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Pricing Strategies for a New Product

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People often claim that "everything what is good is expensive". I wonder how true this point of view is. Can not a high-quality and good product just be cheap? In everyday life, this myth is often destroyed, because an expensive product may not be what we imagined, and conversely, a cheap product may surprise us. Thus, it is important to know what determines the price of a product. How is the price formed? [3]

Price is the only element of the marketing mix that provides revenue, while the other elements increase costs. Price is the most flexible element of a marketing program. Even more time is needed to change product features, channels, and communications. Price also positions the value of a company's product or brand in the market. A well-designed and marketed product can be priced high, which ensures big profits. But new economic reality has forced countless consumers to save every cent; as a result, companies have had to rethink their pricing strategy.

Developing and implementing an effective pricing strategy for any organization requires an in-depth understanding of consumer pricing psychology and a systematic approach to pricing, adaptation and change.

Consumers make purchasing decisions based on how they perceive the price, what they consider the current actual price, and not the price offered by the marketer. There may be a lower price limit for consumers below which the product is perceived as unacceptable quality. An upper limit is also allowed, above which consumers feel that the price is too high and it is not worth paying so much for the product.

Purpose of the research. On the example of Georgian companies, let's present the peculiarities of implementing a new product pricing strategy in the mineral water market.

The main tasks of the research: 1. To study the process of implementation of the pricing policy of Georgian mineral water companies; 2. Demonstrate the effectiveness of the pricing strategy chosen by companies in order to market penetration with highly competitive and gain a position.

Main part. The need to set a price initially arises when a company develops a new product, intends to export an existing product through new distribution channels, or submits it to a new area, or offer a tender to perform certain contract work. In addition, the company must decide how to position the new product in terms of quality and price.

There are several levels of prices in the markets: the highest prices, high prices, high and medium prices, average and high prices, average prices, average and low prices and low prices. Different brands are created according to different price levels. Companies will develop branding strategies to be able to properly deliver the prices and quality levels of their goods/services to their customers. [1]

The process of developing a company's pricing strategy includes the following sequential steps:

- Identify internal and external factors (towards the company) that affect prices;
- Set pricing goals;

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- Choose pricing methods;
- Defining the company's pricing strategy.

The following internal factors affect on pricing: the company's overall marketing strategy, goals and marketing complex, as well as other internal organizational issues (organization of the pricing process).

Since price is just one element of a company's marketing strategy, the company must make a final decision on the overall marketing strategy for a particular product or service before setting a price. If a company selects a target market and is able to position itself, then the strategy of its marketing complex, including price, will be more or less straightforward. Thus, the pricing strategy is largely determined by the decisions that are made regarding positioning on the market.

Pricing can play an important role in achieving company goals on many levels. The company can set prices to attract new customers, or profitably retain old customers; to set low prices for its products to prevent competition in the market, or to set similar prices as of competitors and thus stabilize the market. It can conduct pricing in a way that maintains loyal customer and reseller support or avoids government interference; may be reduce prices temporarily to arouse interest in the brand or to price one type of product in a way that encourages the sale of other products in its entire product line.

Companies often carry out the positioning their products in terms of price, which fits to other marketing complex solutions. Some companies do not pay much attention to price and use other methods of marketing complex to create non-pricing positioning. Often the best strategy is not to set the lowest price, but to differentiate the marketing offer from the other offer, which actually justifies the high price.

Pricing is influenced by external factors such as: market nature, demand and other circumstances (social factors, recession, inflation, etc.).

Good pricing starts with understanding how the consumer perceives value and what impact it has on the price they are willing to pay. The consumer balances the prices of the product or service with the benefits in case of purchasing them. Thus, before setting a price, the marketer must understand the correspondence between the price of the product and the demand. It should be noted that price and demand and, consequently, seller freedom in terms of pricing vary according to market types. [2]

When developing a pricing policy, the company must first decide in which market to position the product and what goals it wants to achieve. Usually, there are three main goals in pricing policy: ensuring sales (rescuing), making maximum profit, and maintaining the market.

Goal - ensuring sales, works in a highly competitive environment when there are multiple manufacturers of similar goods in the market. This goal can be chosen when: 1. Consumer demand is an indicator of price elasticity; and 2. The enterprise sets the task of achieving maximum sales growth and increasing overall profit by slightly reducing revenue from each unit of goods. An enterprise can act on the assumption that sales growth will reduce the relative costs of production and sales, making it possible to increase product sales. For this purpose, the company reduces prices - it uses the so-called penetration prices (specially reduced prices), which helps to expand sales and capture a larger market share.

Targeting for maximum profit means that the company is trying to maximize current profit. It evaluates demand and costs at different price levels and selects the price that will maximize cost recovery.

Goal - market maintenance means maintaining the market position by the company or favorable conditions of its activity, which requires certain measures to reduce sales and prevent competition.

In addition to these long-term goals, the company can also set short-term goals, namely, stabilizing the market situation, reducing the impact of price changes on demand, maintaining leadership in prices, restricting potential competition, raising the image of the company or product. [4]

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The company is ready to select a price considering the expenses of purchasing demand function and competitors' prices. However, it should be noted that pricing is affected by three main factors: 1. Expenses set a lower price limit; 2. Competitor prices and product replacement prices are the price target; 3. Buyers' assessments of the unique properties of the product set the upper price limit.

