

GRADUATION PROJECT (MAN 400)



Near East University
Faculty of Economics & Administrative sciences
Department of Business Administration

Market-oriented Pricing Approach & Application

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ABSTRACT

Pricing is considered as one of the most complex and important issues in marketing. Price has been a major factor affecting buyer's choice. It is important for an organization because it directly affects the revenue. Pricing and the price competition makes the managers to formulate the strategies that can create competitive advantage of a company in price along with more satisfied customers. The method of setting prices are changing from cost oriented to market oriented pricing which in turn creating a value among customers for the product or services in the form of more customer satisfaction.

This study tries to answer the questions related with the complication faced by the firms in applying the pricing approaches by marketing oriented point of views. There are confronting concepts about pricing. Which policy is more effective? Is it the financial approach or customer-based approach? What are the customers views related with the prices of the products? All these questions are still problems for the managers therefore this study tried to answer these questions.

This study helped to understand the philosophy of market-oriented pricing approach. Burger City is selected as a case company to understand the basic considerations taken by firm while pricing their product and for this purpose interview of the manager is taken. Whereas to study the consumer behaviour while accepting these prices a survey is carried out by Burger City's customers. Both studies shows that marketing-oriented pricing approach is a difficult issue because it is difficult to understand customer preferences and price the products accordingly, also while using marketing oriented pricing approach a firm can not ignore factors like costs and profits.

I. LITERATURE REVIEW

1.1 Pricing concepts

According to Kotler, Armstrong; 1996 "Price is simply the amount of money the customer has to pay for the product or service, or the sum of the values that consumers exchange for the benefits of having or using the product or service".

It is one of the most important factors influencing demand for a good or service therefore the main purpose of pricing is to support the marketing strategy that has been developed for product or product line. (Gultinan, Paul 1999)

Pricing is a key element of the marketing mix and impacts on the brand values. An innovative pricing policy has the ability to strengthen the brand but it can also undermine it. Pricing is an essential element of the integrated marketing mix. Its role is different for different consumers and at different times. In addition, tools are now available that allow marketers to develop innovative pricing models that reflect the nature of consumers as individuals and the dynamic nature of the price-value equation. (Martin Payne, 2002)

Pricing decision is critical element of the marketing mix that must reflect cost and competitive factors. There is no absolute maximum price, but for any customer, price must correspond to the customer's perceived value of the product. (Keegan, 2002)

1.2 Market oriented pricing.

(Kotler; 1967) The marketing concept holds that the key to achieving organizational goals consists in determining the needs and wants of customers and delivering the desired satisfaction more effectively and efficiently than competitors. It is the idea of satisfying the needs of customers by means of the product and the whole cluster of things associated with creating, delivering, and finally consuming it.

Market oriented pricing depend upon market focus, customer orientation coordinated marketing and profitability through customer satisfaction, therefore pricing product through market oriented point of view is focusing a market and to understand what prices are required in the market. Customer oriented thinking requires the firms to define and price customer need from the customer point of view. It also includes the proper coordination of price with other P's in the marketing mix. (Kotler; 1967)

The price is set at a level that seems to the customer to be a good price compared to the prices of other options. (Baker; 2003)

Value-based pricing assumes that different customers will ascribe different levels of Value to a specific product or service. A VBP model attempts to set prices based on what customers are willing to pay for a specific product or service rather than as a straight cost plus approach. (Dobbs, Kevin, 2001).

II. PURPOSE OF STUDY

The main purpose of studying this topic is to know the efficacy of pricing process in relation with profit, revenue and cost employed by marketing oriented companies.

III. GENERAL AIMS

- i) To explore the philosophy of marketing orientation.**
- ii) To understand the basic considerations consumers and businesses weigh in accepting a price.**
- iii) To understand the objectives companies try to achieve in price setting.**
- iv) To understand the value concept from customer point of view.**
- v) To explore the pricing process used by market oriented companies.**
- vi) To understand how companies can adjust prices to meet customer expectations.**
- vii) To select cost oriented and market oriented, case companies and explores the effectiveness of pricing policy by different approach**

IV. METHODOLOGY

1. A literature review is carried out in order to understand the philosophy of marketing orientation on basic pricing concepts; customer value and customer based pricing.
2. Burger City is selected as case company to explore the efficacy of pricing process used by marketing oriented firms.
3. Interview of Burger City's manager is carried out to know the pricing process used by the company.
4. A survey is carried out by the sample of 50 customers of Burger City to understand the pricing approach by customer point of view.

