Success or failure of its brands marketing essay

Business, Marketing

1. 1 Introduction

Pricing strategy of an organization plays very important role in deciding the success or failure of its brands and its importance becomes more critical when prevailing economic conditions are unpredictable. By taking the good pricing decisions, managers lead the companies along the prosperity path which ensure the companies' capacity to work on quality and performance of the products (Yeoman and McMahon-Beattie, 2004). Adding to the strategic importance, Yeoman and McMahon-Beattie (2004) find that pricing is such an important process in strategic decision making that determines the destination of the company because true worth of the product is optimized by the price offered and price of the products is one of the vital factors in addition to the world-class product development that captures demand and increase in market share. Describing the importance of pricing decisions, Avlonitis and Indounas (2004) suggest the companies and managers to design their pricing strategies after complete understanding and detail investigation of condition of markets and their unique characteristics. Later Avlonitis and Indounas, (2006) emphasize to take pricing process as important as any other strategic decision and to judge their internal and external market conditions continuously for better pricing decisions. The studies of Hoffman et al. (2002) and Zeithaml et al. (2006) strongly support this and add to take pricing as systematic approach as pricing is the process which has to be taken very seriously and every step should be taken with a systematic and organized approach. According to Shipley and Jobber (2001), pricing is the so important in marketing mix of an organization that everything is part of expenses except it. Only pricing generates revenues for the organizations so it has to be gives special consideration. Diamantopoulos (1991) considers pricing as the most flexible part of marketing strategy of an organization because pricing decision is only element of marketing strategy that has an opportunity to be implemented quickly as compared to other elements. Although pricing strategy of an organization has great strategic importance but marketing strategists pay least attention to pricing decisions (Nagle and Holden, 1995). Adding to his argument, Nagle and Holden (1995) discuss that pricing is the element of marketing mix which has been ignored also in empirical researches. In many studies we find the factors affecting and influencing the pricing decisions of the companies vary on the basis of prevailing conditions as Avlonitis and Indounas (2004) observe that companies' pricing strategies are generally influenced by market structure which is described by six factors i. e. " macro-economic environment", " customer characteristics", " intensity of competition", " bargaining power of suppliers and buyers", and " competitive reactions". Avlonitis and Indounas (2004) observes that there are number of internal and external factors like cost of production, presence of substitutes, prices of substitutes, consumers' buying behavior, market structure, market competition etc. that determines the guidelines for the organization to make pricing strategy accordingly. Successful organizations always take into consideration all concerning factors before making any pricing decision that takes them to the success routes. This study determines many factors affecting the pricing strategies of organizations and all these variables vary in different prevailing market conditions. As according to Diamantopoulos (1991), pricing strategy is the most flexible process so determinants of development of pricing strategies may differ in different prevailing conditions of each market. In competitive market environment, where a number of competitors and substitutes are striving to take the market share, pricing decision becomes more critical (Wee et al., 1995). This has been observed prices of competitors play important role in determining the price mechanism of the market and successful organizations always consider the pricing strategies of the competitors before developing their pricing strategies (Wee et al., 1995). Especially when illicit products are in competition and taking reasonable market share and threatening the national brands, organizations have to be very careful because the low prices of substitutes are very attractive advantage for the consumers (Wee et al., 1995). Bloch et al. (1993) argues that in highly competitive environment, consumers may prefer the illicit products over national brands due to their lower prices but this practice may be fatal in long run because this leads to price wars as organization may start price competition in order to secure their market share. Avlonitis and Indounas (2004) discuss in their research that the companies have their specific strategic objectives and they design their strategies including pricing strategy to achieve it. The organizations working in very highly competitive environment follow very designed objectives i. e. adding new customers, retention of existing customers, increasing the market share by giving price value of the products, product differentiation and introducing new innovative products in order to achieve financial goals and their long term survival in the market. However this highly competitive environment creates such conditions where profitability of the organizations is highly unpredictable because market gets saturated by the presence of variety of homogeneous products (Avlonitis and Indounas, 2004). Estelami (2008) finds that the brands with stronger price-quality cue have greater differentiation in comparison of competing brands. Companies should assess the market demand of their brands and reaction of their competitors at different price offerings before making any pricing decision. Knowledge of positioning of their brands with respect to competition can facilitate the organization to design a successful pricing strategy. In this research, researcher will discuss the conceptual framework and develop hypothesis to study the impact of the different determinants on pricing strategy.

