

Science behind price of your camera

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Researchers looked at 663 cameras across 79 brands to analyse pricing strategy.
Credit: Thinkstock

Pricing strategies exploiting demand with a high price – skimming – or tempting consumers with a low one – penetration – are not as popular as marketers assume, according to new research.

An international study has found that in the pricing of new digital camera models, penetration and skimming strategies were each used for just 20 per cent of [products](#).

Strategists have long recommended that marketers use either "skimming" or "penetration" strategies when pricing new products. A skimming strategy involves setting the price for a new or improved product relatively high, to exploit consumer demand for the product and therefore their willingness to pay – for an Apple iPhone, for instance.

A penetration strategy involves selling low – even below cost – with the aim of capturing a large slice of the [market](#) early on, eventually reaping profits from economies of scale, perhaps with a price increase later.

Marketers have long assumed that firms adopted one or other of these two strategies when pricing new products, says Associate Professor Marc Fischer of UTS Business School.

However, a study of the pricing of new digital camera models has found that penetration and skimming strategies were each used for just 20 per cent of products. Straightforward competitive or market pricing strategies were used for the remaining 60 per cent.

The study was conducted by Associate Professor Fischer, Professor Martin Spann of Ludwig-Maximilians-University, Munich, and Professor Gerard J. Tellis, Marshall School of Business, University of Southern California, and has just been published in *Marketing Science* journal.

Associate Professor Fischer says the research team chose digital cameras because they wanted to look at dynamic pricing strategies in a highly complex branded market. In this case, 663 new products and 79 brand names were involved in a study covering four years of data. The market

was in a large European country.

The researchers analysed pricing strategies used in the introduction and early growth phase of the products, developing a method to classify those strategies. They then applied that new model to the market to see what this revealed.

What they found was that there was limited ability for marketers to employ strategic pricing for [new products](#). "Some competitors would undercut the skimming price, which limited the margin available," Associate Professor Fischer says. "Others would match the penetration price, preventing economies of scale."

So, despite the experts' recommendations, the study indicates skimming or penetration strategies are not practised much, he says. Instead, firms used a number of dynamic pricing strategies simultaneously over a portfolio of products – the choice of strategy depending on market, firm and brand characteristics, such as the level of competition and brand reputation.

"Firms seem to follow a portfolio approach in their choice of pricing strategy, with various products in their product line launched at various times and targeting various consumer segments," Associate Professor Fischer says.

So, for instance, using a price skimming strategy for products where it is possible to extract higher margins might cross-subsidise a penetration strategy for other products.

The study indicated that market pricing and penetration strategies occur more often after a market has taken off, he says. Market pricing is also more likely to be adopted by late entrants, whereas firms with an established reputation in the market tend to use a skimming strategy.

The researchers acknowledge that the study is based on one market, but say it is typical of a large number of modern markets.

They expect the findings would hold true for markets such as video games, cars, TVs, mobile phones and computers but say further research will be needed to see how this translates in markets more broadly. They are also interested in how mark-up behaviour might differ between manufacturers and retailers.

The researchers say the method they developed in this study could be used by marketing managers in other markets to analyse [pricing strategies](#).

More information: "Skimming or Penetration? Strategic Dynamic Pricing for New Products." [dx.doi.org/10.1287/mksc.2014.0891](https://doi.org/10.1287/mksc.2014.0891)

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