SOME CONSIDERATIONS REGARDING THE PRODUCT'S PRICING STRATEGY ACCORDING TO THE PRODUCT'S LIFE CYCLE

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ABSTRACT
Pricing strategy depends on the product strategy adopted and fluctuates according to the product's life cycle; a wrong strategy can bring the "death" of the product in any phase of the life cycle, even if it could have had a long life span. The producer of an innovating product must decide which place will be occupied by the new product in its aria of characteristics and the market segment for which the product is created, and, considering these aspects, he will adopt a certain product strategy (he can opt for one of the three basic strategies: a clear strategy of differentiation from the competitors, a strategy of cost domination and a concentration strategy) and implicitly a pricing strategy.

KEYWORDS: *life cycle, penetration price, premium high prices, selective prices, "skimming" prices, medium prices.*

Product analysis represents an important problem both for the economic theory and for the business practice, answers to questions like: "why does a certain product appear on the market?", "what factors determine its survival?", "why does it disappear?", must be answered according to the innovational strategy of the company, but the study of the product's life cycle also offers some elements for answering these questions. Approaching the problem from the marketing point of view, for a certain product, the price fluctuates between a minimal and maximal level, which corresponds the potential market, the best known representation of this evolution being a "bathtub curve" that can be decomposed in stages, the classical model comprising four stages: launch, growth, maturity and decline.

Some innovating products, in an objective manner, don't cover all these stages; according to the product's characteristics, for example, we can't imagine a maturity stage of a haute couture summer collection 2010, there are some circumstances in which the maturity stage prolongs for ever (many competitors are waiting for Coca Cola's decline), but a wrong pricing strategy can bring the "death" of the product in any stage of the life cycle, even if it may have had a long life span.

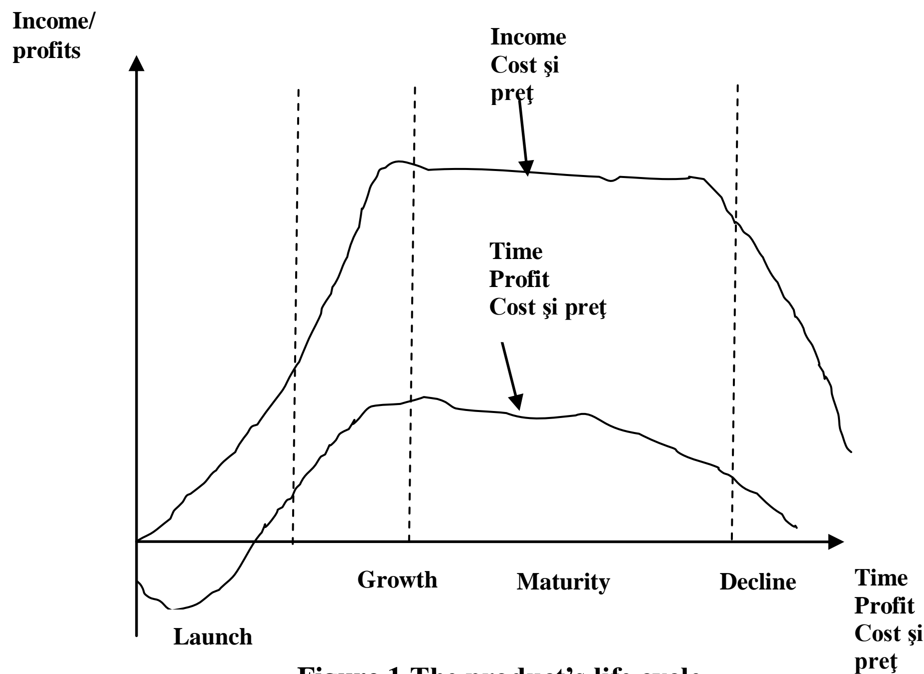

Figure 1 The product's life cycle

1. **Pricing strategies in the launch stage**. The launch stage corresponds to a start in life of an innovating product, when the sales level is low, the buyers not knowing the product at all. An innovation implies a change in the modality in which evolves the gratification of the customers' needs, an process of informing and educating of the clients being necessary; one must not disregard the circumstances in which the discovery of the supplementary advantages which are brought by an innovating product takes place not through a direct contact between the salesman and the buyer, but because of the fact that the potential buyers sees and hears about the experiences of other persons who have already bought the product [4].

From the early stage of the research-developing of the product, an innovating product's producer must decide what is the place to be occupied by the new product in the area of products with similar characteristics, and, according to this aspect, he will adopt a certain product strategy and, implicitly a pricing strategy, being able to choose between the three basic options: respectively a clear differentiation strategy, a cost domination strategy and a concentration strategy [5].

