

On the Importance of Pricing Strategy in Marketing Strategy

-- A Case Study of Lululemon

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Abstract: This paper investigates the significance of pricing strategies within the scope of marketing strategies. Emphasizing its central role, the research delineates various types of pricing strategies, exploring how they can differ based on industry applications. By employing a literature review and case study methodology, we analyze the challenges faced by businesses when implementing pricing strategies, along with the potential future trends in this domain. The conclusion accentuates that, in an increasingly competitive market, businesses need to effectively craft and constantly optimize their pricing strategies in alignment with consumer behaviors, regulatory constraints, data-driven challenges, and considerations for sustainability and social responsibility. As personalization, dynamic pricing, transparency, and fairness become prevalent, businesses are offered opportunities and challenges that necessitate strategic evolution for sustained competitiveness.

Keywords: Pricing Strategies, Marketing Strategies, Industry Application, Future Trends.

1. Introduction

In today's competitive business environment, companies need to develop effective marketing strategies to achieve key business objectives such as market share, profits and brand awareness. A marketing strategy consists of four basic elements, namely product, price, promotion and place (often referred to as the 4Ps principle). Marketing strategy refers to a long-term plan of action that a business uses to achieve its marketing goals and objectives. It is a comprehensive approach that outlines how a business will target, reach, and engage its target customers in order to create demand and ultimately drive sales. Marketing strategy is a crucial element of business planning, as it directly impacts the success of the business. An effective marketing strategy can help a business to differentiate itself from competitors, build brand awareness, generate leads and sales, and ultimately achieve its overall business objectives.

Companies need a variety of strategies to thrive and achieve their goals. These strategies include growth strategies, pricing strategies, and product and service strategies. Pricing strategy is a powerful growth lever that can either drive or disrupt a company's operating margins. Pricing strategies are the methods and processes companies use to determine what they will charge for their products and services. They indicate how brands, markets and customers are evaluated. These strategies depend on the industry and the unique goals of the company. Effective pricing strategies help build trust with customers and achieve a company's financial goals [1]. A pricing strategy is an approach that included in marketing strategy which used by businesses to determine the optimal price of a product or service.

2. Types of Pricing Strategies

Pricing strategies can be classified according to their rationale and objectives. The following are four common types of pricing strategies.

2.1. Cost-Oriented Pricing:

Cost-directed pricing is a method of pricing that is based on a company's costs. This strategy considers production, operational and other related costs and then adds an expected profit margin to the cost base to determine the price of the product. Two common cost-oriented pricing methods are cost-plus pricing and target-return pricing. The former is where a company adds an expected profit margin to the unit cost to determine the final selling price of the product, and the latter is where a company sets a target rate of return and then determines the price of the product based on that rate of return.

2.2. Demand-Driven Pricing:

Demand-led pricing is a strategy of setting the price of a product based on market demand and the price consumers are willing to pay. Demand-led pricing is usually associated with price elasticity, which is the effect of price changes on demand. This pricing strategy helps companies take advantage of market opportunities and consumer psychology. Common approaches to demand-led pricing include price discrimination and dynamic pricing. Price discrimination involves setting different prices for different consumers based on factors such as consumer category, purchase scenario or purchase volume. Dynamic pricing is the adjustment of product prices based on real-time changes in market demand.

2.3. Competition-oriented pricing:

Competition-oriented pricing is a strategy that sets product prices based on competitors' prices and market positions. This strategy focuses on the competitive market environment and seeks to attract consumers through price advantages. This includes a price maintenance strategy, which means that the firm sets the product price at a similar level to its competitors to avoid price wars. There is also the cost leadership strategy, in which companies achieve lower prices than their competitors by reducing costs and increasing efficiency.

2.4. Value-Based Pricing:

Value-based pricing is a strategy that sets prices based on the value consumers perceive a product or service to have. This strategy focuses on the value of the product in the mind of the consumer in order to maximize profits. This includes value-for-money pricing, which is when a company sets a price that reflects the value of a product based on factors such as its performance, quality, and consumer experience. There is also pricing structure, which is where companies set multi-level prices based on different product features and service levels to meet different consumption.