V. Background of selected case company (Burger City)

In 1954 James McLamore and David Edgerton founded Burger City restaurants. They based their new venture on a simple philosophy: provide the customer with reasonably priced quality food and serve it quickly, in attractive, clean surroundings. They carefully put their concept into action. It brought them success and the company prospered. With the opening of a single restaurant that only served hamburgers, milkshakes, and soda in Miami in 1954, Three years later, they introduced the Whopper® sandwich, Staying on top of the industry, Burger City was the first quick service restaurant chain to offer customer dining rooms. Drive-thru service was introduced in 1975. Today, Burger City is a leader in the fast-food industry, with locations in all 50 states and 57 international countries and territories around the world.

Burger City is flame-broiled burgers, fries and soft drinks at a good value, served quickly and consistently by friendly people in clean surroundings. Their value is based upon "Customer satisfaction", knowing what the consumer thinks, feels and believes, and measuring it in a consistent and accurate manner.

Today, Burger City restaurants continue to espouse its founders' way of doing business. However, their corporate philosophy has expanded from one that simply addresses products and service to one that embraces the social changes of their times. In short, the company has embraced the principles of diversity and inclusiveness. They are now becoming as much a part of corporate ethos as providing great food at a great price.

VI. Profile of Burger City's customers

Main customers are families with children. According to their location with the Lemar super markets, cinemas, and petrol stations it attracts families with children when they are at shopping in marts, or any family out of home can take its children to make them happy to Burger city. In addition, it consists of customers looking for good food under good money value.

VII. Interview of the Manager

The Burger City is selected as a case company by taking it in consideration as a market oriented company. Therefore, to understand the pricing procedure of the burger city an interview of the manager Mr. Orbey is taken. The interview was in general discussion format consisting of 15 different types of questions related with pricing process and customer preferences. With his kind cooperation, he gave us important information about the basic facts and consideration while setting up the prices of the products and services. He also explained the preferences of customers related with the prices. As the manager of a market oriented company, he told us about the involvement of customers in price setting process. With the help of this interview, we came across many facts related with pricing process of marketing oriented companies, which further helped us in understanding and testing the pricing system from the customer point of view.

VIII. Pricing procedure at Burger City

The pricing procedure at Burger city depends upon the following three main factors 3C's.

The prices are set by head office in Turkey.

1. Customer preferences
2. Competitors prices
3. Cost

8.1 Customer preferences

According to the manager, the Burger city values most the preferences of their customer. For understanding the wants and needs of customers, they have a daily basis customer survey system. The suggestion box helps the company to evaluate the suggestions of at least thirty persons in one day, related with prices and other services of the company. The complaints of the customers are considered by the group managers and then forwarded toward the head office in Turkey for the action to be taken.

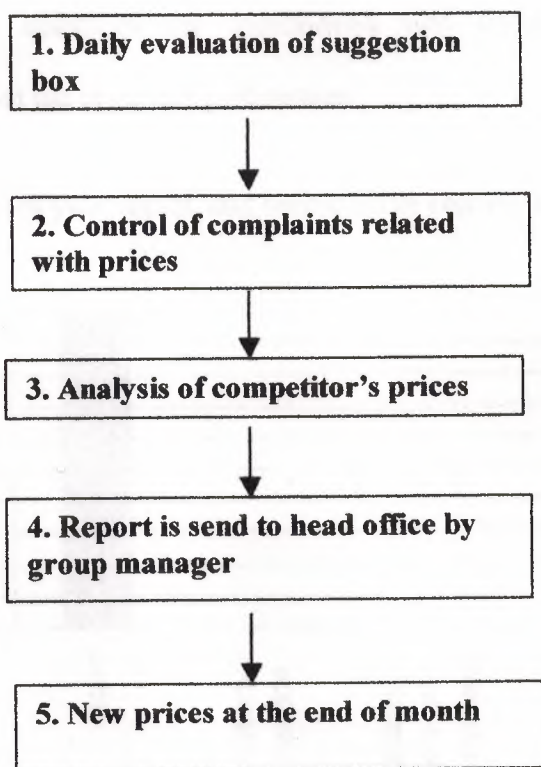
8.2 Competitors prices

The competitors prices are also an important factor affect the prices of burger city. The head office in turkey watches the change in prices of competitor's prices, which helps them to formulate the prices of their own products and services.