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1. 2 Background Information

In many previous researches we find that multiple factors influence the pricing strategies of the organizations and these vary on the basis of prevailing market conditions. Avlonitis and Indounas (2004) have described six factors i. e. " macro-economic environment", " customer characteristics", " intensity of competition", " bargaining power of suppliers and buyers", and " competitive reactions those have to considered before making any pricing decision. Monroe (2003) argues that mostly pricing decisions are made on the basis of competitors' product prices, consumers' behavior towards prices, competitors' market activities and the methods adopted by the competitors; however Oh (2003) focuses especially on the consumers' behavior and price sensitivity as main factor influencing the pricing strategy of the companies. This observation was later supported by Fill and Fill (2005) and Zeithaml et al. (2006) who summarized industrial pricing and service pricing method into three large categories i. e. cost-based, competition-based, and customer-based. Ailawadi et al. (2008) argues that competitors' activities and their market share majorly influence the pricing strategies of the organizations as the pricing decision makers take the competitors activities very seriously and sometimes they overreact on those activities. When companies observe some changes in the pricing structure of the competitors and substitute products, they respond to secure their market share (Leeflang and Wittink, 1996). Anttila, M. (2004) argues that companies may start price competitions in future to secure their market shares and may use the pricing as a tool to snatch the market share of other organizations. Though competition is always good but price competitions may be dangerous for the organization s in long run. Wee et al., (1995) considers that prices of substitutes as the major factor for making the pricing decisions of an organization especially when the prices of substitutes are comparatively low, as low prices have great attraction for the consumers . According to Zhang and Zhou (2010), substitutes especially the illicit products are increasing the price competition of the market because of their lower prices and Chinese products are considered to be taking maximum advantage due to their bulk supplies and lower prices. Further discussing on the issue, Zhang and Zhou (2010) argues that Chinese products enjoy cost advantage due to multiple factors like economical energy, less expensive labor etc. So Chinese products are lower in cost and posses high margins for the traders and in result, they enter the new markets with penetration prices and takes advantage of that. Lin and Kuo (2007) discuss that globalization has opened the door of opportunities for every organization and number of organizations are entering the new markets resulting in increase in competitive environment. Whenever the price competitions start among the organizations, they start to lower down prices of products frequently resulting in increase in the price sensitivity of consumers and their perception about prices of products disturbs the sales of national brands (DelVecchio et al., 2007). Helson (1964) argues that there are perceived prices of the products in the mid of consumers based on the previous purchase experiences and they always compare the currents prices of products with their internal perceived prices. Consumers always compare their internal reference prices with the present product prices and they use their reference prices as tool for comparison and evaluation before making any purchase decisions (Monroe, 1990).

1. 3 Problem Statement:

Presence of illicit products in Pakistani stationery markets has disturbed market structure and price mechanism. In result, Pakistani stationery manufacturers are in crises and have started price competitions rather price wars to secure their current market share. This research will determine the role of illicit products in pricing strategy of local stationery products.

1. 4 Research Questions

(i) Research Questions

Research Q. 1: Is there any impact of prices of substitutes in pricing strategy of stationery industry? Research Q. 2: Is there any impact of consumers' price perception in pricing strategy of stationery industry? Research Q. 3: Is there any impact of market share of substitutes in pricing strategy of stationery industry? Research Q. 4: Is there any impact of availability of substitutes in pricing strategy of stationery industry?

(ii)Research objectives

1. To determine the impact of illicit products on pricing strategy of stationery industry of Pakistan. 2. To determine the necessary tactics, that can rescue the stationery industry of Pakistan from this situation.

1. 5 Scope of the Research

The research will be based on study of three major stationery organizations of Pakistan. Being the market leader, Dollar Industries (Pvt.) Ltd will be especially focused. Population will consist of senior and middle level professionals of these organizations who are associated to the subject, especially of Dollar Industries.

1. 6 Significance of Study

This research is related to pricing strategy and will explore and determine the real effects of illicit products on pricing strategy of stationery industry of Pakistan. The research will give support to the management of stationery organizations to view insight the market condition and to know the reasons why and how illicit product are putting impact on pricing strategy of stationery companies and what factors are responsible. This study will also be helpful in determining the remedial measures, designing the action plans to overcome and the change the situation in right ways. This research will guide the stationery organizations to take such measures that would control the effect of other factors on the pricing strategy of the stationery industry. The importance of this study not only for stationery industry but for all the industries and businesses associated with the stationery industry. All the companies and industries working as suppliers of raw materials and production inputs will be benefited. Good financial strength and growth of stationery industry would be in great advantage of distributors, dealers and stationery markets of Pakistan in long term. Education sector, students, corporate sector and other consumers of stationery products will enjoy the quality products. Stationery markets of Pakistan will be stable. Industries likes toys manufacturers, small home appliances manufacturers, lighting products manufacturers may also take advantages for the results of the study.

