

Market Strategy Depends Upon Pricing Approaches in Service

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ABSTRACT

Pricing is the only element of the marketing mix that generates revenue, yet in services it is also the hardest to set and defend, because services are intangible, perishable and variable and customers have little physical evidence on which to judge value. This conceptual paper examines how the marketing strategy of a service firm depends on the pricing approach it adopts. The objectives of pricing (profit-, sales- and status-quo-oriented), the internal and external factors that shape price decisions, and the main methods and strategies in use: cost-based, competition-based, demand-oriented and value-based pricing; premium, penetration, economy and skimming strategies; psychological, product-line, bundle, promotional and geographical pricing; and discounts and allowances. The paper also considers the non-monetary costs that service customers bear, namely time, search, convenience and psychological costs. The review suggests that buyers of services are becoming more price-resistant, that discounts must be controlled and linked to clear objectives, and that firms which communicate value and build long-term relationships are better placed than those competing on price alone. Recent literature adds that digital platforms and data analytics are making dynamic and personalised pricing common, which raises questions of fairness and transparency.

Keywords: Service pricing, marketing strategy, pricing approaches, value-based pricing, discounts, service marketing

I INTRODUCTION

A well-functioning services sector is the key to the overall performance of an economy and the welfare of its citizens. Services comprise many different economic activities and thus act as a catalyst for the

growth of other sectors of the business world. A marketing strategy is a plan that identifies the firm's marketing goals and explains how they will be achieved within a stated time frame. It includes product development, pricing approach, distribution, promotion and advertising. Marketing strategy determines the choice of a target market segment, brand positioning and the allocation of resources.

Globalization is one of the major factors that has contributed to the growth of the service sector. A service is an activity that has an element of intangibility and involves the service provider's interaction either with the customer or with property belonging to the customer. A service activity does not involve the transfer of ownership of the output.

Recent research has also changed the way service prices are set. Value is now seen as co-created between provider and customer (Monroe, 2003), which strengthens the case for value-based rather than purely cost-based pricing. Digital marketing, data analytics and artificial intelligence allow service firms to track customer behaviour and adjust prices dynamically (Avlonitis & Indounas, 2007a; Kotler & Keller, 2012), and data-driven price targeting can raise profits (Wirtz & Lovelock, 2016). At the same time, algorithmic pricing carries risks to brand image and customer trust if it is perceived as unfair (Hoffman et al., 2002). This paper therefore reviews the classical pricing approaches in the light of this recent literature.

The key to making sales is to communicate value so strongly that the price seems reasonable in relation to the product or service on offer. Pricing is an important element of the marketing mix that brings in revenues and profits, and the success of a

service depends on the pricing strategy developed or adopted by the company. However, it is easier for customers to evaluate the value derived from goods than from services. The prices of services are perceived to differ from those of goods in four ways. First, customers perceive price as an indicator of the quality offered. Second, they include non-monetary costs, such as time, search, convenience and psychological costs, when estimating the value of the service. Third, it is difficult to compare the prices of services because of their specific characteristics, such as intangibility. Finally, prices vary with fluctuations in demand.

A company's pricing structure should reflect its long-term and short-term objectives. A company might price its services to survive in the market, to maximize current revenues, or to obtain a prestigious position or quality leadership. To achieve these objectives, it might choose cost-based, demand-based or competition-based pricing.

Further, a service company should analyse how far its customers perceive the value derived from the consumption of its services to be worth the price paid (Avlonitis & Indounas, 2005a; Dutta et al., 2003). The factors that influence the prices of services are:

- Cost of Production & Break-Even Analysis
- Demand Fluctuations
- Competitor Pricing
- Other marketing mix elements namely Product, Place, Promotion, People, Process, Physical evidence and Positioning for developing a pricing strategy.

A sound pricing strategy defines how the organization will attract customers and be superior to its competitors in the market. Since the customer is the main source of a company's revenue, marketing strategy is closely linked with sales. Price is a flexible and dominant element, which determines the revenue, profitability and market share of the organization. From the customer's viewpoint, price is a determining factor because

most customers, depending on their income level, consider the price before they purchase a product. The concept of price has two components: the monetary price, which is the sum paid by the customer, and the social price, which is the additional effort the customer must make to obtain access to the product. Price is set when the organization introduces or acquires a new product and can be revised as the product changes.

II OBJECTIVES OF THE STUDY

1. To examine the role of profit-oriented and sales-oriented pricing objectives in maximising profits, increasing sales, and expanding market share.
2. To analyse the role of status-quo, survival, and market-share-oriented pricing objectives in maintaining competitiveness and ensuring business sustainability.
3. To evaluate the importance of society-oriented, service-quality, operation-oriented, and patronage-oriented pricing objectives in enhancing customer satisfaction and long-term business performance.

