PRICING STRATEGIES: STRATEGIC TOOL TO SUSTAIN IN COMPETITIVE MARKET

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Abstract :

Business level strategy determine whether a firm will be successful or fail in the long run. Successful firms follow one of the three generic approaches such as Competing on costs, or on differentiation in the broad market, or by focusing on a narrow segment of the market. An overall cost leader will generally use low price as an important element in their strategy to capture the market. Competing on superior values (both tangible and intangible), is called a Differentiation Strategy. Company which follows a focus strategy compete in a well-defined segment of the market and will either be a cost leader or a differentiator in its chosen segment market. Study of a portfolio of different brands and pricing structure of HUL, Dabur, P& G, L'Oreal, and Patanjali for selected personal care products revealed that these companies are using combination of strategies to capture the market . HUL &Patanjali are using cost leadership policy for majority of skin care and hair care products. Whereas P & G and L'Oréal are using focused cost leader or a focused differentiator strategy to retain and attract their consumers.

Keywords : *Business level strategy, Differentiation Strategy, Focused cost leader strategy, Focused differentiator strategy.*

1.1 INTRODUCTION

Firms leverage the resources within to position themselves relative to other firms in the industry which ultimately determine whether a firm will be successful or fail in the long run. Strategy in a single business firm known as business level strategy. According to Porter, Profitable firms follow one of the three generic approaches such as Competing on costs, or on differentiation in the broad market, or by focusing on a narrow segment of the market. This can be done by way of prices charged (that is, creating comparable values at a lower cost), or by value delivered (which is delivering greater value to customers generally at a price premium), or by doing both simultaneously. The firm can outperform the competition if the firm can establish a difference and preserve it by either or both of these approaches. Competing on the basis of cost, is called, a Cost Leadership Strategy. An overall cost leader will generally use low price as an important element in their strategy to capture the market. It will have a low-cost structure allowing it to translate this to a large market share. A cost leader aims for the average customer and larger market share, generally

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by dipping prices and reducing costs. The focus on the average customer implies that it will have few unique features. Cost leadership calls for leveraging certain skill sets by the firm concerned. Competing on superior values (both tangible and intangible), is called a Differentiation Strategy. Company which follows a focus strategy compete in a well-defined segment of the market and will either be a cost leader or a differentiator in its chosen segment market. And, the focus may be either on a buyer group, product segment, or a geographic segment

1.2 PRICING STRATEGIES:

1. Cost leader : Cost leader will generally use low price as an important element in their strategy. It will have a low-cost structure allowing it to translate this to a large market share. A cost leader targets the average customer and a large market share, by dipping prices and reducing costs. The focus on the average customer implies that it will have few unique features. Cost leadership leverage certain skill sets such as leveraging economies of scale to reduce production costs and marketing aggressively, even taking start up losses to increase market share. Cost leader also creating efficient organizational systems and structures to speed up decision making and reduce costs. Cost leaders set up incentives based price on quantitative targets, as well as low-cost distribution systems to improve operational efficiency. Cost leader also have a very tight controls on costs and overheads.

There are many ways in which an overall cost leader can achieve superior profitability. Cost leader may offer same benefits to consumers (such as, quality, reliability, durability) as competitors at a slightly lower price, while enjoying higher economies of scale compared to competitors. This, in turn, will result in lower cost and higher profitability.

Success of the cost leadership strategy: The cost leadership strategy is successful under the following conditions. 1) The Product is standardized and easily available from several sources. 2) Opportunities for enhancing customers' perceived benefits are restricted and most buyers use the product in similar ways whereas in the case of commodity products. 3) When the industry potentially has high economies of scale but no other firm seems to be exploiting them 4) When consumers are price sensitive, when buyers have significant bargaining power or incur very low switching cost. Consumers are not willing to pay a high premium for enhanced benefits. 5) The product is a search good rather than an experience good. The quality of a search good can easily be accessed by the buyer at the time of purchase. 6) This approach would work well for new entrants, who would like to enter an industry. New entrants may use low prices to attract buyers and build a larger customer base.

Key elements for Product and marketing strategies are - standardized products, low price-cost margins with price usually less than or equal to that of competitors, less advertising and promotion, avoiding less profitable accounts, and so on.