CHAPTER 2

2. 1 Review of Related Literature

Prices of Substitutes:

Wee et al. (1995) argues that prices of substitutes are one of the important determinants of the pricing strategy of an organization especially when prices of substitutes are lower in comparison, main factor for the purchase of substitute products. Particularly presence of illicit products in markets as substitutes reflects big difference in prices as compared to prices of branded products and gives attraction to customers. Bloch et al. (1993) further discuss that consumer will ultimately purchase illicit product ignoring the branded because of its comparatively lower cost. Apparently consumer finds benefit in purchasing the illicit products in low prices but this is not beneficial in long run as this practice leads to price war which is fatal for the industry. According to Anttila, M. (2004), competition is always appreciated for the development of industries but due to competition, in future, companies may use price as vital strategic tool for competition which can stimulate price wars among the established brands and other illicit products. These Illicit products can be defined and are known in markets in many terminologies like " store brands", " own products", " private labeled products", and " retail brands" etc. (Gómez & Fernández, 2009). Illicit products increase in the competition of markets, due to their lower price and bulk supplies Chinese products took maximum advantage because of their competitive low prices (Zhang and Zhou, 2010). The prices of the products, they normally offer are 30-50% lower than those of competitors. US companies consider the entrance of Chinese products in US markets as the starting of price wars (Engardio and Roberts, 2004). According to study of Zhang and Zhou (2010), Chinese companies enjoy cost advantages in terms of less expensive labor, economical energy provision, favorable legislation and reasonable exchange rates. So industries in china are high margin industries due to lower costs. Every market they enter is the high margin market for them. This advantage supports them to enter new markets and due to their low pricing they are mostly successful in that. In result organizations are forced to offer prices just to cover cost and this signals the start of price wars and compels the organization to review their pricing strategy. Supporting this argument, Ailawadi et al. (2008) further discuss that these illicit products also offer comparatively more profit margins for the retailers and retailers gives priority to these products by pushing them.

Consumers' Price Perception

DelVecchio et al. (2007) argues that when lowering the product prices becomes routine practice of the companies, profitability of business becomes doubtful, moreover this increases the price sensitivity of consumers and they expect the same every time. This argument was reinforced by Graham (2009) who stated that regular price cutting could be fatal for business. Helson (1964) argues that consumer compares the current price of products with his own perception of price that is based on previous purchase experience, called reference price. And if current price is above the price perception of consumer, he gets dissatisfied. Monroe (1990) defines the reference price as the internal perceived price of a product which consumers compare with current listed product price. According to Monroe (1990), reference price is the evaluation tool for the consumers with which they determine whether price of product is too high or too low. Consumers' price perception play very important role in making the brand choice of consumers so organization have to take consumers price perception into the consideration before making any pricing decisions. Gabor and Granger (1964) discuss that reference prices are not particular product prices but are the consumers' perception about the acceptability of products prices. Consumers make the choice about purchase of products by using internal reference prices. The consumers have particular price perception of the products by determining the minimum and maximum price of product. If the current price of the product is below their perceived price, they usually consider it low quality product. On the other hand if the price of a product is above their perceived price, they do not go to purchase it being expensive in their view. This depicts that there is a perceived price range of products with both upper and lower limits (called price latitude) in consumers mind and if price of the product falls in the given range, it is sold otherwise not.

Lichtenstein et al. (1988) has described that there is strong relationship between price latitude, consumers' perceived price, category of the product, quality of the products. Monroe (1990) also supports this argument and discusses that consumers use their perceived upper internal price limit and a lower internal price limit in making their decisions for purchase of the products

Market Share of Substitutes

In competitive environment, as illicit products break into the market share of premium quality national brands as illicit products have high margin for retailers and taking the advantage, retailers push these illicit products ignoring the national leading brands in order to increase their profitability (Ailawadi and Harlam, 2004). Bloch et al. (1993) supports this argument and further discuss that consumers also feel attraction in preferring the illicit products to take the advantage of comparatively lower prices. So market conditions become favorable for illicit product to take the share of other companies. Ailawadi et al. (2008) argues that due to high margin in illicit products, retailers can easily cut down temporary and permanent prices of illicit products to attract more customers that results in disturbance of market structure and decrease in market share of national brand. This argument was further supported by Geyskens et al. (2010). As the prices of illicit products majorly affect the market share of national brands, so companies should counter the situation by proper market intelligence, product differentiation and strong branding activities. However as per findings of Geyskens et al. (2010), the sales of national brands are not always affected by the illicit products because the customers' response varies in given market structure. Furthermore companies also make their strategies like decrease in prices, to reduce the difference between their market shares in competition and that can results in price wars (Van Heerde et al., 2008). Giving the solution of such market conditions, Gijsbrechts et al. (2008) argues that the demand across the brands and their categories can be shifted through sales promotions and this should be used as tools to increase the demand of product and to stop the price wars. Furthermore, Geyskens et al. (2010) argues that leading national brands can control this situation by increasing promotional activities, focusing on quality perspectives of products, and improving their brands' performance. According to Srinivasan et al. (2004), promotional efforts have strong impact on product market share, and penetration of illicit products can be minimized by developing consumers brand loyalty.

