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Pricing Strategies: Determining the Best Strategy toCreate Competitive Advantage

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Abstract
This study explores the importance of pricing strategies in creating competitive advantage for businesses. It discusses how effective pricing strategies can significantly contribute to the success of a business in capturing sales and profits within their target market. The research highlights that pricing strategies are often overlooked, contributing to the high probability of new products failing to reach their volume and profit goals. The study emphasizes that a greater and diverse understanding of product price behaviors throughout the business process, from the product development stage to price settings and sales closure, can help businesses in reaching their pricing objectives. The research also emphasizes the significance of understanding the value proposition of the product and consumer expectations in developing the best pricing strategy. It concludes that a successful pricing strategy depends on a thin line of balancing between consumer expectation and identifying an acceptable price range.
Keywords: Pricing Strategies, Pricing Behavior, Competition, Customer Value, Effectiveness

Introduction and Background of Study

Being one of the four elements (the four Ps) of a marketing mix concept introduced by McCarthy (1994), the price has been observed empirically to be an important factor for consumers that is in the process of deciding a purchase (Rosa-Dı´az, 2004). A business likelihood to succeed in capturing sales and profit within their target market would heavily be dependent in setting-up an effective pricing strategy of which in returns, spurs competitive advantage desired by the business'.

Historically, it has been proven that the probability for new product to hit their volume and targeted profit goals is less than fifty percent (50%), contributed by numerous reasons, of which ineffective pricing strategies being one of the most overlooked aspects (Lucke & Hogan, 2006). Determining the best pricing strategies that could lead to a creation of competitive advantage is very much subjective and highly debatable topic. As rightfully state by R. Duke

(1994), the issue of pricing is never simple, but with the right approached of a strategy, the problems involved in pricing dilemmas can be alleviated. Companies is seen to be more successful in reaching their pricing objectives if there is greater and diverse understanding of product price behaviors throughout the business process, i.e., from the product development stage to price settings and the final stage of product price realisation via sales closure, i.e. the goals (Duke, 1994).

Conceptually, the best pricing strategy can be tailored simply when the business understands their value proposition and what their product could offer to consumer and is within an acceptable price range, this has been proven not unique (the acceptable price range) where each point of sale have one distinct factor among other factors that influences the price (Moreno-Prada & Rondan-Cataluña , 2019).

The key to a successful pricing strategy for businesses is verily a thin line of juggling between consumer expectation of the product offered and the company production having able to identify the acceptable price range. Academic research has also founded that when price discrepancies are within the acceptable price range for consumers, they are accepted; when they are outside of it, they are rejected (Heo et al., 2013).

Review of Related Literature

Pricing Strategies

1.1 Common pricing strategies among businesses: Setting the best possible price policy and positioning in relation to the price is essential when creating a successful pricing strategy for a product. When a product is introduced to the market, there are a number of pricing strategies that can be implemented, including Premium Pricing strategy, Penetration Pricing strategy, Price Skimming strategy, and Maintaining the Existing Market Share strategy (Marusic, 2019).

Most businesses employ many types of pricing strategies, this has resulted to the flexibility of the company being increased. A company has a wide range of options for strategies and policies, from Penetration Pricing strategy and Skimming Pricing strategy for new items to Competitive Pricing strategy, Value Pricing strategy, Prestige Pricing strategy, Predatory Pricing strategy, Differential Pricing strategy, and more (Docters et al., 2004).

In addition to the above, pricing strategies should be chosen based on the products the businesses will be selling, client demand, the competitive landscape, and other products it intends to offer. Ehmke et al (2005) has cited eight common pricing strategies that are commonly chosen among businesses that is, the Cost-plus Pricing strategy, Value-based Pricing strategy, Competitive-based Pricing strategy, Going-rate Pricing strategy, Skimming Pricing strategy, Discount Pricing strategy, Loss-leader Pricing strategy, and Psychological Pricing strategy.

Despite the fact that pricing strategies in companies of different business segments or even different countries may not be identical or comparable, there is clear indication of successful business adopting a very much similar pricing strategy that can be considered as the preferred pricing strategies compared to other available pricing strategies. Docters et al (2004) noted that a combination of pricing strategies or appropriate pricing methods is seen to be able to boost consumer demand.

1.2 Preferred pricing strategies adopted by businesses: Hinterhuber & Liozu (2012) in their research quoted that 'academic research' combined with their own findings has concluded that Cost-based Pricing strategy, Competition-based Pricing strategy and Customer Value-based Pricing strategy are the three (3) categories of pricing strategies that businesses typically fall into, this finding applies across countries, industries and companies. All-in-all, these three categories of pricing strategy are considered as the most preferred pricing among businesses.

As a refresher note, the key structure of the three (3) pricing strategies mentioned above, together with its advantages has been identified and summarised in the table below.