III METHODOLOGY OF THE STUDY

The present study is based primarily on secondary data collected from various reliable sources. Relevant information has been gathered from different service sectors and service providers to understand pricing strategies and their application in the services industry. In addition, information has been collected from books, research papers, journals, articles, reports, and other published materials related to service pricing and marketing. The internet and reliable online sources have also been used to obtain updated information and supporting data. The collected information has been carefully reviewed, analysed, and interpreted to achieve the objectives of the study and develop meaningful findings and suggestions regarding pricing strategies in services.

IV PRICING STRATEGIES IN SERVICES

Pricing in services involves determining a price that is acceptable to target customers while

reflecting the value and quality of the service. Since services are intangible and their value may vary across customers and situations, firms need to consider customer perceptions, service quality, competition, demand, and the benefits offered when setting prices (Lovelock & Wirtz, 2011).

Service firms may adopt price or non-price competition. Price competition focuses on offering services at competitive or lower prices, while non-price competition emphasises factors such as quality, brand image, additional benefits, and customer relationships. Value pricing seeks to provide greater benefits at lower overall costs to customers, whereas non-price strategies help firms avoid excessive dependence on price reductions by creating stronger brand equity and customer value. Relationship pricing uses price incentives to develop long-term relationships with valuable customers by encouraging loyalty and repeat purchases. Firms may also adopt special pricing strategies, such as offering different prices to different customer groups, providing discounts, or using flexible pricing according to purchasing conditions, demand, or customer value (Marn et al., 2004).

Characteristics of Service Pricing:

- i) Negotiation
- ii) Discounts
- iii) Quality

Cost associated with service:

- I. Monetary Costs
- II. Non-Monetary Cost
 - a. Time cost
 - b. Search Cost
 - c. Convenience Cost
 - d. Psychological Cost

Pricing Methods:

- 1. Cost-based pricing
- 2. Competition based pricing
- 3. Demand oriented Pricing
- 4. Value based pricing

Factors affecting pricing policy:

- I. Cost of production
- II. Competitor pricing

III. Demand level and elasticity

IV. Regulatory factors

V. Marketing mix

VI. Positioning

Price-setting process



Price

Price is the amount charged for a product or service. It is the consideration paid by consumers for the benefit of using any product or service. Price fixation is an important aspect of marketing. Pricing decisions of a company are affected by both internal as well as external factors.

- Cost of the product – Nature of market
- Marketing objectives pricing or demand for product
- Marketing mix strategy Decision – Competitors' costs and strategy price offer.
- Organization for pricing – Other environmental factors like economy, government's policies, etc.

Internal Factors

Internal factors, affecting the price of a product, are many. Cost of the product sets the floor. Any company would like to charge a price which covers the cost of the product and a fair rate of return. Cost of the product means total cost i.e., fixed plus variable costs. Fixed costs do not change with the change in volume of production up to a certain level. Variable costs change proportionately. In the period of recession, companies continue to supply at a rate which covers variable costs and as much of costs as possible (Avlonitis et al., 2005). The Company's marketing objective is yet another important variable for price fixation. If it is survival, the company would stay in the market as long as it covers variable costs fully and fixed costs partly. In case it is market leadership, a low price will be fixed initially. After wards prices may be enhanced. 'Surf Excel' is an example. At the time

of introduction, its price was just equal to other close substitutes, but today it has its own market. It is bought by consumers without comparing its price with other substitutes. The relative importance of pricing decision in marketing mix, also affects price fixation. Sometimes pricing decision is the control decision and all other decisions are taken afterwards. It may also happen that other variables of marketing mix like promotion become more important (Avlonitis & Indounas, 2005b). Price is fixed after considering other variables. Who will fix the price is yet another important decision. In small organizations, top management sets the price. In large companies, product line managers perform this job. For industrial markets, sales managers are permitted to negotiate prices within a specified range. These days many companies set up a separate department to handle pricing decision (Avlonitis & Indounas, 2006).

External factors

Besides internal factors, external factors also influence the pricing decision of a company. These factors are called environmental factors. Nature of demand, competitors' costs, price offers and government policy are very important factors to be considered while fixing prices. The relationship between price and demand should be analysed properly. No company can ignore the costs, prices and offers of substitute items from competitors. Economic factors, like rate of interest, state of industry (boom or recession), inflation, etc. affect the price-fixing decision. In case of certain products, e.g. products which fulfil basic needs, government may impose price control (Nagle et al., 2011). Thus, it would also affect price of the product. There may be two methods of price-fixation:

Cost-based approach

This is the simplest method of pricing. Generally, companies add a certain percentage of Profit, to the total cost of the product. The total cost of the product is calculated after taking all types of costs into consideration. While following this approach,

no other factors e.g. prices of substitute goods, nature of demand, etc. are considered.