The differentiation strategy "aims at creating something unique to be appreciated in the field", in such a way that it may create some constant customers and to obtain an overcharge. This "something" felt to be unique can be related to the product's image (the exterior aspect, originality, reliability, quality, etc) or can be related to the advantages offered to customers (technical support, services and warranties after selling, etc.) A strategy based on differentiation can focus on a certain segment of buyers or can aim at various segments, but, irrespective of the segments taken into account, the strategic role of the price is that of counterpart to the characteristics of the products offered to the buyers, the buyers having to appreciate those products as having a great value. In consequence, on

those market segments who value the products the most the firm can exercise a **premium prices strategy** (for example, Mercedes for motor vehicles), and in the circumstances in which the differentiation strategy aims at products intended for various market segments, being focused on a wider range of consumers in order to own a large market share(for example, Toyota company, to remain in the vehicles' field), it can be adopted a strategy of selective prices, meaning higher prices for a line of products and lower prices for the other lines of products, with lower attributes, this way being able to cover that segment of buyers who are more sensitive to the products' prices.

When it comes to products that are differentiated through a significant innovation compared to the competition's products, or when it comes to a innovating product without competitor on the market, it can be practiced that premium prices strategy, known as "creaming" (skimming) strategy, (a high launching price, which in the ulterior stages of the product's life cycle will be significantly lowered, in proportion as the product will be imitated by the competition or the company launches some improved variants of the initial product). This high launching price is imposed on the market so much the more as the innovating product has a reduced life cycle (it might not cover all the stages mentioned), the high price permitting the company the integral recuperation of the costs (especially the research costs, which are very high in some products' cases), before the moment in which the competitors' counteractions to the product, which will obviously appear, may lead to the cost's decrease.

A product strategy based on the cost can involve a large market, which permits the company to take advantage of the effect of experience through a strategy of adopting a market penetration price, in this launching stage, but it can be also focused on a market segment, which can be dominated through low costs. Many specialists consider the penetration strategy as being the only strategy suitable to explore the cost advantages and to dominate the field, but if the respective market isn't price sensitive this strategy won't allow it to gain enough market share to obtain or exploit a cost advantage [6] an example being the one given by Honda company with its strategy for the electric generators, which imposed itself in the launch stage and now it dominates the field not using a strategy of penetrating the market with low costs, but through **an average prices strategy**.

2. **Pricing strategies in the growth stage.** The growth stage is characterized by an almost constant increasing of the sales quotas from one period to another. After feeling the market's pulse, after the attempts and adjustments which sometimes characterizes the launch stage if the new product manages to win the recognition of a larger and larger group of buyers, the firm will face the strategic option of developing through expansion, a process of development that must be achieved very fast in order to face the new potential competitors that want to launch themselves on the market. The high demand for the new product, the absence of obstacles in imitating that product, and the lack of an initial barrier to obstruct the penetration of the field will determine relatively many firms to take a chance.

In order to succeed in the growth stage, having the mind the aspects we had pointed out, the firm will have to possess, on one hand, the financial capacity to invest in its development, and a high commercial potential (the growth stage is characterized by a fast increase of the sales), whose spearhead is constituted, most of the times, from an effective distribution network and a decentralized management, based on a specialization on the product, on one hand, and a pricing strategy that allows this growth, on the other hand.

The best price in the growth stage is the one which will allow achieving the objective of growth decided and it depends on the product strategy that was adopted.

If it was adopted a product strategy of domination the sector through costs, utilizing in the launch stage a pricing strategy of penetration, in the growth stage more options are recommended. If the potential clients are sensitive to the price-variable, the production capacities at the level of the sector are high, being able to surpass the demands and if increasing the level of sales is decisive for creating advantages of cost in front of the competition, **the maintaining of a low price** in the growth stage is necessary, allowing the achievement of the objective of growth while the financial situation is being improved (it takes place a gradual decreasing of the losses from the launch stage and even an obtaining of profits while the sales volume is increasing). In the circumstances in which the competition isn't significant, in which the access of the new comers is limited and the demand is less flexible (as a result of an efficient communication of the value and of the perception by the buyers of some distinct characteristic of the product in the launch stage), in the growth stage the firm can resort to **a strategy of raising the price**, which allows it to cover some losses from the anterior stage.