3. The Influence of Pricing Strategy on Marketing Strategy

Pricing strategy and market strategy have an interactive relationship [3]. So, while price strategy can have an impact on market strategy, it's more accurate to say that pricing strategy and market strategy work together for success [3]. Since pricing strategy is an integral part of marketing, the following analysis of the development of pricing strategy and related ideas is organized from the development stages of marketing. First of all, the first stage is the start-up stage. The concept of marketing was created in the United States in the late 19th and early 20th centuries, stemming from the development of industry. The initial research in marketing was focused on marketing and advertising, and the theory was not taken seriously at this point in time. Then came the second phase, which is the application phase. The development of marketing after the end of World War II showed that fast things were applied. Marketing theory began to be accepted and applied by society. The third phase is the development stage. From the 1950s to the 1980s, there was an oversupply in the market, so major companies began to focus on marketing strategies and there was further research on the price strategy in marketing strategies. As early as 1953, the American marketing scholar Bowden proposed the concept of "Marketing Mix", and in 1960, Dr. Jerome McKenzie, one of the leading marketing authorities of the 20th century, first proposed the 4P strategy of the marketing mix in his 1st edition of *Basic Marketing: Product, Price, Channel, and Promotion*. There are four specific modules as follows: The product mix, which mainly includes the physical product, service, brand, and packaging. It refers to the collection of goods and services provided by the company to the target market, including the utility, quality, appearance, style, brand, packaging and specifications of the product, and also includes factors such as service and guarantee. Second, the combination of pricing, mainly including the basic price, discount price, payment time, borrowing terms, etc. It refers to the economic return sought by the company selling the product. Third, the combination of distribution, it mainly includes distribution channels, storage facilities, transportation facilities, inventory control. It represents the enterprise to make its products to enter and reach the target market, the implementation of a variety of activities, including ways, links, places, storage and transportation. Fourth, the combination of promotion, refers to the communication activities of enterprises using various information carriers to communicate with the target market, including advertising, personnel sales, business promotion and public relations and all other communication strategies. Pricing strategy, as part of the pricing mix, was also summarized for the first time. The fourth stage is the maturity

stage, from the 1980s to the present, the maturity stage of marketing, which is manifested in the association with other disciplines and the beginning of the formation of its own theoretical system. 80s is the revolutionary period of marketing, which began to enter the modern marketing field, making a new face of marketing.

The goal of a pricing strategy is to maximize profits or achieve other objectives such as market share, sales volume, or customer satisfaction. Pricing strategy is an important component of the overall marketing strategy of a business. It plays a critical role in shaping the perception of the product or service in the minds of customers, influencing purchase decisions, and ultimately impacting the profitability of the business. Pricing strategies can be based on a variety of factors, including costs, competition, demand, and customer behavior. Some common pricing strategies include cost-plus pricing, value-based pricing, dynamic pricing, skimming pricing, and penetration pricing. Cost-plus pricing involves adding a markup to the cost of producing a product or service. Value-based pricing is based on the perceived value that customers place on the product or service. Dynamic pricing involves adjusting prices in real-time based on changes in demand or other factors. Skimming pricing involves setting a high price initially and then gradually lowering it over time. Penetration pricing involves setting a low price initially to attract customers and gain market share.

Choosing the right pricing strategy for a business depends on a variety of factors such as the product or service being offered, the target market, the competition, and the business's objectives. A well-designed pricing strategy can help a business achieve its goals and increase profitability. Too many companies set prices without a proper decision support strategy. This mistake can make a company's products appear uncompetitive and at a disadvantage in the marketplace. In order to maintain cash flow and grow your business, it is critical to have a smart pricing strategy in place. This will strengthen your company's position in the marketplace, earn the trust of your customers, and ensure that your company can achieve its business goals. In order to market effectively, increase sales revenue and improve profits, companies need to not only set base prices for their products, but also modify the set base prices when appropriate. Price is a very sensitive and difficult to control factor in the marketing mix, directly related to the degree of market integration of the product, affecting market demand and corporate profits, involving the interests of producers, operators and consumers and other aspects. Pricing strategy is an extremely important part of the marketing mix strategy.