Competition-based approach

In competitive market, cost-based approach is not always practicable. The prices are determined on the basis of conditions in the market. Companies may follow any one of the following three approaches.

a) Price-in-line

b) Market-plus

c) Market-minus

Price-in-line means prices fixed nearly equal to the prices of close alternatives. Generally, this happens under free market conditions i.e. when the number of buyers and sellers is so large that they cannot affect the prices. Prices are decided by the market forces of demand and supply. When companies charge (fix up) a price which is more than the price of existing substitutes, it is called market plus pricing. This approach is adopted when the quality of a product is better, or it has a popular brand name, or its packaging is attractive and useful. Consumers will pay more only when they find distinctive differences in the product and its substitutes. Sometimes business enterprises get ready to supply products at a price lower than the market price. It may be adopted to grab a larger market share or to make a newly introduced product more popular. This approach is called market-minus approach. Companies having shorter channels of distributions or direct selling facilities can afford to fix a price lower than the prevailing market price (Avlonitis & Indounas, 2007b).

Premium Pricing

Use a high price where there is uniqueness about the product or service. This approach is used where a substantial competitive advantage exists. Such high prices are charge for luxuries such as Savoy Hotel rooms, and Concorde flights (Zeithaml et al., 2006; Indounas & Avlonitis, 2011).



Penetration Pricing

Setting a low initial price for a new product.

- Works if large market, elastic demand
- Economies of scale are possible
- Fierce competition

The price charged for products and services is set artificially low in order to gain market share. Once this is achieved, the price is increased. This approach was used by France Telecom and Sky TV

Economy Pricing.

This is a no-frills low price. The cost of marketing and manufacture are kept at a minimum. Supermarkets often have economy brands for soups, spaghetti, etc.

Price Skimming

Setting a high initial price for a new product.

- Works if product is new, distinctive and desired
- Early in Product Life Cycle, when demand is inelastic
- Protected by entry barriers, e.g. patents

Charge a high price because you have a substantial competitive advantage. However, the advantage is not sustainable. The high price tends to attract new competitors into the market, and the price inevitably falls due to increased supply. Manufacturers of digital watches used a skimming approach in the 1970s. Once other manufacturers were tempted into the market and the watches were produced at a lower unit cost, other marketing strategies and pricing approaches are implemented. Premium pricing, penetration pricing, economy pricing, and price skimming are the four main pricing policies/strategies. They form the bases for

the exercise. However, there are other important approaches to pricing.

Discounts and Allowances

- Quantity discount: The more you buy, the cheaper it becomes-- cumulative and non-cumulative.
- Trade discounts: Reductions from list for functions performed-- storage, promotion.
- Cash discount: A deduction granted to buyers for paying their bills within a specified period of time, (after first deducting trade and quantity discounts from the base price)

Other Discounts and Allowances

- Seasonal Discounts
- Forward Dating
- Promotional Allowances

Psychological Pricing.

This approach is used when the marketer wants the consumer to respond on an emotional, rather than rational basis. For example, 'price point perspective' 99 cents not one dollar.

Product Line Pricing.

Where there is a range of product or services the pricing reflects the benefits of parts of the range. For example, car washes. Basic wash could be \$2, wash and wax \$4, and the whole package \$6.

Optional Product Pricing.

Companies will attempt to increase the amount customer spend once they start to buy. Optional 'extras' increase the overall price of the product or service. For example, airlines will charge for optional extras such as guaranteeing a window seat or reserving a row of seats next to each other.

Captive Product Pricing

Where products have complements, companies will charge a premium price where the consumer is captured. For example, a razor manufacturer will charge a low price and recoup its margin (and more) from the sale of the only design of blades which fit the razor (Zeithaml et al., 2013).

Product Bundle Pricing.

Here sellers combine several products in the same package. This also serves to move old stock. Videos and CDs are often sold using the bundle approach.

Promotional Pricing.

Pricing to promote a product is a very common application. There are many examples of promotional pricing including approaches such as BOGOF (Buy One Get One Free).

Geographical Pricing.

Geographical pricing is evident where there are variations in price in different parts of the world. For example, rarity value, or where shipping costs increase price (Hinterhuber, 2004).

Price discounts and allowances

The role of discount Offering discounts can be a useful tactic in response to aggressive competition by a competitor. However, discounting can be dangerous unless carefully controlled and conceived as part of your overall marketing strategy. Discounting is common in many industries – in some it is so endemic as to render normal price lists practically meaningless. This is not to say that there is anything particularly wrong with price discounting provided that you are getting something specific that you want in return. The trouble is that, all too often, companies get themselves embroiled in a complex structure of cash, quantity and other discounts, whilst getting absolutely nothing in return except a lower profit margin. Let us look briefly at the main types of discounts common today.

