

# PRICING POLICY AND STRATEGIES FOR CONSUMER HIGH-TECH PRODUCTS

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**Abstract:** *This paper highlights the complex process of price setting for consumer high-tech products. These prices are highly influenced by some external factors from the economic and social environment. The main objective of this paper is to establish the most effective pricing policies and strategies used by high-tech companies of various sizes. Decisions about price fixing for consumer high-technology products are largely influenced by consumer behaviour, too.*

**Key words:** *high-technology market, price policy, marketing mix.*

## 1. Introduction

By developing an effective marketing mix are created, promoted and delivered innovative products and services that provide benefits to consumers, business partners and generally, to the entire society. Marketing mix planning begins with formulating an offer that brings value to target customers. This offer becomes the basis on which the organization develops its profitable customer relationships.

First, the paper captures those multiple factors influencing price fixing for high-tech products. Then the attention focuses on establishing price policy which is a complex process in marketing of high technology products. Price is a very important strategic tool for companies in high-tech industry. Pricing decisions should be consumer oriented.

In the paper last part are analysed specific pricing strategies for high technology products. An effective and consumer-orientated pricing strategy

means that marketing specialists understand how much values have the benefits provided by the product for consumers. Then they have to set a price appropriate to this value. Usually, in high-tech industry pricing strategies change, being different for each life cycle stage of the product.

## 2. Factors influencing the price setting for consumer high-tech products

Every producer would like to set a high price for its high technology products to cover the investments in research and development or to prove the high quality of products. But there are some internal and external factors that put pressure on price diminishing.

Forces affecting the price are varied and very strong: volatile short life cycle of the product, the rapidly changing market, big investments in research and development, compatibility with existing products, the Internet, competition, external networks,

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the cost of the first produced unit, price / performance ratio, consumers' perception of the cost/benefits ratio for new technologies.

A key feature of advanced technology is the rapid changing rhythm which leads to a shortened product life cycle and the need for rapid decisions for the moment.

Pressures on the price/performance ratio are explained in a clear manner by Moore's Law: Every 18 months, technology improvements double the product performance without a price increase. In other words, this type of improvement reduces the price by half for the same level of performance [10].

Consumer perception about the cost – benefits ratio affects pricing strategy. Internet offers to the individual and organizational consumers the possibility of comparing prices and negotiating lower prices. There is a *cost transparency* that allows buyers to more easily find information about producers and their prices [10].

Compatibility issues (with products older versions), existing products support, domain standards changes, prices for products peripherals - all these are factors to be taken into account in developing pricing strategy.

The unit cost in high-tech industry is influenced by the **paradox of technology** [7] which states that a business can grow while prices fall. This helps the company to sell more product units and these increasing amounts allow price cuts [10]. This situation requires an exponential increase in the market, evidenced by increased quantities produced and sold more quickly than prices decrease.

Developing pricing policy is a complex process in marketing of high technology products. Main factors influencing the companies in price fixing are: costs, competition, customers and the existing economic context.

Companies that set their pricing policy focusing on a low cost level must have a strong and inimitable cost advantage especially sustainable (which should not disappear with the development of future technology generations). A cost advantage based on economies of scale (large volume) for an existing technology may not maintain in the conditions of the appearance of a new generation technology.

A cost-oriented company ignores the impact of market factors (competition, demand) on profitability. This can be a fatal mistake on high tech market.

A high-tech company also can let its competitors to set prices, and then establish its lower, equal or higher price, depending on the market positioning intention. A company that introduces a radical innovation on the market often believes (wrongly) that it has no competition. But a customer can always choose not to adopt the innovation.

Consumer perception of value provides an upper limit for the price charged by retailers for high-tech products. Sometimes, retailers have difficulties to understand consumer perception of costs and benefits. The company may consider that the new sophisticated and innovative product offers obvious benefits to users.