Key elements for production and operation strategies are such as, cost leaders invest heavily in large size plan and facilities to take advantage of economies of scale. Cost leader do not hesitate in buying the most modern automated machinery and equipment to reduce cost, and have capacity additions matching the growth in demand to ensure full capacity utilization. Products will be made to inventory with very tight inventory levels, and so on.

In terms of organization and control strategies, cost leaders will have very tight budgeting and control procedures to keep a check on all types of costs and overheads. Cost leaders will provide incentives and bonuses to workers and managers to reward productivity and organizational structure would be simple with few layers of hierarchy to speed up decision making and operational efficiency.

2. **Differentiation strategy :** It is more successful when buyer needs or uses are diverse, thereby offering the firm multiple opportunities to differentiate a product. Here, most consumers may be willing to pay a price premium for enhanced benefits which can be a superior experience. This strategy is applicable in industries, where there are significant economies of scale and existing firm are already exploiting them. If the product is an experience good, a differentiation approach can be effectively employed as the benefits of an experience good cannot easily be assessed by a buyer at the time of purchase. Benefits of an experience good depend on image, reputation, and credibility, which are very complicated to imitate. Differentiation strategy is most suited to industries where technology changes and product innovation are fast-paced.

When the buyer is generally an expert and opportunities for extracting price premiums based on features is limited. In such case, a firm may choose to differentiate on services.

3. **Focus Strategy :** An overall cost leader or differentiator generally serves either the whole market or major segments of the market to get a large market share. cost leader or differentiator offers either a small line of products suitable for several segments of the market or a full product line to catering to the needs of different segments. Company that follows a focus strategy compete in a well-defined segment of the market and will either be a cost leader or a differentiator in its chosen segment market. And, the focus may be either on a buyer group, product segment, or a geographic segment. Focus strategy become attractive where some segments exist, which offer unique cost-benefit advantages and these advantages may not be available to a firm which expands beyond these segments. Naturally, a niche strategy is then most effective when a firm wants to make an obtrusive entry into a new market. A firm that chooses a niche, that is not crucial to the accomplishment of industry leaders, is more likely to be accommodated by them and this is even more effective if the incumbents finds it difficult or costly to meet the specialized needs of the niche members. Focuser can guard against challengers via its superior ability to serve the niche members. Focus player can achieve superior profitability in numerous ways such as it can concentrate on producing a single type of product for two or more types of customers that is specialized in products. It can tender a variety of products in a small geographical area that is called geographic specialization. It can provide a variety of products to a class of customers that is known as customer specialization. It can sell a single product to a single market segment which would be a niche strategy

If one observe at the strategies of successful companies a few points are apparent. First, successful strategies leverage industry structure, successful strategists select unique positions, each generic strategy positions the firm differently in its market & competitive environment. This uniqueness is rewarded in the marketplace. The generic strategy adopted by the firm also drives its functional strategies, namely, production and operations, financial and people related marketing, and so on. Firms make sure that these functional strategies should be internally consistent with the generic strategy of the company and its competitive positioning. This alignment ensures strategy execution to be successful. Thus choice of a generic strategy by a firm is an important strategic commitment. It tends to drive the rest of its strategic actions. If the company is profitable, it has successfully followed one of the three generic strategies. To discover which strategy implemented by the firm, one can examine company's market share and target customers. If its market share is large, then the firm is either an overall cost leader or an overall differentiator. If its market share is small then the firm follows a focus strategy. For such a lucrative company the strategic recommendations relate to commitment, consistency, and continual monitoring. Commitment implies sticking to the current generic strategy that is followed by the company. Consistency implies that all the functional strategies should be consistent with chosen generic strategy of the firm. Continuous monitoring implies following trends as a. Technology trends may make present product designs and production techniques obsolete. b. Trends in consumer tastes that may influence the size and profitability of existing segments or may create new segments and c. Tracking competition to mark changes in firm's cost position, image, reputation, and taking appropriate action to defend its position against any challenges.

1.3 REVIEW OF LITERATURE :

Arditi (2010) presented issues related to different market based pricing strategies in construction industry. Current cost based pricing strategies have many drawbacks hence market-based pricing approach has been suggested which is based on study of top 400 US contractors. The three internal pricing variables such as marketing intelligence capabilities', 'annual contract value', and 'the type of client in most projects' have statistically significant contingency coefficients. 'Characteristics of owners', ''characteristics of competitors', and 'market demand' are statistically significant external variables in making pricing strategy decisions. Pricing strategies need to be changed so that all parties in construction can maximize the benefits of market-based pricing strategies.