8.3 Costs

The costs consideration is also taken while setting up the prices however; the preference is given to the customers and competitor's prices more than cost.

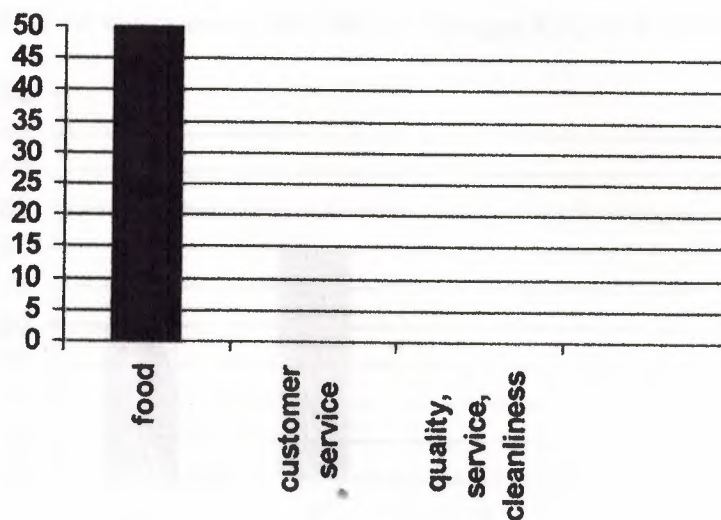
The diagram interpretation of Burger city's pricing approach.



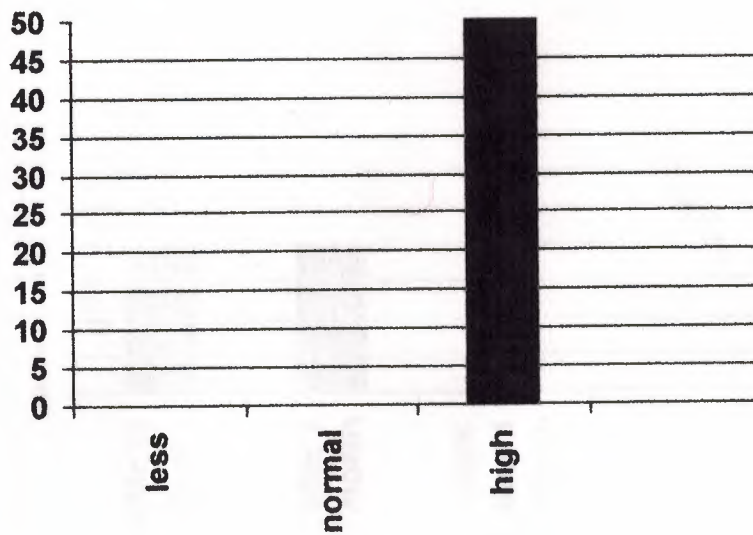
XI. Customers views on Burger City Prices

According to survey of customers, most of the complaints were found related with the high prices of Burger city as compared to other restaurants. The customers said that the prices are too high and not according to their preferences, however they need lower prices. However, the main reason is given by them to accept these prices are the availability of only one Burger city Restaurant that can satisfy their needs and wants for fast food. Survey questions are transformed into histogram to give the clear understandings about the customer preferences.