In the circumstances in which it was adopted a product strategy of dominating the entire sector through differentiation, the firm practicing in the launch stage a high (premium) prices strategy or a extremely high prices strategy, also called "creaming of skimming strategy", in the growth stage, the firm can choose to **maintain the high price** (if the product wasn't imitated by the competition or the life cycle of the product stops, from the objective point of view, after this stage), or for **lowering the price**, in the cases in which the product is imitated by the competition or the company launches improved variants of the initial product, at higher prices (in order to avoid a competition between its own products).

3. **Pricing strategies in the maturity stage**. In this stage any increase of the sales volume can't be achieved but in the detriment of a competitor and, as a result, evaluating the competitors' position in this stage is extremely difficult and it costs a lot. The company who achieved the position of leader on the respective market, based on a product strategy based on cost domination, will practice a certain level of price that can allow it to dominate the market, appealing even to a strategy of **lowering the price** (accepting some losses that cannot be compensated by an increase in the sales volume, the objective it aims at being the one of increasing its market share, to the detriment of the competitors, for a better consolidation of its status as leader), and the competitors who have a weaker position as competitors of the leader can appeal to a pricing strategy of **adopting the leader's price**, this way managing to avoid a war that they may lose.

In order to maintain the position as competitor a firm managed to achieve, in the maturity stage it is necessary for the firm, along with adopting an efficient pricing strategy, to revise other aspects, too, like a better evaluation and management of the costs, a reevaluation of the relationships with the customers and distributors, the reevaluation of the strategies of attracting customers (for example, granting them some quantitative rebates) etc.

If the firm adopted a product strategy of domination through differentiation, in the maturity stage, the differentiation's advantages can be easily lost if the competition creates products with similar characteristics, the buyers showing a lesser degree of fidelity to a brand, being necessary the perfecting the product along with a **strategy of maintaining the price level** (in fact new products are launched on the market in the maturity stage, resulted from the perfecting of the existent products in the maturity stage).

4. **Pricing strategies in the decline stage.** The decline stage is marked by a considerable decrease in the sales' level, due to the competition provided by the products that substitute them, that appear as a result of the technical progress, or of the modifications in the consumers' tastes and values. If we had in mind the strategic option of price, in this stage the firm can opt for a **strategy of lowering the price**, in the circumstances in which the company has a good financial position, through this strategy the firm trying to eliminate from the declining market the weaker competitors, who can't afford a direct confrontation, (lowering the prices rarely stimulate an increase of the demand on a declining market). Paradoxically, in some people's view, on a declining market can be put into effect an inverse strategy, respectively a **strategy of increasing the price**, this strategy being grounded on a simple reality related to the consumers' behaviour. Generally speaking, when it comes to products that had a longer life cycle, some buyers have already formed some strong opinions about a certain product, which enables us to talk about a certain conservatism when it comes to buying a product, some habits formed in time which can be changed extremely hard and, as a result, those kind of customers will manifest a lower sensibility concerning the price variable, which entitles the firm to choose to increase the price in order to maximize the profits **taking advantage of the these constant customers' preferences toward a product** as long as they still exist.

In the circumstances in which the decline is a result of the aggressive competition and of the apparition of substitution products due to the technical progress, the best strategy is represented by the strategy of quick retreating of the products, partially or totally, redirecting the financial resources the firm disposes towards the new products to avoid losing the start. This kind of strategy was adopt by Kodak Company, at the beginning of 2000's, retreating quickly from the film camera's market, a fact which permitted it to invest massively in the digital cameras, which ensured his position as a market leader in 2005 [3]. On the opposite, Canon Company, in spite of the fact that almost all companies in its domain concentrated their efforts of research and development and of investment towards the digital cameras, considering that the luxury market of art photography will survive a long time, adopted a consolidation strategy, reorganizing its activity in such a way that they may approach this market segment as profitably as it was possible, in the present owing the leader position on this market segment.

In the specialty literature [1], beside the notion of product life cycle we come across with the notions life cycle of a domain of activity (sector) and market life cycle. Their stages are basically the same; they can be described in the same way and they display many elements of interdependence within a strategic analysis and implicitly in a pricing strategy. For example, when we mention a certain stage of a product's life cycle we implicitly relate to a certain market; the same product can reach different stages on different markets. Even if the product is placed on a market in the launch stage, because there isn't in fact a new product, the company won't face those problems which are specific to a new product, which leave their mark on the pricing strategy. By offering an old product on a new market, the company will take advantage of the experiences and competencies it previously gained, will find itself in a situation in which a great percentage from the expenses with the research and development and from the investments are being recovered, these elements gaining for the firm a competitive advantage on that market and mark the pricing strategy. The firm can also practice some **lower prices** which allow a faster increase in the market shares and the obtaining of a dominant position on the respective market.

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