In high-tech industry, a specific feature is the **total cost of the ownership** [10] (life cycle costing) reflecting the total amount spent by a customer for possession and use of the product or service. It includes the initial price (including taxes) plus shipping and installation costs, maintenance and repair costs, and other operational costs throughout the product life cycle. Using the total cost of ownership in developing the pricing strategy can help the company to position the product on the market.

So the company can show to the customers that if he buys the cheapest

product available without considering the auxiliary, he may buy the most expensive product.

### **3. Pricing policy for consumer high-tech products**

Price is the only marketing mix variable that leads to profit, all other variables only generating expenses. Also, the price is a highly flexible item of the mix, it can be changed rapidly, in contrast to the product features or distribution [9].

Price setting for a high-tech product is a complex process that requires consideration of the product cost, product quality and value, product position on the market, brand image, competitive environment, organization's objectives etc.

Price setting can be done from the producer perspective or the customer's perspective. Price setting from the producer perspective depends on internal issues, as: product costs, sales cost, general expenses, capital cost, return on investment and any other factors. This orientation is the most inappropriate basis for making price decisions when the product crosses the chasm from the adoption cycle of high-tech products.

From the consumers' perspective, the influencing factors for selecting products are: product features, the consequences of using the products, the way how consumption experience how consumption fits to the consumer values [6].

For the customer-oriented price setting, the company must pay attention to 3 aspects:

- ✓ Accurate understanding of how consumers will use the products - it may be necessary a consumer segmentation by the occasion of using the product (end-use segments);
- ✓ A focus on the benefits received by consumers by using the products because they buy benefits not features. This case

may require a customer segmentation through benefit which involves that the consumer segments are formed according to the benefits they expect from the products [8];

✓ Need for calculating consumer cost. An important segmentation criterion is the purchasing power of potential consumers. Launching price of new products is sometimes considered so high that only high-income categories of consumers can afford to buy them.

There are many implications of compliance with these three requirements. First, it causes the producer to realize that pricing considerations should not be thought after the product has been developed and is ready for sale, but early in the design process [12]. Second, the analysis shows that different clients in different segments will appreciate the same product in different ways.

Customer-oriented prices require the company manage their customers based on profits, not just sales [11].

Price setting may vary according to the stage of the product adoption cycle. Early adopters are relatively insensitive to price, convinced that any immediate cost is insignificant compared with the final result. This is the case of value-based setting price. For early majority the price is set based on competition. Late majority, instead, will pursue a low price. They will not gain a competitive advantage, but will keep their external costs quite low and the price is cost-based.

The price policy for a high-tech company is developed according to the organization's marketing objectives, marketing mix strategy, costs and organizational considerations. Before setting a price, the firm must choose the strategy related to the target market and product positioning.

For example, Samsung has repositioned the products as top products with high

requirements, and therefore increased their prices. The high price has brought more brand credibility and an increased business profitability. [3]

#### **4. Price strategy for consumer high-tech products**

Consumer is who will decide if a product price is the right one. Pricing decisions should be consumer oriented. An effective and consumer-oriented pricing strategy involves that marketers understand the value of product benefits for the consumer and set a price corresponding to this value [4]. Product benefits as perceived by customers might include the following categories [12]: functional benefits, operational benefits, financial benefits and personal benefits.

Often, organizations have difficulties in quantifying the products value for customers. If their perception of price exceeds the product value, consumers will not be willing to pay that price.

In high-tech industry, consumers don't seek to buy cheap products but products whose price reflects their value [1]. Usually, consumers weigh what can the product provide and compare it with the price. iPhone 4G, made by Apple, has a manufacturing cost of about \$ 187.51, but the end user pays in the store a price three times bigger. Although aware of this, consumers are willing to pay the price for the exceptional technical product characteristics (visible and palpable), and they pay for the benefits of using it.

For prestige goods such as high-tech products, consumers find that a high price points a certain quality and any decrease in the price level leads to a reluctance of consumers in making purchasing decision.