Cash and settlement discounts

These are intended to bring payments in faster. However, since such discounts need to be at least 2,5% per month to have any real effect, this means paying your customer an annual rate of interest of 30% just to get in money which is due to you anyway. What is more, customers frequently take all the discounts on offer and still do not pay promptly, so that you lose both ways. Much better, we believe, is either to eliminate these discounts altogether and introduce an efficient credit control system, or change your terms of business so that you can impose a surcharge on overdue accounts instead. Whilst you may lose some business by doing this, these will probably be the worst payers anyway. If some customers will not pay you for

months, you are probably better off trying to win others who will (Indounas & Roth, 2012).

Quantity discounts

The trouble with these is that, when formalized on a published price list, they become an established part of your pricing structure and as a result their impact can be lost. If you are not very careful, although they may have helped you win the business to start with, in the long run the only effect they have is to spoil your profit margin. As a general rule, only publish the very minimum of quantity discounts – your very largest customers will probably try to negotiate something extra anyway. Also keep quantity discounts small, so that you hold something in reserve for when your customers do something extra for you, such as offering you sole supply, or as part of a special promotion (Smith, 2012).

Promotional discount

These are the best kind of discounts because they enable you to retain the power to be flexible. There may be times when you want to give an extra boost to sales – to shift an old product before launching an updated one for example. At times like these special offers or promotional discounts can be useful. But try to think of unusual offers – a larger pack size for the same price or a “five for the price of four” can often stimulate more interest than a straight percentage discount. They also make sure that the end user gets at least some of the benefit, which doesn’t always happen with other types of discounts. Two other points to remember are: Make sure you retain control over your special promotions, with a specific objective, a beginning and an end point. Be sure to terminate them once they have outlived their usefulness.

Ensure that your offers are linked to sales and not simply to orders. Otherwise, you may find that orders to you are up for a while, only to be followed by a barren period whilst your customer supplies the end user from his accumulated stocks. Clearly the role of discounts will vary from one type of business to another and not all of the comments above will apply to you. In part your ability to

minimize discounts, or eliminate them altogether, will depend on the non-price benefits of your product. But whatever business you are in, you should always ask yourself what your discounts are supposed to achieve, whether they are effective, and how long they are expected to last. In general, keep standard discounts low to retain maximum flexibility and ensure that they are consistent with your overall marketing and pricing strategy.

Promotional Pricing strategies

Loss-leader pricing

Supermarkets and department stores often drop the price on well Known brands to stimulate additional store traffic. This pays if the revenue on the additional sales compensates for the lower margins on the) loss-leader items. Manufacturers of loss-leader brands typically object because this practice can dilute the brand image and bring complaints from retailers who charge the list price. Manufacturers have tried to restrain intermediaries from loss leader pricing through lobbying for retail-price -maintenance laws, but these laws have been revoked.

Cash rebates

Auto companies and other consumer-goods companies offer cash rebates to Encourage purchase of the manufacturers' products within a specified time period. Rebates can help clear inventories without cutting the stated list price.

Findings and Suggestions of the Study

The study finds that price resistance among service buyers is increasing, particularly in the professional services sector, making it difficult for firms to convince customers to pay for specialised expertise. Firms therefore need to clearly communicate the value and quality of their services. Another major challenge is maintaining and updating prices over time according to market conditions. Expert estimates and proper information about the pricing process can help firms establish more accurate and realistic prices.

The study also highlights the importance of adopting appropriate pricing strategies, such as Everyday Low Pricing and high-low pricing,

according to market requirements. Firms should clearly identify the components of their pricing mechanism and maintain consistency when comparing prices over time. For effective price measurement, attention should be given to current products while keeping product characteristics constant, thereby ensuring reliable price comparisons and better pricing decisions.

V CONCLUSION

Pricing is not merely a way of recovering cost; in services it is a strategic tool that signals quality, positions the firm and shapes its long-term relationship with customers. This study shows that the marketing strategy of a service firm depends heavily on the pricing approach it chooses. Cost-based pricing sets the floor, competition-based pricing keeps the firm in line with the market, and demand-oriented and value-based pricing allow it to capture the worth that customers actually perceive. Premium, penetration, economy and skimming strategies, supported by carefully controlled discounts, promotions and bundles, must be matched to the firm's objectives, the stage of the service life cycle and the target segment. Because customers also bear time, search, convenience and psychological costs, the price they perceive is wider than the amount invoiced. Recent research shows that digital technology and analytics enable more dynamic and personalised pricing, but that such practices must remain transparent and fair if trust is to be kept. Service firms are therefore advised to communicate value clearly, avoid unplanned discounting, review prices regularly and build loyalty through relationship pricing instead of relying on low prices alone. Future studies could test these approaches empirically in specific sectors such as banking, education, health care and tourism.

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