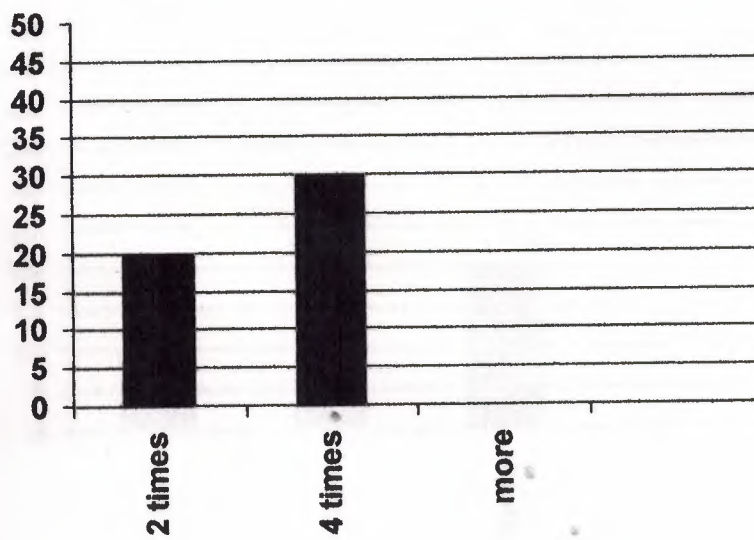
Q- what are your needs and wants while coming to Burger City?



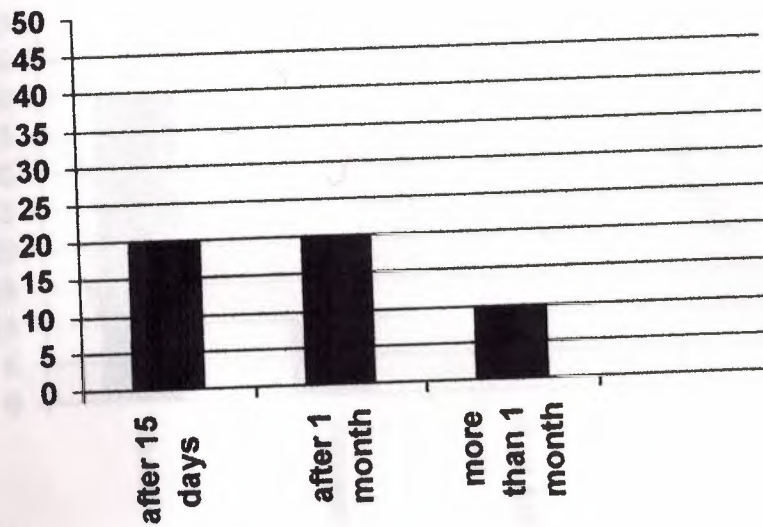
Q- According to you the prices of burger city are



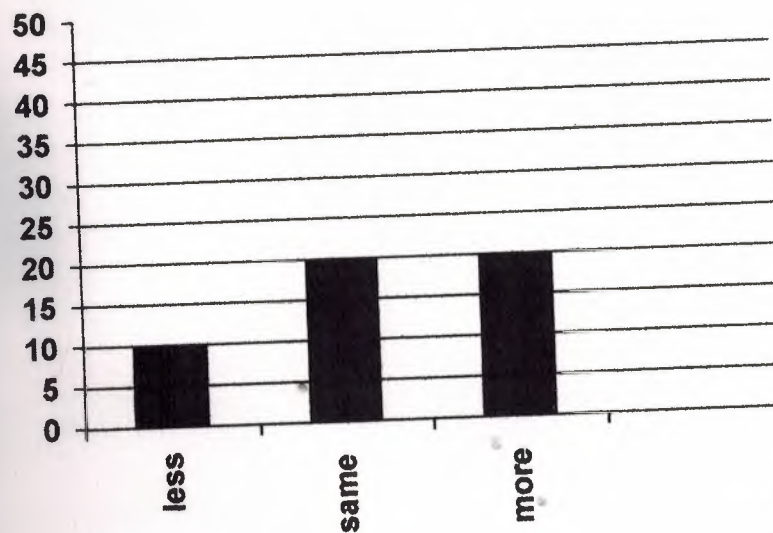
Q- How many times you visit the Burger City in a month.