4. Application of Pricing Strategies in Different Industries

The application of pricing strategies in different industries may vary depending on factors such as market characteristics, consumer needs, and the competitive environment. In the FMCG industry, price is usually a key factor in consumers' purchasing decisions. Companies often use competitive or value-based pricing strategies to attract price-sensitive consumers. In addition, promotional activities, such as discounts and coupons, are very common in the FMCG industry, and these activities can stimulate consumer purchases and increase market share.

In the service industry, companies often use demand-driven pricing strategies to meet the needs and values of different

consumers. For example, airlines and hotels may implement dynamic pricing strategies that adjust prices based on travel season, time of day, and seat/room demand. In addition, firms in the service industry may offer customized services and develop different pricing schemes based on customer demand.

In the high-tech product industry, companies often use value-based pricing strategies to highlight the innovation and uniqueness of their products. For example, manufacturers of smartphones and electronic devices may set higher prices to convey the message that their products are of high quality and advanced features. In addition, companies may implement market penetration strategies to achieve economies of scale by lowering prices to attract more consumers to new products.

In the industrial goods market, firms typically use cost-oriented pricing strategies to ensure that product prices cover costs and yield reasonable profits. In addition, companies can also use competition-oriented pricing strategies to attract customers by investigating competitors' prices and developing competitive pricing strategies. Customer relationships and long-term contracts are also key factors in the industrial market, where companies may offer discounts or incentives to maintain existing customers and attract new ones.

The application of pricing strategies in different industries varies depending on market characteristics, consumer needs and the competitive environment. Companies need to develop appropriate pricing strategies based on the characteristics of the industry in which they operate in order to achieve key business objectives such as market share, profitability and brand awareness.

5. Lululemon Case

Lululemon Athletica Inc., commonly known as Lululemon, is a Canadian athletic apparel retailer that specializes in yoga and running clothes for both men and women. Lululemon is a yoga and athleisure company founded in Vancouver, Canada in 1998[2], and has since expanded to over 460 stores worldwide. Lululemon is known for its high-quality, fashionable athletic wear that is designed to be both comfortable and functional. The brand has a strong focus on sustainability, using eco-friendly materials and practices in its production process. Lululemon's primary audience is women who understand the significance of maintaining an active and healthy lifestyle amidst juggling work and family [4]. The company has a large following of loyal customers who appreciate the brand's commitment to quality, innovation, and sustainability. Lululemon's products are often worn not only for workouts but also as everyday wear due to their comfortable and stylish designs.

Lululemon's marketing strategy is focused on building a strong brand image that is synonymous with high-quality, stylish, and sustainable athletic wear. The company has positioned itself as a lifestyle brand that promotes health, fitness, and mindfulness. Lululemon's marketing efforts are aimed at building a community around the brand and connecting with customers through various channels. One of the main pillars of Lululemon's marketing strategy is social media. The brand has a strong presence on platforms like Instagram, Facebook, and Twitter, where it regularly posts pictures and videos of customers wearing its products. Lululemon also uses social media to share inspirational quotes and wellness tips, which aligns with the brand's overall mission of promoting a healthy and active lifestyle. In-store events are another crucial component of Lululemon's

marketing strategy. The company regularly hosts yoga and fitness classes, workshops, and other events at its stores, which creates a sense of community around the brand. These events allow customers to connect with each other and with the brand on a deeper level, fostering loyalty and brand advocacy. Lululemon also sponsors various events and festivals related to health and wellness, such as the Wanderlust yoga festival and the Sea Wheeze half-marathon. By associating itself with these events, Lululemon reinforces its brand image as a lifestyle brand that promotes healthy living and mindfulness.

