recently, from \$50 to \$55, compared to other oil players was based on the current market situation. For the Arabs, the \$5 increase in the oil price was just enough for not to hurt their economy and so with the world. The US government somehow sympathizes with the Arabs and believes that the \$5 increase was already a ??? moderate price???. But the author believes that, Arabs decrease their oil prices because they desired to restrain economic ambitions of Iran in the Middle East.

By this, we can say that the pricing approach of the Arabs was politically motivated. Back in 2006, the effects of the inclination of the oil price had greatly benefited the Saudi Arabia but left the global community, specially the members of the first world countries, in economic misery. An example of Mouawad was the condition of the US automakers during the hike of the oil price. Most of the car manufacturers of large vehicles experienced downturn in their sales since customers would want to buy smaller ones. But as for the Arabs, they did earn great profits during this period since they are the major

oil players of the world market. We can notice that Arabs pricing strategy was to earned profit and at the same time attain some other goals that would further increase their revenue.

Later on I will classify on what type of pricing strategy the Arabs took.

Another article about pricing principle by Dr. Ralph F. Wilson talks about the importance of pricing strategies in the E-commerce. In his piece of writing, he stressed out the importance of having ??? pricing objectives??? and this comes into two. First was the maximization of profits in a short term basis.

According to him, you have to get the highest possible profit out of your sales, e. g. charging premium prices on the customers, to earn high profits. Another one is to gain market share, through this, you could maximize the number of customers available in your locality. In this strategy, you??? re trying to set your prices lower, but still gaining acceptable revenue, relative to your competitors to attract buyers. By having a large number of buyers would mean higher profit, (Wilson, 2000).

Moreover, it is also a factor to consider the demand of the consumers in setting your pricing scheme. In the field of economics, demand is one of the major players that set up the market price. In the study made by Newsweek, they set up their newspapers price into different levels into different cities across the America. They found out that a small turn down in the market price of the newspaper would make their sales dramatically increased (Wilson, 2000).

It is also a necessary for the businessman to consider the long term effects of setting their prices lower. Sometimes it is bad for the company to offer low

prices if most of their goals was set into long terms. Remember that there??? s no guarantee that the customers will be attracted by the turn down of the prices since there still a lot of factors that affects their consumption, e. g. tastes, incomes, availability of substitute good and the like.

Lastly, one article discussed the difficulty in the pricing of electronic publications, the role of price and its desirable features. One question that was raised in the article was, ??? Is cost recovery an appropriate basis for setting prices? , (Day, 1994). For the author, it is very risky to base our price on the recovery cost since you would lack a chance to innovate, develop and advance your products. According to the author, Colin Day, it was difficult to price electronic publications because one publisher produces many products and not all the operating expenses are straightly related to any of the products that they produce. On this regard, a successful pricing tactic is needed by the publisher to gain profit. Price has a major role in the generation of future investments and supply.

Day stressed that although low price attracts customers but there??? s a limit. For him, we should take into consideration the preferences of the buyers. Are your customers value much the brand of the product rather than the price? Or, are your customers value much the reputation of the establishment than the price. These are some of the questions you have to consider especially if you are a new player in the publishing world. We have already cited the roles and importance of pricing to the success of the business. Now were going to compare the pricing schemes of those three articles mentioned above.

In the work of Mouawad, the pricing tactics of the Arabs was because of a political issue. For him, the Arab government's primary motive was to influence its competitor by penetration pricing. Penetration pricing involves setting prices at the lower end of the market. The work of Wilson and Day also fall into this category, they used penetration pricing to attract customers to attain high revenue. One difference of the Arabs pricing scheme to the other two is the idea that Arabs consider the welfare of its consumers.

Saudi Arabian government did try to lessen the increase in the price of the oil back in 2006. The increase in the oil price was high enough for the world and their economy not to suffer from economic misery. Whereas, the pricing scheme that Wilson and Day advocate is to maximize their profit and not anymore considering the societal welfare of their consumers. Another difference of the work of Mouawad to Wilson and Day is that there is a political influence in the pricing scheme that has an indirect impact on their oil industry. Whereas, on the works of Wilson and Day, their primary reason for penetrating prices was to maximize profit and nothing else. Here are some other pricing tactics and its definition.

Skimming-involve the charging of higher prices to a product that you are the innovator or major producer. Saudi Arabia used this to raise the price of crude oil in the world market in the year 2006. Prestige Pricing-involves the attraction of the customers to the expensive products believing that it has the best quality. Example of which are the products of Levi's, Gucci, Calvin Klein and the like.

??? Price Discrimination-involves the charging of different prices of the same product to different people based on their ability to pay. Company??? s that belong to this category are insurance companies, companies that offer installment payment on their products and the like. Pricing, just like other marketing elements performs a vital role in the business success. There are a lot of factors to consider first before arriving at the pricing scheme that suits to the kind of your business.

Remember that there is no perfect pricing scheme. For sure you would encounter some problems regarding on it, but what is important is for you to find ways to minimize the risk and critically analyze the market situation.

Reference[http://www. wilsonweb. com/wmt5/plan-pricing. htm](http://www.wilsonweb.com/wmt5/plan-pricing.htm)