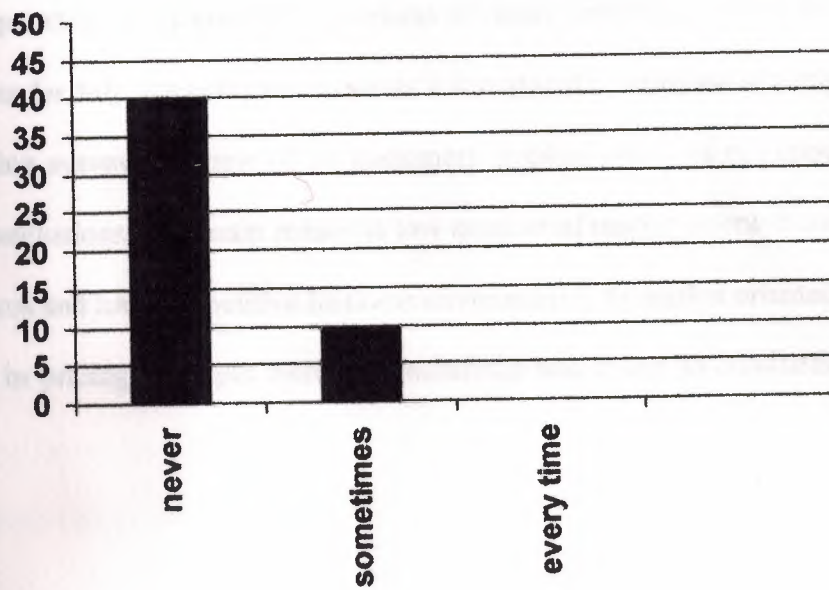
Q- After how long you find the changes in the prices of the menus.



Q- how are the prices of Burger City as compared to other restaurants?



Q- how often you use suggestion box during your visit



X. LIMITATIONS

During preparation of my graduation projects the main limitation is time. the case study is carried out for only one company however it is required to study more companies. Also while making survey a sample of 50 customers is taken which is not enough to draw accurate conclusions. The main reason is low number of market oriented companies in North Cyprus and low competitive business environment. As market oriented pricing is a new issue in pricing concepts therefore limitations was found in conducting literature review.

CONCLUSIONS

The empirical study of market-oriented pricing process, while considering Burger City as a market oriented firm, it is found that it is difficult to understand the exact wants and needs of the customers, which is a very important issue while pricing the products. The needs and wants of the customers keeps on changing which implies that the willingness of paying a price for a particular product does not remains same. If a customer is paying a price for a product now with a smile it does not means that he will pay the price with smile in the future. The firms must closely watch the need and wants as well as price paying willingness of their customers.

However, it is also concluded from company's point of view that there is a confliction between the customer's needs for price and the firm's ability to give that price. A firm can not make it's pricing process completely marketing oriented according to their customer's needs and wants because the customer always needs lower and lower prices and the company can not ignore main constraints like costs and profits. A company can be competitive if they can sell their products at a price according to their customers while covering all costs and profits. Therefore, a competitive market oriented firm must take care of its costs and profits.

From customer point of views this study gives the conclusions that the customers always look for prices according to their perceptions of value by a product. Only the way they can pay high prices is by considering the perceived value of the products, if it is high.

It is also found that the customers of Burger City has not any specific perceptions of value by Burger City's products, and they found the prices charged by the company is higher for the food and meals offered, regardless of extra benefits gained by the products and services.

This study shows that a market-oriented pricing approach is not just only the consideration of customers and their needs but it is balancing the three factors, which are customers, costs and profits in an efficient way.

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APPENDIX A

Q- what are your needs and wants while coming to Burger City?

- a) Food
- b) Customer service
- c) Quality, Service, Cleanliness

Q- According to you the prices of burger city are

- a) Low
- b) Medium
- c) High

Q- How many times you visit the Burger City in a month

- a) 2 times
- b) 4 times
- c) More

Q- After how long you find the changes in the prices of the menus

- a) After 15 days
- b) After one month
- c) More than one month

Q- how are the prices of Burger City as compared to other restaurants

- a) Less
- b) Same
- c) More

Q- how often you use suggestion box during your visit

- a) Never
- b) Some times
- c) Every time

Q- can you write any suggestion related with the prices of Burger city