Availability of Substitutes

The competitive market environment and competition among the products is also increasing day to day in result of globalization which has opened the doors of opportunities for multiple industries in form of their access to trade markets globally (Lin and Kuo, 2007). Avlonitis and Indounas (2004) find in their study that the organizations have definite pricing objectives especially the organizations working in competitive markets though having price sensitive customers follow variety of price objectives i. e. retention of existing customers and addition of new customers by product differentiation depicting their prestige and brand image in order to achieve financial goals and their long term survival in the market. However such intensive competitive environment and homogeneous characterization of highly competitive market create such conditions where profit margins fall down due to market saturation by availability of variety of products (Avlonitis and Indounas, 2004). Hanssens (1980) discuss that presence of substitutes in the markets is the important factor that is especially taken into consideration by the organizations before making any strategy. Activities of substitutes, especially of low priced substitute are monitored very critically by the organizations and organizations are very sensitive about their availability. Ailawadi et al. (2008) argue that companies' pricing decisions are influenced by the competitors' activities and the market share taken by them. This has been observed that managers of successful organizations take every competitors activity very seriously and they respond accordingly to encounter any situation in order to safeguard their presence in the market especially when sthere is some change in competitors or substitutes products (Leeflang and Wittink, 1996). Meyer and Eagle (1982) discuss that competitors' presence and their activities are very important variables which are always given very high weight-age in pricing decision making process.

Conceptual Framework of Research.

Prices of Substitutes

Consumers' Price Perception

Market Share of Substitutes

Availability of Substitutes

Pricing Strategy of Stationery Industry

The conceptual framework of this study is based on the review of literature and variables have been determined from the related literature.

Prices of Substitutes:

Prices of the substitute are considered among the most important determinants of the pricing strategy of the organization. According to Wee et al., (1995), the importance of prices of substitutes as determinant increase when these are low comparatively and especially when substitute products are illicit products. In competitive environment prices of substitutes influence the pricing strategy of an organization (Wee et al., 1995; Bloch et al., 1993; Anttila, M., 2004). On the basis of related literature, the researcher will conduct his study to determine the impact of prices of illicit products o the pricing strategy of the organization and hypothesis has been developed on the given concept.

Consumers' Price Perception:

Consumers' price perception put effect on the demand of the products and pricing strategy of an organization is directly influenced by this important determinant (DelVecchio et al., 2007; Helson, 1964; Monroe, 1990; Gabor and Granger, 1964). Under the guidance of related literature, researcher will conduct his study to determine the affect of the consumers' price perception on the pricing strategy and the hypothesis is based on the given literature

Market Share of Substitutes:

Market share taken by the substitute illicit product put negative effect on the sales of branded products and in result organizations review their pricing strategies to compete the low prices of illicit products and to retain their market share (Ailawadi and Harlam, 2004; Ailawadi et al., 2008; Bloch et al., 1993)The hypothesis is based on the theoretical concept given in the previous researches and the researcher will conduct his study to determine the impact of market share taken by the substitute illicit product on the pricing strategy of organizations.

Availability of Substitute:

Ailawadi et al. (2008) and Hanssens (1980) have discussed the presence of substitute illicit products and their activities in highly competitive environment as a threat to existing sales of the branded products as these illicit products are normally available in bulk quantity and with high margins for trade. This condition disturbs the market equilibrium and price mechanism of the market. Illicit products use pricing as tool to break into the current sales volume of branded products. In order to counter the situation, organizations normally review their prices and price wars may start in such conditions. On the basis of literature and previous researches, researcher will conduct his study to determine the effect of availability of substitute illicit products on the pricing strategy of the organizations. The hypothesis is based on the concepts given in the literature.

1. 5 Research Hypothesis

H0-1: There is no impact of prices of illicit Products on Pricing Strategy of Stationery Industry. H1: There is strong impact of prices of illicit Products on Pricing Strategy of Stationery Industry. H0-2: There is no impact of Consumers' price Perception on Pricing Strategy of Stationery Industry. H2: There is strong impact of Consumers' price Perception on Pricing Strategy of Stationery IndustryH0-3: There is no impact of Availability of illicit Products on Pricing Strategy of Stationery Industry. H3: There is strong impact of

Availability of illicit Products on Pricing Strategy of Stationery Industry. H0-4: There is no impact of market Share of illicit Products on Pricing Strategy of Stationery Industry. H4: There is strong impact of market Share of illicit Products on Pricing Strategy of Stationery Industry.