Lululemon's pricing strategy is based on the value that customers place on the quality, functionality, and sustainability of its products. The company positions itself as a premium brand with prices that are higher than many of its competitors. The pricing strategy reflects the brand's focus on innovation and design, with new collections often commanding higher prices than older ones. The company's pricing strategy is also influenced by its commitment to sustainability. Lululemon uses eco-friendly materials and sustainable production practices, which are often more expensive than conventional materials and practices. The brand's commitment to sustainability is a key part of its value proposition, and customers are willing to pay a premium for products that are produced in an environmentally responsible way. In terms of pricing strategy, Lululemon positions itself as a premium brand with prices that are higher than many of its competitors. The company's pricing strategy is based on the value that customers place on the quality and functionality of its products, as well as its commitment to sustainability. Lululemon's pricing also reflects the brand's focus on innovation and design, with new collections often commanding higher prices than older ones. Additionally, the company occasionally releases limited-edition collections or collaborations that are priced even higher than its regular products, appealing to customers who are willing to pay a premium for exclusive designs.

In addition to its regular product line, Lululemon occasionally releases limited-edition collections or collaborations that are priced even higher than its regular products. These collections are designed to appeal to customers who are willing to pay a premium for exclusive designs and products. Lululemon's pricing strategy is also influenced by its distribution model. The company primarily sells its products through its own retail stores and website, which allows it to maintain control over pricing and branding. By limiting its distribution channels, Lululemon can maintain a premium image and avoid discounting its products, which would undermine its brand value.

Overall, Lululemon's marketing and pricing strategies are designed to differentiate the brand from its competitors, appeal to customers who value quality and sustainability, and position the company as a leader in the athletic wear industry.

6. Challenges and Trends in Pricing Strategy

Among the marketing strategies, pricing strategies face many challenges and there are also some future trends. Challenges include increased market competition. With globalization and increased market competition, companies are facing greater price pressure and need to ensure profitability while remaining competitive. This requires companies to continuously optimize their cost structure and

improve operational efficiency in order to respond to competitors' pricing strategies. It also includes changes in consumer behavior, where consumer behavior and needs are constantly changing, leading to more complex implementation of pricing strategies. Companies need to pay attention to changes in consumer demand in order to adjust pricing strategies to market trends. Data-driven is also a challenge. In the digital era, companies need to collect and analyze large amounts of data to support pricing decisions. However, the acquisition, integration and analysis of data can challenge a company's resources and skills. Pricing strategies also face a variety of regulatory and policy restrictions, and in certain industries and markets, government regulations and policies may place limitations on the implementation of pricing strategies. Companies need to pay attention to changes in relevant regulations and develop pricing strategies with compliance in mind.

Future trends in pricing strategies include personalized pricing, dynamic pricing, transparency, and sustainability. With the abundance of consumer behavior data and the development of analytics, companies are expected to achieve more granular and personalized pricing. This will enable companies to set different prices based on consumers' buying behaviors and values, thereby increasing the effectiveness of their pricing strategies. Companies using big data and machine learning technologies, companies will be able to achieve real-time pricing adjustments. This will help companies quickly adjust their pricing strategies based on market demand, competitive dynamics and other external factors to achieve optimal profitability levels. As consumers increasingly demand price transparency and fairness, companies will need to take these factors into account in their pricing strategies. For example, consumers may demand clearer price information from companies in order to understand the cost structure and value of their products. When developing pricing strategies, companies need to focus on sustainability and social responsibility. Companies may need to consider environmental and social costs and incorporate these factors into their pricing strategy development programs.

7. Conclusion

In this thesis, we discuss the importance of pricing strategy in marketing strategy. Pricing strategy not only directly affects a company's revenue and profitability, but is also closely related to other marketing elements such as market segmentation, product strategy, promotion strategy and distribution strategy. We analyze the different types of pricing strategies and their application in different industries. In addition, we discuss the challenges faced by pricing strategies and future trends.

In summary, pricing strategy has a central position in marketing strategy. In a competitive market environment, companies need to develop appropriate pricing strategies based on market demand, competitive dynamics, and internal cost structures. In the future, companies will face more opportunities and challenges as trends such as personalized pricing, dynamic pricing, transparency and fairness evolve. In order to stay ahead of the competition in the market, companies need to keep an eye on the latest developments in pricing strategies, and continuously adjust and optimize their own pricing strategies. By implementing innovative pricing strategies, companies will be able to achieve key business objectives such as market share, profitability and brand awareness, thus achieving a sustainable competitive advantage.

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