Venkatesh Shankar (2004) empirically researched retailers' pricing decisions determination. The optical scanner data base of 1,364 brand-store combinations from six categories of consumer packaged goods in five U.S. markets were analyzed over a two-year time period. Retailers' pricing strategies were classified based on four underlying dimensions: price-promotion intensity, price consistency, price-promotion coordination, and relative brand price. Retailers' pricing strategies are influenced by variables representing the market, chain, store, category, brand, customer, and competition. Four pricing strategies statistically related are: (1) competitor price and deal frequency, (2) storability and necessity, (3) chain positioning and size, (4) store size and assortment, (5) brand preference and advertising, and (6) own-price and deal elasticities. These strategies will be useful to retailers profiling alternative pricing strategies, and to manufacturers customizing the levels of marketing support spending for different retailers.

Shin-yi Wu (2010) compared three commonly-used pricing strategies as pure usage-based pricing, flat fee pricing and two-part tariff pricing. Two-part tariff pricing is optimal for a monopolist providing information services. Zero marginal cost and monitoring cost are effective when customers are homogeneous. The two-part tariff pricing is the most profitable when customers are heterogeneous at maximum consumption levels. (Shin-yi Wu, 2010)

Shuai Feng (2009) found that many firms and retailers use presale strategies to induce customers to purchase before new products enter the market to increase their market share. Skimming pricing strategy and a penetration pricing strategy can be used to investigate the pricing strategy for preselling new products. The retailer should focus on traditional consumers by using a skimming pricing strategy or penetration pricing strategy. To increase profits, the retailer should use a presale channel using either a penetration pricing or skimming pricing strategy. It will reduce inventory risk and cost and enhance the market share and profitability of the enterprise but also help consumers avoid the risk of shortage and enhance their sense of security.

Kusum L. Ailawadi (2001) found Procter & Gamble's (P&G's) value pricing strategy is an opportunity to study consumer and competitor response to a major, sustained change in marketing-mix strategy. Data across 24 categories of P&G has a significant market share from 1990 to 1996, during which P&G instituted major cuts in deals and coupons and substantial increases in advertising. The authors estimated an econometric model to trace how consumers and competitors react to such changes. For the average brand, the authors find that deals and coupons increase market penetration and surprisingly have little impact on customer retention as measured by share-of-category requirements and category usage. For the average brand effect of advertising is weaker than that of promotion.

LingliWua (2008) found that the intensity of product competition affects competing retailers' sampling strategies. Consumer's switching behaviour can soften price competition under asymmetric equilibria.

Yan (2009) provided a framework to help e-marketers to find an optimal returns policy and pricing strategy in order to maximize their profits by using profit - maximization model to examine pricing strategy and optimum returns for e-marketers. The author found that an optimal returns policy and pricing strategy exists when firms sell products through an e-market. Optimal returns policy and pricing strategy offer a more generous returns policy and to charge a higher price when the product web-fit is strong. Furthermore, the results also show that while the returns policy always is valuable for the e-marketer, the value of returns policy increases with the product web-fit.

1.4 OBJECTIVES:

1. To study pricing structure of selected Personal Care Product companies.
2. To study strategies implemented by selected Personal Care Product companies.

1.5 RESEARCH METHODOLOGY:

In the present research article, data is collected from HUL, Dabur, P&G, L'Oreal, and Patanjali for personal care products such as shampoo, conditioner, hair oil, face cream, moisturizer and face wash. Secondary data was collected by studying company's website and online resources.

1.6 RESULTS AND DISCUSSION:

Study of a portfolio of different brands and pricing structure of HUL, Dabur, P&G, L'Oreal, and Patanjali has been shown in the table 1. Entire portfolio for the following products such as Hair oil, Shampoo, Conditioner, Face cream, Face Wash and moisturizer were studied and from each category products with highest price and lowest price were studied to analyze the pricing strategy implemented by the Company.

