

# The penetration pricing strategy



A penetration pricing strategy sets a low price as a major marketing weapon. Marketers offer a new product at a price significantly lower than its competitors. Once the product achieves some market recognition through consumer trial purchases stimulated by its low price, marketers may increase the price to the level of competing products. A penetration pricing strategy is sometimes called market-minus pricing when it implements the premise that a lower-than-market price will attract buyers and move a brand from an unknown newcomer to at least the brand-recognition stage or even to the brand preference stage. Because many firms begin penetration pricing with the intention of increasing prices in the future, success depends on generating many trial purchases.

The main objective with the penetration pricing strategy is increasing market share or sales volume by using lowest price to attract customer in the market. Firm with this strategy will have lower profits than other in the short term because of reduce price of product to increase market share. However there will significant gain benefits to the long term due to firm having higher market share, so the pricing strategy can often be justified.

If the Amazon applies this strategy into their market, offering lowest price and will get largest market share. Having largest market share can defend their market position because of expanding the market position is important way to increase revenue. Most of the good the Amazon sell that is normal good. When reduced in the prices of the normal good, demand of the normal good will increase and quantity of the product will increase more than price changed. Therefore, the price of elasticity of demand is elastic. It will gain more profit to Amazon. For example, a new book store may offer low prices

in the market initially and overtime increased the price when they are success establish market share in the market. It can make company gain profit in the long term.

## **Promotional pricing strategy**

In promotional pricing, a lower than normal pricing is used as a temporary ingredient in a firm's marketing strategy. This strategy is selling discount good to attract customer. Promotional pricing activities must form part of recurrent marketing initiatives, such as shirt store, buy a shirt will get second of shirt for half price sales. For another example, three pair earring just sold for a cent. There are significantly to show that low price will attract customer who are agree to purchase a good in normal price within a specific time limit. Most of the firm will introduce their new product with this promotional strategy to begin competition in the new market.

Managing skill is requirement to managing promotional pricing strategy. Company must be managed carefully because customer may come to expert them and wait for them. If the company always make a promotion few day sales a month, customer will likely wait to purchases on the sale day only. For example, external hard-disk has been offers many various price on various day in the market. It is harder for customer to take them away.

If Amazon applies this promotional pricing strategy, when a price of normal good decreased, the demand of the normal good will increased, and quantity of demand will increase more than price change. Therefore, the price of elasticity of demand is elastic. Amazon can maximize profit through the cheaper sale. For example, a computer product is cost RM30 and the selling

price to the market is RM40. If the Amazon makes a promotion and selling this product on RM35, it will get double or more quantity demand of that product compare with selling price in RM40. Despite the price of product cut in half, but it is not affect to the company gain more profit due to the company gets more quantity demand from this strategy. Amazon also can offer “ Price check Apps” that works to the smart phones. Customer can check the price anytime by scan bar code of the product or types the product name into the apps. Beside this, Amazon can promote a plan such as “ online shopping promotion”, which is customer will get discount on certain product if they purchase the product within 24 hours. It is convenience to customer and may help to improve company visibility. Therefore, the company can gain more profit from this strategy.

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