Pricing Strategy	Structure	Advantage
Cost-plus Pricing	- Pricing decisions are generally affected by accounting data, with the goal of obtaining a specific return on investment or cost markup. - Cost-based Pricing, Target-return Pricing, Markup Pricing are similar pricing strategy under cost-based pricing.	- Required data for price setting are typically easy to obtain in terms of accessibility of the data. - A pricing strategy that is most common setup for businesses.
Competition- based Pricing	- Uses competitive price level data of competitors (actual and potential) as primary source to determine appropriate price level. - Pricing strategies based on competition are typically reasoned on the basis that buyers' primary consideration for purchases is price.	In competitive business (price-war) environment, this strategy would work well as it is on the upper-hand, having the competitors price level data as primary source of their pricing strategy (price settings).
Customer value-based pricing	- Employs information about the product's perceived consumer value as the primary determinant of the final selling price. - The main factor influencing price setting is the quantifiable value of a	- They are directly related to the requirements of the one stakeholder who is paying for the relevant goods or services, i.e., the customer. - It is very much relevant in highly competitive industries.

	purchase offering to actual and potential clients.	

Source: Hinterhuber & Liozu (2012)

Although academic studies suggest that the above three (3) pricings strategies are among the preferred pricing strategies, fundamentally, the business success of these pricing strategies is very much dependent on the business capabilities in executing and realizing the prices they set i.e., translating from pricing strategies into actual sales (Hinterhuber & Liozu, 2012).

1.3 Pricing strategy and its effectiveness: The effectiveness and result of executing the pricing strategies (with the intention of creating a competitive advantage) of a business into actual sales does not ends with just the above variables mentioned in paragraph 1.1 and 1.2, it is being complicates further with the variables of having a good combination of internal and external factor. This has also been documented via academic studies where negotiation capabilities of the business sales teams (internal factor), preferred customers with more favorable pricing in comparison to other customers (external factor), target driven sales quota that results to unfavorable deals (internal factor) are among the business drawbacks in translating strategies into results (Nagle et al., 2013).

In terms of businesses reaction in adjusting its pricing strategy to the factor of imperfect information gathered related to customer and their behaviors, Feng et al (2020) has concluded the reaction or adjustment of a business particular pricing strategy may reduce its effectiveness and the unpredictability of the sales or customer demand which potentially may results to the expected business profit being reduced lower. The effectiveness of a pricing strategy can be a blend of strategies to amplify the business sales demand (Faith, 2014).

The best pricing strategy

In spite of the cited drawbacks, among all the three most preferred pricing strategies mentioned in paragraph 1.2 above, it has been noted by Monroe (2022), in his study findings where he discovered that having a successful Customer Value-based Pricing strategy offers much higher profit potential than any other pricing strategy. Similar positive note by Docters et al (2004) in their study findings, cited that Customer Value-based Pricing strategy are among the best pricing method. Among all the academics findings, the Customer Value-based Pricing strategy leverages the value that a good or service provides to a certain group of customers as the primary criterion to determine pricing of a product

(Hinterhuber & Liozu, 2012) which is seen to be the best and most flexible pricing strategy. Further indicated by Cannon and Morgan (1990) in their research findings which they recommend for Customer Value-based Pricing strategy to be adopted for companies that aims to maximise their profits.

With all these academic findings cited above, it simply translates or can be concluded that the Customer Value-based Pricing strategy do creates competitive advantage that would leads to the company's generating maximum profits.

2.1 Best pricing strategy - Customer value-based pricing: In essence, these similarities in findings among academician are clear signals for a strong recommendation that the Customer Value-based Pricing strategy is the best and most flexible in the sense that businesses with an in-depth understanding of customer's needs, value perceptions, pricing elasticity, and willingness to pay will have the benefits of maneuvering their product pricing to be within the range of acceptable price range. Be it a new product or a revisit of their existing on-shelved products, as the process of pricing determinant is always based on the value required by the customer that need to be filled- in.

As a point of support, this view was also evident by pricing researchers who found that Customer Value-based Pricing strategy is frequently the most effective way to determine the price of new items or modify the price of existing ones, making it one of the superior pricing strategies. (Ingenbleek et al., 2003).

Conclusion

As a conclusion, for corporates or business owners that have the aspiration for their company to be in a position where they have the best pricing strategy that creates competitive advantage, it is plausible for them to be critical in implementing and executing their pricing strategy. The pricing strategy specifically should have a significant flexibility combined with a robust function to cater for consistent market changes, entrance of competitors, and more importantly consumer demand and acceptance, which in return brings a positive impact to the company profitability.

All in all, having discussed the three (3) mentioned pricing strategies above as most commonly adopted pricing strategies, companies can explore to adopt any of the three strategies, i.e. the Cost-based Pricing strategy, Competition-based Pricing strategy and Customer Value-based Pricing strategy as a step to progress on identifying the company's best pricing strategy.

Ultimately, in a more specific approach, companies can start the process with planning, gathering the required data and information to focus on finding the right approach straight away i.e., on how to marry the Customer Value-based Pricing strategy into the company's business model. As a point of reiteration, with the Customer Value-based Pricing strategy being one of the superior pricing strategy (Ingenbleek et al., 2003), coupled with a proper planning and appropriate execution, the results would highly likely positions the company to be on the higher competitive edge desired by the company, resulting with the final desired goals of an improvement in company's profitability (Cannon & Morgan, 1990).

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