One aspect that companies must consider in developing and selling high-tech products is that customers can use the technology with some limitation. Most

high-tech products have features that the consumers never use and so, these products become only reflections of aesthetic aspirations and not of the functional needs. This perspective may give some to some companies the opportunity to offer cheaper products, but sufficiently advanced to a significant number of consumers. After Apple launched the iPad, high-tech companies react quickly launching similar products with features insignificantly different at different prices to different consumer segments. Romanian products (AllDro and EvoTab) have more modest technical characteristics, but they have a good level of applicability and functionality [13]. These characteristics influence the price whose level is much lower compared to the big producers' products.

Pricing strategies change, usually as the product cross its life cycle stages. Launch phase is challenging for organizations bringing to market a new product, because they have to set the prices for the first time.

Many high-tech companies apply in the launching phase a *skimming strategy*, and then the prices are adjusted to a lower level. Then, companies apply the *market advantage strategy* that involves setting high prices for high-tech products. A company that is a technology leader can afford to maintain a high price for a certain period of time, such as Sony, Samsung and LG. One of this strategy advantages is that it recovers quickly enough research and development costs of the new product. Setting a high price, the company can create a good image for the product. This strategy can be very effective in market segmentation. Company may divide the market into several segments and then reduce the price to a level corresponding to each segment, while maximizing its profit.

Other companies, like Dell Computers, Panasonic and Nokia have adopted the *penetration price strategy* that involves

setting a low initial price to attract quickly a large number of buyers. Dell has used this strategy to penetrate the PC market and sell high quality products through direct channels with low cost. For successful implementation of this strategy, the market must be price sensitive, so that a low price to spur market development.

Because the high-tech companies diversify the product range in a very short time, it is essential that they adopt a *pricing strategy for the product mix*. When the product in question is part of a product mix, the company seeks to set a price that maximizes the profit of total product. This work is difficult because it have to consider the following issues:

- Product line - setting different prices for different models of the same product lines or for different characteristics. (Sony offers its customers several lines of televisions from the handheld to 3D TVs);
- Optional accessories and products – setting the price according to the consumer desire or their intention to use complementary products (e.g. mobile phone with a memory card);
- Included products (captives) – setting the price for the whole complex of products (e.g. mobile phone, housings parts and protective covers).

Some time after launch, companies can adopt a *strategy of adjusting prices* for each target segments determined by the types of customers, geographical area or market conditions. The company may use discounts at certain times to reward customers or practice price discrimination based on customers, locations or products. Pricing strategy envisages also the value attached to the product by after-sales service (training for using, maintenance, repair, etc.). Also, if products are traded internationally, price levels should be adjusted.

*Psychological price strategy* is also often used by market leaders, based on the

theory that consumers perceive higher priced products as having higher quality. Only when consumers can appreciate the product quality by remember past experiences with this product, they look less for the price and more for the quality of the product [5].

Many producers of consumer high-tech products earn significant revenue from after-sale service [10].

*Price promotions* or temporary discounts are sometimes offered to induce trial or to overcome consumer resistance to adoption of high-tech innovations. Sellers need to consider the long-term impact of their promotions, especially since these could have a negative impact on brand equity [10].

Price is a very important strategic tool for high-tech companies. It is a key reference for product positioning being both a quality indicator and an indicator of competitiveness [3].

## 5. Conclusions

The role of pricing in any market is to transfer rights of the product to the buyer, in exchange of payment. The high-tech company has a taught mission regarding the price setting. Given the current market context, policies and strategies for high technology products of major companies aim to create innovative products with high quality, highly customized by the features and services included, aiming to provide an enjoyable and easy experience for users.

Before setting a price, the firm must choose the strategy according to the target market and product positioning.

Pricing decisions should be consumer oriented because he is the one who will decide if a product price is the right one. The company have to understand how the consumer will use the products and it must calculate customer costs. High-tech consumers don't seek to buy cheap

products but products whose price reflects their value. The root of most pricing challenges is that the product doesn't deliver tangible value to the customer. The product value must be quantifiable because, otherwise the pricing strategy is pointless.

In high-tech industry pricing models change rapidly as the technology matures, as more competitive offerings are available.

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