To determine a specific price, companies choose pricing methods that include one or more of the three factors listed above. The easiest method is extra charge-based pricing, when a standard extra charge is charged on the cost price of products; In pricing based on the profit targeted norm, the company chooses the price that gives the targeted profit according to the investment; In pricing based on perceived value as the key factor is reviewed not so much the seller's costs as the value perceived by the buyers (for example: buyers' perceptions on product quality, delivery channels, warranty, maintenance; also suppliers' reputation, credibility and respect); In pricing based on profitable price betokens setting relatively low prices on high-quality quotes; Pricing based on current level of prices it is setting prices according to competitors' prices; Auction pricing is becoming increasingly popular especially in the electronic markets. There are three main types of auctions: 1. English Auction - There is one seller and many buyers. For goods sold placed on the site by the seller, the buyer raises the price above until it reaches the highest price that others cannot offer. Accordingly, the product is his/her; 2. Dutch auction - there is one seller and several buyers or vice versa - one buyer and several sellers. In the first case the auctioneer announces a high price on the product and then slowly lowers it until a buyer appears. In the second case the buyer announces the item he/she wants to buy and the potential sellers compete with each other to offer the buyer the lowest possible price; 3. Closed Auction - Each potential bidder submits only one bid that cannot understand what others are offering. [1]

Pricing methods reduce the range from which the company must choose the final price. When selecting a price, the company must take into account additional factors, including: the impact of other elements of the marketing mix, the company's pricing policy, distribution of profit and risk, the impact of prices on other market players.

After choosing the most suitable option from the methods listed above, the company can start calculating the final price. In this case it is necessary to take into account the psychological perception of the price of the company's goods by the buyer. Practice shows that for many consumers the information about the quality of the product is only in the price and in fact, the price is an indicator of the quality. There are many cases when the volume of sales and, consequently, production increases with the increase of prices.

The company will develop a pricing strategy based on product characteristics, possibility to change prices, production conditions (costs), market conditions, supply and demand ratios. The company can choose a passive strategy of prices according to the price leader or a large number of manufacturers in the market, or try to implement an active pricing strategy that puts its own interests first. Moreover, the choice of pricing strategy largely depends on whether the company offers a new, modified or traditional product on the market. [4]

A good rule to keep in mind when setting a price for a company's products is that consumers will not buy a product if the price is too high, but the business will not be able to cover costs if the price is too low. [5]

Pricing strategies vary depending on what stage of the life cycle the product is. The biggest challenge is the presentation stage. When launching a new product, the company has to decide what price to put on it. A choice has to be made between the two strategies - so-called "skim off the cream" pricing and market penetration pricing.

Initially, many companies set high prices for new products in order to generate (so to speak "skim off the cream") income from all rings of the market. "Skim off the cream" pricing only makes sense under certain conditions. First of all, the quality and image of the product must correspond to a relatively high price and a sufficient number of buyers must be willing and able to pay even that price. Second,

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the costs of producing relatively small volumes of products should not be so high that it becomes impossible to take advantage of high pricing. Finally, competitors should not be able to easily penetrate the market as this will lead to lower prices.

Companies often use market penetration pricing to gain market share. At this time they impose an initial low price to attract many buyers and gain a large market share. The large volume of sales leads to a reduction in production costs, which allows the company to further reduce the price. The implementation of this low-cost strategy requires several conditions. First, the market must be price sensitive so that low prices lead to increased sales. Second, production and distribution costs should decrease with sales volume increases. Finally, low prices should reduce the interest of new competitors in this industry and thus the pricing company should maintain a low price position in the market. Otherwise, the price advantage may only be temporary. [2]

Georgia is distinguished by the abundance of mineral water resources, which allows the production of various types of treatment and drinking water. In this regard, we can single out two main brands: "Borjomi" and "Nabeghlavi", which occupy a larger market share than others.

"Borjomi" is a mineral water of volcanic origin with unique properties, which is more than 1500 years old and is very popular inside and outside the country. Its manufacturer is IDS Borjomi Georgia, which is a part of the international company IDS Borjomi International.

As for Nabeghlavi, it is also of volcanic origin and is a natural hydrocarbonate sodium mineral water, which can be consumed in unlimited quantities for people of any age. It is produced by Joint Stock Company “Healthy Water”, whose products are represented in more than 30 countries and operates in the market together with “Rauch”, one of the largest producers of juices and non-alcoholic beverages in Europe. Approaching the named brands is that they are both characterized by unique healing and prophylactic properties, however, it is also recommended as a drink, table water.

It is well known that various parameters are taken into account when evaluating alternative products when making a purchase decision by a consumer. These are mainly: quality and price.

Directly in the mineral water industry the price, as such, does not differ markedly between different alternatives. So quality is even more important in this case. The main component determining the quality of mineral waters is those healing-prophylactic properties that they have in abundance. In addition, when it comes to a product that affects human health, the consumer is cautious and will ask many friends or relatives for an opinion before deciding to buy it. [6]

“Borjomi” and “Nabeghlavi” are the leaders in the Georgian mineral water market, which emphasizes that it is difficult to gain a competitive advantage in this market and the brand image can have a great impact on its further success. It should be noted that "Borjomi" has a large segment of loyal customers who are ready to pay a high price for the desired brand.

As far as both brands are distinguished by unique features and consequently high quality, companies in the retail market focus on price competition. So, for example, bottled (capacity 1 liter) "Borjomi" costs 0.57 USD, and "Nabeghlavi" 0.37 USD, that’s 0.20 dollars less. Such a situation affects both the current market and the pricing strategies of companies trying to enter the market and take positions. Therefore, a number of companies (“Sno”, “Mitarbi”, “Zvare”, etc.) often use price strategies for market penetration to establish themselves in a highly competitive mineral water market. At this time, with low prices are able to actively attract a large number of consumers to their product and, consequently, increase sales, which in turn mean reducing production and distribution costs. After realizing the goal, the company tries to maintain the position gained.

Conclusion. Thus, in order to gain and maintain a competitive position in the market, companies apply to market penetration pricing, a clear example of which is the peculiarities of defining pricing strategies in the mineral water market we have discussed.

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