<u>Price-Skimming – New Product Pricing:</u>

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.

However, this new product pricing strategy does not work in all cases. Price-skimming makes sense only under certain conditions. The product's quality and image must support the high initial price, and enough buyers must want the product at that price. Also, the costs of producing smaller must not be so high that they overshadow the advantage of charging more. And finally, competitors should not be in sight – if they are able to enter the market easily and undercut the high price, price-skimming does not work.

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.

What is price strategies for new products?

New products were developed, and the market for watches gained a reputation for innovation. The diagram depicts four key pricing strategies, namely premium pricing, penetration pricing, economy pricing, and price skimming, which are the four central pricing policies and strategies.

The strategic importance of price demonstrates how products, distribution, price, and promotion strategies will fit together into an integrated strategy of program positioning.

Analyzing the pricing situation is necessary to develop a price strategy for a <u>new product mix or new product line</u>, or to select a price strategy for a new product or brand.

Underlying strategy formulation is several important strategic activities, including <u>analysis of the product market</u>, cost, competition, and legal and ethical considerations.

As you move to a product launch or just adjusting your pricing, you should begin to determine how it will affect your leads and sales. This handy marketing funnel and leads calculator will help.

Small companies can use a number of pricing strategies for new products. Some business owners use a cost-plus method for pricing. They calculate production and advertising costs then add a percentage to their unit costs. Other companies have a specific return on investment in mind for new products. Whatever the case, business owners must study the market and competition before setting a price for new products.

Study Demand When Setting Price

A company will usually study demand for industry products before setting a new product price. Demand may be relatively elastic in the industry, meaning consumers are sensitive to price changes. Therefore, the quantity that consumers demand will decrease as prices increase. Contrarily, demand may be highly inelastic.

Inelastic demand means consumers are not overly concerned with price. Companies that produce highly technical devices often experience inelastic demand. For example, a small cell phone company may introduce a new type of cell phone. Certain consumers may desire the phone so much that they are not concerned how much it costs.
HBR first published this article in November 1950 as a practical guide to the problems involved in pricing new products. Particularly in the early stages of competition, it is necessary to estimate demand, anticipate the effect of various possible combinations of prices, and choose the most suitable promotion policy. Then as the product's market status matures, policy revisions become necessary. Joel Dean outlines the possible price strategies for each stage of a product's market evolution and the various grounds for making a choice. To update his original statement, Mr. Dean has written a retrospective comment, which appears at the end of this article. He amplifies his earlier article with insights from intervening years and in light of such developments as inflation.