Table 1 Comparative Price Analysis

Product Category Hair Oil	Name	Price per unit
Dabur	Vatika Coconut oil	0.43
	Dabur Amla Jasmine Hair oil	29.81
HUL	Clean & Clear	0.6
	Indulekha	4.32
Patanjali	Tej Coconut oil	0.36
	Almond hair oil	1
L'Oreal	L'Oreal oil nourish men & women	0.72
	L'Oreal hair oil	10.5
Shampoo		
Dabur	Almond shampoo	0.4
	Dabur VatikaHeena& Olive shampoo	14.5
HUL	Sunsilk	0.5
	Indulekha	1.2
Patanjali	Keshkanti Silk & Shine	0.38
	Coconut Hair wash	0.63
L'Oreal	L'Oreal oil nourish shampoo	0.59
	L'Oreal Mythic Oil Shampoo	3.8
P & G	Pantene Pro V Classic clean shampoo	0.63
	Pantene Expert pro-V Intense repaire shampoo	1.67
Conditioner		
Dabur	Dabur Vatika volume & thickness conditioner	4.89
HUL	Sunsilk	0.86
	Dove	1.13
Patanjali	HC Amond	0.6
L'Oreal	L'Oreal Professional shampoo & conditioner	2.15
P & G	Pantene Pro-V Repair & protect conditioner	0.95
	Head & Shoulders dry scalp care with Almond oil Conditioner	1.35
Face Cream		
Dabur	Dabur Gulabari moisturizer cold cream	28.25
	Dabur Gulabari saffron & turmeric cold cream	59.91
HUL	Fair & Lovely	2.8
	Lakme	13.33

Patanjali	Saundarya Coco cream	0.53
	SwarnaKanti Cream	26.6
L'Oreal	L'Oreal Paris white perfect day cream	13.46
	L'Oreal Youth Code Youth Boosting day cream	31.98
P & G	Olay age defying advanced cream	11
	Olay anti-aging wrinkle smoothening cream	57
Moisturizer		
Dabur	Dabur Gulabari moisturizer	1.9
HUL	Ponds	1.57
	Ponds oil control moisturizer	4.25
Patanjali	Moisturizer Coconut	1.4
	Moisturizer Aloe Vera	1.5
L'Oreal	L'Oreal Paris white perfect fairness	15.5
P & G	Olay complete cream moisturizer	8
	Olay complete lotion all-day moisturizer	30
Face Wash		
HUL	Fair & Lovely	1
	Ponds	4.25
Patanjali	Rose	0.75
L'Oreal	L'Oreal Hydra	5.79

The above data shows many brands are following cost leader strategy especially in Hair Care products and Skin Care products like moisturizers and face wash. These companies are using cost leadership strategy. Cost leaders will use low prices as an important element in their strategy. This indicates these companies have a low-cost structure allowing them to translate this to a large market share. A cost leader aims for the average customer and large market share. The focus on average customers implies that these products will have few unique features. Customers are relatively priced sensitive. With no. of brands available in the market, buyers have significant bargaining power. Also, buyers can incur very low switching costs because of the availability of different brands. Companies may enjoy superior profitability and higher economies of scale. Here the product is standardized and easily available from multiple sources. Most buyers similarly use the product. Buyers are price sensitive.

For Skin Care products such as Face Cream, companies such as Dabur, L'Oreal and P & G are using a differentiation and focus strategy. Differentiation strategy is more successful when buyers' needs are diverse thus offering the firm multiple opportunities to differentiate a product. Customers are ready to pay a premium price for enhanced benefits. Buyers are ready to pay a premium price for a superior experience. Focus strategy compete in a well-defined segment of the market and will either be a cost leader or a differentiator.

However, HUL and Patanjali are using a cost leadership strategy in Skin Care products. As Personal Care Products are experienced products, a differentiation strategy may be effectively employed.

1.7 CONCLUSION:

Cost leaders or differentiators offer to serve the whole market or major segments of the market to get a large market share. Companies may offer either a small line of products appropriate for several segments of the market or a full product line to cater to the needs of diverse segments. profitable firms followed one of the three generic approaches as Cost leaders, differentiators or by focusing on a narrow segment of the market.

Cost leadership strategy is used by Patanjali and HUL. Dabur & P& G have created significant differentiation advantages by rapidly innovating on new products and new. Firms also have the choice of deciding to focus on one segment of the market and be either a cost leader or differentiator. So, a firm that focuses on a narrow market and adopts a cost leadership strategy is a focused cost leader. And, otherwise, one that focuses on differentiation, is a focused differentiator. There are four ways of competing at the marketplace. A firm can position itself as a cost leader or differentiator or a focused cost leader or a focused differentiator. Patanjali, HUL, Dabur & P& G's are the example of such a cost leader.

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