What type of pricing strategies is suggested to the newly launch

Pricing strategies tend to change as a product goes through its product life cycle. One stage is particularly challenging: the introductory stage. This is called New Product Pricing. When companies bring out a new product, they face the challenge of setting prices for the very first time. Two new product pricing strategies are available: Price-Skimming and Market-Penetration Pricing. Let's learn more about these two new product pricing strategies.

Price-Skimming – New Product Pricing
The first new product pricing strategies is called price-skimming. It is also referred to as market-skimming pricing.
Price-skimming (or market-skimming) calls for setting a high price for a new product to skim maximum revenues layer by layer from those segments willing to pay the high price. This means that the company lowers the price stepwise to skim maximum profit from each segment. As a result of this new product pricing strategy, the company makes fewer but more profitable sales.

Many companies inventing new products set high initial prices in order to skim revenues layer by layer from the market. An example for a company using this new product pricing strategy is Apple. When it introduced the first iPhone, its initial price was rather high for a phone. The phones were, consequently, only purchased by customers who really wanted the new gadget and could afford to pay a high price for it. After this segment had been skimmed for six months, Apple dropped the price considerably to attract new buyers. Within a year, prices were dropped again. This way, the company skimmed off the maximum amount of revenue from the various segments of the market.
Market-Penetration Pricing – New Product Pricing
The opposite new product pricing strategy of price skimming is market-penetration pricing. Instead of setting a high initial price to skim off each segment, market-penetration pricing refers to setting a low price for a new product to penetrate the market quickly and deeply. Thereby, a large number of buyers and a large market share are won, but at the expense of profitability. The high sales volume leads to falling costs, which allows companies to cut their prices even further.

Market-penetration pricing is also applied by many companies. An example is the giant Swedish furniture retailer Ikea. By introducing products at very low prices, a large number of buyers is attracted, making Ikea the biggest furniture retailer worldwide. Although the low prices make each sale less profitable, the high volume results in lower costs and allows Ikea to maintain a healthy profit margin.